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

## ANNUAL FINANCIAL REPORT

## FOR THE YEARS ENDED JUNE 30, 2018 AND JUNE 30, 2017

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

**JUNE 30, 2018 AND JUNE 30, 2017**

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VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

VALUE THE difference

# INDEPENDENT AUDITOR'S REPORT

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

We have audited the financial statements of the Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan (Plan), a component unit of the Santa Clara Valley Transportation Authority (VTA), as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective fiduciary net position of the Plan, as of June 30, 2018 and June 30, 2017, and the respective changes in net position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matters**

As described in Note 1, the financial statements present only the Plan and do not purport to, and do not, present fairly the financial position of VTA as of June 30, 2018 and 2017, and changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in net pension liabilities and related ratios, schedule of employer contributions and schedule of investment returns be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
October 29, 2018

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**FOR THE YEARS ENDED JUNE 30, 2018 AND JUNE 30, 2017**

This section provides an overview and analysis of the financial activities of Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan (Plan) for the fiscal year ended June 30, 2018 and 2017. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our financial statements.

## *FINANCIAL HIGHLIGHTS*

The net position of the Plan at the close of fiscal year 2018 was $561,351,639 (net position held in trust for pension benefits). The entire net position is available to meet the Plan's ongoing obligations to Plan participants and beneficiaries. Net position at the close of fiscal year 2017 was $531,466,869 compared to $481,318,427 in fiscal year 2016.

Total pension contribution in fiscal year 2018 was $31,249,239 compared to $28,454,283 in fiscal year 2017 and $25,751,474 in fiscal year 2016. Members began making contributions to the plan in fiscal year 2017.

The Plan's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2018, the Plan's measurement date, the funded ratio for the Plan was approximately 74%. In general, there were approximately $0.74 of assets to cover each dollar of pension liability. As of June 30, 2017, the Plan's measurement date, the funded ratio for the Plan was approximately 76%. This means that generally, there were approximately $0.76 of assets to cover each dollar of pension liability.

## *OVERVIEW OF THE FINANCIAL STATEMENTS*

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

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

This report also contains other supplementary information in addition to the basic financial statements themselves.

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

**The Statement of Changes in Plan Net Position**, on the other hand, provides a view of current year additions to and deductions from the Plan.

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

These two statements report the Plan's net position restricted for pension benefits. Net position, the difference between assets and liabilities, measure the Plan’s financial position. Over time, increases and decreases in the Plan's net position indicate whether its financial health is improving or deteriorating. Other factors, such as market conditions, should also be considered in measuring the Plan's overall financial position.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. (See notes to Financial Statements on pages 8-18 of this report).

## *OTHER INFORMATION*

In addition to the financial statements and accompanying notes, this report presents certain required supplementary information related to the Plan's historical net pension liability, pension contributions and the plan’s annual money-weighted rate of return.

## *FINANCIAL ANALYSIS*

As previously noted, net position may serve over time as a useful indicator of the Plan's financial position. The assets of the Plan exceeded its current liabilities at the close of fiscal year 2018. As of FY2018, the Plan remains in a financial position to meet its obligations to the plan participants and beneficiaries with a 74% funded ratio as of the last actuarial valuation.

**(Table 1)**

Condensed Statement of Plan Net Position

| | June 30, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Assets | | | |
| Cash and cash equivalents | $ 779,689 | $ 573,347 | $ 90,540 |
| Investments at fair value | 560,128,015 | 530,195,772 | 480,780,630 |
| Other assets | 841,508 | 897,567 | 1,075,999 |
| Total Assets | 561,749,212 | 531,666,686 | 481,947,169 |
| Liabilities | | | |
| Current liabilities | 397,573 | 199,817 | 628,742 |
| Net Position | $ 561,351,639 | $ 531,466,869 | $ 481,318,427 |

For the year ended June 30, 2018, the Plan's total net position restricted for pension benefits increased by $29,884,770 or 5.62% as a result primarily of gains in public equity markets. The increase in outstanding accounts payable raised the Plan's liabilities by $197,756.

