

Comprehensive Annual Financial Report

For Fiscal Year Ended
June 30, 1999

Santa Clara County, California



Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 1999

Prepared by the Fiscal Resources Division

Scott Buhrer, Chief Financial Officer

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, 1998

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.



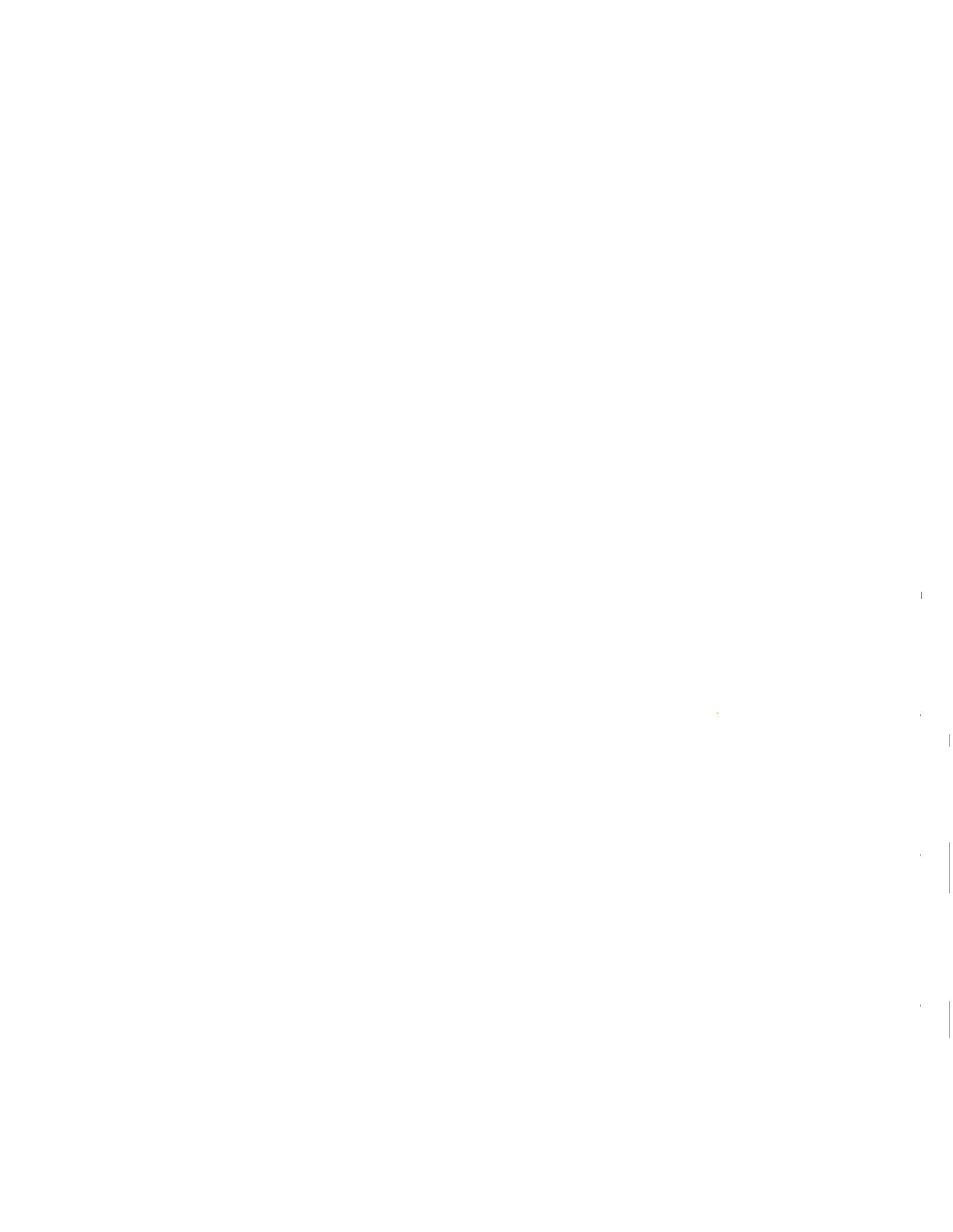
Cary Bruebach
President

Jeffrey L. Esser
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, 1998. 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

On April 1, 1997 pursuant to SB374, VTA became the successor to the Santa Clara County Traffic Authority (Traffic Authority) and assumed the responsibility for completing several highway projects. Voters created the Traffic Authority and concurrently approved a one-half-cent sales and use tax in Santa Clara County. The tax levy 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 520 diesel-powered coaches on 74 bus routes within a service area of approximately 326 square miles. The system includes 4,600 bus stops, 520 bus shelters and 23 park-and-ride lots, 6 of which are shared with Caltrans.

Light Rail Transit Service

As of June 30, 1999, VTA operated 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 San Jose and north Santa Clara County areas, where major work sites are located. Construction of a 7.6-mile, 12-station extension to this rail line, ("Tasman West") was completed and opened for service December 17, 1999.

Paratransit 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. A pilot program for same day paratransit service was implemented in January 1999 and is currently being evaluated.

Contracted and Interagency Transit and Other Services

Caltrain Peninsula Corridor Joint Powers Board (PCJPB)

VTA is a member of the Peninsula Corridor Joint Powers Board (PCJPB), along with the San Mateo County Transit District (SamTrans) and the City and County of San Francisco. SamTrans serves as the managing agency of the PCJPB. 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 an a.m. peak ridership formula. VTA funded all of the capital cost of extending Caltrain from San Jose to Gilroy and is responsible for all of the net costs of operating between the two localities. Approximately forty-nine million dollars was spent from a combination of State rail bond grants and local funds to purchase trackage rights and construct stations and park and ride lot facilities.

Capitol Corridor Intercity Rail

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 (CCJPB). CCJPB is comprised of members of the governing bodies of VTA, the Sacramento Regional Transit District, the Placer County Transportation Planning Agency, the Congestion Management Agencies of Solano and Yolo Counties and the Bay Area Rapid Transit District (BART). BART serves as the managing agency of the CCJPB.

Altamont Commuter Express Rail Service

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, which serves as the managing agency of ACE. The funding share of the operating costs is based on an all-day ridership formula and each county pays the proportional share of daily boardings and alightings that occur in each county. The corridor serves the counties of San Joaquin, Stanislaus, Contra Costa, Alameda and Santa Clara.

Inter County Bus Service

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 and the Santa Cruz Metropolitan Transit District, which also administers the program.

Light Rail Shuttle Program

Under this program, VTA offers financial assistance to organizations that wish to operate shuttle bus service between LRT stations and nearby employment centers. The service is operated through a private contractor provided by VTA or the organization. Shuttles, usually vans, operate trips carrying employees from light rail in the morning to work and back again in the afternoon. Funding to operate this program is provided by the organizations (minimum of 25%), VTA (typically 30%), and grants (45%) under the Transportation Fund for Clean Air Act. (AB 434).

Measure B Transportation Improvement Program

In November 1996, the voters in Santa Clara County overwhelmingly approved Measure A – an advisory measure listing an ambitious program of transportation improvements for Santa Clara County. Also approved on the same ballot, Measure B authorized the Santa Clara County Board of Supervisors to collect a nine-year half-cent sales tax for general county purposes. The tax was identified as a potential funding source for Measure A projects.

Collection of the tax began in April 1997; however, use of the tax revenue was delayed pending the outcome of litigation challenging the legality of the sales tax. In August 1998, the California courts upheld the tax allowing the Measure B Transportation Improvement Program to move forward.

In January 1999, the VTA Board of Directors and the Santa Clara County Board of Supervisors approved a Memorandum of Understanding (MOU) formalizing a partnership to implement Measure A.

With this partnership in place, the County and VTA are in a position to complete a transportation program valued at over \$1.4 billion. VTA will be responsible for project management of the transit and highway projects and will assist in the administration of the pavement management and bicycle elements of the program.

In anticipation of the tax being upheld, VTA has aggressively been moving forward with project implementation. As of June 30, 1999, VTA has advanced approximately \$50 million to accelerate project delivery.

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 of California 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 are 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, e-commerce, software and communications. These industries have their own unique business cycle that can be 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.

Economic growth in Santa Clara County expanded resulting in growth in sales tax revenue of 3.8% in 1999. Total job growth was 2.8 % over fiscal year 1998 and the local unemployment rate remains at 3.2%. We believe the economy will remain steady in FY 1999-00 and have recently revised our projection upward from \$144.2 million to \$148.2 million in half-cent sales tax revenue. The ten-year outlook for growth is forecast at a conservative rate of 2.8%, net of inflation.

Ridership & Farebox Revenue

FY 1998-99 was another growth year for VTA. Ridership increased by 1.9% to a record high of 53.9 million. Following the substantial increases of 8.8% in FY 1995-96 and 7.8% in FY 1996-97, ridership seems to have leveled off until the influx of expanded services can be reflected. We expect a modest ridership increase of 4.8% for FY 1999-00. While significant service expansion, including the opening of Tasman West Light Rail Extension, will help increase ridership, the increases may be moderated somewhat by the fare increase which was implemented July 1, 1999.

Fare Revenues for 1998-99 were slightly down from the previous year due to reduced fares for students of San Jose State University. A combination of strong ridership, the 1999 fare modification and service expansion is expected to yield an increase in FY2000 fare revenues.

VTA's operating recovery ratio had steadily increased in the last few years from 12.7% in FY 94 to 18.2% in FY 98, but dropped slightly to 17.6% in FY 99. The Board's goal of achieving a 25% operating recovery ratio is difficult but attainable. VTA's practice is to review fares and adjust, if necessary, every two years.

Federal Section 5307 (formerly FTA Section 9) Urbanized Area Formula Program

Federal Section 5307 allows eligible recipients (such as VTA) to claim capital grant funds to fund maintenance costs and other projects such as routine bus replacement. 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. The funds are reflected in the financial statements as Federal Operating Assistance.

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 continues through the industrial area to northern Sunnyvale, around Moffett Federal Airfield, and into downtown Mountain View. The entire corridor opened for service on December 17, 1999. The capital cost was \$327.8 million. Local contributions from VTA and from the cities of Mountain View and Sunnyvale augmented funds programmed from State and Federal sources.

1996 Measure B Transportation Improvement Program

As mentioned earlier, the VTA Board of Directors and the Santa Clara County Board of Supervisors approved a Memorandum of Understanding (MOU) formalizing the partnership to implement the transportation projects referred to in this document as the Measure B Transportation Improvement Program. VTA is responsible for project management of the Transit and Highway Projects and will assist in the administration of the pavement management and bicycle elements of the program. The ultimate scope of the projects, delivery schedules and estimated costs for completion will be revised collaboratively by the Cities, Santa Clara County and VTA.

The Transit Projects, estimated at a cost of \$913 million, include:

1. Tasman East Light Rail Project - extending the current Light Rail system to Milpitas and Northeast San Jose

2. Vasona Light Rail Extension Project - constructing the Vasona Light Rail line from downtown San Jose to the San Jose Arena/CalTrain Diridon station and on to downtown Campbell, with eventual extension of service to Los Gatos
3. Capitol Light Rail Extension Project -- building the Capitol Light Rail line from northeast San Jose -- connecting to the Tasman line -- down Capitol Avenue through east San Jose to the Alum Rock area, with eventual service to Eastridge
4. New Rail Vehicles
5. Fremont/South Bay Commuter Rail Service -- interim commuter rail service connecting BART in Alameda County with San Jose.
6. CalTrain Service Improvements -- improving CalTrain commuter rail service by adding trains and improving facilities from San Jose to Palo Alto and between Gilroy and San Jose

The Highway Projects, estimated at \$460 million, include:

1. I-880 widening from 4 to 6 lanes from Montague Expressway to 101 and an auxiliary lane on Southbound I-880 from 101 to the North First Street Exit Ramp.
2. Routes 85/87 direct connector ramps for the Eastbound 85 to Northbound 87 and Southbound 87 to Westbound 85 movements.
3. Route 101 widening from 4 to 6 lanes from Bernal Road in San Jose to Cochrane Road in Morgan Hill.
4. Routes 85/101 interchange in Mountain View, including HOV Direct Connector.
5. Routes 237/I-880 interchange in Milpitas Stage C direct connector ramps from Northbound I-880 to Westbound 237 and from Eastbound 237 to Southbound I-880, and HOV lane direct connector ramps from Southbound I-880 to Westbound 237 and Eastbound 237 to Northbound I-880.
6. Route 87 HOV lane projects between Route 85 and Julian Street.
7. Route 17 improvements from just South of Hamilton Avenue in the City of Campbell to Lark Avenue in the Town of Los Gatos.
8. Routes 101/85 interchange in South San Jose.
9. Route 152 safety improvements.
10. Route 85 Noise Mitigation.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

The financial affairs of VTA are organized on the basis of funds, each of which is accounted for with a separate set of self-balancing accounts for its assets, liabilities, equity, revenues and expenses/ expenditures. 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 certain capital activities of VTA are 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 the accrual 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 by management.

Governmental Fund Type - Special Revenue Funds and Capital Project 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.

The activities of the Measure B – Highway Projects are accounted for as a Capital Projects fund. The Capital Projects fund is used to account for the major capital acquisitions and construction activities.

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. Agency funds are used to account for assets held solely in a custodial capacity.

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. VTA budgets annually for its Enterprise Fund and its Special Revenue Funds. The Capital Projects Fund is budgeted on a multi-year basis and therefore annual information is not available for this fund. The budget for the Enterprise Fund is developed on an accrual basis and the budget for the Special Revenue Funds are done on a modified accrual basis.

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

FINANCIAL STATUS – ENTERPRISE FUND

For the year, revenues exceeded expenditures by \$24.9 million resulting in a net increase to total reserves for the year ended June 30, 1999 on a budgetary basis.

Restricted and unrestricted budgetary reserves as of June 30, 1999 consisted of:

Restricted 1999 (in millions)

Operating reserves	\$40.7
Local Share of approved capital	84.1
Operating Encumbrances	<u>6.6</u>
Total Restricted	\$131.4
Unrestricted	<u>69.0</u>
Total	\$200.4

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 shortfalls or if unavoidable expenditures may be required.

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, conducts performance audits, and then issues reports on their findings, which include 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 1999 fiscal year by the internal audit department are listed below:

- Review of Contractor/Vendor compliance with contract terms
- Follow up on implementation of recommendations made in prior audits
- Operational Reviews performed to improve process effectiveness and efficiency
- Review of Transfer of Investments from the County
- Review of Internal Control pertaining to petty cash and revenue collection
- Analytical Review of the Regional Input-Output Model pertaining to Measure B Projects

MAJOR ACCOMPLISHMENTS AND INITIATIVES

The Board has established policy direction in five 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.
- In partnership with Santa Clara County, implementing the 1996 Measure B Transportation Improvement Program

Consistent with the Board mission statement, VTA continues its aggressive program of expansion and 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 Accomplishments

- Set new ridership records by improving the quantity and quality of our services, while at the same time, maintaining an operating cost recovery ratio of approximately 18%.
- Increased miles traveled between each incident of mechanical schedule loss to over 4,800 miles

- Increased the number of Eco Pass holders by 60% to nearly 100,000 employees.
- For the 1996 Measure B Transportation Improvement Program, developed a joint proposal with Santa Clara County for the June 1999 Base Case Implementation Plan .
- Completed design for both the Advanced Communication System and a new North Operating Division.
- Established the new VTA Deferred Compensation Plan, providing VTA employees with an excellent plan at a lower cost than the prior plan.
- Negotiated labor contract agreements with two of the four bargaining units.
- Prepared VTA for Y2K following an extensive process of potential problem identification and resolution.
- Implemented the Disaster Response and Recovery Program for all VTA services.

Major Initiatives

- Continue to expand transit service through the annual service plan process and improve service quality by increasing miles traveled between each incident of mechanical schedule loss to 6,000.
- Achieve the following 1996 Measure B Transportation Program milestones:
 1. Begin construction of the final phase of the Tasman East light rail project between I-880 in Milpitas and Hostetter Drive in San Jose.
 2. Complete final design, environmental clearance, and right-of-way Resolution of Necessity hearings for Vasona and Capitol light rail projects.
 3. Complete planning and conceptual design on the Fremont/South Bay Commuter Rail Project.
 4. Award design contracts for 8 highway projects.
- Complete the Downtown/East Valley Major Investment Study to identify one or more rapid transit corridor projects that best serve the Alum Rock, Central San Jose and Evergreen areas and connect them to the existing system in downtown San Jose.
- Begin constructing major elements of VTA's Facilities Improvement Program at the bus and light rail operating divisions and open the new Gilroy Caltrain Transit Center.
- Complete the Valley Transportation Plan (VTP) 2020, which will set the stage for the future by creating a visionary transportation strategy for Santa Clara Valley, with a strong emphasis on integrating transportation and land use planning.

- Revisit and revise VTA's 10-year Business Plan, as appropriate to reflect current conditions and plans.
- Strive for innovative methods to increase revenue by exploring potential financing transactions to unleash the latent potential of VTA assets.
- Implement Phase II of the VTA Integrated Information System – Human Resources and Payroll System

FINANCIAL HIGHLIGHTS – ENTERPRISE FUND

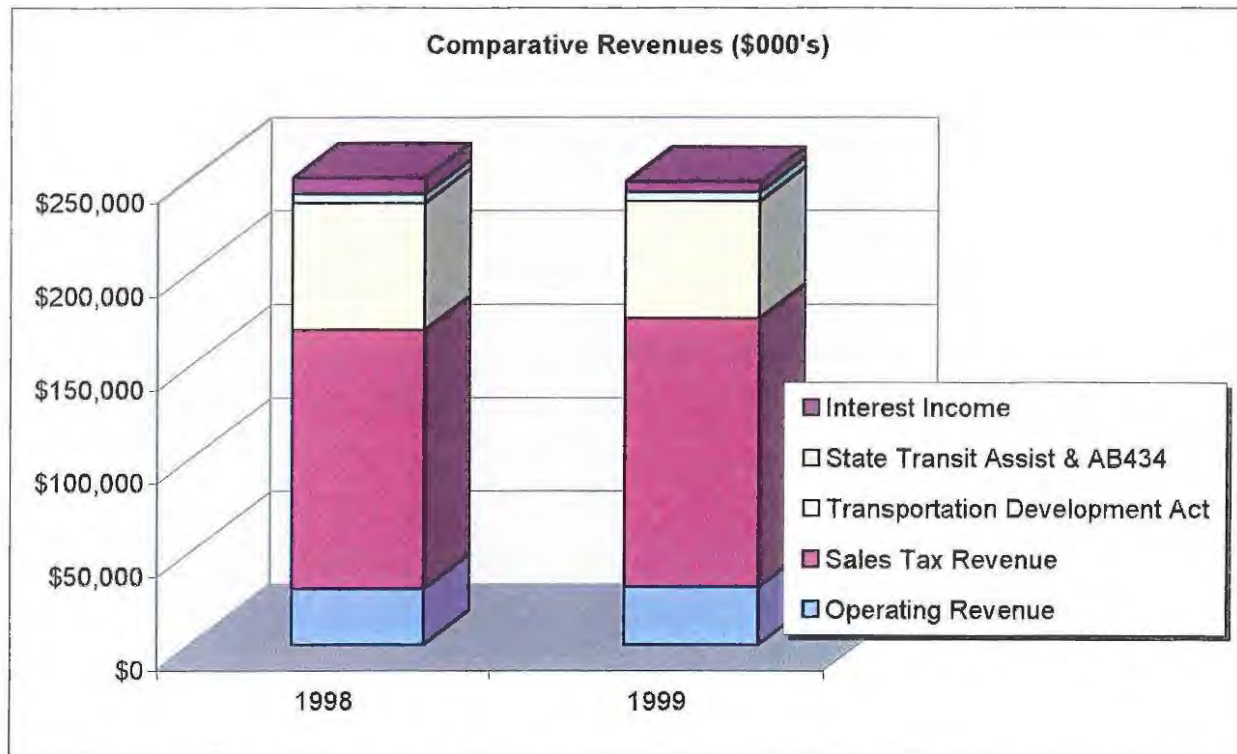
Revenues

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. Favorable advertising contracts contributed to an increase of 3.1% 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 3.8% from 1998 to 1999 due to continued albeit slowing economic growth in the area. STA and AB434 revenue increased slightly by 5.5% during the same period. The 7.8% decrease in TDA funding during 1999 can be attributed to large carryover from 1997 plus interest, which was distributed during 1998. VTA is the primary applicant for State transportation funds in the Santa Clara County area.

