

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, 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 2008 Series 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 2008 Series 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 2008 Series Bonds. See “TAX MATTERS” herein.

\$168,585,000

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
SALES TAX REVENUE REFUNDING BONDS**

\$67,565,000

**Variable Rate Demand Bonds
2008 Series A**

\$50,510,000

**Variable Rate Demand Bonds
2008 Series B**

\$50,510,000

**Variable Rate Demand Bonds
2008 Series C**

Dated: Date of Delivery**Price: 100%****Due: June 1, 2026**

The Santa Clara Valley Transportation Authority Sales Tax Revenue Refunding Bonds, 2008 Series A, 2008 Series B and 2008 Series C (hereinafter collectively referred to as the “2008 Series Bonds”) are being issued by the Santa Clara Valley Transportation Authority (the “Authority”) pursuant to an Indenture, dated as of November 1, 1997 (as supplemented and amended, the “Indenture”), between the Authority and U.S. Bank National Association, as trustee (the “Trustee”). Proceeds of the 2008 Series Bonds will be applied to refund certain prior bonds on a current basis, as more particularly described herein.

The 2008 Series Bonds are being issued as fully registered bonds in the denominations of \$100,000 and any integral multiple of \$5,000 in excess thereof and will be registered in the name of Cede & Co., as holder of the 2008 Series Bonds and nominee for The Depository Trust Company (“DTC”), New York, New York. Purchasers will not receive certificates representing their interest in the 2008 Series Bonds purchased. Upon issuance, the 2008 Series Bonds will bear interest at weekly rates.

This Official Statement provides information with respect to the 2008 Series Bonds while bearing interest at weekly rates and daily rates only. Owners and prospective purchasers of the 2008 Series Bonds should not rely on this Official Statement for information concerning 2008 Series Bonds bearing interest at a rate other than the weekly rate or the daily rate.

Pursuant to a Standby Bond Purchase Agreement, dated as of June 1, 2008 (the “Initial Liquidity Facility”), between the Authority and Dexia Crédit Local, acting through its New York Branch (the “Liquidity Facility Provider”), the Liquidity Facility Provider will provide funds for the purchase of the 2008 Series Bonds that are tendered for optional or mandatory purchase but are not remarketed. The Initial Liquidity Facility will expire on June 24, 2011, unless extended or earlier terminated upon the occurrence of certain events, including termination at the direction of the Authority. Under certain circumstances described herein, the obligation of the Liquidity Facility Provider to provide funds for the purchase of 2008 Series Bonds may be terminated immediately without notice to the holders of the 2008 Series Bonds and without a mandatory tender of the 2008 Series Bonds. See “**The Liquidity Facility Provider and the Initial Liquidity Facility**” herein.



The 2008 Series Bonds are subject to optional and mandatory tender for purchase and optional and mandatory redemption prior to maturity, as more fully described herein.

The 2008 Series Bonds are limited obligations of the Authority secured solely by a pledge of sales tax revenues derived from the imposition in the County of Santa Clara (the “County”) of a one-half of one percent retail transactions and use tax authorized in 1976 (the “Sales Tax”), less certain administrative fees paid to the California State Board of Equalization, as described herein, and certain amounts held by the Trustee under the Indenture. The Sales Tax was approved by the electorate of the County in 1976 and does not expire. See “**Security and Sources of Payment for the Bonds**” herein.

The 2008 Series Bonds are being issued on a parity with certain other bonds and obligations secured by the Sales Tax. The Authority may also issue additional bonds and incur other obligations secured by the Sales Tax on a parity with the 2008 Series Bonds, subject to compliance with the provisions set forth in the Indenture. See “**Security and Sources of Payment for the Bonds**” 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 SALES TAX REVENUES AND OTHER AMOUNTS HELD UNDER THE INDENTURE, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE 2008 SERIES BONDS. THE PLEDGE OF SALES TAX REVENUES DOES NOT SECURE PAYMENT OF THE PURCHASE PRICE OF THE 2008 SERIES BONDS.

This cover page contains certain information for general reference only. It is not a summary of the security or terms of this issue. Potential investors are advised to read this entire Official Statement to obtain information essential to the making of an informed investment decision with respect to the 2008 Series Bonds.

The 2008 Series Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of validity by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, and certain other conditions. Certain legal matters will be passed on for the Authority by its Acting General Counsel. Certain legal matters will be passed upon for the Liquidity Facility Provider by Nixon Peabody LLP. Certain legal matters will be passed upon for the Underwriters by Ronald E. Lee, Esq., Davis, California. It is anticipated that the 2008 Series Bonds will be available for delivery through DTC on or about June 26, 2008.

Goldman, Sachs & Co.
Underwriter and Remarketing Agent
2008 Series A Bonds

Lehman Brothers
Underwriter and Remarketing Agent
2008 Series B Bonds

Morgan Stanley & Co. Incorporated
Underwriter and Remarketing Agent
2008 Series C Bonds

No dealer, salesman or any other person has been authorized by the Santa Clara Valley Transportation Authority (the "Authority") or the Underwriters identified on the cover page hereof 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 Underwriters. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy any of the 2008 Series 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 2008 Series 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.

In connection with the offering of the 2008 Series Bonds, the underwriters may effect transactions that stabilize or maintain the market price of the 2008 Series 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.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibility to investors under the federal securities law as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority since the date hereof. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with one or more repositories.

FORWARD-LOOKING STATEMENTS

Certain statements included or incorporated by reference in this Official Statement constitute forward-looking statements. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget" or other similar words. **The achievement of certain results or other expectations contained in such forward looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. No assurance is given that actual results will meet the forecasts of the Authority in any way. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the caption "The Sales Tax" and in the projections of future operating results of the Authority in Appendix A attached hereto. The Authority does not plan to issue any updates or revisions to those forward-looking statements if or when any of its expectations, or events, conditions or circumstances on which such statements are based occur.**

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Board of Directors

Liz Kniss, Chairperson
Nora Campos
Dominic Caserta
Yoriko Kishimoto
Nancy Pyle
Greg Sellers

Dolly Sandoval, Vice-Chairperson
David Casas
Donald F. Gage
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Chuck Reed
Forrest Williams

Dean J. Chu, *Ex-Officio*

Ken Yeager, *Ex-Officio*

Alternate Board Members

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Kathleen King
Bob Livengood
Peter McHugh
Chris Moylan

Administrative Staff

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Kevin Allmand, Acting General Counsel
Greta Helm, Chief External Affairs Officer
Carolyn Gonot, Chief Silicon Valley Rapid Transit Project Program Officer
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Gary Miksell, Chief Information Officer
Mark S. Robinson, Acting Chief Engineering and Construction Officer
Joseph T. Smith, Chief Financial Officer
Donald Smith, Chief Operations Officer
John Ristow, Chief Planning and Congestion Management Agency Officer

SPECIAL SERVICES

Financial Advisor

Ross Financial
San Francisco, California

Bond Counsel

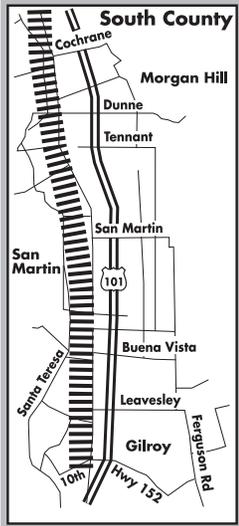
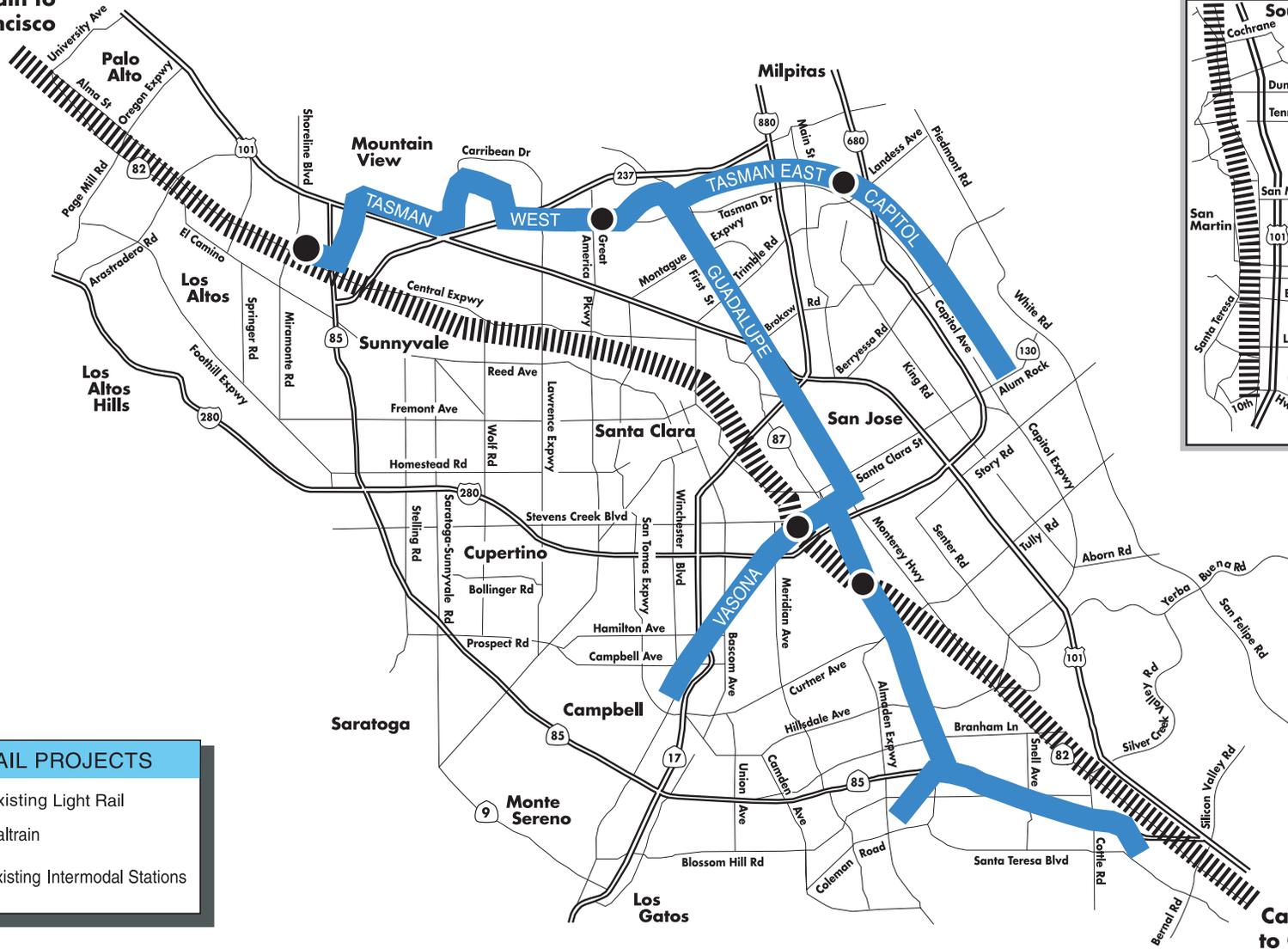
Orrick, Herrington & Sutcliffe LLP
San Francisco, California

Trustee

U.S. Bank National Association
San Francisco, California

Santa Clara County Bus and Rail Transit Service Area

Caltrain to San Francisco



RAIL PROJECTS

- Existing Light Rail
- Caltrain
- Existing Intermodal Stations



TABLE OF CONTENTS

	Page
INTRODUCTION	1
General	1
Authority for Issuance.....	1
Purpose and Application of Proceeds	1
Security	1
Limited Obligations	3
Initial Liquidity Facility	3
References.....	3
THE AUTHORITY	3
THE 2008 SERIES BONDS	4
General.....	4
2008 Series Bonds	4
PLAN OF FINANCE.....	16
Plan of Refunding	16
Swap Agreements	16
ESTIMATED SOURCES AND USES OF FUNDS	17
DEBT SERVICE SCHEDULE.....	18
SECURITY AND SOURCES OF PAYMENT FOR THE BONDS	18
Limited Obligations	18
Pledge of Sales Tax Revenues and Certain Amounts Held by Trustee	19
Revenue Fund; Allocation of Sales Tax Revenues	19
Bond Reserve Fund.....	20
Additional Bonds and Parity Debt	21
Subordinate Obligations.....	22
OUTSTANDING 1976 SENIOR LIEN OBLIGATIONS.....	23
JUNIOR LIEN OBLIGATIONS	23
THE LIQUIDITY FACILITY PROVIDER AND THE INITIAL LIQUIDITY FACILITY.....	24
The Liquidity Facility Provider	24
The Initial Liquidity Facility.....	25
Substitution of Alternate Liquidity Facility	31
THE SALES TAX	31

General.....	31
Collection.....	32
Historical Sales Tax Revenues.....	32
INVESTMENT CONSIDERATIONS	35
Economy of the County and the State.....	35
The Sales Tax.....	35
Proposition 218	36
Further Initiatives.....	36
Limitations of Liquidity Facilities and Related Risks	36
Investment Considerations Related to Variable Rate Bonds and Interest Rate Swaps.....	36
No Acceleration Provision.....	37
Loss of Tax Exemption.....	37
FINANCIAL STATEMENTS	37
LITIGATION.....	37
TAX MATTERS.....	38
LEGAL MATTERS.....	39
RATINGS	39
UNDERWRITING	39
FINANCIAL ADVISOR	40
RELATIONSHIPS AMONG THE PARTIES.....	40
CONTINUING DISCLOSURE.....	40
MISCELLANEOUS	41
APPENDIX A	Santa Clara Valley Transportation Authority A-1
APPENDIX B	Audited Financial Statements of the Santa Clara Valley Transportation Authority For Fiscal Year Ended June 30, 2007 B-1
APPENDIX C	County of Santa Clara 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 Opinion of Bond Counsel..... F-1

OFFICIAL STATEMENT

\$165,585,000

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY SALES TAX REVENUE REFUNDING BONDS, 2008 SERIES A, 2008 SERIES B AND 2008 SERIES C

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 \$168,585,000 of Santa Clara Valley Transportation Authority Sales Tax Revenue Refunding Bonds, 2008 Series A, 2008 Series B and 2008 Series C (hereinafter collectively referred to as the "2008 Series Bonds"). The 2008 Series Bonds are being issued pursuant to the Indenture, dated as of November 1, 1997, between the Authority, formerly known as the Santa Clara County Transit District, and U.S. Bank National Association, as trustee (the "Trustee"), as heretofore supplemented and amended and as further supplemented and amended by a Seventh Supplemental Indenture, dated as of June 1, 2008 (the "Seventh Supplemental Indenture"), between the Authority and the Trustee. The Indenture, as so supplemented and amended and as further supplemented and amended from time to time pursuant to its terms is hereinafter referred to as the "Indenture." 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, shall have the meanings assigned to such terms in the Indenture.

Authority for Issuance

The 2008 Series 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").

Purpose and Application of Proceeds

The 2008 Series Bonds are being issued in order to refund on a current basis \$67,565,000 aggregate principal amount of the Santa Clara Valley Transportation Authority Sales Tax Revenue Refunding Bonds, 2005 Series A (the "2005 Series A Bonds"), \$50,510,000 aggregate principal amount of the Santa Clara Valley Transportation Authority Sales Tax Revenue Refunding Bonds, 2005 Series B (the "2005 Series B Bonds") and \$50,510,000 aggregate principal amount of the Santa Clara Valley Transportation Authority Sales Tax Revenue Refunding Bonds, 2005 Series C (the "2005 Series C Bonds," and together with the 2005 Series A Bonds and the 2005 Series B Bonds, hereinafter collectively referred to as the "Prior Bonds"). See "ESTIMATED SOURCES AND USES OF FUNDS" herein.

Security

The 2008 Series Bonds are limited obligations of the Authority secured by a pledge of sales tax revenues (herein called 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 (the "County") in 1976 and does not expire.

The 2008 Series Bonds are further secured by a pledge of certain amounts held by the Trustee under the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Pledge of Sales Tax Revenues and Certain Amounts Held by Trustee" herein.

Upon their issuance, the 2008 Series Bonds will be secured by the Sales Tax Revenues on a parity basis with:

- the Santa Clara County Transit District Adjustable Rate Refunding Equipment Trust Certificates, Series 1985 A (the "Equipment Trust Certificates"), executed and delivered pursuant to that certain Equipment Trust Indenture, dated as of June 1, 1984, between the Authority and Security Pacific National Bank, as trustee, which was amended and restated pursuant to that certain Amended and Restated Equipment Trust Indenture, dated as of December 1, 1998 (the "Equipment Trust Indenture"), between the Authority and U.S. Bank National Association, successor by merger to U.S. Bank Trust National Association, as trustee, \$26,500,000 of which are currently outstanding,
- the Santa Clara County Transit District Sales Tax Revenue Refunding Bonds, 1997 Series A (the "1997 Series Bonds"), \$1,630,000 of which are currently outstanding,
- the Santa Clara Valley Transportation Authority Sales Tax Revenue Refunding Bonds, 2001 Series A (the "2001 Series Bonds"), \$10,380,000 of which are currently outstanding,
- the Santa Clara Valley Transportation Authority Sales Tax Revenue Refunding Bonds, 2007 Series A (the "2007 Series Bonds," and, together with the 1997 Series Bonds and the 2001 Series Bonds, hereinafter collectively referred to as the "Existing Senior Lien Bonds"), \$26,275,000 of which are currently outstanding,
- regularly scheduled payments to be made by the Authority pursuant to an interest rate swap agreement entered into in connection the Equipment Trust Certificates (the "ETC Swap Agreement"), and
- regularly scheduled payments to be made by the Authority pursuant to interest rate swap agreements originally entered into in connection with the Prior Bonds (the "Swap Agreements," and, together with the ETC Swap Agreement, hereinafter collectively referred to as the "Existing Swap Agreements").

The Existing Senior Lien Bonds, the Equipment Trust Certificates and the Existing Swap Agreements are hereinafter sometimes referred to as the "Existing 1976 Senior Lien Obligations."

Additional Bonds and other obligations secured by a pledge of the Sales Tax Revenues on a parity with the 2008 Series Bonds and the Existing 1976 Senior Lien Obligations may hereafter be issued or incurred. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Additional Bonds and Parity Debt" herein. The Existing Senior Lien Bonds, the 2008 Series Bonds and any additional bonds hereafter authorized by, and at any time Outstanding under the Indenture, are referred to collectively herein as the "Bonds."

Limited Obligations

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 SALES TAX REVENUES AND OTHER AMOUNTS PLEDGED UNDER THE INDENTURE, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS.

Initial Liquidity Facility

Pursuant to a Standby Bond Purchase Agreement, dated as of June 1, 2008 (the "Initial Liquidity Facility"), between the Authority and Dexia Crédit Local, acting through its New York Branch (the "Liquidity Facility Provider"), the Liquidity Facility Provider will provide funds for the purchase of 2008 Series A Bonds, 2008 Series B Bonds and 2008 Series C Bonds (collectively, the "2008 Series Bonds") tendered for optional or mandatory purchase but not remarketed. The Initial Liquidity Facility will expire on June 24, 2011, unless extended or earlier terminated upon the occurrence of certain events, including termination at direction of the Authority. Under certain circumstances described herein, the obligation of the Liquidity Facility Provider to provide funds for the purchase of 2008 Series Bonds may be terminated immediately without notice to the Holders and without a mandatory tender of the 2008 Series Bonds. See "THE LIQUIDITY FACILITY PROVIDER AND THE INITIAL LIQUIDITY FACILITY" herein.

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, regional commuter and inter-city rail service, ADA paratransit service, congestion management, specific highway improvement and other transportation projects, and countywide transportation planning and funding. A map showing the Authority's bus and rail transit service area is set forth on the page prior to the table of contents to this Official Statement. The Authority was created in 1972 pursuant to the Santa Clara County Transit District Act. Prior to January 1, 1995, the County Board of Supervisors served as the Board of Directors of the Authority. Effective January 1, 1995, pursuant to State of California legislation, the Authority has operated under a separate Board of Directors composed of County and city representatives. On January 1, 2000, pursuant to State of California legislation, the Authority's name was officially changed from the Santa Clara County Transit District.

For a more complete description of the Authority and its operations, see APPENDIX A – "THE AUTHORITY."

THE 2008 SERIES BONDS

General

The 2008 Series 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 initial Securities Depository for the 2008 Series Bonds. Under the Indenture, the Authority may appoint a successor Securities Depository or may choose to discontinue the use of a book-entry only system.

The 2008 Series Bonds will be issued initially in book-entry only form pursuant to a book-entry system (the "Book-Entry System"). While the 2008 Series Bonds are in the Book-Entry System, the provisions described in APPENDIX E – "BOOK-ENTRY ONLY SYSTEM" shall apply and the term "Owner" or "Holder" as used herein shall refer to DTC or its nominee as the registered owner of the 2008 Series Bonds. Payments to beneficial owners of the 2008 Series Bonds, including payment of Purchase Price to the beneficial owners of the 2008 Series Bonds will be made in accordance with the provisions described in APPENDIX E - "BOOK ENTRY ONLY SYSTEM."

Each Series of 2008 Series Bonds will operate independently of each other Series.

2008 Series Bonds

This Official Statement provides information with respect to the 2008 Series Bonds while bearing interest at Weekly or Daily Rates only. Holders and prospective purchasers of the 2008 Series Bonds should not rely on this Official Statement for information concerning 2008 Series Bonds bearing interest at a rate other than the Weekly Rate or Daily Rate. The definitions and provisions described herein shall apply generally to each Series of 2008 Series Bonds while bearing interest at Weekly or Daily Rates unless otherwise noted.

General. The 2008 Series Bonds will be dated their date of delivery, will mature on June 1, 2026, will be subject to prior redemption and will initially bear interest at Weekly Rates. During a Weekly Rate Period, interest on the 2008 Series Bonds shall be payable on first Business Day of each month, commencing July 1, 2008 and shall be computed on the basis of a 365/366 day year for the actual number of days elapsed. Unless otherwise specified herein, all references to a particular time are to New York City Time.

Certain Defined Terms.

Alternate Rate means, on any Rate Determination Date, for any 2008 Series Bond in a Daily Mode, a Weekly Mode, a Flexible Rate Mode or a Term Rate Mode, a rate per annum equal to (a) the SIFMA Swap Index (such rate being hereinafter referred to as the "SIFMA Rate") most recently available as of the date of determination, or (b) if such index is no longer available, or if the SIFMA Rate is no longer published, the Kenny Index (as such term is defined in the 1992 ISDA U.S. Municipal Counterparty Definitions), or (c) if neither the SIFMA Rate nor the Kenny Index is published, the index determined to equal the prevailing rate determined by the applicable Remarketing Agent for tax-exempt state and local government bonds meeting criteria determined in good faith by such Remarketing Agent to be comparable under the circumstances to the criteria used by Securities Industry & Financial Markets Association ("SIFMA") to determine the SIFMA Rate just prior to when SIFMA stopped publishing the SIFMA Rate. If there is no Remarketing Agent for the affected Series of 2008 Series Bonds, if such Remarketing Agent fails to make any such determination or if such Remarketing Agent has suspended its remarketing efforts in accordance with the Remarketing Agreement entered into by such Remarketing

Agent, then the Trustee shall make the determinations required by this definition, or if the Trustee shall decline to make such determination, a financial advisor, investment banker or other qualified party shall make such determination at the expense of the Authority.

Authorized Denominations means with respect to 2008 Series Bonds in a Daily Mode or Weekly Mode, \$100,000 and any integral multiple of \$5,000 in excess thereof.

Beneficial Owner means, so long as the 2008 Series Bonds are held in the Book-Entry System, any Person who acquires a beneficial ownership interest in a 2008 Series Bond held by the Securities Depository. If at any time the 2008 Series Bonds are not held in the Book-Entry System, Beneficial Owner shall mean the registered owner.

Business Day means for any Series of 2008 Series Bonds any day other than (i) a Saturday or Sunday or (ii) a day on which the Trustee or applicable Remarketing Agent are required or authorized to be closed or (iii) a day on which the office of the Insurer, if any, or applicable Liquidity Facility Provider at which draws or advances will be paid is required or authorized to be closed or (iv) a day on which The New York Stock Exchange is closed.

Daily Rate means the per annum interest rate on any 2008 Series Bond in the Daily Mode determined pursuant to the provisions of the Indenture described below.

Daily Rate Period means the period during which a 2008 Series Bond in the Daily Mode shall bear a Daily Rate, which shall be from the Business Day upon which a Daily Rate is set to but not including the next succeeding Business Day.

Electronic Means means telecopy, facsimile transmission, e-mail transmission or other similar electronic means of communication providing evidence of transmission, including a telephonic communication confirmed by any other method set forth in this definition.

Expiration Date means the stated expiration date of a Liquidity Facility, as it may be extended from time to time as provided in such Liquidity Facility, or any earlier date on which the Liquidity Facility shall terminate at the direction of the Authority, expire or be cancelled (other than the date on which a Liquidity Facility shall terminate as a result of an Automatic Termination Event or an event of default under the Reimbursement Agreement entered into in connection with such Liquidity Facility). See "THE LIQUIDITY FACILITY PROVIDER AND THE INITIAL LIQUIDITY FACILITY" herein.

Interest Accrual Period means the period during which a 2008 Series Bond accrues interest payable on the next Interest Payment Date applicable thereto. Each Interest Accrual Period shall commence on (and include) the last Interest Payment Date to which interest has been paid (or, if no interest has been paid from the date of original authentication and delivery of the 2008 Series Bonds) to, but not including, the Interest Payment Date on which interest is to be paid. If, at the time of authentication of any 2008 Series Bond, interest is in default or overdue on the 2008 Series Bonds, such 2008 Series Bond shall bear interest from the date to which interest has previously been paid in full or made available for payment in full on Outstanding 2008 Series Bonds.

Mandatory Purchase Date means: (i) any Mode Change Date (except a change in Mode between the Daily Mode and the Weekly Mode if the then-existing Liquidity Facility provides for the payment of the purchase price of a Series of 2008 Series Bonds in both the Daily Mode and the Weekly Mode); (ii) any Substitution Date; (iii) the fifth Business Day prior to the Expiration Date; (iv) with respect to the affected Series of 2008 Series Bonds, the date specified by the Trustee following the

occurrence of an event of default (other than an event of default which constitutes an Automatic Termination Event) under the applicable Reimbursement Agreement, which date shall be a Business Day not less than 20 days after the Trustee's receipt of notice of such event of default from the applicable Liquidity Facility Provider and in no event later than the Business Day preceding the termination date specified in the notice of event of default delivered to the Trustee by such Liquidity Facility Provider; and (v) for 2008 Series Bonds in the Daily Mode or Weekly Mode, any Business Day specified by the Authority not less than 20 days after the Trustee's receipt of such notice from the Authority.

Maximum Rate means with respect to all 2008 Series Bonds, other than Liquidity Facility Bonds, a rate of interest of 12% per annum, and, with respect to Liquidity Facility Bonds, such rate as is specified in the applicable Liquidity Facility, which rate shall not exceed the highest rate then permitted by law.

Mode Change Date means with respect to all of any Series of the 2008 Series Bonds in a particular Mode, the day on which another Mode for all of such Series of the 2008 Series Bonds begins.

Notice Parties means the Authority, the Trustee, the Liquidity Facility Provider, if any, and the Remarketing Agent, if any.

Purchase Date means (i) for a 2008 Series Bond in the Daily Mode or the Weekly Mode, any Business Day selected by the Beneficial Owner for which a Tender Notice is given prior to the Tender Notice Deadline in accordance with the provisions of the Indenture, and (ii) any Mandatory Purchase Date.

Purchase Price means an amount equal to the principal amount of any 2008 Series Bonds purchased on any Purchase Date, plus accrued interest to such Purchase Date (unless such Purchase Date is also an Interest Payment Date, in which case the Purchase Price shall not include accrued interest, which shall be paid in the normal course).

Rate Determination Date means any date on which the interest rate on 2008 Series Bonds shall be determined, which: (i) in the case of the Daily Mode, shall be each Business Day commencing with the first day (which must be a Business Day) any of the 2008 Series Bonds become subject to the Daily Mode; and (ii) in the case of a Weekly Mode, shall be each Wednesday (or if Wednesday is not a Business Day, then the next succeeding Business Day), provided that upon the issuance of the 2008 Series Bonds, the Weekly Rate for the first Weekly Rate Period shall be determined no later than the Business Day prior to issuance of the 2008 Series Bonds and in the case of a subsequent conversion to the Weekly Mode, the Weekly Rate shall be determined no later than the Business Day prior to the Mode Change Date for the Series of 2008 Series Bonds being converted.

SIFMA means the Securities Industry & Financial Markets Association (formerly the Bond Market Association).

SIFMA Swap Index means, on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data and published or made available by SIFMA or any Person acting in cooperation with or under the sponsorship of SIFMA and acceptable to the Trustee and effective from such date.

Substitution Date means, with respect to any Series of 2008 Series Bonds, the date upon which an Alternate Liquidity Facility is substituted for the Liquidity Facility then in effect.

Tender Notice means a notice delivered by Electronic Means or in writing that states: (i) the principal amount of the 2008 Series Bond to be purchased pursuant to provisions of the Indenture relating to optional tender of 2008 Series Bonds; (ii) the Purchase Date on which such 2008 Series Bond is to be purchased; (iii) applicable payment instructions with respect to such 2008 Series Bonds being tendered for purchase; and (iv) an irrevocable demand for such purchase.

Tender Notice Deadline means (i) during the Daily Mode, 11:00 a.m. on any Business Day and (ii) during the Weekly Mode, 5:00 p.m. on the Business Day seven days prior to the applicable Purchase Date.

Weekly Rate means the per annum interest rate on any 2008 Series Bonds in the Weekly Mode determined pursuant to the provisions of the Indenture described below.

Weekly Rate Period means the period during which a Series of 2008 Series Bonds bear interest at a Weekly Rate, which shall be the period commencing on Thursday of each week to and including Wednesday of the following week, except (i) the first Weekly Rate Period which shall commence on the date of issuance of the 2008 Series Bonds to and including Wednesday of the following week and (ii) the first Weekly Rate Period following a change in Mode for a Series of 2008 Series Bonds which shall commence on the Mode Change Date for such Series of 2008 Series Bonds to and including the Wednesday of the following week and the last Weekly Rate Period which shall be from and including the Thursday of the week prior to the Mode Change Date to and including the day next preceding the Mode Change Date

Determination of Interest Rate on 2008 Series Bonds. Interest on the 2008 Series Bonds will initially be calculated based on a Weekly Rate. From time to time, the Authority may convert 2008 Series Bonds from one interest rate mode (each, a "Mode") to a different Mode, which may be a Daily Mode, a Flexible Mode, a Term Rate Mode, a Fixed Rate Mode or an ARS Mode. As set forth below under "Conversion to Other Interest Rate Modes," the Authority may effect a change in Mode with respect to all of any Series of 2008 Series Bonds by following the procedures set forth in the Indenture and described under this caption. The interest rate during any particular period (an "Interest Period") will be determined by the applicable Remarketing Agent as described below and will be in effect for, and adjust at the expiration of, the applicable Interest Period.

Determination of Interest Rates During the Daily Mode and the Weekly Mode. The interest rate for 2008 Series Bonds in the Daily Mode or Weekly Mode shall be the rate of interest per annum determined by the applicable Remarketing Agent on and as of the applicable Rate Determination Date as the minimum rate of interest which, in the opinion of the applicable Remarketing Agent under then-existing market conditions, would result in the sale of such 2008 Series Bonds in the Daily Rate Period or Weekly Rate Period, as applicable, at a price equal to 100% of the principal amount thereof. The interest rate shall not exceed the Maximum Rate.

During the Daily Mode, the applicable Remarketing Agent shall establish the Daily Rate by 10:00 A.M. on each Rate Determination Date. The Daily Rate for any day during the Daily Mode which is not a Business Day shall be the Daily Rate established on the immediately preceding Rate Determination Date. The applicable Remarketing Agent shall make the Daily Rate available no less frequently than once each week by telephone or Electronic Means to the Authority, each other Notice Party and to any Beneficial Owner requesting such rate.

