

**SANTA CLARA VALLEY
TRANSPORTATION AUTHORITY**

SAN JOSE, CALIFORNIA

Comprehensive Annual Financial Report

For Fiscal Year Ended June 30, 2003

Prepared by:
Fiscal Resources Division

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
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For the Year Ended June 30, 2003

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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, 2002

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.



President

Executive Director

SECTION 1 — INTRODUCTION

LETTER OF TRANSMITTAL

BOARD OF DIRECTORS

ORGANIZATION CHARTS

PRINCIPAL OFFICIALS

SERVICE AREA MAP

October 31, 2003

Board of Directors
Santa Clara Valley Transportation Authority

Subject: Comprehensive Annual Financial Report

The Santa Clara Valley Transportation Authority (VTA) Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2003 was prepared in accordance with the guidelines recommended by the Government Finance Officers Association of the United States and Canada (GFOA). Responsibility for the accuracy, completeness, and fairness of the data and the clarity of the presentation, including all disclosures, rests with VTA. To the best of our knowledge, the enclosed data is reported in a manner designed to present fairly, in all material respects, VTA's financial position, changes in financial position, and cash flows in accordance with the requirements of accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB).

We are again pleased that the FY 2002 CAFR earned the recognition of the GFOA with a Certificate of Achievement for Excellence in Financial Reporting. This award reflects the fact that the VTA CAFR complied with the stringent GFOA standards for professional financial reporting.

This report is organized into three sections:

1. Introduction Section, including a table of contents, this letter of transmittal, a list of principal officials and organization chart. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.
2. Financial Section, including the Independent Auditor's Report, Management's Discussion and Analysis (MD&A), basic financial statements with accompanying footnotes, required supplementary information, and other supplementary information.
3. Statistical Section, including additional data about VTA over the last 10 years.

The independent auditor for fiscal year 2003 was Macias, Gini & Company LLP, which issued an unqualified opinion on the VTA's June 30, 2003 basic 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 to determine its eligibility for another Certificate of Achievement for Excellence under the Financial Reporting

Program. We believe the current comprehensive annual financial report satisfies the reporting requirements and continues to meet the program requirements.

The basic financial statements are in compliance with the GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. The objective of the GASB is to enhance the understandability and usefulness of the basic external financial reports of state and local governments to the citizenry, legislative and oversight bodies, and investors and creditors.

It is important to note that with the implementation of GASB 34, capital contributions (grants) that defray capital acquisition costs and were previously reflected as contributed capital on the balance sheet, are now recognized as revenue on the Statement of Revenues, Expenses and Changes in Fund Net Assets. This change is significant. The corresponding acquisition of capital assets is not recognized on this statement to match the revenue reported; instead, depreciation expense of those assets is recognized periodically over the life of the asset. This represents a significant departure from VTA’s budgeting methodology where the resources or grants are recorded in the year they are received and assets are recognized as expenditures in the year they are acquired.

PROFILE OF VTA

VTA is the result of a 1995 merger between two previously separate entities: the Santa Clara County Transit District and the Congestion Management Agency for Santa Clara County. VTA is also the successor organization to the Santa Clara County Traffic Authority, which terminated at the end of March 1997.

VTA is an independent special district responsible for bus and light rail operations, congestion management, specific highway improvement projects, and countywide transportation planning. As such, it is both an accessible transit provider and a multi-modal transportation planning and development organization involved with transit, highways, roadways, bikeways, and pedestrian facilities.

Bus Transit Service

VTA owns a bus fleet of over 523 diesel-powered coaches, which includes 235 low-floor buses. The average age of these buses is about 5 years and were manufactured at various times, ranging from 1992 to 2002. The service area of approximately 326 square miles contains 69 bus routes. There are approximately 4,700 bus stops, 700 bus shelters and 15 Park & Ride lots - five owned by VTA and ten provided under a lease, permit, or joint use agreement with other agencies. Buses are operated and maintained from three operating divisions and an Overhaul and Repair (O&R) facility: Cerone Operating Division, Don Pedro Chaboya Operating Division, North Operating Division, and Cerone O&R Division.

Light Rail Transit (LRT) Service

VTA operates a 29.5-mile LRT system connecting the Silicon Valley employment areas of Mountain View, Sunnyvale, Santa Clara, North San Jose and Milpitas to residential areas in South San Jose. The LRT system has a total of 50 stations and 16 park & ride lots. It operates on three routes: service between Santa Teresa and the Baypointe Station in North San Jose, service between Mountain View and the I-880/Milpitas Station in Milpitas, and shuttle service between Almaden and Ohlone-Chynoweth Stations in South San Jose. VTA is purchasing a fleet of 100 new Kinkisharyo low floor light rail vehicles. Forty-five were in revenue service at the end of FY03. The remainder will arrive in the next fiscal year. VTA will deploy a mixed fleet of Kinkisharyo low floor and UTDC (Urban Transportation Development Corporation) high floor light rail vehicles on the Guadalupe line for part of 2003 until adequate numbers of the Kinkisharyo vehicles are commissioned and the interim platform retrofit project is complete. All 95 (45 Kinkisharyo and 50 UTDC) light rail vehicles are stored and maintained at the Guadalupe Operating Division near downtown San Jose. Currently there are three historic trolleys that VTA periodically operates from the Civic Center Station to the Convention Center Station. Construction of the Tasman East and Capitol Lines continues and are scheduled for completion in 2004. The Vasona Line is estimated to begin operation in 2006.

Paratransit Services

The Americans with Disabilities Act (ADA) was signed into law on July 26, 1990. VTA has implemented the ADA requirements and is in compliance with regulations issued by the U.S. Department of Transportation (DOT) and the Architectural and Transportation Barriers Compliance Board. In 1992, VTA established a paratransit system that operates throughout Santa Clara County. VTA contracts with Outreach and Escort, Inc., to serve as a broker and to provide service through contracts with vendors. Eligible riders call Outreach to schedule their trips, which are then assigned based on the most efficient mode of transportation that can meet the riders' needs: taxi, accessible van or transfer to or from fixed-route. Since 1997, VTA has been in full compliance with the ADA provisions. In January 1999, VTA began offering Same-Day paratransit service, which allows qualified individuals to arrange and take trips on the day of the request to provide for their urgent or unplanned transportation needs.

ADA compliance has and will continue to have significant operational and financial impacts on VTA. In 2002, VTA began the development of the Paratransit Business Practices Improvement Plan. This four-phased plan is designed to control increasing costs through a variety of methodologies, which will improve productivity, decrease vendor and broker costs, and increase revenue. The desired results will be achieved by consolidating vendor operations, renegotiating vendor contracts, improving the eligibility certification process, and better aligning the paratransit services with ADA requirements. Phases I and II have been implemented. Phase III is scheduled for implementation in October 2003, and Phase IV may be implemented later in the year.