**(Table 2)**

Summary of Additions to Plan Net Position

| | June 30, 2018 | June 30, 2017 | June 30, 2016 |
|---|---|---|---|
| Contributions | $ 31,249,239 | $ 28,454,283 | $ 25,751,474 |
| Net investment earnings | 40,604,883 | 60,471,793 | 2,243,639 |
| Total Additions | $ 71,854,122 | $ 88,926,076 | $ 27,995,113 |

Of the total $31.2 million contribution in fiscal year 2018, VTA contributed $28.5 million, members contributed $2.7 million, and ATU contributed $24,777 for its staff. Mark to market loss from modestly higher interest rates was the primary contributor to the reduction in net investment income from $60.5 million in fiscal year 2017 to $40.6 million in fiscal year 2018.

**(Table 3)**

Summary of Deductions to Plan Net Position

| | June 30, 2018 | June 30, 2017 | June 30, 2016 |
|---|---|---|---|
| Distributions to participants | $ 41,565,932 | $ 38,453,828 | $ 35,587,609 |
| Administrative expenses | 403,420 | 323,806 | 281,307 |
| Total Deductions | $ 41,969,352 | $ 38,777,634 | $ 35,868,916 |

The distributions to participants have steadily increased due to the growing number of retirees and beneficiaries receiving benefits. Administrative expenses rose primarily due to the change in treatment of investment consulting fees from investment expense to administrative expense.

**Requests for Information**

Please address all questions or requests for additional information to the Finance and Budget Division, Attention: Chief Financial Officer, Santa Clara Valley Transportation Authority3331 North First Street, Building C, Second Floor, San Jose, CA  95134-1927.

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

**STATEMENTS OF FIDUCIARY NET POSITION**
**JUNE 30, 2018 AND JUNE 30, 2017**

| | 2018 | 2017 |
|---|---|---|
| **ASSETS:** | | |
| Cash and investments: | | |
| Cash and cash equivalents | $ 779,689 | $ 573,346 |
| Money market | 4,345,048 | 3,274,157 |
| Corporate bonds | 52,579,639 | 60,739,564 |
| U.S. treasury obligations | 23,464,156 | 23,742,777 |
| U.S. agency securities | 42,931,844 | 42,942,582 |
| Municipal bonds | 3,121,129 | 3,259,993 |
| Equities | 328,814,352 | 288,369,890 |
| Real asset | 54,730,551 | 61,282,705 |
| Alternative investments | 50,141,296 | 46,584,105 |
| Receivables | 841,508 | 897,567 |
| **Total assets** | 561,749,212 | 531,666,686 |
| **LIABILITIES:** | | |
| Accounts payable | 397,573 | 199,817 |
| **NET POSITION:** | | |
| Restricted for pension benefits | $ 561,351,639 | $ 531,466,869 |

See accompanying notes to the basic financial statements.

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

**STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION**
**FOR THE YEARS ENDED JUNE 30, 2018 AND JUNE 30, 2017**

| | 2018 | 2017 |
|---|---|---|
| **ADDITIONS:** | | |
| Contributions: | | |
| Employer | $ 28,523,868 | $ 27,383,634 |
| Employee | 2,725,371 | 1,070,649 |
| Total Contributions | 31,249,239 | 28,454,283 |
| Net investment income: | | |
| Net change in the fair value of investments | (5,065,411) | 34,870,692 |
| Investment earnings | 47,988,872 | 27,615,993 |
| Investment expense | (2,318,578) | (2,014,892) |
| Total net investment income | 40,604,883 | 60,471,793 |
| **Total additions** | 71,854,122 | 88,926,076 |
| **DEDUCTIONS:** | | |
| Distributions to participants | 41,565,932 | 38,453,828 |
| Administrative expenses | 403,420 | 323,806 |
| **Total deductions** | 41,969,352 | 38,777,634 |
| **Increase in net position** | 29,884,770 | 50,148,442 |
| **NET POSITION:** | | |
| Beginning of year | 531,466,869 | 481,318,427 |
| End of year | $ 561,351,639 | $ 531,466,869 |

See accompanying notes to the basic financial statements.

