

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2000 Measure A 2008 Series Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the 2000 Measure A 2008 Series Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the 2000 Measure A 2008 Series Bonds. See “TAX MATTERS” herein.

\$236,730,000

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
2000 MEASURE A SALES TAX REVENUE REFUNDING BONDS**

| | | | |
|---|---|---|---|
| \$59,805,000 | \$58,975,000 | \$58,975,000 | \$58,975,000 |
| Variable Rate Demand Bonds 2008 Series A | Variable Rate Demand Bonds 2008 Series B | Variable Rate Demand Bonds 2008 Series C | Variable Rate Demand Bonds 2008 Series D |
| Dated: Date of Delivery | Price: 100% | Due: April 1, 2036 | |

The Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Refunding Bonds, 2008 Series A, 2008 Series B, 2008 Series C, and 2008 Series D (hereinafter collectively referred to as the “2008 Series Bonds”) are being issued by the Santa Clara Valley Transportation Authority (the “Authority”) pursuant to an Indenture, dated as of August 1, 2006 (as supplemented and amended, the “Indenture”), between the Authority and Deutsche Bank National Trust Company, as trustee (the “Trustee”). Proceeds of the 2008 Series Bonds will be applied to refund certain prior bonds on a current basis and to pay costs of issuance of the 2008 Series Bonds, all as more particularly described herein.

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

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

Pursuant to a Standby Bond Purchase Agreement, dated June 1, 2008 (the “JPMorgan Chase Initial Liquidity Facility”), between the Authority and JPMorgan Chase Bank, National Association (“JPMorgan Chase”), JPMorgan Chase will provide funds for the purchase of the 2008 Series A Bonds and the 2008 Series B Bonds that are tendered for optional or mandatory purchase but are not remarketed. Pursuant to a Standby Bond Purchase Agreement, dated June 1, 2008 (the “BBVA Initial Liquidity Facility” and, together with the JPMorgan Chase Initial Liquidity Facility, the “Initial Liquidity Facilities”), between the Authority and Banco Bilbao Vizcaya Argentaria S.A. (“BBVA” and together with JPMorgan Chase, the “Liquidity Facility Providers”), BBVA will provide funds for the purchase of the 2008 Series C Bonds and the 2008 Series D Bonds that are tendered for optional or mandatory purchase but are not remarketed. **The JPMorgan Chase Initial Liquidity Facility is not available to provide liquidity support for the 2008 Series C Bonds or the 2008 Series D Bonds and the BBVA Initial Liquidity Facility is not available to provide liquidity support for the 2008 Series A Bonds or the 2008 Series B Bonds.** Each of the Initial Liquidity Facilities will expire on June 24, 2009, unless extended or earlier terminated upon the occurrence of certain events (in accordance with their respective terms) including termination at the direction of the Authority. Under certain circumstances described herein, the obligation of the Liquidity Facility Providers to provide funds for the purchase of 2008 Series Bonds may be terminated immediately without notice to the holders of the 2008 Series Bonds and without a mandatory tender of the 2008 Series Bonds. See “**The Liquidity Facility Providers and the Initial Liquidity Facilities**” herein.



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

The 2008 Series Bonds are limited obligations of the Authority secured solely by a pledge of Revenues (as defined in the Indenture), which consist of the receipts from the imposition in the County of Santa Clara of a one-half of one percent retail transactions and use tax authorized in 2000 which took effect April 1, 2006 (the “2000 Measure A Sales Tax”), less certain administrative fees paid to the California State Board of Equalization, as described herein, plus amounts held by the Trustee in certain funds and accounts established under the Indenture. The 2000 Measure A Sales Tax was approved by more than two thirds of the electorate of the County of Santa Clara voting on the ballot measure in November 2000 and is scheduled to expire March 31, 2036. See “**Security and Sources of Payment for the Bonds**” herein.