Contracted, Interagency and Other Transit Services

Caltrain Peninsula Corridor Joint Powers Board (PCJPB)

Caltrain is the commuter rail service provided by PCJPB, which is governed by representatives from San Francisco, San Mateo, and Santa Clara Counties. There are 34 stations along the line; 16 are located in Santa Clara County. Seventy-six diesel-powered locomotives operate between San Jose Diridon Station and San Francisco each weekday, with 67 continuing south to the Tamien Station in San Jose. Eight peak-hour weekday trains extend Caltrain from the Tamien station to Gilroy. VTA LRT transfers can be made at both the Tamien and Mountain View Caltrain Stations. The share of the operating costs apportioned to each member agency is based upon morning peak period boardings in each county.

Altamont Commuter Express Rail Service

The Altamont Commuter Express service (ACE) provides peak hour, weekday commuter rail service from the Central Valley to Santa Clara County (three morning and three afternoon trains). VTA, the San Joaquin Regional Rail Commission (SJRRRC), and the Alameda County Congestion Management Agency (ACCMA) administered the service under a Joint Exercise of Powers Agreement until June 30, 2003. The 85-mile rail line includes ten stations located in Stockton, Lathrop, Tracy, Livermore (two), Pleasanton, Fremont, Santa Clara (two), and San Jose. VTA provides free shuttles to transport ACE riders between the Great America and Diridon stations and nearby employment sites. The share of the operating costs apportioned to each participating county is based upon the proportional share of total daily boardings and alightings that occur in each county.

Effective July 1, 2003, VTA funding of ACE is covered under a Cooperative Service Agreement with the SJRRRC and ACCMA. On June 24, 2003, VTA entered into the agreement for continued VTA funding of Altamont Commuter Express (ACE) commuter rail service in the amount of \$3,960,000 in fiscal year 2004 and \$4,034,000 in fiscal year 2005. The cooperative agreement replaced the ACE Joint Powers Agreement (JPA) which was executed on May 15, 1997 by three ACE member agencies – VTA, SJRRRC and ACCMA.

Capitol Corridor Intercity Rail

The Capitol Corridor Intercity Rail Service began in December 1991 and is a 170-mile train corridor from Auburn and Sacramento to San Jose, through the counties of Placer, Sacramento, Yolo, Solano, Contra Costa, Alameda and Santa Clara. Operating on the Union Pacific railroad tracks, Capital Corridor service consists of four daily round trips from Sacramento to San Jose and seven daily round trips from Sacramento to Oakland with connecting bus service to and from San Jose. One round trip per day extends beyond Sacramento to Auburn.

The train service parallels the Interstate 80 corridor between Sacramento and Oakland, and Interstate 880 between Oakland and San Jose. Service includes stops in Roseville, Sacramento, Davis, Suisun/Fairfield, Martinez, Richmond, Berkeley, Emeryville, Oakland, Hayward, Fremont, Santa Clara at Great America, and San Jose Diridon Station. On July 1, 1998, the Capitol Corridor Joint Powers Authority (CCJPA), which is comprised of representatives from the eight counties served by the corridor, assumed responsibility for the service. Under contract with the CCJPA, the Bay Area Rapid Transit District (BART) manages the service and Amtrak operates the service on tracks owned by Union Pacific Railroad. Funding is provided to CCJPA by the State of California.

Inter-County Bus Service

VTA co-sponsors two inter-county bus services through cooperative arrangements with other transit systems.

The Dumbarton Express is a transbay express bus route between the Union City BART Station and the Stanford Research Park in Palo Alto. It provides the only regularly scheduled public transit service over the Dumbarton Bridge. A consortium comprised of representatives from the Alameda-Contra Costa Transit District (AC Transit), San Francisco Bay Area Rapid Transit District (BART), City of Union City, San Mateo County Transit District (SamTrans), and VTA underwrite the net operating costs of the service. The service is contracted out to a private transit provider. SamTrans and VTA are responsible for 50% of the net operating costs and the other East Bay transit operators are responsible for the rest. The remaining 50% of the operating costs is apportioned based upon total daily boardings in Santa Clara and San Mateo Counties.

Express Service over Highway 17 between Santa Cruz and downtown San Jose is funded and operated through an agreement between the Santa Cruz Metropolitan Transit District and VTA. Santa Cruz Metro operates the service. The two agencies share the net operating costs equally.

Shuttle Program

Light Rail Shuttle

Under this program, VTA offers financial assistance to employers that wish to operate shuttle bus service between light rail stations and nearby employment centers. The service is operated by private contractors provided by VTA or the employer. Shuttles operate trips carrying employees from light rail to work and back. Funding to operate this program is provided by the employers (minimum of 25%), VTA, and grants from the Transportation Fund for Clean Air Act (AB434).

Downtown & HP Pavillion Shuttles

VTA operates a Downtown Area Shuttle (DASH) on weekdays between the downtown San Jose Transit Mall, San Jose State University, and San Jose Diridion Train Station. VTA, the Transportation Fund for Clean Air Act, City of San Jose, and the San Jose Downtown Association provide funding for the service.

In addition, VTA operates a free shuttle service from the downtown San Jose Transit Mall to all public events held in the HP Pavillion. Recently, VTA staff met with the City of San Jose, San Jose Arena Authority, San Jose Arena Management and San Jose Downtown Association to develop a new funding scheme for this shuttle. All parties agree that the Sharks game service is worth continuing and funding is being pursued. VTA has requested that the other parties fund 50% of the costs. If funding partners at this 50% level cannot be secured, this service will be discontinued. On May 9, 2003, service for other events was discontinued due to low ridership and existing parallel bus service.

San Jose Airport Flyer

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

Congestion Management

In January 1995, VTA was designated as the Congestion Management Agency and changed from being exclusively a transit provider to an organization responsible for countywide transportation planning, funding, and congestion management within the County. VTA, as the Congestion Management Agency for Santa Clara County, is responsible for coordinating and prioritizing projects for state and federal transportation funds, administering the Transportation Fund for Clean Air Program, and coordinating land use and other transportation planning. Adoption of a Congestion Management Program (CMP) is necessary to qualify for certain transportation funds made available through the state gas tax increase authorized in 1990.

FACTORS AFFECTING FINANCIAL CONDITION

Local Economy

Although we continue to experience tighter economic conditions, Santa Clara County has the largest employment base of any county in Northern California. Many high technology, computer manufacturing, and electronics companies are located within the County. In the last year we continued to post job losses. In comparison with the State's June 2003 preliminary average (6.7 percent), the Santa Clara County has a higher

unemployment rate (8.5 percent). Employers have eliminated over 200,000 jobs since December 2000.

The County's population has increased substantially over the last fifty years. In recent years, the percentage rise has been much smaller, but the population continues to increase. As the population grows, so does the need for housing. With home mortgage rates at all-time lows within the last year and the average price down slightly, home sales got a jumpstart despite the recession. Sales increased 11% over the last fiscal year and the real estate market in Santa Clara County appears to be stable as this time.

The County is an important barometer of commercial activity. Taxable sales activity at businesses, personal services outlets, and other non-retail commercial establishments are a significant component of the County's commercial activity.

Sales Tax

Sales tax is the primary source of funds for VTA's operations, maintenance, and capital needs. Local sales tax is derived from a one-half cent sales tax restricted for transit purposes, 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 on a "return to source" basis for transportation use. These two sales taxes account for approximately 64% of the total revenue (less capital contributions) for the year ended June 30, 2003.

