

Comprehensive Annual Financial Report

For Fiscal Year Ended
June 30, 1998

Santa Clara County, California



SANTA CLARA
Valley Transportation Authority

Part of every trip you take™

Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 1998

Prepared by the Fiscal Resources Division

Scott Buhner, Chief Financial Officer

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

Santa Clara Valley
Transportation Authority,
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 1997

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda K. Savitsky
President

Jeffrey L. Esler
Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Santa Clara Valley Transportation Authority for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 1997. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of a state and local government financial report.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA for review.

SECTION 1 – INTRODUCTION

LETTER OF TRANSMITTAL

BOARD OF DIRECTORS

PRINCIPAL OFFICIALS

ORGANIZATION CHART

SERVICE AREA MAP



November, 1998

Board of Directors
Santa Clara Valley Transportation Authority

Subject: Comprehensive Annual Financial Report

The Santa Clara Valley Transportation Authority (VTA) Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 1998 was prepared in accordance with the guidelines recommended by the Government Finance Officers Association of the United States and Canada (GFOA). Responsibility for the accuracy, completeness, and fairness of the data and the clarity of the presentation, including all disclosures, rests with VTA. To the best of our knowledge, the enclosed data is reported in a manner designed to present fairly, in all material respects, VTA's results of operations, financial position, and cash flows in accordance with the requirements of generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

Management is pleased that the FY 1997 CAFR earned the recognition of the GFOA with a Certificate of Achievement for Excellence in Financial Reporting. This award evidences the fact that the CAFR complied with stringent GFOA standards for professional financial reporting.

This report is organized into three sections:

1. Introduction Section, including a table of contents, this letter of transmittal, list of principal officials and organization chart.
2. Financial Section, including the financial statements with accompanying notes, supplemental schedules, and the independent auditors' report.
3. Statistical Section, including additional data about VTA over the last ten years.

THE REPORTING ENTITY

VTA was established in 1972 and commenced operating a public transportation system in Santa Clara County in January 1973. The Voters of Santa Clara County approved the legal separation of VTA from Santa Clara County and the Governor of California signed legislation in September 1994 effective January 1, 1995.

Separation of VTA from the County of Santa Clara also provided for the merger of VTA and the Congestion Management Agency. VTA's governing board now consists of two members of the Santa Clara 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 Santa Clara County. The separation did not alter or impair any of VTA's rights, powers, contracts or obligations.

On April 1, 1997 pursuant to SB374, VTA became the successor to the Santa Clara County Traffic Authority (Traffic Authority) and assumed the responsibility of completing several highway projects. Voters created the Traffic Authority upon the approval of a one-half-cent sales and use tax in Santa Clara County. The tax commenced April 1, 1985 and expired on March 31, 1995. The proceeds of the tax are restricted for specific highway improvements on routes 85, 101, and 237 in Santa Clara County. All improvements become the property of and are maintained by the State of California.

Bus Transit Service

VTA operates a bus fleet of 508 diesel-powered coaches on 74 bus routes within a service area of approximately 326 square miles. The system includes 4,600 bus stops, 469 bus shelters and 23 park-and-ride lots, 6 of which are shared with Caltrans.

Light Rail Transit Service

VTA operates a 21-mile, 34-station light rail system with 50 light rail vehicles and 6 historical trolleys. Free shuttle service connects the light rail and bus service to employment sites. This light rail system connects south Santa Clara County residents with downtown and north Santa Clara County areas, where major worksites are located. Construction of an extension to this rail line, ('Tasman West') is now in progress.

Other Services

In order to meet the requirements of the Americans with Disabilities Act, VTA implemented a paratransit brokerage system in 1992, which operates in all fifteen cities of Santa Clara County. VTA has contracted with Outreach and Escort, Inc. as brokers to provide the service, which eligible riders contact directly to schedule their trips. The broker assigns the trip based on the most productive mode of transportation meeting the rider's needs, including taxi, accessible van and other modes. There are no limitations on the number of trips per month. The paratransit requirements of the ADA have had and will continue to have significant operational and financial impacts on VTA.

VTA is also a member of the Peninsula Corridor Joint Powers Board (PCJPB), along with the San Mateo County Transit District and the City and County of San Francisco. The net operating costs and administrative expenses of the PCJPB for Caltrain services operated between San Francisco and San Jose are reimbursed by the member agencies based on a ridership formula. VTA is responsible for all of the net costs of operating between San Jose and Gilroy. VTA also was responsible for the capital cost of extending Caltrain from San Jose to Gilroy. Approximately fifty million dollars has been spent from a combination of State rail bond funds and local funds to purchase trackage rights and construct stations and park and ride lot facilities.

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

VTA participates in providing the Altamont Commuter Express service (ACE), which on October 19, 1998 began providing twice-daily round trip commuter rail service from Stockton through the Tri-Valley area of Alameda County to Santa Clara County with stops in Stockton, Lathrop, Tracy, Livermore, Pleasanton, Fremont, Santa Clara and San Jose. Shuttle and feeder bus service is provided at all station locations. The ACE is funded by the member agencies of VTA, the Alameda County Congestion Management Agency and the San Joaquin Regional Rail Commission. The corridor serves the counties of San Joaquin, Stanislaus, Contra Costa, Alameda and Santa Clara.

The Dumbarton Express is a transbay express bus route operation between the Union City BART station and Stanford Research Park in Palo Alto. AC Transit, BART, the City of Union City, SamTrans and VTA fund the Dumbarton Express.

Like the Dumbarton Express, the Highway 17 Express is an intercounty bus service operated through a cooperative arrangement. The Highway 17 Express is funded by VTA, the Santa Cruz Metropolitan Transit District and San Jose State University.

ECONOMIC CONDITION AND OUTLOOK

Sales Tax

Sales tax is the primary source of funds for VTA's operations and capital needs. Local sales tax is derived from a one-half cent sales tax restricted for transit purposes, which is levied within Santa Clara County. VTA also receives State Transportation Development Act (TDA) funds, which are derived from a one-quarter cent sales tax levied by the State of California and allocated for transportation use. Approximately 95% of the TDA revenue is returned to the county where the taxable transactions occurred. These two sales taxes account for approximately 80% of the total revenues. The economic condition of Santa Clara County has a very significant impact on the amount of sales tax VTA receives.

The economy of Santa Clara County is heavily dependent on high-tech industries such as computer manufacturing, software and communications. These industries have their own unique business cycle that is more volatile than the traditional manufacturing cycle. VTA's sales tax receipts closely mirror this high-tech pattern. Drastic swings are usually driven up by the introduction of new technologies or down by the lack of promising applications or systems. One uncertainty that may adversely impact VTA's half-cent sales tax revenues, is the continuing financial turmoil in Asia.

Economic growth in Santa Clara County slowed in FY 1998. Total job growth was 1.8% over fiscal year 1997 and the local unemployment rate was 3.1 %. We believe that the economy in Santa Clara County will remain slow in FY 1998-99 and project \$134.3 million in half-cent sales tax revenue. The long-term ten-year outlook is for growth at a rate of 4.4%.

Ridership & Farebox Revenue

FY 1997-98 was another growth year for VTA. Ridership increased by 0.7% to a record high of \$53 million. Following the explosive growth of 8.8% in FY 1995-96 and 7.8% in FY 1996-97, ridership seems to have leveled off at least until the influx of new services can be reflected. We believe that the growth rate for FY 1998-99 will be around 1.0%.

A combination of strong ridership, the July 1997 fare modification, and successful measures against fare abuse and potential ticket counterfeiting resulted in an increase in fare revenue of 15.1% to \$27.2 million.

VTA's operating recovery ratio has steadily increased in the last few years from 12.7% in FY 94 to 18.2% in FY 98. The Board's goal of achieving a 25% operating recovery ratio is difficult but attainable. VTA is planning a moderate fare increase in FY 1999-2000 that is consistent with its practice of reviewing fares every two years.

Federal Section 9 Operating Assistance

A Section 9 policy change allows eligible recipients (such as VTA) to claim capital grant funds to fund maintenance costs. Grant applicants may apply for FTA grants in an amount up to 80 percent of annual vehicle maintenance costs. VTA has incorporated this policy in its grant application strategies.

FUTURE TRANSPORTATION PROJECTS

Tasman West Light Rail Project

VTA began construction on the Tasman West light rail project in the summer of 1996. Tasman West extends VTA's existing 21 mile light rail system 7.6 miles into the heart of the Silicon Valley. Beginning at the terminus of the Guadalupe Line in Santa Clara, Tasman West will continue through the industrial area to northern Sunnyvale, around Moffett Federal Airfield, and into downtown Mountain View. The entire corridor is scheduled to be open for service by December 2000. The estimated capital cost is \$327 million, with the remaining construction phase amounting to \$244 million. Local contributions by VTA of \$1 million and \$15 million from the City of Mountain View augment \$228 million in funds programmed from State and Federal sources.

1996 Measure A Transportation Improvements

On November 5, 1996, the voters of Santa Clara County approved Measure A, as an advisory ballot measure. The Measure A Program of projects consists of a balanced investment in both roadway and transit projects with approximately 45% for roadways and 55% for transit. Voters simultaneously approved Measure B, a half-cent sales tax that is received and administered by Santa Clara County. The State Supreme Court refused to hear the appeal and left standing a lower court ruling that Measure B was a valid tax. The County Board of Supervisors has determined that VTA will be the implementing agency for all Measure A projects other than County Roads.

The transit oriented projects outlined in Measure A are: Santa Clara County connection to BART; Tasman East, Vasona and Capitol light rail corridor extensions; purchase of at least 30 low floor light rail vehicles; increased service on Caltrain and various improvements to Caltrain stations.

The roadway projects consist of I 880 widening from Montague Expressway to North First Street; Route 85/87 direct connector ramps; Route 101 widening from Bernal Road in San Jose to Cochrane Road in Morgan Hill; Route 85/101 Interchange in Mountain View; Route 237/880 Interchange for direct connector ramps; and Route 87 HOV lanes from A) Julian Street to I 280 and B) I 280 to Route 85. The total program of projects was estimated to cost \$1.1 billion in 1996 dollars. The County of Santa Clara and VTA are currently in the process of developing a base case expenditure plan.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

The financial affairs of VTA are organized on the basis of funds, each of which are accounted for with a separate set of self-balancing accounts for its assets, liabilities, equity, revenues and expenses. Resources are allocated to, and accounted for in, individual funds based upon the purpose for expenditures. The funds are grouped into broad fund categories.

Proprietary Fund Type - Enterprise Fund.

Operations and capital activity of VTA is accounted for in various enterprise funds that are consolidated for reporting purposes. These funds use the accrual method of recognizing revenues and expenses. Of all the governmental accounting structures, the Enterprise Fund is most similar to a private enterprise. Under this method of accounting, revenues are recorded when earned and expenses are recorded when incurred. The measurement focus is on determination of net income (loss), financial position and cash flows. Where appropriate, statements and schedules reflect amounts, including provisions for claims made against VTA, based on estimates and judgments of management.

Governmental Fund Type - Special Revenue Funds

The activities of the Congestion Management Program and the Traffic Authority Program are accounted for in separate special revenue funds. A special revenue fund is used to account for the proceeds of revenue sources that are legally restricted to expenditures for specified purposes. The Congestion Management program receives operating contributions from VTA, the County and fifteen cities. The Traffic Authority program receives the proceeds of ongoing settlements from the California State Board of Equalization related to a ten year, one-half cent sales tax, which expired in 1995.

Fiduciary Fund Type - Trust and Agency Funds

The activities of the Amalgamated Transit Union (ATU) Pension Plan, and the ATU Spousal Medical Trust, are accounted for in trust funds. 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 program is accounted for in an agency fund

Component Unit Financial Statements

VTA issues separate component unit financial statements for the ATU Pension Plan and the Congestion Management Program

Budgetary Control

State law requires the adoption of an annual budget, which must be approved by the Board of Directors. Budgetary control is maintained at several levels. The Board of Directors authorizes budget amendments at the fund level. The responsible director must authorize line item reclassification amendments to the budget. Managers who are assigned responsibility for controlling their budgets monitor operating expenses. Operating budgets lapse at the end of the fiscal year. Emphasis is placed on the total budget for the division, however, capital items must be within budgeted amounts. Capital expenditures operate under the control of a project-to-date budget and the annual budget. Capital budgets do not lapse until the project is completed or abandoned. Obligations incurred for operations activity are encumbered and when encumbered, budget authority does not lapse.

FINANCIAL STATUS

For the year, operating revenues exceeded expenditures by \$ 49.8 million before the one-time charge to fully amortize the unfunded actuarial liability of \$ 22.9 million in the Pension fund (unusual item). This resulted in a net increase of total reserves of \$ 26.9 million for the year ended June 30, 1998 on a budgetary basis. Unspent bond proceeds resulted in an additional increase of \$ 26.9 million resulting in total budgetary reserves of \$ 189.1 million.

Restricted and unrestricted budgetary reserves as of June 30, 1998 consisted of :

Restricted 1998 (in millions)

Operating reserves	\$34.9
Local Share of approved capital	58.1
Operating Encumbrances	<u>5.6</u>
Total Restricted	\$98.6
Unrestricted	<u>\$90.5</u>
Total	<u>\$189.1</u>

In accordance with the Board policy, 15% of the subsequent year operating budget is restricted to meet emergency needs that cannot be funded from any other source. This ensures that sufficient funds are available in the event of unanticipated revenue short falls or if unavoidable expenditures occur.

INTERNAL CONTROLS

To reasonably assure compliance with established policies and procedures and to protect assets, VTA has established a system of internal controls, including budget guidelines. The internal audit department reviews internal controls, conduct audits of performance and they issue reports on their findings which includes recommendations for improvement. Internal audit reports to the Chief Financial Officer. There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal control. The concept of reasonable assurance is based on the recognition that the cost of a system of internal control should not exceed the benefits derived therefrom, and that the evaluation of those factors requires estimates and judgments by management. We believe VTA's internal control structure adequately safeguards assets against loss from unauthorized use or disposition and provides reasonable assurance of proper recording of financial transactions in the financial statements.

Major subjects reported on during the 1998 fiscal year by the internal audit department are listed below:

- Review of vendor's compliance to contract terms.
- Assuring the effectiveness of the physical inventory process.
- Analytical review of TDA performance indicators.
- Follow up on implementation of recommendations made in prior audits.
- Various performance audits designed to improve process effectiveness.

MAJOR INITIATIVES AND ACCOMPLISHMENTS

The Board has established policy direction in four key areas:

- Integrating land use and transportation.
- Using all transportation options.
- Creating a safe, convenient, reliable and high quality bus/rail operation.
- Building a regional perspective.

Consistent with the Board mission statement, VTA continues its aggressive program of change. Most important are efforts to continue the strong ridership growth of the past few years. Major initiatives to support this goal and our other strategic priorities will affect all elements of the organization, some more noticeably than others.

Major Initiatives:

- Overhaul VTA's information systems, as part of implementing the VTA Integrated Information System project.
- Create a VTA Deferred Compensation Plan.
- Establish a fare structure modification for FY 1999-2000.
- Successfully manage the Measure A Capital projects.
- Implement a Disaster Recovery Plan for VTA's computer systems, to ensure continuity of critical functions.

Major Accomplishments

- Expanded service hours on 9 routes during weekdays and 12 routes during weekends, including 24-hour service for light rail system and Line 22 of the bus system.
- Opened an expanded Customer Service Center in a new location at the Downtown San Jose Transit Mall, resulting in increased customer and sales volumes.
- Implemented the ECO Pass Program on a countywide basis.
- Signed a new 5-year Collective Bargaining Agreement with the Amalgamated Transit Union at a cost within the financial constraints of the Strategic Business Plan.
- Launched several financial initiatives to improve VTA's financial position.
- Advanced construction of the Tasman West Light Rail Project to 8 months ahead of schedule and trending towards \$10 million under budget.
- Opened the Maude-Middlefield roadway project, eliminating the last traffic lights on Highway 237 between Highway 85 and Milpitas.

FINANCIAL HIGHLIGHTS

Revenues (VTA operations)

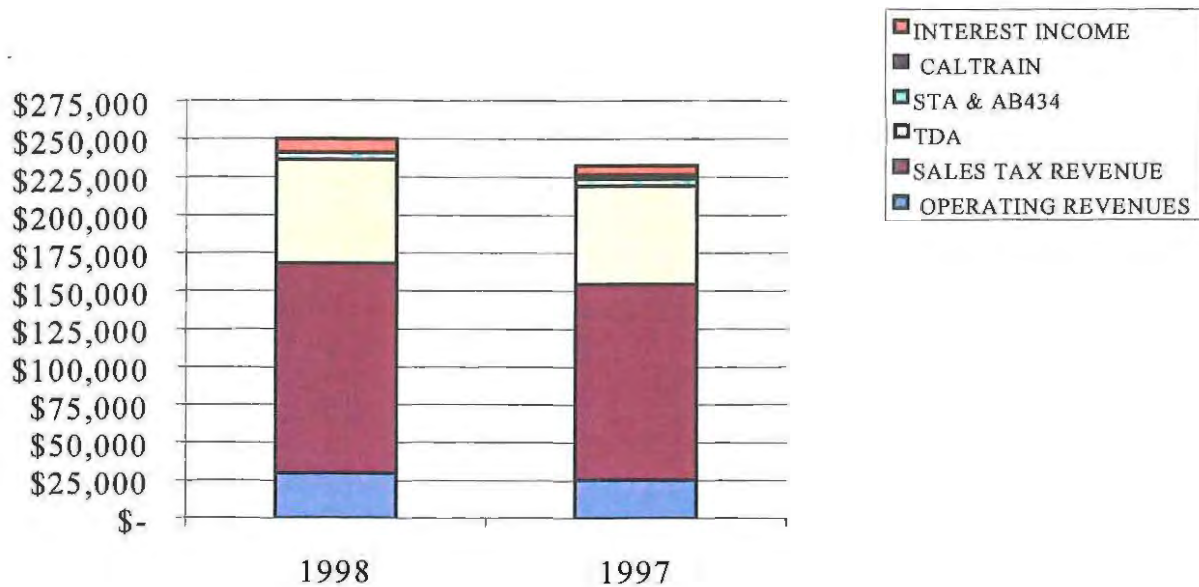
Operating revenues are derived from the sale of monthly passes, bus farebox receipts, light rail ticket vending machines and the sale of advertising space. VTA offers the following ticket options; cash fare, day pass, book of 10 day passes, monthly flash pass and, Eco pass. Discounted passes are offered for youth, seniors, disabled and homeless patrons. Increased ridership and favorable advertising contracts contributed to an increase of 17.4% in operating revenues.