## *NOTE 1 – DESCRIPTION OF THE PLAN*

The following description of the Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan (Plan), a component unit of the Santa Clara Valley Transportation Authority (VTA), provides only general information.

### *General*

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

| | 2018 | 2017 |
|---|---|---|
| Retirees and beneficiaries currently receiving benefits | 1,443 | 1,395 |
| Terminated vested members not yet receiving benefits | 137 | 148 |
| Active Members | 1,607 | 1,563 |
| TOTAL | 3,187 | 3,106 |

Participants should refer to the Plan agreement for a more complete description of the Plan's provisions. The financial statements of the Plan are intended to present only the Plan's fiduciary net position and changes in fiduciary net position. They do not purport to, and do not, present fairly the financial position of VTA as of June 30, 2018 or June 30, 2017, and the changes in VTA's financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### *Description of the Benefits*

*Classic Employees*

Employees with 10 or more years of eligibility service are entitled to full annual pension benefits beginning at normal retirement age of 65. Employees with less than 10 years but more than 5 years of eligibility service are entitled to an annual benefit at age 65 provided the Board of Pensions approves such benefit. Employees with 15 or more years of eligibility 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 eligibility service and deferred vested retirement upon employee termination after 10 or more years of eligibility service, with benefits payable 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 Local 265.

Benefit terms do not provide for annual cost-of-living adjustment subsequent to retirement date.

*New Employees*

Plan benefit provisions and all other requirements are established by California Public Employees' Pension Reform Act of 2013 (PEPRA) and Plan amendments as approved by the VTA Board at its October 6, 2016 meeting. Retirement benefits for PEPRA employees will follow PEPRA legislation.

***Plan Termination***

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

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

## *NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES*

***Basis of Accounting***

The financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as promulgated by the Government Accounting Standards Board (GASB). Contributions are recognized when due pursuant to formal commitments as well as statutory or contractual requirements. Benefits and refunds of contributions are recognized when due and payable under the provisions of the Plan.

***Investments***

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 and investment income is recognized as earned. Securities that do not have an established market are reported at estimated fair value derived from third party pricing. Certain investments of the Plan are valued based on Net Asset Values (NAV) provided by the respective fund managers. For certain investments where no readily ascertainable fair value exists, the value of these investments is based on estimates provided by the fund managers. Because of the inherent uncertainty in privately held securities, the fair value may differ from the values that would have been used if a ready market for such securities existed.

### *Investments Policies*

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

The following investments and investment activities are prohibited except when specified in the investment management agreement or when commingled/pooled investment vehicles are selected because investment firms have their own guidelines for commingled/pooled accounts.

- Non-hedging transactions that leverage / increase the risk of the Plan's portfolios.
- Short sales or substantially similar transactions.
- Letter stock, private placements, or direct placements.
- Purchase of securities on margin, or lending or borrowing money or securities.

### *Administrative Expenses*

Certain internal costs of administering the Plan are paid by the Plan. This includes actuarial, legal, training, earnings verification and medical evaluation costs. Administrative expenses for the years ended June 30, 2018 and 2017 were $403,420 and $323,806 respectively.

### *Use of Estimates*

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

## *NOTE 3 – INVESTMENTS*

The Plan maintains all of its operating cash funds in VTA's cash and investment pool. The pool functions as a demand deposit account for the Plan, as amounts can be withdrawn at any time upon demand. VTA's management and its Board of Directors are responsible for oversight of the cash and investment pool. Information regarding the characteristics of the entire investment pool can be found in the VTA's financial statements. That report may be obtained by writing to Santa Clara Valley Transportation Authority – Finance and Budget Division, 3331 North First Street, San Jose, California, 95134. The fair value of the Plan's position in the cash pool is the same as the value of the cash pool shares. As of June 30, 2018 and 2017, the Plan had $779,689 and $573,346, respectively, in VTA's cash and cash equivalents.