FY03 was the second consecutive year that VTA has experienced negative sales tax performance. Due to the heavy dependence on the high-tech industry, Santa Clara County's economy has been volatile, resulting in correspondingly volatile sales tax receipts. The adopted budget estimated to receive \$147.1 million in sales tax revenue in FY02/03. The revised estimate was \$133 million and the actual result was \$132.7 million. The current estimate for FY03/04 half-cent sales tax revenue is \$135 million, which is a 1.7% increase compared to FY02/03 receipts. Although there appears to be a minimal gain anticipated in the next fiscal year, any growth is expected to be very slow in materializing.

Ridership & Farebox Revenue

Due to the decline in economic activity and service reductions introduced in July 2002, ridership continued to decline. VTA directly-operated systemwide ridership decreased compared to FY02's figure by 14.2% as 45.2 million passengers boarded Bus and Light Rail during FY03. Light Rail system ridership was 6.1 million, a decrease of 22.3% compared to the same period last year. Bus ridership for FY03 totaled 39.2 million passengers, a decrease of 12.8% compared to FY02. Contracted and Inter-agency ridership numbers also declined with the exception of Dumbarton and Santa Clara County Caltrain Shuttles, which increased ridership by 3.7% and 6.5% respectively. Paratransit ridership increased 1.7% over the prior year's figures.

Although posting an increase in ridership, Paratransit operating expenses have declined due to cost saving measures enacted in FY03. Overall system-wide cost cutting strategies applied at the start of the year have helped to reduce Paratransit expenses by 12.3% compared to the same period last year.

Unemployment has a direct impact on VTA ridership. As Santa Clara County employment levels decline, ridership decreases. In order to compensate for declining sales tax revenue receipts and to alleviate our operating deficits, VTA implemented fare increases during both July 1, 2002 and August 2003, with the goal of increasing the percentage of operating costs paid by patrons and the average fare revenue per boarding. At the end of the fiscal year, the average fare paid by each transit passenger was \$0.68. VTA's operating cost recovery ratio was 13 % in FY03 compared to 13.5% in FY02.

Federal Section 5307 Urbanized Formula Program

Federal Section 5307 allows eligible recipients (such as VTA) to claim capital grant funds for 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.

VTA's request for the existing Section 5307 grant was approved in September 2002. Although the Section 5307 grant program is intended to primarily fund capital acquisitions, funds awarded for preventive maintenance support the maintenance portion of the operating budget and can be converted to operating assistance. VTA requested the shift of \$9.8 million from replacement buses to preventive maintenance, increasing the Preventative Maintenance and making the funds available in FY03 for operations. The \$9.8 million of Federal Preventative Maintenance (i.e., federal operating assistance) was recognized in VTA's audited financial statements in FY 2001-02, but received in FY 2002-03.

1996 Measure B Transportation Improvement Program

In November 1996, 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. Subsequently, the County Board of Supervisors adopted a resolution dedicating the tax 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 implementation of the 1996 Measure A transportation projects to move forward.

In February 2000, the VTA Board of Directors approved a Master Agreement formalizing VTA's partnership with the County of Santa Clara to implement the 1996 Measure B Transportation Improvement Program (MBTIP). With this partnership in place, the County and VTA are now delivering a transportation program valued at over \$1.8 billion. VTA agreed to secure Federal or State grant funds for certain 1996 MBTIP projects and to release MBTIP funds to fund other local projects. Currently, fund transfers have been performed on the Tasman East, Vasona, and Capitol Light Rail Projects.

The 1996 MBTIP and other sources provide funds to local jurisdictions for street repair and other transportation projects. Administration and distribution of these funds is managed by the 1996 Measure B Ancillary Program. Over the life of the 1996 Measure B sales tax, local jurisdictions will receive a combined total of \$448 million countywide.

After approval of a ten-year expenditure plan by VTA and the County Board of Supervisors, VTA's Board of Directors adopted the 20-year Countywide Bicycle Plan. The 20-year plan includes three prioritized tiers of capital bicycle projects. The ten-year Bicycle Expenditure Program included in the Countywide Bicycle Plan is the funding mechanism for the Tier 1 projects. This program administers and distributes funds to Member Agencies to implement and construct the projects. In 2001, the VTA Board of Directors requested that the VTA Advisory Committee structure be modified to focus more directly on pedestrian issues. In response, staff recommended that the existing Bicycle Advisory Committee be re-established as the Bicycle and Pedestrian Advisory Committee (BPAC), and that its duties be augmented to focus on pedestrian-related issues. The Board also requested that staff develop a VTA Pedestrian Program that delineates the agency's pedestrian-related activities.

VTA is responsible for project management of the following transit and highway projects as well as the administration of the pavement management and bicycle elements of the 1996 MBTIP program under the master agreement with the County of Santa Clara.

The Transit Projects, estimated at a cost of \$928.2 million, include:

1. Tasman East Light Rail Project - extending the current Light Rail system from Milpitas to Northeast San Jose
2. Vasona Light Rail Extension Project - constructing the Vasona Light Rail line from downtown San Jose to Winchester, utilizing the Union Pacific Vasona rail corridor
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. 30 low-floor light rail vehicles (LFV's)

5. Fremont/South Bay Corridor Service – interim improvements service connecting BART in Alameda County with San Jose (bus and possible ACE and Capitol Corridor improvements)
6. Caltrain Service Improvements – improving Caltrain commuter rail service by adding trains and improvements between Gilroy and Palo Alto

The Highway Projects, estimated at a cost of \$463.5 million include:

1. Interstate 880 widening from four to six lanes from Montague Expressway to U.S. 101, and an auxiliary lane on Southbound I-880 from U.S. 101 to the North First Street exit ramp
2. Routes 85/87 direct connector ramps for the southbound 85 to northbound 87 and southbound 87 to northbound 85, plus addition of a HOV lane in each direction of Route 87
3. U.S. 101 widening from four to six lanes, plus two HOV lanes between Metcalf Road in San Jose and Burnett Road in Morgan Hill
4. Route 85/U.S.101 interchange in Mountain View, including HOV Direct Connector
5. Routes 237/880 HOV direct connector ramps for southbound I-880 to westbound 237 and eastbound 237 to northbound I-880, and a southbound braided exit ramp from I-880 to Tasman Drive interchange
6. Route 87 HOV lane projects between I-280 and Julian Street as well as between Branham lane and I-280
7. Route 17 improvements between Lark Avenue in the Town of Los Gatos and I-280 in San Jose
8. Routes 85/101 interchange in South San Jose – complete the existing interchange by adding two direct connectors, a branch connector, and widening of U.S. 101 to eight lanes between Bernal Road and Metcalf Road
9. Route 152 safety improvements – safety and operation improvements between U.S. 101 and Route 156
10. Route 85 Noise Mitigation between U.S. 101 and Route 87

The 1996 Measure B Ancillary Program, estimated at a cost of \$447.7 million includes:

1. Pavement Management Program – provides \$90 million to local jurisdictions for street maintenance and repairs
2. Bicycle Program – provides \$12 million for the development of a Countywide Bicycle Plan and the implementation of a series of bicycle projects
3. Level of Service Intersection Improvement Program – provides \$11.3 million for the improvement of several critical expressway intersections
4. Expressway Signal Synchronization Program – provides \$24.1 million to improve expressway capacity and operations
5. Fund Swap Projects – provides \$310.3 million; through a series of actions taken by VTA's Board of Directors, federal, state, and local funds were programmed to the Tasman East Light Rail, Vasona Light Rail and Capitol Light Rail Extensions, to release local 1996 Measure B funds to other transportation projects. These projects include the I-680 HOV Lanes, U.S. 101/Bailey Road Interchange, Gateway studies, Montague Expressway Project, U.S. 101/Route-85 HOV Direct Connectors, Local Program Reserve, the purchase of 70 new light rail vehicles, and the Vasona Winchester extension.