Non-operating revenues include one-half of one- percent local sales tax, California Transportation Development Act funds one-quarter of one percent (TDA), State Transit Assist funding (STA), State license fees (AB434), interest, and federal planning grants. Local sales tax increased 7.3% from 1997 to 1998 due to continued albeit slowing economic growth in the area. The increase in TDA funding amounted to 4.9 % during the same period. VTA is the primary applicant for State transportation funds in the Santa Clara County area.

Interest income increased by 44.76% over the 1997 amount primarily due to several financial initiatives as well as an increase in the amount of invested funds. The average earnings in the Santa Clara County Investment Pool has remained relatively constant at approximately 5.7% during the two year period. VTA cash balances, however, have increased substantially. The following table and chart show a comparison by selected revenue category for 1998 and 1997.

(Dollars in thousands)				
	1998	1997	Change	Change
Operating Revenue	\$30,003	\$25,577	\$4,426	17.3%
Sales Tax Revenue	\$138,429	\$128,969	\$9,460	7.3%
TDA	\$67,829	\$64,676	\$3,153	4.9%
STA & AB434	\$4,795	\$4,567	\$228	5.0%
Caltrain		\$2,584	(\$2,584)	-100.0%
Interest Income	\$8,785	\$5,943	\$2,842	47.8%
TOTALS	\$249,841	\$232,316	\$17,525	7.5%

COMPARATIVE REVENUES 1997 AND 1998
(\$000'S)



Expenses

Operating expenses increased approximately 10.6% over the 1997 fiscal year primarily due to increased service levels and general price increases (i.e. inflation). Labor costs increased by 6.1% over the 1997 amount resulting from the addition of 92 new positions and pay increases achieved through collective bargaining. Fringe benefits increased 13% due to new positions and an increase in the pension contribution rate to cover the enhanced pension benefits for ATU represented employees.

Materials and supplies remained relatively constant at the 1997 level.

Services and Utilities increased 16.9% and 5.7% respectively.

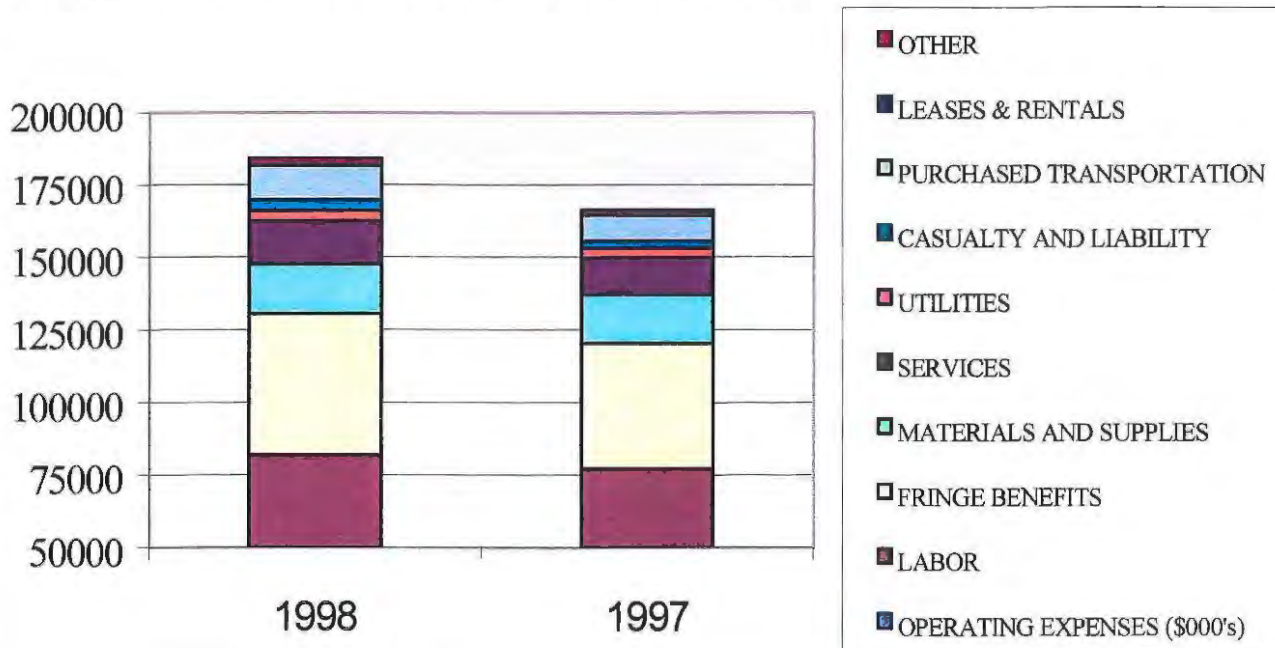
Casualty and liability costs increased by 62.5% due to an increase in cost of enhanced premium dollar insurance coverage.

Purchased Transportation costs increased 32.6% due to full compliance with the Americans with Disabilities Act (ADA). This cost increase reflects the continued impact of the ADA on VTA.

The following table and chart shows the operating expenses for fiscal years 1997 and 1998 by major category:

	1998	1997	Change	Percent Change
Labor	\$82,030	\$77,297	\$4,733	6.1%
Fringe Benefits	\$48,661	\$43,054	\$5,607	13.0%
Materials and Supplies	\$17,044	\$16,911	\$133	0.8%
Services	\$14,709	\$12,583	\$2,126	16.9%
Utilities	\$3,603	\$3,410	\$193	5.7%
Casualty and Liability	\$3,923	\$2,414	\$1,509	62.5%
Purchased Transportation	\$11,821	\$8,916	\$2,905	32.6%
Leases and Rentals	\$394	\$299	\$95	31.8%
Other	\$1,915	\$1,627	\$288	17.7%
TOTALS	\$184,100	\$166,511	\$17,589	10.6%

COMPARATIVE EXPENDITURES 1998 AND 1997



CASH AND INVESTMENTS

During fiscal year 1998, the Board approved asset allocation strategies and investment policies. In early FY 1998-99, VTA withdrew substantially all of its assets from the County and hired money manager firms to manage its investments.

The investment policies of the commingled pool conform to State statutes. In addition, VTA has an adopted policy regarding the types of investments which may be made and the maximum amounts which may be invested in any one financial institution or amounts which may be invested in long-term instruments.

Investment earnings, recognized on the Combined Statement of Revenues and Expenses - Enterprise Fund, amounted to approximately \$8.7 million during fiscal year 1998. Special Revenue funds recorded approximately \$0.6 million in investment earnings. \$7.4 million in investment earnings is reported on the component unit statements of the Amalgamated Transit Union Pension Plan.

Funds invested for restricted assets include workers' compensation, general liability, and retiree medical activities. The expense for these activities is recognized in the Enterprise fund for payments of the contribution amount that is net of expected earnings. The contribution amounts are based on actuarial studies. The increase in investment assets is recognized as an increase in cash and increase in other accrued liabilities. Approximately \$4.6 million in restricted investment earnings are accounted for in this manner. The following table summarizes the investment earnings.

Enterprise Fund Earnings	\$ 8.7
Special Revenue Fund Earnings	.6
ATU Pension Interest Earnings	<u>7.4</u>
Income Recognized	16.7
Reduction of Contribution	<u>4.6</u>
Total Investment Earnings	\$ 21.3

RISK MANAGEMENT

VTA maintains a program of self-insurance through a workers compensation fund and a general liability fund. A risk manager is responsible for obtaining insurance for property type coverage and to supervise a staff administering claims processing for both of the funds. The unpaid general liability and workers' compensation claim liabilities are based on the results of actuarial studies and include amounts for claims incurred but not reported. It is VTA's practice to obtain full actuarial studies annually. VTA uses third-party administrators to perform the claims processing function.

DEBT

VTA's four major debt issues outstanding at June 30, 1998 total approximately \$116,175,000. Proceeds from the issues were used to finance light rail vehicles, purchase an administration facility and acquire certain parcels of land. VTA refunded the 1991 Series A bonds as well as the 1994 ABAG Series C certificates and issued \$50 million of junior lien sales tax revenue bonds to finance certain capital projects.

In September 1998, VTA executed a leveraged lease transaction under which it leased out and then leased back 50 light-rail cars. The net present value benefit derived from the lease transaction was approximately \$5.5 million.

INDEPENDENT AUDIT

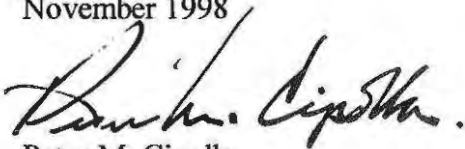
The independent auditor for fiscal year 1998 is KPMG Peat Marwick LLP, who has issued an unqualified opinion on the VTA's June 30, 1998 general-purpose financial statements.

It is management's intention to submit this and future CAFRs to the Government Finance Officers Association of the United States and Canada for review under its Certificate of Achievement for Excellence in Financial Reporting Program. We believe the current report conforms to the program requirements.

ACKNOWLEDGMENTS

We express our thanks to the Accounting Department Staff for their work in preparing this report. The Marketing Department designed the cover and the Copy Center assisted in preparing the entire document for printing.

November 1998



Peter M. Cipolla
General Manager



Scott Buhner
Chief Financial Officer

1998 VTA BOARD OF DIRECTORS

VTA is an independent special district governed by its own Board of Directors. The Board consists of 12 elected city and county officials, appointed by the jurisdictions they represent. Board membership is based on population as follows:

1. Five city council members from the city of San Jose.
2. Three city council members from among the cities of Los Altos, Los Altos Hills, Mountain View, Palo Alto, Santa Clara and Sunnyvale.
3. One city council member from among the cities of Campbell, Cupertino, Los Gatos, Monte Sereno, and Saratoga.
4. One city council member from among the cities of Gilroy, Milpitas and Morgan Hill.
5. Two members from the Santa Clara County Board of Supervisors.

Each of these groupings has one alternate.

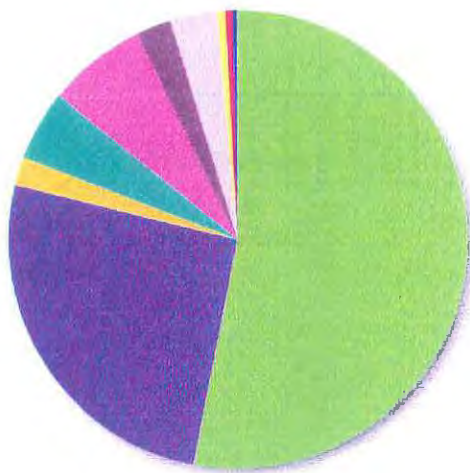
A new chairperson and vice chairperson are elected by the Board each year.

The Board of Directors meets at 6 p.m. on the first Thursday of each month in the Santa Clara County Board of Supervisors chambers.

Charlotte Powers, Chairperson
Jim Lawson, Vice-Chairperson

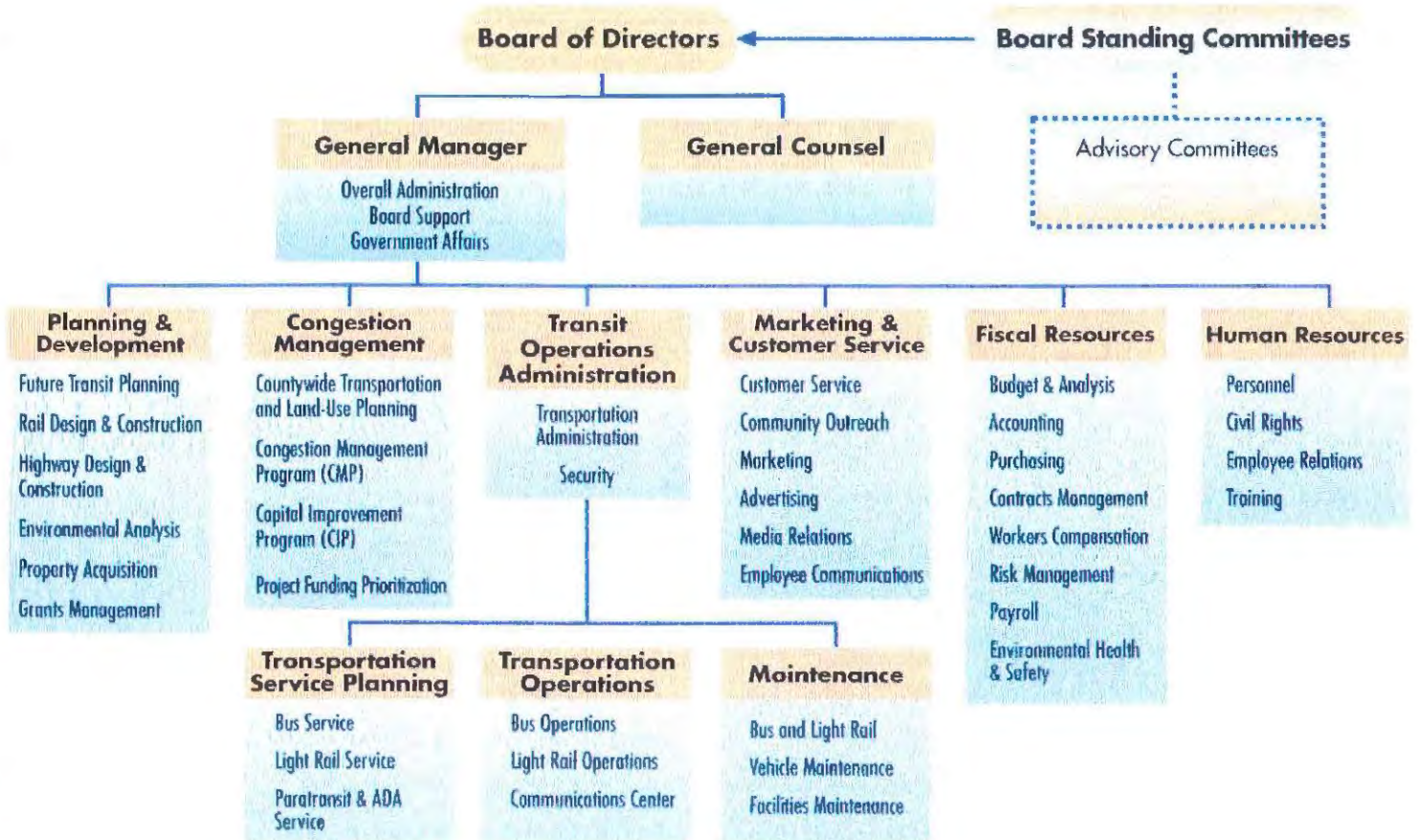
<p>GROUP 1 City of San Jose</p> <p>Manny Diaz Margie Fernandes Trixie Johnson Charlotte Powers Alice Woody George Shirakawa Jr., Alt.</p>	<p>GROUP 3 City of Campbell City of Cupertino Town of Los Gatos City of Monte Sereno Jack Lucas, Alt. City of Saratoga Donald Wolfe</p>
<p>GROUP 2 City of Los Altos Francis La Poll Town of Los Altos Hills City of Mountain View City of Palo Alto Sandra Eakins City of Santa Clara Judy Nadler City of Sunnyvale Manuel Valerio, Alt.</p>	<p>GROUP 4 City of Gilroy City of Milpitas Jim Lawson City of Morgan Hill Dennis Kennedy, Alt.</p>
	<p>GROUP 5 County of Santa Clara Blanca Alvarado Jim Beall, Jr. Pete McHugh, Alt.</p>

Number of Employees by Organizational Unit



Transportation Operations	1194	54%
Transportation Maintenance	518	24%
Transportation Service Planning	49	2%
Planning & Development	113	5%
Fiscal Resources	169	7%
Human Resources	56	2%
Marketing & Customer Service	66	3%
Congestion Management	11	1%
General Manager	14	1%
General Counsel	9	1%