### *Money weighted Rate of Return*

For the years ended June 30, 2018 and June 30, 2017, the annual money-weighted rate of return on the Plan's investments, net of Plan investment expense, were 4.77 and 12.8 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the timing of receipts and disbursements.

### *Custodial Credit Risk*

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty e.g., broker-dealer) to a transaction, the Plan will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Plan's investment policy provides for the use of a custodian/trustee to invest the Plan's assets as directed by investment managers. The Plan's investment securities were held by Union Bank Trust Department, a custodial bank, at June 30, 2018 and 2017, separate from the counterparty, in the name of Santa Clara Valley Transportation Authority (VTA). VTA's securities are not part of Union Bank's assets and not attachable by any of its creditors.

### *Concentration of Credit Risk*

Concentration of credit risk is the risk that the failure of any one issuer would place an undue financial burden on the Plan. The Plan's investment policy mitigates the concentration of credit risk by identifying percentage ranges for different types of investments and specific targets within the percentage ranges. Disclosure of concentration of credit risk is defined as any investment with one issuer that is greater than 5% of the total Plan investments. As of June 30, 2018 and 2017, the Plan had investments with UBS Core Real Estate Fund that exceeded 5% of the total Plan's investment portfolio.

### *Interest Rate Risk*

Interest rate risk is the risk that changes in market rates will adversely affect the fair market value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market rates. One of the Plan's primary goals is to provide sufficient liquidity to meet future pension benefit payment obligations. However, the Plan does not have any policy specifically addressing interest rate risk. The following table shows the time distribution for the maturity of the Plan's assets, other than equity-based securities, alternative investment and real asset funds which have no specific maturity dates, as of June 30, 2018 and June 30, 2017.

At June 30, 2018

| Type of Investment | Fair Value | Less Than 1 Year | 1-5 Years | 6-10 Years | 10-15 Years |
|---|---|---|---|---|---|
| Corporate Bonds | $ 52,579,639 | $ 2,298,050 | $ 11,117,896 | $ 22,746,965 | $ 16,416,728 |
| Municipal Bonds | 3,121,129 | - | 705,037 | - | 2,416,092 |
| U.S. Agency Securities | 42,931,844 | 6,083 | 375,898 | 855,346 | 41,694,517 |
| U.S. Treasury Obligations | 23,464,156 | - | 17,122,103 | 6,342,053 | - |
| Money Market | 4,345,048 | 4,345,048 | - | - | - |
| Subtotal | 126,441,816 | $ 6,649,181 | $ 29,320,934 | $ 29,944,364 | $ 60,527,337 |
| Real Assets Funds | 54,730,551 | | | | |
| Equities | 328,814,352 | | | | |
| Alternative Investments | 50,141,296 | | | | |
| Pooled Cash in VTA's Pool | 779,689 | | | | |
| Total cash and investments | $ 560,907,704 | | | | |

At June 30, 2017

| Type of Investment | Fair Value | Less Than 1 Year | 1-5 Years | 6-10 Years | 10-15 Years |
|---|---|---|---|---|---|
| Corporate Bonds | $ 60,739,564 | $ 947,700 | $ 15,439,879 | $ 22,081,146 | $ 22,270,839 |
| Municipal Bonds | 3,259,993 | 787,671 | - | - | 2,472,322 |
| U.S. Agency Securities | 42,942,582 | 8,093 | 190,127 | 40,438,033 | 2,306,329 |
| U.S. Treasury Obligations | 23,742,777 | 1,703,670 | 22,039,107 | - | - |
| Money Market | 3,274,157 | 3,274,157 | - | - | - |
| Subtotal | 133,959,073 | $ 6,721,291 | $ 37,669,113 | $ 62,519,179 | $ 27,049,490 |
| Real Assets Funds | 61,282,705 | | | | |
| Equities | 288,369,890 | | | | |
| Alternative Investments | 46,584,105 | | | | |
| Pooled Cash in VTA's Pool | 573,346 | | | | |
| Total cash and investments | $ 530,769,119 | | | | |