Financial Status – Enterprise Fund

The Statement of Revenues, Expenses and Changes in Fund Net Assets states that VTA had a net operating loss of approximately \$301.4 million. Even with net non-operating revenues of \$223.3 million, there still was a \$78.1 million decrease in net assets. During FY03, VTA acquired capital assets and completed construction in progress (CIP) projects of approximately \$553 million.

VTA started the year with \$177.6 million in budgetary reserves (net working capital) and by the end of FY03, the balance was \$114.9 million. The \$62.7 million decrease in budgetary reserves was due to the operating loss of \$36.6 million (exclusive of depreciation), as well as the acquisition and development of capital assets amounting to \$26.1 million. The \$26.1 million in capital assets came as the result of an offset of \$36 million due to cancelled, closed, or scaled back projects that were previously approved and earmarked for reserves as of June 30, 2002.

Table 1.1 presents restricted and unrestricted budgetary reserves as of June 30, 2003.

Budgetary Reserves (in millions)	
Restricted	
Operating Reserves	\$ 46.8
Local Share of Approved Capital	62.5
Operating Encumbrance	_____9
Total Restricted	110.2
Unrestricted	_____4.7
Total Budgetary Reserves	\$ 114.9

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 is meant to ensure that some funds are available in the event of unanticipated revenue shortfalls or if unavoidable expenditures may be required.

Local share of approved capital represents the amount of revenue that VTA must provide towards Board approved capital projects. There was a decrease during FY03 of \$72.2 million due to deferred and cancelled capital projects. The Capital Improvement Program Oversight Committee (CIPOC), which is composed of senior management and supporting staff from all five divisions within VTA, conducts thorough reviews of the entire capital program. The process examines every capital project as to its criticality to VTA's operations, strategic plan, and goals. Consequently, 46 projects were closed, cancelled, scaled back, or budgets reduced, returning over \$36 million to reserves to help offset operating deficits. One example of a major project realizing savings from this review was the Guadalupe Corridor Platform Retrofit. Retrofits of platforms in the Downtown and Southline segments have been deferred.

Operating encumbrances are for one-time non-recurring programs or projects, which are not expended during the fiscal year, and carryover to the successive fiscal years until the programs or projects are completed or terminated. All other operating appropriations lapse at year-end.

Future Long-Term Financial Planning

During FY02, a Benchmark analysis was completed to evaluate VTA's performance in comparison with other transit agencies. The results of this lead to the development of the recommendations of the Business Review Team and subsequent consideration by the Ad-Hoc Committee. VTA plans to implement the recommendations received.

FY2003/2004 Goals, Projects and Major Efforts

Business Review Team Recommendations:

1. VTA should establish a multi-year strategy to increase its farebox recovery ratio and average fare per boarding. This will require a program of regular fare increases and reductions in fare discounts. Assuming a \$300 million budget for directly-operated service, each 5% improvement in farebox recovery ratio would generate \$15 million in additional revenue.
2. To address the increasing costs in health benefits, VTA should consider cost containment opportunities, including employee cost sharing which is a standard practice in the private sector. These changes could result in estimated savings of as much as \$2.5 million to \$3.8 million annually.
3. To address the rising costs of its ADA Paratransit Program, VTA should consider modifying its existing service to reduce premium services, modify the eligibility verification process, and provide, as close as possible, only the level of service that is actually required by the ADA. Further, the Team concurred with the cost containment strategies VTA has set forth in their Paratransit Business Practice Improvement Plan. These changes could result in estimated savings of between \$2.3 million and \$3.5 million, depending on which options the Board approves.
4. VTA must continue to increase its marketing efforts to increase its market share and constantly evaluate services, making necessary modifications to assure efficiency and effectiveness. Each 1% increase in VTA ridership would generate approximately 465,000 more boardings and approximately \$280,000 in additional revenue.
5. For Joint Power Authorities, VTA's Board of Directors should be involved in the approval of the operating and the annual incremental capital budget, and further should approve in concept the next five years of operating, maintenance, and capital funding requirements.
6. The VTA Board adopt and adhere to a structured Fare Policy and Program that establishes "fair fares", encourages and sustains ridership growth and incorporates ongoing assessments of business efficiency as part of VTA business practices.

Ad Hoc Financial Stability Committee Recommendations:

CONCLUSIONS

- In response to a dramatic and unprecedented decline in sales tax revenue to VTA, the Board and staff have made substantial in-roads toward the reduction of the near-term operating deficit by reducing expenses and improving productivity and efficiency.

- However, in spite of these efforts, VTA is still facing annual operating deficits averaging between \$40-50 million beyond FY04-05.
- As a consequence, VTA must urgently address the need to enhance revenues and reduce expenses in the very near term. Additional delay in addressing this structural problem would simply exacerbate the problem.

The Ad Hoc Committee has adopted the following recommendations. Adoption, in the whole or in part, by VTA's Board of Directors is pending.

Adopted Board Actions

1. Adopt the proposed 21 percent service reductions, but defer implementation until January 2004. (On September 24, 2003, a Superior Court ruling allowed Measure A funds to be used for operational expenses, thereby making the Board Action inapplicable).
2. Direct staff to explore the feasibility of the limited, temporary use of future Measure A revenues to fund most, if not all of the bus and light rail service reductions contained in the Fiscal Year 2003-2004 and Fiscal Year 2004-2005 proposed budget.
3. Defer the door-to-door paratransit per trip service surcharge of \$1.50 for one Fiscal Year and until current paratransit customers have been evaluated for their medical need for the service and their ability to pay.
4. Adopt all of the recommendations of the Ad-Hoc Financial Stability Committee, recognizing that all recommendations related to employee working conditions and benefits are subject to meet-and-confer requirements.
5. Conduct a Board Workshop in October 2003 to determine Board consensus on a new local revenue source to present to the voters for consideration in 2004. Adopt the consensus local revenue alternative at the Board's November 2003 Meeting.
6. Waive the three-quarter mile residency rule on paratransit service for one year in South Santa Clara County south of Cochran Road pending the pursuit of additional funds to continue to provide paratransit service throughout that extended rural area with the clarification that if funds for the one-year period are identified, the position would be reconsidered.
7. Adopt Phase III of the Paratransit Service Business Practices Improvement Plan, which includes modifications to the minimum account balance policy, implementation of the Americans with Disabilities Act (ADA) defined service area

and hours, a modified door-to-door/curb-to-curb program, and premium service pricing.