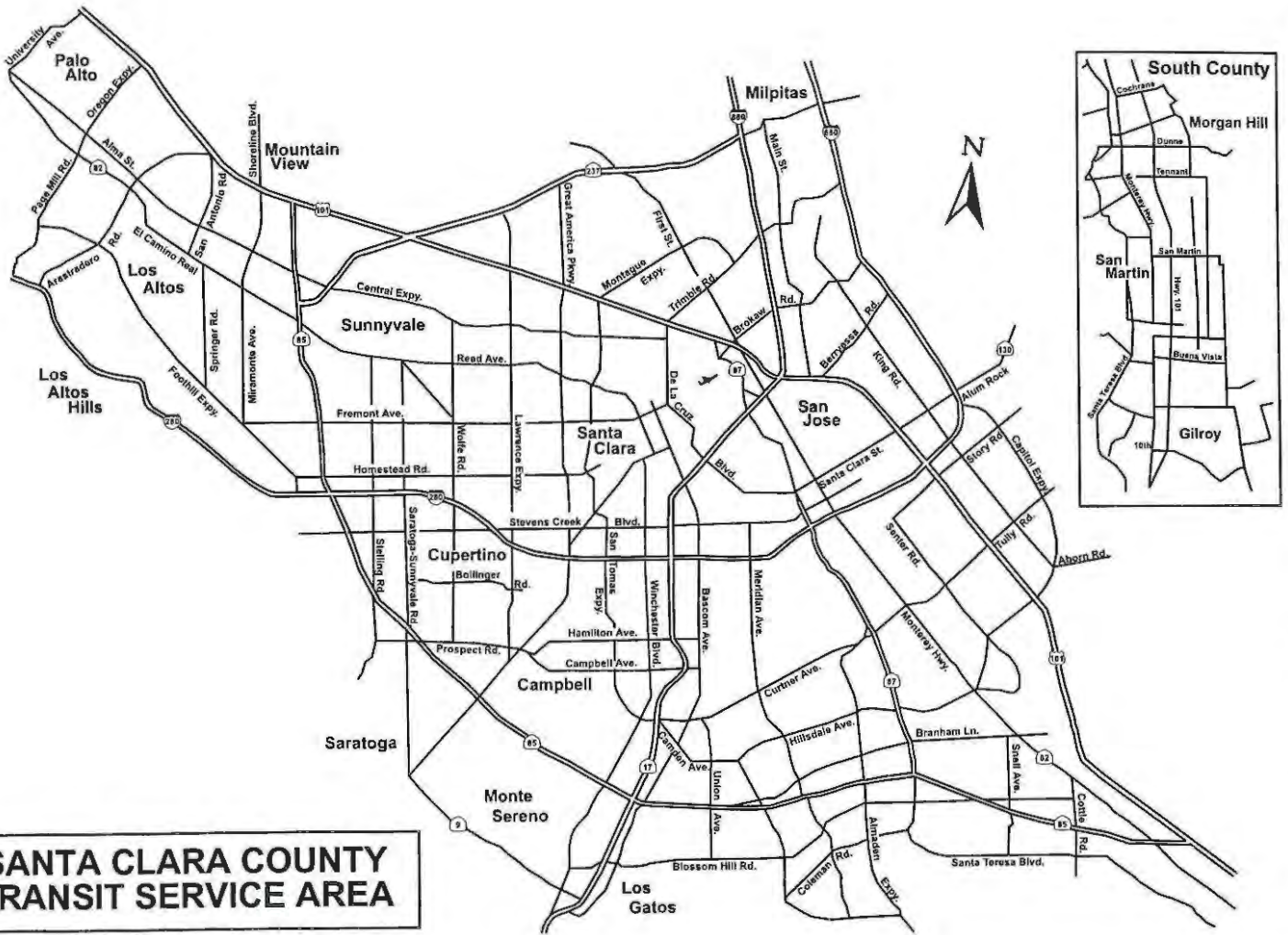
Santa Clara Valley Transportation Authority



Principal Officials

General Manager	Peter M. Cipolla
General Counsel	Suzanne Gifford
Board Secretary	Sandra Weymouth
Chief Financial Officer	Scott Buhner
Congestion Management	Michael P. Evanhoe, Director
Fiscal Resources	Jerry Rosenquist, Deputy Director
Government Affairs	Kurt Evans, Manager
Human Resources	Kaye Evleth, Director
Maintenance	George Barlow, Deputy Director
Marketing	Anne-Catherine Vinickas, Director
Operations	Bill Allen, Director
Planning & Development	James Pierson, Director
Service & Operations	Mike Aro, Deputy Director
Transportation	Rich Golda, Deputy Director
Transportation & Policy	Dawn Cameron, Manager

**SANTA CLARA COUNTY
TRANSIT SERVICE AREA**



SECTION 2 — FINANCIALS

GENERAL PURPOSE FINANCIAL STATEMENTS:

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- ◆ Combined Balance Sheet
- ◆ Statement of Revenues, Expenses, and changes in Retained Earnings — Enterprise Fund
- ◆ Combined Statement of Revenues, Expenditures, and Changes in Fund Balances — Government Fund Type (Special Revenue Funds)
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**SANTA CLARA VALLEY TRANSPORTATION
AUTHORITY (VTA)**

General Purpose Financial Statements

June 30, 1998

(With Independent Auditors' Report Thereon)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

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June 30, 1998

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Independent Auditors' Report

The Board of Directors
Santa Clara Valley Transportation Authority:

We have audited the accompanying general purpose financial statements of the Santa Clara Valley Transportation Authority (VTA) as of and for the year ended June 30, 1998, as listed in the accompanying table of contents under the caption "General Purpose Financial Statements." These general purpose financial statements are the responsibility of VTA's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Santa Clara Valley Transportation Authority as of June 30, 1998, and the results of its operations, changes in net assets of its Pension Trust Fund, and cash flows of its Enterprise Fund for the year then ended in conformity with generally accepted accounting principles.

As discussed in Notes 2(d), 2(n), and 16 to the general purpose financial statements, VTA adopted Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 26, 1998, on our consideration of VTA's compliance and on its internal control over financial reporting.

The accompanying supplementary information reflecting the funding progress relative to the Santa Clara County District Amalgamated Transit Union Pension Plan is not a required part of the basic general purpose financial statements but is a disclosure required by the Governmental Accounting Standards Board. 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 do not express an opinion on it. Similar information for VTA's participation in the state of California's Public Employee Retirement System is not available.

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

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

KPMG Peat Marwick LLP

October 26, 1998

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Combined Balance Sheet

June 30, 1998

Assets	<u>Proprietary</u> <u>Enterprise</u>	<u>Governmental</u> <u>Special Revenue</u>	<u>Fiduciary</u> <u>Trust and Agency</u>	<u>Total</u> <u>(Memorandum only)</u>
Current assets:				
Cash and equity in cash and investments held in County Treasury	\$ 141,088,921	6,226,565	—	147,315,486
Receivables	393,055	—	—	393,055
Due from other funds	—	54,760	—	54,760
Due from other governmental agencies	27,092,544	1,842,730	—	28,935,274
Inventories	11,608,829	—	—	11,608,829
Other current assets	616,096	—	—	616,096
Total current assets	<u>180,799,445</u>	<u>8,124,055</u>	<u>—</u>	<u>188,923,500</u>
Restricted assets:				
Cash and equity in cash and investments held in County Treasury	103,420,100	364,544	29,643,079	133,427,723
Investments	—	—	113,803,313	113,803,313
Investments with fiscal agent	34,439,335	—	—	34,439,335
Receivables	585,856	—	1,982,513	2,568,369
Due from other funds	551,115	—	22,888,882	23,439,997
Due from other governmental agencies	14,352,818	—	98,731	14,451,549
Total restricted assets	<u>153,349,224</u>	<u>364,544</u>	<u>168,416,518</u>	<u>322,130,286</u>
Other noncurrent assets:				
Deferred bond issuance costs	1,326,234	—	—	1,326,234
Other	126,500	3,558	—	130,058
Total other noncurrent assets	<u>1,452,734</u>	<u>3,558</u>	<u>—</u>	<u>1,456,292</u>
Property, facilities, and equipment:				
Land and right-of-way	457,059,655	—	—	457,059,655
CalTrain - Gilroy extension	33,497,710	—	—	33,497,710
Buildings, improvements, furniture, and fixtures	140,434,463	—	—	140,434,463
Vehicles	176,688,425	—	—	176,688,425
Light-rail tracks and electrification	71,913,217	—	—	71,913,217
Other	15,014,655	—	—	15,014,655
Construction in progress	229,991,509	—	—	229,991,509
Total property, facilities, and equipment	<u>1,124,599,634</u>	<u>—</u>	<u>—</u>	<u>1,124,599,634</u>
Less accumulated depreciation	<u>(162,218,257)</u>	<u>—</u>	<u>—</u>	<u>(162,218,257)</u>
Total property, facilities, and equipment, net	<u>962,381,377</u>	<u>—</u>	<u>—</u>	<u>962,381,377</u>
Total assets	<u>\$ 1,297,982,780</u>	<u>8,492,157</u>	<u>168,416,518</u>	<u>1,474,891,455</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Combined Balance Sheet, (Continued)

June 30, 1998

Liabilities and Equity	Proprietary	Governmental	Fiduciary	Total
	Enterprise	Special Revenue	Trust and Agency	(Memorandum only)
Current liabilities:				
Current portion of long-term debt	\$ 895,113	—	—	895,113
Accounts payable	4,404,076	3,275,762	—	7,679,838
Other accrued liabilities	12,250,362	33,285	—	12,283,647
Due to other funds	23,195,380	1,089	—	23,196,469
Due to other governmental agencies	1,557,514	612,442	—	2,169,956
Total current liabilities	42,302,445	3,922,578	—	46,225,023
Liabilities payable from restricted assets:				
Accounts payable	16,478,714	292,496	5,857,096	22,628,306
Other accrued liabilities – current	3,346,081	—	—	3,346,081
Due to other funds	—	—	298,288	298,288
Due to other governmental agencies	1,554,565	72,048	—	1,626,613
Long-term debt, excluding current portion	7,580,362	—	—	7,580,362
Other accrued liabilities – noncurrent	73,767,449	—	2,937,923	76,705,372
Total liabilities payable from restricted assets	102,727,171	364,544	9,093,307	112,185,022
Noncurrent liabilities:				
Long-term debt, excluding current portion	107,699,379	—	—	107,699,379
Other accrued liabilities	663,172	24,604	—	687,776
Total noncurrent liabilities	108,362,551	24,604	—	108,387,155
Total liabilities	253,392,167	4,311,726	9,093,307	266,797,200
Equity:				
Contributed capital:				
Federal grants	428,671,565	—	—	428,671,565
State grants	184,585,273	—	—	184,585,273
Other	21,570,920	—	—	21,570,920
Total contributed capital	634,827,758	—	—	634,827,758
Fund balances:				
Undesignated	—	4,180,431	—	4,180,431
Reserved for employees' pension benefits	—	—	159,323,211	159,323,211
Retained earnings:				
Reserved	50,622,053	—	—	50,622,053
Unreserved	359,140,802	—	—	359,140,802
Total fund balances and retained earnings	409,762,855	4,180,431	159,323,211	573,266,497
Total equity	1,044,590,613	4,180,431	159,323,211	1,208,094,255
Total liabilities and equity	\$ 1,297,982,780	8,492,157	168,416,518	1,474,891,455

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

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

Year ended June 30, 1998

Operating revenues:		
Passenger fares		\$ 27,200,840
Advertising and other		<u>2,802,298</u>
Total operating revenues		<u>30,003,138</u>
Operating expenses:		
Labor		82,030,189
Fringe benefits		48,661,221
Materials and supplies		14,737,004
Services		17,043,499
Utilities		3,603,478
Casualty and liability		3,922,480
Purchased transportation		11,820,778
Leases and rentals		393,749
Miscellaneous		<u>1,887,311</u>
Total operating expenses, excluding depreciation		<u>184,099,709</u>
Operating loss before depreciation		<u>(154,096,571)</u>
Depreciation expense:		
On assets acquired with capital grants		15,226,946
On assets otherwise acquired		<u>9,095,153</u>
Total depreciation expense		<u>24,322,099</u>
Operating loss		<u>(178,418,670)</u>
Nonoperating revenues (expenses):		
Sales tax revenue		138,428,805
Federal operating assistance grants		59,238
State and local operating assistance grants		72,624,283
CalTrain subsidy		(12,254,444)
Contribution for unfunded pension liability		(22,888,882)
Investment earnings		8,784,858
Interest expense		(4,013,862)
Other income		1,272,146
Other expense		<u>(1,037,895)</u>
Nonoperating revenues, net		<u>180,974,247</u>
Net income		2,555,577
Charge to contributed capital:		
Depreciation on fixed assets acquired with contributions		15,226,946
Disposal of assets acquired with capital grants		4,190
Retained earnings at beginning of year		<u>391,976,142</u>
Retained earnings at end of year		<u>\$ 409,762,855</u>

See accompanying notes to general purpose financial statements.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

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

Year ended June 30, 1998

Revenues:		
Sales tax	\$	1,410,326
Federal grants		6,486,268
Investment earnings		496,993
Member agency assessment revenue		1,239,995
Program reimbursement		514,063
Administrative fees		54,760
State grants		832,821
Other revenues		<u>264,499</u>
Total revenues		<u>11,299,725</u>
Expenditures:		
Salaries and benefits		644,285
Services		1,041,023
Program expenses		9,945,774
Other		<u>37,188</u>
Total expenditures		<u>11,668,270</u>
Total expenditures in excess of revenues		(368,545)
Fund balance at beginning of year		<u>4,548,976</u>
Fund balance at end of year	\$	<u><u>4,180,431</u></u>

See accompanying notes to general purpose financial statements.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

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

Year ended June 30, 1998

	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>
Revenues:			
Sales tax	\$ 869,000	1,410,326	541,326
Federal grants	8,239,000	6,486,268	(1,752,732)
Investment earnings	139,000	496,993	357,993
Member agency assessment revenue	1,240,000	1,239,995	(5)
Program reimbursement	—	514,063	514,063
Administrative fees	92,000	54,760	(37,240)
State grants	5,942,000	832,821	(5,109,179)
Other revenues	—	264,499	264,499
	<u>16,521,000</u>	<u>11,299,725</u>	<u>(5,221,275)</u>
Expenditures:			
Salaries and benefits	913,000	644,285	268,715
Services	1,243,000	1,041,023	201,977
Program expenses	10,838,000	9,945,774	892,226
Other	20,000	37,188	(17,188)
	<u>13,014,000</u>	<u>11,668,270</u>	<u>1,345,730</u>
Excess (deficiency) of revenues over (under) expenditures	3,507,000	(368,545)	(3,875,545)
Fund balance at beginning of year	<u>4,548,976</u>	<u>4,548,976</u>	—
Fund balance at end of year	\$ <u><u>8,055,976</u></u>	<u><u>4,180,431</u></u>	<u><u>(3,875,545)</u></u>

See accompanying notes to general purpose financial statements.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

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

Year ended June 30, 1998

Additions:	
Pension contributions	\$ 28,602,998
Investment earnings	7,438,116
Net appreciation on investments:	
Corporate obligations	2,489,501
FNMA/FHLB/FHLMC	2,419,644
U.S. Treasury obligations	3,286,494
Municipal obligations	423,400
Mutual funds	1,106,827
Equity in cash and investments held in County Treasury	<u>69,382</u>
Total additions	<u>45,836,362</u>
Deductions:	
Distributions to participants	4,120,537
Other benefits paid to participants	17,305
Administrative expenses	<u>114,539</u>
Total deductions	<u>4,252,381</u>
Net increase	41,583,981
Net assets available for pension benefits (fund balance):	
Beginning of year	<u>117,739,230</u>
End of year	\$ <u><u>159,323,211</u></u>

See accompanying notes to general purpose financial statements.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Statement of Cash Flows – Enterprise Fund

Year ended June 30, 1998

Cash flows from operating activities:	
Cash received from passenger fares	\$ 27,643,741
Cash received from advertising	2,404,559
Cash paid to employees	(130,696,791)
Cash paid to suppliers	(42,013,288)
Cash paid for purchased transportation	<u>(12,416,188)</u>
Net cash used in operating activities	<u>(155,077,967)</u>
Cash flows from noncapital financing activities:	
Operating grants received	72,889,572
Sales tax received	137,589,878
CalTrain subsidy	(12,254,444)
Other noncapital receipts	23,139,037
Other noncapital payments	<u>(16,376,531)</u>
Net cash provided by noncapital financing activities	<u>204,987,512</u>
Cash flows from capital and related financing activities:	
Proceeds from bond issuances	90,177,479
Payment for advance refunding of bonds	(35,892,083)
Payment of bond issuance costs	(851,739)
Transfer of bond proceeds to restricted accounts held by fiscal agents	(30,958,855)
Payment of long-term debt	(368,281)
Interest paid	(3,932,395)
Acquisition and construction of capital assets	(130,218,477)
Refund of court deposit	1,946,950
Capital grants received	113,278,825
Proceeds from sale of capital assets	<u>10,008</u>
Net cash provided by capital and related financing activities	<u>3,191,432</u>
Cash flows provided by investing activities – interest received	<u>7,854,813</u>
Net increase in cash and cash equivalents	<u>60,955,790</u>
Cash and cash equivalents, beginning of year	<u>183,553,231</u>
Cash and cash equivalents, end of year	<u>\$ 244,509,021</u>

(Continued)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Statement of Cash Flows – Enterprise Fund. (Continued)

Year ended June 30, 1998

Supplemental disclosures of cash flow information:

Cash and cash equivalents, beginning of year:	
Unrestricted	\$ 81,807,514
Restricted	<u>101,745,717</u>
	\$ <u>183,553,231</u>
Cash and cash equivalents, end of year:	
Unrestricted	\$ 141,088,921
Restricted	<u>103,420,100</u>
	\$ <u>244,509,021</u>
Noncash transactions:	
Reduction of contributed capital for depreciation on assets acquired with capital grants	\$ <u>15,226,946</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (178,418,670)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	24,322,099
Changes in operating assets and liabilities:	
Receivables	(40,897)
Inventories	(554,906)
Other current assets	24,870,134
Accounts payable	(1,187,592)
Other accrued liabilities – current	(456,490)
Due to other governmental agencies	416,878
Other accrued liabilities – noncurrent	<u>(24,028,523)</u>
Net cash used in operating activities	\$ <u>(155,077,967)</u>

See accompanying notes to general purpose financial statements.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1998

(1) Organization

The Santa Clara Valley Transportation Authority (VTA), which was established in 1972, develops, maintains, and operates a public mass transit system for the benefit of the residents of the County of Santa Clara (the County), California (the State).

VTA was previously governed by the County's Board of Supervisors (the Board) under provisions of the Santa Clara County Transit District Act. Pursuant to legislation enacted in September 1994, VTA legally separated from the County effective January 1, 1995. VTA's new governing board consists of two members of the Board, five City Council members from the City of San Jose, and five City Council members selected from among the remaining incorporated cities in the County. The legal separation from the County has not altered or impaired any of VTA's rights, powers, contracts, or obligations, and VTA continues as the same legal entity.

VTA is not subject to federal or state income taxes.