During the Weekly Mode, the applicable Remarketing Agent shall establish the Weekly Rate by 5:00 P.M. on each Rate Determination Date. The Weekly Rate shall be in effect during the applicable

Weekly Rate Period. The Remarketing Agent shall make the Weekly Rate available no later than 5:00 P.M. on the Business Day following the Rate Determination Date by telephone or Electronic Means to the Authority, each other Notice Party and to any Beneficial Owner requesting such rate.

In the event: (i) the applicable Remarketing Agent fails or is unable to determine the interest rate for any 2008 Series Bond, (ii) the method by which the applicable Remarketing Agent determines the interest rate with respect to any 2008 Series Bond shall be held to be unenforceable by a court of law of competent jurisdiction, or (iii) the applicable Remarketing Agent suspends its remarketing effort in accordance with the applicable Remarketing Agreement, then the affected 2008 Series Bonds shall bear interest during each subsequent Interest Period at the Alternate Rate in effect on the first day of such Interest Period. The provisions of the Indenture described in the immediately preceding sentence shall continue to apply to the affected 2008 Series Bonds until such time as the events described in clauses (i), (ii) or (iii) above are no longer applicable to such 2008 Series Bonds and the applicable Remarketing Agent again determines the interest rate. In the case of clause (ii) above, the applicable Remarketing Agent shall again make such determination at such time as there is delivered to the applicable Remarketing Agent and the Authority an opinion of Bond Counsel to the effect that there are no longer any legal prohibitions against such determination.

Conversion to Other Interest Rate Modes.

General. The 2008 Series Bonds will initially bear interest at a Weekly Rate. The Indenture provides that the Authority may elect to adjust the interest rate on any Series of 2008 Series Bonds to a Daily Rate, a Flexible Rate, a Term Rate, a Fixed Rate or an ARS Rate, in each case in accordance with the provisions set forth in the Indenture.

Notice to Holders. Notice of the proposed change in Mode, unless otherwise specified in the Indenture, shall be given by the Trustee to the Holders of the affected Series of 2008 Series Bonds not less than the 15th day next preceding the applicable Mode Change Date; provided that no notice need be given for a Mode Change Date occurring on the first Business Day following the last day of a Flexible Rate Period or a Term Rate Mode or on a Substitution Date. Such notice shall state the Mode to which the conversion will be made (hereinafter referred to as the "New Mode") and the proposed Mode Change Date and, if applicable, shall be combined with the notice of mandatory purchase required to be delivered by the Trustee pursuant to the provisions of the Indenture. If the Book-Entry System is no longer in effect, such notice shall also provide information with respect to required delivery of 2008 Series Bond certificates and procedures for payment of Purchase Price.

Determination of Interest Rates. The New Mode shall commence on the Mode Change Date and the interest rate(s) (together, in the case of a change to the Flexible Mode, with the Interest Period(s)) shall be determined by the applicable Remarketing Agent (or the Authority in the case of the Interest Period for 2008 Series Bonds being converted to the Term Rate Mode) in the manner provided in the Indenture.

Conditions Precedent. In the case of a change from the Daily or Weekly Mode, the Mode Change Date shall be any Business Day.

The following items shall have been delivered to the Authority, the Trustee and the applicable Remarketing Agent on or prior to the Mode Change Date:

(1) in the case of a change from any Mode other than a change from a Daily Mode to a Weekly Mode or a change from a Weekly Mode to a Daily Mode, a Favorable Opinion of Bond Counsel, dated the Mode Change Date; and

(2) if there is to be a Liquidity Facility delivered in connection with such change, evidence that such Alternate Liquidity Facility is in an amount equal to the Required Stated Amount and meets such other requirements as are specified in the Indenture.

Failure to Satisfy Conditions Precedent to a Mode Change. In the event the conditions described above have not been satisfied by the applicable Mode Change Date, then the New Mode shall not take effect (although any mandatory purchase shall be made on such date if notice has been sent to the Holders stating that such 2008 Series Bonds would be subject to mandatory purchase on such date). If the failed change in Mode was from the Daily Mode, the affected 2008 Series Bonds shall remain in the Daily Mode, and if the failed change in Mode was from the Weekly Mode, the affected 2008 Series Bonds shall remain in the Weekly Mode, in each case with interest rates established in accordance with the applicable provisions of the Indenture on and as of the failed Mode Change Date.

Rescission of Election. Notwithstanding anything in the Indenture to the contrary, the Authority may rescind any election made by the Authority to change a Mode as described above prior to the Mode Change Date by giving written notice thereof to the Notice Parties prior to such Mode Change Date. If the Trustee receives notice of such rescission prior to the time the Trustee has given notice to the holders of the Converted Portion, then such notice of change in Mode shall be of no force and effect. If the Trustee receives notice from the Authority of rescission of a Mode change after the Trustee has given notice thereof to the Holders of the affected 2008 Series Bonds, then if the proposed Mode Change Date would have been a Mandatory Purchase Date, such date shall continue to be a Mandatory Purchase Date. If the proposed change in Mode was from the Daily Mode, the affected 2008 Series Bonds shall remain in the Daily Mode, and if the proposed change in Mode was from the Weekly Mode, the affected 2008 Series Bonds shall remain in the Weekly Mode, in each case with interest rates established in accordance with the applicable provisions of the Indenture on and as of the proposed Mode Change Date. If the applicable Remarketing Agent is unable to determine the interest rate on the proposed Mode Change Date, the provisions of the Indenture describing the determination of interest rates in the event of the failure of the applicable Remarketing Agent to set the interest rate shall apply. See "Determination of Interest Rate on 2008 Series Bonds" above.

Optional Tender and Mandatory Purchase Provisions.

Book-Entry Tenders. All tenders for purchase during any period in which the 2008 Series Bonds are registered in the name of Cede & Co. (or the nominee of any successor Securities Depository) shall be subject to the terms and conditions set forth in the Representations Letter delivered by the Authority to DTC and to any regulations promulgated by DTC (or any successor Securities Depository). Beneficial Holders will not have any rights to tender 2008 Series Bonds directly to the Trustee.

Optional Tender. Subject to the provisions of the Indenture relating to Book-Entry Tenders described above, Beneficial Holders of 2008 Series Bonds in a Daily Mode or a Weekly Mode may elect to have their 2008 Series Bonds (or portions of those 2008 Series Bonds in amounts equal to Authorized Denominations) purchased on any Business Day at a price equal to the Purchase Price, upon delivery of a Tender Notice to the Trustee by the Tender Notice Deadline. Immediately upon receipt of a Tender Notice, the Trustee shall notify the applicable Remarketing Agent and provide the applicable Remarketing Agent with a copy of such Tender Notice.

Upon immediate termination without notice of a Liquidity Facility provided in connection with any Series of 2008 Series Bonds due to the reduction in the long-term rating assigned to such Series of 2008 Series Bonds below "Baa3" by Moody's and "BBB-" by Standard & Poor's or the withdrawal or suspension of such long-term ratings for credit-related reasons relating to the credit of the Authority, notwithstanding any other provision of the Indenture to the contrary, no 2008 Series Bond of the affected Series shall be purchased as described above until such time as a Liquidity Facility meeting the requirements of the Indenture is provided by the Authority with respect to such Series of 2008 Series Bonds.

Mandatory Purchase on Mandatory Purchase Date. Subject to the provisions of the Indenture relating to Book-Entry Tenders described above, the 2008 Series Bonds shall be subject to mandatory purchase on each Mandatory Purchase Date. The Trustee shall give notice of such mandatory purchase by mail to the Holders of the 2008 Series Bonds subject to mandatory purchase no less than 15 days prior to the applicable Mandatory Purchase Date.

Any notice shall state the Mandatory Purchase Date, the Purchase Price, and shall identify which Series of the 2008 Series Bonds are to be purchased. Such notice shall also state that interest on 2008 Series Bonds subject to mandatory purchase shall cease to accrue from and after the Mandatory Purchase Date. The failure to mail such notice with respect to any 2008 Series Bond shall not affect the validity of the mandatory purchase of any other 2008 Series Bond with respect to which notice was so mailed. Any notice mailed will be conclusively presumed to have been given, whether or not actually received by any Owner.

Automatic Termination of Initial Liquidity Facility Prior to Expiration Date. The obligation of the Liquidity Facility Provider to provide funds for the purchase of tendered Bonds pursuant to the Initial Liquidity Facility will terminate or be suspended automatically and without prior notice upon the occurrence of certain defaults as is set forth in the Initial Liquidity Facility. See "THE LIQUIDITY FACILITY PROVIDER AND THE INITIAL LIQUIDITY FACILITY" herein. The Trustee will provide notice to the Holders of the affected Series 2008 Bonds as soon as practicable after receipt of notice of such termination or suspension from the Liquidity Facility Provider.

Source of Funds for Purchase of 2008 Series Bonds. The Trustee shall purchase tendered 2008 Series Bonds from the tendering Holders at the applicable Purchase Price by wire transfer in immediately available funds. Funds for the payment of such Purchase Price shall be derived solely from the following sources in the order of priority indicated and neither the Trustee nor the applicable Remarketing Agent shall be obligated to provide funds from any other source:

- (a) immediately available funds on deposit in the applicable Remarketing Proceeds Account;
- (b) immediately available funds on deposit in the applicable Liquidity Facility Account; and
- (c) in the Authority's sole discretion, moneys of the Authority that may lawfully be used for such purpose.

Insufficient Funds for Tenders. If sufficient funds are not available to pay the Purchase Price of all tendered 2008 Series Bonds to be purchased on any Purchase Date (such 2008 Series Bonds being hereinafter referred to as the "Tendered Variable Rate Bonds"): (i) no purchase shall be consummated on such Purchase Date; (ii) all such Tendered Variable Rate Bonds shall be returned to the Holders thereof; (iii) all remarketing proceeds shall be returned to the applicable Remarketing Agent for return to the

Persons providing such moneys; and (iv) such insufficiency shall not constitute an Event of Default under the Indenture.

All such Tendered Variable Rate Bonds of the applicable Series shall bear interest at the Maximum Rate during the period of time (such period being hereinafter referred to as a "Delayed Remarketing Period") from and including the applicable Purchase Date to (but not including) the date that all such Tendered Variable Rate Bonds are successfully remarketed .

The Authority may direct the conversion of such Tendered Variable Rate Bonds to a different Mode during the Delayed Remarketing Period in accordance with the provisions of the Indenture described above under the caption "Conversion to Other Interest Rate Modes;" provided that the Authority shall not be required to comply with the notice requirements set forth in the Indenture and described herein under such caption.

During a Delayed Remarketing Period, the applicable Remarketing Agent shall continue to use its best efforts to remarket such Tendered Variable Rate Bonds. Once the applicable Remarketing Agent has advised the Trustee that the Remarketing Agent has a good faith belief that it is able to remarket all of the Tendered Variable Rate Bonds, the Trustee will give notice by mail to the Holders of such Tendered Variable Rate Bonds not later than 5 Business Days prior to the Purchase Date, which notice will state: (i) that such Tendered Variable Rate Bonds will be subject to mandatory tender for purchase on the proposed Purchase Date; (ii) the proposed Purchase Date; (iii) the Mode to be applicable to such Tendered Variable Rate Bonds from and after the proposed Purchase Date; (iv) the procedures for such mandatory tender for purchase; (v) the Purchase Price applicable to such Tendered Variable Rate Bonds; and (vi) the consequences of a failed remarketing.

During the Delayed Remarketing Period, the Trustee may, upon direction of the Authority, apply amounts on deposit in the Redemption Fund to the redemption of such Tendered Variable Rate Bonds, as a whole or in part on any Business Day during the Delayed Remarketing Period, at a redemption price equal to the principal amount thereof, together with interest accrued thereon to the date fixed for redemption, without premium. Notwithstanding any provisions of the Indenture to the contrary, the Trustee shall give five Business Days' notice of such redemption to the Holders of the 2008 Series Bonds to be redeemed.

During the Delayed Remarketing Period, interest on such Tendered Variable Rate Bonds shall be paid to the Holders thereof (i) on the first Business Day of each calendar month occurring during such Delayed Remarketing Period and (ii) on the day after the last day of such Delayed Remarketing Period.

Redemption.

Optional Redemption of 2008 Series Bonds in the Daily Mode or the Weekly Mode. While in the Daily Mode or the Weekly Mode, 2008 Series Bonds are subject to optional redemption by the Authority, in whole or in part, in Authorized Denominations on any Business Day, at a redemption price equal to the principal amount thereof, plus, accrued interest, if any, to the date fixed for redemption of such 2008 Series Bonds; provided that Liquidity Facility Bonds of the applicable Series of 2008 Series Bonds shall be redeemed prior to any other 2008 Series Bonds of such Series.

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Mandatory Sinking Fund Redemption of 2008 Series Bonds. The 2008 Series A Bonds shall be redeemed by mandatory sinking fund redemption, without premium, on June 1 in each of the years and in the principal amounts set forth below:

<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>
2009	\$ 485,000	2018	\$4,315,000
2010	505,000	2019	4,445,000
2011	515,000	2020	4,575,000
2012	1,880,000	2021	4,710,000
2013	1,910,000	2022	6,055,000
2014	1,835,000	2023	6,245,000
2015	1,840,000	2024	6,450,000
2016	4,075,000	2025	6,655,000
2017	4,195,000	2026*	6,875,000

* Maturity.

The 2008 Series B Bonds shall be redeemed by mandatory sinking fund redemption, without premium, on June 1 in each of the years and in the principal amounts set forth below:

<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>
2009	\$ 355,000	2018	\$3,230,000
2010	365,000	2019	3,325,000
2011	380,000	2020	3,425,000
2012	1,395,000	2021	3,525,000
2013	1,425,000	2022	4,530,000
2014	1,360,000	2023	4,680,000
2015	1,365,000	2024	4,830,000
2016	3,045,000	2025	4,990,000
2017	3,135,000	2026*	5,150,000

* Maturity.

The 2008 Series C Bonds shall be redeemed by mandatory sinking fund redemption, without premium, on June 1 in each of the years and in the principal amounts set forth below:

<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>
2009	\$ 355,000	2018	\$3,230,000
2010	365,000	2019	3,325,000
2011	380,000	2020	3,425,000
2012	1,395,000	2021	3,525,000
2013	1,425,000	2022	4,530,000
2014	1,360,000	2023	4,680,000
2015	1,365,000	2024	4,830,000
2016	3,045,000	2025	4,990,000
2017	3,135,000	2026*	5,150,000

* Maturity.

No notice of redemption is required to be given with respect to any redemption occurring on a Mandatory Purchase Date.

Notice of Redemption; Conditional Notice. Notice of redemption shall be mailed by the Trustee, not less than 15 nor more than 30 days prior to the redemption date, to each Owner and each of the Repositories. A copy of such notice shall also be provided to each of the Notice Parties. Notice of redemption to the Holders, the Repositories and the applicable Notice Parties shall be given by first class mail. Failure by the Trustee to give notice to any Notice Party or any one or more of the Repositories or failure of any Owner, any Notice Party or any Repository to receive notice or any defect in any such notice shall not affect the sufficiency or validity of the proceedings for redemption.

With respect to any notice of optional redemption of 2008 Series Bonds, unless, upon the giving of such notice, such 2008 Series Bonds shall be deemed to have been paid in accordance with the provisions of the Indenture, such notice shall state that such redemption shall be conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of amounts sufficient to pay the principal of, and premium, if any, and interest on, such 2008 Series Bonds to be redeemed, and that if such amounts shall not have been so received said notice shall be of no force and effect and the Authority shall not be required to redeem such 2008 Series Bonds. In the event that such notice of redemption contains such a condition and such amounts are not so received, the redemption shall not be made and the Trustee shall within a reasonable time thereafter give notice to the Holders to the effect that such amounts were not so received and such redemption was not made, such notice to be given by the Trustee in the manner in which the notice of redemption was given.

Any notice of redemption may be rescinded by written notice given to the Trustee by the Authority and the Trustee shall give notice of such rescission as soon thereafter as practicable in the same manner, and to the same parties, as notice of such redemption was given.

Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, the 2008 Series Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the 2008 Series 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 2008 Series Bonds so called for redemption shall cease to accrue, said 2008 Series Bonds (or portions thereof) shall cease to be entitled to any benefit or security under the Indenture, and the Holders of said 2008 Series Bonds shall have no rights in respect thereof except to receive payment of said Redemption Price and accrued interest to the redemption date.

All 2008 Series Bonds redeemed pursuant provisions of the Indenture shall be cancelled upon surrender thereof.

Mandatory Purchase in Lieu of Redemption. Each Owner, by purchase and acceptance of any 2008 Series Bond irrevocably grants to the Authority the option to purchase such 2008 Series Bond, on any date such 2008 Series Bond is subject to optional redemption provided in the Indenture at a purchase price equal to the Redemption Price then applicable to such 2008 Series Bond plus accrued interest thereon to the date of purchase. In order to exercise such option, the Authority shall deliver to the Trustee a Favorable Opinion of Bond Counsel and shall direct the Trustee to provide notice of mandatory purchase in lieu of redemption, such notice to be provided, as and to the extent applicable, in accordance with the provisions of the Indenture relating to the mandatory purchase of 2008 Series Bonds on Mandatory Purchase Dates. On the date fixed for purchase of any 2008 Series Bond pursuant to the

provisions of the Indenture described herein, the Authority shall pay the purchase price of such 2008 Series Bond to the Trustee in immediately available funds and the Trustee shall pay the same to the Holders of 2008 Series Bonds being purchased against delivery thereof. Following such purchase, the Trustee shall register such 2008 Series Bonds in accordance with the written instructions of the Authority. No Owner may elect to retain a 2008 Series Bond subject to mandatory purchase pursuant to the provisions of the Indenture described herein.

In the event that the Authority lacks sufficient funds to pay the purchase price of any 2008 Series Bond subject to mandatory purchase in lieu of redemption on the date fixed for such purchase, the Authority shall cancel such mandatory purchase in lieu of redemption and shall return each such 2008 Series Bond to the Owner who shall have tendered such 2008 Series Bond for mandatory purchase in lieu of redemption. The Trustee shall give notice that such mandatory purchase was not effected promptly following the date fixed for such purchase. Any failure to pay the purchase price of any 2008 Series Bond subject to mandatory purchase in lieu of redemption shall not constitute an Event of Default under the Indenture.

Special Considerations Relating to the 2008 Series Bonds.

The Remarketing Agents are Paid by the Authority. The responsibilities of each Remarketing Agent include determining the interest rate from time to time and remarketing 2008 Series Bonds of the applicable Series that are tendered by the owners thereof for optional or mandatory purchase (subject, in each case, to the terms of the Remarketing Agreement entered into by such Remarketing Agent), all as further described in this Official Statement. Each Remarketing Agent is appointed by the Authority and is paid by the Authority for its services. As a result, the interests of the Remarketing Agents may differ from those of existing Holders and potential purchasers of 2008 Series Bonds.

The Remarketing Agents Routinely Purchase 2008 Series Bonds for their Own Accounts. Each Remarketing Agent acts as a remarketing agent for a variety of variable rate demand obligations in addition to the Series of 2008 Series Bonds it serves as Remarketing Agent for and, in its sole discretion, routinely purchases such obligations for its own account. Each Remarketing Agent is permitted, but not obligated, to purchase tendered 2008 Series Bonds for its own account and, in its sole discretion, routinely acquires such tendered 2008 Series Bonds in order to achieve a successful remarketing of the 2008 Series Bonds (i.e., because there otherwise are not enough buyers to purchase the 2008 Series Bonds) or for other reasons. However, no Remarketing Agent is obligated to purchase 2008 Series Bonds, and may cease doing so at any time without notice. If a Remarketing Agent ceases to purchase 2008 Series Bonds, it may be necessary for the Trustee to draw on the applicable Liquidity Facility. Each Remarketing Agent may also make a market in the 2008 Series Bonds by routinely purchasing and selling 2008 Series Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales must be at fair market value, which may be at or below par. However, no Remarketing Agent is required to make a market in any Series of 2008 Series Bonds. Each Remarketing Agent may also sell any 2008 Series Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the 2008 Series Bonds. The purchase of 2008 Series Bonds by the Remarketing Agents may create the appearance that there is greater third party demand for the 2008 Series Bonds in the market than is actually the case. The practices described above also may result in fewer 2008 Series Bonds being tendered in a remarketing.

2008 Series Bonds May be Offered at Different Prices on Any Date Including a Rate Determination Date. Pursuant to each Remarketing Agreement, each Remarketing Agent is required to determine the minimum rate of interest which, in its opinion, under then-existing market conditions, would result in the sale of the applicable Series of 2008 Series Bonds at a price equal to 100% of the principal amount thereof on the applicable Rate Determination Date. At the time a new interest rate becomes effective, the applicable Remarketing Agent is required to use its best efforts to remarket the applicable Series of 2008 Series Bonds at par. Each interest rate will reflect, among other factors, the level of market demand for the applicable Series of 2008 Series Bonds (including whether the applicable Remarketing Agent is willing to purchase 2008 Series Bonds for its own account). There may or may not be 2008 Series Bonds tendered and remarketed on a Rate Determination Date, the applicable Remarketing Agent may or may not be able to remarket any 2008 Series Bonds tendered for purchase on such date at par and each Remarketing Agent may sell 2008 Series Bonds at varying prices to different investors on such date or any other date. No Remarketing Agent is obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the 2008 Series Bonds at the remarketing price. In the event a Remarketing Agent owns any 2008 Series Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such 2008 Series Bonds on any date, including the Rate Determination Date, at a discount to par to some investors.

The Ability to Sell 2008 Series Bonds other than through Tender Process May Be Limited. Each Remarketing Agent may buy and sell 2008 Series Bonds other than through the tender process. However, no Remarketing Agent is obligated to do so and may cease doing so at any time without notice and may require holders that wish to tender their 2008 Series Bonds to do so through the Trustee with appropriate notice. Thus, investors who purchase the 2008 Series Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their 2008 Series Bonds other than by tendering the 2008 Series Bonds in accordance with the tender process.

Under Certain Circumstances, a Remarketing Agent May Be Removed, Resign or Cease Remarketing the 2008 Series Bonds, Without a Successor Being Named. Under certain circumstances, a Remarketing Agent may be removed, may resign or may cease its remarketing efforts, without a successor having been named, subject to the terms of the applicable Remarketing Agreement. In the event there is no Remarketing Agent for a Series of 2008 Series Bonds, the Trustee may assume certain duties as described in the Indenture.

Dealing in 2008 Series Bonds by the Authority. To the extent permitted by law, the Authority may in good faith buy, sell, own, hold and deal in any Bonds offered and sold by a Remarketing Agent pursuant to a Remarketing Agreement, and such Remarketing Agent may in good faith remarket and sell to the Authority any 2008 Series Bonds offered and sold by a Remarketing Agent pursuant to a Remarketing Agreement on the same basis as and without preference or priority over any other purchaser or prospective purchaser of 2008 Series Bonds.

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PLAN OF FINANCE

Plan of Refunding

Proceeds of the 2008 Series Bonds will be applied to refund on a current basis all of the outstanding principal amount of the Prior Bonds on the date of delivery of the 2008 Series Bonds. Additionally, the Trustee will apply amounts on deposit in the Interest Fund being held to pay interest on the Prior Bonds to the payment of interest on the Prior Bonds on the date of redemption. The Prior Bonds will be redeemed at a redemption price of 100% of the principal amount thereof plus accrued and unpaid interest to the date of redemption. Costs of issuance will be paid by the Authority. No proceeds of the 2008 Series Bonds will be applied to pay costs of issuance.

Swap Agreements

In connection with the issuance of the Prior Bonds, the Authority entered into Swap Agreements (each a "Swap Agreement" and collectively, the "Swap Agreements") with Goldman Sachs Mitsui Marine Derivative Products, L.P., Citibank, N.A., New York, and Morgan Stanley Capital Services Inc. (each, a "Counterparty," and hereinafter collectively referred to as the "Counterparties"), respectively. Each Swap Agreement took effect on the date of issuance of the Prior Bonds to which such Swap Agreement relates and is scheduled to terminate on June 1, 2026. Under the terms of each of the Swap Agreements, the Authority has agreed to pay to each of the Counterparties a fixed rate of interest and each of the Counterparties has agreed to pay to the Authority a floating rate of interest, based on amortizing notional amounts and tied to a formula based on a percentage of USD-LIBOR-BBA. The Swap Agreements will continue in full force and effect after the refunding of the Prior Bonds and will be applied by the Authority to manage interest rate exposure with respect to the 2008 Series Bonds. In connection with the refunding of the Prior Bonds, the rate of the Swap Agreements may require adjustment based on current market conditions in order to enable the swaps to be qualified hedges with respect to the 2008 Series Bonds. See "OUTSTANDING 1976 SENIOR LIEN OBLIGATIONS – Existing Swap Agreements" herein.

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ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of the funds are as follows:

Sources of Funds

Par Amount of 2008 Series Bonds	\$168,585,000.00
Interest Fund ⁽¹⁾	<u>460,903.26</u>

Total Sources of Funds \$169,045,903.26

Uses of Funds

Refunding of Prior Bonds ⁽²⁾	<u>\$169,045,903.26</u>
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Total Uses: \$169,045,903.26

⁽¹⁾ Amounts on deposit in the Interest Fund being held to pay interest on the Prior Bonds will be applied to the payment of interest on the Prior Bonds on the date of redemption.

⁽²⁾ Includes proceeds of 2008 Series Bonds and amounts transferred from the Interest Fund.

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DEBT SERVICE SCHEDULE

The following table shows the annual debt service requirements on the 2008 Series Bonds, the Existing Senior Lien Bonds and the Equipment Trust Certificates (the "Existing Debt").

Fiscal Year Ending June 30	2008 Series Bonds Principal	2008 Series Bonds Interest ⁽¹⁾⁽²⁾	2008 Series Bonds Annual Debt Service ⁽¹⁾⁽²⁾	Existing Debt Annual Debt Service ⁽²⁾⁽³⁾	Combined Debt Service ⁽²⁾
2009	\$1,195,000.00	\$5,169,120.50	\$6,364,120.50	\$10,922,277.50	\$17,286,398.00
2010	1,235,000.00	5,515,500.52	6,750,500.52	10,927,942.50	17,678,443.02
2011	1,275,000.00	5,474,807.26	6,749,807.26	10,926,112.50	17,675,919.76
2012	4,670,000.00	5,432,796.00	10,102,796.00	7,569,655.00	17,672,451.00
2013	4,760,000.00	5,278,919.52	10,038,919.52	7,631,165.00	17,670,084.52
2014	4,555,000.00	5,122,077.50	9,677,077.50	7,987,715.00	17,664,792.50
2015	4,570,000.00	4,971,990.26	9,541,990.26	8,120,740.00	17,662,730.26
2016	10,165,000.00	4,821,408.78	14,986,408.78	2,672,300.00	17,658,708.78
2017	10,465,000.00	4,486,472.00	14,951,472.00	2,706,700.00	17,658,172.00
2018	10,775,000.00	4,141,650.28	14,916,650.28	2,730,200.00	17,646,850.28
2019	11,095,000.00	3,786,614.02	14,881,614.02	2,762,200.00	17,643,814.02
2020	11,425,000.00	3,421,033.76	14,846,033.76	2,791,950.00	17,637,983.76
2021	11,760,000.00	3,044,580.02	14,804,580.02	2,829,750.00	17,634,330.02
2022	15,115,000.00	2,657,088.00	17,772,088.00	-	17,772,088.00
2023	15,605,000.00	2,159,048.76	17,764,048.76	-	17,764,048.76
2024	16,110,000.00	1,644,864.00	17,754,864.00	-	17,754,864.00
2025	16,635,000.00	1,114,039.50	17,749,039.50	-	17,749,039.50
2026	17,175,000.00	565,916.26	17,740,916.26	-	17,740,916.26
Total	\$168,585,000.00	\$68,807,926.94	\$237,392,926.94	\$80,578,707.50	\$317,971,634.44

⁽¹⁾ Debt service is calculated based on an assumed swap rate of 3.295%.

⁽²⁾ Totals may not add due to rounding.

⁽³⁾ Includes debt service on the Equipment Trust Certificates and the Existing Senior Lien Bonds. Debt Service on the Equipment Trust Certificates is calculated based on the rate established pursuant to the ETC Swap Agreement, 4.355%. See "OUTSTANDING 1976 SENIOR LIEN OBLIGATIONS – Existing Swap Agreements."

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Limited Obligations

The Bonds are limited obligations of the Authority secured by a pledge of Sales Tax Revenues and certain amounts held by the Trustee in the funds and accounts established under the Indenture. The Authority shall not be required to advance any moneys derived from any source other than Sales Tax Revenues and amounts held by the Trustee in the funds and accounts established under the Indenture, excluding amounts in the Rebate Fund and any Purchase Fund for Bonds subject to purchase, and pledged under the Indenture, including interest earnings on such amounts, whether for the payment of the principal or Redemption Price of or interest on the Bonds or for any other purpose of the Indenture.

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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 SALES TAX REVENUES AND OTHER AMOUNTS PLEDGED UNDER THE INDENTURE, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON, THE BONDS.

Pledge of Sales Tax Revenues and Certain Amounts Held by Trustee

All Sales Tax Revenues are irrevocably pledged by the Authority to secure the punctual payment of the principal of or purchase price of, premium, if any, and interest on the Bonds and Parity Debt, each 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, as described below. Notwithstanding the foregoing, payment of Purchase Price of the 2008 Series Bonds is not secured by a pledge of Sales Tax Revenues. Pursuant to the Indenture, the pledge of Sales Tax Revenues constitutes a first lien to secure the Bonds and Parity Debt, which includes the Equipment Trust Certificates and regularly scheduled payments on the Existing Swap Agreements (hereinafter referred to as the "Parity Swap Payments"). The pledge of Sales Tax Revenues is irrevocable until all Bonds issued under the Indenture, including the 2008 Series 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.

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

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 held by the Trustee under the Indenture (except for amounts held in the Rebate Fund and any Purchase 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.

Revenue Fund; Allocation of Sales Tax 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 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 Sales Tax 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 each month 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 Parity Debt shall be made on a parity basis each month, 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 (calculated at the rate of 12% per annum if the actual rate of interest is not known) 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 Sales Tax Revenues" for a more complete discussion.

After the allocations described above have been made on a monthly basis, any funds remaining in the Revenue Fund are transferred by the Trustee to Wells Fargo Bank, N.A., as successor trustee (the "Junior Lien Trustee") under that certain Indenture, dated as of March 1, 1998 (as supplemented and amended pursuant to its terms, the "Junior Lien Indenture"), between the Authority and the Junior Lien Trustee. Such funds are to be applied by the Junior Lien Trustee as specified in the Junior Lien Indenture to the payment of the principal of, redemption premium, if any, and interest on bonds issued, and parity debt incurred, pursuant to the Junior Lien Indenture, and reserve fund requirements with respect thereto. As of the date of this Official Statement, obligations issued or incurred pursuant to the Junior Lien Indenture consist of the Santa Clara County Transit District Junior Lien Sales Tax Revenue Bonds, 1998 Series A (the "1998 Junior Lien Bonds") and the Santa Clara County Transportation Authority Junior Lien Sales Tax Revenue Bonds, 2000 Series A (the "2000 Junior Lien Bonds," and, together with the 1998 Junior Lien Bonds, hereinafter collectively referred to as the "Junior Lien Obligations"). Commitment fees under the Initial Liquidity Facility are payable following the payment of Bonds, Parity Debt and the Junior Lien Obligations. Termination payments, if any, are then to be made on the ETC Swap Agreement, followed by termination payments under the Swap Agreements. After making the foregoing allocations, all remaining funds shall be available to the Authority for all lawful Authority purposes.

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 Authority shall be required to fund the Bond Reserve Fund in an amount equal to the amount specified in the definition of Bond Reserve Requirement set forth in the Indenture. See APPENDIX D "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Definitions."