8. Approve \$14,105,000 and \$14,387,000 for Fiscal Year 2003-04 and Fiscal Year 2004-05 to provide Santa Clara Valley Transportation Authority's share of Caltrain operating support; and further approve in concept VTA's use of \$1,486,000 Federal Section 5309 funds in lieu of the local match requirement for FY 2003-04 capital support.
9. Authorize the General Manager to execute a Cooperative Service Agreement with the San Joaquin Regional Rail Commission and the Alameda County Congestion Management Agency for continued VTA funding of Altamont Commuter Express (ACE) commuter rail service in the amount of \$3,960,000 in Fiscal Year 2003-04 and \$4,034,000 in Fiscal Year 2004-05.
10. Adopt a finding that a fare increase is necessary to meet operating expenses and to fund capital projects necessary to maintain service within the existing service area, while maintaining minimum required financial reserves.
11. Approve the Fiscal Year 2003-04 and Fiscal Year 2004-05 Recommended Biennial Budget.

Operations Division

OPERATIONS ADMINISTRATION:

Protective Services

- Continue the expansion of the On Board Closed Circuit Television (CCTV) including the completion of the Remote Viewing Demonstration Project by establishing CCTV data viewing at the Eastridge Transit Center and the Chynoweth Light Rail Station.

Service Planning

- Transition from current manual passenger data collection to an automated system using Automatic Passenger Counters (APC's). This new technology works in concert with the Advanced Communications System (ACS) on both bus and light rail vehicles.

Operations Planning

- Work with VTA's service partners, such as Caltrain, ACE, Highway 17 Express and Dumbarton Express to develop service and operating plans that meet passenger needs, while reflecting VTA's financial condition.

Accessible Services

- Contain paratransit program costs and overall utilization through a 20% reduction in enrollment rate. Further contain paratransit program costs through the development and implementation of Phase II of the Paratransit Business Practices Improvement Plan.

- September 1, 2003 - modify minimum account balance policy
- October 13, 2003 - implement ADA service area
- October 13, 2003 - implement curb-to-curb service

TRANSPORTATION:

- Meet or exceed the goal of providing 99.25 percent of scheduled service for bus and 99.9 percent for rail. Desired outcome is 99.25 percent or greater for bus and 99.9 percent for light rail.
- Plan and coordinate all Operations Division programs to effect the activation of the Tasman East/Capitol light rail extension. Desired outcome is to successfully complete timeline goals in preparation for planned revenue service in Summer 2004.

MAINTENANCE:

- Continue the implementation of VTA's Clean Fuel Strategy. This includes working with the California Air Resources Board on emissions reductions by developing and implementing a program for bus engine overhaul to ensure compliance with emission regulations, demonstrating and testing technology that has the potential to reduce NOx (nitrogen oxide) emissions by 70% or more on three buses operating in revenue service over a three-year period, the Zero Emission Bus Demonstration Project and continued participation in the California Fuel Cell Partnership.
- As a part of VTA's Clean Fuel Strategy, manage the contract for the purchase of three Zero Emission Buses (hydrogen fuel cell) and complete the installation of the hydrogen fueling station at the Cerone Division. In addition, coordinate maintenance procedures and training development to support the Zero Emission Bus Demonstration Project and coordinate the delivery of Zero Emission Bus vendor training.
- Continue to manage the contract for the construction and commissioning of 100 low floor light rail vehicles from Kinkisharyo and place into revenue service 48 of these low floor light rail vehicles. In addition, complete the decommissioning of the 39 UTDC light rail vehicles, which includes schedule preventive maintenance, exterior rust removal and body repair if needed.
- Provide support and conduct system integration testing in preparation for the opening of the Tasman East and Capitol Light Rail Corridors in early June 2004. At this time, the Way, Power & Signal section of the Maintenance Department will assume maintenance responsibility for this light rail extension. Additional responsibilities will include the maintenance of eight light rail stations, five substations, five Park & Ride Lots and 12.6 miles of track and overhead catenary.

Administrative Services Division

- Continue to reduce overall IT costs through the complete knowledge transfer from consultants to VTA employees and development of IT Strategic Plan.
- Successfully negotiate equitable labor agreements with the Transportation Authority Engineers and Architects' Association; Service Workers Local 715 Service Employees International Union; AFL-CIO, Santa Clara Valley Transportation Authority Chapter;

and the County Employees Management Association, Santa Clara Valley Transportation Authority Chapter.

Construction Division

CAPITAL IMPROVEMENTS:

Transit Operations

- Complete construction of projects in the Facilities Improvement Program including North and the Cerone O&R Division Improvements Project, and the Cerone ZEB Demonstration Project.
- Complete construction of north line Guadalupe platform modifications to accommodate low floor light rail vehicles.

1996 MEASURE B TRANSPORTATION IMPROVEMENT PROGRAM:

Transit Program

- Continue construction of the Vasona Light Rail Project as scheduled and budgeted.
- Complete the Tasman East and Capitol Light Rail Projects for revenue service by July 2004.
- Construction completed on the double track from Tamien Station to Lick for the Caltrain Service Improvements Project.
- Complete construction on Caltrain Improvement Program projects to include: Lawrence Bus/Shuttle & Parking Expansion; Palo Alto Transit Center Improvements and Santa Clara Parking & Bus Expansion.

Highway Program

- Complete construction on the following contracts: I-880 Widening in San Jose; Route 152 Improvements Phase A2 in Gilroy.
- Continued construction on the following contracts: Route 85/101 (North) Interchange in Mountain View; Route 85/101 (South) Interchange in San Jose; Route 237/880 Interchange Stage C Phase 2; Consolidated Biological Mitigation in San Jose.
- Begin construction on the following contracts: Route 87 (S) HOV lanes in San Jose; Route 87 (N) HOV lanes in San Jose; Replacement planting/landscaping for I-880 Widening.

HIGHWAY PROJECT DEVELOPMENT & ADMINISTRATION

- Award construction contracts for 152-B, I-880/Coleman Avenue Interchange, Route 87 S, Route 97 N, and the River Oaks Bicycle/Pedestrian Bridge.
- Complete design of 87N, 87S, I-880/Coleman Avenue Interchange, Route 87 N, and Route 87 S.
- Begin design of Route 85 Noise Mitigation Project.
- Commence preliminary engineering/environmental approval activities for highway projects selected by the VTA Board in implementation of VTP 2020.
- Develop the 10-year project list for local streets and roads program.

OTHER PROJECTS

- Continue construction of the U.S. 101/Bailey Avenue Interchange project for the City of San Jose.
- Begin interchange construction work for the I-880/Coleman Avenue Interchange project for the City of San Jose.
- Begin construction of the River Oaks Bicycle/Pedestrian Bridge I San Jose and Santa Clara.