The decline in bond valuation, due to rising interest rates from 1998 to 1999 decreased interest income by 36.9%. The average earnings in the Santa Clara County Investment Pool remained relatively constant during the two year period. The following table and chart show a comparison by selected revenue categories for 1999 and 1998.

(Dollars in thousands)				
	1999	1998	Change	Change
Operating Revenue	\$30,956	\$30,003	\$953	3.1%
Sales Tax Revenue	\$143,712	\$138,429	\$5,283	3.8%
TDA	\$62,528	\$67,829	(\$5,301)	-7.8%
STA & AB434	\$5,061	\$4,795	\$266	5.5%
Interest Income	\$5,535	\$8,785	(\$3,250)	-36.9%
TOTALS	\$247,792	\$249,841	(\$2,049)	-.8%



Expenses

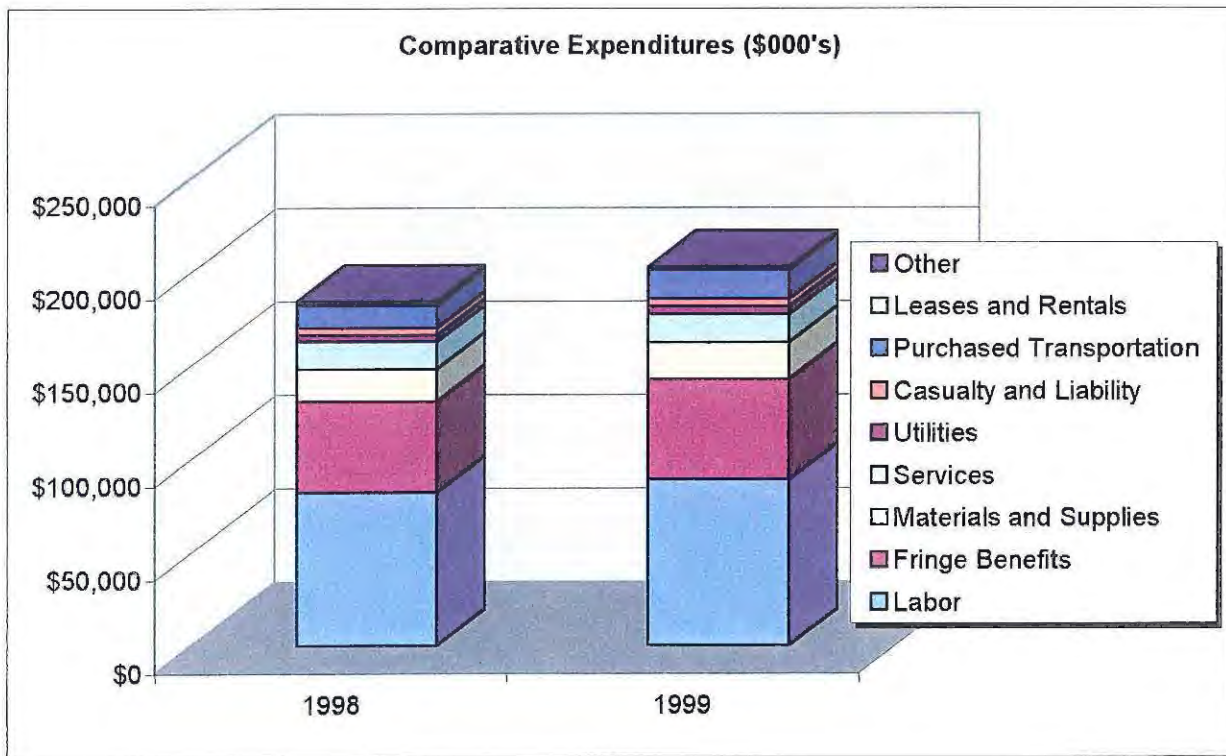
Operating expenses are incurred from personnel and support services, both direct and indirect, contracted services, insurance, purchased transportation and other overhead costs related to bus and lightrail operations. In support of VTA's Strategic Plan, primary operational focus contributing to the overall increase in expenses include Transit Service, Rail Expansion, and Service Quality Improvements.

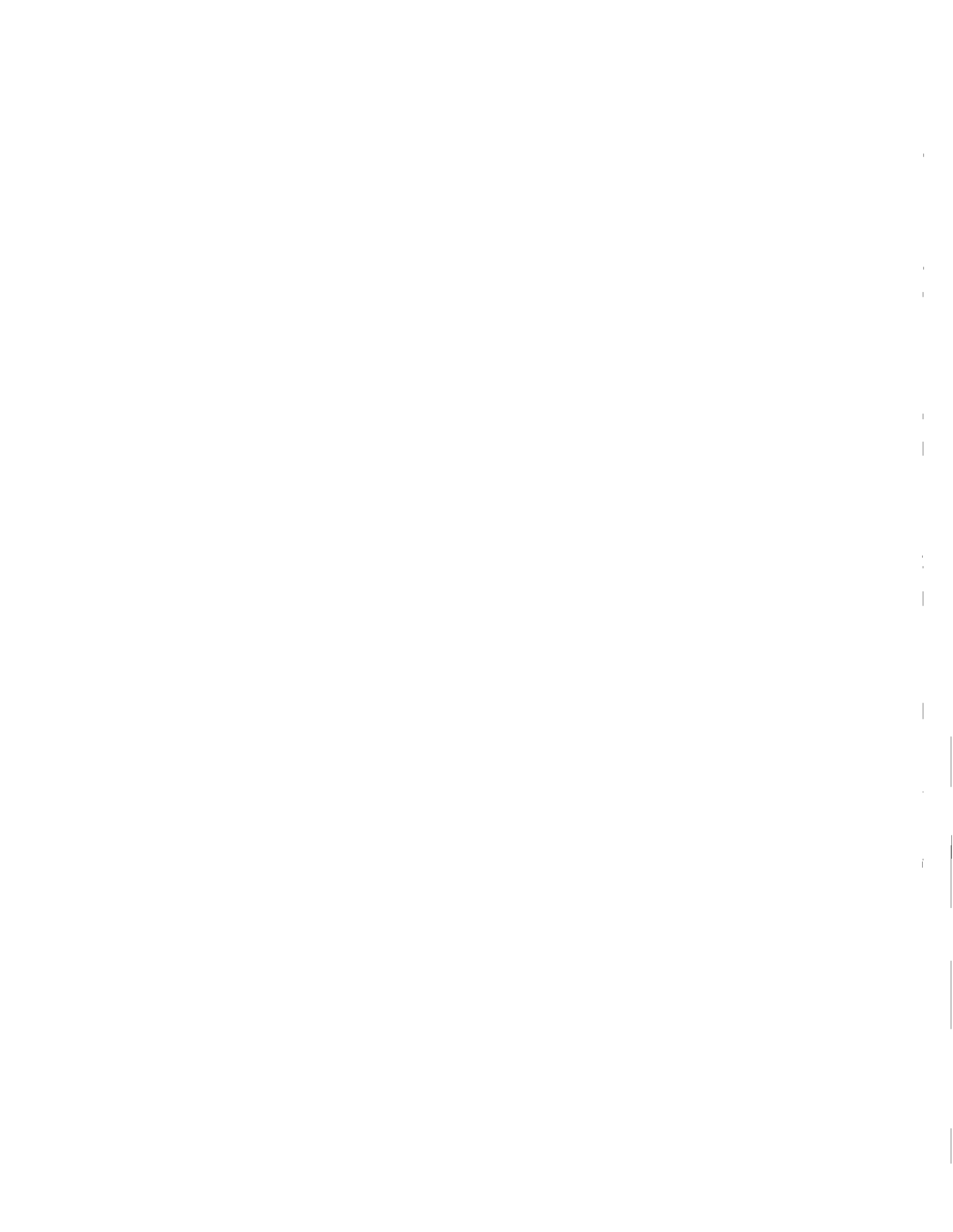
The Transit Service Plan outlined a number of transit service improvements for the year. The plan focused significantly on service reliability, headway improvements, service hour expansion, network expansion and the expansion of the light rail system. The service expansion plan is dedicated to meeting passenger demand by adding additional trips and improving service frequency on several lines to improve mobility and access. Rail Expansion delivered its first extension for our customers with the opening of Tasman West Light Rail service to Sunnyvale and Mountain View in December. In order to introduce and operate this new service, key areas were supplemented to meet this challenge. Our dedication to customer safety, aggressive response to vandalism, and assurance that VTA will meet its operating schedules were addressed through additional staffing and completion of the Bus Window Replacement Program. This program retrofitted all buses with strengthened window glass and replaceable sacrificial sheets.

Although operating expenses increased due to increased service levels, the cost of operating the transit system during the year was contained. The cost per revenue hour increased less than 2% from the previous year, which is less than the Bay Area inflation rate.

The following table and chart shows the operating expenses for fiscal years 1999 and 1998 by major category:

	1999	1998	Change	Percent Change
Labor	\$88,779	\$82,030	\$6,749	8.2
Fringe Benefits	\$53,575	\$48,661	\$4,914	10.0
Materials and Supplies	\$19,646	\$17,044	\$2,602	15.2
Services	\$15,200	\$14,709	\$491	3.3
Utilities	\$4,070	\$3,603	\$467	12.9
Casualty and Liability	\$3,895	\$3,923	(\$28)	-.7
Purchased Transportation	\$15,487	\$11,821	\$3,666	31.0
Leases and Rentals	\$467	\$394	\$73	18.5
Other	\$1,107	\$1,915	(\$808)	-42.1
TOTALS	\$202,226	\$184,100	\$18,126	9.8





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 management firms to manage its investments.

With respect to assets still held by the County, 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 income decreased because of several factors. First, the amount of invested funds decreased as a result of unreimbursed advances made for the Measure B Transportation Improvement Program. Second, prevailing interest rates rose substantially, which caused the fair market value of fixed income securities to decline. VTA's investment program is actively managed and therefore we "mark-to-market" or reduced the value of the securities by \$6.2 million for accounting purposes.

Investment earnings, recognized on the Combined Statement of Revenues and Expenses - Enterprise Fund, amounted to approximately \$5.5 million during fiscal year 1999. Special Revenue funds recorded approximately \$0.1 million in investment earnings. \$11.3 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	\$ 5.5
Special Revenue Fund Earnings	.1
ATU Pension Interest Earnings	<u>11.3</u>
Income Recognized	16.9
Reduction of Contribution	<u>4.6</u>
Total Investment Earnings	\$ 21.5

RISK MANAGEMENT

VTA maintains a program of self-insurance through a workers compensation fund and a general liability fund. The risk manager is responsible for obtaining insurance for property type coverage and to supervise a staff to oversee 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, 1999 total approximately \$115,450,000. 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, variable rate 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 \$5.6 million.

INDEPENDENT AUDIT


The independent auditor for fiscal year 1999 was KPMG LLP, which issued an unqualified opinion on the VTA's June 30, 1999 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 Financial Accounting Department and all other VTA employees who participated in the preparation of this report. The Marketing Department and the Copy Center also made significant contribution to the form, content and production of the report.

January 2000



Peter M. Cipolla
General Manager



Scott Buhner
Chief Financial Officer

**1999 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.

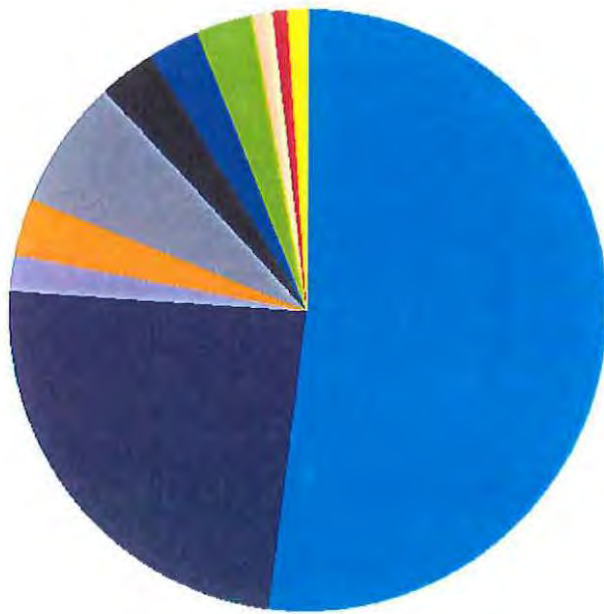
A new chairperson and vice chairperson are elected by the Board each year.

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.

Jim Lawson, Chairperson
Blanca Alvarado, Vice-Chairperson

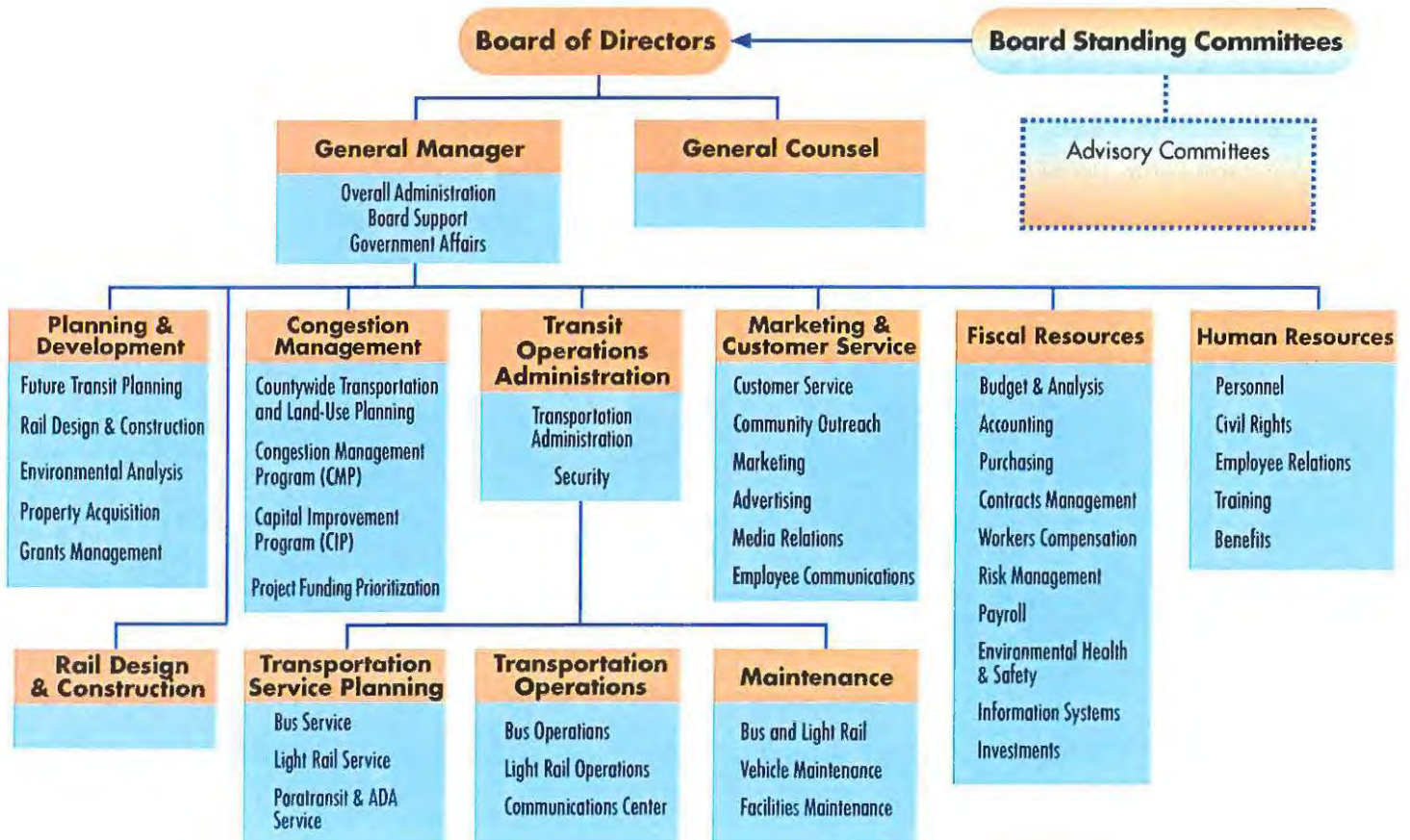
<p>GROUP 1</p> <p>City of San Jose</p> <p>Cindy Chavez Ron Gonzales Margie Matthews Charlotte Powers Alice Woody Linda J. LeZotte, Alt.</p>	<p>GROUP 3</p> <p>City of Campbell Jane P. Kennedy, Alt. City of Cupertino Town of Los Gatos City of Monte Sereno Jack Lucas City of Saratoga</p>
<p>GROUP 2</p> <p>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</p> <p>City of Gilroy Jim Lawson City of Milpitas Dennis Kennedy, Alt. City of Morgan Hill</p>
	<p>GROUP 5</p> <p>County of Santa Clara Blanca Alvarado Pete McHugh Jim Beall, Jr., Alt.</p>

Number of Employees of Organizational Unit



■ Transportation Operations	1249	52%
■ Transportation Maintenance	591	24%
□ Transportation Service Planning	46	2%
■ Planning & Development	65	3%
■ Fiscal Resources	183	7%
■ Human Resources	68	3%
■ Marketing & Customer Services	67	3%
■ Rail Design & Construction	67	3%
□ Congestion Management	12	1%
■ General Counsel	8	1%
■ General Manager	16	1%