### *Credit Risk*

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

The following is a summary of the credit quality distribution for investments with credit exposure as of June 30, 2018 and 2017, as rated by Standard and Poor's:

| Type of Investment | At June 30, 2018 Fair Value | At June 30, 2017 Fair Value |
|---|---|---|
| Corporate Bonds: | | |
| AAA | $ 1,314,850 | $ 1,986,517 |
| AA | 1,159,697 | 2,621,489 |
| A | 5,243,459 | 3,932,488 |
| B | - | 947,700 |
| BB | 8,963,072 | 8,951,389 |
| BBB | 35,898,561 | 42,299,981 |
| Municipal Bonds: | | |
| AA | 1,142,846 | 1,183,208 |
| A | 563,976 | 587,024 |
| BBB | 1,414,308 | 1,489,761 |
| U.S. Agency Securities: | | |
| AA | 42,931,844 | 42,942,582 |
| U.S. Treasury Obligations: | | |
| AA | 23,464,156 | 23,742,777 |
| subtotal | 122,096,769 | 130,684,916 |
| Unrated: | | |
| Real Assets Funds | 54,730,550 | 61,282,705 |
| Equities | 328,814,352 | 288,369,890 |
| Alternative Investments | 50,141,296 | 46,584,105 |
| Money Market | 4,345,048 | 3,274,157 |
| Pooled Cash in VTA's Pool | 779,689 | 573,346 |
| Total cash and investments | $ 560,907,704 | $ 530,769,119 |

### *Fair Value Measurement*

The Plan’s investments, measured and reported at fair value are classified according to the following hierarchy in which the levels are based on the nature of inputs used to measure the fair value of the investment:

Level 1 – Investment fair values based on prices quoted in active markets for identical assets.
Level 2 – Investment fair values based on observable inputs for the assets either directly or indirectly, other than those considered Level 1 inputs, which may include quoted prices for identical assets in markets that are not considered to be active, and quoted prices of similar assets in active or inactive markets.
Level 3 – Investment fair values based on unobservable inputs.

The categorization of investments within the hierarchy is based solely upon the objectivity of the inputs used in the measurement of the fair value of the investments and does not reflect the level of risk associated with the investments. Investments classified in Level 1 of the fair value hierarchy are valued from predetermined external pricing vendors or primary dealers who obtain quoted prices in active markets. These prices represent amounts at which the securities could be sold. Investments classified in Level 2 are subject to alternative pricing sources, including a combination of price sources and pricing models. Investments classified as Level 3 are valued using best available sources such as property appraisals, discounted cash flow models and public market comparable of similar assets where applicable. The following is the fair value hierarchy table:

| Type of Investment | Fair Value | Level 1 | Level 2 |
|---|---|---|---|
| Corporate Bonds | $ 52,579,639 | $ - | $ 52,579,639 |
| Municipal Bonds | 3,121,129 | - | 3,121,129 |
| U.S. Agency Securities | 42,931,844 | - | 42,931,844 |
| U.S. Treasury Obligations | 23,464,156 | 23,464,156 | - |
| Equities | 328,814,352 | - | 328,814,352 |
| Subtotal | 450,911,120 | $ 23,464,156 | $ 427,446,964 |
| **Net asset Value** | | | |
| Real Assets Funds | 54,730,551 | | |
| Alternative Investments | 50,141,296 | | |
| **Not subject to the fair value hierarchy** | | | |
| Money Market | 4,345,048 | | |
| Pooled Cash in VTA's Pool | 779,689 | | |
| Total Cash and Investments | $ 560,907,704 | | |