Development & Congestion Management Division

CONGESTION MANAGEMENT PROGRAM

- Develop the *2003 Congestion Management Program*.
- Update *Valley Transportation Plan 2020 (VTP 2020)*, the comprehensive multimodal transportation plan for Santa Clara County.
- Continue and expand the outreach and education for the *Community Design and Transportation* program, to ensure that all cities adopt the guidelines.
- Develop the Capital Improvement Program (CIP) element of the 2003 Congestion Management Program (CMP).

TRANSIT PLANNING & DEVELOPMENT

- Complete Conceptual Engineering and Final EIR/EIS for the SVRTC (BART Extension) Project.
- Complete Conceptual Engineering and Final EIR/EIS for the Downtown East Valley (Capitol Expressway segment) Project.
- Complete and release Draft EIR/EIS for the Downtown East Valley (Santa Clara/Alum Rock segment) Project.

MARKETING & CUSTOMER SERVICE

- Coordinate design, fabrication, and installation of more than 40 CODE projects within 1996 Measure B light rail and highway projects.
- Implement and evaluate comprehensive strategic marketing plan in accordance with VTA's financial condition and service levels.

Fiscal Resources Division

- Complete a subleasing transaction involving VTA's Light Rail vehicles to Salt Lake City and Sacramento Regional Transit District.
- Complete a series of two lease to service contracts financial transaction for Low Floor Light Rail Vehicles.
- Complete lease to service contract financial transaction on buses.
- Complete refinancing of Measure A repayment obligation

2000 Measure A Transportation Improvement Program and VTP 2020

In August 2000, the VTA Board of Directors approved placing a measure on the November 7, 2000 General Election ballot which would approve a 30 year half-cent sales tax to take effect in the county after the 1996 Measure B Sales Tax expires (March 31, 2006). More than 70% of voters approved the 2000 Measure A. The tax cannot be extended past March 31, 2036 without the vote and approval of the residents of Santa Clara County. It is estimated that over \$6 billion (FY 2000 constant dollars) will be collected. The revenue from this Measure will be collected by the State and sent to VTA. The funds may be used to finance the transit projects and operations specified in 2000 Measure A and listed in VTA's Valley Transportation Plan and Expenditure Program (VTP 2020). The activities specified in 2000 Measure A include:

- Connect BART to Milpitas, San Jose, and Santa Clara;
- Build a rail connection from the Norman Y. Mineta San Jose International Airport to BART, Caltrain, light rail;
- Purchase vehicles for disabled access, senior safety, clean air buses;
- Provide light rail throughout San Jose through the Downtown East Valley Transit Improvement Plan;
- Expand and electrify Caltrain;
- Increase rail and bus services; and
- Provide for related operating expenses.

Staff is currently developing the implementation details of the program for adoption by the VTA Board of Directors.

VTP 2020 provides for a balanced transportation system consisting of transit, roadway, bicycle and pedestrian improvements. It is a twenty-year multi-modal transportation plan that guides overall planning and programming efforts within Santa Clara County. It deals with many transportation issues including decision-making on land use, maintenance and upgrades to the infrastructure, and environmental preservation. VTP 2020 will establish the capital improvement project selection process and establish a ten-year implementation schedule for the first phase of the Capital Improvement Program (CIP). The Best Practices Land Use Program will also be incorporated into the Implementation Program. The Implementation Plan will be updated every other year to reflect the VTP 2020 update.

TransLink Demonstration Project

In 1998, VTA agreed to participate in a demonstration of “TransLink,” an innovative regional fare collection program sponsored by MTC. This demonstration commenced in early 2002 and includes BART, Caltrain, AC Transit, San Francisco MUNI, and Golden Gate Transit in addition to VTA. TransLink will utilize “smart cards” for fare collection. The card will allow riders to store value on the card after money was loaded electronically at sales outlets, vending machines, or by other sales channels. Once the card has a balance, the value would be deducted from the card each time it is used for travel. It offers several potential advantages to VTA and customers, including convenience, security, simplified transfers, and reduced handling of coins and bills. A regional clearinghouse was established to track all card loading and fare payment transactions, and to “settle” funds among all the participating transit operators.

An evaluation of the first six months of the Demonstration concluded that the system worked and that customers wanted to see it extended region wide. During 2003, MTC and the transit operators have been working to resolve governance, financial, and design issues with the intent of enabling a full region wide implementation of TransLink over the next two to three years.

Cash & Investment Management Policies and Practices

VTA’s cash and investments are managed in accordance with California Government Code Section 53601 and other applicable state law. The Restricted and Unrestricted Investment Policy is periodically reviewed and approved by the Board of Directors. The Investment Policy defines permitted investments and prescribes investment strategies. The investment strategies are expressed through asset allocation ranges and targets. Risk tolerance and performance expectations are defined by benchmark indexes.

Restricted investments are for all non-retirement assets. Restricted assets consist of monies and other resources that are either Board designated or legally restricted for the following purposes:

Capital and Operating	General Liability Insurance
Workers’ Compensation	Long-term Accrued Vacation and
Debt Service	Sick Leave Benefits
Retiree Healthcare	

VTA changed its investment strategy to safeguard principal and mitigate possible losses by shifting the unrestricted funds earmarked to underwrite operating deficits and local share of capital projects using a new benchmark, the table money market index which has much shorter duration. The taxable money market index is the benchmark for short-term funds, and the Lehman Brothers U.S. Government Intermediate Index is the benchmark for Intermediate Term Funds. All securities are “marked-to-market” at

month-end. VTA's investment program is actively managed by professional money managers whose performance is overseen by VTA.

The Restricted/Unrestricted Investment Policy includes three asset allocation and accompanying benchmarks as shown below. In accordance with California Government Code Section 53620 – 53622, the assets of the Retiree Health Care Program funds may be invested in a manner similar to those made by pension funds.

<u>Operating/Non-Retirement:</u>	<u>Benchmark</u>	<u>Target Ranges</u>	<u>Target Asset Allocation</u>	<u>Actual</u>
	US Government Intermediate Fixed Income	N/A	54%	51%
	Institutional Money Market	N/A	46%	43%
	Cash/Commingled Investments	N/A	none	6%

<u>Retiree Health:</u>	<u>Benchmark</u>	<u>Target Ranges</u>	<u>Target Asset Allocation</u>	<u>Actual</u>
	Lehman Aggregate (Fixed Income)	30-70%	48%	40%
	S & P 500 Index (Equity)	25-60%	50%	40%
	Cash/Commingled Investments	0-5%	2%	20%

The ATU/VTA Pension Plan Investment Policy functions like the Restricted/Unrestricted Investment Policy, with the notable exception that Pension Plan Trustees review and approve the policy, (pursuant to California State Proposition 162 enacted in November 1992). The Pension Plan is a defined benefit plan and its financial position and changes in financial position are reported in separately issued stand-alone financial statements.