The accompanying general purpose financial statements also include the financial activities of the Santa Clara County Transit District Amalgamated Transit Union (ATU) Pension Plan (the Plan) in the Trust and Agency Funds (Note 12).

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

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

The Santa Clara Valley Transportation Authority Congestion Management Program (the CMP) was created in 1990 in response to Proposition 111. The CMP is not legally separate from VTA. The CMP is responsible for studying ways to alleviate traffic congestion in the County, coordinating and prioritizing proposals for state and federal transportation funds, administering the Bay Area Air Quality Management Program, and coordinating land use and other transportation planning. Prior to January 1, 1995, the CMP was a joint powers authority with a governing board comprised of 12 locally elected officials representing the CMP member agencies. Currently, annual contributions from each member agency are based on a formula adopted by VTA's governing board. The contribution formula considers each member agency's share of Proposition 111 state gas tax monies, as well as employment within the County. The accompanying general purpose financial statements include the financial activities of the CMP in the Special Revenue and Agency Funds.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1998

(2) Significant Accounting Policies

(a) Description of Funds

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

Proprietary Fund Type (Enterprise Fund) – are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. VTA's transit operations are reported upon as a single Enterprise Fund.

Governmental Fund Type (Special Revenue Funds) – are used to account for VTA's general government activities. The measurement focus is based upon the determination of changes in financial position rather than upon the determination of net income. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The activities of the CMP and the Traffic Authority are accounted for in Special Revenue Funds.

Fiduciary Fund Type (Trust and Agency Funds) – are used to account for assets held by VTA as a trustee or as an agent for individuals, private organizations, other governmental units, and/or other funds. VTA's Trust and Agency Funds include the SCCTD/ATU Pension, ATU Spousal Medical Trust, and the Bay Area Quality Management Program.

(b) Basis of Accounting

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1998

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, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

Governmental Fund Types and the Agency Fund are accounted for using the modified accrual basis of accounting. Revenues are recorded when "susceptible to accrual" (i.e., when they become both measurable and available). "Measurable" means that the amount of the transaction can be determined, and "available" means that revenues are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues not considered available are recorded as deferred revenues. Expenditures are recorded when the fund liability is incurred if it is expected to be paid within 12 months.

(c) *Budgetary Control*

State law requires the adoption of an annual budget, which must be approved by the Board of Directors. Budgetary control is maintained at several levels. The Board of Directors authorizes budget amendments to the fund level. Line item reclassification amendments to the budget must be authorized by the responsible director. Operating expenses are monitored by managers who are assigned responsibility for controlling their budgets. Emphasis is placed on the total budget for the division, however, capital items must be within budgeted amounts. Capital expenditures operate under the control of a project-to-date budget and the annual budget.

(d) *Cash and Investments*

Cash balances in certain of VTA's funds, as well as from certain other related entities, are pooled and invested by the County. Unless there are specific legal or contractual requirements for specific allocations, income earned or losses arising from investments are allocated on a quarterly basis to the appropriate fund(s) and entities based on their average daily cash balances.

Restricted and unrestricted cash and investments held in the County Treasury are considered to be cash and cash equivalents for purposes of the accompanying combined statement of cash flows. Access to cash and investments held by the County Treasurer is similar to that of a demand deposit account, and, therefore, investments in the County Treasury are considered to be cash equivalents. Restricted cash and investments held by fiscal agents outside of the County Treasury are not considered to be cash and cash equivalents.

Effective July 1, 1997, VTA implemented the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which required governmental entities to report certain investments at fair value in the balance sheet and recognize the corresponding change in fair value of investments in the year in which the change occurred. In accordance with GASB Statement No. 31, VTA has reported its investments at fair value based on quoted market information obtained from fiscal agents or other sources. Although, VTA may elect to report, at amortized cost, certain investments that have a remaining maturity at the time of purchase of one year or less, it did not choose to exercise this option.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1998

In determining the change in fair value of its investments, VTA used the aggregate method of calculation. The entire portfolio was valued at the beginning and the end of the period and the change in fair value reported, adjusted by any purchases and sales during the period. The result of this methodology as of July 1, 1997 produced a change in fair value, the cumulative effect of which was immaterial to the general purpose financial statements as a whole.

(e) *Investments with Fiscal Agents*

Investments with fiscal agents are stated at fair value (see Note 3).

(f) *Inventories*

Inventories are stated at average cost and 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.

(g) *Restricted Assets*

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

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

(h) *Deferred Bond Issuance Costs*

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1998

(i) *Property, Facilities, and Equipment*

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

Structures and improvements	15 to 50 years
Buses and maintenance vehicles	7 to 12 years
Light-rail structures and light-rail vehicles	25 to 45 years
Other operating equipment	5 to 15 years

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

In fiscal 1998, VTA changed the estimated useful life of light-rail vehicles from 30 years to 45 years. As a result of this change in estimate, current year depreciation expense decreased by approximately \$789,000.

Interest is capitalized on construction in progress in accordance with Statement of Financial Accounting Standards No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants*. Accordingly, interest capitalized is the total interest cost from the date of the borrowing net of any allowable interest earned on temporary investments of the proceeds of those borrowings until the specified asset is ready for its intended use. There was no interest capitalized in 1998.

(j) *Other Accrued Liabilities*

Other accrued liabilities, including those payable from restricted assets, represent accruals for compensated absences for vacation and sick leave benefits, payroll, Retiree Health Care Programs, general liability insurance, workers' compensation liabilities, and the Aerospace Settlement of sales taxes (Note 23(d)).

(k) *Self-Insurance*

VTA is self-insured for general liability and workers' compensation claims. Estimated losses on claims other than workers' compensation claims are charged to expense in the period the loss is determinable. Estimated losses for workers' compensation claims are charged to expense as a percentage of labor in each accounting period. The costs incurred for workers' compensation and general liability (including estimates for claims incurred but not yet reported) are accrued as a liability based on an actuarial determination of the present value of estimated future cash payments (see Note 17).

(l) *Federal, State, and Local Grant Funds*

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1998

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

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

(m) Sales Tax Revenues

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

(n) Pension Costs

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

In November 1994, GASB issued Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. This statement established standards for the measurement, recognition, and display of pension expenditures and related liabilities, note disclosures, and required supplementary information. VTA adopted this statement in fiscal 1998 with respect to its participation in the State's Public Employees Retirement System. With respect to the Plan, GASB Statement No. 27 was adopted in fiscal 1997.

(o) Use of Estimates

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

(p) Memorandum Only - Total Columns

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1998

(3) Cash and Investments

For investment purposes, VTA deposits cash with the County Treasurer in a commingled account with cash from various other governmental entities within the County. The commingled cash is principally invested in time deposits, bankers' acceptances, negotiable certificates of deposit, and various U.S. government agency and commercial notes. Interest earned from such time deposits and investments is allocated quarterly to VTA based on VTA's average daily cash balances.

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

Bank deposits are collateralized as required by state law (Government Code Section 53652) with assets held in a common pool with other governmental agencies. State law requires that the market value of the common pool of collateral be equal to or greater than 110% of all public deposits with the pledging financial institution if government securities are used, or 150% if first trust deed mortgage notes are used as collateral. The collateral is not held by, or held in the name of, the County or VTA. As of June 30, 1998, VTA had no bank deposits held by a fiscal agent. Cash of approximately \$518,000 consisted primarily of deposits in transit and change funds. This cash balance is uncollateralized.

VTA complied with the provisions of state statutes pertaining to the types of investments held, institutions in which deposits are made, and security requirements. VTA will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1998

VTA's investments are categorized below to give an indication of the custodial risk assumed by VTA as of June 30, 1998. Category 1 includes investments that are insured or registered or for which the securities are held by VTA or its agent in VTA's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in VTA's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in VTA's name.

<u>Type of Investment</u>	<u>Category</u>			<u>Fair value</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Corporate notes	\$ 2,775,924	—	—	2,775,924
Corporate bonds	499,700	—	—	499,700
Corporate bonds – Pension Plan	36,062,205	—	—	36,062,205
U.S. Treasury and government agency notes	36,162,145	—	—	36,162,145
U.S. Treasury and government agency notes – Pension Plan	71,560,623	—	—	71,560,623
Repurchase agreements	—	30,952,287	—	30,952,287
Subtotal	<u>\$ 147,060,597</u>	<u>30,952,287</u>	<u>—</u>	178,012,884
Investments commingled in County Treasury				223,043,128
Investments commingled in County Treasury – Pension Plan				20,683,280
Money market funds specifically for VTA				547,879
Mutual funds – Pension Plan				<u>6,180,485</u>
Total investments				<u>\$ 428,467,656</u>

As of June 30, 1998, VTA's cash and investments consisted of the following:

Cash	\$ 518,201
Investments	<u>428,467,656</u>
	<u>\$ 428,985,857</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1998

Total cash and investments as of June 30, 1998, are reported in the accompanying combined balance sheet as follows:

Unrestricted:		
Cash and equity in cash and investments held in County Treasury		\$ <u>147,315,486</u>
Restricted:		
Cash and equity in cash and investments held in County Treasury		133,427,723
Investments		113,803,313
Investments with fiscal agent		<u>34,439,335</u>
Total restricted		<u>281,670,371</u>
Total cash and investments		\$ <u><u>428,985,857</u></u>

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

Due from other funds and due to other funds as of June 30, 1998, consisted of the following:

	Due from other funds			Due to other funds		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Enterprise Fund Type	\$ —	551,115	551,115	23,195,380	—	23,195,380
Special Revenue Fund Type:						
Traffic Authority	—	—	—	30	—	30
CMP	54,760	—	54,760	1,059	—	1,059
Total Special Revenue Fund Type	<u>54,760</u>	<u>—</u>	<u>54,760</u>	<u>1,089</u>	<u>—</u>	<u>1,089</u>
Fiduciary Fund Types						
Trust Funds:						
SCCTD/ATU Pension	—	22,888,882	22,888,882	—	—	—
ATU Spousan Medial Agency Fund	—	—	—	—	280,088	280,088
Total Fiduciary Fund Types	<u>—</u>	<u>22,888,882</u>	<u>22,888,882</u>	<u>—</u>	<u>298,288</u>	<u>298,288</u>
Total All Fund Types	\$ <u><u>54,760</u></u>	<u><u>23,439,997</u></u>	<u><u>23,494,757</u></u>	<u><u>23,196,469</u></u>	<u><u>298,288</u></u>	<u><u>23,494,757</u></u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1998

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

Due from other governmental agencies as of June 30, 1998, consisted of the following:

	Fund Types		
	Enterprise	Special Revenue	Trust and Agency
Federal government	\$ 4,433,726	185,754	—
State government	6,907,011	1,525,745	—
County of Santa Clara	5,884,780	84,891	98,731
Sales tax	23,908,885	—	—
Others	310,960	46,340	—
Total	\$ <u>41,445,362</u>	<u>1,842,730</u>	<u>98,731</u>

Due from other governmental agencies as of June 30, 1998, is reported in the accompanying combined balance sheet as follows:

	Fund Types			Total
	Enterprise	Special Revenue	Trust and Agency	
Current assets	\$ 27,092,544	1,842,730	—	28,935,274
Restricted assets	14,352,818	—	98,731	14,451,549
Total	\$ <u>41,445,362</u>	<u>1,842,730</u>	<u>98,731</u>	<u>43,386,823</u>

Due to other governmental agencies as of June 30, 1998 consisted of the following:

	Fund Types	
	Enterprise	Special Revenue
State government	\$ 2,586,034	300,000
County of Santa Clara	294,852	155,523
Others	231,193	228,967
Total	\$ <u>3,112,079</u>	<u>684,490</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1998

Due to other governmental agencies as of June 30, 1998, is reported in the accompanying combined balance sheet as follows:

	Fund Types		
	Enterprise	Special Revenue	Total
Current liabilities	\$ 1,557,514	612,442	2,169,956
Liabilities payable from restricted assets	<u>1,554,565</u>	<u>72,048</u>	<u>1,626,613</u>
Total	<u>\$ 3,112,079</u>	<u>684,490</u>	<u>3,796,569</u>

(6) Construction In Progress

Construction in progress (CIP), included in property, facilities, and equipment, includes capitalized costs associated with the following projects as of June 30, 1998:

Tasman Corridor Project – West Extension	\$ 208,847,030
Tasman Corridor Project – East Extension	7,758,074
Environmental Building and Site Modifications	696,285
Facilities Modifications	5,260,635
Software Development	3,484,676
Vasona Corridor Project	1,775,273
VTA Administration Building Improvement	1,829,311
Coach Replacement	31,961
Guadalupe Corridor	110,699
Study Projects	<u>197,565</u>
Total	<u>\$ 229,991,509</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1998

Additional information regarding projects in progress as of June 30, 1998, follows:

Total Board approved project budget	\$ 542,644,182
Expended to date	<u>229,991,509</u>
Expenditure budget available for CIP	\$ <u>312,652,673</u>
Anticipated funding sources are as follows:	
Federal, state, and other local assistance	\$ 254,505,636
Bond proceeds (Note 7)	26,858,973
Local contribution (Note 11)	<u>31,288,064</u>
Total funding sources	\$ <u>312,652,673</u>

VTA has outstanding encumbrances of approximately \$103,653,000 as of June 30, 1998, related to the above capital projects.

(7) Long-Term Debt

Long-term debt as of June 30, 1998, consisted of the following:

1998 Series A Junior Lien Sales Tax Revenue Bonds	\$ 50,000,000
1997 Series A Sales Tax Revenue Refunding Bonds, net of unamortized discount of \$382,778 and unamortized deferred amount on refunding of \$3,511,267 as of June 30, 1998	36,330,955
Series 1985A Equipment Trust Certificates	29,660,000
Improvement Bond Series 22R	<u>183,899</u>
Total debt	116,174,854
Current portion	<u>895,113</u>
Long-term debt, excluding current portion	\$ <u>115,279,741</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1998

Long-term debt, excluding current portion, as of June 30, 1998, is reported in the accompanying combined balance sheet as follows:

Long-term debt payable from restricted assets	\$ 7,580,362
Unrestricted	<u>107,699,379</u>
	<u>\$ 115,279,741</u>

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

In March 1998, through the California Transit Variable Rate Program of the California Transit Finance Authority (Note 21), VTA issued \$50,000,000 of 1998 Series A Junior Lien Sales Tax Revenues Bonds (1998 Bonds) to finance certain capital projects. Issuance costs related to such bonds are being amortized over the term of the debt. The 1998 Bonds are special obligations of VTA which are payable from and secured by sale tax revenues.

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

(b) 1997 Series A Sales Tax Revenue Refunding Bonds

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

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

As of June 30, 1998, the outstanding principal balances of the 1991 Series A Bonds and the Series C Certificates were \$32,890,000 and \$4,785,000, respectively.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1998

(c) *Series 1985A Equipment Trust Certificates*

The 1985A Certificates were issued to finance the retirement of the Series 1984A Equipment Trust Certificates, which had been issued to finance the acquisition of light-rail vehicles for the Guadalupe Corridor light-rail project. Proceeds from the sale of the 1985A Certificates were \$52,155,000, which was net of issuance costs of \$705,000. Issuance costs related to this issuance are being amortized over the term of the debt. The interest on the 1985A Certificates is adjusted daily by the Trustee (3.7% as of June 30, 1998).

The 1985A Certificates are limited general obligations of VTA and are secured by the light-rail vehicles purchased with the proceeds of such certificates, an irrevocable letter of credit in the amount of \$30,400,000, which expires on June 15, 2000, and sales tax revenue.

The 1985A Certificates mature beginning in 2007 and are subject to redemption prior to their maturity date on each June 1 through deposit on such date in a separate sinking fund account, of the principal amount due together with accrued interest to the date of redemption. As of June 30, 1998, VTA had repaid \$23,200,000 of the 1985A Certificates. As a result of making payments prior to scheduled repay maturity dates, the next required sinking fund payments are due in 2007 through 2015 and range from \$460,000 to \$4,800,000.

(d) *Improvement Bond Series 22R*

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1998

(e) *Five Year Debt Maturity*

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

Year ending June 30,	
1999	\$ 5,859,509
2000	5,883,512
2001	6,989,699
2002	7,017,707
2003	7,031,687
Thereafter	<u>164,011,173</u>
Total debt service requirements	196,793,287
Less: Amounts representing interest	76,724,388
Unamortized bond discount	382,778
Unamortized deferred amount on refunding	<u>3,511,267</u>
Total debt	116,174,854
Less current portion	<u>895,113</u>
Long-term debt, excluding current portion	<u>\$ 115,279,741</u>

(f) *Limitations and Restrictions*

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1998

(8) Sales Tax Revenue

Sales tax revenue represents sales tax revenue from the California State Board of Equalization, which, under a sales tax measure, collects for VTA 0.5% for each taxable sales dollar spent in the County. These amounts are available to fund both operations and capital expenditures except that portion which is to be used to repay long-term debt as described in Note 7. Collection fees charged by the State Board of Equalization were approximately \$1,874,000 in fiscal 1998.

As of June 30, 1998, VTA accrued a liability of approximately \$1,869,000 as a result of the Aerospace Settlement by the State requiring the refunding of certain sales taxes previously collected and remitted to VTA (Note 23(d)). The State is charging interest at 6% on the unrefunded portion of such sales taxes.

(9) Changes in Enterprise Equity

Changes in enterprise equity for the year ended June 30, 1998, was as follows:

	Contributed capital	Retained earnings		Total equity
		Reserved	Unreserved	
Balances, June 30, 1997	\$ 540,364,978	33,159,132	358,817,010	932,341,120
Net income	—	—	2,555,577	2,555,577
Capital grants (see Note 11)	109,693,916	—	—	109,693,916
Depreciation on assets acquired with capital grants	(15,226,946)	—	15,226,946	—
Disposal of assets acquired with capital grants	(4,190)	—	4,190	—
Increase in reserved retained earnings	—	17,462,921	(17,462,921)	—
Balances, June 30, 1998	\$ <u>634,827,758</u>	<u>50,622,053</u>	<u>359,140,802</u>	<u>1,044,590,613</u>

(10) Reservation of Retained Earnings

The excess of assets restricted for encumbrances and the local share of capital projects over the related liabilities payable from restricted assets is recorded as a reservation of retained earnings in the accompanying combined balance sheet. Reserved retained earnings as of June 30, 1998, totaled \$50,622,053.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1998

(11) 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.