At June 30, 2017

| Type of Investment | Fair Value | Level 1 | Level 2 |
|---|---|---|---|
| Corporate Bonds | $ 60,739,564 | $ - | $ 60,739,564 |
| Municipal Bonds | 3,259,993 | - | 3,259,993 |
| U.S. Agency Securities | 42,942,582 | - | 42,942,582 |
| U.S. Treasury Obligations | 23,742,777 | 23,742,777 | - |
| Equities | 288,369,890 | - | 288,369,890 |
| Subtotal | 419,054,806 | $ 23,742,777 | $ 395,312,029 |
| **Net asset Value** | | | |
| Real Assets Funds | 61,282,705 | | |
| Alternative investments | 46,584,105 | | |
| **Not subject to the fair value hierarchy** | | | |
| Money Market | 3,274,157 | | |
| Pooled Cash in VTA's Pool | 573,346 | | |
| Total Cash and Investments | $ 530,769,119 | | |

The Plan's investments in real asset funds and alternative investments are valued based on net asset values provided by the funds' investment managers. The value provided represents VTA's share of these investments. The investment manager's valuation is based on the best information available and because of the inherent uncertainty the fair value may differ from the values that would have been used if a ready market for such securities existed. The fair value determination and redemption frequency is generally determined on a quarterly basis.

### *Foreign Currency Risk*

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Plan has exposure through international equity commingled funds, international fixed income investments. The plan's investments in foreign securities as of June 30, 2018 are as follows:

| | |
|---|---|
| Australian Dollar | $ 1,557,280 |
| British Pound Sterling | 8,823,511 |
| Brazilian Real | 1,475,664 |
| Canadian Dollar | 1,257,890 |
| Chilean Peso | 283,320 |
| Chinese Yuan | 2,423 |
| Colombian Peso | 105,857 |
| Czech Koruna | 213,192 |
| Danish Krone | 561,146 |
| Egyptian Pound | 33,968 |
| Euro | 24,812,664 |
| Hong Kong Dollar | 9,234,804 |
| Hungarian Forint | 73,610 |
| Indian Rupee | 4,384,650 |
| Indonesian Rupiah | 478,847 |
| Japanese Yen | 6,776,127 |
| Malaysian Ringgit | 576,874 |
| Mexican Peso | 1,556,894 |
| Pakistani Rupee | 18,098 |
| Philippine Piso | 236,882 |
| Poland złoty | 284,991 |
| Qatari Rial | 205,924 |
| Singapore Dollar | 895,986 |
| Russian Ruble | 692,158 |
| South African Rand | 1,668,421 |
| South Korean Won | 4,238,401 |
| Swiss Franc | 8,294,598 |
| Taiwan Dollar | 3,271,531 |
| Thai Baht | 517,347 |
| Turkish lira | 195,219 |
| United Arab Emirates Dirham | 142,127 |
| Total investments in foreign currencies | $ 82,870,404 |

***NOTE 4 – NET PENSION LIABILITY***

The components of the net pension liability were as follows:

| Components of Net Pension Liability | 2018 | 2017 |
|---|---|---|
| Total pension liability | $ 759,020,526 | $ 701,581,204 |
| Plan fiduciary net position | 561,351,639 | 531,466,869 |
| Net pension liability | $ 197,668,887 | $ 170,114,335 |
| Plan fiduciary net position as a percentage of the total pension liability | 74% | 76% |

***Actuarial Assumptions***

The total pension liability was determined by an actuarial valuation as of January 1, 2018 and January 1, 2017 rolled forward to a measurement date as of June 30, 2018 and June 30, 2017, respectively, using standard update procedure and the following actuarial assumptions, applied to all periods included in the measurement:

| | 2018 | 2017 |
|---|---|---|
| Valuation date | January 1, 2018 | January 1, 2017 |
| Investment rate of return | 7% | 7% |
| Actuarial cost method | Entry Age | Entry Age |
| Discount rate | 6.96% | 6.94% |
| Inflation | 2.75% | 2.75% |
| Salary increases | 3.00% | 3.00% |
| Mortality tables | RP-2014 with adjustments | RP-2000 with adjustments |

***Contributions to the plan***

VTA contributes to the Plan at actuarially determined amounts sufficient to maintain funding of vested benefits. The actuarially determined amount is the estimated amount necessary to finance the costs of benefits earned by the plan members during the year, with an additional amount to finance any unfunded accrued liability. Employer's contributions to the Plan for the fiscal year ended June 30, 2018, were made in the amount of $28,523,868 in accordance with actuarially determined requirements computed as of January 1, 2017. For the fiscal year ended June 30, 2017, the contributions amounting to $27,383,634 were made also in accordance with the actuarially determined requirements computed as of January 1, 2016.