In the event the Authority shall be required to fund the Bond Reserve Fund, the Bond Reserve Requirement with respect to any Series of Bonds bearing interest at a fixed rate means an amount not less than the lesser of: (i) 10% of the aggregate original principal amount of such Series (less any original issue discount); (ii) 125% of Average Annual Debt Service for such Series; or (iii) 100% of Maximum Annual Debt Service for such Series as of any date of calculation. The Bond Reserve Requirement for any Series of 2008 Series Bonds shall have the same meaning, provided, however, that the assumed fixed rate to be utilized in calculating the Bond Reserve Requirement shall be calculated in the following manner: (i) if a Swap Agreement (or another variable to fixed rate swap) relates to such Series of 2008 Series Bonds, then the assumed fixed rate shall be the fixed rate payable by the Authority under such Swap Agreement or such other swap; and (ii) if there is no variable to fixed rate swap that relates to such Series of 2008 Series Bonds which satisfies (i) above, then the assumed fixed rate to be utilized shall be the rate set forth in the first Revenue Bond Index published by The Bond Buyer during January of the year immediately following the Fiscal Year in which Sales Tax Revenues did not equal at least 3.0 times Maximum Annual Debt Service.

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. 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. For a more complete discussion of the Bond Reserve Fund provisions, see APPENDIX D - "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Funds and Accounts; Allocation of Sales Tax Revenues – Bond Reserve Fund" and "- Funding and Application of Bond Reserve Fund."

Additional Bonds and Parity Debt

The Authority may issue additional Bonds and may issue or incur other obligations secured in whole or in part by a pledge of Sales Tax Revenues on a parity with the Bonds, subject to compliance with the terms and provisions set forth in the Indenture and, for so long as any Equipment Trust Certificates are outstanding, compliance with the terms and provisions set forth in the Equipment Trust Indenture.

Issuance of Additional Series of Bonds. The Authority may by Supplemental Indenture establish one or more Series of Bonds payable from Sales Tax 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, for so long as any Equipment Trust Certificates are outstanding, upon compliance with the terms and provisions of the Equipment Trust Indenture. 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 of additional Bonds 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 summarized above under the caption "Issuance of Additional Series of Bonds;" 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 any Equipment Trust Certificates are outstanding, the provisions of the Equipment Trust Indenture with respect to the issuance of additional Sales Tax Debt are satisfied.

Parity Debt. As defined in the Indenture, "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 Sales Tax Revenues and therefore payable on a parity with the Bonds (whether or not any Bonds are Outstanding). As defined in the Indenture, the Parity Swap Payments constitute Parity Debt. The Authority may issue or incur 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 Indenture, 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," unless such Parity Debt is for refunding purposes, in which case the coverage test shall not apply.

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 funds in the Revenue Fund 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 any Equipment Trust Certificates are outstanding, the

provisions of the Equipment Trust Indenture for the issuance of additional Sales Tax debt shall be satisfied.

OUTSTANDING 1976 SENIOR LIEN OBLIGATIONS

Bonds and Equipment Trust Certificates. As of the date of issuance of the 2008 Series Bonds, the aggregate principal amount of Bonds Outstanding will equal \$206,870,000, comprised of \$1,630,000 aggregate principal amount of 1997 Series Bonds, \$10,380,000 aggregate principal amount of 2001 Series Bonds, \$26,275,000 aggregate principal amount of 2007 Series Bonds, and \$168,585,000 aggregate principal amount of 2008 Series Bonds. As of the date of issuance of the 2008 Series Bonds, the aggregate principal amount of Equipment Trust Certificates outstanding will equal \$26,500,000.

Existing Swap Agreements. The Authority has entered into interest rate swap agreements in connection with the Equipment Trust Certificates and the Swap Agreements. Pursuant to the terms of the Existing Swap Agreements, the Authority agreed to pay to the counterparties a fixed rate of interest and the counterparties agreed to pay the Authority a floating rate of interest. The Authority's obligation to make regularly scheduled payments of interest to the counterparties under the Existing Swap Agreements is payable from and secured by Sales Tax Revenues on a parity basis with the Bonds and the Equipment Trust Certificates.

The terms of the Swap Agreements will not alter or affect any of the obligations of the Authority with respect to the payment of principal of or interest on the 2008 Series Bonds. Neither the Holders nor the Beneficial Owners of the 2008 Series Bonds will have any rights under the Swap Agreements or against the Counterparties. Payments due to the Authority from the Counterparties are not pledged to the payment of principal of or interest on the 2008 Series Bonds.

Under certain circumstances, the Existing Swap Agreements may be terminated, at which time the Authority may be required to make a termination payment to the applicable Counterparty. Termination payments payable pursuant to the Existing Swap Agreements are secured by a lien on Sales Tax Revenues subordinate to the lien which secures the Bonds, Parity Obligations and Subordinate Obligations. It cannot be predicted at this time what the value of such termination payments owed by the Authority would be if any of the Existing Swap Agreements were to be terminated; however, such termination payments could be substantial. To the extent that the Authority did not have sufficient funds on hand to make any such payment, it is likely that the Authority would seek to borrow such amounts through the issuance of additional Bonds or otherwise. For a further discussion regarding the Authority's existing swaps (including swaps that have liens on the Sales Tax) and potential risks in connection therewith, see APPENDIX B – "AUTHORITY AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2007, Note 7(d) and 7(e)."

JUNIOR LIEN OBLIGATIONS

Outstanding Authority obligations secured by a junior lien on the Sales Tax Revenues include the 2000 Junior Lien Bonds and the 1998 Junior Lien Bonds listed in the table set forth under the caption "Authority Obligations Secured by the Sales Tax and the 2000 Measure A Sales Tax" in Appendix A attached hereto. In addition, termination payments payable in accordance with the provisions of the ETC Swap Agreement are secured by a lien on the Sales Tax Revenues on a subordinate basis to the Junior Lien Obligations and termination payments payable in accordance with the provisions of the Swap Agreements are secured by a lien on the Sales Tax Revenues on a subordinate basis to termination payments payable pursuant to the ETC Swap Agreement.

THE LIQUIDITY FACILITY PROVIDER AND THE INITIAL LIQUIDITY FACILITY

The Liquidity Facility Provider

The following information has been provided by the Liquidity Facility Provider for use in this Official Statement. Such information is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Authority or the Underwriters. This information has not been independently verified by the Authority or the Underwriters. No representation is made by the Authority or the Underwriters as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

Dexia Crédit Local (the "Liquidity Facility Provider") is a subsidiary of the Dexia Group, which was created in 1996. The Dexia Group is a major European banking organization that is the product of several cross-border mergers. The Liquidity Facility Provider is an authentically European bank in terms of both its management organization and the scope of its different lines of business. The Dexia Group is listed on the Brussels, Paris and Luxembourg stock exchanges. With a stock market capitalization of over 20 billion euros as of December 31, 2007, the Dexia Group ranks in the top third of the Euronext 100 companies.

The Liquidity Facility Provider specializes in the Dexia Group's first line of business – public and project finance and financial services for the public sector. The Liquidity Facility Provider has recognized expertise in local public sector financing and project finance. It is backed by a network of specialized banks, which employ over 3,500 professionals. Through this network of subsidiaries, affiliates and branches, the Liquidity Facility Provider is present in almost all of the countries of the European Union as well as Central Europe, the United States of America and Canada. The Liquidity Facility Provider also has operations in Latin America, the Asian-Pacific Region including Australia, and the countries around the Mediterranean.

The Liquidity Facility Provider is a bank with its principal office located in La Défense, France. In issuing the facility, the Liquidity Facility Provider will act through its New York Branch, which is licensed by the Banking Department of the State of New York as an unincorporated branch of Dexia Crédit Local, Paris. The Liquidity Facility Provider is the leading local authority lender in Europe, funding its lending activities in 2007 primarily through the issuance of euro and U.S. dollar-denominated bonds. In 2007, total funding raised by the Liquidity Facility Provider and Dexia Municipal Agency was 18.2 billion euros.

The Dexia Group is the owner of Financial Security Assurance Holdings Ltd. ("FSA Holdings"), the holding company for Financial Security Assurance Inc., a leading financial guaranty insurer.

As of December 31, 2007, the Liquidity Facility Provider had total consolidated assets of 345 billion euros, outstanding medium and long-term loans to customers of 285.1 billion euros and shareholders' equity of over 6.29 billion euros (Tier I plus Tier II), and for the year then ended had consolidated net income of 991 million euros. These figures were determined in accordance with generally accepted accounting principles in France. The Liquidity Facility Provider maintains its records and prepares its financial statements in euros. At December 31, 2007, the exchange rate was 1.0000 euro equals 1.4721 United States dollar. Such exchange rate fluctuates from time to time.

The Liquidity Facility Provider is rated Aa1 long-term and P-1 short-term by Moody's, AA long-term and A-1+ short-term by S&P, and AA+ long-term and F1+ short-term by Fitch.

The Liquidity Facility Provider will provide without charge a copy of its most recent publicly available annual report. Written requests should be directed to: Dexia Crédit Local, New York Branch, 445 Park Avenue, 8th Floor, New York, New York 10022, Attention: General Manager. The delivery of this information shall not create any implication that the information contained or referred to herein is correct as of any time subsequent to its date.

The Initial Liquidity Facility

Certain provisions of the Initial Liquidity Facility are summarized below, and such summary is qualified in its entirety by reference to the Initial Liquidity Facility.

Dexia Crédit Local, acting through its New York Branch (the "Liquidity Facility Provider"), will provide a liquidity facility (the "Initial Liquidity Facility") for the 2008 Series Bonds on the date the 2008 Series Bonds are issued. The Initial Liquidity Facility contains various provisions, covenants and conditions, certain of which are summarized below. Certain words or terms used in the following summary are defined herein below and other words or terms not defined herein below are defined elsewhere in this Official Statement, in the Initial Liquidity Facility or the Indenture, and reference thereto is made for such definitions. The following summary of the Initial Liquidity Facility does not purport to be comprehensive or definitive and is subject to all of the terms and provisions of the Initial Liquidity Facility to which reference is made hereby. Investors are urged to obtain and review a copy of the Initial Liquidity Facility in order to understand all of the terms of those documents.

The Initial Liquidity Facility secures only payment of the purchase price of the 2008 Series A Bonds, the 2008 Series B Bonds and the 2008 Series C Bonds tendered for purchase as described herein, and does not otherwise secure payment of the principal of or interest on the 2008 Series Bonds.

The Initial Liquidity Facility requires the Liquidity Facility Provider to provide funds for the purchase of the related 2008 Series Bonds that have been tendered and not remarketed subject to certain conditions described below. The Initial Liquidity Facility does not guarantee the payment of principal of, interest on, or redemption premium, if any, on the related 2008 Series Bonds in the event of non-payment of such interest, principal or redemption premium, if any, by the Authority.

The obligation of the Liquidity Facility Provider pursuant to the Initial Liquidity Facility to provide funds for the purchase of the related 2008 Series Bonds that have been tendered and not remarketed shall end on the earliest of (i) June 24, 2011, as such date may be extended from time to time in accordance with the Initial Liquidity Facility, (ii) the date on which no related 2008 Series Bonds are Outstanding, (iii) the close of business on the Business Day immediately following the Conversion Date, (iv) the close of business on the thirtieth (30th) day following the date on which the Authority and the Trustee receive a notice from the Liquidity Facility Provider that the Initial Liquidity Facility is being terminated following certain events of default under the Initial Liquidity Facility, or if such thirtieth (30th) day is not a Business Day, the next succeeding Business Day, (v) the date on which the Available Commitment has been reduced to zero or terminated in its entirety at the option of the Authority and (vi) immediately and without notice following certain events of default under the Initial Liquidity Facility under the circumstances described below under "Events of Default and Remedies." The period referred to in the preceding sentence is hereinafter referred to as the "Commitment Period."

Subject to the terms and conditions of the Initial Liquidity Facility, the Liquidity Facility Provider agrees from time to time during the Commitment Period to purchase, with its own funds, related 2008 Series Bonds that have been tendered for purchase and not remarketed, at the purchase price on a

purchase date. The Liquidity Facility Provider's obligation is limited to an amount equal to the aggregate principal amount of the related 2008 Series Bonds then Outstanding plus an amount equal to at least 34 days of interest at the per annum rate of 12% on such Outstanding 2008 Series Bonds.

The obligation of the Liquidity Facility Provider to purchase the related 2008 Series Bonds on any date is subject to the satisfaction of the following conditions, unless waived in writing by the Liquidity Facility Provider: (i) no Event of Default or Default described in paragraph (a) or (b) below shall have occurred and be continuing; and (ii) the Liquidity Facility Provider shall have timely received a notice of purchase.

Events of Default and Remedies. The following events constitute Events of Default under the Initial Liquidity Facility:

(1) The Authority shall fail to pay when due (a) (i) any principal or sinking fund requirement due on any related 2008 Series Bonds (including any Bank Bond prior to the commencement of the Bank Bond Amortization Period) and (ii) any interest on any related 2008 Series Bonds (including any Bank Bond), (b) any principal payment due on any Bank Bond during the Bank Bond Amortization Period or (c) any other amount owed to the Liquidity Facility Provider pursuant to specified sections of the Initial Liquidity Facility; or

(2) The Authority shall fail to pay when due any amount owing under specified sections of the Initial Liquidity Facility (other than those referred to in paragraph (1) above); or

(3) Any material representation or warranty made by or on behalf of the Authority in the Initial Liquidity Facility, the Indenture or in any other Related Document (as defined in the Initial Liquidity Facility) or in any certificate or statement delivered under said documents shall be incorrect or untrue in any material respect when made or deemed to have been made; or

(4) The Authority shall default in the due performance or observance of any of the covenants set forth in specified sections of the Initial Liquidity Facility; or

(5) The Authority shall materially default in the due performance or observance of any other term, covenant or agreement contained in the Initial Liquidity Facility (other than those referred to in paragraphs (1), (2), (3) and (4) above), the Indenture or any other Related Documents and such default shall remain unremedied for a period of thirty (30) days after the Authority shall have received notice thereof; or

(6) One or more final, unappealable judgments against the Authority for the payment of money, which judgments are not covered by insurance, and which judgments are to be enforced pursuant to a lien upon, or an attachment against, any or all of the Sales Tax Revenues, the operation or result of which judgments, individually or in the aggregate, equal or exceed \$10,000,000 and which judgments shall remain unpaid, undischarged, unbonded or undismissed for a period of sixty (60) days; or

(7) (a) The Authority shall commence any case, proceeding or other action (i) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it as bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it, or seeking to declare a moratorium with respect to the related 2008 Series Bonds or the Parity Obligations, or (ii) seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of its assets or

for all or any portion of the Sales Tax Revenues; or the Authority shall make a general assignment for the benefit of its creditors; or (b) there shall be commenced against the Authority any case, proceeding or other action of a nature referred to in clause (a) above which (i) results in an order for such relief or in the appointment of a receiver or similar official or (ii) remains undismissed, undischarged or unbonded for a period of sixty (60) days; or (c) there shall be commenced against the Authority, any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets or for all or any portion of the Sales Tax Revenues, which results in the entry of an order for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within sixty (60) days from the entry thereof; or (d) the Authority shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (a), (b) or (c) above; or (e) the Authority shall generally not, or shall be unable to, or shall admit in writing, its inability to, pay its debts; or

(8) (a) Any provision of the Act, the Initial Liquidity Facility, the Indenture, or the related 2008 Series Bonds relating to (i) the ability or the obligation of the Authority to pay, when due, the principal of or interest on the related 2008 Series Bonds (including any Bank Bonds) or on any Parity Obligation or (ii) the Sales Tax Revenues securing said Bonds and Parity Obligations, shall at any time, and for any reason, cease to be valid and binding on the Authority, or shall be declared to be null and void, invalid or unenforceable as the result of a final nonappealable judgment by any federal or state court or as a result of any legislative or administrative action by any Governmental Authority having jurisdiction over the Authority; or (b) the Authority repudiates or otherwise denies that it has any further liability or obligation under or with respect to any provision of the Act, the Initial Liquidity Facility, the Indenture, the related 2008 Series Bonds or the Parity Obligations relating to (i) the ability or the obligation of the Authority to pay, when due, the principal of or interest on the related 2008 Series Bonds (including any Bank Bonds) or on any Parity Obligation or (ii) the Sales Tax Revenues securing said Bonds and Parity Obligation; or (c) the State or the Authority shall have taken or permitted to be taken any official action, or has duly enacted any statute, which would materially adversely affect the enforceability of any provision of the Initial Liquidity Facility, the related 2008 Series Bonds, the Act, the Indenture or any Parity Obligation relating to (i) the ability or the obligation of the Authority to pay, when due, the principal of or interest on the related 2008 Series Bonds (including any Bank Bonds) or on any Parity Obligation or (ii) the Sales Tax Revenues securing said related 2008 Series Bonds and on Parity Obligation; or (d) any Governmental Authority with jurisdiction to rule on the validity or enforceability of the Initial Liquidity Facility, the related 2008 Series Bonds, the Act, the Indenture or any Parity Obligation shall find or rule, in a judicial or administrative proceeding, that any provision of the Initial Liquidity Facility, the related 2008 Series Bonds, the Act, the Indenture or any Parity Obligation, as the case may be, relating to (i) the ability or the obligation of the Authority to pay, when due, the principal of or interest on the related 2008 Series Bonds (including any Bank Bonds) or on any Parity Obligation or (ii) the Sales Tax Revenues securing said Bonds and Parity Obligation, is not valid or not binding on, or enforceable against, the Authority; or (e) the State or the Authority (i) makes a claim in a judicial or administrative proceeding that the Authority has no further liability or obligation under the Initial Liquidity Facility, the related 2008 Series Bonds, the Act, the Indenture or any Parity Obligation to pay, when due, the principal of or interest on the related 2008 Series Bonds (including any Bank Bonds) or any Parity Obligation or (ii) contests in a judicial or administrative proceeding the validity or enforceability of any provision of the Initial Liquidity Facility, the related 2008 Series Bonds, the Act, the Indenture or any Parity Obligation relating to or otherwise affecting (A) the Authority's ability or obligation to pay, when due, the principal of or interest on the related 2008 Series Bonds (including any Bank Bonds) or on any Parity Obligation or (B) the Sales Tax Revenues securing said Bonds and Parity Obligation; or (f) a debt moratorium or comparable extraordinary restriction on repayment of principal and interest on any debt shall have been declared or imposed (whether or not in writing) with respect to the related 2008 Series Bonds (including any Bank Bond) or on any Parity Obligation; or

(9) Moody's, Standard & Poor's and any other Rating Agency then rating the related 2008 Series Bonds and any Parity Obligation shall have (a) assigned the related 2008 Series Bonds or any Parity Obligation, a long-term rating below "Baa3" by Moody's and "BBB-" by Standard & Poor's (or comparable rating, in the case of another Rating Agency), (b) withdrawn their long-term ratings of the related 2008 Series Bonds or any Parity Obligation for any credit-related reason or (c) suspended their long-term ratings of the related 2008 Series Bonds or any Parity Obligation for any credit-related reason; *provided, however*, that any downgrade, withdrawal or suspension described in any of the foregoing provisions shall not be deemed an Event of Default under the Initial Liquidity Facility if said downgrade, withdrawal or suspension, as the case may be, shall be attributable to the downgrade, withdrawal or suspension of the long-term ratings assigned to any bond insurance or other credit enhancement provided by a Person other than the Authority; or

(10) (a) Except as otherwise provided in clause (b) below, any "Event of Default" as defined in the Indenture shall occur and be continuing or any "Event of Default" shall occur and be continuing under any other agreement between the Authority and the Liquidity Facility Provider regarding Parity Obligations, if any; or (b) the Authority shall fail to make any payment in respect of principal or interest on any Parity Obligation issued and outstanding or to be issued, when due (i.e., whether upon said Parity Obligation's scheduled maturity, required prepayment, acceleration, upon demand or otherwise, except as such payments may be accelerated, demanded or required to be prepaid under the Initial Liquidity Facility), and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Parity Obligation.

Following the occurrence of certain of the above referenced Events of Default, the Liquidity Facility Provider may take any one or more of the following actions, among others. Reference is made to the Initial Liquidity Facility for a complete listing of all consequences of Events of Default.

(a) In the case of any Event of Default or Default specified in paragraph 1(a), 7(a), 7(d), 7(e), 8(a), 8(b), 8(c), 8(f), 9 or 10(b) above (each, a "Special Event of Default"), the Available Commitment (as defined in the Initial Liquidity Facility) shall immediately be reduced to zero, in which case the obligations of the Liquidity Facility Provider under the Initial Liquidity Facility shall immediately terminate and expire without requirement of notice by the Liquidity Facility Provider; provided, that (i) the Event of Default described in paragraph 1(a) above will not qualify as a Special Event of Default if the failure to pay principal of, or interest on, a Bank Bond is due solely to an acceleration of all of the Bank Bonds by the Liquidity Facility Provider for any reason other than nonpayment as described in paragraph 1(a) hereof and (ii) the Suspension Events described in paragraph (b) below will not qualify as Special Events of Default unless and until the conditions described in said paragraph (b) below for such qualification have been satisfied. After such termination or expiration, the Liquidity Facility Provider shall deliver promptly to the Authority, the Trustee and the applicable Remarketing Agent written notice of such termination or expiration; provided, however, that failure to provide such written notice shall have no effect on the validity or enforceability of such termination or expiration.

(b) In the case of any Event of Default or Default specified in paragraph 1(b), 7(b), 7(c), 8(d) or 8(e) above (each, a "Suspension Event"), the obligation of the Liquidity Facility Provider to purchase related 2008 Series Bonds under the Initial Liquidity Facility shall be immediately suspended without notice or demand and, thereafter, the Liquidity Facility Provider shall be under no obligation to purchase related 2008 Series Bonds until the Available Commitment is reinstated as described below. Promptly upon the occurrence of any such Suspension Event, the Liquidity Facility Provider shall notify the Authority, the Trustee and the applicable Remarketing Agent of such suspension and the effective date of such suspension in writing by facsimile, promptly confirmed by regular mail; provided, that the Liquidity Facility Provider shall incur no liability of any kind by reason of its failure to give such notice and such

failure shall in no way affect the suspension of the Available Commitment or its obligation to purchase related 2008 Series Bonds pursuant to the Initial Liquidity Facility.

Upon the occurrence of an Event of Default described in paragraph 1(b) above, the Liquidity Facility Provider's obligations to purchase related 2008 Series Bonds shall be suspended immediately and automatically and remain suspended until the Authority cures the Event of Default resulting in said suspension or the date on which the Liquidity Facility Provider's obligations under the Initial Liquidity Facility have terminated or expired in accordance with the terms thereof (the "Termination Date"), whichever is the first to occur. If the Authority shall cure the Event of Default described in paragraph 1(b) above prior to the Termination Date, then the Available Commitment and the obligations of the Liquidity Facility Provider under the Initial Liquidity Facility shall thereupon be reinstated (unless the Commitment Period shall otherwise have been terminated, suspended or expired as provided in the Initial Liquidity Facility). Notwithstanding the foregoing, if the Authority shall not have cured the Event of Default resulting in said suspension prior to the Termination Date, then the Available Commitment and the obligations of the Liquidity Facility Provider to purchase related 2008 Series Bonds shall terminate on the Termination Date without notice or demand and, thereafter, the Liquidity Facility Provider shall be under no obligation to purchase such related 2008 Series Bonds.

Upon the occurrence of an Event of Default described in paragraph 7(b)(i) above, the Liquidity Facility Provider's obligations to purchase related 2008 Series Bonds shall be suspended immediately and automatically and remain suspended until said case, proceeding or other action referred to therein is either dismissed, discharged or bonded or the Termination Date occurs, whichever is first. In the event that the Event of Default described in paragraph 7(b)(i) above shall have been dismissed, discharged or bonded prior to the Termination Date, then the Available Commitment and the obligation of the Liquidity Facility Provider to purchase related 2008 Series Bonds shall be reinstated and the terms of the Initial Liquidity Facility shall continue in full force and effect as if there had been no such suspension (unless the Commitment Period shall otherwise have been terminated, suspended or expired as provided in the Initial Liquidity Facility). In the event that said Suspension Event shall not have been dismissed, discharged or bonded prior to the Termination Date, then the Available Commitment and the obligation of the Liquidity Facility Provider to purchase related 2008 Series Bonds shall terminate on such Termination Date without notice or demand and, thereafter, the Liquidity Facility Provider shall be under no obligation to purchase related 2008 Series Bonds.

Upon the occurrence of a Default described in paragraph 7(b)(ii) above, the Liquidity Facility Provider's obligations to purchase related 2008 Series Bonds shall be immediately and automatically suspended and remain suspended until the case, proceeding or other action referred to therein is either dismissed, discharged or bonded within sixty (60) days from the commencement of such case, proceeding or action, or the Termination Date occurs, whichever is first. In the event that said Suspension Event shall have been dismissed, discharged or bonded within the sixty (60) day period described therein and prior to the Termination Date, then the Available Commitment and the obligation of the Liquidity Facility Provider to purchase such related 2008 Series Bonds shall be reinstated and the terms of the Initial Liquidity Facility shall continue in full force and effect as if there had been no suspension (unless the Commitment Period shall have otherwise have been terminated, suspended or expired as provided in the Initial Liquidity Facility). In the event that said Suspension Event shall not have been dismissed, discharged or bonded within such sixty (60) day period when the Termination Date occurs, then the Available Commitment and the obligation of the Liquidity Facility Provider to purchase such related 2008 Series Bonds shall terminate on the Termination Date without notice or demand and, thereafter, the Liquidity Facility Provider shall be under no obligation to purchase such related 2008 Series Bonds.

Upon the occurrence of a Default described in paragraph 7(c), the Liquidity Facility Provider's obligations to purchase related 2008 Series Bonds shall be immediately and automatically suspended and remain suspended until the case, proceeding or other action referred to therein is either vacated, discharged, or stayed or bonded pending appeal within sixty (60) days from the commencement of such case, proceeding or action, or the Termination Date occurs, whichever is first. In the event that said Event of Default described in paragraph 7(c) shall have been vacated, discharged, or stayed or bonded pending appeal within the sixty (60) day period described therein and prior to the Termination Date, then the Available Commitment and the obligation of the Liquidity Facility Provider to purchase the related 2008 Series Bonds shall be reinstated and the terms of the Initial Liquidity Facility shall continue in full force and effect as if there had been no such suspension (unless the Commitment Period shall otherwise have been terminated, suspended or expired as provided in the Initial Liquidity Facility). In the event that said Event of Default described in paragraph 7(c) shall not have been vacated, discharged, or stayed or bonded pending appeal within such sixty (60) day period when the Termination Date occurs, then the Available Commitment and the obligation of the Liquidity Facility Provider to purchase the related 2008 Series Bonds shall terminate on such Termination Date without notice or demand and, thereafter, the Liquidity Facility Provider shall be under no obligation to purchase the related 2008 Series Bonds.

Upon the occurrence of an Event of Default described in paragraph 8(d) or 8(e), the Liquidity Facility Provider's obligations to purchase the related 2008 Series Bonds shall be immediately and automatically suspended and remain suspended unless and until a court with jurisdiction to rule on such an Event of Default shall enter a final and nonappealable judgment that any of the material provisions of the Act or any other document described in paragraph 8(d) are not valid or not binding on, or enforceable against, the Authority or that a claim or contest described in paragraph 8(e) shall have been upheld in favor of the State or the Authority in accordance with a final and nonappealable judgment, then, in each such case, the Available Commitment and the obligation of the Liquidity Facility Provider to purchase related 2008 Series Bonds shall immediately terminate without notice or demand and, thereafter, the Liquidity Facility Provider shall be under no obligation to purchase such related 2008 Series Bonds. If a court with jurisdiction to rule on such an Event of Default shall find or rule by entry of a final and nonappealable judgment that the material provision of the Act or any other document described in paragraph 8(d) is valid and binding on, or enforceable against, the Authority or that the claim or contest described in paragraph 8(e) shall have been dismissed pursuant to a final and nonappealable judgment, then the Available Commitment and the obligations of the Liquidity Facility Provider under the Initial Liquidity Facility shall, in each such case, thereupon be reinstated (unless the Commitment Period shall otherwise have been terminated, suspended or expired as provided in the Initial Liquidity Facility). Notwithstanding the foregoing, if the suspension of the obligations of the Liquidity Facility Provider pursuant to any Event of Default described in paragraphs 8(d) or 8(e) remains in effect and litigation is still pending and a determination regarding same shall not have been dismissed or otherwise made pursuant to a final and non-appealable judgment, as the case may be, when the Termination Date occurs, then the Available Commitment and the obligation of the Liquidity Facility Provider to purchase such related 2008 Series Bonds shall terminate on the Termination Date without notice or demand and, thereafter, the Liquidity Facility Provider shall be under no obligation to purchase such related 2008 Series Bonds.

In the case of each Suspension Event, the Trustee shall subsequently notify all Bondholders of the suspension and/or termination of both the Available Commitment and the obligation of the Liquidity Facility Provider to purchase the related 2008 Series Bonds.

(c) Upon the occurrence of any Event of Default, the Liquidity Facility Provider shall have all remedies provided at law or equity, including, without limitation, specific performance; and in addition, the Liquidity Facility Provider, in its sole discretion, may do one or more of the following: (i)

declare all obligations of the Authority to the Liquidity Facility Provider under the Initial Liquidity Facility (other than payments of principal and redemption price of and interest on the Bank Bonds, unless said Bank Bonds have otherwise become subject to acceleration pursuant to the Indenture) to be immediately due and payable, and the same shall thereupon become due and payable without demand, presentment, protest, notice of intent to accelerate, notice of acceleration or further notice of any kind, all of which are expressly waived; (ii) the Liquidity Facility Provider may give written notice of such Event of Default and termination of the Initial Liquidity Facility ("Notice of Termination Date") to the Trustee, the Authority and the Remarketing Agents requesting a Default Tender; *provided, that* the obligation of the Liquidity Facility Provider to purchase related 2008 Series Bonds shall terminate on the thirtieth (30th) day (or if such day is not a Business Day, the next following Business Day) after such Notice of Termination Date is received by the Trustee and, on such date, the Available Commitment shall terminate and the Liquidity Facility Provider shall be under no obligation to purchase such related 2008 Series Bonds; (iii) exercise any right or remedy available to it under any other provision of the Initial Liquidity Facility; or (iv) exercise any other rights or remedies available under the Indenture and any other Related Document, any other agreement or at law or in equity; provided, further, however, the Liquidity Facility Provider shall not have the right to terminate its obligation to purchase the related 2008 Series Bonds except as described above.

Substitution of Alternate Liquidity Facility

Pursuant to the provisions of the Indenture, the Authority may provide an Alternate Liquidity Facility with respect to any Series of 2008 Series Bonds. The Authority shall give at least 30 days' written notice to the Trustee and each of the Notice Parties of its intent to furnish an Alternate Liquidity Facility to the Trustee. The applicable Series of 2008 Series Bonds shall be subject to mandatory purchase on the Substitution Date. In addition, the Trustee shall give 15 days' notice to Holders.

THE SALES TAX

General

The terms of the Act authorize the imposition 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.

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 the Fiscal Year ended June 30, 2007, the amount of the administrative fee was approximately \$1,475,000. In the Fiscal Year ending June 30, 2008, the approximate amount of the administrative fee per fiscal quarter is approximately \$400,000. Sales Tax revenue and projection data presented herein are shown net of administration fees.

For a summary of the Sales Tax Revenues reported by the Authority for the ten Fiscal Years ended June 30, 2007, see "THE SALES TAX - Historical Sales Tax Revenues" below.

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 BONDS - Revenue Fund; Allocation of Sales Tax Revenues" and APPENDIX D - "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Funds and Accounts; Allocation of Sales Tax 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. Commitment fees under the Initial Liquidity Facility are payable following the payment of Bonds, Parity Debt and the Junior Lien Obligations. Termination payments, if any, are then to be made on the ETC Swap Agreement, followed by termination payments under the Swap Agreements. After such allocations, 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 ten Fiscal Years ended June 30, 2007.