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, 1998, are summarized as follows:

	<u>Fund Types</u>	
	<u>Enterprise</u>	<u>Special Revenue</u>
Operating assistance grants:		
Federal Highway	\$ —	6,300,513
Planning	—	185,755
Federal Technical Studies	<u>59,238</u>	<u>—</u>
Total operating assistance grants	<u>59,238</u>	<u>6,486,268</u>
Capital grants:		
FTA Section 3	27,219,812	—
FTA Section 9	<u>34,482,267</u>	<u>—</u>
Total capital grants	<u>61,702,079</u>	<u>—</u>
Total federal grants	<u>\$ 61,761,317</u>	<u>6,486,268</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1998

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.

(b) State and Local Grants

State and local grants for the year ended June 30, 1998, are summarized as follows:

Operating assistance grants:	
Transportation Development Act	\$ 67,828,988
State Transit Assistance	3,925,913
AB434	<u>869,382</u>
Total operating assistance grants	<u>72,624,283</u>
Capital grants:	
Transit Capital Improvement	1,150,000
Proposition 116	17,252,075
Traffic Systems Management	2,091,308
State Flexible Congestion Relief	23,218,000
AB434	479,884
Other local grants	<u>3,800,569</u>
Total capital grants	<u>47,991,836</u>
Total state and local grants	\$ <u><u>120,616,119</u></u>

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

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

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1998

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

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

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

Other local grants include grants from the City of Mountain View and the City of Sunnyvale for project costs relating to construction of the Tasman Corridor Project and from the City of Morgan Hill for a CalTrain Park-and-Ride lot.

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

(a) Plan Description

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

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

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

The current membership of the Plan as of June 30, 1998, is comprised of the following:

Retirees and beneficiaries currently receiving benefits	\$	406
Terminated vested members not yet receiving benefits		143
Active members		<u>1,587</u>
Total	\$	<u><u>2,136</u></u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1998

(b) Basis of Accounting

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

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

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

(c) Actuarial Methods and Assumptions

<u>Description</u>	<u>Method/Assumption</u>
Actuarial cost method	Entry Age Normal
Amortization method for actuarial accrued liabilities	Level dollar method, closed periods
Remaining amortization period	17, 19 years and 20 years Equivalent Single Amortization Period is 17 years
Actuarial asset valuation method	Market value of assets as of January 1, 1998. In future years, the actuarial value of assets will be equal to the market value of assets as of the valuation date less the unrecognized balances of the market value experience gain/(loss) for the prior four years. Such gains/(loss) are phased in 20% per year.
Actuarial assumptions	Investment rate of return 8.0% Projected salary increases 4.5%

(d) Concentration

Equity in cash and investments held in County Treasury represented 5% of the Plan's net assets.

(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, 1998, were made in accordance with actuarially determined requirements computed as of January 1, 1996. VTA contribution rate as a percentage of payroll was 9.41% for the 1998 fiscal year. Additionally, VTA contributed \$22,888,882 in fiscal 1998 to fully amortize the unfunded actuarial accrued liability as of January 1, 1998.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1998

(f) Net Pension Obligation

VTA's net pension obligation to the Plan was zero as of June 30, 1998, which was determined in accordance with GASB Statement No. 27.

Three-year trend information follows:

<u>Fiscal year</u>		<u>Annual pension cost (APC)</u>	<u>Percentage of APC contributed</u>	<u>Net pension obligation</u>
June 30, 1998	\$	5,714,116	100%	—
June 30, 1997		4,232,627	100%	—
June 30, 1996		4,104,206	100%	—

(13) Public Employees Retirement System

(a) Plan Description

All eligible non-ATU employees of VTA participate in the State's Public Employees Retirement System (CalPERS). Prior to separation from the County on January 1, 1995, (see Note 1) all eligible VTA employees participated in CalPERS through the County. 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 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.

(b) Funding Policy

Active Plan members in VTA's CalPERS Plan (CalPERS Plan) are not required to contribute to the CalPERS Plan. VTA is required to contribute the actuarially determined amount necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required contribution rate for fiscal 1998 was 9.44% for the employer and 7.0% for employees. The required employee contribution was paid by VTA. The contribution requirements of the Plan are established by State statute and the employer contribution is established and may amended by CalPERS.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1998

As a result of the separation from the County, certain administrative employees were transferred from the County to VTA. Based on discussions with CalPERS staff, it was determined that all of those administrative employees' service credits earned during the period they worked for the County's transportation agency would be transferred to VTA's CalPERS account. The transfer of related assets and liabilities is expected to result in a net impact of approximately \$5 million of assets transferred greater than liabilities. Until the transfer is unable to determine the CalPERS Plan's unfunded actuarial accrued liability.

(c) Net Pension Obligation

VTA's net pension obligation to the CalPERS Plan was zero as of June 30, 1998, which was determined in accordance with GASB No. 27.

For fiscal 1998, the VTA's annual pension cost was approximately \$4,573,000 which was fully contributed. The required contribution for fiscal 1998 was determined as part of the June 30, 1996, actuarial valuation using the entry age normal cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 8.5% investment rate of return (net of administrative expenses); (b) project salary increases that vary by duration of service, and (c) 4.5% cost of living adjustment.

The three-year trend information follows:

<u>Fiscal year</u>		<u>Annual pension cost (APC)</u>	<u>Percentage of APC contributed</u>	<u>Net pension obligation</u>
June 30, 1998	\$	4,573,000	100%	—
June 30, 1997		3,995,000	100%	—
June 30, 1996		3,445,000	100%	—

(14) ATU Spousal Medical Trust

VTA had assets and related liabilities as of June 30, 1998, of approximately \$2,956,000, for the ATU Spousal Medical Trust (the Trust), a medical insurance benefit for eligible pensioners' spouses. Pursuant to a collective bargaining agreement, VTA is required to contribute to the Trust \$0.20 per hour worked by all ATU employees. As of June 30, 1998, 111 participating spouses met the eligibility requirements. Contributions to the Trust, which were expensed by VTA, were approximately \$503,000 for the year ended June 30, 1998. Benefit payments made by the Trust for the year ended June 30, 1998, were approximately \$209,000.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1998

(15) Retiree Health Care Programs

(a) *ATU*

VTA provides an ATU Retiree Health Care Program (the ATU Program), a postemployment benefit, in accordance with the agreement between VTA and the ATU, to all ATU 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, 1998, 355 retirees met the eligibility requirements. VTA pays medical premiums for its eligible retirees. Benefits paid to participants of the ATU Program for the year ended June 30, 1998, were approximately \$623,000. For the year ended June 30, 1998, VTA made contributions to the ATU Program, which were expensed by VTA, of approximately \$2,142,000. An actuarial study as of June 30, 1996, (the latest available) 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 \$33,563,000, of which approximately \$10,301,000 represents the unfunded actuarial liability. VTA's fiscal 1998 contribution approximated the actuarially determined contribution.

(b) *Non-ATU*

All non-ATU employees upon retirement with at least five years of service and attaining age 50 are also covered under a Retiree Health Care Program (the Non-ATU Program). As of June 30, 1998, 264 retirees met the eligibility requirements. For the year ended June 30, 1998, benefits paid to participants of the Non-ATU Program were approximately \$309,000 while contributions, which were made by VTA, were approximately \$1,140,000. An actuarial study as of June 30, 1996, (the latest available) projected that the present value of future VTA paid retiree medical benefits for the current group of active employees, retirees, and terminated vested employees (excluding new employees) was approximately \$13,997,000, of which approximately \$7,067,000 represents the unfunded actuarial liability. VTA's fiscal 1998 contribution approximated the actuarially determined contribution.

As of June 30, 1998, VTA had restricted assets and related liabilities of approximately \$23,702,000 to cover future costs of the ATU and Non-ATU Programs.

(16) Deferred Compensation Plan

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1998

During fiscal 1998, VTA implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. All amounts of compensation deferred under the Deferred Plan, all property and rights purchased with such amounts, and all income attributable to these amounts, (until paid or made available to the employee or other beneficiary) are held in a trust solely for the benefit of the participants pursuant to the IRC, and, therefore, the VTA appropriately removed deferred compensation fund assets of approximately \$28,000,000 and the corresponding liabilities from the VTA's combined balance sheet as of July 1, 1997.

Total contributions to, withdrawals from, and earnings of the Deferred Plan for the year ended June 30, 1998, were \$2,494,000, \$667,000, and \$2,263,000, respectively.

(17) Self-Insurance

VTA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors, and omissions; injuries to employees; injuries to the public; and natural disasters. Coverage provided by self-insurance and excess coverage is generally as follows as of June 30, 1998:

<u>Type of Coverage</u>	<u>Self-insurance (in aggregate)</u>	<u>Excess coverage (in aggregate)</u>
Workers' compensation	Up to \$2,000,000	\$2,000,000 to \$10,000,000
Commercial general liability	Up to \$2,000,000	\$2,000,000 to \$15,000,000
Property:		
Flood	Up to \$5,000	\$5,000 to \$5,000,000
Earthquake	All Self-Insured	—
Other perils	Up to \$50,000	\$50,000 to \$195,000,000
Light Rail Vehicles:		
Earthquake and flood	Up to \$2,500,000	\$2,500,000 to \$20,000,000
All other perils	Up to \$250,000	\$250,000 to \$20,000,000
Buses	Up to \$100,000	\$100,000 to \$20,000,000
Nonrevenue generating vehicles	Up to \$25,000	\$25,000 to \$20,000,000

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1998

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

(a) Workers' Compensation and General Liability

The unpaid general liability and workers' compensation claim liabilities, included in other accrued liabilities, are based on the results of actuarial studies and include amounts for claims incurred but not reported. Claims liability discount rates are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of pay-outs, and other economic and social factors. Estimated losses for general liability and workers' compensation claims are charged to expense in the period the loss is incurred (including estimates for claims incurred but not yet reported) and are accrued as a liability based on the present value of estimated future cash payments using a 6.5% average discount rate for workers' compensation as of June 30, 1998, and a 6% average discount rate for general liability as of June 30, 1998, until paid. It is VTA's practice to obtain full actuarial studies annually. VTA uses third-party administrators to perform its claims processing function.

Changes in the balances of workers' compensation claims liabilities for the two years ended June 30, 1998, are as follows:

	1998	1997
Unpaid claims, beginning of fiscal year	\$ 25,620,000	26,630,000
Provision for claim and claim adjustment expense	6,726,000	5,681,000
Payments for claims	(6,655,000)	(6,691,000)
Unpaid claims, end of fiscal year	\$ 25,691,000	25,620,000

Changes in the balances of general liability claims liabilities for the two years ended June 30, 1998, are as follows:

	1998	1997
Unpaid claims, beginning of fiscal year	\$ 20,678,000	19,636,000
Provision for claim and claim adjustment expense	4,930,000	3,811,000
Payments for claims	(3,005,000)	(2,769,000)
Unpaid claims, end of fiscal year	\$ 22,603,000	20,678,000

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1998

(18) Leases

VTA leases various properties for use as transfer facilities, parking lots, information centers, and warehouses under lease agreements that expire at various dates through 2013. These agreements are accounted for as operating leases. Rent expense was approximately \$162,000 in fiscal 1998.

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

Year ending June 30,	
1999	\$ 168,000
2000	176,000
2001	184,000
2002	192,000
2003	201,000
Thereafter	<u>3,213,000</u>
Total	\$ <u>4,134,000</u>

(19) Litigation

As of June 30, 1998, VTA had accrued amounts that management believes are adequate to provide for claims and litigation which arose during the normal course of business. Other claims and litigation are outstanding for which VTA cannot determine the ultimate outcome and resulting liability, if any. However, VTA's management believes the ultimate outcome of these claims and lawsuits will not significantly impact VTA's financial position.

(20) Related Party Transactions

County of Santa Clara

Through June 30, 1998, the County continued to provide certain support services to VTA. Amounts paid to the County for such services were approximately \$3,907,000 in fiscal 1998.

(21) Joint Ventures

(a) Peninsula Corridor Joint Powers Board

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1998

The net operating costs and administrative expenses of the PCJPB for services provided between San Francisco and San Jose are reimbursed by the member agencies. VTA, SamTrans, and CCSF are responsible for 38.8%, 51.0%, and 10.2%, respectively, of the member agencies' total reimbursement for such expenses. VTA is also responsible for 100% of the net operating costs between San Jose and Gilroy. During the year ended June 30, 1998, VTA paid approximately \$12,254,000 to the PCJPB.

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

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

Summary financial information (not included in VTA's financial statements) for the PCJPB as of and for the year ended June 30, 1998 (unaudited), is as follows:

Total assets	\$ <u>460,485,000</u>
Operating revenue	\$ 21,551,000
Expenses	(44,449,000)
Nonoperating revenue	<u>25,909,000</u>
Excess of expenses over revenues	\$ <u>3,011,000</u>

No debt has been issued by PCJPB.

(b) Altamont Commuter Express

The Altamont Commuter Express (ACE) is a commuter rail service covering over 85 miles between Stockton and San Jose with stops in Manteca, Tracy, Livermore, Pleasanton, Fremont, and Santa Clara. VTA has committed to contributing up to \$2,600,000 of operating funds to ACE over the initial three years of its operations.

ACE commenced operations in October 1998 and provides twice daily round trip commuter rail service from Stockton through the Tri-Valley area of Alameda County to Santa Clara County. ACE operates through the joint efforts of VTA, the Alameda County Congestion Management Agency, and the San Joaquin Regional Rail Commission.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1998

(c) *Capitol Corridor Intercity Rail Service*

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

(d) *California Transit Finance Authority*

VTA and SamTrans are participants of the California Transit Finance Authority (CTFA) which was formed in 1998 through a joint powers agreement for the purpose of establishing the California Transit Variable Rate Finance Program (the Program). The Program makes low-cost, variable rate financing available to the members of the California Transit Association for the acquisition of transit equipment and facilities. In March 1998, through the Program, VTA issued \$50,000,000 of Junior Lien Sales Tax Revenues Bonds (Note 7).

(22) **Santa Clara Valley Traffic Authority**

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

(a) *Agreement with CalTrans*

CalTrans was contracted to act as the technical director for the 1985 Measure A programs, and to plan, review, and approve all plans and specifications for development, as well as to supervise construction. In the fiscal year ended June 30, 1998, payments to CalTrans totaled approximately \$344,000.

The Traffic Authority's contract with CalTrans requires a final determination of cost from the close out process of construction projects. CalTrans is in the process of finalizing certain projects for which the Traffic Authority may be responsible for additional payments. As of June 30, 1998, known claims have been accrued and reported at expected settlement amounts. A stipulation agreement with CalTrans limits the Traffic Authority's claim exposure for closed projects. The project close out costs are currently being negotiated with CalTrans and are expected to be resolved within one year.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1998

(23) Subsequent Events

(a) *Fixed Rate SWAP*

In August 1998, VTA executed a fixed rate swap (the swap) for the variable rate 1985 Equipment Trust Certificates at an all inclusive fixed rate of 4.643% including transaction costs and annual fees. The notional amount of the swap was approximately \$29,700,000, and the term is 17 years. The swap became effective on September 14, 1998.

(b) *United States Leverage Lease*

In September 1998, VTA executed a leveraged lease transaction under which it leased out and then leased back 50 light-rail cars. The net present value benefit derived from the lease transaction was approximately \$5,400,000. The lease term is 20 years. The proceeds were approximately \$24,100,000, and the present value of future payment is approximately \$16,900,000.

(c) *VTA's Investment Program*

In September 1998, VTA entered into contracts with five money manager firms. In October 1998, substantially all commingled investments managed by the County were transferred to VTA's money managers, at which time VTA's investment program manager assumed oversight responsibility for such investments.

(d) *Sales Tax Revenue*

In September 1998, VTA repaid in full the remaining liability of approximately \$1,869,000 pertaining to the Aerospace Settlement by the State. The settlement required the refunding of certain sales taxes previously collected and remitted to VTA (Notes 2(j)) and 8).

(e) *Contribution to Pension Plan*

In September 1998, VTA transferred \$22,888,882 to the ATU Plan to fund the January 1, 1998, unfunded accrued liability.

SUPPLEMENTARY SCHEDULES

**REQUIRED SUPPLEMENTARY INFORMATION –
PENSION PLAN**

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Schedule of Funding Progress (a)

(Unaudited – See accompanying independent auditors' report)

<u>Date</u>	<u>Actuarial Value of Assets</u>	<u>Accrued Liability (AAL)</u>	<u>Unfunded AAL</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded AAL as a Percentage of Covered Payroll</u>
1/1/1995	\$ 95,741,300	98,674,600	2,933,300	97.0 %	\$ 60,199,900	4.9 %
1/1/1996	104,143,300	107,111,800	2,968,500	97.2	62,013,600	4.8
1/1/1997	112,455,500	136,331,700	23,876,200	82.5	64,799,849	36.9
1/1/1998	128,403,003	151,291,885	22,888,882	84.9	68,546,583	33.4

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Schedule of Funding Progress

Santa Clara Valley Transportation Authority CalPERS Plan

(Unaudited – See accompanying independent auditors' report)

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded/ (Overfunded) Liability	Funded Ratio	Unfunded as a Percentage of Payroll
6/30/98	N/A	N/A	N/A	N/A	N/A
6/30/97	N/A	N/A	N/A	N/A	N/A
6/30/96	N/A	N/A	N/A	N/A	N/A

N/A – As a result of the separation from the County, certain administrative employees were transferred from the County to VTA. Until the transfer is completed, CalPERS is unable to determine VTA's portion of the CALPERS Plan's unfunded actuarial accrued liability.