Santa Clara Valley Transportation Authority

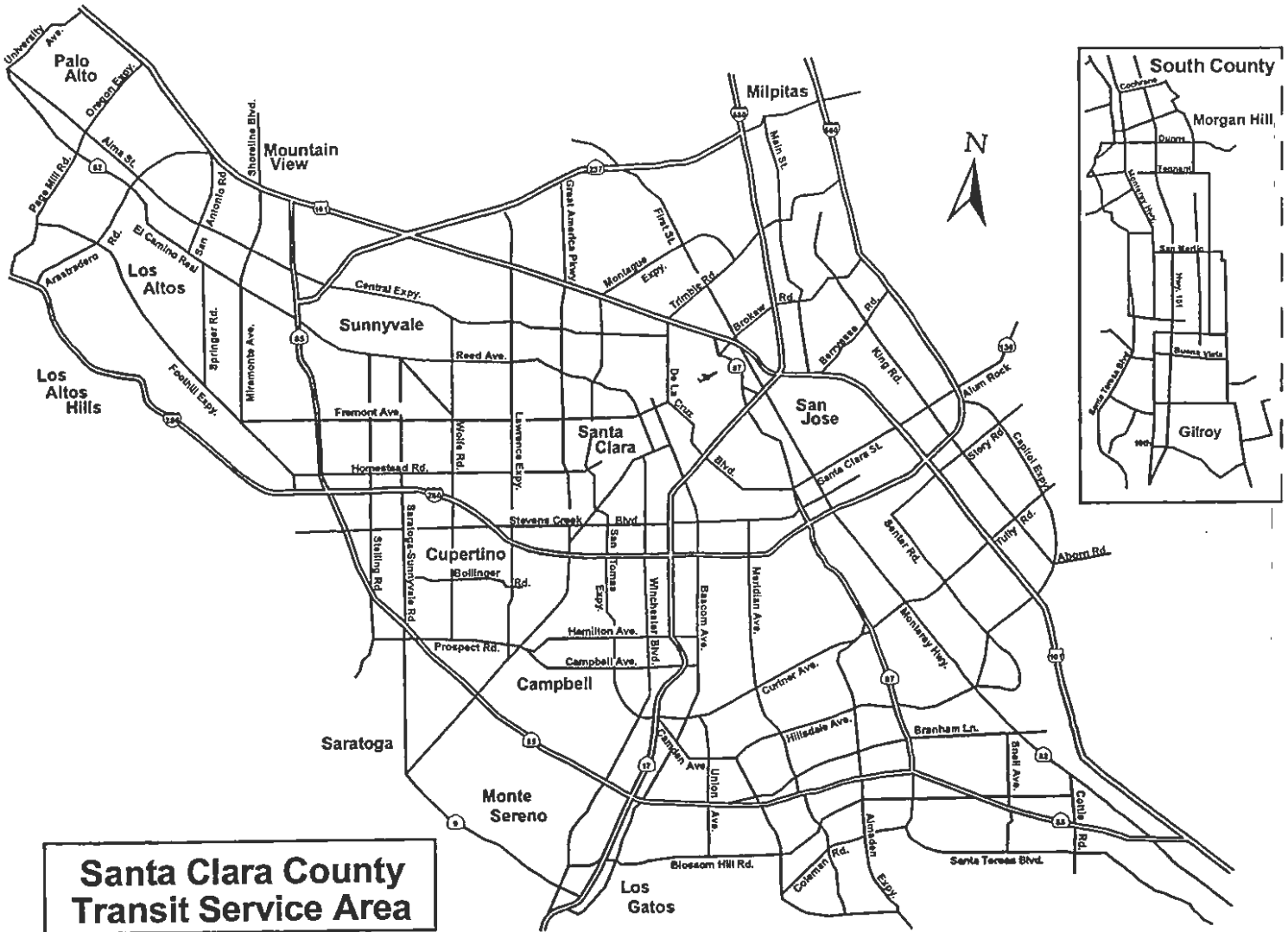




Principal Officials

General Manager	Peter M. Cipolla
General Counsel	Suzanne Gifford
Board Secretary	Sandra Weymouth
Chief Financial Officer	Scott Buhrer
Chief Information Officer	Richard Kurk
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	Frank Martin, Director
Planning & Development	James Pierson, Director
Rail Activation	Bill Allen, Director
Rail Construction	Les Miller, Deputy Director
Rail Design/Construction	Jack Collins, Director
Service & Operations	Mike Aro, Deputy Director
Transportation	Rich Golda, Deputy Director
Transportation & Policy	Dawn Cameron, Manager

Service Area Map



SECTION 2 — FINANCIALS

GENERAL PURPOSE FINANCIAL STATEMENTS:

- ◆ Independent Auditor's Report
- ◆ Combined Balance Sheet — June 30, 1999
- ◆ Statement of Revenues, Expenses, and Changes in Retained Earnings — Enterprise Fund — Year Ended June 30, 1999
- ◆ Combined Statement of Revenues, Expenditures, and Changes in Fund Balances — All Governmental Fund Types — Year Ended June 30, 1999
- ◆ Combined Statement of Revenues, Expenditures and Changes in Fund Balances — Budget and Actual — Governmental Fund Type (Special Revenue Funds)— Year Ended June 30, 1999
- ◆ Statement of Changes in Net Assets (Fund Balance) — Pension Trust Fund — Year Ended June 30, 1999
- ◆ Statement of Cash Flows — Enterprise Funds — Year Ended June 30, 1999
- ◆ Notes to General Purpose Financial Statements

REQUIRED SUPPLEMENTARY INFORMATION

- ◆ Schedule of Funding Progress (Pension Plan)
- ◆ Schedule of Funding Progress (Public Employees Retirement System)
- ◆ Disclosure Regarding Year 2000

SUPPLEMENTARY DATA

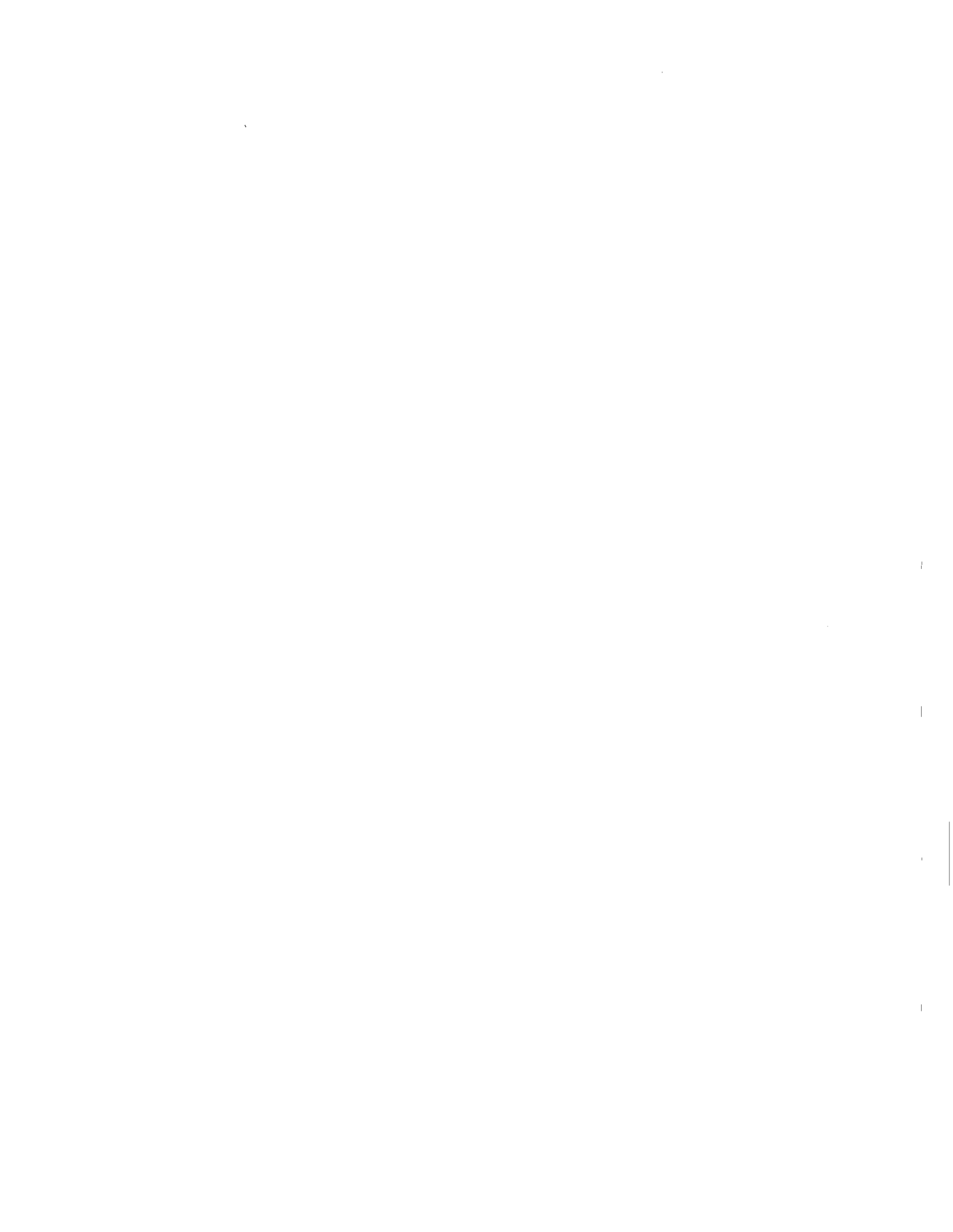
- ◆ Combining Balance Sheet — Governmental Fund Type (Special Revenue Funds) — June 30, 1999
- ◆ Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances — Governmental Fund Type (Special Revenue Funds) — Year Ended June 30, 1999
- ◆ Combining Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual (Special Revenue Funds) — Year Ended June 30, 1999
- ◆ Combining Balance Sheet — Fiduciary Fund Type (Trust and Agency Funds) — June 30, 1999
- ◆ Combining Balance Sheet — Trust Funds — June 30, 1999
- ◆ Schedule of Changes in Assets and Liabilities — Fiduciary Fund Type — Year Ended June 30, 1999
- ◆ Schedule of Budget Versus Actual Revenues and Expenditures — Enterprise Fund — Year Ended June 30, 1999
- ◆ Schedule of Restricted Assets and Related Liabilities (Enterprise Fund) — June 30, 1999
- ◆ Comparative Schedules of Assets, Liabilities, and Equity — (Enterprise Fund) — June 30, 1999 and 1998
- ◆ Comparative Schedules of Revenue, Expenses, and Changes in Retained Earnings (Enterprise Fund) — Years Ended June 30, 1999 and 1998
- ◆ Comparative Schedule of Cash Flows — (Enterprise Fund) — Years Ended June 30, 1999 and 1998

**SANTA CLARA VALLEY TRANSPORTATION
AUTHORITY (VTA)**

General Purpose Financial Statements

June 30, 1999

(With Independent Auditors' Report Thereon)



GENERAL PURPOSE FINANCIAL STATEMENTS



500 E. Middlefield Road
Mountain View, CA 94043

Independent Auditors' Report

The Board of Directors
Santa Clara Valley Transportation Authority:

We have audited the accompanying general purpose financial statements of the Santa Clara Valley Transportation Authority (VTA) as of and for the year ended June 30, 1999, 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, 1999, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 9, 1999, on our consideration of VTA's compliance and on its internal control over financial reporting.

The schedules of funding progress and the Year 2000 disclosure presented on pages 40 to 42 are not a required part of the general purpose financial statements, but are supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. We have applied to the schedules of funding progress certain limited procedures prescribed by professional standards, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the schedules. We were unable to apply certain of these limited procedures to the Year 2000 disclosure because of the nature of the subject matter underlying the disclosure requirements, and because sufficiently specific criteria regarding the matters to be disclosed have not been established. In addition, we do not provide assurance that VTA is or will become Year 2000 compliant, that VTA's Year 2000 remediation efforts will be successful in whole or in part, or that parties with which VTA does business are or will become Year 2000 compliant.





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

KPMG LLP

December 9, 1999



SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Combined Balance Sheet

June 30, 1999

Assets	Proprietary	Governmental		Fiduciary	Total (Memorandum only)
	Enterprise	Special Revenue	Capital Projects	Trust and Agency	
Current assets:					
Cash and cash equivalents	\$ 1,216,409	—	—	—	1,216,409
Cash and equity with fiscal agent	—	830,902	—	—	830,902
Investments	72,074,422	—	—	—	72,074,422
Receivables, net	947,274	—	—	—	947,274
Due from other funds	1,303,645	13,091	—	—	1,316,736
Due from other governmental agencies	29,033,189	1,724,657	—	—	30,757,846
Inventories	12,229,089	—	—	—	12,229,089
Other current assets	3,885,187	—	—	—	3,885,187
Total current assets	120,689,215	2,568,650	—	—	123,257,865
Restricted assets:					
Cash and equity with fiscal agent	17,082,296	75,945	134,216	3,886,844	21,179,301
Investments	118,317,916	—	—	179,690,934	298,008,850
Receivables	—	—	—	1,354,483	1,354,483
Due from other funds	—	—	—	18,721	18,721
Due from other governmental agencies	72,235,266	2,637	767,398	114,167	73,119,468
Other assets	30,500	—	—	—	30,500
Total restricted assets	207,665,978	78,582	901,614	185,065,149	393,711,323
Other noncurrent assets:					
Deferred bond issuance costs	1,265,581	—	—	—	1,265,581
Other	116,100	—	—	—	116,100
Total other noncurrent assets	1,381,681	—	—	—	1,381,681
Property, facilities, and equipment:					
Land and right-of-way	442,330,126	—	—	—	442,330,126
CalTrain - Gilroy extension	48,763,312	—	—	—	48,763,312
Buildings, improvements, furniture, and fixtures	164,479,693	—	—	—	164,479,693
Vehicles	177,719,655	—	—	—	177,719,655
Light-rail tracks and electrification	64,438,244	—	—	—	64,438,244
Construction in progress	376,555,494	—	—	—	376,555,494
Other operating equipment	7,957,117	—	—	—	7,957,117
Total property, facilities, and equipment	1,282,243,641	—	—	—	1,282,243,641
Less accumulated depreciation	184,338,977	—	—	—	184,338,977
Total property, facilities, and equipment, net	1,097,904,664	—	—	—	1,097,904,664
Total assets	\$ 1,427,641,538	2,647,232	901,614	185,065,149	1,616,255,533

(Continued)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Combined Balance Sheet, (Continued)

June 30, 1999

Liabilities and Equity	Proprietary	Governmental		Fiduciary	Total (Memorandum only)
	Enterprise	Special Revenue	Capital Projects	Trust and Agency	
Current liabilities:					
Current portion of long-term debt	\$ 951,944	—	—	—	951,944
Accounts payable	3,551,938	716,756	—	—	4,268,694
Other accrued liabilities	6,386,254	56,482	—	—	6,442,736
Due to other funds	—	1,188	—	—	1,188
Due to other governmental agencies	194,773	300,000	—	—	494,773
Total current liabilities	11,084,909	1,074,426	—	—	12,159,335
Liabilities payable from restricted assets:					
Accounts payable	11,231,353	78,583	399,410	5,371,195	17,080,541
Other accrued liabilities – current	12,255,348	—	—	—	12,255,348
Due to other funds	—	—	501,629	832,640	1,334,269
Due to other governmental agencies	10,403,282	—	575	31,617	10,435,474
Long-term debt, excluding current portion	8,085,634	—	—	—	8,085,634
Other accrued liabilities – noncurrent	74,862,080	—	—	—	74,862,080
Total liabilities payable from restricted assets	116,837,697	78,583	901,614	6,235,452	124,053,346
Noncurrent liabilities:					
Long-term debt, excluding current portion	106,412,085	—	—	—	106,412,085
Other accrued liabilities	38,249	41,136	—	—	79,385
Total noncurrent liabilities	106,450,334	41,136	—	—	106,491,470
Total liabilities	234,372,940	1,194,145	901,614	6,235,452	242,704,151
Equity:					
Contributed capital:					
Federal grants	468,306,449	—	—	—	468,306,449
State grants	210,294,011	—	—	—	210,294,011
Other	68,178,447	—	—	—	68,178,447
Total contributed capital	746,778,907	—	—	—	746,778,907
Fund balances:					
Undesignated	—	1,453,087	—	—	1,453,087
Reserved for employees' pension benefits	—	—	—	175,334,477	175,334,477
Reserved for spousal medical trust	—	—	—	3,495,220	3,495,220
Retained earnings:					
Reserved	90,828,280	—	—	—	90,828,280
Unreserved	355,661,411	—	—	—	355,661,411
Total fund balances and retained earnings	446,489,691	1,453,087	—	178,829,697	626,772,475
Total equity	1,193,268,598	1,453,087	—	178,829,697	1,373,551,382
Total liabilities and equity	\$ 1,427,641,538	2,647,232	901,614	185,065,149	1,616,255,533

See accompanying notes to general purpose financial statements.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

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

Year ended June 30, 1999

Operating revenues:	
Passenger fares	\$ 27,069,631
Advertising and other	3,886,000
Total operating revenues	30,955,631
Operating expenses:	
Labor	88,779,075
Fringe benefits	53,574,887
Materials and supplies	19,646,325
Services	15,200,210
Utilities	4,070,489
Casualty and liability	3,895,208
Purchased transportation	15,486,747
Leases and rentals	467,437
Miscellaneous	1,107,264
Total operating expenses, excluding depreciation	202,227,642
Operating loss before depreciation	(171,272,011)
Depreciation expense:	
On assets acquired with capital grants	11,764,348
On assets otherwise acquired	12,498,201
Total depreciation expense	24,262,549
Operating loss	(195,534,560)
Nonoperating revenues (expenses):	
Sales tax revenue	143,711,721
Federal operating assistance grants	11,656,278
State and local operating assistance grants	67,588,736
CalTrain subsidy	(11,291,169)
Altamont Commuter Express subsidy	(836,777)
Investment earnings	5,534,792
Interest expense	(4,762,588)
Other income (Note 7)	10,169,655
Other expense	(1,273,600)
Nonoperating revenues, net	220,497,048
Net income	24,962,488
Charge to contributed capital – depreciation on fixed assets acquired with contributions	11,764,348
Retained earnings at beginning of year	409,762,855
Retained earnings at end of year	\$ 446,489,691

See accompanying notes to general purpose financial statements.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances –
All Governmental Fund Types and Expendable Trust
Year ended June 30, 1999

	<u>Governmental Fund Types</u>		<u>Fiduciary</u> <u>Fund Type</u>	<u>Totals</u> <u>(Memorandum</u> <u>only)</u>
	<u>Special</u> <u>Revenue</u>	<u>Capital</u> <u>Projects</u>	<u>Expendable</u> <u>Trust</u>	
Revenues:				
Sales tax	\$ 1,262,211	—	—	1,262,211
Local grant revenue	—	767,398	—	767,398
Federal grants	3,309,623	—	—	3,309,623
Investment earnings	105,917	—	41,510	147,427
Member agency assessment revenue	1,239,994	—	—	1,239,994
Spousal medical contributions	—	—	768,143	768,143
Federal technical	1,088,968	—	—	1,088,968
Operating assistance	61,706	—	—	61,706
Total revenues	<u>7,068,419</u>	<u>767,398</u>	<u>809,653</u>	<u>8,645,470</u>
Expenditures:				
Salaries and benefits	944,322	767,398	—	1,711,720
Services	1,625,751	—	—	1,625,751
Spousal medical benefit payments	—	—	252,356	252,356
Program expenditures	7,225,690	—	—	7,225,690
Total expenditures	<u>9,795,763</u>	<u>767,398</u>	<u>252,356</u>	<u>10,815,517</u>
Total expenditures (in excess of) less than revenues	(2,727,344)	—	557,297	(2,170,047)
Fund balance at beginning of year, as restated (Note 11)	<u>4,180,431</u>	<u>—</u>	<u>2,937,923</u>	<u>7,118,354</u>
Fund balance at end of year	<u>\$ 1,453,087</u>	<u>—</u>	<u>3,495,220</u>	<u>4,948,307</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, 1999

	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>
Revenues:			
Sales tax	\$ 805,000	1,262,211	457,211
Federal grants	221,000	3,309,623	3,088,623
Investment earnings	140,000	105,917	(34,083)
Member agency assessment revenue	1,239,994	1,239,994	—
Federal technical studies	1,056,000	1,088,968	32,968
Operating assistance grants	108,000	61,706	(46,294)
Other revenues	201,000	—	(201,000)
Total revenues	<u>3,770,994</u>	<u>7,068,419</u>	<u>3,297,425</u>
Expenditures:			
Salaries and benefits	1,086,463	944,322	142,141
Services	1,611,070	1,625,751	(14,681)
Program expenditures	8,340,000	7,225,690	1,114,310
Total expenditures	<u>11,037,533</u>	<u>9,795,763</u>	<u>1,241,770</u>
Excess of expenditures over revenues	<u>(7,266,539)</u>	<u>(2,727,344)</u>	<u>4,539,195</u>
Fund balance at beginning of year	<u>4,180,431</u>	<u>4,180,431</u>	<u>—</u>
Fund balance at end of year	<u>\$ (3,086,108)</u>	<u>1,453,087</u>	<u>4,539,195</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, 1999

Additions:	
Pension contributions	\$ 5,351,546
Investment earnings	11,294,377
Net appreciation on investments	<u>4,920,577</u>
Total additions	<u>21,566,500</u>
Deductions:	
Distributions to participants	4,902,972
Other benefits paid to participants	12,795
Administrative expenses	<u>639,467</u>
Total deductions	<u>5,555,234</u>
Net increase	16,011,266
Net assets available for pension benefits (fund balance):	
Beginning of year	<u>159,323,211</u>
End of year	\$ <u><u>175,334,477</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, 1999

Cash flows from operating activities:	
Cash received from passenger fares	\$ 27,280,593
Cash received from advertising	3,784,897
Cash paid to employees	(135,531,723)
Cash paid to suppliers	(51,066,139)
Cash paid for purchased transportation	(15,349,101)
Net cash used in operating activities	<u>(170,881,473)</u>
Cash flows from noncapital financing activities:	
Operating grants received	77,647,142
Sales tax received	138,068,172
CalTrain subsidy	(11,291,169)
Altamont Commuter Express	(836,777)
Other noncapital receipts	12,770,603
Other noncapital payments	(24,468,980)
Net cash provided by noncapital financing activities	<u>191,888,991</u>
Cash flows from capital and related financing activities:	
Payment of long-term debt	(725,191)
Interest paid	(4,762,588)
Acquisition and construction of capital assets	(148,032,893)
Capital grants received	62,244,436
Proceeds from sale of capital assets	11,405
Net cash used in capital and related financing activities	<u>(91,264,831)</u>
Cash flows from investing activities:	
Proceeds from sale of investments	511,925,746
Purchases of investments	(672,685,084)
Interest income	4,806,335
Net cash used in investing activities	<u>(155,953,003)</u>
Net decrease in cash and cash equivalents	(226,210,316)
Cash and cash equivalents, beginning of year	<u>244,509,021</u>
Cash and cash equivalents, end of year	<u>\$ 18,298,705</u>

(Continued)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Statement of Cash Flows – Enterprise Fund, (Continued)

Year ended June 30, 1999

Supplemental disclosures of cash flow information:

Cash and cash equivalents, beginning of year:		
Unrestricted	\$	68,796,911
Restricted		<u>175,712,110</u>
	\$	<u>244,509,021</u>
Cash and cash equivalents, end of year:		
Unrestricted	\$	1,216,409
Restricted		<u>17,082,296</u>
	\$	<u>18,298,705</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$	(195,534,560)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation		24,262,549
Changes in operating assets and liabilities:		
Receivables		109,859
Inventories		(620,260)
Other current assets		178,199
Accounts payable		(6,099,499)
Other accrued liabilities		<u>6,822,239</u>
Net cash used in operating activities	\$	<u>(170,881,473)</u>

See accompanying notes to general purpose financial statements.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1999

(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 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 Fund.