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**Santa Clara Valley Transportation Authority
Historical Sales Tax Revenues
Fiscal Years Ended June 30, 1998- 2007**

Fiscal Year Ended June 30	Sales Tax Revenues	Percent Increase (Decrease)
1998	\$138,428,805	--
1999	143,711,721	3.8
2000	166,764,390	16.0
2001	183,540,308	10.1
2002	144,217,679	(21.4) ⁽¹⁾
2003	132,632,377	(8.0) ⁽¹⁾
2004	138,917,173	4.7
2005	145,008,106	4.3
2006	157,283,101	8.5
2007	163,675,750	4.1

Source: The Authority.

⁽¹⁾ The Authority attributes the Fiscal Year 2002 and 2003 reductions shown above to the effects of a severe downturn of the local economy (principally in the high-tech industry), which began in 2001 and resulted in reductions in Sales Tax Revenues and available jobs within the County.

Projected Sales Tax Revenues

Based on projected Sales Tax Revenues for Fiscal Year ended June 30, 2008 in the amount of \$165,183,267, Sales Tax Revenues are anticipated to equal at least 9.31 times Maximum Annual Debt Service on the Bonds through June 1, 2026, the final maturity of the 2008 Series Bonds assuming such Maximum Annual Debt Service amounts as are shown in the table "DEBT SERVICE SCHEDULE" herein.

The table below represents a ten-year projection by the Authority of Sales Tax Revenues for the Fiscal Years ending June 30, 2008 through 2017.

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**Santa Clara Valley Transportation Authority
Projected Sales Tax Revenues
Fiscal Years Ending June 30, 2008 – 2017**

Fiscal Year Ending June 30	Projected Sales Tax Revenues	Percent Increase (Decrease)
2008	\$165,183,267	0.92%
2009	165,183,267	0.00
2010	174,317,902	5.53
2011	184,062,272	5.59
2012	194,406,572	5.62
2013	205,409,984	5.66
2014	217,097,812	5.69
2015	229,515,807	5.72
2016	242,139,176	5.50
2017	251,824,743	4.00

Source: The Authority.

The Sales Tax Revenue projections in the preceding table are based in part on the data provided by the economist referenced below and in part on assumptions of the Authority. Annual Sales Tax Revenues for the Fiscal Year ended June 30, 2007, total \$163,675,750.

The Authority has obtained the services of an outside economist, who has provided projected assumptions and projections of taxable sales for Santa Clara County through 2016 to assist the Authority in developing sales tax revenue forecasts. The taxable sales projections are developed by applying high, middle, and low growth assumptions to several key variables affecting taxable sales, including population, jobs, earnings per job, non-earnings income per person, the ratio of taxable sales to personal income and total personal income and were most recently updated in December 2006. The Authority has developed its sales tax revenue forecasts using the midpoint between middle and low growth projections of taxable sales for Santa Clara County. As described below, growth rate projections for Fiscal Year 2008 and Fiscal Year 2009 have been revised by the Authority due to current economic conditions. In developing its projection for 2017, the Authority used a growth rate of 4.00%, which is below the 5.9% historical average percentage increase since Fiscal Year 1978, the first full year of collection of the Sales Tax. As with all assumptions, actual achievement of certain results or other expectations contained in such assumptions involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forecasts. No assurance is given that actual results will meet the forecasts of the Authority in any way, regardless of the level of optimism communicated in the information. The Authority is not obligated to issue any updates or revisions to the forecasts if or when its expectations, or events, conditions or circumstances on which such statements are based occur.

The local economy started to slow down in late calendar year 2007. Contributing to the slow down of the local economy are recent increases in energy, food, raw material costs, and a downturn in the housing industry. Reduced home building, home sales, and auto sales contributed to a slowdown in taxable sales growth. As a result of the economic slow down, the Authority is experiencing a flattening of growth in Sales Tax Revenues and has adjusted its Sales Tax Revenues forecast for Fiscal Year 2008 and Fiscal Year 2009.

Additional Sales Taxes Collected in the County

In addition to sales taxes levied at the County level, the State of California (the "State") imposes a 7.25% sales tax. Combined with the Sales Tax and the 2000 Measure A Sales Tax described below, this State sales tax results in transactions in the County being taxed at an effective rate of 8.25%. Legislation in July 1991 raised the State sales tax rate by 1.25% to its current level. Additional increases in the State sales tax rate could occur in the future. In addition, additional sales taxes could be levied at the County level.

2000 Measure A Sales Tax

In the November 2000 general election, voters in the County authorized an additional ½-cent sales tax (the "2000 Measure A Sales Tax"). The 2000 Measure A Sales Tax took effect on April 1, 2006 upon the expiration of the 1996 Measure B Sales Tax and is scheduled to expire on March 31, 2036. **The 2000 Measure A Sales Tax is a separate sales and use tax collected by the Authority and is not pledged to secure the 2008 Series Bonds or any other obligations secured by the Sales Tax.**

INVESTMENT CONSIDERATIONS

Economy of the County and the State

The 2008 Series Bonds are secured by a pledge of Sales Tax Revenues, which consist 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 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 2008 Series Bonds. For example, during the economic downturn between 2001 and 2003, Sales Tax Revenues decreased 21.8% between the Fiscal Year ended June 30, 2001 and the Fiscal Year ended June 30, 2002 and decreased 8.0% between the Fiscal Year ended June 30, 2002 and the Fiscal Year ended June 30, 2003. See "THE SALES TAX – Historical Sales Tax Revenues" above.

The local economy started to slow down in late calendar year 2007. Contributing to the slow down of the local economy are recent increases in energy, food, raw material costs, and a downturn in the housing industry. Reduced home building, home sales, and auto sales contributed to a slowdown in taxable sales growth. As a result of the economic slow down, the Authority is experiencing a flattening of growth in Sales Tax Revenues and has adjusted its Fiscal Year 2008 and Fiscal Year 2009 Sales Tax Revenues forecast. See "THE SALES TAX" above.

For information relating to economic conditions within the County and the State, see APPENDIX C - "COUNTY OF SANTA CLARA DEMOGRAPHIC AND ECONOMIC INFORMATION."

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 SALE 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 XIIC and XIID to the California Constitution. Article XIIC 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 XIIC do not apply to the Sales Tax since the Sales Tax was approved by the voters prior to January 1, 1995. Article XIIC 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 2008 Series 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

Proposition 218 and Proposition 42 (discussed in Appendix A) 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.

Limitations of Liquidity Facilities and Related Risks

The ability to obtain funds under any Liquidity Facility, including the Initial Liquidity Facility, in accordance with its respective terms may be limited by federal or state law. Bankruptcy, conservatorship, receivership and similar laws governing financial institutions may prevent or restrict payment under a Liquidity Facility, including the Initial Liquidity Facility. In the event funds are not provided to pay Purchase Price of any tendered 2008 Series Bond pursuant to a draw on a Liquidity Facility, the Authority may, but is not obligated to, provide funds to pay such Purchase Price. To the extent the short-term rating on the principal of and interest on any Series of 2008 Series Bonds depends in any manner on the rating of the Liquidity Facility Provider then providing the Liquidity Facility for such Series of 2008 Series Bonds, the short-term ratings on such Series of 2008 Series Bonds could be downgraded or withdrawn if such Liquidity Facility Provider was downgraded, placed on credit watch or had its credit suspended or withdrawn or refused to perform under its Liquidity Facility.

Investment Considerations Related to Variable Rate Bonds and Interest Rate Swaps

The 2008 Series Bonds are being issued as variable rate bonds. Each Series of 2008 Series Bonds may be converted to fixed rates. However, the Authority's protection against rising interest rates is limited because the Authority would be required to continue to pay interest at variable rates until such time as the Authority is permitted to convert 2008 Series Bonds to fixed rate bonds pursuant to the provisions of the Indenture.

As described above under the caption "Plan of Finance - Swap Agreements," the Authority has entered into the Swap Agreements to manage its interest rate exposure with respect to the 2008 Series

Bonds. The total notional amount of the Swap Agreements is equal to the aggregate principal amount of the 2008 Series Bonds. In accordance with the provisions of the Swap Agreements, the Authority will pay a fixed rate of interest to the Counterparties and will receive a variable rate of interest from the Counterparties, the effect of which is intended to achieve a synthetic fixed interest rate.

The variable rate of interest received by the Authority on the Swap Agreements may be less than the variable rate of interest on the 2008 Series Bonds, which would effectively increase the borrowing costs of the Authority. Debt service on the 2008 Series Bonds shown in the debt service schedule set forth above under the caption, "Debt Service Schedule" has been calculated based on the fixed rate of interest payable by the Authority to the Counterparties established pursuant to the Swap Agreements. Actual debt service on the 2008 Series Bonds may be higher or lower than the debt service shown in the Debt Service Schedule. In addition, if one or more of the Swap Agreements were to be terminated for any reason, the Authority would have variable interest rate exposure. For a discussion of additional investment considerations relating to the Swap Agreements, see also "Outstanding 1976 Senior Lien Obligations - Existing Swap Agreements."

No Acceleration Provision

The Indenture does not contain a provision allowing for the acceleration of the 2008 Series Bonds in the event of a default in the payment of principal and interest on the 2008 Series Bonds when due. In the event of a default by the Authority, each Owner of a 2008 Series Bond will have the rights to exercise the remedies, subject to the limitations thereon, set forth in the Indenture. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

Loss of Tax Exemption

As discussed under "TAX MATTERS," interest on the 2008 Series Bonds could become includable in federal gross income, possibly from the date of issuance of the 2008 Series Bonds, as a result of acts or omissions of the Authority subsequent to the issuance of the 2008 Series Bonds. Should interest become includable in federal gross income, the 2008 Series Bonds are not subject to redemption by reason thereof and will remain outstanding until maturity or earlier redemption.

FINANCIAL STATEMENTS

The financial statements of the Authority for the Fiscal Year ended June 30, 2007, included in APPENDIX B of this Official Statement have been audited by Vavrinek, Trine, Day & Co., LLP, independent auditors, as stated in their report therein. Vavrinek, Trine, Day & Co., 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 Vavrinek, Trine, Day & Co., 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, 2007.

LITIGATION

There is not now pending or, to the knowledge of the Authority, threatened, any litigation restraining or enjoining the issuance or delivery of the 2008 Series Bonds or questioning or affecting the validity of the 2008 Series Bonds or the proceedings and authority under which they are to be issued or the levy, collection and pledge of Sales Taxes. 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 to the Authority ("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 2008 Series 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 2008 Series 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.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the 2008 Series Bonds. The Authority has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 2008 Series Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the 2008 Series Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2008 Series 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), or any other matters coming to Bond Counsel's attention after the date of issuance of the 2008 Series Bonds may adversely affect the value of, or the tax status of interest on, the 2008 Series Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the 2008 Series 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 2008 Series Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends 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.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2008 Series 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. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the 2008 Series Bonds. Prospective purchasers of the 2008 Series Bonds should consult their own tax advisers regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authorities, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the 2008 Series Bonds for federal income tax purposes. It is not binding on the Internal Revenue

Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the 2008 Series Bonds ends with the issuance of the 2008 Series Bonds and unless separately engaged, Bond Counsel is not obligated to defend the Authority or the Beneficial Owners regarding the tax-exempt status of the 2008 Series Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the 2008 Series Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the 2008 Series Bonds, and may cause the Authority or the Beneficial Owners to incur significant expense.

LEGAL MATTERS

The validity of the 2008 Series Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority. A complete copy of the proposed form of opinion of Bond Counsel is attached hereto as APPENDIX F. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Authority by the general counsel for the Authority. Certain legal matters will be passed upon for the Liquidity Facility Provider by Nixon Peabody LLP. Certain legal matters will be passed upon for the Underwriters by Ronald E. Lee, Esq., Davis, California.

RATINGS

Standard & Poor's Ratings Group, a division of The McGraw Hill Companies ("S&P"), Moody's Investors Service, Inc. ("Moody's"), and Fitch Ratings ("Fitch") are expected to assign long-term ratings of "AAA" "Aa3," and "AA-," respectively, to the 2008 Series Bonds based on information provided to such agencies by the Authority. S&P and Moody's are expected to assign short-term ratings of "A-1+," and "VMIG 1," respectively, to the 2008 Series Bonds based upon the understanding that the Initial Liquidity Facility will be executed and delivered by the Liquidity Facility Provider. 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 2008 Series 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

Goldman, Sachs & Co., as representative of the underwriters of the 2008 Series Bonds listed on the cover hereof (the "Representative"), has agreed, subject to certain conditions, to purchase the 2008 Series Bonds at a purchase price of \$168,585,000, and to receive underwriting compensation of \$284,073.90. The purchase contract provides that the Underwriters will purchase all the 2008 Series Bonds if any are purchased.

FINANCIAL ADVISOR

The Authority has retained Ross Financial, San Francisco, California, as financial advisor (the "Financial Advisor") in connection with the authorization and delivery of the 2008 Series Bonds. Compensation paid to the Financial Advisor is conditioned on the issuance of the 2008 Series Bonds.

RELATIONSHIPS AMONG THE PARTIES

As indicated above under the caption "PLAN OF FINANCE – Swap Agreements," the Authority entered into separate Swap Agreements with Goldman Sachs Mitsui Marine Derivative Products, L.P. and Morgan Stanley Capital Services Inc. Goldman Sachs Mitsui Marine Derivative Products, L.P. is an affiliate of Goldman, Sachs & Co., which is an underwriter and will serve as remarketing agent for the 2008 Series A Bonds. Morgan Stanley Capital Services Inc. is an affiliate of Morgan Stanley & Co. Incorporated, which is an underwriter and will serve as remarketing agent for the 2008 Series C Bonds.

CONTINUING DISCLOSURE

The offering of the 2008 Series Bonds is exempt from the continuing disclosure requirements set forth in Securities and Exchange Commission Rule 15c2-12 (the "Rule") issued under the Securities Exchange Act of 1934, as amended pursuant to the exemptions provided in paragraph (d)(1) of the Rule. However, in the event the Authority has no fixed rate debt outstanding that is subject to the Rule, the Authority has covenanted to continue to provide continuing disclosure information of the type provided in connection with its fixed rate debt. Additionally, in accordance with the provisions of the Indenture, upon the conversion of a Series of 2008 Series Bonds to an interest rate mode requiring a continuing disclosure undertaking under the Rule, the Authority has covenanted to comply with the applicable requirements promulgated under the Rule, as it may from time to time hereafter be amended or supplemented, and to incur all costs associated with such continuing disclosure undertaking.

The Authority is in compliance with all continuing disclosure requirements applicable to its securities.

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APPENDIX A

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

All capitalized terms used and not defined in this Appendix A shall have the meanings assigned to such terms in the forepart of the Official Statement to which this Appendix A is attached. Unless otherwise specifically noted herein, source data for tables is provided by Santa Clara Valley Transportation Authority (the "Authority").

Administration

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

Current members of the Board and the local agency each Board member represents are set forth below.

Name	Local Agency
Liz Kniss, Chairperson	County of Santa Clara
Dolly Sandoval, Vice Chairperson	City of Cupertino
Nora Campos	City of San Jose
David Casas	City of Los Altos
Dominic Caserta	City of Santa Clara
Donald F. Gage	County of Santa Clara
Yoriko Kishimoto	City of Palo Alto
Sam Liccardo	City of San Jose
Nancy Pyle	City of San Jose
Chuck Reed	City of San Jose
Greg Sellers	City of Morgan Hill
Forrest Williams	City of San Jose

Current alternate members of the Board are David Cortese (City of San Jose), Kathleen King (City of Saratoga), Bob Livengood (City of Milpitas), Peter McHugh (County of Santa Clara) and Chris Moylan (City of Sunnyvale). Current ex-officio members of the Board are Dean J. Chu and Ken Yeager.

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:

MICHAEL BURNS - General Manager since August 2005. Mr. Burns has been in the transportation industry for more than thirty years and formerly served as Executive Director of the San Francisco Municipal Transportation Agency. Mr. Burns has also served as Executive Director of the San Francisco Department of Parking and Traffic. Prior to that, Mr. Burns served as Chief Operations Officer of the Southeastern Pennsylvania Transportation Authority ("SEPTA"). Prior to serving as Chief Operations Officer at SEPTA, Mr. Burns served as Assistant General Manager in charge of the Railroad Division and as Chief Mechanical Officer. He has also served as Assistant General Manager for Railroad Operations for the Massachusetts Bay Transportation Authority ("MBTA").

KEVIN ALLMAND - Acting General Counsel since March 2008. Prior to his appointment as Acting General Counsel, Mr. Allmand served the Authority as Assistant General Counsel from 2002 until March 2008 and as Senior Assistant Counsel from 1993 until 2002. Prior to joining the Authority, Mr. Allmand served as a Deputy County Counsel in the Santa Clara County Counsel's Office from 1990 to 1993.

CAROLYN GONOT - Chief SVRT Program Officer since June, 2007. Prior to her appointment as Chief SVRT Program Officer, Ms. Gonot served as Chief Development Officer since January 2004 and as the Deputy Director of the Congestion Management Program prior to that. Ms. Gonot has been employed by the Authority since July 1996. Ms. Gonot worked for transportation consulting firms before joining the Authority.

GRETA HELM - Chief External Affairs Officer since November 2007. Ms. Helm was admitted to the California State Bar in 1990, and practiced real property and business litigation. After obtaining her Masters in Public Administration, Ms. Helm was employed as Senior Policy Counsel in San Mateo County. Immediately prior to joining the Authority, Ms. Helm was Director of Government Relations and Planning for the Santa Clara County Social Services Agency, where she was responsible for managing the coordination of media relations, community outreach, legislative/policy development, and management reporting.

BILL LOPEZ - Chief Administrative Officer since April 2006. Prior to joining the Authority, Mr. Lopez spent twenty-two years with the City of San Diego, most recently as Director of Risk Management. Prior to that, Mr. Lopez served as the Deputy Director for the Operations and Maintenance Division, Metropolitan Wastewater Department, and the Labor Relations Officer for the City of San Diego City Manager's Office.

GARY MISKELL - Chief Information Officer since December 2007. Prior to joining the Authority, Mr. Miskell was a Senior Director at Solectron Technology, managing the Global Information Technology Application organization. Prior to that Mr. Miskell directed the System Integration & Test Business Unit at Solectron Technology, which included the following functions: Materials Management, Engineering, Quality, Program Management/Sales, Marketing, Quotation and Manufacturing. Mr. Miskell graduated in 1979 from Texas Tech University with a Bachelor of Science degree in Electrical Engineering.

JOHN RISTOW - Chief Congestion Management Agency ("CMA") Officer since October, 2007. Prior to his appointment as Chief CMA Officer, Mr. Ristow served as Deputy Director, Programming and Project Development for the Authority, where he was responsible for highway planning, environmental clearance, right of way and preliminary engineering phases for all Authority projects. Prior to joining the Authority, Mr. Ristow worked at the Riverside County Transportation and Land Management Agency

where he managed the County's Road and Bridge Benefit Districts and the countywide National Pollutant Discharge Elimination System (NPDES) program. Since joining the Authority in 1998, Mr. Ristow has managed the completion of the Measure B Highway Program as well as highway projects funded through federal, state and local sources.

MARK S. ROBINSON - Acting Chief Engineering and Construction Officer since November 2007. Mr. Robinson has been with the Authority for more than twenty-six years. Prior to his appointment as Acting Chief Engineering and Construction Officer, Mr. Robinson served the Authority in many capacities, including light rail project manager and rail and facilities program manager, and has been involved in the implementation of large transit projects for the Authority.

DONALD SMITH - Chief Operating Officer since May 2006. Mr. Smith joined the Authority in April 2006 as Deputy Director, Operations. Mr. Smith has extensive experience in operations, management, and paratransit including twenty-five years at MBTA in Boston. Mr. Smith has also worked at SEPTA in Philadelphia and as a consultant in the private sector.

JOSEPH T. SMITH - Chief Financial Officer since January 2008. Mr. Smith has more than twenty-eight years of transit finance experience. Prior to joining the Authority, Mr. Smith held a number of positions with the Regional Transportation District in Denver, Colorado, most recently as Senior Manger of Finance.

Employees

The Authority presently has approximately 2,040 employees. The Authority's Adopted FY 2008 and FY 2009 Budget (the "Adopted FY 2008 and FY 2009 Budget") includes funding for authorized positions of 2,186 and 2,193 respectively.

The Amalgamated Transit Union, Division 265 (the "ATU"), represents approximately 1,400 employees (approximately 69% of total Authority employees), including mechanics and maintenance personnel, bus and light rail operators, dispatchers, and customer service representatives. The existing contract with the ATU was scheduled to expire in February 2008. Pursuant to an agreement between the parties, the terms and provisions of that contract remain in effect as negotiations continue with respect to a new contract. A proposal by management was voted upon on June 18, 2008 and was rejected. Rejection of the management proposal also included approval of an authorization to strike. Management currently anticipates that negotiations will resume and provisions of the Authority's enabling act designed to avoid an interruption of service may be invoked. Such provisions include mediation, arbitration and certification of the dispute to the Governor for the appointment of a fact-finding commission. No interruption of service will occur during mediation or arbitration. In the event a fact-finding commission is appointed, no interruption of service is permitted during the tenure of the fact-finding commission or for a period of thirty (30) days after the report of the fact-finding commission is delivered to the Governor.

The Service Employees International Union, Local 521 ("SEIU Local 521") represents approximately 270 employees in technical, paraprofessional and administrative positions. The existing contract with SEIU Local 521 expires in May 2009. The American Federation of State, County and Municipal Employees, Local 101 ("AFSCME"), represents approximately 205 employees, comprised of managers, supervisors and other professional staff. The existing contract with AFSCME expires in April 2009. The Transportation Authority Engineers and Architects Association, Local 21 ("TAEA Local 21") represents approximately 35 employees in engineering occupations. The existing contract with TAEA Local 21 expires in July 2009. In addition, there are approximately 118 non-represented employees

consisting of executive and senior level classifications. To date, the Authority has never experienced any major or minor 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 Santa Clara County, a county of 1,300 square miles with a population of approximately 1.8 million. The Authority currently maintains an active fleet of 444 diesel-powered, 34 unleaded gasoline-powered buses and three zero emission buses. The average age of these buses is approximately 8.5 years and the buses range from one to 16 years old. Buses are operated and maintained from three operating divisions and an Overhaul and Repair (O&R) facility: Cerone Operating Division, Don Pedro Chaboya Operating Division, North Operating Division and Cerone O&R Division. Along the bus routes, there are approximately 3,800 bus stops, 786 of which have bus shelters. The Authority also maintains eight park and ride lots – five owned by the Authority and three provided under a lease, permit, or joint use agreement with other agencies.

Light Rail Transit Service. The Authority currently operates and maintains a 42.2 mile light rail system (the "LRT System") connecting areas of Mountain View, Sunnyvale, Santa Clara, North San Jose and Milpitas to areas in South San Jose and Campbell. The Authority's fleet consists of 100 low floor light rail vehicles and four historic trolleys. Currently, the LRT System has 62 stations and 21 park and ride lots, which are fully integrated with the bus system.

Other Services. The Authority provides funding for a portion of the operating and capital costs of the Caltrain commuter rail service. This commuter rail service is provided by the Peninsula Corridor Joint Powers Board (the "PCJPB"), which is composed of three member agencies: the Authority, the San Mateo County Transit District ("SamTrans") and the City and County of San Francisco. Ninety-eight trains (including 22 Baby Bullet Express trains) operate between San Jose Diridon Station and San Francisco each weekday, with 48 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. Six peak-hour weekday trains extend south of Tamien station to Gilroy. Hourly weekend service (32 Saturday trains and 28 Sunday trains) is operated between San Jose Diridon Station and San Francisco. On weekends, a dedicated shuttle bus connects the Tamien and Diridon Stations. Funding of operating costs is apportioned to each member agency of the PCJPB and is based upon morning peak period boardings in each county, currently approximately 41% for the Authority.

The Authority is also a member of the Capitol Corridor Joint Powers Authority (the "Capitol Corridor JPA"), which 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"). The Capitol Corridor JPA provides intercity rail service between Sacramento and San Jose. Thirty-two weekday trains run between Oakland and Sacramento, with fifteen continuing to San Jose. Stops are located at stations in Auburn, Rocklin, Roseville, Sacramento, Davis, Suisun/Fairfield, Martinez, Richmond, Berkeley, Emeryville, Oakland (2), Hayward, Fremont, Santa Clara and San Jose. The Authority currently does not provide any funding for this service. Funding for the operating and capital costs of this service is provided by the State of California (the "State of California" or the "State"), federal grants, and passenger fares. Pursuant to a contract with the Capitol Corridor JPA, BART manages the service and Amtrak operates the service on tracks owned by Union Pacific Railroad.

The Authority provides funding for a portion of the operating costs of the Altamont Commuter Express ("ACE") pursuant to a cooperative agreement (the "ACE Agreement") among the Authority,

Alameda County Congestion Management Agency and the San Joaquin Regional Rail Commission ("SJRRRC"). ACE rail service provides peak hour and midday weekday commuter rail service from the Central Valley to Santa Clara County. The rail line includes stops located in Stockton, Lathrop, Tracy, Livermore (2), Pleasanton, Fremont, Great America, Santa Clara and San Jose Diridon Station. The Authority also provides eight free shuttles to transport ACE riders between the Great America and San Jose Diridon stations. Pursuant to the ACE agreement, funding of operating costs is based on Fiscal Year 2003 contributions, escalated annually by the consumer price index ("CPI") increases. The Authority's share is approximately 42% of the cost associated with peak hour weekday service. SJRRRC, CalTrans and the San Joaquin/Amtrak Intercity Rail Service provide funding for the midday service. The Authority also provides eight free shuttles to transport ACE riders from the Great America Station to major employment sites. These shuttles are funded by a grant from the Transportation Fund for Clean Air through the Bay Area Air Quality Management District and SJRRRC.

The Authority provides funding for a portion of the operating costs of the Dumbarton Express, a transbay express bus route operating between the Union City BART station and Stanford Research Park in Palo Alto. A consortium comprised of representatives from the Alameda-Contra Costa Transit District ("AC Transit"), BART, the City of Union City, SamTrans, and the Authority fund the net operating costs of the service. Each member of the consortium pays a share of the operating expenses based on the origin and destination of the passengers as determined by an annual ridership survey (currently approximately 41% for the Authority). AC Transit manages and operates the service.

The Authority provides funding for a portion of the operating costs of the Highway 17 Express, an inter-county bus service, operating between Santa Cruz, Scotts Valley and downtown San Jose, through a cooperative arrangement between the Authority, the Santa Cruz Metropolitan Transit District ("Santa Cruz Metro"), the Capitol Corridor JPA and the California Department of Transportation ("CalTrans"). The Authority and Santa Cruz Metro share the majority of weekday net operating costs equally. The Capitol Corridor JPA and CalTrans provide funding for weekend and holiday service and costs associated with weekday trips not paid by the Authority and Santa Cruz Metro. Santa Cruz Metro manages and operates the service.

The Authority implemented a paratransit brokerage system in 1993, which operates throughout the Authority's service area. Paratransit service is a specialized form of transportation operated for persons with disabilities who cannot use conventional public transit service. As an operator of bus and light rail service, the Authority is required under the Americans with Disabilities Act (the "ADA") to ensure that paratransit service is provided to eligible individuals with disabilities. The level of service provided must be comparable, in terms of hours of service and area served, to the service provided by the bus and light rail system. The Authority does not directly provide paratransit service but contracts with Outreach and Escort, Inc. ("Outreach"), a paratransit broker service. Outreach determines and certifies qualified individuals for paratransit eligibility, receives and schedules trip requests, builds vehicle manifests, and contracts for services with taxi, sedan and accessible van service providers.

Under the Authority's Rail Shuttle Program, the Authority offers financial support to shuttle bus services that operate between rail stations and nearby employment/activity centers. This service is operated by the Authority or through the employer using private contractor. Currently the IBM/Hitachi shuttle is included in the program. Funding to operate this program is provided by the employers, the Authority, and grants from the Transportation Fund for Clean Air Act through the Bay Area Air Quality Management District.

The Authority, in partnership with the City of San Jose, provides free Airport Flyer bus service connecting the Norman Y. Mineta 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 contributes approximately 30% to the net operating costs for this service with the Authority funding the remainder.

Effective August 2006, the Authority, Monterey-Salinas Transit ("MST"), and the Capitol Corridor JPA entered into a Memorandum of Understanding (the "MOU"), which remains in effect through August 28, 2009, to provide express bus service operating from Monterey to San Jose. This express bus service, known as the Line 55 Monterey-San Jose Express, is funded by a federal Jobs Access Reverse Commute grant and contributions from the MST, the Capitol Corridor JPA, and the Authority. Based on projected fare revenues and negotiations among the parties to the MOU, the MST currently contributes \$269,000 each fiscal year to fund this service, the Capitol Corridor JPA contributes \$80,000 each fiscal year to fund this service, and the Authority contributes \$35,000 each fiscal year to fund this service. Pursuant to the MOU, the MST also agreed to fund any shortfalls. The Line 55 Monterey-San Jose Express is managed and operated by the MST.

Authority Revenues

The Authority's primary revenue sources include the Sales Tax (as defined in the forepart of this Official Statement), the 2000 Measure A Sales Tax (as defined in the forepart of this Official Statement), the 1/4% sales tax imposed pursuant to the California Transportation Development Act of 1971, as amended, described herein under the caption "Transportation Development Act Revenues," a portion of gasoline sales tax revenues apportioned to the State Public Transportation Account, described herein under the caption "State Transit Assistance Program," a portion of the State sales and use tax revenues derived from the sale, storage, use or other consumption of motor vehicle fuel, described herein under the caption "Proposition 42," and passenger fares charged by the Authority.

Sales Tax Revenues. The Sales Tax is the Authority's single largest source of revenue for operations. The Sales Tax is collected by the State Board of Equalization (the "SBOE"). Pursuant to an agreement between the Authority and the SBOE, the SBOE remits revenues from the Sales Tax to the trustee for senior lien obligations secured by the Sales Tax (herein referred to as the "Sales Tax Bond Trustee") on a monthly basis. Pursuant to its procedures, the SBOE projects receipts of the Sales Tax on a quarterly basis and remits an advance of such receipts to the Sales Tax Bond Trustee each month based on such projection. During the last month of each quarter, the SBOE adjusts the amount remitted to reflect the actual receipts of the Sales Tax for the previous quarter less administration costs. After application for payment of the senior lien obligations and the junior lien obligations secured by the Sales Tax (herein referred to as the "Sales Tax Obligations"), Sales Tax Revenues are 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 ten (10) years, see the information in the forepart of this Official Statement under the caption "Historical Sales Tax Revenues." See also "Authority Obligations - Obligations Secured by the Sales Tax ."

The Sales Tax secures the 2008 Series Bonds and all other Sales Tax Obligations.

2000 Measure A Sales Tax Revenues. The 2000 Measure A Sales Tax is also collected by the SBOE. Pursuant to an agreement between the Authority and the SBOE, the SBOE remits revenues from the 2000 Measure A Sales Tax to the trustee for obligations secured by the 2000 Measure A Sales Tax (herein referred to as the "2000 Measure A Sales Tax Bond Trustee") on a monthly basis. Pursuant to its procedures, the SBOE projects receipts of the 2000 Measure A Sales Tax on a quarterly basis and remits an advance of such receipts to the 2000 Measure A Sales Tax Bond Trustee each month based on such

projection. During the last month of each quarter, the SBOE adjusts the amount remitted to reflect the actual receipts of the 2000 Measure A Sales Tax for the previous quarter less administration costs. After application for payment of the senior lien obligations and the junior lien obligations, if any, secured by the 2000 Measure A Sales Tax (herein referred to as the "2000 Measure A Sales Tax Obligations"), 2000 Measure A Sales Tax Revenues provide funding for transit projects and operations listed in the Authority's Valley Transportation Plan. See "Authority Budgeted Revenues and Expenditures - Valley Transportation Plan." For a discussion of the 2000 Measure A Sales Tax Revenues, see the information in the forepart of this Official Statement under the caption "2000 Measure A Sales Tax Revenues." See also "Authority Obligations - Obligations Secured by the 2000 Measure A Sales Tax."