COMBINING SCHEDULES

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Combining Schedule of Assets, Liabilities, and Equity

Governmental Fund Type

(Special Revenue Funds)

June 30, 1998

Assets	<u>Traffic Authority</u>	<u>CMP</u>	<u>Total</u>
Current assets:			
Cash and equity in cash and investments held in County Treasury	\$ 5,241,666	984,899	6,226,565
Due from other funds	—	54,760	54,760
Due from other governmental agencies	<u>1,644,380</u>	<u>198,350</u>	<u>1,842,730</u>
Total current assets	<u>6,886,046</u>	<u>1,238,009</u>	<u>8,124,055</u>
Restricted assets:			
Cash and equity in cash and investments held in County Treasury	—	364,544	364,544
Total restricted assets	<u>—</u>	<u>364,544</u>	<u>364,544</u>
Noncurrent assets – other	—	3,558	3,558
Total assets	<u>\$ 6,886,046</u>	<u>1,606,111</u>	<u>8,492,157</u>
Liabilities and Equity			
Current liabilities:			
Accounts payable	\$ 3,195,867	79,895	3,275,762
Other accrued liabilities	—	33,285	33,285
Due to other funds	30	1,059	1,089
Due to other governmental agencies	<u>528,933</u>	<u>83,509</u>	<u>612,442</u>
Total current liabilities	<u>3,724,830</u>	<u>197,748</u>	<u>3,922,578</u>
Liabilities payable from restricted assets:			
Accounts payable	—	292,496	292,496
Due to other governmental agencies	<u>—</u>	<u>72,048</u>	<u>72,048</u>
Total liabilities payable from restricted assets	<u>—</u>	<u>364,544</u>	<u>364,544</u>
Noncurrent liabilities – other accrued liabilities		<u>24,604</u>	<u>24,604</u>
Total liabilities	<u>3,724,830</u>	<u>586,896</u>	<u>4,311,726</u>
Equity – fund balance – undesignated	<u>3,161,216</u>	<u>1,019,215</u>	<u>4,180,431</u>
Total liabilities and equity	<u>\$ 6,886,046</u>	<u>1,606,111</u>	<u>8,492,157</u>

See accompanying independent auditors' report.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances

Governmental Fund Type

(Special Revenue Funds)

June 30, 1998

	<u>Traffic Authority</u>	<u>CMP</u>	<u>Total</u>
Revenues:			
Sales tax	\$ 1,410,326	—	1,410,326
Federal grants	6,300,513	185,755	6,486,268
Investment earnings	447,945	49,048	496,993
Member agency assessment revenue	—	1,239,995	1,239,995
Program reimbursement	514,063	—	514,063
Administrative fees	—	54,760	54,760
State grants	832,821	—	832,821
Other revenues	257,914	6,585	264,499
	<u>9,763,582</u>	<u>1,536,143</u>	<u>11,299,725</u>
Total revenues			
Expenditures:			
Salaries and benefits	—	644,285	644,285
Services	161,776	879,247	1,041,023
Program expenses	9,945,774	—	9,945,774
Other	37,188	—	37,188
	<u>10,144,738</u>	<u>1,523,532</u>	<u>11,668,270</u>
Total expenditures			
Total (expenditures) revenues exceeding (revenues) expenditures	(381,156)	12,611	(368,545)
Fund balance, beginning of year	<u>3,542,372</u>	<u>1,006,604</u>	<u>4,548,976</u>
Fund balance, end of year	\$ <u>3,161,216</u>	<u>1,019,215</u>	<u>4,180,431</u>

See accompanying independent auditors' report.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual - Special Revenue Funds

Year Ended June 30, 1998

	Traffic Authority			Congestion Management Program			Combined totals		
	Budget	Actual	Favorable (Unfavorable) Variance	Budget	Actual	Favorable (Unfavorable) Variance	Budget	Actual	Favorable (Unfavorable) Variance
Revenues:									
Sales tax	\$ 869,000	1,410,326	541,326	--	--	--	869,000	1,410,326	541,326
Federal grants	8,239,000	6,300,513	(1,938,487)	--	185,755	185,755	8,239,000	6,486,268	(1,752,732)
Interest	139,000	447,945	308,945	--	49,048	49,048	139,000	496,993	357,993
Member agency assessment revenue	--	--	--	1,240,000	1,239,995	(5)	1,240,000	1,239,995	(5)
Program reimbursement	--	514,063	514,063	--	--	--	--	514,063	514,063
Administrative fees	--	--	--	92,000	54,760	(37,240)	92,000	54,760	(37,240)
State grants	5,142,000	832,821	(4,309,179)	800,000	--	(800,000)	5,942,000	832,821	(5,109,179)
Other revenues	--	257,914	257,914	--	6,585	6,585	--	264,499	264,499
Total revenues	14,389,000	9,763,582	(4,625,418)	2,132,000	1,536,143	(595,857)	16,521,000	11,299,725	(5,221,275)
Expenditures:									
Salaries and benefits	--	--	--	913,000	644,285	268,715	913,000	644,285	268,715
Services	60,000	161,776	101,776	1,183,000	879,247	303,753	1,243,000	1,041,023	201,977
Program expenses	10,838,000	9,945,774	(892,226)	--	--	--	10,838,000	9,945,774	892,226
Other	--	37,188	37,188	20,000	--	20,000	20,000	37,188	(17,188)
Total expenditures	10,898,000	10,144,738	(753,262)	2,116,000	1,523,532	592,468	13,014,000	11,668,270	1,345,730
Total (expenditures)/revenues exceeding (revenues) expenditures	3,491,000	(381,156)	(3,872,156)	16,000	12,611	(3,389)	3,507,000	(368,545)	(3,875,545)
Fund balance at beginning of year	3,542,372	3,542,372	--	1,006,604	1,006,604	--	4,548,976	4,548,976	--
Fund balance at end of year	\$ 7,033,372	3,161,216	(3,872,156)	1,022,604	1,019,215	(3,389)	8,055,976	4,180,431	(3,875,545)

See accompanying independent auditors' report.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Combining Schedule of Assets, Liabilities, and Equity

Fiduciary Fund Type

(Trust and Agency Funds)

June 30, 1998

Assets	Trust Funds(a)	Agency Fund	Total
Restricted assets:			
Cash and equity in cash and investments held in County Treasury	\$ 23,592,833	6,050,246	29,643,079
Investments	113,803,313	—	113,803,313
Receivables	1,982,513	—	1,982,513
Due from other funds	22,888,882	—	22,888,882
Due from other governmental agencies	11,793	86,938	98,731
 Total assets	 \$ 162,279,334	 6,137,184	 168,416,518
Liabilities and Equity			
Liabilities payable from restricted assets:			
Accounts payable	\$ —	5,857,096	5,857,096
Due to other funds	18,200	280,088	298,288
Other accrued liabilities – noncurrent	2,937,923	—	2,937,923
 Total liabilities payable from restricted assets	 2,956,123	 6,137,184	 9,093,307
Equity – fund balance – reserved for employees’ pension benefits	159,323,211	—	159,323,211
 Total liabilities and equity	 \$ 162,279,334	 6,137,184	 168,416,518

(a) See Combining Schedule of Assets, Liabilities, and Equity – Trust Funds

See accompanying independent auditors’ report.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Combining Schedule of Assets, Liabilities, and Equity – Trust Funds

June 30, 1998

Assets	<u>SCCTD/ATU Pension Fund</u>	<u>ATU Spousal Medical Trust</u>	<u>Total</u>
Restricted assets:			
Cash and equity in cash and investments held in County Treasury	\$ 20,683,280	2,909,553	23,592,833
Investments	113,803,313	—	113,803,313
Receivables	1,947,736	34,777	1,982,513
Due from other funds	22,888,882	—	22,888,882
Due from other governmental agencies	—	11,793	11,793
Total assets	\$ <u>159,323,211</u>	<u>2,956,123</u>	<u>162,279,334</u>
Liabilities and Equity			
Liabilities payable from restricted assets:			
Due to other funds	\$ —	18,200	18,200
Other accrued liabilities – noncurrent	—	2,937,923	2,937,923
Total liabilities payable from restricted assets	—	<u>2,956,123</u>	<u>2,956,123</u>
Equity – fund balance – reserved for employees’ pension benefits	<u>159,323,211</u>	—	<u>159,323,211</u>
Total liabilities and equity	\$ <u>159,323,211</u>	<u>2,956,123</u>	<u>162,279,334</u>

See accompanying independent auditors’ report.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Schedule of Changes in Assets and Liabilities -- Fiduciary Fund Type

(Agency Fund)

Year ended June 30, 1998

Assets	<u>Balance July 1, 1997</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 1998</u>
Current assets:				
Cash and equity in cash and investments held in County Treasury	\$ 5,314,189	2,928,836	2,192,779	6,050,246
Due from other funds	19,224	—	19,224	—
Due from other governmental agencies	<u>78,205</u>	<u>86,938</u>	<u>78,205</u>	<u>86,938</u>
Total assets	\$ <u>5,411,618</u>	<u>3,015,774</u>	<u>2,290,208</u>	<u>6,137,184</u>
 Liabilities				
Liabilities payable from restricted assets:				
Accounts payable	\$ 5,411,618	445,478	—	5,857,096
Due to other funds	<u>—</u>	<u>280,088</u>	<u>—</u>	<u>280,088</u>
Total liabilities	\$ <u>5,411,618</u>	<u>725,566</u>	<u>—</u>	<u>6,137,184</u>

See accompanying independent auditors' report.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Schedule of Restricted Assets and Related Liabilities – Enterprise Fund

June 30, 1998

	<u>Capital and Operating</u>	<u>General Liability Insurance</u>	<u>Workers' Compensation Insurance</u>	<u>Retiree Health Care</u>	<u>Long-Term Accrued Vacation and Sick Benefits</u>	<u>Debt Service</u>	<u>Total</u>
Restricted assets:							
Cash and equity in cash and investments held in County Treasury	\$ 22,497,717	22,362,976	25,428,372	23,363,896	9,767,139	—	103,420,100
Investments with fiscal agent	26,858,973	—	—	—	—	7,580,362	34,439,335
Receivables	—	147,576	324,344	113,936	—	—	585,856
Due from other funds	—	206,643	120,549	223,923	—	—	551,115
Due from other governmental agencies	14,352,818	—	—	—	—	—	14,352,818
Total	<u>63,709,508</u>	<u>22,717,195</u>	<u>25,873,265</u>	<u>23,701,755</u>	<u>9,767,139</u>	<u>7,580,362</u>	<u>153,349,224</u>
Liabilities payable from restricted assets:							
Accounts payable	8,451,475	113,250	7,913,580	409	—	—	16,478,714
Other accrued liabilities – current	3,307,372	—	38,709	—	—	—	3,346,081
Due to other governmental agencies	1,328,608	—	—	225,957	—	—	1,554,565
Long-term debt	—	—	—	—	—	7,580,362	7,580,362
Other accrued liabilities – noncurrent	—	22,603,945	17,920,976	23,475,389	9,767,139	—	73,767,449
Total	<u>13,087,455</u>	<u>22,717,195</u>	<u>25,873,265</u>	<u>23,701,755</u>	<u>9,767,139</u>	<u>7,580,362</u>	<u>102,727,171</u>
Retained earnings – reserved	\$ <u>50,622,053</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>50,622,053</u>

See accompanying independent auditors' report.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Schedule of Budget Versus Actual Revenues,
Expenditures, and Capital Program Costs – Enterprise Fund

Year ended June 30, 1998

	<u>Budget^(a)</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>
Operating revenues:			
Passenger fares	\$ 25,610,000	27,200,840	1,590,840
Advertising and other	2,874,000	2,802,298	(71,702)
Total operating revenues	<u>28,484,000</u>	<u>30,003,138</u>	<u>1,519,138</u>
Operating expenditures:			
Labor and fringe benefits	133,633,000	130,691,411	2,941,589
Services and supplies	47,016,000	41,587,520	5,428,480
Purchased transportation	13,143,000	11,820,778	1,322,222
Total operating expenditures	<u>193,792,000</u>	<u>184,099,709</u>	<u>9,692,291</u>
Operating loss	<u>(165,308,000)</u>	<u>(154,096,571)</u>	<u>11,211,429</u>
Nonoperating revenues (expenditures):			
Sales tax revenue	127,414,000	138,428,805	11,014,805
Federal operating assistance grants	82,000	59,238	(22,762)
State and local operating assistance grants	72,703,000	72,624,283	(78,717)
CalTrain reimbursements	2,509,000	—	(2,509,000)
CalTrain subsidy	(12,255,000)	(12,254,444)	556
Contribution for unfunded pension liability	(22,889,000)	(22,888,882)	118
Investment earnings	4,419,000	8,784,858	4,365,858
Interest expense	(4,614,000)	(4,013,862)	600,138
Other, net	329,000	234,251	(94,749)
Total nonoperating revenues, net	<u>167,698,000</u>	<u>180,974,247</u>	<u>13,276,247</u>
Net income – budget basis	2,390,000	26,877,676	24,487,676
Depreciation	—	24,322,099	(24,322,099)
Net income – GAAP basis	<u>2,390,000</u>	<u>2,555,577</u>	<u>165,577</u>
Capital program costs	\$ <u>131,988,000</u>	<u>58,602,321</u>	<u>73,385,679</u>

(a) The budget for the year ended June 30, 1998 represents the revised budget as amended to reflect all subsequently approved budget modifications through the end of fiscal 1998 as well as adjustments to add back carried forward encumbrances from fiscal 1997 and subtract outstanding encumbrances as of June 30, 1998.

See accompanying independent auditors' report.

SECTION 3 — STATISTICAL

FINANCIAL RATIOS

- CURRENT RATIOS
- DEBT AND EQUITY RATIOS
- OPERATING RECOVERY RATIOS
- TIMES DEBT SERVICE COVERAGE

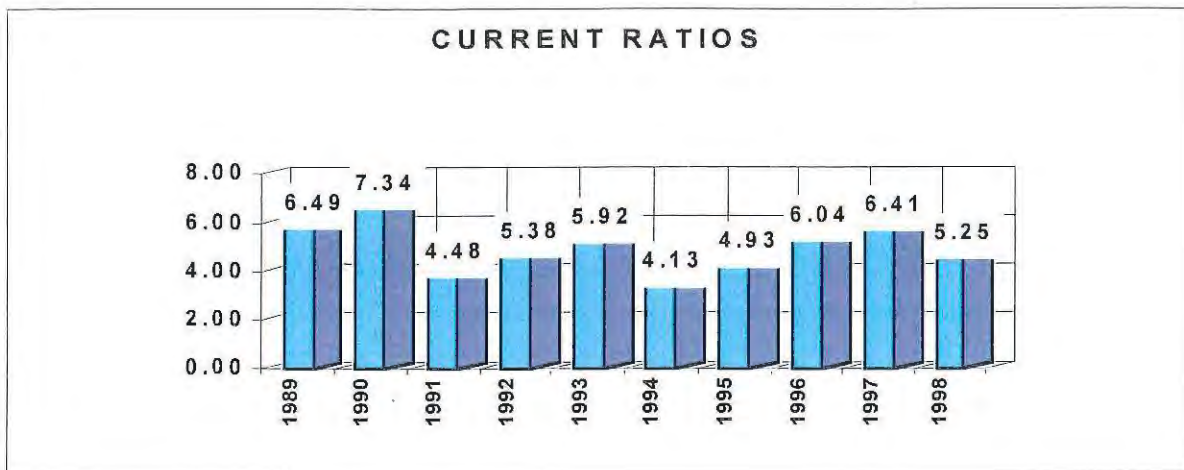
TEN YEAR COMPARISONS

- OPERATING REVENUE AND NET OPERATING EXPENSES
- NON-OPERATION ASSISTANCE AND INTEREST INCOME
- ACTUAL RESERVE TO TARGET RESERVE
- VEHICLE REVENUE MILES
- PASSENGER MILES
- SELECTED FINANCIAL DATA
- SELECTED STATISTICAL AND DEMOGRAPHIC DATA

FINANCIAL RATIOS 1989 - 1998

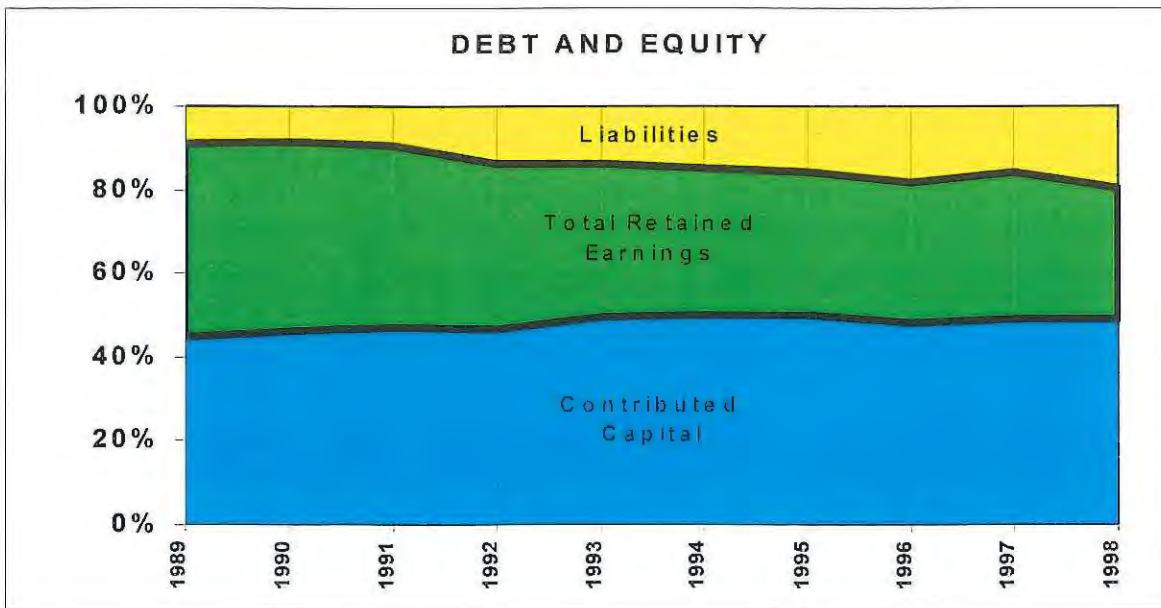
Current Ratios

This is a measure of the District's ability to meet short term obligation is determined by dividing total current assets restricted and unrestricted by all current liabilities restricted and unrestricted, and payable from current restricted assets. A ratio of 2 to 1 is usually considered to be an indication that an organization is liquid enough to pay its obligations of the upcoming year on a timely basis.