Classic employees contributed 0.95% effective 10/10/2016 and 1.90% effective 10/9/2017. New employees hired on or after January 1, 2016 contribute at least 50%, rounded to the nearest quarter of one percent, of the normal cost rate for the Plan for all active Plan Members, as determined by the Plan's actuary. New employees contributed 5.5% effective 10/24/2016. This was increased to 6.0% effective 6/18/2018.

The long-term expected return was based on 30-year asset class geometric return and correlation assumptions. These assumptions were based on forward looking building block analyses and historical data for each of the asset classes.

The following is the assumed asset allocation and expected rate of return for each major asset class as of June 30, 2018 and June 30, 2017.

| | 2018 | | 2017 | |
|---|---|---|---|---|
| **Asset Class** | **Target Allocation** | **Long-Term Expected Real Rate of Return (Geometric)[1]** | **Target Allocation** | **Long-Term Expected Real Rate of Return (Geometric)[1]** |
| Domestic Equity-Large Cap Active | 15% | 4.55% | 15% | 4.75% |
| Domestic Equity-Large Cap Index | 10% | 4.55% | 10% | 4.75% |
| Domestic Equity-Small Cap | 10% | 4.77% | 10% | 5.00% |
| International Equity | 13% | 4.77% | 13% | 5.00% |
| Emerging Markets Equity | 5% | 6.16% | 5% | 6.75% |
| Domestic Fixed Income | 22% | 0.97% | 27% | 1.25% |
| Absolute Return | 9% | 3.48% | 9% | 3.75% |
| Real-Estate | 10% | 3.61% | 10% | 3.75% |
| Real Assets | 5% | 3.85% | - | - |
| Cash | 1% | 0.00% | 1% | 0.25% |

[1]Source: NEPC, LLC as of June 30, 2018 (All assumptions based on 30 year forecast)

The discount rate used to measure the total pension liability was increased from 6.94% to 6.96%.

The projection of cash flows used to determine the discount rate assumed that VTA will continue to contribute to the Plan based on an actuarially determined contribution, reflecting a payment equal to the employer's share of the annual normal cost, the expected administrative expenses, and an amount necessary to amortize the remaining Unfunded Actuarial Liability as a level dollar amount over an open (rolling) 20-year period.

The long-term expected return was based on 30-year asset class geometric return and correlation assumptions. These assumptions were based on forward looking building block analyses and historical data for each of the asset classes.

Based on the assumptions used, the Plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current Plan members until at least 2081 when only a portion of the projected benefit payments are expected to be made from the projected fiduciary net position. Projected benefit payments are discounted at the long-term expected return on assets of 7.00% to the extent the Fiduciary Net Position is available to make the payments and the municipal bond rate of 3.87%, based on the Bond Buyer 20-Bond GO Index as of June 28, 2018, to the extent they are not available. The single equivalent rate used to determine the total pension liability as of June 30, 2018 is 6.96%.

The following tables show the sensitivity of the net pension liability to changes in the discount rate. They present the net pension liability as of June 30, 2018, and June 30, 2017 calculated using the applicable discount rates applicable to that period, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate.