The 2000 Measure A Sales Tax secures the 2000 Measure A Sales Tax Obligations. The 2000 Measure A Sales Tax is not pledged as a source of repayment for the 2008 Series Bonds or any other Sales Tax Obligations.

Transportation Development Act Revenues. Transportation Development Act revenues (the "TDA Revenues") are a State subsidy consisting of an allocation of State sales tax revenue under the California Transportation Development Act of 1971, as amended (the "TDA"), whereby a 0.25% levy of the State'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. TDA Revenues are the Authority's second largest source of revenue for operations and are separate and distinct from revenues derived from the Sales Tax and the 2000 Measure A Sales Tax.

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. 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 up 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, formerly known as the Santa Clara County Transit District, began operations in 1972 and has complied with TDA eligibility requirements since it began receiving TDA funds 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 (in the case of the County, the County Treasurer) to release the TDA Revenues to the Authority. TDA Revenues are received by the County Treasurer and distributed to the Authority based on direction from MTC in substantially equal monthly installments.

The table set forth below shows the total amount of TDA Revenues for operations available from annual State sales tax collections in Santa Clara County during the five Fiscal Years ended June 30, 2007.

**Santa Clara Valley Transportation Authority
Historical Transportation Development Act Revenues**

<u>Fiscal Year Ended June 30</u>	<u>TDA Revenues for Operations Distributed to the Authority</u>
2003	\$58,878,303 ⁽¹⁾
2004	\$64,993,308
2005	\$67,098,151
2006	\$71,044,484
2007	\$81,061,374

⁽¹⁾ Allocations by MTC were based on projections with adjustments made in following fiscal years based on actual receipts.

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 Public Transportation Account (the "STA Revenues") for certain transit and energy-related purposes. These STA Revenues are allocated throughout the State based on population and operating revenues.

The Authority has been receiving STA Revenues since Fiscal Year 1980. STA Revenues have to be claimed by the Authority based on actual cash expenditures, normally on a quarterly basis. The table below reflects STA Revenues received by the Authority for the five Fiscal Years ended June 30, 2007.

**Santa Clara Valley Transportation Authority
Historical State Transit Assistance Program Revenues**

<u>Fiscal Year Ended June 30</u>	<u>STA Funds Received</u>
2003	\$ 6,429,687
2004	\$ 4,417,128
2005	\$ 7,285,035
2006	\$ 7,736,714
2007	\$22,320,559 ⁽¹⁾

⁽¹⁾ Includes approximately \$12.1 million of one-time revenues representing a repayment of Proposition 42 loans which had been diverted by the State in Fiscal Year 2004 and Fiscal Year 2005 and excess funds that are generated when gasoline prices increase at a faster rate than all other taxable items.

Proposition 42. Proposition 42 was approved by the voters of the State on March 5, 2002, and is codified as Article XIXB of the California Constitution. Subject to certain exceptions, effective July 1, 2003, and each fiscal year thereafter, Proposition 42 requires that all sales and use tax revenues received by the State and derived from the sale, storage, use, or other consumption of motor vehicle fuel be deposited into the Transportation Investment Fund (the "TIF"). Through Fiscal Year 2008, the revenues are to be allocated to local transportation projects in accordance with Section 7104 of the California Revenue and Taxation Code, which includes allocations for Traffic Congestion Relief Program projects (the "TCRP projects"). Commencing with Fiscal Year 2009, Proposition 42 revenues must be allocated according to the formula set forth in Article XIXB.

On November 7, 2006, the voters of the State approved Proposition 1A ("Proposition 1A"), a constitutional amendment designed to protect Proposition 42 revenues from being loaned or diverted by the State to non-transportation purposes, thereby curbing a practice that the Governor and the State Legislature used during the State's economic downturn earlier this decade. While Proposition 1A does not

prevent the State from borrowing Proposition 42 revenues entirely, it does put restrictions on when and how often these revenues can be diverted to the State's General Fund, and when they must be paid back. Specifically, Proposition 1A includes the following:

1. The Governor must declare that the State faces a severe fiscal hardship, and the State Legislature must enact a statute authorizing the borrowing of Proposition 42 revenues by a two-thirds vote. At the same time, the State Legislature must pass a bill specifying how the loan will be repaid with interest within three years.

2. The State can borrow Proposition 42 revenues no more than twice within a 10-year period, and must repay a prior loan before borrowing a subsequent time. Furthermore, the State cannot borrow Proposition 42 revenues in two consecutive fiscal years.

3. Any Proposition 42 revenues that were borrowed by the State but not repaid as of July 1, 2007, must be repaid with interest within a 10-year period (no later than June 30, 2016), with a payment of no less than one-tenth per year of the total amount owed.

The State Fiscal Year 2008 budget fully funds Proposition 42 in the State fiscal year ending June 30, 2008 and repays prior-year Proposition 42 loans pursuant to the minimum amount required under Proposition 1A. This results in \$1.559 billion in Proposition 42 revenues being made available for state transportation programs in State Fiscal Year 2008. The State Fiscal Year 2008 budget provides total expenditures of \$13.4 billion for transportation purposes from various funding sources. The amount is approximately \$2.2 billion higher in total than amounts spent for transportation in State Fiscal Year 2007. The increase results primarily from expenditures related to transportation projects funded from bonds authorized by Proposition 1B ("Proposition 1B"), which was passed by the voters on November 7, 2006. Programs to be funded include:

- \$684 million for TCRP projects, consisting of \$602 million in Proposition 42 money and \$82 million as partial repayment of prior-year loan of Proposition 42 money to the State General Fund;
- \$699 million for State Transportation Improvement Program ("STIP") projects; and
- \$176 million for the Public Transportation Account, half of which is STA and the other half dedicated to transit capital projects in the STIP.

The State Fiscal Year 2008 budget reallocated approximately \$626 million, comprised of funds generated when gasoline prices increase at a faster rate than the price of other goods in the market, from the State Public Transportation Account to the State General Fund. However, the Authority did not include any of such funds as a funding source in its Adopted FY 2009 Budget. Therefore, the Authority has not experienced any adverse impact as a result of such reallocation.

On May 14, 2008, the Governor updated his budget proposal to the State Legislature for the State fiscal year ending June 30, 2009 (the "FY 2009 Budget Proposal"). Key transportation elements of the Governor's recommendations for the upcoming State fiscal year are as follows:

1. Proposition 42 would be fully funded at \$1.43 billion. Of this amount, the STIP would receive \$572 million, local streets and roads would receive \$572 million, and the Public Transportation Account would receive \$286 million.

2. The TCRP would receive \$83 million as a repayment for loans that were made to the State's General Fund during State Fiscal Years 2004 and 2005.

3. Approximately \$4.59 billion in Proposition 1B transportation bond funding would be appropriated to fourteen different program categories, including the STIP, corridor mobility improvements, public transit capital, public transit security, and state and local partnerships.

4. The STA would be allocated \$306 million, the same level of funding that was allocated in the Fiscal Year 2007 State budget.

The FY 2009 Budget Proposal does not provide specific allocations to transit operators at this time. If the State budget is approved as proposed by the Governor, the Authority would likely receive the same amount of STA funding as it did in Fiscal Year 2008 and would benefit from Proposition 1B transportation bond funding in several program categories, such as transit capital, transit security and state and local partnerships.

The Governor and the State Legislature have started negotiations over the State budget for the fiscal year ending June 30, 2009, with the goal of adopting a final State budget by July 1, 2008.

Ridership and Farebox, Advertising and Other Revenues. The table set forth below shows the Authority's ridership, farebox revenues, revenues from advertisements placed on the Authority's vehicles and bus shelters and other revenues received by the Authority for the five Fiscal Years ended June 30, 2007.

**Santa Clara Valley Transportation Authority
Ridership and Farebox, Advertising and Other Revenues**

Fiscal Year Ended June 30	Number of Passengers⁽¹⁾	Farebox, Advertising and Other Revenues Received
2003	45,221,844	\$34,375,744
2004	38,375,374	\$33,421,425
2005	37,077,149	\$34,691,901
2006	39,217,851	\$36,925,269
2007	41,925,015	\$37,876,676

⁽¹⁾ Directly operated services.

Bus ridership reached a peak in Fiscal Year 1999 of approximately 154,100 riders per day. Due to the economic downturn in the County earlier in this decade, which included the loss of approximately 200,000 jobs, bus ridership declined to 97,100 riders per day in Fiscal Year 2005. However, bus ridership increased in Fiscal Years 2006 and 2007 and is currently estimated at 102,000 riders per day. During the first nine months of Fiscal Year 2008, bus ridership has continued to increase and is currently estimated at 105,000 riders per day.

Light rail ridership increased from less than 1,000 riders per day when the system initially opened in December 1987, to a high of 30,400 riders per day in Fiscal Year 2001. Due to the economic downturn in the local economy earlier in this decade, ridership fell to approximately 17,600 riders per day in Fiscal Year 2004, rebounding to 21,400 riders per day in Fiscal Year 2005, 26,100 in Fiscal Year 2006,

and 32,600 in Fiscal Year 2007. During the first nine months of Fiscal Year 2008, light rail ridership has remained relatively flat, which management of the Authority believes may be due in part to the temporary construction-related closure of south line platforms. The south line platforms are being permanently retrofitted in order to accommodate the Authority's low-floor light rail vehicles. Retrofitting is expected to increase passenger convenience and improve schedule reliability. During construction, which is being implemented in phases, the Authority is providing bus bridges to shuttle passengers to and from closed stations. To provide an equivalent level of transit service to riders during these temporary station closures, bus bridges operate during the same hours and at the same frequency as the light rail service.

Other Revenues. Federal guidelines established pursuant to the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users ("SAFETEA-LU"), the successor to the Transportation Equity Act for the 21st Century, allow the Authority to claim grants under the Section 5307 Urbanized Area Formula Program (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 its 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 receives interest on its operating funds.

Authority Budgeted Revenues and Expenditures

The Authority's budget is prepared biennially. The Adopted Budget for FY 2008 and FY 2009 was approved by the Board of Directors on June 7, 2007 and includes appropriations for operating expenditures in support of all activities under the jurisdiction of the Authority's Board, including bus and rail operations in the County, regional commuter and inter-city rail service, ADA Paratransit service, congestion management, specific highway improvement and other transportation projects, and county wide transportation planning and funding. If additional appropriations are necessary, budget figures are generally revised in January of each year. A detailed discussion of the adopted budgets related to congestion management, highway improvements and countywide transportation planning is included in the Adopted FY 2008 and FY 2009 Budget, which may be obtained directly from the Authority. The remaining approved budgeted amounts are in support of transit-related transportation projects, and bus and rail operations in the County, and regional commuter and inter-city rail service.

The Adopted Budget for FY 2008 and FY 2009 was revised pursuant to Board action taken on December 13, 2007. The tables set forth below reflect the revisions made.

Transit System-Operating and Capital Budget. The following table summarizes the Authority's revised Operating and Capital Budget, which supports activities related to the Authority's Transit System - see "The Authority Transit System" herein. Capital expenses are included in the Authority's Short Range Transportation Plan (see "Authority Capital Improvement Programs – Short Range Transportation Plan," herein).

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Santa Clara Valley Transportation Authority
Fiscal Years 2008 and 2009 – Summary of Transit System Revenues and Expenses
(In Thousands)

	<u>FY 2008</u>	<u>FY 2009</u>
Authority Enterprise Reserve Balance, July 1⁽¹⁾	\$113,195	\$ 85,447
Operating and Non-Operating Revenues ⁽²⁾	\$365,720	\$379,686
Federal Grants – Section 5307/5309	18,166	24,097
Transit Security Grant Program (TSGP) ⁽³⁾	1,014	-
Regional Measure 2 (RM2) ⁽⁴⁾	<u>2,755</u>	<u>-</u>
Total Revenues	<u>\$387,655</u>	<u>\$403,783</u>
Total Available for Transit System Expenses	<u>\$500,850</u>	<u>\$489,230</u>
Transit System Expenditures		
Transit System Operating Expenses:		
Directly Operated Transit Service	\$283,715	\$288,893
Other Expense	<u>80,476</u>	<u>82,841</u>
Total Transit System Operating Expense⁽⁵⁾	<u>\$364,191</u>	<u>\$371,734</u>
Transit System Capital Expenses:		
Revenue Vehicles and Equipment	\$ 2,972	\$ 15,601
Non-Revenue Vehicles	691	-
Operations Facilities and Equipment	13,746	11,914
Passenger Facilities	20,349	12,436
Information Systems and Technology	8,136	856
Miscellaneous	<u>5,318</u>	<u>2,846</u>
Total Transit Capital Expense⁽⁶⁾	<u>\$ 51,212</u>	<u>\$ 43,653</u>
Total Transit System Operating & Capital Expenses	<u>\$415,403</u>	<u>\$415,387</u>
Net Balance Forward of Transit System Funds	<u>\$ 85,447</u>	<u>\$ 73,843</u>

⁽¹⁾ Includes \$16.7 million of funds set aside for debt service reserves and \$96.5 million of Operating Reserves.

⁽²⁾ For a general line item detail of operating and non-operating revenues, see the Adopted FY 2008 and FY 2009 Budget which may be obtained directly from the Authority.

⁽³⁾ TSGP provides grant funding to the nation's key high-threat urban areas to enhance security measures for their critical transit infrastructure including bus, rail and ferry systems.

⁽⁴⁾ In March 2004, voters passed RM2, raising the toll on the seven State-owned toll bridges in the San Francisco Bay Area by \$1.00. This extra dollar is to fund various transportation projects within the region that have been determined to reduce congestion or to make improvements to travel in the toll bridge corridors, as identified in SB 916 (Chapter 715, Statutes of 2004). Specifically, RM2 establishes the Regional Traffic Relief Plan and identifies specific transit operating assistance and capital projects and programs eligible to receive RM2 funding.

⁽⁵⁾ For general line item detail of Transit System Operating Expense, see the Adopted FY 2008 and FY 2009 Budget which may be obtained directly from the Authority.

⁽⁶⁾ Transit projects included in the two year budget cycle are part of an overall 10 year capital improvement plan (see "Authority Capital Improvement Plan – Short Range Transportation Plan," herein) that supports the Authority's Transit System (see "The Authority Transit System" herein). The capital portion of the Transit Budget funds and augments 36 transit projects in an amount of \$94.9 million over the two year budget period.

Authority Capital Improvement Programs. The Authority is committed to facilitating and providing 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 the extensive capital programs described below under "Short Range Transportation Plan" and "Valley Transportation Plan".

Short Range Transportation Plan. As a transit operator, the Authority prepares a complete Short Range Transit Plan (SRTP) every four years and a "mini-SRTP" every year as required by the MTC and the Federal Transit Administration (FTA). The SRTP is used as documentation to support projects included in the Regional Transportation Plan (RTP) prepared by MTC. In addition, the SRTP supports the activities and priorities contained in the Valley Transportation Plan described below. MTC utilizes the SRTP to develop regional transit capital programming documents that are the basis for State and Federal funding programs. Both the FTA and MTC use the SRTP as the detailed planning justification required for awarding operating and capital grants to the Authority. The Authority published a complete SRTP for the fiscal years 2008 – 2017 in January 2008.

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

The 10-year CIP includes routine bus replacement needs, essential facility rehabilitation, bus facilities, technology upgrades, and rehabilitation needs of the light rail system. The table set forth below summarizes costs for currently identified baseline capital projects for the 10-year period of the SRTP (Fiscal Years 2008-2017). The current SRTP does not include capital program expenditures that are funded from the 2000 Measure A Sales Tax.

Capital Improvement Program Summary
(In Thousands)

Program Area	FY 2008-2017 Totals
Revenue Vehicles and Equipment	\$362,758
Operations Facilities and Equipment	85,270
Light Rail Way, Power and Signal	15,760
Passenger Facilities	46,219
Information Systems and Technology	14,644
Miscellaneous Projects	<u>177,962</u>
Total Program Project Costs	<u>\$702,612</u>

Valley Transportation Plan. 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 (as revised, from time to time, the "Valley Transportation Plan") to satisfy this requirement. The Board of Directors adopted the current revision of the Valley Transportation Plan, Valley Transportation Plan 2030, on February 3, 2005.

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

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

Significant Accounting Policies

The Authority follows the accrual basis of accounting and the economic resources exchange measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. See Appendix B – "Audited Financial Statements of the Santa Clara Valley Transportation Authority For Fiscal Year Ended June 30, 2007 – Note 2 – Summary of Significant Accounting Policies," which includes a more detailed explanation regarding the Authority's significant accounting policies.

Financial Results

The table on the following page summarizes the Statement of Revenues, Expenses and Changes in Fund Net Assets for the Enterprise Fund of the Authority for the five Fiscal Years ended June 30, 2007. The summary statements are presented in accordance with generally accepted accounting principles ("GAAP"). Data for the Fiscal Years ended June 30, 2003 through June 30, 2007 is excerpted from the audited financial statements of the Authority and is qualified in its entirety by reference to such statements, including the notes thereto. For the audited financial statements of the Authority for the fiscal year ended June 30, 2007, see Appendix B – "Audited Financial Statements of the Santa Clara Valley Transportation Authority For Fiscal Year Ended June 30, 2007." Totals may not add due to independent rounding.

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Santa Clara Valley Transportation Authority
Statements of Revenues and Expenses
Fiscal Years Ending June 30
(In Thousands)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Operating Revenues:					
Passenger fares	\$30,959	\$30,625	\$32,061	\$34,335	\$35,242
Advertising and other	<u>3,416</u>	<u>2,796</u>	<u>2,631</u>	<u>2,591</u>	<u>2,634</u>
Total operating revenues	<u>34,375</u>	<u>33,421</u>	<u>34,692</u>	<u>36,926</u>	<u>37,876</u>
Operating Expenses:					
Labor	134,524	127,044	120,402	123,941	126,387
Fringe benefits	92,001	95,349	108,921	114,056	116,723
Materials and supplies	20,698	16,169	19,996	27,777	28,398
Services	22,055	17,114	18,226	20,141	27,943
Utilities	5,735	5,064	5,795	6,186	6,638
Casualty and liability	4,119	3,413	3,763	6,114	3,856
Purchased transportation	31,553	27,242	25,538	27,395	28,132
Leases and rentals	605	569	580	205	112
Miscellaneous	3,154	2,609	1,773	2,000	1,821
Costs allocated to capital and other programs ⁽¹⁾	<u>(20,201)</u>	<u>(29,698)</u>	<u>(29,346)</u>	<u>(26,239)</u>	<u>(35,159)</u>
Total operating expenses, excluding depreciation	<u>294,244</u>	<u>264,877</u>	<u>275,648</u>	<u>301,576</u>	<u>304,851</u>
Operating loss before depreciation	<u>(259,868)</u>	<u>(231,455)</u>	<u>(240,956)</u>	<u>(264,650)</u>	<u>(266,975)</u>
Depreciation Expense:					
Total depreciation expense	<u>41,516</u>	<u>46,552</u>	<u>56,557</u>	<u>63,766</u>	<u>51,022</u>
Operating loss	<u>(301,384)</u>	<u>(278,007)</u>	<u>(297,513)</u>	<u>(328,416)</u>	<u>(317,997)</u>
Non-operating revenues (expenses):					
Sales Tax Revenue	132,632	138,917	145,008	157,283	163,676
2000 Measure A Sales Tax	-	-	-	38,173 ⁽²⁾	161,361
Federal operating grants and reimbursements	33,176	38,143	34,416	33,565	35,514
State and local operating grants and reimbursements	70,956	73,433	79,509	81,199	104,917
Caltrain contributions ⁽³⁾	<u>(22,298)</u>	<u>(16,805)</u>	<u>(14,112)</u>	<u>(42,200)</u> ⁽⁴⁾	<u>(22,509)</u>
Altamont Commuter Express Subsidy	<u>(2,715)</u>	<u>(2,392)</u>	<u>(2,470)</u>	<u>(2,470)</u>	<u>(2,542)</u>
Interest income	14,245	1,592	5,666	6,457	11,304
Interest expense	<u>(14,222)</u>	<u>(13,691)</u>	<u>(13,761)</u>	<u>(11,562)</u>	<u>(13,672)</u>
Other (expense)/Income, net ⁽⁵⁾	<u>(754)</u>	<u>(919)</u>	<u>(688)</u>	<u>2,186</u>	<u>(2,234)</u>
Total non-operating revenues, net	<u>211,020</u>	<u>218,279</u>	<u>233,568</u>	<u>262,628</u>	<u>435,815</u>
Net income (loss)⁽⁶⁾	<u>(\$90,363)</u>	<u>(\$59,728)</u>	<u>(\$63,945)</u>	<u>(\$65,788)</u>	<u>\$117,818</u>

⁽¹⁾ Represents a credit for direct and indirect labor and associated fringe benefits, reproduction and mileage costs and other costs that were capitalized as construction in progress. See Note 2(k) to the audited financial statements of the Authority attached hereto as Appendix B.

⁽²⁾ Collection of 2000 Measure A Sales Tax started in April 2006.

⁽³⁾ This category is comprised of "Caltrain subsidy" and "Capital contributions to other agencies" in the audited financial statements. The categories have been combined for all years shown for convenience of presentation.

⁽⁴⁾ Includes one-time transfer of assets to Caltrain Peninsula Corridor Joint Power Board ("PCJPB") in the amount of \$27.4 million.

⁽⁵⁾ Includes miscellaneous revenues such as permit fees, parking citations, property rentals and miscellaneous expenses such as costs related to express services, freight shipping and other bond related expenses associated with liquidity and remarketing fees.

⁽⁶⁾ Net income (loss) is presented in accordance with GAAP. A loss is funded from Reserves. For an explanation of Reserves, see "Management's Discussion of Financial Results."

Management's Discussion of Financial Results

The Authority experienced deficits of approximately \$90.4 million, \$59.7 million, \$63.9 million and \$65.8 million for the Fiscal Years ended June 30, 2003, 2004, 2005, and 2006, respectively. Such deficits include all relevant non-cash related expenses, including depreciation. The Authority had a surplus of approximately \$117.8 million for the Fiscal Year ended June 30, 2007, the first full fiscal year of 2000 Measure A Sales Tax Revenue collection. The Authority projects a surplus of approximately \$97.3 million for the Fiscal Year ending June 30, 2008. The decline in surplus as compared to the prior Fiscal Year is due primarily to a reallocation of federal preventative maintenance operating grants to capital projects.

When the Authority has experienced deficits, the Authority has funded such deficits from its Reserves. As of June 30, 2007, the Authority's Reserves were \$353.2 million, of which \$96.5 million is designated as Operating Reserves, which is available to provide funds if, during the following Fiscal Year, the Authority experiences unanticipated revenue shortfalls or unavoidable expenditure needs. Remaining Reserves consist of funds held in debt service funds, the local share of approved capital projects, and funds set aside for projects funded from the 2000 Measure A Sales Tax.

Management of the Authority is currently projecting that Sales Tax Revenues for the Fiscal Year ending June 30, 2008 will be 5% under budget. This projection is based upon actual Sales Tax receipts for the first two quarters of the current Fiscal Year and the third quarter advance received from the SBOE. The potential effects of this decrease in revenues on Operating Reserves are being managed through reduced expenditures.

Bureau of State Audits Audit of the Authority

On August 15, 2007, three members of the State Legislature whose districts are in the County requested that the Joint Legislative Audit Committee authorize an audit of the Authority by the Bureau of State Audits. The Authority has been advised that the scope and objective of this audit is to provide an independent analysis of various aspects of the Authority's activities, including the Authority's governance structure, strategic and project planning, financial reporting, long-term financial planning efforts and the level of oversight the Board and Authority management exercise over the Authority's operations and financial records. The audit commenced in January 2008 and the Bureau of State Audits is currently estimating a July 2008 release date for its audit. The Bureau of State Audits has no rule making or enforcement authority with respect to the Authority and will submit its audit directly to the State Legislature. Although it is premature to predict the findings and recommendations of the audit, management of the Authority believes that the audit will have no adverse impact on its ability to repay any obligations secured by the Sales Tax or the 2000 Measure A Sales Tax.

Hay Group Organizational and Financial Assessment

In 2006, the Authority initiated a management assessment to evaluate its performance and identify opportunities for improvement. The Authority designed the assessment to emphasize a critical analysis of the Authority's flaws, weaknesses and gaps, rather than areas of strength and positive results. As part of this process, in April 2006 the Authority issued a Request for Proposal 06-11: Organization and Financial Assessment Consulting Services (the "RFP").

As a result of the RFP, in August 2006 the Authority engaged the Hay Group, a Philadelphia-based management consulting firm. In March 2007, the Hay Group released its report on the

Organizational and Financial Assessment of the Authority (the "Assessment"). Among other things, the Assessment concluded that the Authority suffered from weaknesses in financial management processes and policies, including those relating to internal audit functions, cash management, budgeting and expenditure controls. The Assessment included a number of specific organizational and financial management recommendations and recommendations for improving the Authority's governance practices.

The Assessment was reviewed by the Board which endorsed the implementation of its recommendations. Since the release of the Assessment, the Authority has taken a number of specific actions to implement the recommendations. On April 5, 2007, the Authority's Board approved a contract to engage Jerry G. Mikolajczyk as Chief Financial Officer on an interim basis. Mr. Mikolajczyk prepared and executed a work plan to address the financial management recommendations contained in the Assessment. Also in April 2007, the Board approved a contract with Karen Antion Consulting, LLC ("KAC"), to provide professional services in support of implementing the Assessment's recommendations in the area of governance and organizational structure. KAC developed a detailed work plan to guide the Authority's transformation program, which was subsequently reviewed by the Administration and Finance Committee and approved by the Board.

On June 1, 2007, the Authority's General Manager announced a transformation organization structure for the Authority which incorporated many of the recommendations from the Assessment. The new structure included implementing clearly defined roles and responsibilities, a realignment of functions and positions, and an appropriate segregation of duties. The Authority appointed a transformation team to work with KAC to develop and implement the transformation plan and directed the Administration and Finance Committee to monitor and review the activities and progress of the transformation program. To date, as indicated in a progress report provided by the transformation team to the Administration and Finance Committee in April 2008, significant changes have been made to strengthen Board oversight, improve transparency, align the organization structure, and strengthen financial management and internal controls. Implementation of the transformation plan is proceeding in two phases; management of the Authority expects implementation to be completed in December 2008.

In January 2008, the Authority hired Joseph T. Smith to serve as Chief Financial Officer. Concurrently, the Authority retained Mr. Mikolajczyk to serve as senior financial advisor to continue implementation of the financial management recommendations set forth in the Assessment, including, in particular, the review and improvement of the Authority's internal control program, consistent with the spirit of Sarbanes-Oxley. The focus of this internal review is identifying and mapping high risk processes, with the intent to improve internal controls to assure compliance with the goals and objectives of the Authority and to provide reasonable assurance that business objectives will be achieved and that undesirable events will be prevented or detected and corrected.

The Assessment is not a financial audit, and the Hay Group's methodology was not intended or designed to comply with generally accepted government auditing standards. The Assessment made no claims of material weaknesses as defined by government auditing standards. At no time have the Authority's present independent auditors, Vavrinek, Trine, Day & Co., LLP, or any of its former independent auditors advised the Authority of the existence of any material weaknesses in the Authority's internal controls over financial reporting or any other reportable condition that the auditors would be required to report to the Board pursuant to generally accepted government auditing standards. See Appendix B – "Audited Financial Statements of the Santa Clara Valley Transportation Authority for Fiscal Year Ended June 30, 2007."

The completion of the Assessment or implementation of the recommendations made as a part of the Assessment do not have a material impact on the Authority's ability to make timely payments of principal of and interest on the 2008 Series Bonds.

Authority Obligations

Obligations Secured by the Sales Tax. The following table sets forth the obligations secured by the Authority's Sales Tax which will be outstanding upon the issuance of the 2008 Series Bonds.

	Original Principal Amount	Principal Amount Outstanding
1976 Senior Lien Obligations		
Sales Tax Revenue Refunding Bonds, 2008 Series A, 2008 Series B and 2008 Series C ⁽¹⁾	\$168,585,000	\$168,585,000
Sales Tax Revenue Refunding Bonds, 2007 Series A	26,275,000	26,275,000
Sales Tax Revenue Bonds, 2001 Series A ⁽²⁾	200,000,000	10,380,000
Sales Tax Revenue Bonds, 1997 Series A ⁽³⁾	40,570,000	1,630,000
Adjustable Rate Refunding Equipment Trust Certificates, Series 1985A ⁽⁴⁾	52,860,000	26,500,000

1976 Junior Lien Obligations

Junior Lien Sales Tax Revenue Bonds, 2000 Series A	\$ 40,000,000	\$ 32,685,000
Junior Lien Sales Tax Revenue Bonds, 1998 Series A	50,000,000	40,045,000

⁽¹⁾ The proceeds of the 2008 Series Bonds will be used to refund the Prior Bonds. The Authority has entered into Swap Agreements in connection with the Prior Bonds. In connection with the refunding of the Prior Bonds and the issuance of the 2008 Series Bonds the rate of the Swap Agreements may require adjustment based on current market conditions in order to enable the swaps to be qualified hedges with respect to the 2008 Series Bonds. A description of the Swap Agreements is included the front part of this Official Statement under the heading "OUTSTANDING 1976 SENIOR LIEN OBLIGATIONS – Existing Swap Agreements" and in Note 7(d) of the Authority's audited financial statements attached hereto as Appendix B.

⁽²⁾ A portion of these bonds was previously refunded and defeased.

⁽³⁾ A portion these bonds was previously refunded and defeased.

⁽⁴⁾ The Authority has entered into an interest rate swap agreement in connection with these certificates. A description of the swap is included in Note 7(d) of the Authority's audited financial statements attached hereto as Appendix B.

Obligations Secured by the 2000 Measure A Sales Tax. The following table sets forth the obligations secured by the Authority's 2000 Measure A Sales Tax Revenues which are expected to be outstanding upon the issuance of the 2008 Series Bonds.

	Original Principal Amount	Principal Amount Outstanding
2000 Measure A Sales Tax		
Sales Tax Revenue Refunding Bonds, 2008 Series A, 2008 Series B, 2008 Series C and 2008 Series D ⁽¹⁾	\$236,730,000	\$236,730,000
Sales Tax Revenue Refunding Bonds, 2007 Series A	120,095,000	120,095,000

⁽¹⁾ On or about June 25, 2008, the Authority is expected to issue its Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Refunding Bonds, 2008 Series A, 2008 Series B, 2008 Series C and 2008 Series D (the "2008 Measure A Sales Tax Bonds") which will be used to refund the Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds, 2006 Series A, 2006 Series B, 2006 Series C and 2006 Series D (the "2006 Measure A Sales Tax Bonds"). The Authority has entered into interest rate swap agreements in connection with the 2006 Measure A Sales Tax Bonds. The swap agreements will continue in full force and effect after the refunding of the 2006 Measure A Sales Tax Bonds and will be applied by the Authority to manage interest rate exposure with respect to the 2008 Measure A Sales Tax Bonds. A description of the swaps is included in Note 7(d) of the Authority's audited financial statements attached hereto as Appendix B.

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.

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 Board of Directors on April 4, 1996, as amended by the Board of Directors on December 14, 2000 and February 6, 2003, and most recently reaffirmed May 3, 2007. 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.

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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:

Investment	Maximum % of Portfolio
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	25%
if weighted average maturity of all paper is less than 31 days	15%
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 (\$40 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%

Risk Management

General. The Authority is self-insured for general liability claims (up to \$3 million) and workers' compensation claims. Estimated losses on claims other than workers' compensation claims are charged to expense in the period the loss is determinable. Estimated losses for workers' compensation claims are charged to expense as a percentage of labor in each accounting period. The costs incurred for workers' compensation and general liability (including estimates for claims incurred but not yet reported) are reported on the Authority's Internal Service Fund (the "Internal Service Fund"), an Authority fund used to account for activities that provide goods or services to other Authority funds, departments, or other governments, on a cost reimbursement basis, based on an actuarial determination of the present value of estimated future cash payments. See Note 2(a) to the audited financial statements of the Authority attached hereto as Appendix B.