The VTA/ATU Pension Plan benchmark and asset allocation range as of June 30, 2003 is shown below:

<u>ATU Pension Plan:</u>	<u>Benchmark</u>	<u>Target Ranges</u>	<u>Target Asset Allocation</u>	<u>Actual</u>
	Lehman Brother Aggregate (Fixed Income)	35-45%	39%	41%
	S&P/Barra Value (Large Cap Equity)	15-25%	20%	19%
	Russell 2000 Value (Small Cap Equity)	5-15%	10%	11%
	S&P 500 (Large Cap Equity Index)	10-20%	15%	14%
	MSCI EAFE (International Equity Index)	10-20%	15%	14%
	Cash/Commingled Investments	0-5%	1%	1%

An addition to the management of this investment fund is the rebalancing of the allocations. The Plan's asset allocation will be reviewed relative to the targets on a monthly basis and action will be taken to re-balance to within the target ranges by means of asset transfers among categories. When necessary and/or available, cash

inflows/outflows will be deployed in a manner consistent with the strategic asset allocation on the system.

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 earnings, recognized on the Statement of Revenues, Expenses and Changes in Fund Net Assets – Enterprise Fund (Business-Type Activity), amounted to \$14.3 million during FY03. \$7.5 million in net investment earnings is reported on the Statement of Changes in Plan Net Assets – Pension Trust Funds.

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 contribution payments 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 \$7.6 million in restricted investment earnings are accounted for in this manner.

Table 1.2 summarizes the investment earnings for FY 2003 (in millions).

Enterprise Fund Earnings	\$14,245
Special Revenue and Capital Projects Fund Earnings	99
Pension Trust Fund	<u>7,523</u>
Income Recognized	21,867
Earnings For Discounted Liabilities	<u>7,556</u>
Total Investment Earnings	\$29,423

Risk Management

For the year ended June 30, 2003, VTA self-insured the first \$3 million of all public liability claims and all worker’s compensation claims. Based on annual independent actuarial studies, the claims program funds are adjusted annually to maintain a projected financial position at an estimated 75% confidence level. Risk Management Department Claims Staff oversee third party administrators for the adjustment and payment of claims from both self-insurance funds.

The Risk Manager obtains excess casualty and property insurance coverage for operations and also manages the Owner-Controlled Insurance Programs (OCIP) for

major transit and highway construction projects. The OCIP is a fully insured program providing general liability coverage, and statutory worker's compensation coverage for construction contractors, at a reduced premium cost to VTA.

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 its 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 made by management. We believe VTA's internal controls adequately safeguard assets against loss from unauthorized use or disposition, and provides reasonable assurance of adherence to prescribed managerial policies as well as proper recording of financial transactions in the financial statements.

Major subjects reported on during FY03 by the Internal Audit Department are:

- Operational review to improve process effectiveness and efficiency;
- Assessment of internal controls;
- Compliance audit on contractors/vendors (pre-award and incurred cost audits);
- Analyses of contractors' proposed costs; and
- Follow up of recommendations issued by Internal Audit Department and external regulatory agencies.

Pension and Other Post-employment Benefits

There are two specific pension plans offered by the VTA. All ATU employees are covered under the Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan. The plan provides retirement, disability, and death benefits based on the employees' years of service, age, and final compensation. The second pension plan is the State's Public Employees Retirement System (CalPERS) for non-ATU employees. Further information on the two plans can be obtained in footnotes 11 and 12 of the Notes to the Basic Financial Statements, starting on pages 2-48 and 2-50 respectively. Additionally, there are Schedules of Funding Progress for the two plans within the Required Supplementary Information on pages 2-60 through 2-61.

There are three health benefits programs for employees who retire directly from VTA. First, for ATU employees, there is an ATU Medical Trust which includes a Spousal Medical Trust and Retiree Vision and Dental Trust. Secondly, there is the ATU Retiree Health Care Program. Finally, there is the non-ATU Retiree Health Care Program. Additional information can be found in footnotes 13 and 14, pages 2-51 through 2-52.

Awards and Acknowledgements

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 (VTA) for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2002. This was the 7th consecutive year that VTA has achieved this prestigious award.

In order to be awarded a Certificate of Achievement, a government agency must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

The preparation of this Comprehensive Annual Financial Report required a concerted team effort throughout VTA, including team members from Financial Accounting, Disbursements, Revenue Services, Contracts and Purchasing, Risk Management, Budget and Analysis, Investments, Service and Operations Planning, and the Debt Administration/Business Analysis Departments. The team members demonstrated a commendable degree of personal dedication and determination in producing this document.

In addition, special thanks to Macias, Gini & Company LLP for their contribution, as well as all other VTA staff for responding positively and promptly to the request for information that occurs with each annual audit. The Copy Center and the Marketing and Customer Service Departments also made significant contributions to the form, content, and production of the report.

October 31, 2003

Peter M. Cipolla
General Manager

Scott Buhrer
Chief Financial Officer

**2003 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.
6. Ex-Officio, Santa Clara County's two representatives to the Metropolitan Transportation Commission (MTC).

Each of these groupings has one alternate.

The Board of Directors meets at 6 p.m. on the first Thursday of each month.

Jane P. Kennedy, Chairperson
Don Gage, Vice-Chairperson

<p>GROUP 1 City of San Jose Cindy Chavez David Cortese Pat Dando Ron Gonzales Forrest Williams Ken Yeager, Alt.</p>	<p>GROUP 2 City of Los Altos Francis La Poll, Alt. Town of Los Altos Hills City of Mountain View City of Palo Alto Dena Mossar City of Santa Clara John McLemore City of Sunnyvale Manuel Valerio</p>
<p>GROUP 3 City of Campbell Jane P. Kennedy City of Cupertino Town of Los Gatos Joe Pirzynski, Alt. City of Monte Sereno City of Saratoga</p>	<p>GROUP 4 City of Gilroy Thomas Springer City of Milpitas Patricia Dixon, Alt. City of Morgan Hill</p>
<p>GROUP 5 County of Santa Clara Blanca Alvarado Don Gage Pete McHugh, Alt.</p>	<p>GROUP 6 Ex-Officio Metropolitan Jim Beall, Jr. Transportation Commission</p>

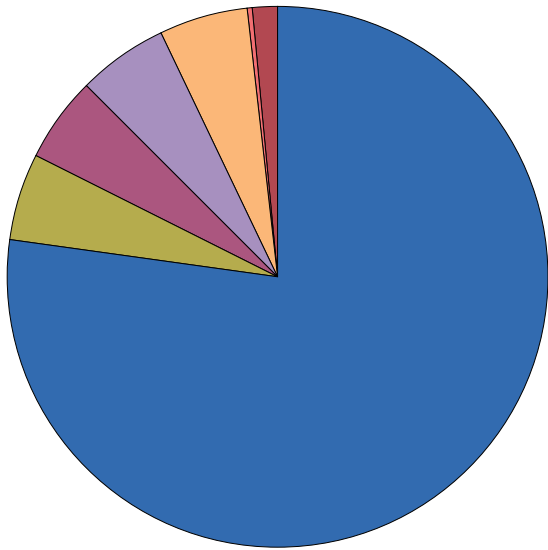
The Board of Directors established three policy committees and six advisory committees. The policy committees advise on policy matters and provide in-depth review of individual issues before the Board of Directors take final action. The committees include:

1. Administrative and Finance Committee (A & F)
2. Congestion Management Program and Planning Committee (CMPP)
3. Transit Planning and Operations Committee (TP & O)