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1999

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1999

(b) *Basis of Accounting*

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

VTA has elected 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, the Expendable Trust Fund 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. VTA budgets annually for its Enterprise Fund and its Special Revenue Funds. The Capital Projects Fund is budgeted on a multi-year basis and therefore annual information is not available for this fund. The budget for the Enterprise Fund is developed on an accrual basis, and the budget for the Special Revenue Funds is prepared on a modified accrual basis.

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1999

(d) Cash and Investments

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

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

Restricted and unrestricted cash and cash equivalents and cash and cash equivalents with fiscal agent are considered to be cash and cash equivalents for purposes of the accompanying combined statement of cash flows. Restricted cash and investments held by fiscal agents outside of the County Treasury are not considered to be cash and cash equivalents.

VTA applies the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which requires 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 occurs. In accordance with GASB Statement No. 31, VTA has reported its investments at fair value based on quoted market information obtained from a pricing service by investment management firms and from its fiscal agents.

(e) Inventories

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

(f) Restricted Assets

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

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

(g) Deferred Bond Issuance Costs

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1999

(h) Property, Facilities, and Equipment

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

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

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

Interest is capitalized on construction in progress 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 1999.

(i) 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 claims, and workers' compensation liabilities.

(j) Self-Insurance

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

(k) Federal, State, and Local Grant Funds

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1999

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.

(l) Sales Tax Revenues

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

(m) Pension Costs

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

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

(n) Use of Estimates

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

(o) Memorandum Only - Total Columns

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1999

(3) Cash and Investments

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

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

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

As of June 30, 1999, the carrying amount of the VTA's cash balance was \$1,216,409 and the VTA's bank balance was \$4,790,555. The difference between the carrying amount and the bank balance is due to outstanding checks. All cash is fully collateralized in accordance with Section 53652 of the California Government Code. The California Government Code requires California banks and savings and loan associates to secure the VTA's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of VTA's deposits, except for repurchase agreements which should equal 102% of VTA's deposits. California law also allows financial institutions to secure VTA's deposits by pledging first trust deed mortgage notes having a value of 150% of VTA's deposits. VTA's deposits are secured by U.S. government securities, held in VTA's name by its agent to meet these requirements.

VTA complied with the provisions of state statutes pertaining to the types of investments held, institutions in which deposits are made, and security requirements. 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, 1999

VTA's investments are categorized below to give an indication of the custodial risk assumed by VTA as of June 30, 1999. Category 1 includes investments that are insured or registered or for which the securities are held by VTA or its agent in VTA's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in VTA's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in VTA's name.

Type of investment	Category			Fair value
	1	2	3	
Equity Securities – Pension Plan	\$ 48,625,307	—	—	48,625,307
Corporate notes (Commercial paper)	17,958,000	—	—	17,958,000
Corporate bonds	68,546,296	—	—	68,546,296
Corporate bonds – Pension Plan	50,880,419	—	—	50,880,419
U.S. Treasury and government agency notes	106,419,472	—	—	106,419,472
U.S. Treasury and government agency notes – Pension Plan	56,409,754	—	—	56,409,754
Repurchase agreements	—	3,620,359	—	3,620,359
Subtotal	\$ 348,839,248	3,620,359	—	352,459,607
Investments commingled in County Treasury				20,294,561
Investments commingled in County Treasury – Pension Plan				1,422,387
Money Market Funds				881,578
Money Market Funds – Pension Plan				5,990,723
Mutual funds – Pension Plan				11,044,619
Total investments				\$ 392,093,475

As of June 30, 1999, VTA's cash and investments consisted of the following:

Cash	\$ 1,216,409
Investments	392,093,475
	<u>\$ 393,309,884</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1999

Total cash and investments as of June 30, 1999 are reported in the accompanying combined balance sheet as follows:

Unrestricted:		
Cash and cash equivalents	\$	1,216,409
Cash and equity with fiscal agent		830,902
Investments		72,074,422
		<u>74,121,733</u>
Restricted:		
Cash and equity with fiscal agent		21,179,301
Investments		298,008,850
Total restricted		<u>319,188,151</u>
Total cash and investments	\$	<u><u>393,309,884</u></u>

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

Due from other funds and due to other funds as of June 30, 1999, consisted of the following:

	Due from other funds			Due to other funds		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Enterprise Fund Type	\$ 1,303,645	—	1,303,645	—	—	—
Governmental Fund Types:						
Special Revenue Fund Type:						
Traffic Authority	11,007	—	11,007	—	—	—
CMP	2,084	—	2,084	1,188	—	1,188
Capital Project Fund	—	—	—	—	501,629	501,629
Total Governmental Fund Type	<u>13,091</u>	<u>—</u>	<u>13,091</u>	<u>1,188</u>	<u>501,629</u>	<u>502,817</u>
Fiduciary Fund Types						
Trust Funds:						
SCCTD/ATU Pension	—	—	—	—	397,799	397,799
ATU Spousal Medical Agency Fund	—	18,721	18,721	—	—	—
Agency Fund	—	—	—	—	434,841	434,841
Total Fiduciary Fund Types	<u>—</u>	<u>18,721</u>	<u>18,721</u>	<u>—</u>	<u>832,640</u>	<u>832,640</u>
Total All Fund Types	\$ <u>1,316,736</u>	<u>18,721</u>	<u>1,335,457</u>	<u>1,188</u>	<u>1,334,269</u>	<u>1,335,457</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1999

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

Due from other governmental agencies as of June 30, 1999, consisted of the following:

		Fund Types			Trust and Agency
		Enterprise	Special Revenue	Capital Projects	
Federal government	\$	19,787,161	33,359	—	—
State government		4,694,005	1,088,922	—	—
County of Santa Clara		49,234,966	106,865	767,398	114,167
Sales tax		27,264,789	—	—	—
Others		287,534	498,148	—	—
Total	\$	101,268,455	1,727,294	767,398	114,167

Due from other governmental agencies as of June 30, 1999, is reported in the accompanying combined balance sheet as follows:

		Fund Types				Total
		Enterprise	Special Revenue	Capital Projects	Trust and Agency	
Current assets	\$	29,033,189	1,724,657	—	—	30,757,846
Restricted assets		72,235,266	2,637	767,398	114,167	73,119,468
Total	\$	101,268,455	1,727,294	767,398	114,167	103,877,314

Due to other governmental agencies as of June 30, 1999, consisted of the following:

		Fund Types			Trust and Agency
		Enterprise	Special Revenue	Capital Projects	
State government	\$	1,377,213	300,000	—	—
County of Santa Clara		269,083	—	575	11,795
Others		8,951,759	—	—	19,822
Total	\$	10,598,055	300,000	575	31,617

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1999

Due to other governmental agencies as of June 30, 1999, is reported in the accompanying combined balance sheet as follows:

	Fund Types				Total
	Enterprise	Special Revenue	Capital Projects	Trust and Agency	
Current liabilities	\$ 194,773	300,000	—	—	494,773
Liabilities payable from restricted assets	10,403,282	—	575	31,617	10,435,474
Total	\$ 10,598,055	300,000	575	31,617	10,930,247

(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, 1999:

Tasman Corridor Project – West Extension	\$ 293,361,779
Tasman Corridor Project – East Extension	38,182,827
Software Development	15,336,405
Facilities Modifications	10,911,570
Various Transit Projects	7,378,500
Vasona Corridor Project	6,075,350
Guadalupe Corridor	4,227,230
Environmental Building and Site Modifications	619,270
VTA Administration Building Improvement	253,333
Study Projects	157,705
Coach Replacement	51,525
Total	\$ 376,555,494

Additional information regarding projects in progress as of June 30, 1999, follows:

Total Board approved project budget	\$ 1,396,806,771
Expended to date	376,555,494
Expenditure budget available for CIP	\$ 1,020,251,277
Anticipated funding sources are as follows:	
Federal, state, and other local assistance (Note 11)	\$ 936,018,399
Bond proceeds (Note 7)	84,371
Local contribution (Note 11)	84,148,507
Total funding sources	\$ 1,020,251,277

VTA has outstanding encumbrances of approximately \$125,390,000 as of June 30, 1999, related to the above capital projects.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1999

(7) Long-Term Debt

Long-term debt as of June 30, 1999, 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 \$366,075 and unamortized deferred amount on refunding of \$3,358,048 as of June 30, 1999	35,630,877
Series 1985A Equipment Trust Certificates	29,660,000
Improvement Bond Series 22R	<u>158,786</u>
Total debt	115,449,663
Current portion	<u>(951,944)</u>
Long-term debt, excluding current portion	<u><u>\$ 114,497,719</u></u>

Long-term debt, excluding current portion, as of June 30, 1999, is reported in the accompanying combined balance sheet as follows:

Long-term debt payable from restricted assets	\$ 8,085,634
Unrestricted	<u>106,412,085</u>
	<u><u>\$ 114,497,719</u></u>

(a) 1999 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%.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1999

(b) 1997 Series A Sales Tax Revenue Refunding Bonds

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

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

(c) Series 1985A Equipment Trust Certificates

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

The 1985A Certificates are limited general obligations of VTA and are secured by an irrevocable letter of credit in the amount of \$30,400,000, 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, 1999, VTA had repaid \$23,200,000 of the 1985A Certificates. As a result of making payments prior to scheduled repay maturity dates, the next required sinking fund payments are due in 2007 through 2015 and range from \$460,000 to \$4,800,000.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1999

(d) Improvement Bond Series 22R

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

(e) Five Year Debt Maturity

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

Year ending <u>June 30,</u>	
2000	\$ 6,180,112
2001	7,286,299
2002	7,314,307
2003	7,328,287
2004	7,350,897
Thereafter	<u>160,476,075</u>
Total debt service requirements	195,935,977
Less:	
Amounts representing interest	76,762,191
Unamortized bond discount	366,075
Unamortized deferred amount on refunding	<u>3,358,048</u>
Total debt	115,449,663
Less current portion	<u>951,944</u>
Long-term debt, excluding current portion	<u><u>\$ 114,497,719</u></u>

(f) Limitations and Restrictions

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

(g) Lease - Leaseback

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1999

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

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

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

VTA paid \$1,683,000 in appraisal, legal advisor and other fees. The pecuniary benefit to VTA was \$5,600,000 which has been recorded as non-operating revenue in the Statement of Revenues and Expenses and Changes in Retained Earnings – Enterprise Fund.

(8) Sales Tax Revenue

Sales tax revenue represents sales tax revenue from the California State Board of Equalization, which, under a sales tax measure, collects for VTA 0.5% for each taxable sales dollar spent in the County. These amounts are available to fund both operations and capital expenditures except that portion which is to be used to repay long-term debt as described in Note 7. Collection fees charged by the State Board of Equalization were approximately \$1,436,000 in fiscal 1999.

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. Such amount has been netted against sales tax revenue.

(9) Measure B Transit Improvement Program

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1999

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

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

As of June 30, 1999, VTA recorded a receivable, shown as due from governmental agencies in the accompanying combined balance sheet of \$48,118,000, from the County for the reimbursement of Measure B expenditures. Of the total receivable balance, \$46,622,000 relates to Measure B Transit and is recorded as contributed capital in the enterprise funds, \$767,000 relates to Measure B Highway and is recorded as local grant revenue in the capital fund, and the remaining \$729,000 relates to interest income and is recorded in the Enterprise Fund.

(10) Changes in Enterprise Equity

Changes in enterprise equity for the year ended June 30, 1999, were as follows:

	Contributed capital	Retained earnings		Total equity
		Reserved	Unreserved	
Balances, June 30, 1998	\$ 634,827,758	50,622,053	359,140,802	1,044,590,613
Net income	—	—	24,962,488	24,962,488
Capital grants (note 12)	77,093,010	—	—	77,093,010
Measure B Funding (note 9)	46,622,487	—	—	46,622,487
Depreciation on assets acquired with capital grants	(11,764,348)	—	11,764,348	—
Increase in reserved retained earnings	—	40,206,227	(40,206,227)	—
Balances, June 30, 1999	\$ <u>746,778,907</u>	<u>90,828,280</u>	<u>355,661,411</u>	<u>1,193,268,598</u>

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

The excess of assets restricted for encumbrances and the local share of capital projects over the related liabilities payable from restricted assets is recorded as a reservation of retained earnings in the accompanying combined balance sheet. Reserved retained earnings as of June 30, 1999, totaled \$90,828,280.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1999

As of June 30, 1999, the Traffic Authority Special Revenue Fund has a deficit fund balance of approximately \$79,000. This deficit fund balance is expected to be recovered through future sales tax receipts.

The fund balance of the spousal medical expendable trust fund has been restated as of June 30, 1998, as follows:

Fund balance as of June 30, 1998, as previously reported	\$	—
Restatement		<u>2,937,923</u>
Fund balance as of June 30, 1998, as restated	\$	<u><u>2,937,923</u></u>

The net assets of the spousal medical expendable trust fund were previously reported as “other accrued liabilities noncurrent.” In the current year, the net assets of the spousal medical expendable trust fund are shown as reserved fund balance of the spousal medical trust fund.

(12) Federal, State, and Local Assistance

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1999

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, 1999, are summarized as follows:

	Fund Types	
	Enterprise	Special Revenue
Operating assistance grants:		
FTA Section 9	\$ 11,654,951	—
Federal Highway Planning	—	3,309,623
Federal Technical Studies	—	1,088,968
	1,327	—
Total operating assistance grants	<u>11,656,278</u>	<u>4,398,591</u>
Capital grants:		
FTA Section 3	43,305,806	—
FTA Section 9	2,456,067	—
Pass through Program – Department of Transportation	65,158	—
Total capital grants	<u>45,827,031</u>	<u>—</u>
Total federal grants	<u>\$ 57,483,309</u>	<u>4,398,591</u>

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1999

(b) *State and Local Grants*

State and local grants for the year ended June 30, 1999, are summarized as follows:

Operating assistance grants:	
Transportation Development Act	\$ 62,527,899
State Transit Assistance	4,456,512
AB434	<u>604,325</u>
Total operating assistance grants	<u>67,588,736</u>
Capital grants:	
Transit Capital Improvement	310,915
Proposition 116	13,136,628
Traffic Systems Management	79,396
State Flexible Congestion Relief	17,052,922
AB434	102,150
State/Local Partnership	<u>583,968</u>
Total capital grants	<u>31,265,979</u>
Total state and local grants	\$ <u>98,854,715</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.

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1999

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

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

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

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

(a) Plan Description

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

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

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

The current membership of the Plan as of June 30, 1999, is comprised of the following:

Retirees and beneficiaries currently receiving benefits	391
Terminated vested members not yet receiving benefits	135
Active members	<u>1,555</u>
Total	<u><u>2,081</u></u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1999

(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>
Valuation date	January 1, 1999
Actuarial cost method	Entry Age Normal
Amortization method for actuarial accrued liabilities	Level dollar method, closed periods
Remaining amortization period	Equivalent Single Amortization Period of 20 years
Actuarial asset valuation method	Market value of assets as of January 1, 1999. 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

No investments 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, 1999, were made in accordance with actuarially determined requirements computed as of January 1, 1999. VTA's contribution rate as a percentage of payroll was 9.95% for the 1999 fiscal year.

(f) Net Pension Obligation

VTA's net pension obligation to the Plan was zero as of June 30, 1999, which was determined in accordance with GASB Statement No. 27.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1999

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, 1999	\$ 5,352,000	100%	
June 30, 1998 (a)	28,603,000	100%	—
June 30, 1997	4,233,000	100%	—

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

(14) Public Employees Retirement System

(a) Plan Description

All eligible non-ATU employees of VTA participate in the State's Public Employees Retirement System (CalPERS). Prior to separation from the County on January 1, 1995, (see Note 1) all eligible VTA employees participated in CalPERS through the County. As a result of the separation from the County, certain administrative employees were transferred from the County to VTA. All of those administrative employees' service credits earned during the period they worked for the County's transportation agency were transferred to VTA's CalPERS account. The transfer of related assets at a market value totaling approximately \$52,300,000 was completed by CalPERS as of June 30, 1999.

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1999

(b) Funding Policy

Active members in VTA's CalPERS Plan (CalPERS Plan) are not required to contribute to the CalPERS Plan. VTA is required to contribute the actuarially determined amount necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required contribution rate from July 1, 1998 through March 22, 1999, was 9.44% for the employer and 7.0% for employees. From March 22, 1999 to June 30, 1999, the employer rate was 10.722%, while the employee rate remained at 7.0%. The required employee contribution was paid by VTA. The contribution requirements of the CalPERS Plan are established by State statute and the employer contribution is established and may amended by CalPERS.

(c) Net Pension Obligation

VTA's net pension obligation to the CalPERS Plan was zero as of June 30, 1999, which was determined in accordance with GASB Statement No. 27.