Workers' Compensation and General Liability. The claim processing function is performed by third-party administrators. The Authority's annual contribution to General Liability is based on a budgeted self-insured expense amount. Contributions to Workers' Compensation fund occur every pay period. Actuarial studies for both activities are obtained on an annual basis.

An actuarial analysis as of June 30, 2007, dated October 1, 2007, disclosed that the present values of estimated outstanding losses, at 4% average discount rate using a 90% confidence level, projected for June 30, 2007, are \$24.8 million and \$4.3 million for Workers' Compensation and General Liability, respectively. The Authority has funded reserves in amounts sufficient to cover these liabilities. This

actuarial analysis reflects the enactment of State Assembly Bill 749 ("AB 749"), State Senate Bill 228 ("SB 228") and State Senate Bill 899 ("SB 899"). AB 749 increased the cost of indemnity benefits, whereas SB 228 and SB 899 have reduced the cost of medical and indemnity benefits. The accrued liabilities for Workers' Compensation and General Liability claims were based on the actuarial estimates. It is Authority's practice to obtain full actuarial studies annually.

Changes in the balance of Workers' Compensation and General Claims Liabilities for the two Fiscal Years ended June 30, 2007, are as follows:

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

Insurance. The Authority is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors, and omissions; injuries to employees; injuries to the public; and natural disasters. For the past three Fiscal Years, settlement amounts have not exceeded commercial insurance coverage. For additional information on worker's compensation and general liability, see "Risk Management - Worker's Compensation and General Liability" above.

Coverage provided by self-insurance, insurance and excess insurance as of July 1, 2007, is shown below:

Type of Coverage	Self-Insurance/ Deductible	Excess Coverage (in aggregate)
Workers' compensation	Self-Insured	None
Employer's Liability	\$3,000,000	\$22,000,000 per occurrence
Public Officials liability	Self-Insured \$3,000,000	\$22,000,000
Excess public entity liability	\$3,000,000	\$22,000,000
Property, boiler, and machinery	\$100,000	\$70,000,000 combined blanket limit
National Flood Insurance (eligible locations)	\$5,000	\$500,000
Light rail vehicles, includes spare parts coverage, no earthquake coverage	\$250,000	\$20,000,000/maximum loss limit per year
Buses	\$100,000	\$20,000,000/maximum loss limit per year
Vans and Mobile Equipment	\$25,000	Included in the \$20,000,000 with buses

Pension and Retirement Plans

Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan. All Amalgamated Transit Union ("ATU") employees are covered by the Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan ("ATU Plan"). The ATU Plan is a

noncontributory single-employer defined benefit pension plan. The ATU Plan provides retirement, disability, and death benefits based on the employees' years of service, age, and final compensation. As of January 1, 2008, there were 2,592 members of the ATU Plan. Employees with ten (10) or more years of service are entitled to full annual pension benefits beginning at normal retirement age of 65. Employees with less than ten (10) but at least five (5) years of service are entitled to a reduced annual benefit at age 65 provided that the Pension Board approves such benefit. Employees with fifteen (15) or more years of service are entitled to full annual pension benefits beginning at age 55. The ATU Plan permits early retirement if an employee becomes disabled after ten (10) or more years of service, and deferred vested retirement upon employee termination after ten (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 State statute and the labor agreement with the ATU. The following actuarial methods and assumptions are based on a report dated January 1, 2008.

Actuarial Methods and Assumptions:

Description	Methods/Assumptions
Valuation Date	January 1, 2008
Actuarial cost method	Aggregate Entry Age Normal
Amortization method	Level dollar open
Remaining amortization period	20 years
Asset Valuation Method	Market value adjusted for unrecognized investment gains or losses during the prior four years, phased in at 20% per year, subject to a minimum of 80% and a maximum of 110% of market value
Actuarial Assumptions	
Investment Rate of Return	8.00% (includes inflation at 3.50%)
Projected Salary Increases	22.13% for the first three years of service, 3.76% thereafter
Consumer Price Index (CPI)	3.50% per year
Costs of living adjustments	None

The Authority provided several enhancements to pension benefits for ATU represented employees between February 1, 2001 and February 1, 2003 and further enhancements on February 2, 2004.

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Pursuant to ATU Plan policy, assets are required to be invested in accordance with an investment program which provides for the financial needs of the ATU Plan and allows for such investments to be appropriately diversified and prudently invested to protect the safety of the principal and to maintain a reasonable return. ATU Plan investment guidelines are set forth below:

Asset Allocation	Range	Actual ⁽¹⁾	Ongoing Target
Domestic Fixed Income	35-45%	37%	39%
Domestic Large-Cap Value	15-25%	21%	20%
Domestic Large-Cap Index	10-20%	15%	15%
Domestic Small-Cap Value	5-15%	11%	10%
International Equity	10-20%	16%	15%
Cash	0-5%	0%	1%

⁽¹⁾ As of June 30, 2007.

The Authority contributes to the ATU Plan at actuarially determined rates applied to eligible payroll sufficient to maintain funding of vested benefits. Such contribution includes an amortized amount of the unfunded accrued actuarial liability ("UAAL") as well as current year normal costs. Totals of the actual cost and the amortized cost of the UAAL equal the actuarial rate that would liquidate the UAAL over a period of years.

The Authority used a rate of 16.51% in Fiscal Year 2006, 15.62% in Fiscal Year 2007 and 15.60% in the Fiscal Year 2008 Budget, as required by the actuarial valuation reports for the corresponding periods. The actual contributions for Fiscal Year 2006 and Fiscal Year 2007 were \$15.3 million and \$14.9 million, respectively. The Authority has budgeted contributions to the ATU Plan for Fiscal Year 2008 and Fiscal Year 2009 of \$16.3 million and \$16.9 million, respectively.

The schedule of funding progress is as follows:

Schedule of Funding Progress⁽¹⁾
Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Unfunded AAL	Funded Ratio	Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
12/31/02	\$224,004,253	\$278,113,814	\$54,109,561	81%	\$93,951,901	58%
12/31/03	247,693,872	325,530,324	77,836,452	76%	91,255,094	85%
12/31/04	268,428,853	350,895,167	82,466,314	76%	88,448,718	93%
12/31/05	288,829,224	363,114,404	74,285,180	80%	92,663,178	80%
12/31/06	314,816,391	397,853,860	83,037,469	79%	93,985,560	88%
12/31/07	344,521,552	423,739,213	79,217,661	81%	98,722,453	80%

⁽¹⁾ The schedule of funding progress presents the most recent actuarial information regarding the funding progress of the Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan.

The following events affected the Schedule of Funding Progress set forth in the table above: (i) in the valuation as of December 31, 2002, liabilities and costs were recognized for benefit improvements effective July 1, 2002; and (ii) in the valuation as of December 31, 2003, benefit improvements effective February 2, 2004 were recognized in computing liabilities and costs.

The funding ratio for termination liability for the ATU Plan, as of January 1, 2008, for benefits accrued as of January 1, 2008, based on pay and years of service of covered employees as of January 1, 2008, was 98.5%. The funding ratio for termination liability is intended to provide an estimate of the obligation the ATU Plan would have to meet if the ATU Plan were terminated, assuming that the expected return on assets remained at 8%.

For Fiscal Year 2007, the Authority's annual pension cost was approximately \$14.9 million, which was fully contributed. Based on the Authority's Comprehensive Annual Financial Report, the three-year trend information is as follows:

Year Ended	Annual Pension Cost ("APC")	Percentage of APC Contributed	Net Pension Obligation
6/30/05	\$14,292,000	100%	-
6/30/06	15,278,000	100%	-
6/30/07	14,859,000	100%	-

Public Employees' Retirement Plan. All eligible non-ATU employees of the Authority participate in the State's Public Employees Retirement System ("CalPERS"). Prior to separation from the County on January 1, 1995, all eligible Authority 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 the Authority. All of those administrative employees' service credits earned during the period they worked for the County's transportation agency were transferred to the Authority's CalPERS account. The transfer of related assets at a market value totaling approximately \$52.3 million was completed by CalPERS in Fiscal Year 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 the State. CalPERS provides retirement, disability, and death benefits based on the employees' years of service, age, and final compensation. Employees vest after five (5) years of service and may receive retirement benefits at age 50. These benefit provisions and all other requirements are established by state statute and Authority resolutions. The Authority contracts with CalPERS to administer these benefits. The following actuarial methods and assumptions are based on a report dated October 29, 2007.

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Actuarial Methods and Assumptions:

Description	Methods/Assumptions
Valuation Date	June 30, 2006
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level percent of Payroll
Average Remaining Period	27 years as of the Valuation Date
Asset Valuation Method	15 years smoothed market
Actuarial Assumptions	
Investment Rate of Return	7.75% compounded annually (net of investment expense)
Projected Salary Increases	3.25 to 14.45% depending on Age, Service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.00% and an annual production growth of 0.25%

Active members in the Authority's CalPERS Plan ("CalPERS Plan") are not required to contribute to the CalPERS Plan, as the Authority elected to contribute the actuarially determined amount necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The contribution requirements of the CalPERS Plan are established by State statute, though CalPERS establishes and may amend the employer contribution requirements. CalPERS provides the Authority with a required contribution rate as a percentage of payroll as part of its annual or biennial evaluation of the CalPERS program financial status. Historically, the Authority has paid both the required employer and employee contributions, including payments for the UAAL, and anticipates continuing this practice. The required employer and employee contribution rate was 18.232% of payroll in Fiscal Year 2007. The combined contribution rate used in the Adopted Budget for FY 2008 was 18.855%, based on the latest actuarial valuation, dated October 29, 2007. The combined contribution rate for Fiscal Year 2009 will be 19.072%, based on data as of June 30, 2006. Because of time lags in data availability and CalPERS evaluation, the rate quoted by CalPERS for Fiscal Year 2009 is based on data as of June 30, 2006, while the CalPERS evaluation itself is dated October 2007. The schedule of funding progress is as set forth on the following page.

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**Schedule of Funding Progress
Santa Clara Valley Transportation Authority CalPERS Plan
(Unaudited)**

Actuarial Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/2000	\$74,228,216	\$88,459,322	(\$14,231,106)	119.2%	\$40,000,651	(35.6%)
6/30/2001	87,012,005	97,221,500	(10,209,495)	111.7%	48,235,128	(21.2%)
6/30/2002	103,253,419	98,352,244	4,901,175	95.3%	56,796,212	8.6%
6/30/2003	126,069,247	107,060,545	19,008,702	84.9%	56,006,441	33.9%
6/30/2004	142,662,507	119,708,580	22,953,927	83.9%	50,876,724	45.1%
6/30/2005	160,103,833	135,508,064	24,595,769	84.6%	50,193,561	49.0%
6/30/2006	177,983,295	152,536,031	25,447,264	85.7%	50,301,722	50.6%

For Fiscal Year 2007, the Authority's annual pension cost was approximately \$5.9 million, which was fully contributed. Five-year trend information follows:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/03	\$3,052,000	100%	-
6/30/04	3,750,000	100%	-
6/30/05	5,171,000	100%	-
6/30/06	6,501,000	100%	-
6/30/07	5,929,000	100%	-

CalPERS' policy is to spread market value asset gains and losses over fifteen (15) years. CalPERS also has a policy of establishing the actuarial value of assets from 80-120 percent of market value. These policies are designed to reduce fluctuations in employer contributions over time.

Retiree Health Care Program. The Authority provides an ATU Retiree Health Care Program (ATU Program), a post-employment benefit, in accordance with the agreement between the Authority and the ATU, to all ATU represented employees who retire from the Authority on or after attaining the age of 55 with at least fifteen (15) years of service, or if an employee becomes disabled and has completed at least ten (10) years of service. As of July 1, 2007, which is the date when the most current actuarial analysis of Retiree Health Benefits was prepared, 804 retirees met the eligibility requirements. The Authority pays medical premiums for its eligible retirees. Effective September 1, 2004 ATU members pay \$25 per month toward medical premiums.

All non-ATU employees upon retirement with at least five (5) years of service and attaining age 50 are also covered under a Retiree Health Care Program (Non-ATU Program). As of July 1, 2007, 290 retirees met the eligibility requirements. Effective January 1, 2005 all non-ATU members pay \$25 per month toward medical premiums.

An actuarial analysis of Retiree Health Benefits as of July 1, 2007 disclosed that the actuarial liability, which is the present value of benefits attributed to past service, is \$209 million. The unfunded actuarial accrued liability of the Authority as of July 1, 2007 is \$107 million. The Authority contributions are advance funded on an actuarially determined basis. For the Fiscal Year ended June 30, 2007, the Authority made contributions to both the ATU and Non-ATU programs, which were expensed, of

approximately \$16.5 million. Benefits paid to participants of the program were approximately \$6.1 million.

The actuarial cost method used for determining the benefit obligations is the projected unit benefit cost method. The significant economic assumptions used were: (1) a discount rate of 7.0%; (2) a projected salary increase of 5.0%; (3) a health inflation assumption of 10.0%, graded down 1.0% per year to 5% after six (6) years, remaining at that level thereafter; (4) retiree contribution remaining fixed at \$25 per month.

In 2004, the Government Accounting Standards Board ("GASB") issued Statement No. 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions ("GASB 45"). GASB 45 requires governmental agencies to change their accounting for other post employment benefits from pay-as-you-go to an accrual basis. The most recent actuarial analysis of Retiree Health Benefits as of July 1, 2007 also provides the following estimates of assets, liabilities and unfunded liability, based on the GASB 45 method: actuarial accrued liability \$240.9 of million, assets of \$101.7 million, and UAAL of \$139.1 million. The Authority has been making funding contributions on an actuarially determined basis since prior to its legal separation from the County of Santa Clara in 1995. The Authority implemented the requirements of GASB 45, including financial statement reporting and disclosures, by July 1, 2007, the results of which will be included in financial statements as of June 30, 2008.

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APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF THE SANTA CLARA VALLEY
TRANSPORTATION AUTHORITY FOR FISCAL YEAR ENDED JUNE 30, 2007**

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the business-type activity, the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Clara Valley Transportation Authority (VTA), as of and for the year ended June 30, 2007, which collectively comprise VTA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of VTA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of VTA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity, the governmental activities, each major fund, and the aggregate remaining fund information of VTA as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

The management's discussion and analysis, the schedules of funding progress and the budgetary comparison schedules on pages 2-3 through 2-14, 2-70 through 2-71, and 2-72 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the VTA's basic financial statements. The introductory section, combining and comparative individual fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. We have previously audited, in accordance with auditing standards generally accepted in the United States, the VTA's basic financial statements for the year ended June 30, 2006, which are not presented with the accompanying financial statements. In our report dated November 16, 2006, we expressed unqualified opinions on the respective financial statements of the business-type activities, governmental activities, each major fund and the aggregate remaining fund information. In our opinion, the 2006 supplementary information are fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2006. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Vawrinek Time Day + Co. LLP

Palo Alto, California
November 26, 2007

Management's Discussion and Analysis

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

Financial Highlights

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

Overview of the Financial Statements

VTA's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. In addition to the basic financial statements, this report also includes required and other supplementary information.

Government-wide financial statements. The *government-wide financial statements* provide a top-level view of VTA’s financial picture in a format resembling that of a private-sector company.

The *statement of net assets* presents information on all of VTA’s assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of VTA is improving or deteriorating.

The *statement of activities* presents information showing how VTA’s net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both activities of the government-wide statements distinguish functions of VTA that are principally supported by sales tax and intergovernmental revenues. Although the transit operation’s primary function is intended to recover its costs through charges for services (business-type activities), the recovery is not significant. The governmental activity of VTA is congestion management, which includes planning, programming, and construction of highway projects. The business-type activity of VTA is transit, which includes bus and light rail operations and capital project activity.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. VTA, like local and state governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds of VTA can be divided into three categories: governmental funds, proprietary funds (i.e., enterprise fund and internal service fund), and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financial requirements.

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

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

The enterprise fund provides the same type of information as the government-wide financial statements, only in more detail.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside VTA. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support VTA's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The activities of the Amalgamated Transit Union (ATU) Pension Plan, the ATU Spousal Medical Trust, and the Retiree Vision and Dental Trust are accounted for in pension trust funds. Pension trust funds are used to account for assets held by VTA as a trustee for individuals and other organizations, such as ATU.

The Bay Area Air Quality Management District (BAAQMD) program and the 1996 Measure B Ancillary Programs, which includes the Pavement Management and Bicycle Programs, are accounted for in an agency fund. Agency funds are used to account for assets held solely in a custodial capacity.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

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

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

Government-wide Financial Analysis

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

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

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

The largest portion of VTA's net assets (approximately 76%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment), less any related outstanding debt used to acquire those assets. VTA uses these capital assets to provide services to its customers. Consequently, these assets are not available for future spending. Although VTA's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot reasonably be used to liquidate these liabilities. The restricted assets represent mainly the funds set-aside to fund 2000 Measure A Transit Improvement Program and debt service payments with the bond trustees.

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

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

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

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

Comparison of Business-Type Activity Revenue for FY2007 and FY2006

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

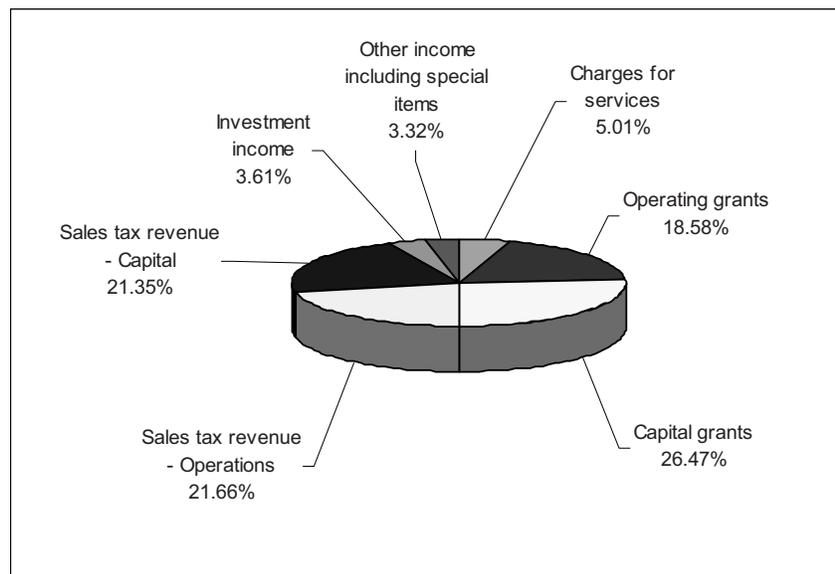
- Charges for services, derived from bus fare box receipts, light rail ticket sales, the sale of monthly passes (including ECO Pass and tokens) and advertisement income, were up \$1.0 million (2.6%) compared to FY2006. This was due to an increase in ridership mainly in the light rail segment as FY2007 was the first full-year of service of Vasona Light Rail extension which started in October 2005.
- Operating grants include the one-quarter of one percent of State sales tax from the California Transportation Development Act (TDA), State Transit Assistance (STA) funding, federal grants converted to operating assistance under the Federal Transit Administration Preventative Maintenance Program, State vehicle license fees (AB434), and federal planning grants. In FY2007, they increased by \$25.7 million or 22.4% to \$140.4 million.

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

- The 1976 Sales Tax revenues increased \$6.4 million or 4.1% to \$163.7 million in FY2007 compared to FY2006. The increase reflects continuing moderate growth in taxable sales activity in Santa Clara County.
- The 2000 Measure A Sales Tax revenues were \$161.4 million in FY2007 as it was the first full year of its collection.
- Capital grants increased \$177.5 million or 788.0% to \$200.0 million in FY2007 primarily due to the State TCRP grants for the preliminary engineering phase of the SVRT project. During FY2007, the State approved \$365 million in TCRP grants to fund the SVRT project which will extend the BART service to the Silicon Valley. VTA incurred and invoiced \$191.2 million in eligible expenses under the TCRP grant in FY2007.

- Investment income also increased by \$16.8 million or 159.0% compared to FY2006 due to a combination of higher interest rates and greater cash available for investment.
- Other income increased \$16.0 million or 174.3% in FY2007 due mainly to a special one-time item related to change in estimate for provision of workers compensation claims liability in the Internal Service Funds. The change was based on the actuarial valuation report for the VTA's workers' compensation self-insurance program as of June 30, 2007.

Revenues By Source – Business-type Activity



Comparison of Business-Type Activity Expenses for FY2007 and FY2006

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

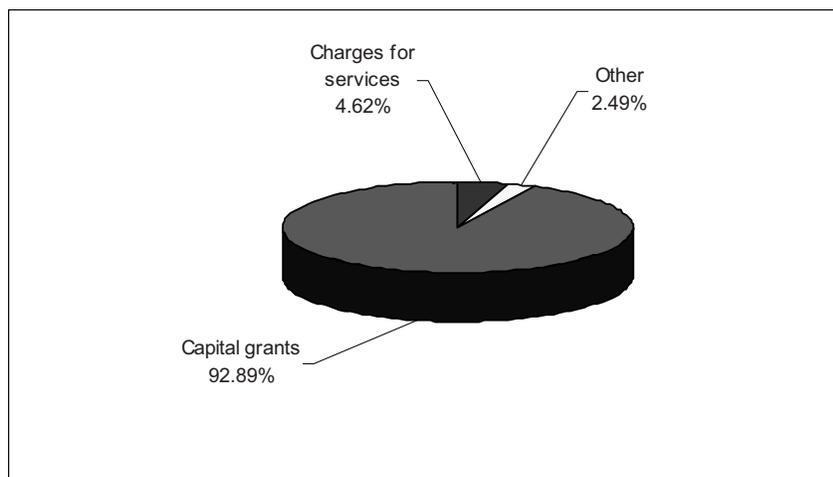
- Total expenses for business-type-activity in FY2007 decreased \$35.9 million or 8.7% compared to FY2006. Major contributors for the decrease include lower capital contribution of \$19.7 million to other agencies, lower depreciation expenses of \$12.8 million, and \$8.9 million higher overhead charges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

- Operations and operating project expenses are incurred for labor, support services, contracted services, insurance, purchased transportation and other overhead costs related to bus and light rail operations, services, and support programs. For FY2007, they were \$18.8 million or 5.5% million lower than in FY2006. Even though labor costs, material and supplies, services and other expenses increased in FY2007, the depreciation, and casualty insurance expenses were lower compared to FY2006. In addition, labor vacancies were higher in FY2007 which contributed to keep the overall labor costs increase around 2%. The indirect overhead charges from Enterprise Fund to capital projects was higher as the rate changed from 3% to 8% in FY2007 after approval from the FTA due to a decrease in capital program expenditures with the completion of major rail and highway projects in FY2006.
- Caltrain subsidy and capital contribution to other agencies decreased \$19.7 million or 46.7% in FY2007. In FY2006, VTA completed the Gilroy Rail Track Extension project and contributed it to Caltrain as per the cooperative agreement with PCJPB. Operating subsidy to Caltrain increased by \$435 thousand in the current fiscal year.
- The bond interest expenses were \$2.1 million or 18.2% higher as debt service payments started on 2006 Measure A Sales Tax Revenue Bonds.

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

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

Revenues By Source - Governmental Activity



Financial Analysis of VTA's Funds

VTA uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

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

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

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

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

Governmental funds. The focus of VTA's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing VTA's financing requirements. In particular, unreserved fund balance may serve as a useful measure of VTA's net resources available for spending at the end of the fiscal year. VTA maintains two governmental fund types – Special Revenue Fund and Capital Project Fund.

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

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

Capital Assets and Debt Administration

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

Capital Assets (Net of Accumulated Depreciation)

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

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

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

Outstanding Debt

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

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

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

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

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

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

Economic Factors

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

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

in part to increasing ridership on both the existing service as well as due to the opening of new light rail extensions.

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

Budgetary Information

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

Requests for Information

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

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

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

See accompanying Notes to the Basic Financial Statements

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

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

See accompanying Notes to the Basic Financial Statements

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

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

See accompanying Notes to the Basic Financial Statements

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

	Enterprise Fund	Internal Service Fund
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	11,315	-
Accounts payable	14,055	-
Other accrued liabilities	15,476	16,695
Due to other governmental agencies	756	-
Liabilities payable from restricted assets:		
Current portion of long-term debt	54,700	-
Accounts payable	17,706	-
Other accrued liabilities	6,109	-
Total current liabilities	120,117	16,695
Non-current liabilities		
Long-term debt, excluding current portion	680,113	-
Other accrued liabilities	13	41,610
Total non-current liabilities	680,126	41,610
Total liabilities	800,243	58,305
NET ASSETS		
Invested in capital assets, net of related debt	1,888,879	-
Restricted for debt service	88,021	-
Restricted for capital projects	265,165	-
Unrestricted	127,991	104,635
Total net assets	\$ 2,370,056	\$ 104,635
Reconciliation of the Statement of Net Assets to the Statement of Fund Net Assets:		
Net Assets of Enterprise Fund		\$ 2,370,056
Net Assets of Internal Service Fund, which benefits Business-type Activity		104,635
Net Assets (page 2-16)		\$ 2,474,691

See accompanying Notes to the Basic Financial Statements

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

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

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

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

See accompanying Notes to the Basic Financial Statements

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

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

See accompanying Notes to the Basic Financial Statements

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

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

See accompanying Notes to the Basic Financial Statements

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

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

See accompanying Notes to the Basic Financial Statements

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

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

See accompanying Notes to the Basic Financial Statements

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

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

See accompanying Notes to the Basic Financial Statements

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

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

See accompanying Notes to the Basic Financial Statements

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2007

NOTE 1 – THE FINANCIAL REPORTING ENTITY

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

The accompanying basic financial statements also include the financial activities of the Santa Clara Valley Transportation Authority Amalgamated Transit Union (ATU) Pension Plan (Plan) (Note 11) in the Pension Trust Fund. The financial activities of the Plan are blended in the basic financial statements because the Plan exclusively serves the employees of VTA. Due to the fact that the Plan is fiscally dependent on VTA, it is considered a component unit.

The Santa Clara Valley Transportation Authority Congestion Management Program (CMP) was created in 1990 in response to Proposition 111. The CMP is not legally separate from VTA. The CMP is responsible for the development and implementation of the Valley Transportation Plan (VTP), the long-range transportation and land use plan for the County, and for preparing and implementing the State-mandated Congestion Management Program. It is also responsible for the programming and oversight of discretionary federal, state and local funds, and for serving as the program manager for certain countywide grant funds, including the Transportation Fund for Clean Air (TFCA), 1996 Measure B Transportation Improvement Program's (MBTIP) Ancillary Program, and 2000 Measure A Transit Improvement Program. Annual contributions from each member agency are based on a formula adopted by the VTA's Board of Directors. The contribution formula considers each member agency's share of Proposition 111, State gas tax monies, as well as employment within the County. The CMP is included as a major governmental fund in the accompanying basic financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) *Basis of Presentation*

Government-wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about VTA as a whole. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *business-type* and *governmental activities* of VTA. Business-type activities, which normally rely to a significant extent on fees charged to external parties, are reported separately from governmental activities, which normally are supported by taxes and inter-governmental revenues.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2007

The statement of activities presents a comparison between direct expenses and program revenues for the business-type and governmental activities. Direct expenses are those that are specifically associated with a program or function and; therefore, are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about VTA's funds, including fiduciary funds. Separate statements for each fund category – *proprietary*, *governmental*, and *fiduciary* – are presented. The emphasis of fund financial statements is on the major governmental and the enterprise funds, each displayed in separate columns.

VTA reports the following major funds:

- The *Proprietary Fund (Enterprise Fund)* is used to account for activities for which a fee is charged to external users for goods or services (a) where the activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (b) where laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (c) where the pricing policies of the activity establish fees and charges designated to recover its costs, including capital costs (such as depreciation or debt service). VTA reports the activities of its transit operations, 1996 Measure B Transit Improvement Program, and 2000 Measure A Transit Improvement Program as Enterprise Fund.
- The *Governmental Funds* are used to account for VTA's general governmental activities where the proceeds of specific revenue sources are legally restricted to expenditures for specific purposes and for the acquisition of capital assets or construction of major capital projects (other than those financed by the Enterprise Fund).
 - The *Congestion Management Program Special Revenue Fund* is used to account for the congestion management planning, programming, and development services for Santa Clara County.
 - The *Congestion Management and Highway Program Capital Projects Fund* is used to account for the acquisition of capital assets and construction of highway projects administered on behalf of State and other local governments (other than those accounted for in the Measure B Highway Program Capital Projects Fund).
 - The *Measure B Highway Program Capital Projects Fund* is used to account for

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2007

acquisition of capital assets or construction of Measure B Highway projects.

VTA reports the following additional funds:

- The *Proprietary Fund (Internal Service Fund)* is used to account for activities that provide goods or services to other funds, departments or to other governments, on a cost-reimbursement basis. General Liability, Workers' Compensation, Retiree Health, and Compensated Absences are accounted for in the Internal Service Fund.
- The *Fiduciary Funds* are used to account for assets held by VTA as a trustee or as an agent for others and which assets cannot be used to support its own programs. VTA's trust and agency funds include the VTA/ATU Pension Plan, ATU Medical Trust, the Bay Area Air Quality Management District (BAAQMD) Program, and the Measure B Ancillary Program. The VTA/ATU Pension Plan and the ATU Medical Trust are reported as pension (other employees benefit) trust funds. The BAAQMD and the Measure B Ancillary Programs are reported as agency funds. The BAAQMD agency fund accounts for the activities that relate to the Transportation Fund for Clean Air (TFCA) Program. The Measure B Ancillary Program agency fund was established to administer the 1996 Measure B funds.

(b) Basis of Accounting

The government-wide, proprietary funds and fiduciary funds financial statements are reported using the accrual basis of accounting and the economic resources exchange measurement focus (except agency funds since agency funds only report assets and liabilities, they cannot be said to have a measurement focus). Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which VTA gives (or receives) value without directly receiving (or giving) equal value in exchange, include sales tax and grants. Revenues from sales tax are recognized when the underlying transactions take place. Therefore, recorded sales taxes include an estimate for amounts collected by merchants at the end of the fiscal year, but not remitted to the State until subsequent to that time. Revenues from grants are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements for the purchase of right-of-way are considered met once the acquisition has settled.

VTA's operating revenues are generated directly from its transit operations and consist principally of passenger fares. Operating expenses for the transit operations included all costs related to providing transit services. These costs include labor, fringe benefits, materials, supplies, services, utilities, leases and rentals, purchased transportation, and depreciation on capital assets. All other revenue and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Interest, certain State and federal grants, and charges for services are

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2007

accrued if their receipt occurs within 180 days after the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, compensated absences are recorded only when payment is due.

When both restricted and unrestricted net assets are available, unrestricted resources are used only after the restricted resources are depleted.

VTA has elected under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements, as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board or any Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes accounting principles generally accepted in the United States of America (GAAP) for governmental units. VTA has elected not to follow subsequent private-sector guidance of FASB after November 30, 1989.

(c) *Cash and Investments*

VTA contracts with money management firms to manage its investment portfolio. VTA's investment program manager has oversight responsibility for investments managed by these firms. The securities are held by a third-party custodial bank. Purchases and sales of securities are reflected on the trade date. Investment income is recognized as earned.

The remaining cash balances in certain VTA funds are invested in the State Pool of California (LAIF) and the County Treasury. Unless there are specific legal or contractual requirements for specific allocations, income earned or losses arising from investments are allocated on a monthly basis (except for the local agency investment fund (LAIF) which is quarterly) to the appropriate fund(s) based on their average daily balances.

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments, which are readily convertible to known amounts of cash. Restricted and unrestricted cash and cash equivalents and cash and investments with fiscal agents are considered to be cash and cash equivalents for purposes of the accompanying statement of cash flows. Access to cash and investments with fiscal agents is similar to that of a demand deposit account and, therefore, investments are considered to be cash equivalents.