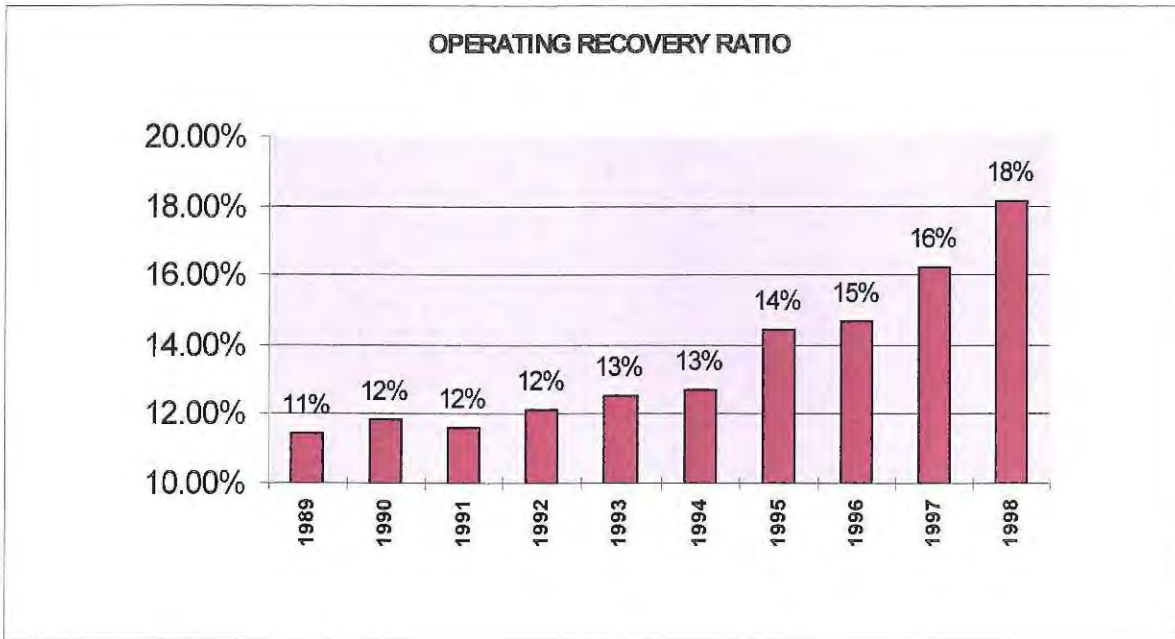
Debt and Equity Ratios

These ratios indicate the percentage of assets financed through borrowing, capital contributions, and District equity. They are determined by showing liabilities and equity as a percentage of total assets. This indicates VTA has issued a relatively small amount of debt to finance its assets.



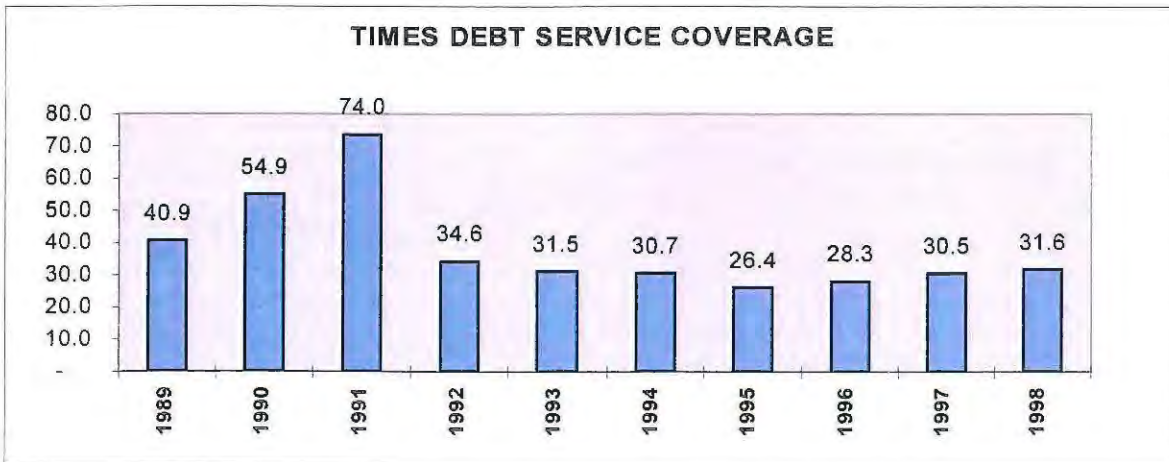
Operating Recovery Ratio

The operating recovery ratio is calculated by taking operating income divided by the net operating expenses. This key measure shows a five percent gain from 1994 to fiscal 1998 in keeping with the long range strategic plan's goal of increasing operating recovery ratio to 25% by the year 2006. VTA plans to achieve a 19% ratio in the year 2000 by a combination of cost containment measures, increasing ridership and modest fare increases.



Times Debt Service Coverage

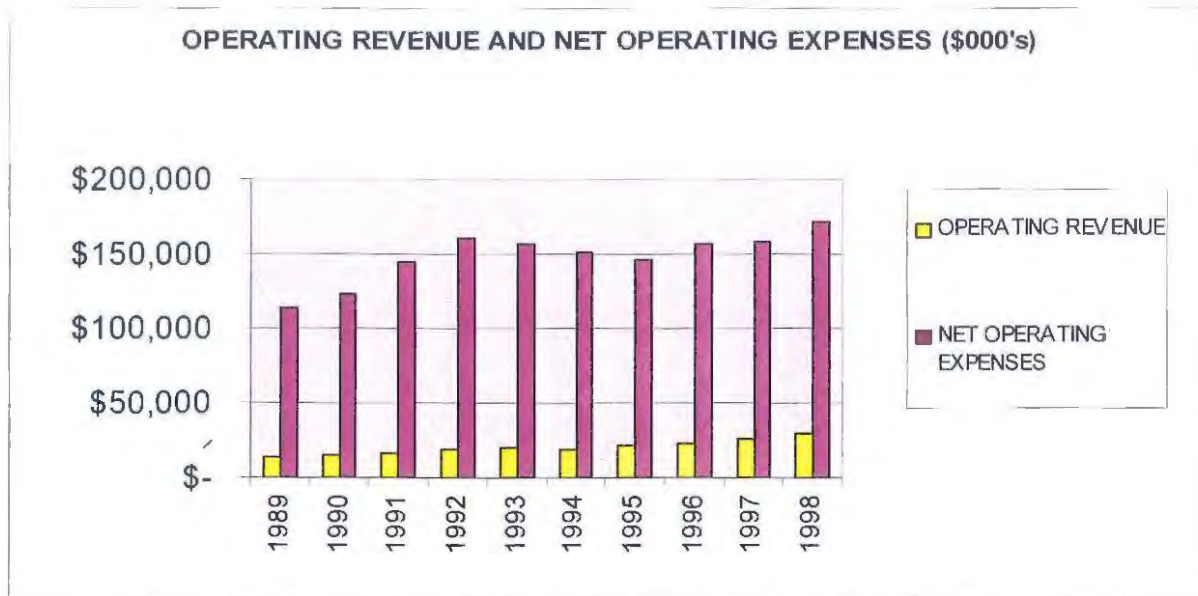
The following schedule shows the ratio of sales tax revenues to debt service. It reflects that historically the pledged sales tax has adequately covered the principal and interest payments.



TEN - YEAR COMPARISONS (1989 - 1998)

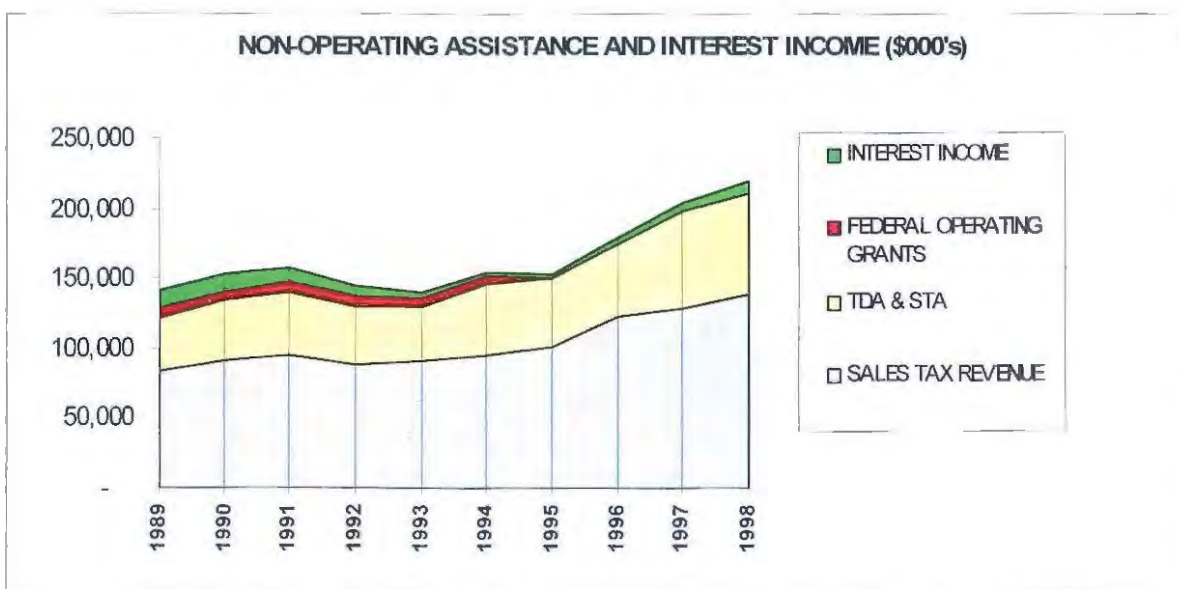
Operating Revenues and Net Operating Expenses

This chart compares the amount of operating revenue relative to operating expenses. Operating expenses are net of purchased transportation and contributions to PCJPB, Highway 17 as well as Dumbarton Express to more accurately depict operations related to directly operated service.



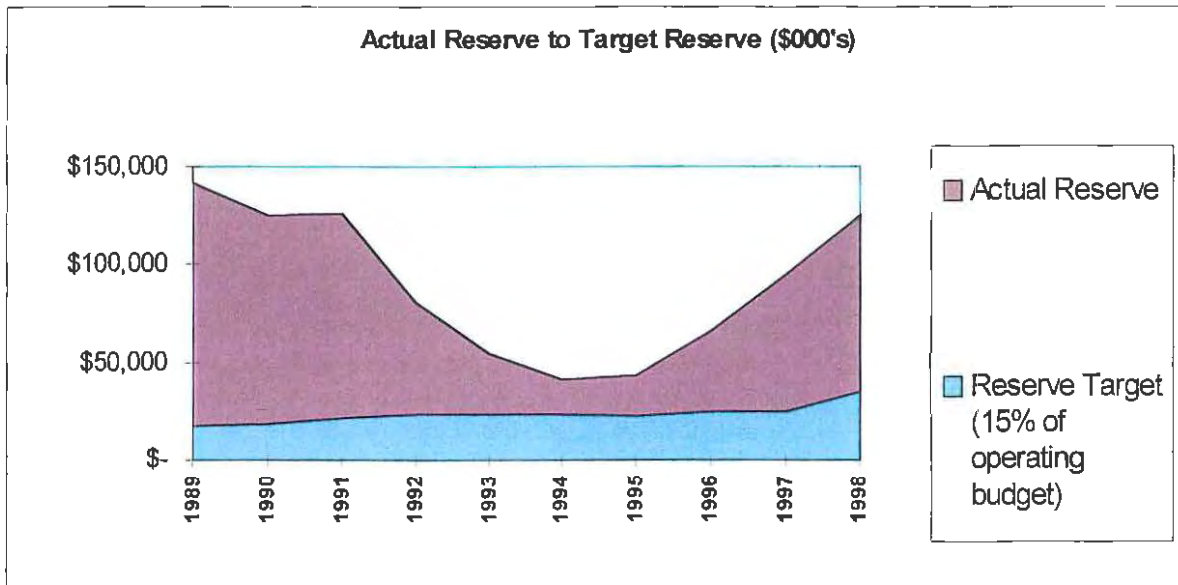
Non-operating Assistance and Interest Income

The following chart illustrates trends in selected material non-operating revenue sources. Taxable sales growth in Santa Clara County is the greatest contributing factor to the non-operating revenue sources shown in the following graph.



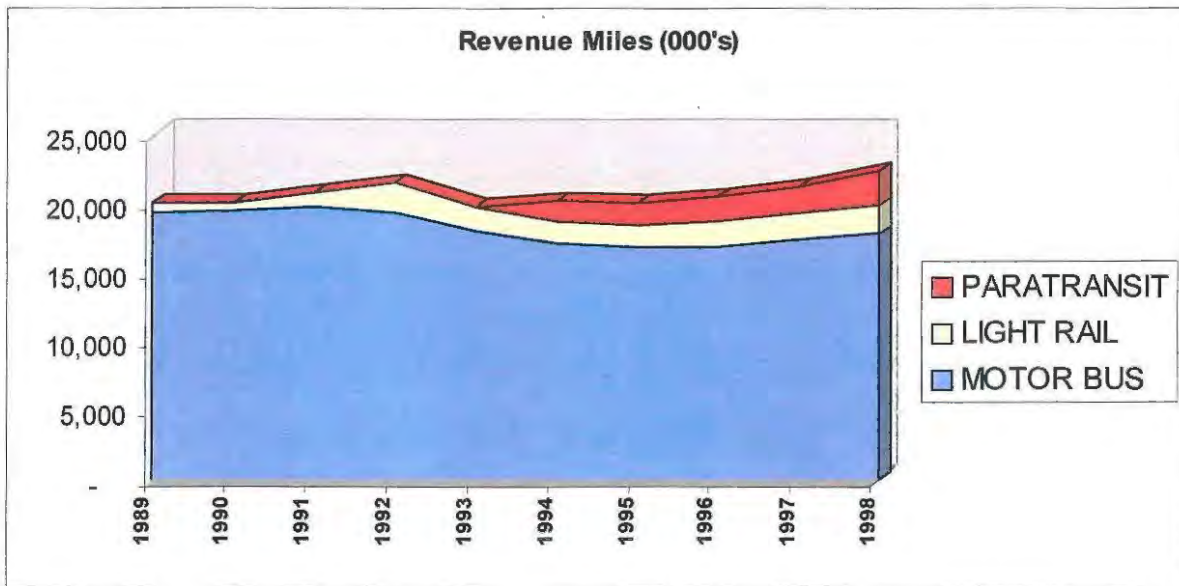
Actual Reserves to Target Reserves

This table compares the actual reserve including the minimum target level, to the minimum target level reserve. For long term planning purposes the Authority strives to maintain reserves at a minimum level of 15% of the operating budget. The following chart illustrates the trend in reserves resulting primarily from the implementation of light rail capital expansion programs (1988-1992).



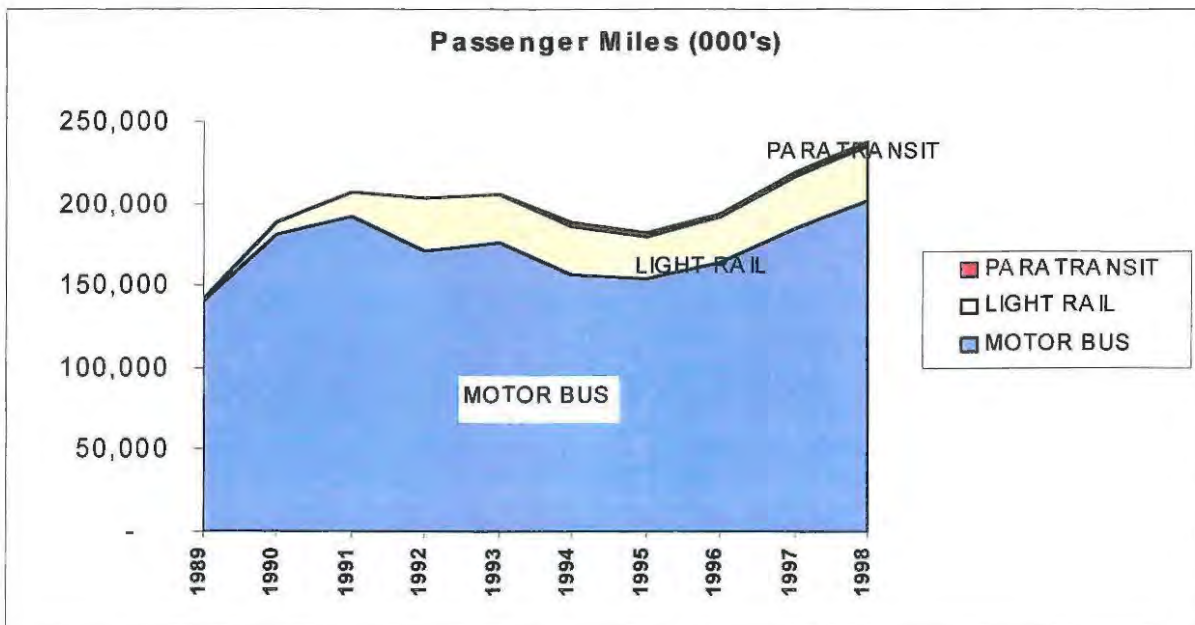
Vehicle Revenue Miles

The following chart depicts vehicle miles in revenue service. Service cuts of 5% and 10% were implemented during fiscal years 1992 and 1993, respectively. Paratransit costs increased to meet the requirements of the federal Americans with Disabilities Act.