The advisory committees review policies under development to ensure that they meet the needs of constituents, customers, elected officials, the business community and others. The committees include:

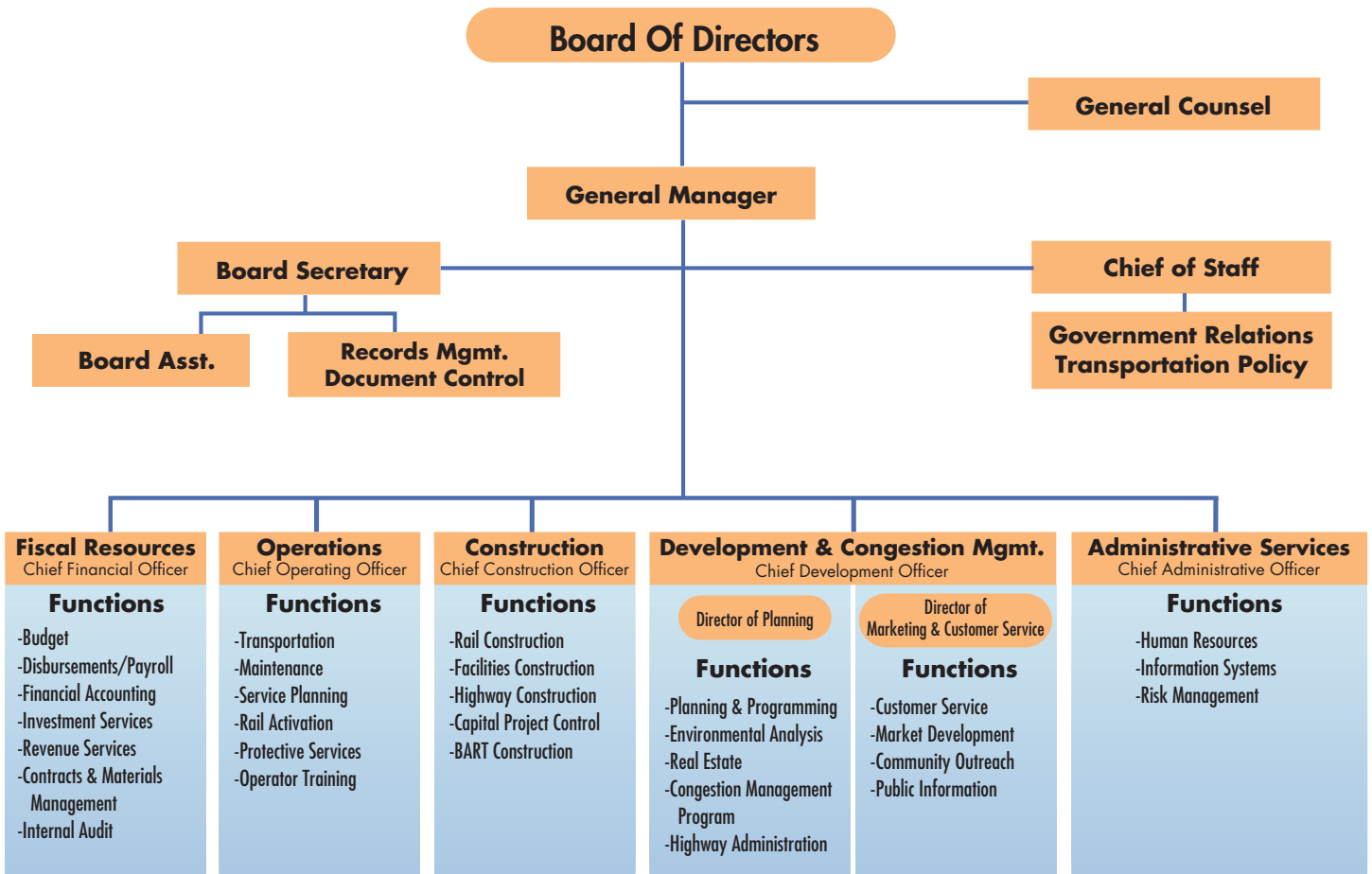
1. Committee for Transit Accessibility (CTA)
2. Citizens Advisory Committee (CAC)
3. Bicycle and Pedestrian Advisory Committee (BPAC)
4. Technical Advisory Committee (TAC)
5. Policy Advisory Committee (PAC)
6. Transportation Corridor Policy Advisory Boards (PABS)

Number of Employee Positions in Organizational Units



Operations	1850	77.2%
Development & Congestion Management	125	5.2%
Fiscal Resources	122	5.1%
Construction	130	5.4%
Administrative Services	126	5.3%
General Counsel	8	0.3%
General Manager	37	1.5%
Total	2398	100%

Santa Clara Valley Transportation Authority



Principal Officials as of June 30, 2003

General Manager

General Counsel

Board Secretary

Chief of Staff

Chief Administrative Officer

Chief Construction Officer

Chief Development Officer

Chief Financial Officer

Chief Technology Officer

Chief Operating Officer

Director of Marketing and Customer Service

Director of Planning & Development

Director of Transportation & Maintenance

Controller

Deputy Director of Highways

Deputy Director Rail Design & Construction

Deputy Director, Congestion Management Program

Deputy Director, Program & Highway Administration

Deputy Director, Service & Operations Planning

Government Affairs Manager

Transportation Policy & Program Manager

SECTION 2 — FINANCIAL SECTION

Independent Auditor's Report

Management's Discussion and Analysis (Required Supplementary Information)

Basic Financial Statements:

Government-wide Financial Statements:

- ◆ Statement of Net Assets
- ◆ Statement of Activities

Fund Financial Statements:

Enterprise Fund:

- ◆ Statement of Fund Net Assets
- ◆ Statement of Revenues, Expenses and Changes in Fund Net Assets
- ◆ Statement of Cash Flows

Governmental Funds:

- ◆ Balance Sheet
- ◆ Statement of Revenues, Expenditures, and Changes in Fund Balances

Fiduciary Funds:

- ◆ Statement of Fiduciary Net Assets
- ◆ Statement of Changes in Plan Net Assets – Pension Trust Funds

Notes to the Basic Financial Statements

Required Supplementary Information (other than MD&A):

- ◆ Schedule of Funding Progress – ATU Pension Plan
- ◆ Schedule of Funding Progress – CalPERS Plan
- ◆ Budgetary Comparison Schedule – Congestion Management Program Special Revenue Fund
- ◆ Note to Required Supplementary Information – Budgetary Basis of Accounting

Supplementary Information – Combining and Individual Fund Statements:

Enterprise Fund:

- ◆ Comparative Statements of Fund Net Assets
- ◆ Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets
- ◆ Comparative Statements of Cash Flows
- ◆ Budgetary Comparison Schedule
- ◆ Schedule of Restricted Assets and Related Liabilities

Fiduciary Funds:

- ◆ Combining Statement of Plan Net Assets – Pension Trust Funds
- ◆ Combining Statement of Changes in Plan Net Assets – Pension Trust Funds
- ◆ Combining Statement of Fiduciary Assets and Liabilities – Agency Funds
- ◆ Combining Statement of Changes in Fiduciary Assets and Liabilities – Agency Funds