VTA has reported its investments at fair value based on quoted market information obtained from Bloomberg Pricing Service, from its fiscal agent for actively managed accounts and from management firms for commingled accounts.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2007**

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

(d) Inventories

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

(e) Restricted Assets

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

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

Bond issuance costs, discounts, premiums and deferred amount on refundings for the government-wide statement of net assets and the enterprise fund are deferred and amortized over the term of the bonds using a method that approximates the interest method. Government-wide statement and enterprise fund bond discounts, premiums and deferred amount on refundings are presented as a reduction of the face amount of bonds payable whereas issuance costs are recorded as a deferred cost (asset).

(g) Capital Assets

It is VTA's policy that assets with a value of \$5,000 or more, and a useful life beyond one year are capitalized, included in the capital asset accounting system and depreciated accordingly. Property, facilities, and equipment are stated at historical cost. The cost of normal maintenance and repairs is charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related assets.

Depreciation is computed using the straight-line method over estimated useful lives as follows:

Buildings, improvements, furniture and fixtures	5 to 50 years
Vehicles (excluding light-rail vehicles)	5 to 12 years
Light-rail tracks, electrification and light-rail vehicles	25 to 45 years
Leasehold improvements	10 to 35 years
Other operating equipment	5 to 10 years

Depreciation on such assets is included in the accompanying statement of activities and statement of revenues, expenses, and changes in fund net assets.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2007

Interest is capitalized on construction in progress. Accordingly, interest capitalized is the total interest cost from the date of the borrowing until the specified asset is ready for its intended use. In the current year, VTA capitalized total interest expense of \$15.8 million relating to the BART and Downtown East Valley projects.

(h) *Vacation and Sick Leave Benefits*

It is the policy of VTA to permit employees to accumulate unused vacation and sick leave benefits up to the limit designated in the various collective bargaining agreements. As vacation and sick leave are used during the year, they are reported as expenses. Additionally, there is an amount charged each month to accrue the estimated increase in unused vacation and sick leave. The balance is adjusted annually to reflect the year-end value of unused vacation and sick leave.

(i) *Self-Insurance*

VTA is self-insured for general liability and workers' compensation claims. Estimated losses on claims other than workers' compensation claims are charged to expense in the period the loss is determinable. Estimated losses for workers' compensation claims are charged to expense as a percentage of labor in each accounting period. The costs incurred for workers' compensation and general liability (including estimates for claims incurred but not yet reported) are reported in the Internal Service Fund based on an actuarial determination of the present value of estimated future cash payments (see Notes 14 and 15).

(j) *Net Assets*

The government-wide and enterprise fund financial statements utilize a net asset presentation. Net assets are categorized as invested in capital assets (net of related debt) and unrestricted.

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt (including deferred bond issuance costs) that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* – This category consists of VTA's debt service reserve funds, net assets restricted for Measure B Transit and 2000 Measure A capital programs including VTA's share of board-designated capital projects.
- *Unrestricted Net Assets* – This category represents net assets of VTA, not restricted for any project or other purpose.

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2007**

(k) *Cost Allocated to Capital and Other Programs*

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

(l) *Estimates*

VTA's management has made a number of estimates and assumptions relating to the reporting of assets and liabilities, revenues, expenses, expenditures and the disclosure of contingent liabilities to prepare the basic financial statements in conformity with GAAP. Actual results could differ from those estimates.

(m) *GASB Pronouncements*

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2007**

NOTE 3 - CASH AND INVESTMENTS

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

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

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

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

Cash and Equivalents

VTA maintains checking accounts for unrestricted operations, the Congestion Management and Highway Programs (CM&HP) and the Measure B Transportation Improvement Program (Measure B account). These checking accounts earn interest based on the bank's monthly sweep average repurchase agreement rate. At June 30, 2007, the carrying amount of these cash balances are shown below (in thousands):

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2007

Investments

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

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

Specific restrictions of investment are noted below:

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

The County Treasury commingled pool is subject to the County's Investment Policy and State law and is reviewed by the County's Investment Committee. The value of the pool shares in the commingled pool, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of VTA's position in the pool.

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2007

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

Credit risk – VTA is permitted to hold investments in commercial paper rated A-1 by Standard & Poor’s Corporation or P-1 by Moody’s Commercial Paper Record. Negotiable certificates of deposit are restricted to those rated B or better by the Thompson Bankwatch Rating, Inc. rating service. Purchases of mortgage and asset-back obligations do not exceed 20% of VTA’s portfolio. In addition, VTA is permitted to invest in the State’s Local Agency Investment Fund, money market and mutual funds that are non-rated.

Custodial Credit Risk - Deposits - For deposits, custodial credit risk is the risk that in the event of a bank failure, VTA’s deposits may not be returned to it. The California Government Code Section 53652 requires California banks and savings and loan associations to secure governmental deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of VTA’s deposits. California law also allows financial institutions to secure governmental deposits by pledging first trust deed mortgage notes having a value of 150% of the VTA’s total deposits. At June 30, 2007, VTA deposits were collateralized by securities held by the financial institutions, but not in VTA’s name.

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2007**

investment portfolio and represents money held by a fiscal agent to pay debt service when due, in accordance with bond indentures.

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2007**

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

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

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

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

NOTE 4 – INTERFUND TRANSACTIONS

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

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2007**

NOTE 5 – DUE FROM AND DUE TO OTHER GOVERNMENTAL AGENCIES

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

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

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2007**

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

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

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2007**

NOTE 6 – CAPITAL ASSETS

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

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

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2007**

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

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

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

NOTE 7 - LONG-TERM LIABILITIES

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

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

(a) Equipment Trust Certificates

- \$52.5 million 1985A Certificates (1985 ETC's) were issued to finance the retirement of the Series 1984A Equipment Trust Certificates, originally issued to finance the acquisition of light-rail vehicles. The 1985 ETC's bear interest at a weekly rate, which is determined by the Remarketing Agent to be the rate necessary to remarket the 1985 ETC's at par value. The 1985 ETC's are subject to mandatory redemption before their maturity date on each June 1 on or after June 1, 2007, in part or by lot, solely from sinking fund payments and interest

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2007**

earnings deposited in the 1985 ETC Sinking Fund Account. In August 1998, VTA entered into an interest rate swap agreement. Pursuant to the terms of the swap agreement, VTA owes interest at a fixed rate of 4.355% to the counterparty to the swap. In return, the counterparty owes VTA interest based on the actual variable rate of the 1985 ETC's. The outstanding 1985 ETC principal is used as the basis on which the interest payments are calculated. Under certain circumstances, the agreement is subject to termination before maturity of the 1985 ETC's. A termination of the swap agreement may result in VTA making or receiving a termination payment.

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

- In November 1997, VTA issued \$40.6 million of 1997 Series A Sales Tax Revenue Refunding Bonds (1997 Bonds), at a true interest cost of 5.17%, to advance refund \$33.3 million of the outstanding principal amount of its 1991 Series A Bonds, advance refund \$4 million of the outstanding principal amount of its Series C Certificates, and to pay for certain capital expenditures. Their maturities extend to June 1, 2021. Maturities from June 1, 2011 through June 1, 2021 were legally defeased on June 1, 2007 from proceeds of the 2007 Refunding bonds leaving \$3,170,000 of outstanding principal as of June 30, 2007.
- In March 1998, through the California Transit Variable Rate Program of the California Transit Finance Authority (CTFA) (Note 19d), VTA issued \$50 million of 1998 Series A Junior Lien Sales Tax Revenues Bonds (1998 Bonds) to finance certain capital expenditures. The 1998 Bonds bear interest at a weekly rate, which is determined by the Remarketing Agent to be the rate necessary to remarket the bonds at par value. Their maturities extend to October 1, 2027 and are subject to mandatory and optional redemption provisions.
- In November 2000, through the California Transit Variable Rate Program of the California Transit Finance Authority (CTFA) (Note 19d), VTA issued \$40 million of 2000 Series A Junior Lien Sales Tax Revenue Bonds to finance certain capital expenditures. The 2000 Bonds bear interest at a weekly rate, which is determined by the Remarketing Agent to be the rate necessary to remarket the bonds at par value. Their maturities extend to October 1, 2027 and are subject to mandatory and optional redemption provisions.
- In June 2001, VTA issued \$200 million of 2001 Series A Senior Lien Sales Tax Revenue Bonds (2001 Bonds), at a true interest cost of 5.08% to finance portions of the Tasman East, Vasona, and Capitol Corridor Light Rail projects. Their maturities extend through June 1, 2026. Maturities through June 1, 2011 are not subject to redemption before their maturities. However, maturities from June 1, 2012 through June 1, 2026 are subject to optional redemption and will be redeemed on June 1, 2012 from proceeds of the 2005 Series A, B, and C Refunding Bonds.
- In July 2005, VTA issued Sales Tax Revenue Refunding Bonds, 2005 Series A, B & C, at variable rates, in an aggregate amount of \$172.5 million (2005 Bonds) to advance refund \$155.3 million of VTA's Sales Tax Revenue Bonds, 2001 Series A that mature on June 1,

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2007

2012 through June 1, 2026 (Defeased Bonds). Their maturities extend to June 1, 2026 and are subject to optional and mandatory redemption and optional and mandatory tender for purchase before maturity. Proceeds of the 2005 Bonds were placed in an escrow account held by a Trustee to provide for future debt service payments on the Defeased Bonds. The advance refunding met the requirement of an in-substance debt defeasance, and the Defeased Bonds were removed from VTA's long-term debt. Accordingly, the escrow account assets and the liabilities from the Defeased Bonds are not included in VTA's financial statements. The amount outstanding on the Defeased Bonds was \$155.3 million as of June 30, 2007. VTA realized debt service savings of approximately \$16.9 million in net present value by refunding the 2001 Series A Bonds. Concurrent with the issuance and sale of the 2005 Bonds, VTA entered into three separate interest rate swap agreements. Pursuant to the terms of the swap agreements, VTA owes interest at a fixed rate of 3.033% to the counterparties to the swaps. In return, the counterparties owe VTA interest based on a percentage of LIBOR¹ plus a spread. The outstanding principal is used as the basis on which the interest payments are calculated. Under certain circumstances, the agreements are subject to termination before maturity of the 2005 Bonds. A termination of the swap agreement may result in VTA making or receiving a termination payment.

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

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

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

¹ London Interbank Offered Rate

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2007

- In May 2004, VTA issued \$104.7 million of Measure A Sales Tax Revenue Bonds (2004A Bonds) to pay certain working capital and capital expenditures and to finance capitalized interest payment through October 2006. The 2004A Bonds were issued as long-term variable rate bonds, with an initial fixed rate term through October 2, 2006, at which time there is a mandatory tender for purchase of the 2004A Bonds. The 2004A Bonds were refunded on August 10, 2006 by the proceeds of the 2006 Measure A Bonds.
- In December 2004, VTA issued \$135.2 million of Measure A Senior Lien Sales Tax Revenue Bonds (2004B Bonds) to pay certain working capital and capital expenditures and to finance capitalized interest payment through October 2006. The 2004B Bonds were issued as long-term variable rate bonds, with an initial fixed rate term through October 2, 2006, at which time there is a mandatory tender for purchase of the 2004B Bonds. The 2004B Bonds were refunded on August 10, 2006 with the proceeds of the 2006 Measure A Bonds.
- In August 2006, VTA issued \$428 million of 2000 Measure A Sales Tax Revenue Bonds, Series A-G (2006 Bonds) to refund \$371 million of VTA's Sales Tax Revenue 2003 Series A Bonds, 2004 Series B Bonds (Defeased Bonds); and to finance portion of the costs associated with capital projects. The Defeased Bonds were subject to a mandatory tender for purchase on October 2, 2006. On this date, VTA was obligated to remarket the Defeased Bonds as either variable or fixed rate securities. In the event of a failed remarketing, VTA's interest rate would have been reset at 150% of One-Year LIBOR for each subsequent year until a successful remarketing was completed. Had there been a failed remarketing, VTA's interest rate would have reset at 8.175% (150% of One-Year LIBOR in effect at that time). Based on this rate, the economic gain is \$164.3 million. However, had VTA remarketed the Defeased Bonds as fixed rate securities, the interest rate would have reset to approximately 4.62% (prevailing rate at the time of issuance), which would have resulted in an economic gain of \$15.5 million. In lieu of remarketing, VTA chose to refund the Defeased Bonds through the issuance of the 2006 Bonds. The maturities of the 2006 Bonds extend to April 1, 2036. Concurrent with the issuance and sale of the 2006 Bonds, VTA entered into four separate interest rate swap agreements for the 2006 Bonds, Series A through D. Pursuant to the terms of the swap agreements, VTA owes interest at a fixed rate of 3.765% to the counterparties to the swaps. In return, the counterparties owe VTA interest based on SIFMA Swap Index, which is reset weekly, prior to October 1, 2007. Beginning October 1, 2007, counterparties will pay VTA a variable rate of interest based on 65% of three-month LIBOR. The outstanding principal is used as the basis on which the interest payments are calculated. The swap agreements are expected to terminate on the final stated maturity date of each series of the 2006 Bonds. The 2006 Bonds Series E was issued as auction rate bonds, subject to an 8% interest rate cap provided by Bank of America. The 2006 Bonds Series F and G were issued as auction rate securities, with an initial fixed rate interest through August, at which time they are converted to 90-day auction rate securities. The 2006 Bonds Series A-G are subject to optional redemption by VTA on any Interest Payment Date immediately following the end of an Auction Period. If VTA redeems any series of the 2006 Bonds by mandatory sinking funds, the redemptions shall be on each April 1 of the mature year for each series.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2007**

(d) Interest Rate Swaps

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

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

¹ LIBOR: London Inter Bank Offering Rate is a daily reference rate based on the interest rate at which banks offer to lend unsecured funds to other banks in the London wholesale (interbank) money market.

²SIFMA: Securities Industry and Financial Municipal Swap Index. This index represents the national average for variable rate bonds.

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

Dollars in thousands

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

¹ Includes accrued interest

² Moody's, Standard and Poor's, and Fitch, respectively

³ Sales Tax Revenue Refunding Bonds

⁴ Lower of 1 month LIBOR or a rate equal to: the greater of 63.5% of 1 month LIBOR or 55.5% of LIBOR plus 0.44%

⁵ Swap Index to October 2007; 65% of three month LIBOR thereafter

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2007

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

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

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

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2007**

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

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

(e) Swap Payments and Associated Debt

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2007**

(f) Long-term Debt Obligation Summary

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

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

(g) Restrictions and Limitations

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2007**

(h) Long-term Liabilities

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

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

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

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

NOTE 8 –SALES TAX REVENUES

Sales tax revenue represents sales tax receipts from the California State Board of Equalization, which, under voter-approved 1976 and 2000 Sales Tax Measures, collect a half-cent for each taxable sales dollar spent in the County. These amounts are available to fund both operations and capital expenditures except that portion which is to be used to repay long-term debt as described

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2007

in Note 7. Collection fees charged by the State Board of Equalization were approximately \$2.9 million in FY2007. The amount of the 1976 Sales Tax and 2000 Measure A Sales Tax earned during FY2007 was \$163.7 million and \$161.3 million respectively, totaling \$325 million.

NOTE 9 – VTA PROGRAMS FUNDED THROUGH LOCAL SALES TAX MEASURES

Measure B Transportation Improvement Program (MBTIP)

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

In March 1999, the VTA Board of Directors and the County Board of Supervisors approved a Memorandum of Understanding (MOU) formalizing the partnership to implement MBTIP. With this partnership in place, the County and VTA were positioned to complete a transportation program valued at approximately \$2 billion. The County would administer the funding, and VTA would be responsible for project management of the transit and highway projects and would assist in the administration of the pavement management and bicycle elements of the program.

The Measure B Transit Projects, which consist mainly of light-rail extensions and new rail vehicles, became the property of VTA. The Measure B Highway Projects, which consisted primarily of widening highways and improvements became property of the State. The accompanying basic financial statements include the financial activities of the Measure B Transit Projects in the Enterprise Fund as part of the business-type activity, Measure B Highway Projects in a Capital Project Fund as part of the governmental activity and the Measure B Ancillary Program, which includes pavement management and bicycle elements, in an agency fund. The Ancillary Program was created to administer the Measure B Pavement & Bikeways Program and Measure B local projects, also known as the Local Program Reserves.

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

In June 2007, VTA and the County signed Amendment Number 20 (Amendment) to the Master Agreement and made a lump-sum payment \$51.2 million to VTA in July 2007 (Note 21 – Subsequent Events). In addition, VTA would receive the residual sales tax received by the County on the Measure B program in the subsequent years. In return, VTA would assume full

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2007

responsibility for completion of the remaining MBTIP Projects for which VTA is currently responsible, and to closeout the MBTIP Program. The projected cost of remaining MBTIP program is estimated at \$60.7 million. The difference between the projected costs and lump sum payment by the County under Amendment 20 would be covered by advance payments received by VTA, interest earnings, and residual sales tax to be received on the Measure B program.

2000 Measure A Transit Improvement Program

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

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

NOTE 10 – FEDERAL, STATE, AND LOCAL ASSISTANCE

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2007**

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

(a) Federal Grants

Federal grants are approved principally by the Federal Transportation Administration (FTA) and the Federal Highway Administration (FHWA). Federal grants for the year ended June 30, 2007 are summarized as follows (in thousands):

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

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2007

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

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

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

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

- MTC-TLC represents funds received from the Metropolitan Transportation Commission – Transportation for Livable Communities program capital grants for the San Fernando Station Plaza/Los Gatos Creek Trail Improvement Project. Funds for this program come from the federal transportation funds pursuant to TEA-21 Restoration Act.
- TransLink® fees are funds received from the Metropolitan Transportation Commission in accordance with the TransLink® Phase II site preparation fund agreement whereby VTA is to perform site preparation on its premises for the implementation of TransLink® Phase II project. The agreement is funded in whole or in part from the proceeds of a grant from the United States Department of Transportation.
- Intelligent Transportation System (ITS) fees are received from the California Department of Transportation pursuant to TEA-21, Section 5208 Funding for California ITS Integration Projects with VTA being the implementing agency for ITS integration activities in Santa Clara County and the Silicon Valley.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2007**

(b) State and Local Grants and Assistance

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

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

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

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

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

The Traffic Congestion Relief Program (TCRP) provides funds for projects throughout the State of California to reduce traffic congestion, provide for safe and efficient movement of goods, and provide system connectivity. The California Transportation Commission (CTC), in consultation with State Department of Transportation, implements TCRP. On February 1, 2007, the CTC

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2007**

approved/allocated \$364.5 million for the preliminary engineering phase of the Silicon Valley Rapid Transit project.

Santa Clara County Fund Swap is Measure B revenue received by VTA for local projects in exchange for federal and/or State grant funds and program them for certain 1996 MBTIP Projects. Additional information on the 1996 MBTIP can be found in Note 9.

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

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

(a) Plan Description

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

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

VTA enhanced the Pension benefits for ATU represented employees effective February 1, 2001 and they were enhanced again on February 1, 2003. The enhancement scheduled for February 1, 2004 was accelerated to July 1, 2002.

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

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2007**

(b) Basis of Accounting

Contributions are recognized as revenue in the period in which employee services are performed. Benefits (distributions to participants) and refunds of prior contributions are recognized when due and payable in accordance with the terms of the Plan.

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates. Purchases and sales of securities are reflected on the trade date. Investment income is recognized as earned.

(c) Actuarial Methods and Assumptions

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

(d) Concentration

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

(e) Funding Policy

VTA contributes to the Plan at actuarially determined rates applied to eligible payroll sufficient to maintain funding of vesting benefits. VTA's contributions to the Plan for the year ended June 30, 2007 were made in accordance with actuarially determined requirements computed as of January 1, 2006. VTA's contribution rate as a percentage of payroll was 15.62% for fiscal year FY2007. The schedule of funding progress can be found on page 2-70.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2007**

(f) Net Pension Obligation

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

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

NOTE 12 – PUBLIC EMPLOYEES’ RETIREMENT PLAN

(a) Plan Description

All eligible non-ATU employees of VTA participate in the California Public Employees Retirement System (CalPERS). Prior to separation from the County on January 1, 1995, all eligible VTA employees participated in CalPERS through the County. As a result of the separation from the County, certain administrative employees were transferred from the County to VTA. All of those administrative employees' service credits earned during the period they worked for the County's transportation agency were transferred to VTA's CalPERS account. The transfer of related assets at a market value totaling approximately \$52,300,000 was completed by CalPERS in FY1999.

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

Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814. A separate report for VTA's plan is not available.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2007**

(b) Actuarial Methods and Assumptions

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

(c) Funding Policy

Active members in VTA's CalPERS Plan are not required to contribute to the CalPERS Plan. VTA elected to contribute the actuarially determined amount necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required contribution rate from July 1, 2006 through June 30, 2007, was 11.852% for the employer and 7% for employees. The required employee contribution was paid by VTA. The contribution requirements of the CalPERS Plan are established by State statute and the employer contribution is established and may be amended by CalPERS. The amortization period used is closed which means that amortization periods for initial unfunded liability, benefit change, and assumption change decline every year. The schedule of funding progress can be found on page 2-71.

(d) Net Pension Obligation

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2007**

NOTE 13 – ATU SPOUSAL MEDICAL AND VISION/DENTAL TRUST

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

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

The Retiree Vision and Dental Trust is a vision and dental benefit for eligible pensioners. Effective February 8, 1999 and pursuant to a collective bargaining agreement, VTA is required to contribute \$0.10 per hour worked by ATU employees. As of June 30, 2007, there were 747 eligible participants. Contributions, which were expensed by VTA, were approximately \$341 thousand for the Retiree Vision and Dental Trust.

NOTE 14 – INTERNAL SERVICE FUND

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

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

Workers’ Compensation and General Liability

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2007**

Actuarial Information

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

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

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

Retiree Health

(a) ATU

VTA provides an ATU Retiree Health Care Program (the ATU Program), a post-employment benefit, in accordance with the agreement between VTA and the ATU, to all ATU represented employees who retire from VTA on or after attaining the age of 55 with at least 15 years of service, or if an employee becomes disabled and has completed at least 10 years of service. As of June 30, 2007, 820 retirees met the eligibility requirements. VTA pays medical premiums for its eligible retirees.

(b) Non-ATU

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2007

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

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

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

Actuarial Information

An actuarial study as of July 1, 2007 projected that the present value of future VTA paid retiree medical benefits for the current group of active employees, retirees, and terminated vested employees (excluding new employees) was approximately \$178 million and \$69.8 million, for the ATU and Non-ATU Programs, respectively. VTA's contributions are advance funded to an Internal Service Fund on an actuarially determined basis. For the year ended June 30, 2007, VTA made contributions to both the ATU and Non-ATU programs, which were expensed, of approximately \$16.5 million. Benefits paid to participants of the program were approximately \$6.1 million.

The actuarial cost method used for determining the benefit obligations is the projected unit benefit cost method. The significant economic assumptions used were as follows: 1) a discount rate of 7.0%, 2) a projected salary increase of 5.0%, and 3) a health cost inflation assumption of 10% from 2007 to 2008, then graded down 1.0% per year for the next 5 years, to an ultimate rate of 5.0% each year thereafter.

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

Compensated Absences

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2007**

NOTE 15 –INSURANCE

VTA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors, and omissions; injuries to employees; injuries to the public; and natural disasters. For the past three fiscal years, settlement amounts have not exceeded commercial insurance coverage. For additional information on workers’ compensation and general liability, see Note 14. Coverage provided by self-insurance/insurance and excess coverage as of June 30, 2007, is shown below:

Type of Coverage	Self- Insurance/Deductible	Excess Coverage (in aggregate)
Workers’ compensation	Self-Insured	None
Employer’s liability	\$3,000,000	\$23,000,000 per accident
Excess public liability/property damage	\$3,000,000	\$22,000,000
Property, boiler, and machinery	\$100,000	\$70,000,000 combined blanket limit
National Flood Insurance (eligible locations)	\$5,000	\$500,000
Light rail vehicles include spare parts coverage, no earthquake coverage	\$250,000	\$20,000,000
Buses	\$100,000	\$20,000,000
Vans and mobile equipment	\$25,000	Included in the \$20,000,000 with buses
Public officials liability	Self-Insured \$3,000,000	\$22,000,000

NOTE 16 – LEASES

VTA leases various properties for use as transfer facilities, parking lots, information centers, and warehouses under lease agreements that expire at various dates through 2030. These agreements are accounted for as operating leases. Rent expense was approximately \$448 thousand in FY2007. The future lease payments under noncancellable lease agreements are as follows (in thousands):

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2007**

NOTE 17 – LITIGATION

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

NOTE 18 – CONTRACTED SERVICES PROVIDED BY THE COUNTY OF SANTA CLARA

The County provides support services to VTA for protection (Office of the Sheriff), fuel for vehicles and vehicle maintenance and repairs. Amounts paid to the County for such services were approximately \$4.98 million during FY2007.

NOTE 19 – JOINT VENTURES

(a) Peninsula Corridor Joint Powers Board

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

The net operating costs and administrative expenses of the PCJPB, for services provided between San Francisco and San Jose are reimbursed by the member agencies. In FY2007, VTA, SamTrans, and CCSF are responsible for 40.28%, 41.91%, and 17.80%, respectively, of the member agencies' total reimbursement for such expenses. During the year ended June 30, 2007, VTA paid \$15.6 million to the PCJPB for operating costs.

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2007**

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

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

^(a) Latest audited information available.

Complete financial statements for the PCJPB can be obtained from SamTrans at 1250 San Carlos Avenue, San Carlos, California 94070.

(b) Altamont Commuter Express

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

ACE commenced operations in October 1998, and now provides four daily round trips commuter rail service from San Joaquin County through the Tri-Valley Area of Alameda County to Santa Clara County. The operating maintenance and management costs of the service is reimbursed by the members at a rate of approximately 42% from VTA, 28% from San Joaquin Regional Rail Commission and 30% from the Alameda County Congestion Management Agency. In June 2003, VTA entered into a Cooperative Service Agreement with the San Joaquin Regional Rail Commission (SJRRRC) and the Alameda County Congestion Management Agency (ACCMA) for continued VTA funding of Altamont Commuter Express (ACE) commuter rail service. The cooperative agreement replaced the ACE Joint Powers Agreement (JPA) executed by the ACE member agencies – VTA, SJRRRC and ACCMA. During the year ended June 30, 2007, VTA contributed approximately \$2.5 million for operating costs.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2007**

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

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

^(a) Latest audited information available.

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

(c) Capitol Corridor Intercity Rail Service

VTA is a member agency of the Capitol Corridor Joint Powers Authority, which provides intercity rail service between Sacramento and San Jose. The Capitol Corridor intercity rail service is provided by the Capitol Corridor Joint Powers Board, which is comprised of members of the governing bodies of VTA, the Sacramento Regional Transit District, the Placer County Transportation Planning Agency, the congestion management agencies of Solano and Yolo counties, and the Bay Area Rapid Transit District (BART). BART is the managing agency for the Capitol Corridor Service. VTA offers no funds to the operation of this service.

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

(d) California Transit Finance Authority

VTA is a participant of the California Transit Finance Authority (CTFA), which was formed in 1997 through a joint powers agreement for the purpose of establishing the California Transit Variable Rate Finance Program (Program). The Program makes low-cost, variable rate financing available to the members of the California Transit Association for the

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2007

acquisition of transit equipment and facilities. In December 1997, the CTFA issued \$200,000,000 of variable rate demand bonds (the "CTFA Bonds") to fund the Program. In March 1998, VTA borrowed \$50,000,000 under the Program and evidenced its borrowing through the issuance of \$50,000,000 Junior Lien Sales Tax Revenue Bonds, 1998 Series A held by the CTFA Bond trustee. In November 2000, VTA borrowed an additional \$40,000,000 under the Program and evidenced its borrowing through the issuance of \$40,000,000 Junior Lien Sales Tax Revenue Bonds, 2000 Series A held by the CTFA Bond trustee. (Note 7 – Long-Term Liabilities).

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

NOTE 20 – OTHER FINANCING TRANSACTIONS

(a) Lease-Leaseback

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

VTA received a prepayment of approximately \$92,286,000, which represented certain rental obligations owed by the investors under the Headlease. Investors made equity contributions of approximately 20% and a financial institution made loans to the trust for the balance of the Headlease rental prepayment amount. VTA is required to make annual rental payments pursuant to the sublease.

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

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2007**

(b) Japanese Operating Lease

In June 2000, VTA had entered into a Japanese Operating Lease (JOL) transaction covering 285 buses of various vintages manufactured by Gillig and Flexible (Buses). VTA received payments totaling \$55.4 million and VTA is obligated to make semi-annual rental payments throughout the term of the lease. VTA paid \$53.4 million to financial institutions to assume the rental obligations. As a result of the JOL transaction, VTA realized a financial benefit of \$2,022,000.

VTA has the ability to terminate the lease on the Buses after 6 years with respect to some of the Buses, and after 8 years with respect to the remainder of the Buses. VTA will continue to operate, maintain, and insure the Buses throughout the term of the lease. In June 2006, VTA terminated the lease on 88 buses.

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

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

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

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

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2007**

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

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

(d) Lease to Service Contracts

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

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

(e) Excise Tax on Lease/Leaseback Transactions

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2007**

NOTE 21 – SUBSEQUENT EVENTS

- In July 2007, VTA received \$51.2 million payment from the County per Amendment 20 of the Master Agreement. In return, VTA would assume full responsibility for completion of the remaining MBTIP Projects for which VTA is currently responsible, and to closeout the MBTIP Program. The projected cost of remaining MBTIP program is estimated at \$60.7 million and is expected to run through 2010. The difference between the projected costs and lump sum payment by the County under Amendment 20 would be covered by cash on hand held by VTA at June 30, 2007, projected interest earnings, and the residual sales tax to be received by VTA on the Measure B program.
- In August 2007, VTA redeemed 2006 Measure A Sales Tax Revenues Bonds, Series E, which totaled \$54.7 million using the using the surplus funds.
- In July 2007, VTA completed the sale transaction and received \$20.1 million for the sale of approximately three miles of former Western Pacific Railroad Road (WPPR) right-of-way to BART. With the acquisition of this property BART would be in a position to construct the Warm Springs Extension, which is precursor to the construction of the potential BART extension to the Silicon Valley.
- In September 2007, VTA issued \$120.1 million traditional fixed rate bonds, 2000 Measure A Sales Tax Revenue Refunding Bonds, 2007 Series A (Measure A 2007 Bonds), at a true interest cost of 4.60%. The proceeds along with \$17.7 million debt service reserve funds were used to refund \$137.8 million Series F and Series G of VTA's 2006 Measure A Sales Tax Revenue Bonds (Defeased Bonds), which were originally issued as 90-day auction rate securities. Proceeds of the Measure A 2007 Bonds plus debt service reserve funds were deposited into an escrow account held by a Trustee, and will be used to pay the principal and accrued interest on the Defeased Bonds on their next interest payment date in November 2007, which is also the first available date that the Defeased Bonds can be redeemed. Maturities for the Measure A 2007 Bonds extend to April 1, 2036.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Required Supplementary Information
Schedule of Funding Progress ^(a)
As of June 30, 2007

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

(Unaudited)

(In thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
1/1/2005	268,429	350,895	82,466	76%	88,449	93%
1/1/2006	288,829	363,114	74,285	80%	92,663	80%
1/1/2007	314,816	397,854	83,037	79%	93,985	88%

^(a) The schedule of funding progress presents the most recent actuarial information regarding the funding progress of the Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

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

Santa Clara Valley Transportation Authority CalPERS Plan

(Unaudited)

(In thousands)

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Note to Required Supplementary Information
For the Year Ended June 30, 2007

Budgetary Basis of Accounting

State law requires the adoption of an annual budget, which must be approved by the VTA's Board of Directors. VTA budgets annually for its Congestion Management Program Special Revenue Fund. The budget for the Special Revenue Fund is prepared on a modified accrual basis.

Budgetary control is maintained at the fund level. The Division Chief must authorize line item reclassification amendments to the budget. Managers are assigned the responsibility for controlling their budgets and monitoring operating expenses. Annual appropriations for the operating budget lapse at the end of the fiscal year to the extent that they have not been expended. The unexpended capital budget at fiscal year end is carried forward from year to year until the project is completed.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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APPENDIX C

COUNTY OF SANTA CLARA DEMOGRAPHIC AND ECONOMIC INFORMATION

General Information

The County of Santa Clara (the "County") lies immediately south of San Francisco Bay and is the sixth 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 10 miles. The northern portion of the County is densely populated, extensively urbanized and heavily industrialized. The County contains 15 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 Corp., National Semiconductor Corp., Lockheed Martin Space Systems Co., and IBM Corp.