For fiscal 1999, the VTA's annual pension cost was approximately \$5,462,000, which was fully contributed. The required contribution for fiscal 1999 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, 1999	\$ 5,462,000	100%	—
June 30, 1998	4,573,000	100%	—
June 30, 1997	3,995,000	100%	—

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1999

(15) ATU Spousal Medical Trust

VTA had assets and related liabilities as of June 30, 1999 of approximately \$3,495,000 for the ATU Spousal Medical Trust (the Trust) and Retiree Vision and Dental Trust. The Trust is a medical insurance benefit for eligible pensioners' spouses. Pursuant to a collective bargaining agreement, VTA is required to contribute to the Trust \$0.20 per hour worked by all ATU employees. As of June 30, 1999, 129 participating spouses met the eligibility requirements for the Spousal Medical Trust. The Retiree Vision and Dental Trust is a vision and dental benefit for eligible pensioners. Effective February 8, 1999 and pursuant to a collective bargaining agreement, VTA is required to contribute \$0.05 per hour worked by ATU employees. As of June 30, 1999, there were no eligible participants. Contributions, which were expensed by VTA, were approximately \$698,000 for the Spousal Medical Trust and \$70,000 for the Retiree Vision and Dental Trust, respectively. Benefit payments made by the Spousal Medical Trust for the year ended June 30, 1999, were approximately \$252,000.

(16) 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, 1999, 347 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, 1999, were approximately \$844,000. For the year ended June 30, 1999, VTA made contributions to the ATU Program, which were expensed by VTA, of approximately \$1,798,000. An actuarial study as of January 1, 1999, projected that the present value of future VTA paid retiree medical benefits for the current group of active employees, retirees, and terminated vested employees (excluding new employees) was approximately \$32,651,000. VTA's fiscal 1999 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, 1999, 293 retirees met the eligibility requirements. For the year ended June 30, 1999, benefits paid to participants of the Non-ATU Program were approximately \$146,000 while contributions, which were made by VTA, were approximately \$1,130,000. An actuarial study as of January 1, 1999, projected that the present value of future VTA paid retiree medical benefits for the current group of active employees, retirees, and terminated vested employees (excluding new employees) was approximately \$13,087,000. VTA's fiscal 1999 contribution approximated the actuarially determined contribution.

As of June 30, 1999, VTA had restricted assets and related liabilities of approximately \$25,901,000 to cover future costs of the ATU and Non-ATU Programs.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1999

(17) Deferred Compensation Plan

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

In accordance with the provisions of GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, the accompanying financial statements do not include assets and liabilities of the Deferred Plan.

(18) Self-Insurance

VTA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors, and omissions, injuries to employees; injuries to the public; and natural disasters. Coverage provided by self-insurance and excess coverage is generally as follows as of June 30, 1999:

<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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1999

(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, 1999, and a 6% average discount rate for general liability as of June 30, 1999, 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, 1999, are as follows:

	<u>1999</u>	<u>1998</u>
Unpaid claims, beginning of fiscal year	\$ 25,691,000	25,620,000
Provision for claim and claim adjustment expense	5,959,000	6,726,000
Payments for claims	<u>(7,172,000)</u>	<u>(6,655,000)</u>
Unpaid claims, end of fiscal year	\$ <u>24,478,000</u>	<u>25,691,000</u>

Changes in the balances of general liability claims liabilities for the two years ended June 30, 1999, are as follows:

	<u>1999</u>	<u>1998</u>
Unpaid claims, beginning of fiscal year	\$ 22,603,000	20,678,000
Provision for claim and claim adjustment expense	3,885,000	4,930,000
Payments for claims	<u>(5,221,000)</u>	<u>(3,005,000)</u>
Unpaid claims, end of fiscal year	\$ <u>21,267,000</u>	<u>22,603,000</u>

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

(19) Leases

VTA leases various properties for use as transfer facilities, parking lots, information centers, and warehouses under lease agreements that expire at various dates through 2013. These agreements are accounted for as operating leases. Rent expense was approximately \$200,000 in fiscal 1999.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1999

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

<u>Year ending June 30,</u>	
2000	\$ 337,000
2001	353,000
2002	370,000
2003	386,000
2004	405,000
Thereafter	<u>1,770,000</u>
Total	<u>\$ 3,621,000</u>

(20) Litigation

As of June 30, 1999, VTA had accrued amounts that management believes are adequate to provide for claims and litigation, which arose during the normal course of business. Other claims and litigation are outstanding for which VTA cannot determine the ultimate outcome and resulting liability, if any. However, VTA's management believes the ultimate outcome of these claims and lawsuits will not significantly impact VTA's financial position.

(21) Related Party Transactions

County of Santa Clara

Through June 30, 1999, the County continued to provide certain support services to VTA. Amounts paid to the County for such services were approximately \$3,818,000 in fiscal 1999. Effective July 1, 1999, VTA switched from the County's financial management information systems to its own stand-alone system. It also established new banking relationships.

(22) Joint Ventures

(a) Peninsula Corridor Joint Powers Board

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

The net operating costs and administrative expenses of the PCJPB for services provided between San Francisco and San Jose are reimbursed by the member agencies. VTA, SamTrans, and CCSF are responsible for 38.8%, 51.0%, and 10.2%, respectively, of the member agencies' total reimbursement for such expenses. VTA is also responsible for 100% of the net operating costs between San Jose and Gilroy. During the year ended June 30, 1999, VTA paid approximately \$11,291,000 to the PCJPB.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1999

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, 1999 (unaudited), is as follows:

Total assets	\$	<u>478,801,225</u>
Operating revenue	\$	21,656,752
Expenses		(46,749,144)
Nonoperating revenue		<u>25,092,392</u>
Excess of expenses over revenues	\$	<u>—</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 (fiscal 1999-2001).

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.

(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.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1999

(d) California Transit Finance Authority

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

(23) Santa Clara Valley Traffic Authority

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

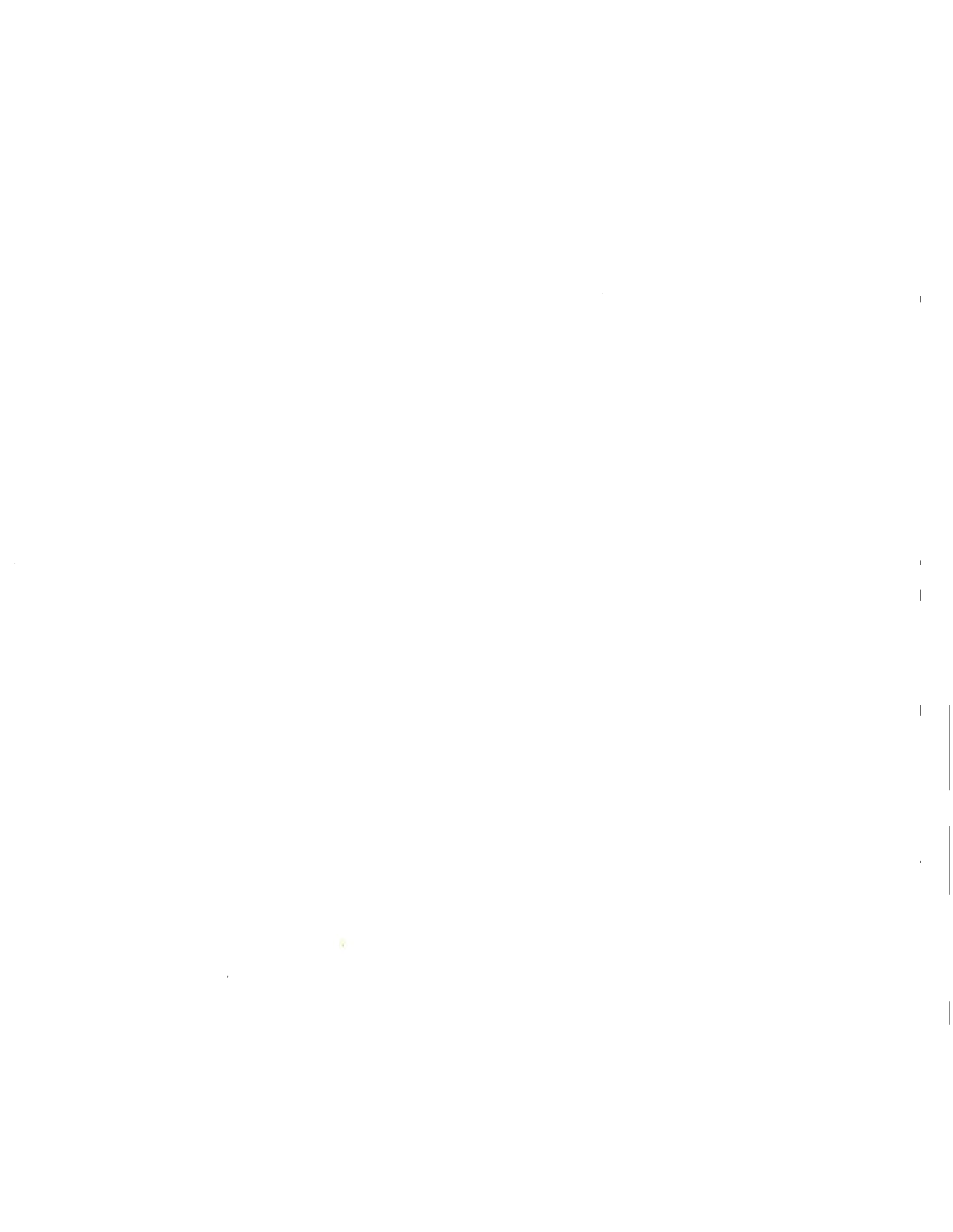
(a) Agreement with CalTrans

CalTrans was contracted to act as the technical director for the 1985 Measure A programs, and to plan, review, and approve all plans and specifications for development, as well as to supervise construction. In the fiscal year ended June 30, 1999, payments to CalTrans totaled approximately \$12,000.

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, 1999, known claims have been accrued and reported at expected settlement amounts. A stipulation agreement with CalTrans limits the Traffic Authority's claim exposure for closed projects. The project close out costs are currently being negotiated with CalTrans and are expected to be resolved within one year. Management believes the outcome of this process will not significantly impact VTA's financial position.

(24) Subsequent Event

On December 9, 1999, the VTA's Board of Directors approved the transfer of approximately \$10,700,000 to the Santa Clara County Transit District Amalgamated Transit Union Pension Plan to fund the January 1, 1999, unfunded accrued liability.



REQUIRED SUPPLEMENTARY INFORMATION



SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Schedule of Funding Progress ^(a)

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

<u>Date</u>	<u>Actuarial Value of Assets</u>	<u>Accrued Liability (AAL)</u>	<u>Unfunded AAL</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded AAL as a Percentage of Covered Payroll</u>
1/1/1997	\$ 112,455,500 ^(b)	136,331,700	23,876,200	82.5%	\$ 64,799,849	36.9%
1/1/1998	^(c) 128,403,003 ^(c)	151,291,885	22,888,882	84.9	68,546,583	33.4
1/1/1999	165,253,455 ^(d)	175,980,221	10,726,766	93.9	73,873,863	14.5

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

^(b) Extraordinary data changes and changes in actuarial valuation software caused the AAL to increase from \$107,111,800 in the previous year.

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

^(d) Change in actuarial assumption for mortality.

See accompanying independent auditors' report.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Schedule of Funding Progress

Santa Clara Valley Transportation Authority CalPERS Plan

(Unaudited)

<u>Valuation date</u>		<u>Entry Age Normal Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded/ (Overfunded) Liability</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>Unfunded (Overfunded) as a Percentage of Payroll</u>
6/30/1995	\$	1,960,529	1,655,033	305,496	84.4%	\$ 22,694,406	1.3%
6/30/1996 ^(a)		41,213,702	42,114,059	(900,357)	102.2	22,170,642	(4.1)
6/30/1997		46,553,900	50,970,126	(4,416,226)	109.5	25,952,524	(17.0)

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

See accompanying independent auditors' report.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Disclosure Regarding Year 2000

The Year 2000 issue is the result of shortcomings in many electronic data-processing systems and other equipment that may adversely affect operations beyond the year 1999. For many years, computer programmers eliminated the first two digits from a year when writing programs. If not corrected, many of these programs will not be able to distinguish, for example, between the year 2000 and the year 1900. The last two digits "00" are the same.

The following Year 2000 disclosure information is provided in accordance with Governmental Accounting Standards Board Technical Bulletin 98-1, issued October 1998, and amended by Technical Bulletin 99-1, dated March 29, 1999. The disclosures should include a description of the stages of work in process or completed as of the end of the government's reporting period to make computer systems and other electronic equipment critical to conducting operations Year 2000 compliant. The additional stages of work necessary for making computer systems and other electronic equipment Year 2000 compliant should also be disclosed. To comply with these requirements, the following disclosure is provided.

Santa Clara Valley Transportation Authority (VTA) has identified and performed an assessment of mission critical systems that may be affected by the Year 2000 issue. Furthermore, VTA has completed its contingency plans on mission critical areas pertinent to Way, Power, and Signal, Road Calls, Maintenance, Communication and Coordination, Dispatch Operations, Field Supervision, Service Planning/Operations Work Assignments, Security/Facility Access, and Customer Service Information to the Public. VTA defines *mission critical* systems to be those which are considered vital in maintaining transit service continuity and reliability, while promoting the safety of both customers and employees.

VTA has completed the following stages in addressing Year 2000 issues relative to the identified mission critical systems:

- **Awareness Stage**

Budget and project plan were established. In addition to internal resources, VTA has committed \$200,000 for emergency purposes relative to the Year 2000 efforts.

- **Assessment Stage**

Systems and processes were inventoried. Risk assessment was conducted to identify mission critical systems.

- **Remediation Stage**

Mission critical systems and equipment were made Year 2000 ready. Contingency plans have been completed for the identified mission critical systems to ensure operational continuity after January 1, 2000.

- **Validation & Testing Stage**

System functionality and test results were validated.

While VTA is proactively involved and totally committed to prevent any problems which may be brought about by the Year 2000 issue, VTA provides no assurance that all its remediation efforts will be successful before, at, or after January 1, 2000, or that business partners and third party providers whose services are not under VTA's control, will be Year 2000 ready.

SUPPLEMENTARY DATA



SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Combining Balance Sheet

Governmental Fund Type

(Special Revenue Funds)

June 30, 1999

Assets	<u>Traffic Authority</u>	<u>CMP</u>	<u>Total</u>
Current assets:			
Cash and equity with fiscal agent	\$ 327,177	503,725	830,902
Due from other funds	11,007	2,084	13,091
Due from other governmental agencies	360,550	1,364,107	1,724,657
Total current assets	<u>698,734</u>	<u>1,869,916</u>	<u>2,568,650</u>
Restricted assets:			
Cash and equity with fiscal agent	—	75,945	75,945
Due from other governmental agencies	—	2,637	2,637
Total restricted assets	<u>—</u>	<u>78,582</u>	<u>78,582</u>
Total assets	<u>\$ 698,734</u>	<u>1,948,498</u>	<u>2,647,232</u>
 Liabilities and (Deficit) Equity			
Current liabilities:			
Accounts payable	\$ 478,060	238,696	716,756
Other accrued liabilities	—	56,482	56,482
Due to other funds	—	1,188	1,188
Due to other governmental agencies	300,000	—	300,000
Total current liabilities	<u>778,060</u>	<u>296,366</u>	<u>1,074,426</u>
Liabilities payable from restricted assets – accounts payable	—	78,583	78,583
Noncurrent liabilities – other accrued liabilities	<u>—</u>	<u>41,136</u>	<u>41,136</u>
Total liabilities	<u>778,060</u>	<u>416,085</u>	<u>1,194,145</u>
(Deficit) equity – fund balance – undesignated	<u>(79,326)</u>	<u>1,532,413</u>	<u>1,453,087</u>
Total liabilities and (deficit) equity	<u>\$ 698,734</u>	<u>1,948,498</u>	<u>2,647,232</u>

See accompanying independent auditors' report.

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

Governmental Fund Type

(Special Revenue Funds)

Year ended June 30, 1999

	Traffic Authority	CMP	Total
Revenues:			
Sales tax	\$ 1,262,211	—	1,262,211
Federal grants	3,309,623	—	3,309,623
Investment earnings	79,716	26,201	105,917
Member agency assessment revenue	—	1,239,994	1,239,994
Federal technical studies	—	1,088,968	1,088,968
Operating assistance grants	—	61,706	61,706
Total revenues	4,651,550	2,416,869	7,068,419
Expenditures:			
Salaries and benefits	—	944,322	944,322
Services	666,402	959,349	1,625,751
Program expenditures	7,225,690	—	7,225,690
Total expenditures	7,892,092	1,903,671	9,795,763
Total (expenditures) revenues exceeding (revenues) expenditures	(3,240,542)	513,198	(2,727,344)
Fund balance, beginning of year	3,161,216	1,019,215	4,180,431
Fund balance, end of year	\$ (79,326)	1,532,413	1,453,087

See accompanying independent auditors' report.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances –
Budget and Actual – Special Revenue Funds

Year Ended June 30, 1999

	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	\$ 805,000	1,262,211	457,211	—	—	—	805,000	1,262,211	457,211
Federal grants	221,000	3,309,623	3,088,623	—	—	—	221,000	3,309,623	3,088,623
Investment earnings	140,000	79,716	(60,284)	—	26,201	26,201	140,000	105,917	(34,083)
Member agency assessment revenue	—	—	—	1,239,994	1,239,994	—	1,239,994	1,239,994	—
Federal technical studies	—	—	—	1,056,000	1,088,968	32,968	1,056,000	1,088,968	32,968
Operating assistance grants	—	—	—	108,000	61,706	(46,294)	108,000	61,706	(46,294)
Other revenues	201,000	—	(201,000)	—	—	—	201,000	—	(201,000)
Total revenues	<u>1,367,000</u>	<u>4,651,550</u>	<u>3,284,550</u>	<u>2,403,994</u>	<u>2,416,869</u>	<u>12,875</u>	<u>3,770,994</u>	<u>7,068,419</u>	<u>3,297,425</u>
Expenditures:									
Salaries and benefits	—	—	—	1,086,463	944,322	142,141	1,086,463	944,322	142,141
Services	60,000	666,402	(606,402)	1,551,070	959,349	591,721	1,611,070	1,625,751	(14,681)
Program expenditures	8,340,000	7,225,690	1,114,310	—	—	—	8,340,000	7,225,690	1,114,310
Total expenditures	<u>8,400,000</u>	<u>7,892,092</u>	<u>507,908</u>	<u>2,637,533</u>	<u>1,903,671</u>	<u>733,862</u>	<u>11,037,533</u>	<u>9,795,763</u>	<u>1,241,770</u>
Total (expenditures) revenues exceeding (revenues) expenditures	<u>(7,033,000)</u>	<u>(3,240,542)</u>	<u>3,792,458</u>	<u>(233,539)</u>	<u>513,198</u>	<u>746,737</u>	<u>(7,266,539)</u>	<u>(2,727,344)</u>	<u>4,539,195</u>
Fund balance at beginning of year	<u>3,161,216</u>	<u>3,161,216</u>	<u>—</u>	<u>1,019,215</u>	<u>1,019,215</u>	<u>—</u>	<u>4,180,431</u>	<u>4,180,431</u>	<u>—</u>
Fund balance at end of year	<u>\$ (3,871,784)</u>	<u>(79,326)</u>	<u>3,792,458</u>	<u>785,676</u>	<u>1,532,413</u>	<u>746,737</u>	<u>(3,086,108)</u>	<u>1,453,087</u>	<u>4,539,195</u>

See accompanying independent auditors' report.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Combining Balance Sheet