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | **1% Decrease (5.96%)** | **Current Discount Rate (6.96%)** | **1% Increase (7.96%)** | **1% Decrease (5.94%)** | **Current Discount Rate (6.94%)** | **1% Increase (7.94%)** |
| VTA's Net Pension Liability | $283,285,589 | $197,668,887 | $125,254,400 | $246,110,411 | $170,114,335 | $105,324,487 |

**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**

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

## SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

| | 2018* | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Total Pension Liability | | | | | |
| Service cost | $ 16,953 | $ 16,024 | $ 14,788 | $ 13,468 | $ 12,094 |
| Interest (includes interest on service cost) | 47,850 | 46,152 | 45,110 | 43,069 | 41,417 |
| Difference between expected and actual experience | 12,285 | 6,440 | 7,748 | 4,517 | - |
| Changes in assumptions | 21,918 | 13,105 | 14,577 | - | - |
| Benefit payments, including refunds of member contributions | (41,566) | (38,454) | (35,588) | (33,418) | (30,967) |
| Net change in total pension liability | 57,440 | 43,267 | 46,635 | 27,636 | 22,544 |
| Total Pension Liability, beginning | 701,580 | 658,313 | 611,678 | 584,042 | 561,498 |
| Total Pension Liability, ending | 759,020 | 701,580 | 658,313 | 611,678 | 584,042 |
| Plan Fiduciary Net Position | | | | | |
| Contributions - employer | 28,524 | 27,385 | 25,751 | 25,590 | 25,787 |
| Contributions - member | 2,725 | 1,070 | - | - | - |
| Net investment income | 40,605 | 60,472 | 2,245 | 16,094 | 64,139 |
| Benefit payments, including refunds of member contributions | (41,566) | (38,454) | (35,588) | (33,418) | (30,967) |
| Administrative expense | (404) | (324) | (281) | (301) | (313) |
| Net change in Plan Fiduciary Net Position | 29,884 | 50,149 | (7,873) | 7,965 | 58,646 |
| Plan Fiduciary Net Position, beginning | 531,467 | 481,318 | 489,191 | 481,226 | 422,580 |
| Plan Fiduciary Net Position, ending | 561,351 | 531,467 | 481,318 | 489,191 | 481,226 |
| **Net Pension Liability, ending** | $ 197,669 | $ 170,113 | $ 176,995 | $ 122,487 | $ 102,816 |
| Plan Fiduciary Net Position as a percentage of the Total Pension Liability | 73.96% | 75.75% | 73.11% | 79.98% | 82.40% |
| Covered Payroll | $ 139,288 | $ 131,544 | $ 126,796 | $ 115,914 | $ 107,880 |
| **Net Pension Liability as a percentage of covered payroll** | 141.91% | 129.32% | 139.59% | 105.67% | 95.31% |

***Notes to schedule:**

Investment rate of return: 7% net of investment expenses

Inflation : 2.75%

Benefit changes: There were no changes in benefits during the year.

Information not available prior to FY2014.

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

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**
**(In Thousands)**

| | 2018* | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|---|---|---|---|---|
| Actuarially-determined Contribution | $ 28,524 | $ 27,385 | $ 25,720 | $ 25,549 | $ 25,787 | $ 24,413 | $ 19,148 | $ 17,807 | $ 17,905 | $ 14,843 |
| Contributions in Relation to the Actuarially-determined Contribution | 28,524 | 27,385 | 25,751 | 25,590 | 25,787 | 24,413 | 19,148 | 17,807 | 17,905 | 14,843 |
| Contributions Deficiency/(Excess) | $ - | $ - | $ (31) | $ (41) | $ - | $ - | $ - | $ - | $ - | $ - |
| Covered Payroll | $ 139,288 | $ 131,544 | $ 126,796 | $ 115,914 | $ 107,880 | $ 104,136 | $ 104,726 | $ 98,741 | $ 98,036 | $ 99,775 |
| Contributions as a Percentage of Covered Payroll | 20.48% | 20.82% | 20.31% | 22.08% | 23.90% | 23.44% | 18.28% | 18.03% | 18.26% | 14.88% |

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

## SCHEDULE OF INVESTMENT RETURNS

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Annual money-weighted rate of return, net of investment expense | 4.7697% | 12.8044% | 1.3412% | 3.6876% | 15.4227% |

Information not available prior to FY2014

***End of Document***