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 approximately 50 miles south of San Francisco and 42 miles south of the City of Oakland. These are the three largest cities of the nine-county San Francisco Bay Area, with the City of San Jose being the largest.

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 60 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% 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% 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% growth rate was over four times the 15.4% 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% 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 94.4%, 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 5.6%) of residents living in unincorporated areas.

Recent Annual Population Performance. Between 2000 and 2007, the County experienced population growth of 7.5%. All of the cities in the County experienced growth during this period, with the City of Gilroy posting the fastest growth (19.7%). From 2006 to 2007, Morgan Hill and Campbell were the fastest growing cities in the County, growing at rates of 3.1% and 3.0%, respectively. The number of residents living in the unincorporated areas of the County decreased by 1.9% from 2000 to 2007. Currently, approximately 5.4% of the County residents live in unincorporated areas, a percentage which has steadily decreased over time as the population continues to migrate toward the cities.

By the year 2020, the State Department of Finance predicts that the County's population will grow to approximately 2.0 million residents, a 13.2% increase from 2006.⁽¹⁾ The following table provides a historical summary of population in the County and its incorporated cities.

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⁽¹⁾ State of California, Department of Finance, Demographic Research Unit (Report P-1).

County of Santa Clara Population

	1970	1980	1990	2000	2005 ⁽¹⁾	2006 ⁽¹⁾	2007 ⁽¹⁾
Campbell	24,731	26,843	36,088	38,138	38,262	38,580	39,748
Cupertino	18,216	34,297	39,967	50,602	53,238	54,082	55,162
Gilroy	12,665	21,641	31,487	41,464	47,482	48,747	49,649
Los Altos	24,872	25,769	26,599	27,693	27,505	27,729	28,104
Los Altos Hills	6,862	7,421	7,514	8,025	8,417	8,520	8,607
Los Gatos	23,466	26,906	27,357	28,592	28,863	29,116	29,407
Milpitas	27,149	37,820	50,690	62,698	64,751	65,554	66,568
Monte Sereno	3,074	3,434	3,287	3,483	3,491	3,528	3,565
Morgan Hill	6,485	17,060	23,928	33,586	36,279	37,256	38,418
Mountain View	54,206	58,655	67,365	70,708	71,747	72,316	73,262
Palo Alto	55,999	55,225	55,900	58,598	61,431	62,424	62,615
San Jose	445,779	629,400	782,224	895,131	941,116	957,915	973,672
Santa Clara	87,717	87,700	93,613	102,361	108,680	111,258	114,238
Saratoga	27,199	29,261	28,061	29,849	30,729	30,973	31,401
Sunnyvale	95,408	106,618	117,324	131,844	132,555	134,142	135,721
Unincorporated	152,181	127,021	106,173	99,813	98,107	98,309	97,919
County Total ⁽²⁾	<u>1,066,009</u>	<u>1,295,071</u>	<u>1,497,577</u>	<u>1,682,585</u>	<u>1,752,653</u>	<u>1,780,449</u>	<u>1,808,056</u>
California	18,136,045	23,668,145	29,760,021	33,873,086	36,728,196	37,195,240	37,662,518

⁽¹⁾ As of January 1.

⁽²⁾ Totals may not be precise due to independent rounding.

Source: U.S. Census; State of California, Department of Finance, Demographic Research Unit (E-1 City/County Population).

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. From 1997 through 2000, job growth in Silicon Valley was extraordinary, with the addition of more than 103,300 jobs. However, the County's unemployment rate rose sharply between 2000 and 2003 as a result of the retraction in the communications and high technology industries that dominate the County's employment base. From December 2000 to January 2004, over 200,000 jobs were lost in Santa Clara County. Since 2003, the unemployment rate in the County declined, and averaging 4.5% for 2006 compared to 8.4% in 2003. However, as was the case in the rest of the United States, economic growth in the County slowed considerably in 2007, with much lower job growth than in the prior several years, and with the unemployment rate in the County increasing from 4.5% in 2006 to 4.8% in 2007.

At the end of 2006 the County had 898,000 wage and salary jobs. Three major industry sectors comprise approximately 53% of the County's employment: Manufacturing (18.7%), Professional & Business Activities (18.5%) and Trade, Transportation & Utilities (15.5%).

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, and 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.

The following table lists wage and salary employment in the County by Industry.

County of Santa Clara
Average Annual Employment by Industry⁽¹⁾
(In Thousands)

	2001	2002	2003	2004	2005	2006	2007 ⁽⁴⁾
Civilian Labor Force ⁽²⁾	967.0	918.0	876.8	854.8	850.0	859.3	880.3
Employment	917.6	841.0	803.2	798.9	804.0	820.3	838.0
County Unemployment	49.4	77.0	73.6	55.9	46.0	39.0	42.3
Unemployment Rate:							
County	5.1%	8.4%	8.4%	6.5%	5.4%	4.5%	4.8%
State of California	5.4%	6.7%	6.8%	6.2%	5.4%	4.9%	5.4%
Industry Employment ⁽³⁾							
Total, All Industries	1024.9	924.1	876.9	868.7	876.3	898.6	
Total Farm	7.0	6.9	6.6	6.7	6.3	6.1	
Total Nonfarm	1017.9	917.2	870.3	862.0	869.9	892.4	
Goods Producing	297.8	253.2	224.5	217.3	215.7	218.3	
Natural Resources and							
Mining	0.2	0.2	0.2	0.1	0.2	0.3	
Construction	49.9	44.4	41.6	43.0	44.5	47.0	
Manufacturing	247.6	208.5	182.8	174.2	170.9	171.0	
Service Providing	720.2	664.0	645.7	644.7	654.3	674.1	
Trade, Transportation &	148.8	137.4	132.0	130.9	132.8	135.8	
Utilities							
Information	42.0	34.3	31.4	32.6	35.3	38.5	
Financial Activities	35.7	35.6	35.1	35.4	36.3	37.1	
Professional & Business	204.5	167.3	160.3	158.6	159.8	164.7	
Activities							
Education & Health	90.4	91.7	93.5	95.0	96.8	101.3	
Services							
Leisure & Hospitality	73.3	68.8	69.0	70.9	72.8	75.5	
Other Services	26.7	26.4	25.3	25.0	24.6	25.0	
Government	98.8	102.5	99.2	96.3	95.9	96.4	

⁽¹⁾ Data in this table is for Santa Clara and San Benito Counties combined (San Jose-Santa Clara-Sunnyvale MSA), where Santa Clara County employment share is approximately 98.3% of the total. Industry classification is using the North American Industry Classification System (NAICS).

⁽²⁾ Labor force data are based upon place of residence. Employment includes self-employed, unpaid family workers, domestics, and workers involved in labor-management disputes.

⁽³⁾ Industry employment is reported by place of work. Data are benchmarked to March 2006.

⁽⁴⁾ Information not available for Industry Employment.

Source: Employment Development Department.

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Major Employers

The County, which is centered in the heart of Silicon Valley, is home to numerous high technology and computer software and hardware manufacturing companies. Public-sector employers continue to top the list of the largest employers in Silicon Valley. The County ranks as number one, employing over 15,000 workers. In addition, the City of San Jose has over 6,500 full-time employees. Although there have been hiring freezes and cut-backs that have impacted public-sector organizations, such organizations typically tend to remain more stable in a volatile job market.

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

15 Largest Private-Sector Employers Silicon Valley

Employer Name	Employees	Nature of Operations
Stanford University, Hospital & Clinics, Linear Accelerator	23,756	Academic research, hospital, medical research, electron accelerators, related facilities
Cisco Systems Inc.	16,500	Computer network equipment manufacturer
AT&T Inc.	15,500	IP-based communications, wireless, high-speed Internet, voice, directory publishing
Lockheed Martin Space Systems Co.	7,951	Aerospace systems
Oracle Corp.	7,500	Software
Hewlett-Packard Co.	7,000	Technology solutions provider
IBM Corp.	6,500	Creates, develops and manufactures information technologies
Intel Corp.	5,700	Microprocessors manufacturer
New United Motor Manufacturing Inc.	5,500	Automobile manufacturing
Applied Materials Inc.	4,156	Semiconductor equipment manufacturer
Sun Microsystems Inc.	3,500	Network computing servers, storage, software and services
Hitachi America Ltd.	2,880	Supplies North America with a broad range of high-tech products
Network Appliance Inc.	2,324	Provides unified network storage solutions
Xilinx Inc.	2,300	Supplies field-programmable gate arrays and complex programmable logic devices
Ebay Inc.	2,200	Online global trading platform

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

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

Employer Name	Employees	Nature of Operations
Santa Clara County	15,012	County government
State of California	7,568 ⁽¹⁾	State government
City of San Jose	7,169	Municipal government
San Jose State University	4,100	Education
San Jose Unified School District	2,927	Public education
Santa Cruz County	2,627	County government
Santa Clara Valley Transportation Authority	2,035	Bus, light rail and paratransit operations; transportation planning
Santa Clara County Office of Education	1,800	Educational resource to 33 school districts in Santa Clara County
Alum Rock Union School District	1,350	School district
Oak Grove Elementary School District	1,308	School district
Santa Clara Unified School District	1,279	School district
San Mateo County Community College District	1,091	Community college district
City of Palo Alto	1,079	Municipal government
Gilroy Unified School District	953	School district
City of Santa Clara	889	Municipal government

⁽¹⁾ Full-time employees in Santa Clara, San Mateo, Santa Cruz, San Benito and Monterey Counties.
Source: Silicon Valley/San Jose Business Journal, *Book of Lists 2007*, July 27, 2007.

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. The U.S. Census Bureau reported Santa Clara County as having the 10th highest median household income in the United States, and the highest among California counties, at \$76,810 (2005 inflation adjusted).⁽²⁾

Commercial Activity

Ranking first among San Francisco Bay Area counties and fourth among all California counties in terms of retail activity through 2004, 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 2001 through 2006, which is the last full calendar year for which information is available.

⁽²⁾ U.S. Census Bureau, Factsheet, Santa Clara County, California.

**County of Santa Clara
Taxable Transactions by Sector
2001 through 2006
(In Millions)**

	2001	2002	2003	2004	2005	2006 ⁽¹⁾
Apparel Stores	\$ 883.4	\$ 881.9	\$ 929.5	\$ 1,051.0	\$1,169.1	\$ 1,264.2
General Merchandise Stores	2,720.4	2,569.6	2,589.3	2,718.4	2,839.9	2,979.4
Specialty Stores	3,489.3	2,952.5	2,908.6	3,059.4	3,377.9	3,674.3
Food Stores	860.8	833.9	819.9	819.6	830.5	849.3
Eating and Drinking Places	2,239.0	2,136.9	2,139.3	2,283.2	2,440.4	2,645.8
Home Furnishings and Appliances	968.2	851.5	798.6	830.5	850.6	879.9
Building Materials	1,316.6	1,278.0	1,314.7	1,539.7	1,577.2	1,659.8
Automotive	4,948.9	4,440.3	4,556.4	4,936.5	5,289.9	5,534.3
Other Retail Stores	510.1	480.6	458.7	485.8	528.1	552.9
Total Retail Stores	\$17,936.7	\$16,425.2	\$16,515.1	\$17,724.1	\$18,903.5	20,039.9
Business and Personal Services	1,897.5	1,577.2	1,335.6	1,190.6	1,214.6	1265.3
All Other Outlets	12,299.1	9,451.5	9,211.9	9,576.9	10,075.7	10,968.0
Total All Outlets⁽²⁾	\$32,133.2	\$27,453.9	\$27,062.7	\$28,491.6	\$30,193.8	\$32,273.2

⁽¹⁾ Most recent data available.

⁽²⁾ Totals may not add due to independent rounding.

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

The local economy started to slow down in late calendar year 2007 and the beginning of 2008, leading to a decline in taxable sales. Contributing to the slow down of the local economy are recent increases in energy, food, and raw material costs, and a downturn in the housing industry. Reduced home building, home sales, and auto sales contributed to a slowdown in taxable sales growth. As a result of the economic slow down, the Authority is experiencing a flattening of growth in 2000 Measure A Sales Tax Revenues and has adjusted its Fiscal Year 2008 and Fiscal Year 2009 2000 Measure A Sales Tax Revenues projection. See "THE 2000 MEASURE A SALES TAX-2000 Measure A Sales Tax Revenues" in the forepart of this Official Statement.

Construction Activity and Home Sales

The housing downturn continued to slow the County economy in 2007. Home building, home sales, and related retail sales all declined in the County. The problems with subprime mortgages and the related financial market volatility and credit tightening have worsened the housing sector downturn and raised the risk of further deterioration. Construction data for the County indicates that the value of new residential permits in 2007 is above the 2000 level, but the value of non-residential permits in 2007 remains significantly below the 2000 level. The number of new single family dwelling units in the County for 2007 is also below the 2000 level. New multiple-family dwelling units in 2007 have

decreased from the 2000 level by 38%. The valuations of new residential building permit activity have increased from the 2000 level by 2.2%. The total valuation of new residential and non-residential construction permits issued in the County was approximately \$3.36 billion in 2007, representing a decrease of \$0.850 billion (20.2%) from the 2000 total valuation.

The following tables provide a summary of building permit valuations and the number of new dwelling units authorized in the County since 1998.

**County of Santa Clara
Building Permit Valuations
1998 to 2007**
(In Millions of Dollars)

Year	New Residential	New Non-Residential	Total
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	1,051.5	2,254.8	3,306.3
2002	1,087.3	1,330.6	2,417.9
2003	1,466.4	972.9	2,439.3
2004	1,406.2	915.8	2,322.0
2005	1,557.0	1,285.7	2,842.7
2006	1,647.0	1,534.1	3,181.1
2007	1,378.2	1,986.2	3,364.4

Source: Construction Industry Research Board.

**County of Santa Clara
Number of New Dwelling Units
1998 to 2007**

Year	Single Family	Multiple Family	Total
1998	3,911	3,615	7,526
1999	3,333	3,677	7,010
2000	2,834	4,220	7,054
2001	1,641	4,319	5,960
2002	2,057	2,456	4,513
2003	2,320	5,170	7,490
2004	2,688	2,816	5,504
2005	2,577	3,295	5,872
2006	2,132	4,072	6,204
2007	1,982	2,615	4,597

Source: Construction Industry Research Board.

Existing home sales in the County continued the decrease that began at the start of 2005. Sales of single-family homes fell 22.8% for the calendar year 2006 compared to calendar year 2005, but the median price for a single-family home in the County was up 4.9% for the calendar year 2006 compared to calendar year 2005.⁽¹⁾

⁽¹⁾ Source: 2006 RE Report, The Real Estate Report for Santa Clara County, California (www.rereport.com).

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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.

The following is a brief summary of certain provisions of the Indenture, dated as of November 1, 1997, between the Santa Clara Valley Transportation Authority (the "Issuer") and U.S. Bank Trust National Association, as trustee (the "Trustee"), as supplemented and amended by the First Supplemental Indenture, dated as of November 1, 1997, a Second Supplemental Indenture, dated as of May 1, 2001, a Third Supplemental Indenture, dated as of November 1, 2003, a Fourth Supplemental Indenture, dated as of July 1, 2005, a Fifth Supplemental Indenture, dated as of June 1, 2005, a Sixth Supplemental Indenture, dated as of May 1, 2007 and as further supplemented by the Seventh Supplemental Indenture, dated as of June 1, 2008 (hereinafter collectively referred to as the "Indenture"), between the Issuer and the Trustee. Such summary is not intended to be complete or definitive, is supplemental to the summary of other provisions of the Indenture contained elsewhere in this Official Statement, and is qualified in its entirety by reference to the full terms of the Indenture. All capitalized terms used and not otherwise defined in this Official Statement shall have the meanings assigned to such terms in the Indenture.

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.

Alternate Liquidity Facility means a letter of credit, insurance policy, line of credit, surety bond, standby purchase agreement or other security or liquidity instrument, as the case may be, issued in accordance with the terms hereof with respect to a Series of 2008 Series Bonds as a replacement or substitute for any Liquidity Facility then in effect.

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.

ARS means Auction Rate Securities.

ARS Mode means, with respect to a Series of 2008 Series Bonds, the Mode during which such Series of 2008 Series Bonds bear interest at the ARS Rate.

ARS Rate shall have the mean specified in the Indenture.

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.

Automatic Termination Event means an event of default set forth in a Reimbursement Agreement between the Issuer and a Liquidity Facility Provider which would result in the immediate termination of the Liquidity Facility provided pursuant to such Reimbursement Agreement prior to its stated expiration date without prior notice from the Liquidity Facility Provider to the Trustee.

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 Counsel means any firm of nationally recognized municipal bond attorneys selected by the Issuer and experienced in the issuance of municipal bonds and matters relating to the exclusion of the interest thereon from gross income for federal income tax purposes.

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.

Book-Entry System means a system under which physical bond certificates in fully registered form are registered only in the name of a Securities Depository or its nominee.

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.

Conversion Date shall have the meaning specified in the Indenture.

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.

Daily Mode means, with respect to a Series of 2008 Series Bonds, the Mode during which such Series of 2008 Series Bonds bear interest at the Daily Rate.

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, 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 lesser of (i) the maximum interest rate permitted by the agreement under which such Sales Tax Debt was issued or incurred, or (ii) the greater of (A) the current interest rate calculated pursuant to the provisions of such agreement, or (B) the prime interest rate of the Trustee (or the principal banking affiliate of the Trustee) as of the date of calculation (or 65% of the prime interest rate of the Trustee (or the principal banking affiliate of the Trustee) if in the opinion of nationally recognized bond counsel interest on such Sales Tax Debt is not includable in gross income for purposes of federal income taxation; 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.

Delayed Remarketing Period shall have the meaning specified in the Indenture.

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."

Favorable Opinion of Bond Counsel means, with respect to any action the occurrence of which requires such an opinion, an Opinion of Bond Counsel, addressed to the Trustee, to the effect that the action proposed to be taken will not, in and of itself, adversely affect any exclusion from gross income of interest on the affected Series of 2008 Series Bonds.

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.

Fixed Rate means the per annum interest rate or interest rates on any Series of 2008 Series Bonds in a Fixed Rate Mode determined pursuant to the Indenture.

Fixed Rate Mode means, with respect to a Series of 2008 Series Bonds, the Mode during which such Series of 2008 Series Bonds bear interest at a Fixed Rate.

Flexible Mode means, with respect to a Series of 2008 Series Bonds, the Mode during which such Series of 2008 Series Bonds bear interest at Flexible Rates.

Flexible Rate Period means, with respect to any 2008 Series Bond in a Flexible Mode, the period of from one (1) to three hundred ninety-seven (397) calendar days (which Flexible Rate Period must end on a day preceding a Business Day) during which a Flexible Rate Bond shall bear interest at a Flexible Rate, as established by the applicable Remarketing Agent pursuant to the Indenture.

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.

Interest Payment Date means each date on which interest is to be paid and is: (i) with respect to 2008 Series Bonds in an ARS Mode, each date defined as an Interest Payment Date in the ARS Provisions set forth in Appendix I hereto, and any date that is an ARS Rate Conversion Date; (ii) with respect to any 2008 Series Bond in a Flexible Mode, each Mandatory Purchase Date applicable thereto; (iii) with respect to 2008 Series Bonds in a Daily Mode or a Weekly Mode, the first Business Day of each month, commencing the first Business Day of the month following conversion of such Series of 2008 Series Bonds to a Daily Mode or a Weekly Mode, as applicable; (iv) with respect to 2008 Series Bonds in a Fixed Rate Mode or a Term Rate Mode, the first day of April or October, which is at least three (3) months after the month in which such Long-Term Mode takes effect, and the first day of each April and October thereafter or, upon the receipt by the Trustee of a Favorable Opinion of Bond Counsel, any other

six-month interval chosen by the Issuer (beginning with the first such day which is at least three months after the Mode Change Date) and, with respect to a Term Rate Mode, the final day of the current Interest Period if other than a regular six-month interval; (v) (without duplication as to any Interest Payment Date listed above) any Mode Change Date, other than a change between a Daily Mode and a Weekly Mode, and each Maturity Date; and (vi) with respect to any Liquidity Facility Bonds, the day set forth in the applicable Reimbursement Agreement.

Interest Period means, for each Series of 2008 Series Bonds in a particular Mode, the period of time that such Series of 2008 Series Bonds bear interest at the rate (per annum) which becomes effective at the beginning of such period, and shall include an ARS Rate Period, a Daily Rate Period, a Weekly Rate Period, a Flexible Rate Period, a Term Rate Period, and a Fixed Rate Period.

Interest Rate Mode or **Mode** means, as the context may require, the ARS Mode, the Daily Mode, the Weekly Mode, the Flexible Mode, the Term Rate Mode, or the Fixed Rate Mode.

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 of 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.

Liquidity Facility means any line of credit, letter of credit, standby purchase agreement or other instrument, if any, which provides for the payment of the purchase price of a Series of 2008 Series Bonds upon the tender thereof in the event remarketing proceeds are insufficient therefor. The initial Liquidity

Facility with respect to the 2008 Series A Bonds, the 2008 Series B Bonds and the 2008 Series C Bonds is the Standby Bond Purchase Agreement, dated as of June 1, 2008 between the Issuer and Dexia Crédit Local, acting through its New York Branch.

Liquidity Facility Provider means any bank, insurance company, pension fund or other financial institution which provides a Liquidity Facility or Alternate Liquidity Facility for a Series of 2008 Series Bonds. The initial Liquidity Facility Provider with respect to the 2008 Series A Bonds, the 2008 Series B Bonds and the 2008 Series C Bonds is Dexia Crédit Local, acting through its New York Branch.

Liquidity Facility Bonds means any 2008 Series Bonds purchased by a Liquidity Facility Provider with funds drawn on or advanced under the Liquidity Facility provided by such Liquidity Facility Provider.

Long-Term Mode means a Term Rate Mode or a Fixed Rate Mode.

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.

Maturity Date means, with respect to a Series of 2008 Series Bonds, the maturity date specified for such Series of 2008 Series Bonds in the Indenture, or, if Serial Bonds are established for a Series of 2008 Series Bonds pursuant to the Indenture upon a change of such Series of 2008 Series Bonds to a Fixed Rate Mode, the maturity dates established for such Serial Bonds.

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 with a Qualified Counterparty is in effect with respect to such Bonds or Parity Debt pursuant to which the Issuer has agreed to pay a fixed rate, then at the option of the Issuer set forth in a written direction to the Trustee, the interest rate on such Variable Rate Indebtedness shall be the fixed rate payable under such interest rate swap agreement for the period that such agreement is in effect, and thereafter the variable rate on such Bonds or Parity Debt shall be calculated as provided in the definition of "Debt Service";

(c) if interest on the Bonds or Parity Debt is payable at a fixed interest rate and an interest rate swap agreement with a Qualified Counterparty is in effect with respect to such Bonds or Parity Debt pursuant to which the Authority has agreed to pay a variable rate, then at the option of the Issuer set forth in a written direction to the Trustee, the interest rate on such fixed rate Bonds or Parity Debt shall be the variable rate payable under such interest rate swap agreement (which shall be calculated as provided in subsection (b) of definition of Debt Service) for the period that such agreement is in effect, and thereafter at the fixed rate on such Bonds or Parity Debt; and

(d) with respect to Optional Tender Bonds, the Maximum Annual Debt Service thereon shall not include amounts payable upon mandatory or optional tender for purchase, and shall not be based upon the terms of any reimbursement obligation to the provider of any liquidity facility or credit facility for such Optional Tender Bonds except to the extent and for the periods during which Debt Service is required to be made pursuant to such reimbursement obligation due to such provider advancing funds for such purchase.

Mode or Interest Rate Mode means, as the context may require, the ARS Mode, the Daily Mode, the Weekly Mode, the Flexible Mode, the Term Rate Mode, or the Fixed Rate Mode.

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.

Optional Tender Bonds mean any Bonds or Parity Debt; (i) by its terms may be tendered by and at the option of, or required to be tendered by, the Owners thereof for payment or purchase by the Issuer or another party prior to stated maturity thereof; (ii) by its terms requires such purchase if properly presented; and (iii) is rated at time of original issuance in one of the two highest rating categories by the Rating Agency.

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 Certificates and any indebtedness, installment sale obligation, lease obligation or other obligation of the Issuer for borrowed money or interest rate swap agreement having an equal lien and charge upon the Sales Tax Revenues and therefore secured 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.

Prior Bonds means the Santa Clara Valley Transportation Authority Sales Tax Revenue Refunding Bonds, 2005 Series A, 2005 Series B and 2005 Series C.

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."

Purchase Fund means the fund by that name created pursuant to the Indenture.

Qualified Counterparties mean any financial institution, including an insurance company or company related to a financial institution, which is a party to an interest rate swap agreement ("Counterparty") if (i) the unsecured long-term debt obligations of such Counterparty (or of the parent or a subsidiary of such Counterparty under such agreement), or (ii) obligations secured or supported by a letter of credit, contract, guarantee, agreement, insurance policy or surety bond issued by such Counterparty (or such guarantor parent or subsidiary), are rated at the time of initial execution and delivery of such agreement in one of the two highest rating categories by the Rating Agency.

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.

Reimbursement Agreement means, with respect to any Series of 2008 Series Bonds, any reimbursement agreement, credit agreement, line of credit agreement, standby bond purchase agreement or other agreement, between a Liquidity Facility Provider and the Issuer, as the same may be amended from time to time pursuant to its terms.

Remarketing Agent means, with respect to any Series of 2008 Series Bonds, the remarketing agent for such Series of 2008 Series Bonds appointed by the Issuer pursuant to the Indenture. The initial Remarketing Agent for the 2008 Series A Bonds is Goldman, Sachs & Co. The initial Remarketing Agent for the 2008 Series B Bonds is Lehman Brothers Inc. The initial Remarketing Agent for the 2008 Series C Bonds is Morgan Stanley & Co. Incorporated.

Remarketing Agreement means, with respect to any Series of 2008 Series Bonds, an agreement providing for the remarketing of such Series of 2008 Series Bonds tendered for purchase, as the same may be amended from time to time pursuant to its terms.

Remarketing Proceeds Account means, with respect to any Series of 2008 Series Bonds, an account by that name established for such Series of 2008 Series Bonds pursuant to the Indenture.

Repositories means each National Repository and each State Repository.

Required Stated Amount means, in the case of each Liquidity Facility, at any time of calculation with respect to a Series of 2008 Series Bonds, an amount equal to the aggregate principal amount of such Series of 2008 Series Bonds then Outstanding together with interest accruing thereon (assuming an annual rate of interest equal to the Maximum Rate) for the period specified in a certificate of the Issuer to be the minimum period specified by the Rating Agencies then rating such Series of 2008 Series Bonds, as necessary to maintain the short-term rating of such Series of 2008 Series Bonds.

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 the amounts collected by the California State Board of Equalization and distributed to the Issuer pursuant to Section 100250 et seq. and Ordinance No. NS-2 adopted by the Issuer on March 29, 1976 and as approved by the voters on March 2, 1976.

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.

Term Rate means the per annum interest rate for any Series of 2008 Series Bonds in the Term Rate Mode determined pursuant to the Indenture.

Term Rate Mode means, with respect to a Series of 2008 Series Bonds, the Mode during which such Series of 2008 Series Bonds bear interest at a Term Rate.

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.

2008 Series Bonds means, collectively, the 2008 Series A Bonds, the 2008 Series B Bonds, the 2008 Series C Bonds and the 2008 Series C Bonds.

2008 Series A Bonds means the Santa Clara Valley Transportation Authority Sales Tax Revenue Refunding Bonds, 2008 Series A, authorized by, and at any time Outstanding pursuant to the Indenture.

2008 Series B Bonds means the Santa Clara Valley Transportation Authority Sales Tax Revenue Refunding Bonds, 2008 Series B, authorized by, and at any time Outstanding pursuant to the Indenture.

2008 Series C Bonds means the Santa Clara Valley Transportation Authority Sales Tax Revenue Refunding Bonds, 2008 Series C, authorized by, and at any time Outstanding pursuant to the Indenture.

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.

Weekly Mode means, with respect to any Series of 2008 Series Bonds, the Mode during which such Series of 2008 Series Bonds bear interest at the Weekly Rate.

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 Sales Tax 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 Sales Tax 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 Sales Tax 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.

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, 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 to the Trustee and agrees with the Trustee under a paying agent agreement or similar agreement, all or a designated portion of the amounts payable under the interest rate 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.

Defeasance of 2008 Series Bonds Bearing Interest in the Daily Mode, the Weekly Mode or the Flexible Mode

In addition to the requirements set forth in the Indenture governing defeasance, no 2008 Series Bond bearing interest in a Daily Mode, a Weekly Mode or a Flexible Mode may be defeased unless: (i) the Trustee receives written evidence from Standard & Poor's if Standard & Poor's is then maintaining ratings on the 2008 Series Bonds of the applicable Series to the effect that the defeasance would not result in the reduction or withdrawal of the then current ratings assigned to such Series of 2008 Series Bonds; or (ii) the interest on such 2008 Series Bond being defeased is computed at the Maximum Rate to the extent the actual interest rate on such 2008 Series Bond to its redemption date is not known and such 2008 Series Bond is redeemed on the earlier of the first Purchase Date on which it is subject to purchase upon optional or mandatory purchase or its earliest optional redemption date.

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.

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APPENDIX E

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Santa Clara Valley Transportation Authority Sales Tax Revenue Refunding Bonds, 2008 Series A, 2008 Series B and 2008 Series C (each a "Series of Bonds," and, hereinafter collectively referred to as the "Bonds"). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each Series of Bonds in the aggregate principal amount of such Series of Bonds, and will be deposited with DTC. Capitalized terms used herein and not otherwise defined herein shall have the meanings set forth in the front portion of this Official Statement or in Appendix D - Summary of Certain Provisions of the Indenture."

The following information has been provided by DTC, and neither the Santa Clara Valley Transportation Authority (the "Authority") nor Goldman, Sachs & Co., as an underwriter and the remarketing agent for the above-referenced 2008 Series A Bonds, nor Lehman Brothers Inc., as an underwriter and the remarketing agent for the above-referenced 2008 Series B Bonds, nor Morgan Stanley & Co. Incorporated, as an underwriter and the remarketing agent for the above-referenced 2008 Series C Bonds, makes any representation as to its accuracy or completeness. For further information, beneficial owners should contact DTC in New York, New York.

DTC, the world's largest securities depository, 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 and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (each a "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, 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

Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect 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. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a Series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Series to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority and the 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments, including upon redemption, will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. 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 the Authority, DTC, or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest, including upon redemption, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the applicable remarketing agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the applicable

remarketing agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the applicable remarketing agent's DTC account.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered in accordance with the provisions of the Indenture.

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APPENDIX F

PROPOSED FORM OF OPINION OF BOND COUNSEL

[Date of Closing]

Santa Clara Valley
Transportation Authority
San Jose, California

Santa Clara Valley Transportation Authority
Sales Tax Revenue Refunding Bonds,
2008 Series A, 2008 Series B and 2008 Series C
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Santa Clara Valley Transportation Authority (the "Authority") in connection with the issuance by the Authority of \$168,585,000 aggregate principal amount of Santa Clara Valley Transportation Authority Sales Tax Revenue Refunding Bonds, 2008 Series A, 2008 Series B and 2008 Series C (hereinafter collectively referred to as the "Bonds"), issued pursuant to an Indenture, dated as of November 1, 1997, as previously supplemented and as further supplemented by a Seventh Supplemental Indenture, dated as of June 1, 2008 (hereinafter collectively referred to as the "Indenture"), between the Authority and U.S. Bank National Association, as successor 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 and the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

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. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. 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 entities similar to the Authority in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement, dated June 23, 2008, 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 special obligations of the Authority payable from and secured by a pledge of Sales Tax Revenues.

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

3. 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

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