Fiduciary Fund Type

(Trust and Agency Funds)

June 30, 1999

Assets	Trust Funds ^(a)	Agency Fund	Total
Restricted assets:			
Cash and equity with fiscal agent	\$ 2,818,138	1,068,706	3,886,844
Investments	175,003,489	4,687,445	179,690,934
Receivables	1,354,483	—	1,354,483
Due from other funds	18,721	—	18,721
Due from other governmental agencies	78,595	35,572	114,167
	<hr/>	<hr/>	<hr/>
Total assets	\$ 179,273,426	5,791,723	185,065,149
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Liabilities and Equity			
Liabilities payable from restricted assets:			
Accounts payable	\$ 45,930	5,325,265	5,371,195
Due to other funds	397,799	434,841	832,640
Due to other government agencies	—	31,617	31,617
	<hr/>	<hr/>	<hr/>
Total liabilities payable from restricted assets	443,729	5,791,723	6,235,452
Equity – fund balance – reserved for:			
Employees' pension benefits	175,334,477	—	175,334,477
Spousal medical trust	3,495,220	—	3,495,220
	<hr/>	<hr/>	<hr/>
Total equity	178,829,697	—	178,829,697
	<hr/>	<hr/>	<hr/>
Total liabilities and equity	\$ 179,273,426	5,791,723	185,065,149
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

^(a) See Combining Balance Sheet – Trust Funds

See accompanying independent auditors' report.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Combining Balance Sheet – Trust Funds

June 30, 1999

Assets	SCCTD/ATU Pension Fund	ATU Spousal Medical Trust	Total
	<u> </u>	<u> </u>	<u> </u>
Restricted assets:			
Cash and equity with fiscal agent	\$ 1,422,387	1,395,751	2,818,138
Investments	172,950,822	2,052,667	175,003,489
Receivables	1,354,483	—	1,354,483
Due from other funds	—	18,721	18,721
Due from other governmental agencies	50,514	28,081	78,595
Total assets	<u>\$ 175,778,206</u>	<u>3,495,220</u>	<u>179,273,426</u>
Liabilities and Equity			
Liabilities payable from restricted assets:			
Accounts payable	\$ 45,930	—	45,930
Due to other funds	397,799	—	397,799
Total liabilities payable from restricted assets	<u>443,729</u>	<u>—</u>	<u>443,729</u>
Equity – fund balance:			
Reserved for employees' pension benefits	175,334,477	—	175,334,477
Reserved for spousal medical trust	—	3,495,220	3,495,220
Total equity	<u>175,334,477</u>	<u>3,495,220</u>	<u>178,829,697</u>
Total liabilities and equity	<u>\$ 175,778,206</u>	<u>3,495,220</u>	<u>179,273,426</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, 1999

Assets	<u>Balance July 1, 1998</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 1999</u>
Current assets:				
Cash and equity with fiscal agent	\$ 6,050,246	—	4,981,540	1,068,706
Investments	—	4,687,445	—	4,687,445
Due from other governmental agencies	86,938	—	51,366	35,572
Total assets	\$ 6,137,184	4,687,445	5,032,906	5,791,723
Liabilities				
Liabilities payable from restricted assets:				
Accounts payable	\$ 5,857,096	—	531,831	5,325,265
Due to other funds	280,088	154,753	—	434,841
Due to other governmental funds	—	31,617	—	31,617
Total liabilities	\$ 6,137,184	186,370	531,831	5,791,723

See accompanying independent auditors' report.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Schedule of Budget Versus Actual Revenues and Expenditures

(Enterprise Fund)

Year ended June 30, 1999

	<u>Budget</u>	^(a) <u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>
Operating revenues:			
Passenger fares	\$ 26,918,000	27,069,631	151,631
Advertising and other	3,160,000	3,886,000	726,000
Total operating revenues	<u>30,078,000</u>	<u>30,955,631</u>	<u>877,631</u>
Operating expenditures:			
Labor and fringe benefits	147,670,000	142,353,962	5,316,038
Services and supplies	48,183,000	44,386,933	3,796,067
Purchased transportation	15,789,000	15,486,747	302,253
Total operating expenditures	<u>211,642,000</u>	<u>202,227,642</u>	<u>9,414,358</u>
Operating loss	<u>(181,564,000)</u>	<u>(171,272,011)</u>	<u>10,291,989</u>
Nonoperating revenues (expenditures):			
Sales tax revenue	137,262,000	143,711,721	6,449,721
Federal operating assistance grants	82,000	11,656,278	11,574,278
State and local operating assistance grants	66,984,000	67,588,736	604,736
CalTrain reimbursements	568,000	—	(568,000)
CalTrain subsidy	(11,925,000)	(11,291,169)	633,831
Contribution for unfunded pension liability	(1,175,000)	(836,777)	338,223
Investment earnings	7,248,000	5,534,792	(1,713,208)
Interest expense	(6,116,000)	(4,762,588)	1,353,412
Other, net	8,188,000	8,896,055	708,055
Total nonoperating revenues, net	<u>201,116,000</u>	<u>220,497,048</u>	<u>19,381,048</u>
Net income – budget basis	19,552,000	49,225,037	29,673,037
Depreciation	<u>27,164,000</u>	<u>24,262,549</u>	<u>2,901,451</u>
Net income – GAAP basis	\$ <u>(7,612,000)</u>	<u>24,962,488</u>	<u>32,574,488</u>

^(a) The budget for the year ended June 30, 1999, represents the revised budget as amended to reflect all subsequently approved budget modifications through the end of fiscal 1999, as well as adjustments to add back carried forward encumbrances from fiscal 1998, and subtract outstanding encumbrances as of June 30, 1999.

See accompanying independent auditors' report.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Schedule of Restricted Assets and Related Liabilities – Enterprise Fund

June 30, 1999

	<u>Capital and Operating</u>	<u>General Liability Insurance</u>	<u>Workers' Compensation Insurance</u>	<u>Retiree Health Care</u>	<u>Accrued Vacation and Sick Benefits</u>	<u>Debt Service</u>	<u>Total</u>
Restricted assets:							
Cash and equity in cash and cash equivalents	\$ 35,422,000	20,090,451	24,189,665	23,563,888	15,051,912	—	118,317,916
Investments with fiscal agent	5,281,269	1,153,985	265,635	2,295,773	—	8,085,634	17,082,296
Due from other governmental agencies	72,149,679	21,993	22,448	41,146	—	—	72,235,266
Other assets	30,500	—	—	—	—	—	30,500
Total	112,883,448	21,266,429	24,477,748	25,900,807	15,051,912	8,085,634	207,665,978
Liabilities payable from restricted assets:							
Accounts payable	11,231,354	—	—	—	—	—	11,231,354
Other accrued liabilities – current	420,532	—	7,343,324	—	4,491,492	—	12,255,348
Due to other governmental agencies	10,403,282	—	—	—	—	—	10,403,282
Long-term debt	—	—	—	—	—	8,085,634	8,085,634
Other accrued liabilities – noncurrent	—	21,266,429	17,134,424	25,900,807	10,560,420	—	74,862,080
Total	22,055,168	21,266,429	24,477,748	25,900,807	15,051,912	8,085,634	116,837,698
Retained earnings – reserved	\$ 90,828,280	—	—	—	—	—	90,828,280

See accompanying independent auditors' report.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

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

June 30, 1999 and 1998

Assets	<u>1999</u>	<u>1998</u>
Current assets:		
Cash	\$ 1,216,409	—
Cash and equity with fiscal agent	—	141,088,921
Investments	72,074,422	—
Receivables	947,274	393,055
Due from other funds	1,303,645	—
Due from other governmental agencies	29,033,189	27,092,544
Inventories	12,229,089	11,608,829
Other current assets	3,885,187	616,096
Total current assets	<u>120,689,215</u>	<u>180,799,445</u>
Restricted assets:		
Cash and equity with fiscal agent	17,082,296	103,420,100
Investments	118,317,916	—
Investments with fiscal agent	—	34,439,335
Receivables	—	585,856
Due from other funds	—	551,115
Due from other governmental agencies	72,235,266	14,352,818
Other assets	30,500	—
Total restricted assets	<u>207,665,978</u>	<u>153,349,224</u>
Other noncurrent assets:		
Deferred bond issuance costs	1,265,581	1,326,234
Other	116,100	126,500
Total other noncurrent assets	<u>1,381,681</u>	<u>1,452,734</u>
Property, facilities, and equipment:		
Land and right-of-way	442,330,126	442,117,920
CalTrain - Gilroy extension	48,763,312	48,763,312
Buildings, improvements, furniture, and fixtures	164,479,693	155,864,088
Vehicles	177,719,655	175,467,444
Light-rail tracks and electrification	64,438,244	64,438,244
Other operating equipment	7,957,117	7,957,117
Construction in progress	376,555,494	229,991,509
Total property, facilities, and equipment	<u>1,282,243,641</u>	<u>1,124,599,634</u>
Less accumulated depreciation	<u>184,338,977</u>	<u>162,218,257</u>
Total property, facilities, and equipment, net	<u>1,097,904,664</u>	<u>962,381,377</u>
Total assets	<u>\$ 1,427,641,538</u>	<u>1,297,982,780</u>

(Continued)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)
 Comparative Schedules of Assets, Liabilities, and Equity (Enterprise Fund), (Continued)
 June 30, 1999 and 1998

Liabilities and Equity	<u>1999</u>	<u>1998</u>
Current liabilities:		
Current portion of long-term debt	\$ 951,944	895,113
Accounts payable	3,551,938	4,404,076
Other accrued liabilities	6,386,254	12,250,362
Due to other funds	—	23,195,380
Due to other governmental agencies	194,773	1,557,514
Total current liabilities	<u>11,084,909</u>	<u>42,302,445</u>
Liabilities payable from restricted assets:		
Accounts payable	11,231,353	16,478,714
Other accrued liabilities – current	12,255,348	3,346,081
Due to other governmental agencies	10,403,282	1,554,565
Long-term debt, excluding current portion	8,085,634	7,580,362
Other accrued liabilities – noncurrent	74,862,080	73,767,449
Total liabilities payable from restricted assets	<u>116,837,697</u>	<u>102,727,171</u>
Noncurrent liabilities:		
Long-term debt, excluding current portion	106,412,085	107,699,379
Other accrued liabilities	38,249	663,172
Total noncurrent liabilities	<u>106,450,334</u>	<u>108,362,551</u>
Total liabilities	<u>234,372,940</u>	<u>253,392,167</u>
Equity:		
Contributed capital:		
Federal grants	468,306,449	428,671,565
State grants	210,294,011	184,585,273
Other	68,178,447	21,570,920
Total contributed capital	<u>746,778,907</u>	<u>634,827,758</u>
Retained earnings:		
Reserved	90,828,280	50,622,053
Unreserved	355,661,411	359,140,802
Total retained earnings	<u>446,489,691</u>	<u>409,762,855</u>
Total equity	<u>1,193,268,598</u>	<u>1,044,590,613</u>
Total liabilities and equity	<u>\$ 1,427,641,538</u>	<u>1,297,982,780</u>

See accompanying independent auditors' report.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

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

Years ended June 30, 1999 and 1998

	1999	1998
Operating revenues:		
Passenger fares	\$ 27,069,631	27,200,840
Advertising and other	3,886,000	2,802,298
Total operating revenues	30,955,631	30,003,138
Operating expenses:		
Labor	88,779,075	82,030,189
Fringe benefits	53,574,887	48,661,221
Materials and supplies	19,646,325	14,737,004
Services	15,200,210	17,043,499
Utilities	4,070,489	3,603,478
Casualty and liability	3,895,208	3,922,480
Purchased transportation	15,486,747	11,820,778
Leases and rentals	467,437	393,749
Miscellaneous	1,107,264	1,887,311
Total operating expenses, excluding depreciation	202,227,642	184,099,709
Operating loss before depreciation	(171,272,011)	(154,096,571)
Depreciation expense:		
On assets acquired with capital grants	11,764,348	15,226,946
On assets otherwise acquired	12,498,201	9,095,153
Total depreciation expense	24,262,549	24,322,099
Operating loss	(195,534,560)	(178,418,670)
Nonoperating revenues (expenses):		
Sales tax revenue	143,711,721	138,428,805
Federal operating assistance grants	11,656,278	59,238
State and local operating assistance grants	67,588,736	72,624,283
CalTrain subsidy	(11,291,169)	(12,254,444)
Altamont Commuter Express contributions	(836,777)	—
Contribution for unfunded pension liability	—	(22,888,882)
Investment earnings	5,534,792	8,784,858
Interest expense	(4,762,588)	(4,013,862)
Other income	10,169,655	1,272,146
Other expense	(1,273,600)	(1,037,895)
Nonoperating revenues, net	220,497,048	180,974,247
Net income	24,962,488	2,555,577
Charge to contributed capital:		
Depreciation on fixed assets acquired with contributions	11,764,348	15,226,946
Disposal of assets acquired with capital grants	—	4,190
Retained earnings at beginning of year	409,762,855	391,976,142
Retained earnings at end of year	\$ 446,489,691	409,762,855

See accompanying independent auditors' report.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Comparative Schedules of Cash Flows (Enterprise Fund)

Years ended June 30, 1999 and 1998

	<u>1999</u>	<u>1998</u>
Cash flows from operating activities:		
Cash received from passenger fares	\$ 27,280,593	27,643,741
Cash received from advertising	3,784,897	2,404,559
Cash paid to employees	(135,531,723)	(130,696,791)
Cash paid to suppliers	(51,066,139)	(42,013,288)
Cash paid for purchased transportation	(15,349,101)	(12,416,188)
Net cash used in operating activities	<u>(170,881,473)</u>	<u>(155,077,967)</u>
Cash flows from noncapital financing activities:		
Operating grants received	77,647,142	72,889,572
Sales tax received	138,068,172	137,589,878
CalTrain subsidy	(11,291,169)	(12,254,444)
Altamont Commuter Express Subsidy	(836,777)	—
Other noncapital receipts	12,770,603	23,139,037
Other noncapital payments	(24,468,980)	(16,376,531)
Net cash provided by noncapital financing activities	<u>191,888,991</u>	<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	(725,191)	(368,281)
Interest paid	(4,762,588)	(3,932,395)
Acquisition and construction of capital assets	(148,032,893)	(130,218,477)
Refund of court deposit	—	1,946,950
Capital grants received	62,244,436	113,278,825
Proceeds from sale of capital assets	11,405	10,008
Net cash (used in) provided by capital and related financing activities	<u>(91,264,831)</u>	<u>3,191,432</u>
Cash flows from investing activities:		
Proceeds from sale of investments	511,925,746	—
Purchases of investments	(672,685,084)	—
Interest income	4,806,335	7,854,813
Net cash (used in) provided by investing activities	<u>(155,953,003)</u>	<u>7,854,813</u>
Net (decrease) increase in cash and cash equivalents	(226,210,316)	60,955,790
Cash and cash equivalents, beginning of year	244,509,021	183,553,231
Cash and cash equivalents, end of year	<u>\$ 18,298,705</u>	<u>244,509,021</u>

(Continued)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

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

Years ended June 30, 1999 and 1998

	<u>1999</u>	<u>1998</u>
Supplemental disclosures of cash flow information:		
Cash and cash equivalents, beginning of year:		
Unrestricted	\$ 68,796,911	81,807,514
Restricted	175,712,110	101,745,717
	<u>\$ 244,509,021</u>	<u>183,553,231</u>
Cash and cash equivalents, end of year:		
Unrestricted	\$ 1,216,409	141,088,921
Restricted	17,082,296	103,420,100
	<u>\$ 18,298,705</u>	<u>244,509,021</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (195,534,560)	(178,418,670)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	24,262,549	24,322,099
Changes in operating assets and liabilities:		
Receivables	109,859	(40,897)
Inventories	(620,260)	(554,906)
Other current assets	178,199	24,870,134
Accounts payable	(6,099,499)	(1,187,592)
Other accrued liabilities	6,822,239	(24,485,013)
Due to other governmental agencies	—	416,878
Net cash used in operating activities	<u>\$ (170,881,473)</u>	<u>(155,077,967)</u>

See accompanying independent auditors' report.

SECTION 3 — STATISTICAL

FINANCIAL RATIOS

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

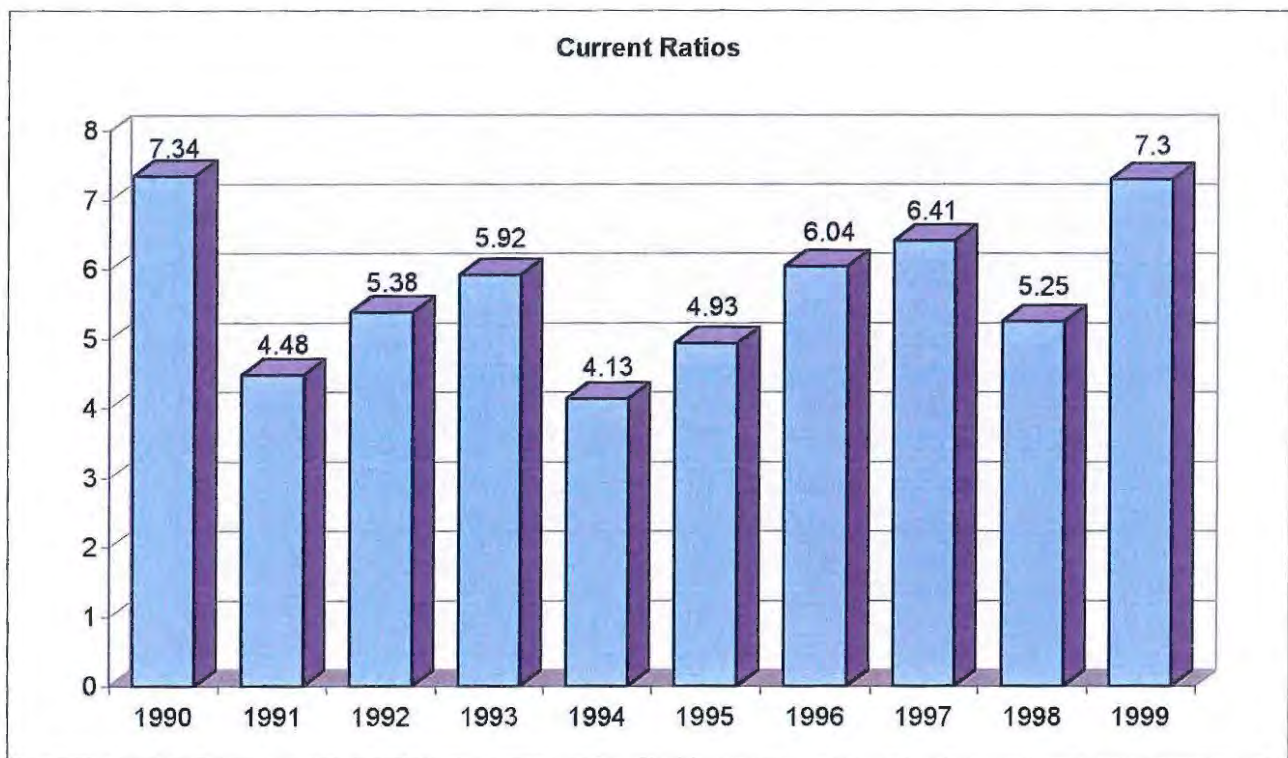
TEN YEAR COMPARISONS

- 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 1990 - 1999

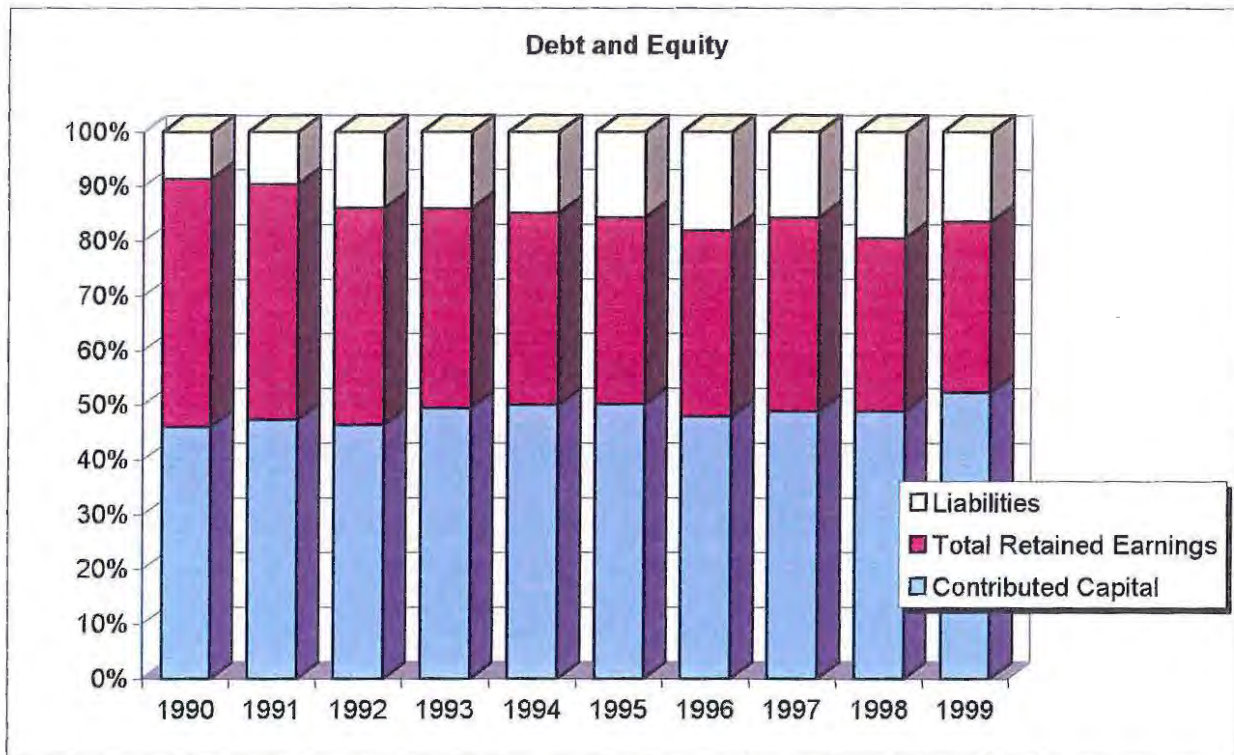
Current Ratios

This 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.