Passenger Miles

Passenger mile statistics are presented in the chart below. Service cuts of 5% and 10% were implemented during fiscal years 1992 and 1993, respectively.



Section - 3

Selected Financial Data

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
OPERATING REVENUES (\$000's)	\$ 13,074	\$ 14,653	\$ 16,752	\$ 19,484	\$ 19,705	\$ 19,279	\$ 21,096	\$ 22,964	\$ 25,577	\$ 30,003
OPERATING EXPENSES (\$000's)										
LABOR	56,329	59,842	64,702	68,361	67,458	67,387	68,533	71,810	77,297	82,030
FRINGE BENEFITS	29,810	32,466	41,759	54,235	50,719	44,100	39,146	46,457	43,054	48,661
MATERIALS AND SUPPLIES	10,309	14,340	14,960	13,599	13,536	15,455	14,582	16,649	16,911	17,044
SERVICES	10,277	9,798	14,714	15,343	13,954	12,449	10,400	12,310	12,583	14,709
UTILITIES	1,567	1,422	2,117	2,775	3,300	3,152	3,337	3,277	3,409	3,603
CASUALTY AND LIABILITY	3,406	2,986	3,184	3,641	5,419	6,102	7,200	4,120	2,413	3,923
PURCHASED TRANSPORTATION	-	761	1,096	238	3,240	4,340	4,714	5,746	8,916	11,821
LEASES & RENTALS	1,233	1,621	1,619	1,535	1,710	1,448	1,079	773	299	394
MISCELLANEOUS	1,015	975	1,068	854	779	1,592	1,576	1,184	1,628	1,915
TOTAL OPERATING EXPENSES	113,946	124,211	145,219	160,581	160,115	156,025	150,567	162,326	166,510	184,100
DEPRECIATION EXPENSE	11,629	12,262	12,060	13,187	14,784	15,043	17,263	23,266	24,418	24,322
NONOPERATING REVENUES (EXPENSES)										
SALES TAX REVENUE	83,429	90,819	95,077	88,731	90,547	95,134	100,638	122,274	128,969	138,429
FEDERAL OPERATING GRANTS	6,739	6,313	6,524	6,324	6,042	6,067	146	110	49	59
TDA & STA	38,609	43,231	45,091	41,954	38,897	50,411	50,007	52,597	69,243	72,624
CALTRAIN SUBSIDY	(3,099)	(4,282)	(3,770)	(4,733)	(4,803)	(11,793)	(11,900)	(11,973)	(11,689)	(12,254)
CALTRAIN	0	0	0	0	0	0	4,972	2,086	2,584	0
INTEREST INCOME	12,735	13,258	10,626	7,932	4,236	2,310	2,554	4,148	5,943	8785
INTEREST EXPENSE	(2,041)	(1,655)	(1,284)	(2,786)	(2,915)	(2,932)	(3,640)	(3,863)	(3,731)	(4,014)
OTHER (EXPENSES)/REVENUE	704	(2,075)	(8,125)	(3,246)	(7,525)	291	(1,355)	(231)	(550)	234
CONTRIBUTION TO FUND UNFUNDED LIABILITY										(22,889)
TOTAL NON OPERATING REVENUES - NET	137,076	145,609	144,139	134,176	124,479	139,488	141,422	165,148	190,818	180,974
NET INCOME (LOSS)	\$ 24,575	\$ 23,789	\$ 3,612	\$ (20,108)	\$ (30,715)	\$ (12,301)	\$ (5,312)	\$ 2,520	\$ 25,467	\$ 2,555

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Current Assets (\$000's)	\$ 178,950	\$ 176,599	\$ 142,994	\$ 168,608	\$ 151,356	\$ 145,373	\$ 164,755	\$ 219,762	\$ 245,843	\$ 334,148
Current Liabilities	27,554	24,058	31,908	31,364	25,546	35,175	33,443	36,375	38,328	63,682
Net Working Capital	\$ 151,396	\$ 152,541	\$ 111,086	\$ 137,244	\$ 125,810	\$ 110,198	\$ 131,312	\$ 183,387	\$ 207,515	\$ 270,466
Current Ratio	6.49	7.34	4.48	5.38	5.92	4.13	4.93	6.04	6.41	5.25
Total Assets (\$000's)	\$ 735,325	\$ 809,455	\$ 873,449	\$ 915,941	\$ 931,217	\$ 966,761	\$ 1,007,266	\$ 1,046,516	\$ 1,105,068	\$ 1,297,983
Contributed Capital	330,127	372,902	411,938	425,256	460,037	483,864	505,388	501,599	540,365	634,828
Retained Earnings Restricted	80,702	67,995	59,133	39,453	31,531	25,451	31,693	29,165	33,159	122,914
Retained Earnings UnRestricted	257,813	299,024	316,220	323,523	308,871	313,100	311,910	326,650	358,089	286,849
Total Retained Earnings	338,515	367,019	375,353	362,976	340,402	338,551	343,603	355,815	391,248	409,763
Liabilities	66,683	69,535	83,159	127,709	130,778	144,345	158,275	189,101	173,455	253,392
Actual Reserve including minimum target level	\$ 141,300	\$ 125,300	\$ 125,900	\$ 80,900	\$ 54,600	\$ 41,800	\$ 43,744	\$ 66,195	\$ 95,310	\$ 125,410
DEBT SERVICE (\$000's)	2,041	1,655		2,786	2,915	3,096	3,817	4,323	4,231	4,382
			1,284							
DEBT COVERAGE FROM SALES TAX	40.9	54.9		31.8	31.1	30.7	26.4	28.3	30.5	31.6
			74.0							

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
OPERATING REVENUE	\$ 13,074	\$ 14,653	\$ 16,752	\$ 19,484	\$ 19,705	\$ 19,279	\$ 21,096	\$ 22,964	\$ 25,577	\$ 31,275
OPERATING EXPENSES	113,946	124,211	145,219	160,581	160,115	156,025	150,567	162,326	166,510	184,100
EXCLUSIONS (purchased transportation)	-	(761)	(1,096)	(238)	(3,240)	(4,340)	(4,714)	(5,746)	(8,916)	(11,821)
NET OPERATING EXPENSES	113,946	123,450	144,123	160,343	156,875	151,685	145,853	156,580	157,594	172,279
OPERATING RECOVERY RATIO	11.47%	11.87%	11.62%	12.15%	12.56%	12.71%	14.46%	14.67%	16.23%	18.15%

Selected Statistical Data

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
FAREBOX REVENUE (\$000's)	\$ 12,689	\$ 13,716	\$ 15,535	\$ 18,702	\$ 18,841	\$ 18,343	\$ 19,884	\$ 21,523	\$ 23,633	\$ 27,201
VEHICLE REVENUE MILES (000's)										
MOTOR BUS	19,373	19,536	19,815	19,445	18,027	17,112	16,896	16,931	17,451	17,904
LIGHT RAIL	662	553	981	2,080	1,724	1,715	1,662	1,868	1,888	2,092
PARATRANSIT						1,406	1,511	1,729	1,994	2,494
PASSENGER MILES (000's)										
MOTOR BUS	140,541	180,636	191,953	171,642	176,029	156,872	153,902	163,348	185,226	201,818
LIGHT RAIL	534	7,527	14,566	31,396	30,183	29,501	26,413	28,428	31,037	32,992
PARATRANSIT						1,937	1,795	1,881	2,420	2,494
FLEET										
ACTIVE BUS	499	508	542	512	605	464	460	460	470	508
LIGHT RAIL	50	53	55	55	56	55	55	55	55	55
CASH FARE SINGLE RIDE										
ADULT	\$ 0.75	\$ 0.75	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.10	\$ 1.10	\$ 1.10	\$ 1.10	\$ 1.10
YOUTH	\$ 0.50	\$ 0.50	\$ 0.50	\$ 0.50	\$ 0.50	\$ 0.55	\$ 0.55	\$ 0.55	\$ 0.60	\$ 0.60
SENIOR	\$ 0.10	\$ 0.10	\$ 0.25	\$ 0.25	\$ 0.25	\$ 0.35	\$ 0.35	\$ 0.35	\$ 0.35	\$ 0.35

Section 3

Population

Over the past fifty years, the County's population growth pattern has exhibited three decades of rapid growth followed by two decades of more sustainable growth rates. The proportion of residents living in cities is currently 93.5 percent, whereas it had been as low as 6.5 percent in the 1940s. 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 (6.5 percent) of residents living in unincorporated areas. The County's population stood at 1,689,900 as of January 1, 1998, representing an increase of 12.8 percent over 1990. All of the cities in the County reported population increases, with Morgan Hill posting the fastest population growth (28.7 percent). The number of residents living in the unincorporated areas of the County increased slightly.

The following table provides a historical summary of population in the County and its incorporated cities.

County of Santa Clara Population

	1950	1960	1970	1980	1990	1998
Campbell	9,720	11,863	24,731	26,843	36,048	39,700
Cupertino	2,438	3,664	18,216	34,297	40,263	46,700
Gilroy	4,951	7,348	12,665	21,641	31,487	37,450
Los Altos		19,696	24,872	25,769	26,303	28,400
Los Altos Hills		3,412	6,862	7,421	7,514	8,175
Los Gatos	4,907	9,036	23,466	26,906	27,357	30,100
Milpitas		6,572	27,149	37,820	50,686	62,600
Monte Sereno		1,506	3,074	3,434	3,287	3,420
Morgan Hill	1,627	3,151	6,485	17,060	23,928	30,800
Mountain View	6,653	30,889	54,206	58,655	67,460	74,700
Palo Alto	25,475	52,475	55,999	55,225	55,900	60,500
San Jose	95,280	204,196	445,779	629,400	782,248	894,000
Santa Clara	11,702	58,880	87,717	87,700	93,613	101,900
Saratoga	1,329	14,861	27,199	29,261	28,061	31,100
Sunnyvale	9,829	51,898	95,408	106,618	117,229	131,100
Unincorporated	117,176	162,056	152,181	127,021	106,193	109,300
County Total*	290,547	642,315	1,066,009	1,295,071	1,497,577	1,689,900
California	10,586,224	15,717,204	18,136,045	23,668,145	29,760,021	33,252,000

*Totals may not be precise due to independent rounding.
 Source: U.S. Census; State of California, Department of Finance, Demographic Research Unit

Employment and Industry

A highly skilled and diverse work force characterizes the County's labor market, a situation that has traditionally translated into lower unemployment rates in the County when compared to State and national average unemployment rates. The County did experience a decline in average employment in 1992, however, reflecting the impact of the national and regional recession on the County's labor market. As shown in the table below, the County's average unemployment rate has been below the average for the entire State in each of the last seven years, with the County's 3.0 percent average rate in 1997 more than three percentage points lower than the State's average of 6.3 percent. Recent indications of a slight rise in county unemployment for 1998 is attributed largely to declines in durable goods manufacturing.

The County, with approximately 933,200 wage and salary jobs in 1997, has the largest employment base of any county in Northern California. In 1997, the County experienced a very strong gain of 48,200 wage and salary positions. Three major industry sectors comprise 74 percent of the County's employment: manufacturing (27%), services (32%) and retail trade (14%). The percentage share of County payrolls for these sectors has remained relatively constant over the past seven years.

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

	1991	1992	1993	1994	1995	1996	1997
Civilian Labor Force *	827.5	835.7	856.2	860.6	867.0	898.2	938.5
Civilian Employment	780.0	777.8	797.9	806.9	824.2	865.9	910.1
Civilian Unemployment	47.5	57.9	58.3	53.7	42.8	32.3	28.4
Civilian Unemployment Rate							
County	5.7%	6.9%	6.8%	6.2%	4.9%	3.6%	3.0%
State of California	7.7%	9.3%	9.4%	8.6%	7.8%	7.2%	6.3%
Wage and Salary Employment **							
Total Farm	5.1	5.1	5.4	5.1	4.5	5.1	5.0
Construction and Mining	28.4	27.5	26.3	26.5	28.8	32.8	37.9
Manufacturing	251.5	236.8	231.7	226.0	231.2	245.9	256.0
Transportation & Public Utilities	22.6	22.4	23.6	23.8	24.0	25.4	27.4
Wholesale Trade	50.4	47.2	45.5	46.0	48.7	52.4	56.6
Retail Trade	114.6	111.4	112.2	114.3	117.4	122.2	127.8
Finance, Insurance & Real Estate	31.5	31.5	31.5	30.0	28.7	30.0	30.7
Services	217.7	226.6	237.9	245.1	265.3	283.9	303.2
Government	89.1	88.8	87.9	88.3	87.8	87.4	88.5
Total ***	810.9	797.2	802.0	805.0	836.4	885.0	933.2

* Labor force data are based upon place of residence. Employment includes self-employed, unpaid family workers, domestics, and workers involved in labor-management disputes. Data are benchmarked to 1997.

** Wage and salary employment is reported by place of work. Data are benchmarked to 1997.

*** Totals may not be precise due to independent rounding.

Source: California State Department of Employment Development.

Major Employers

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

One of the County's large employers, Moffett Naval Air Station, was closed as a military base in 1994. The site has been undergoing conversion to alternative uses, with the US Navy having transferred most of the facilities to the National Aeronautics and Space Administration ("NASA"). NASA may, in

conjunction with other federal agencies, maintain or replace a significant number of the 5,500 military personnel and 1,400 civilian employees currently working at the base.

The table below lists the largest employers in the Silicon Valley, which encompasses the County and surrounding areas.

**Largest Employers
Silicon Valley**

Company Name	Number of Employees	Nature of Business
Hewlett-Packard	16400	Computers and peripherals
County of Santa Clara*	13471	County Government
Lockheed Martin Missiles & Space	10500	Commercial and Military Space Products
Stanford University	8735	Education
IBM	7800	Storage Drives and Software
Intel Corp.	7238	Computer Chips
Quantum Corp.	6770	Computer Storage and Peripherals
City of San Jose	6304	City Government
Kaiser Permanente Med. Centers	6190	Health Care
Cisco Systems Inc.	6050	Networking
Lucky Stores Inc.	6030	Retail Food
Selectron Corp.	5880	Electronics Manufacturing
Applied Materials Inc.	5550	Semiconductor Production Equipment
Apple Computer Inc.	4775	Computer Manufacturer
National Semiconductor	4400	Analog/Mixed-Signal Producer
Lam Research Corp.	3137	Semiconductor Supply Manufacturer
Advanced Micro Devices Inc.	2979	Integrated Circuit Manufacturer
San Jose State University*	2800	Public University
3Com Corp.	2554	Networking
Read-Rite Corp.	2252	Assemblies for Disk Drives
LSI Logic Corp.	2200	Semiconductors
Santa Clara Valley Transportation Authority**	2199	Transportation Agency
East-Side Union School District*	2000	Public School System
Alum Rock Union School District*	1720	Public School System
Foothill-De Anza Community College District	1680	Public College

Source: San Jose and Silicon Valley Business Journal (1998 Book of Lists)

* Represents 1996 employment.

** From Santa Clara Valley Transportation Authority

Commercial Activity

Ranking first among San Francisco Bay Area counties and fourth among all California counties in terms of retail activity, the County is an important center of commercial activity. Taxable sales activity at business and personal service outlets, as well as at other non-retail commercial establishments, are a significant component of the County's commercial activity. The following table sets forth the amount of taxable transactions from 1991 through 1997.

County of Santa Clara
Taxable Transactions
1991 to 1997
(in \$thousands)

1991	\$ 17,820,900
1992	18,088,500
1993	18,865,200
1994	19,778,000
1995	22,512,100
1996	25,740,500
1997	26,967,000

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

Construction Activity

Construction data for the County indicates that the pace of total residential building activity exploded to levels in 1996 and 1997 that have not been seen since the mid-1980s. Total valuation of residential construction reached \$1.33 billion in 1997, representing a yearly increase of \$418 million. The number of single-family units rose to 4,367 and the number of multi-family units was 4,443; total new housing units increased 16% while the valuation of new residential units increased over 45% compared to 1996.

This disparity is reflected in housing affordability. In 1997, only 37% of Silicon Valley households could afford to purchase a median-priced home (\$316,250 at the end of 1997), down from 41% in 1996. The national average is 65%. Lack of affordable housing in a region encourages longer commutes from outside the region and increases traffic congestion. Since the end of 1995, average apartment rental rates have increased 29% compared to an 8% increase in median income.

The following table provides a summary of building permit valuations and the number of new dwelling units authorized in the County since 1988.

County of Santa Clara
 Building Permit Valuations
 1988 to 1997

Year	Valuation (\$ millions)			New Dwelling Units		
	New Residential	Non-Residential	Total	Single Family	Multiple Family	Total
1988	615.5	844.8	1,460.3	3,691	2,794	6,485
1989	689.5	761.2	1,450.7	2,571	2,312	4,883
1990	672.8	762.5	1,435.3	1,762	3,223	4,985
1991	607.7	617.1	1,224.8	1,638	2,134	3,772
1992	549.4	612.2	1,161.6	1,751	1,301	3,052
1993	556.6	597.6	1,154.2	1,848	1,331	3,179
1994	637.5	596.0	1,233.5	2,128	1,817	3,945
1995	657.1	859.4	1,516.5	2,213	1,232	3,445
1996	911.5	1,290.0	2,201.5	4,032	3,542	7,574
1997	1,329.6	1,914.7	3,244.4	4,367	4,443	8,810

Source: Construction Industry Research Board