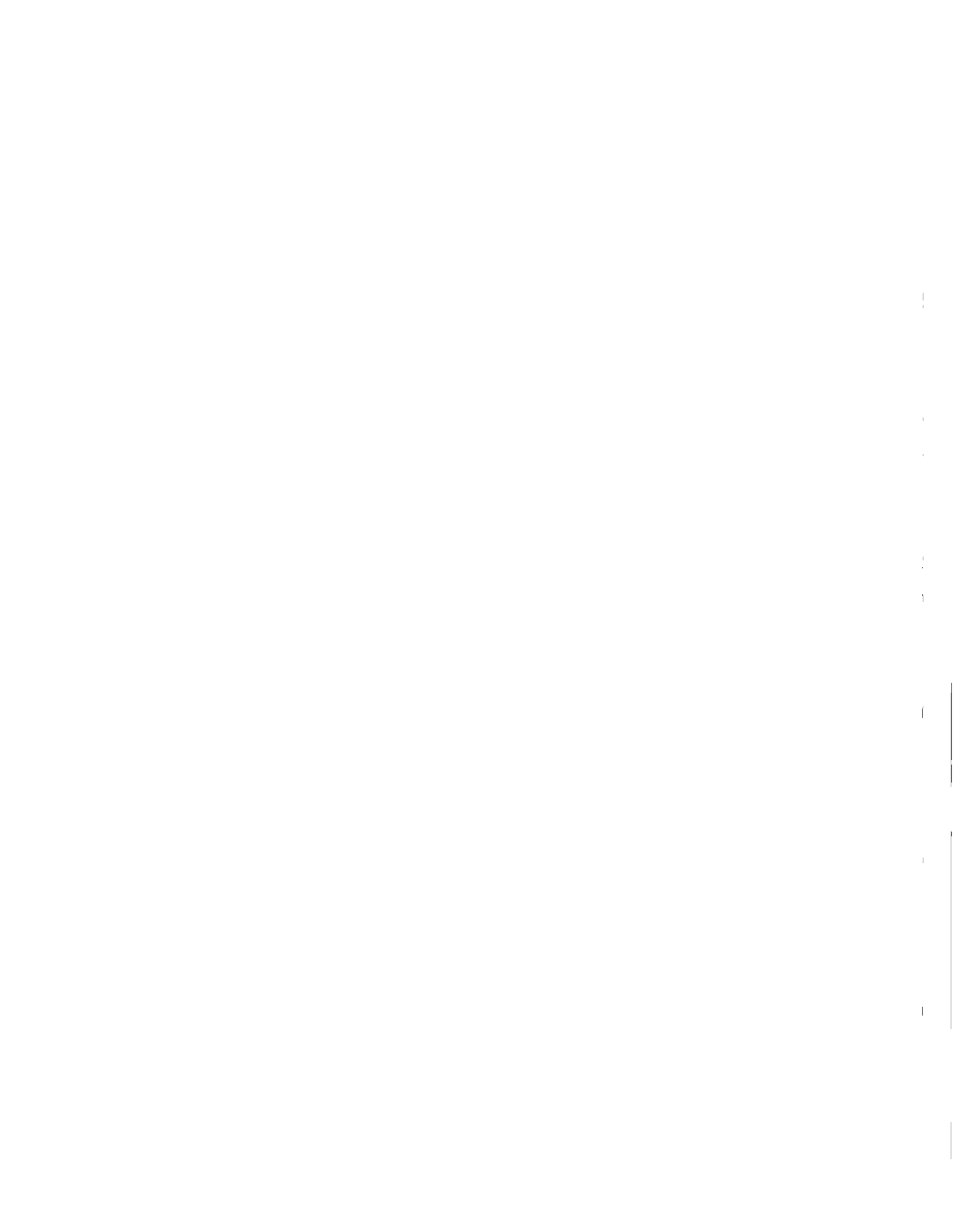
Debt and Equity Ratios

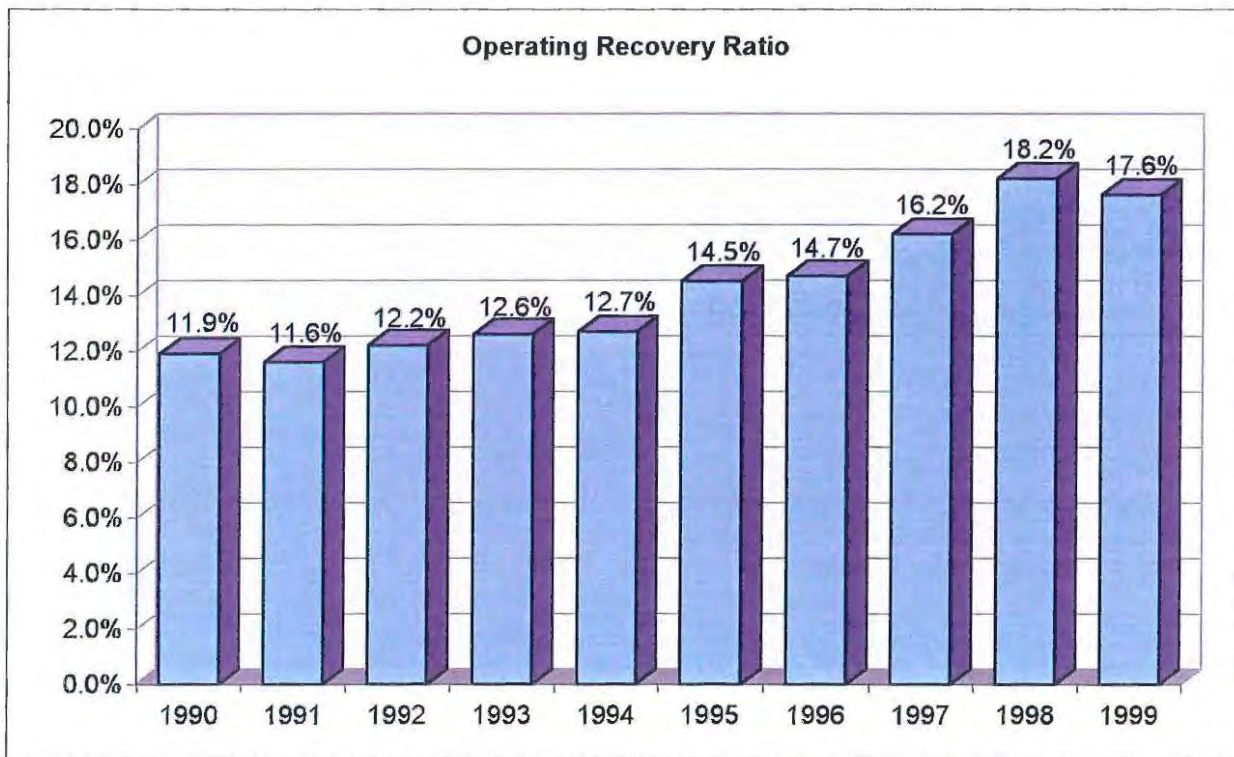
These ratios indicate the percentage of assets financed through borrowing, capital contributions, and District equity. They are determined by showing liabilities and equity as a percentage of total assets. Total Equity is shown as the solid line in the chart below. This indicates VTA has issued a relatively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



Operating Recovery Ratio

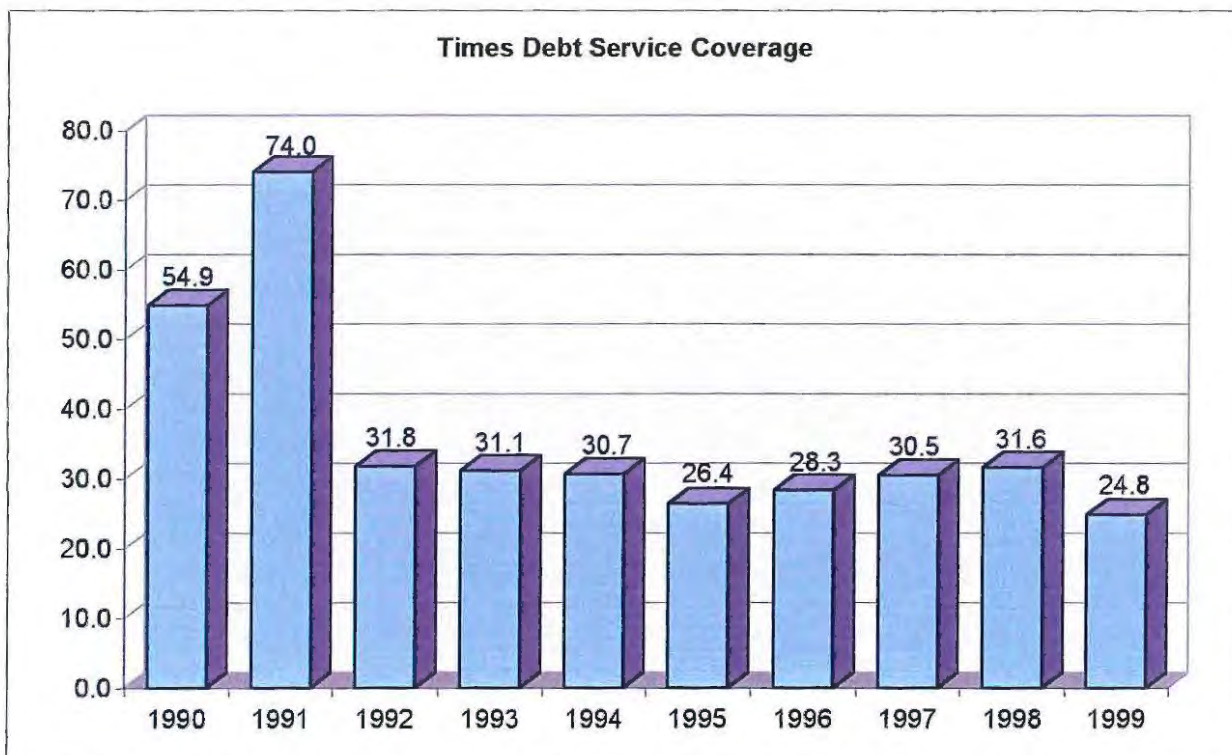
The operating recovery ratio is the operating income divided by the net operating expenses. This key measure shows a four percent gain from 1994 to fiscal 1998 in keeping with the long range strategic plan. VTA plans to achieve a 19% ratio in the year 2000 by a combination of cost containment measures,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





Times Debt Service Coverage

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

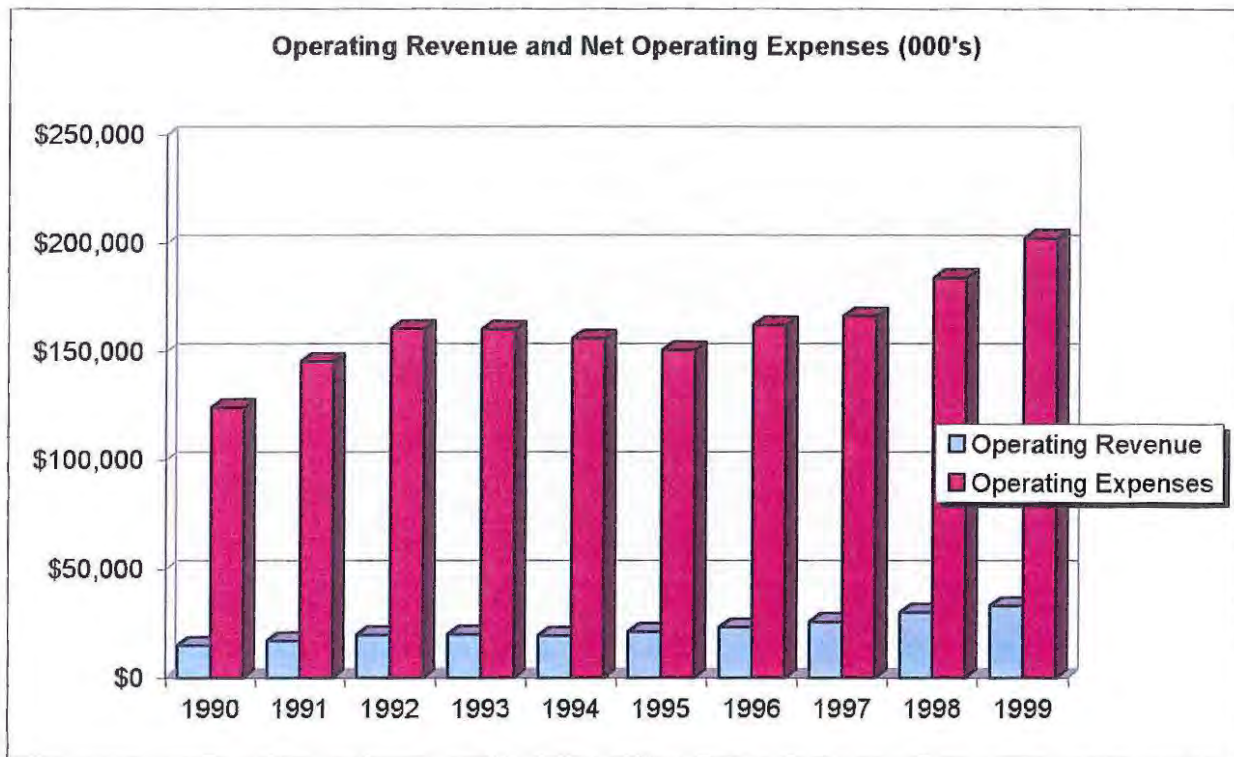




TEN - YEAR COMPARISONS (1990 - 1999)

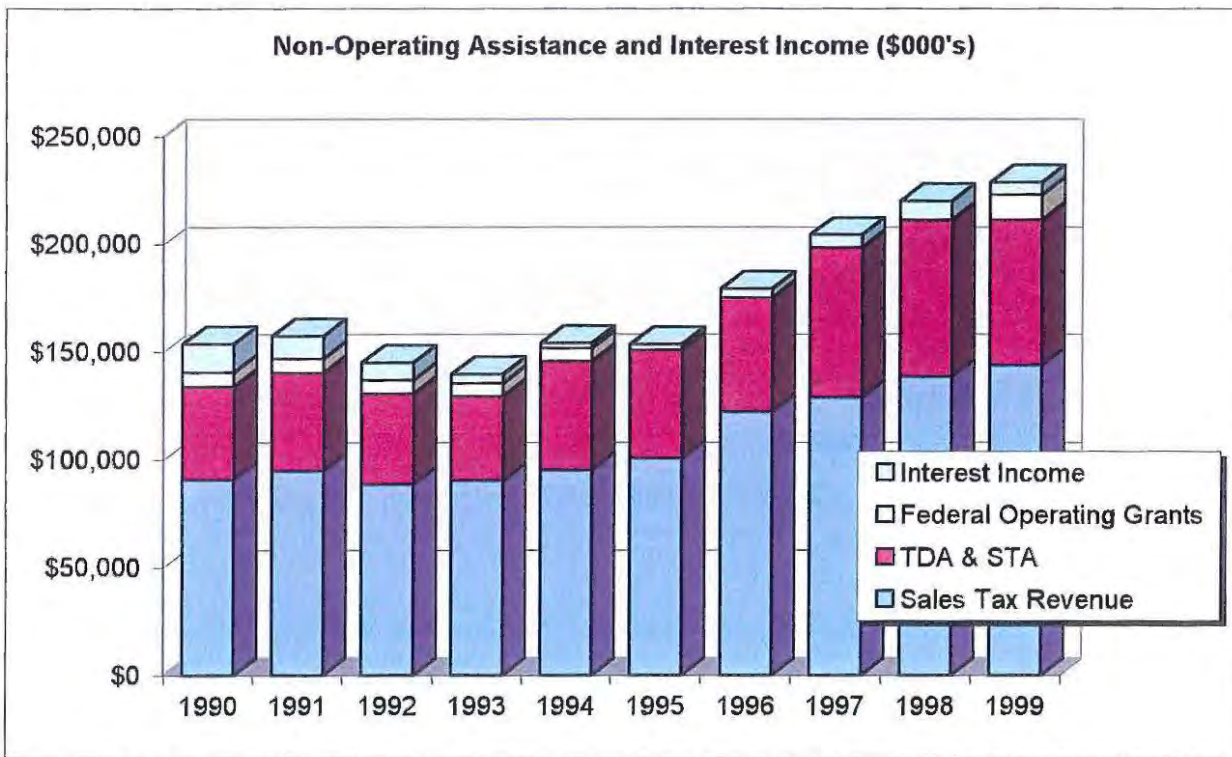
Operating Revenues and Net Operating Expenses

This chart shows the relative amount of operating revenue compared to operating expenses. Operating expenses are net of purchased transportation to more accurately depict operations related to directly operated service.



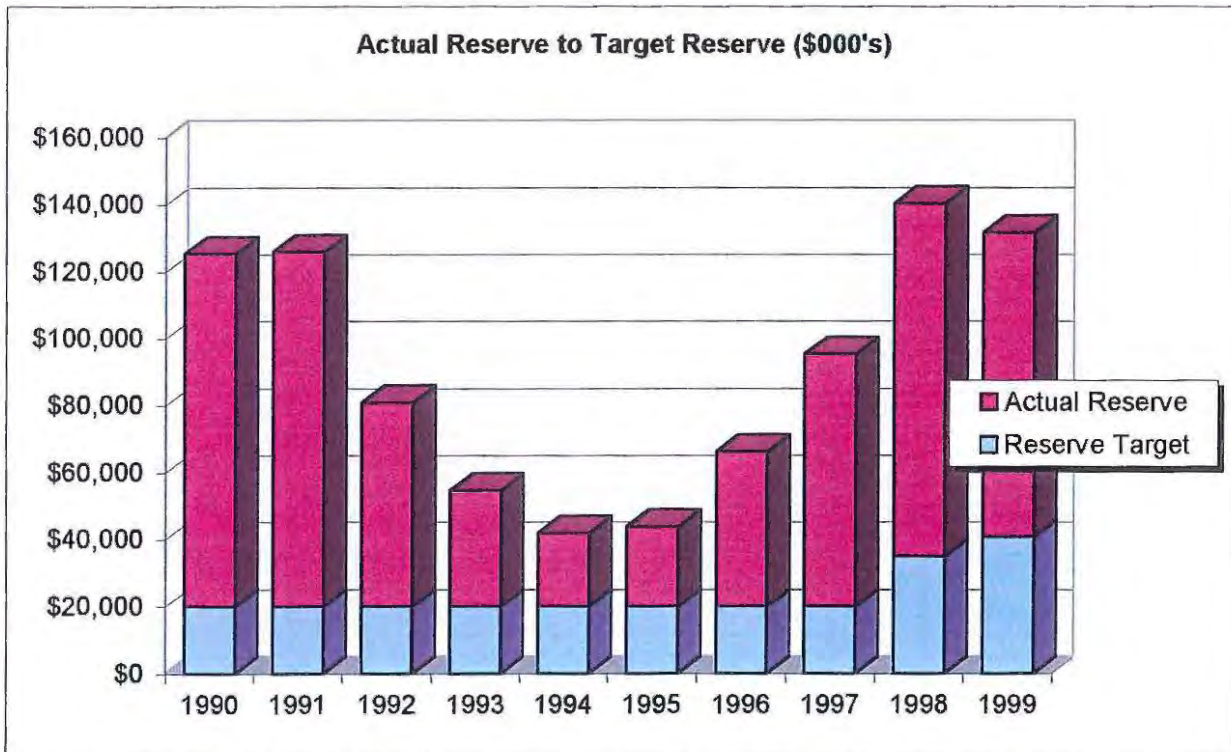
Non-operating Assistance and Interest Income

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

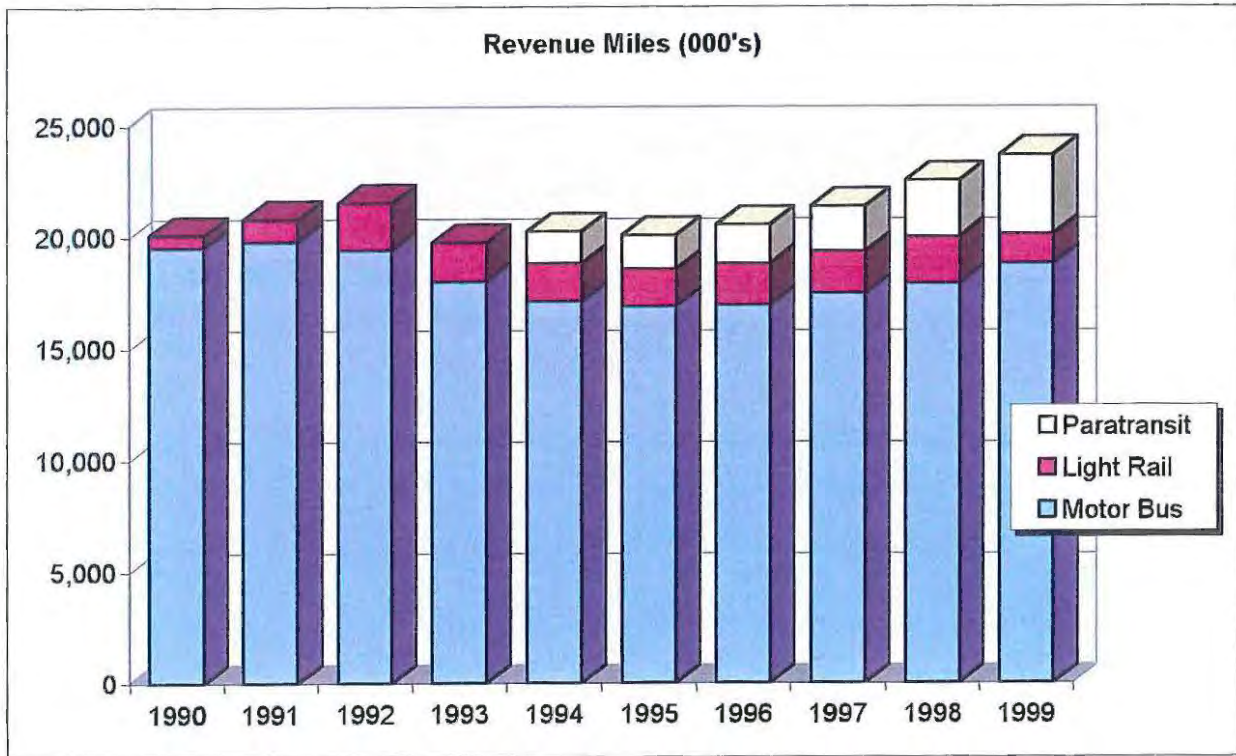
This table compares the actual reserve to the minimum target level reserve. Reserves are the difference between current unrestricted assets and current unrestricted liabilities. For long term planning purposes the Authority strives to maintain reserves at a minimum level of 15% of the operating budget. The following chart illustrates the trend in reserves resulting primarily from the implementation of lightrail capital expansion programs.





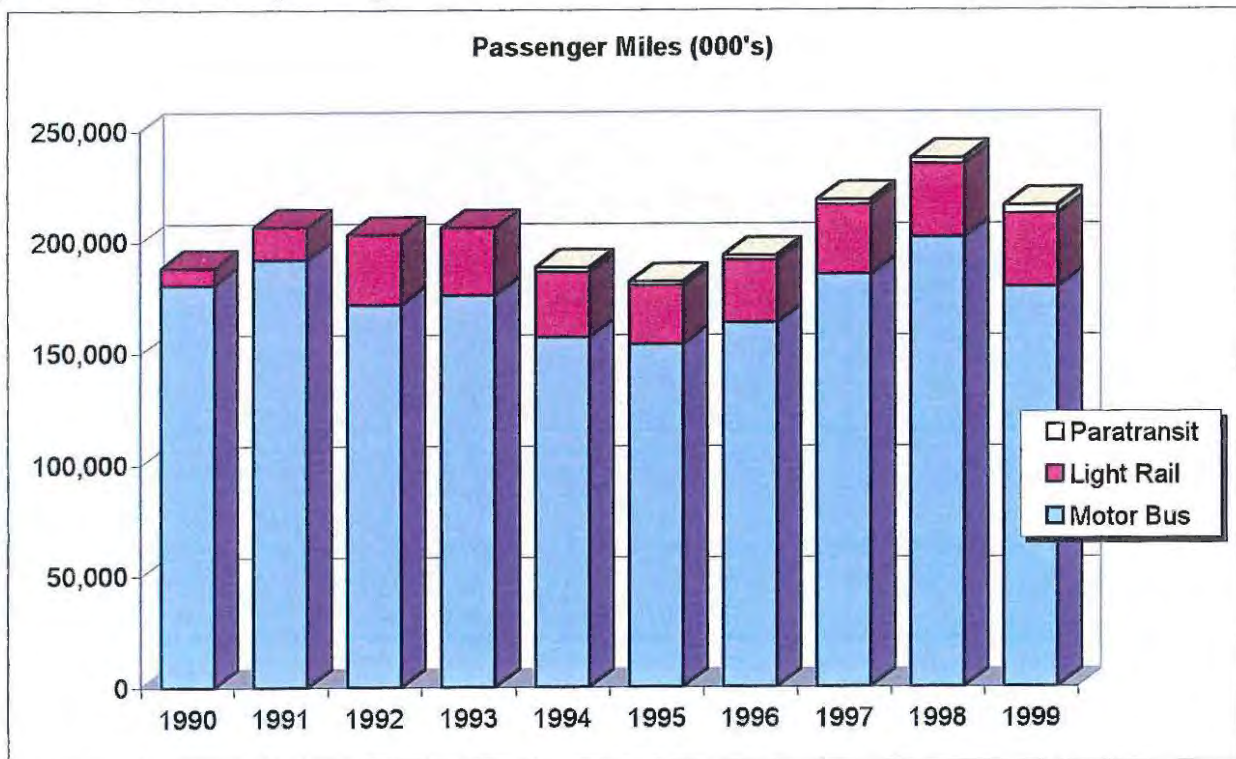
Vehicle Revenue Miles

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 miles 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

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
OPERATING REVENUES (\$000's)	\$14,653	\$16,752	\$19,484	\$19,705	\$19,279	\$21,096	\$22,964	\$25,577	\$30,003	\$30,956
OPERATING EXPENSES (\$000's)										
LABOR	59,842	64,702	68,361	67,458	67,387	68,533	71,810	77,297	82,030	88,779
FRINGE BENEFITS	32,466	41,759	54,235	50,719	44,100	39,146	46,457	43,054	48,661	53,575
MATERIALS AND SUPPLIES	14,340	14,960	13,599	13,536	15,455	14,582	16,649	16,911	17,044	19,646
SERVICES	9,798	14,714	15,343	13,954	12,449	10,400	12,310	12,583	14,709	15,200
UTILITIES	1,422	2,117	2,775	3,300	3,152	3,337	3,277	3,409	3,603	4,071
CASUALTY AND LIABILITY	2,986	3,184	3,641	5,419	6,102	7,200	4,120	2,413	3,923	3,895
PURCHASED TRANSPORTATION	761	1,096	238	3,240	4,340	4,714	5,746	8,916	11,821	15,487
LEASES & RENTALS	1,621	1,619	1,535	1,710	1,448	1,079	773	299	394	467
MISCELLANEOUS	975	1,068	854	779	1,592	1,576	1,184	1,628	1,915	1,107
TOTAL OPERATING EXPENSES	124,211	145,219	160,581	160,115	156,025	150,567	162,326	166,510	184,100	202,227
DEPRECIATION EXPENSE	12,262	12,060	13,187	14,784	15,043	17,263	23,266	24,418	24,322	24,263
NONOPERATING REVENUES (EXPENSES)										
SALES TAX REVENUE	90,819	95,077	88,731	90,547	95,134	100,638	122,274	128,969	138,429	143,712
FEDERAL OPERATING GRANTS	6,313	6,524	6,324	6,042	6,067	146	110	49	59	11,656
TDA & STA	43,231	45,091	41,954	38,897	50,411	50,007	52,597	69,243	72,624	67,589
CALTRAIN SUBSIDY	-4,282	-3,770	-4,733	-4,803	-11,793	-11,900	-11,973	-11,689	-12,254	-11,291
CALTRAIN	0	0	0	0	0	4,972	2,086	2,584	0	-837
INTEREST INCOME	13,258	10,626	7,932	4,236	2,310	2,554	4,148	5,943	8,785	5,535
INTEREST EXPENSE	-1,655	-1,284	-2,786	-2,915	-2,932	-3,640	-3,863	-3,731	-4,014	-4,763
OTHER (EXPENSES)/REVENUE	-2,075	-8,125	-3,246	-7,525	291	-1,355	-231	-550	234	8,896
CONTRIBUTION TO FUND UNFUNDED LIABILITY									-22,889	
TOTAL NON OPERATING REVENUES	145,609	144,139	134,176	124,479	139,488	141,422	165,148	190,818	180,974	220,497
NET INCOME (LOSS)	\$23,789	\$3,612	(\$20,108)	(\$30,715)	(\$12,301)	(\$5,312)	\$2,520	\$25,467	\$2,555	\$24,962

Selected Statistical Data

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
FAREBOX REVENUE (\$000's)	\$13,716	\$15,535	\$18,702	\$18,841	\$18,343	\$19,884	\$21,523	\$23,633	\$27,201	\$27,070
VEHICLE REVENUE MILES (000's)										
MOTOR BUS	19,536	19,815	19,445	18,027	17,112	16,896	16,931	17,451	17,904	18,784
LIGHT RAIL	553	981	2,080	1,724	1,715	1,662	1,868	1,888	2,092	1,328
PARATRANSIT					1,406	1,511	1,729	1,994	2,494	3,523
PASSENGER MILES (000's)										
MOTOR BUS	180,636	191,953	171,642	176,029	156,872	153,902	163,348	185,226	201,818	179,561
LIGHT RAIL	7,527	14,566	31,396	30,183	29,501	26,413	28,428	31,037	32,992	32,820
PARATRANSIT					1,937	1,795	1,881	2,420	2,494	3,798
FLEET										
ACTIVE BUS	508	542	512	605	464	460	460	470	508	520
LIGHT RAIL	53	55	55	56	55	55	55	55	55	55
CASH FARE SINGLE RIDE										
ADULT	\$0.75	\$1.00	\$1.00	\$1.00	\$1.10	\$1.10	\$1.10	\$1.10	\$1.10	\$1.10
YOUTH	\$0.50	\$0.50	\$0.50	\$0.50	\$0.55	\$0.55	\$0.55	\$0.60	\$0.60	\$0.60
SENIOR	\$0.10	\$0.25	\$0.25	\$0.25	\$0.35	\$0.35	\$0.35	\$0.35	\$0.35	\$0.35

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Santa Clara County Demographic Data

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 93.6 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 1,715,374 as of January 1, 1999, representing an increase of 14 percent over 1990. All of the cities in the County reported population increases, with Morgan Hill posting the fastest population growth (33 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	1999
Campbell	9,720	11,863	24,731	26,843	36,048	39,871
Cupertino	2,438	3,664	18,216	34,297	40,263	47,668
Gilroy	4,951	7,348	12,665	21,641	31,487	39,071
Los Altos		19,696	24,872	25,769	26,303	28,488
Los Altos Hills		3,412	6,862	7,421	7,514	8,247
Los Gatos	4,907	9,036	23,466	26,906	27,357	30,274
Milpitas		6,572	27,149	37,820	50,686	64,325
Monte Sere0no		1,506	3,074	3,434	3,287	3,443
Morgan Hill	1,627	3,151	6,485	17,060	23,928	31,896
Mountain View	6,653	30,889	54,206	58,655	67,460	75,201
Palo Alto	25,475	52,475	55,999	55,225	55,900	61,189
San Jose	95,280	204,196	445,779	629,400	782,248	909,062
Santa Clara	11,702	58,880	87,717	87,700	93,613	102,682
Saratoga	1,329	14,861	27,199	29,261	28,061	31,255
Sunnyvale	9,829	51,898	95,408	106,618	117,229	132,940
Unincorporated	117,176	162,056	152,181	127,021	106,193	109,762
County Total*	290,547	642,315	1,066,009	1,295,071	1,497,577	1,715,374
California	10,586,224	15,717,204	18,136,045	23,668,145	29,760,021	33,803,983

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 3.2-percent average rate in 1998 more than two percentage points

lower than the State's average of 5.9 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 949,900 wage and salary jobs in 1998, has the largest employment base of any county in Northern California. In 1998, the County experienced a very strong gain of 26,700 wage and salary positions. Three major industry sectors comprise 74 percent of the County's employment: manufacturing (27%), services (33%) and retail trade (14%). The percentage share of County payrolls for these sectors has remained relatively constant over the past six years.

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

	1992	1993	1994	1995	1996	1997	1998
Civilian Labor Force *	835.7	856.2	860.6	867	898.2	938.5	959.2
Civilian Employment	777.8	797.9	806.9	824.2	865.9	910.1	928.4
Civilian Unemployment	57.9	58.3	53.7	42.8	32.3	28.4	30.8
Civilian Unemployment Rate							
County	6.9%	6.8%	6.2%	4.9%	3.6%	3.0%	3.2%
State of California	9.3%	9.4%	8.6%	7.8%	7.2%	6.3%	5.9%
Wage and Salary Employment **							
Total Farm Agriculture	5.1	5.4	5.1	4.5	5.1	5.0%	5.0%
Construction and Mining	27.5	26.3	26.5	28.8	32.8	37.9	42.1
Manufacturing	236.8	231.7	226.0	231.2	245.9	256	257.0
Transportation & Public Utilities	22.4	23.6	23.8	24.0	25.4	27.4	28.7
Wholesale Trade	47.2	45.5	46.0	48.7	52.4	56.6	59.1
Retail Trade	111.4	112.2	114.3	117.4	122.2	127.8	130.5
Finance, Insurance & Real Estate	31.5	31.5	30.0	28.7	30.0	30.7	31.4
Services	226.6	237.9	245.1	265.3	283.9	303.2	316.3
Government	88.8	87.9	88.3	87.8	87.4	88.5	89.8
Total ***	797.2	802.0	805.0	836.4	885.0	933.2	959.9

* 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 1998.

** Wage and salary employment is reported by place of work. Data are benchmarked to 1998.

*** 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 U.S. 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	17,441	Computers and peripherals
County of Santa Clara*	14,227	County Government
Cisco Systems Inc.	9,900	Networking
Lockheed Martin Missiles & Space	9,169	Commercial and Military Space Products
Stanford University	7,609	Education and Research
Intel Corp.	7,283	Computer Chips, PCs, Networking
Kaiser Permanente	7,000	Health Care Provider
Lucky Stores Inc.	6,550	Retail Food and Drug Chain
City of San Jose	5,568	Municipal government
Applied Materials Inc.	5,500	Semicon Production Equipment
Selectron Corp.	5,000	Electronics Manufacturing
New United Motor Manufacturing Inc.	4,800	Automobile Manufacturing
National Semiconductor	3,500	Semiconductor design, Manufacturing, Marketing
Compaq Computer Corp.	3,485	Global Supplier of PCs
3Com Corp.	3,200	Global Networking
VA Palo Alto Health Care Systems	3,160	Health Care Provider
Lam Research Corp.	3,140	Semicon Supply Manufacturing
Quantum Corp.	3,000	Computer Storage and Peripherals
Apple Computer Inc.	3,000	Computer Manufacturing
San Jose Unified School District	3,000	Public Education
LSI Logic Inc.e	2,976	Semicon Supply Manufacturing
Raychem Corp.	2,700	Electronics Manufacturing
Advanced Micro Devices, Inc.	2,542	Integrated Circuit Manufacturing
Santa Clara Valley Transportation Authority *	2,469	Transportation Agency
Seagate Technology	2,400	Peripheral Manufacturing

Source: San Jose and Silicon Valley Business Journal (1999 Book of Lists)

* 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 1998.

County of Santa Clara
Taxable Transactions by Sector
1991 to 1998
(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
1998	27,488,815

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 \$3.18 billion in 1998, representing a decline of \$67.9 million. The number of single-family units decreased to 3,911 and the number of multi-family units was 3,615; total new housing units decreased 14.6% while the valuation of new residential units decreased 2.1% compared to 1997.

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 1998

Year	Valuation (\$ millions)			New Dwelling Units		
	New Residential	Non-Residential	Total	Single Family	Mulitple 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
1998	1,294.6	1,882.0	3,176.5	3,911	3,615	7,526

Source: Construction Industry Research Board