The 2008 Series Bonds are being issued on a parity with certain other bonds and obligations secured by the 2000 Measure A Sales Tax. The Authority may also issue additional bonds and incur other obligations secured by the 2000 Measure A Sales Tax on a parity with the 2008 Series Bonds, subject to compliance with the provisions set forth in the Indenture. See “**Security and Sources of Payment for the Bonds**” herein.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COUNTY OF SANTA CLARA, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION OR PUBLIC AGENCY THEREOF, OTHER THAN THE AUTHORITY, TO THE EXTENT OF THE PLEDGE OF THE 2000 MEASURE A SALES TAX REVENUES AND OTHER AMOUNTS HELD UNDER THE INDENTURE, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE 2008 SERIES BONDS. THE PLEDGE OF 2000 MEASURE A SALES TAX REVENUES DOES NOT SECURE PAYMENT OF THE PURCHASE PRICE OF THE 2008 SERIES BONDS.

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

The 2008 Series Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of validity by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, and certain other conditions. Certain legal matters will be passed on for the Authority by its Acting General Counsel. Certain legal matters will be passed upon for the Liquidity Facility Providers by Nixon Peabody LLP. Certain legal matters will be passed upon for the Underwriters by Ronald E. Lee, Esq., Davis, California. It is anticipated that the 2008 Series Bonds will be available for delivery through DTC on or about June 25, 2008.

Goldman, Sachs & Co.

Underwriter and Remarketing Agent
2008 Series A Bonds

Banc of America Securities LLC

Underwriter and Remarketing Agent
2008 Series B Bonds

JPMorgan

Underwriter and Remarketing Agent
2008 Series C Bonds

Morgan Stanley & Co. Incorporated

Underwriter and Remarketing Agent
2008 Series D Bonds

No dealer, salesman or any other person has been authorized by the Santa Clara Valley Transportation Authority (the "Authority") or the Underwriters identified on the cover page hereof to give any information or to make any statements or representations, other than those contained in this Official Statement, and, if given or made, such other information, statements or representations must not be relied upon as having been authorized. The information set forth herein has been obtained from the Authority and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and it is not to be construed as a representation by the Underwriters. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy any of the 2000 Measure A 2008 Series Bonds in any jurisdiction in which such offer or solicitation is not authorized, or in which any person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

This Official Statement is not to be construed as a contract with the purchasers of the 2000 Measure A 2008 Series Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

In connection with the offering of the 2000 Measure A 2008 Series Bonds, the underwriters may effect transactions that stabilize or maintain the market price of the 2000 Measure A 2008 Series Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

In making an investment decision investors must rely on their own examination concerning the Authority and the terms of the offering, including the merits and risks involved. These securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense.

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

FORWARD-LOOKING STATEMENTS

Certain statements included or incorporated by reference in this Official Statement constitute forward-looking statements. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget" or other similar words. **The achievement of certain results or other expectations contained in such forward looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. No assurance is given that actual results will meet the forecasts of the Authority in any way. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the caption "The 2000 Measure A Sales Tax - Projected 2000 Measure A Sales Tax Revenues" and in the projections of future operating results of the Authority in Appendix A attached hereto. The Authority does not plan to issue any updates or revisions to those forward-looking statements if or when any of its expectations, or events, conditions or circumstances on which such statements are based occur.**

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

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Nora Campos
Dominic Caserta
Yoriko Kishimoto
Nancy Pyle
Greg Sellers

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Bill Lopez, Chief Administrative Officer
Gary Miksell, Chief Information Officer
Mark S. Robinson, Acting Chief Engineering and Construction Officer
Joseph T. Smith, Chief Financial Officer
Donald Smith, Chief Operations Officer
John Ristow, Chief Planning and Congestion Management Agency Officer

SPECIAL SERVICES

Financial Advisor

Ross Financial
San Francisco, California

Bond Counsel

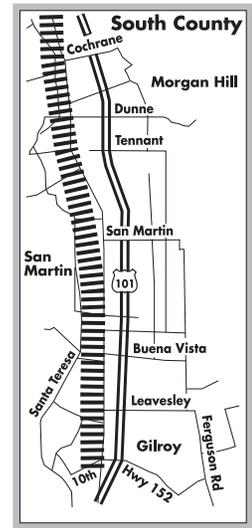
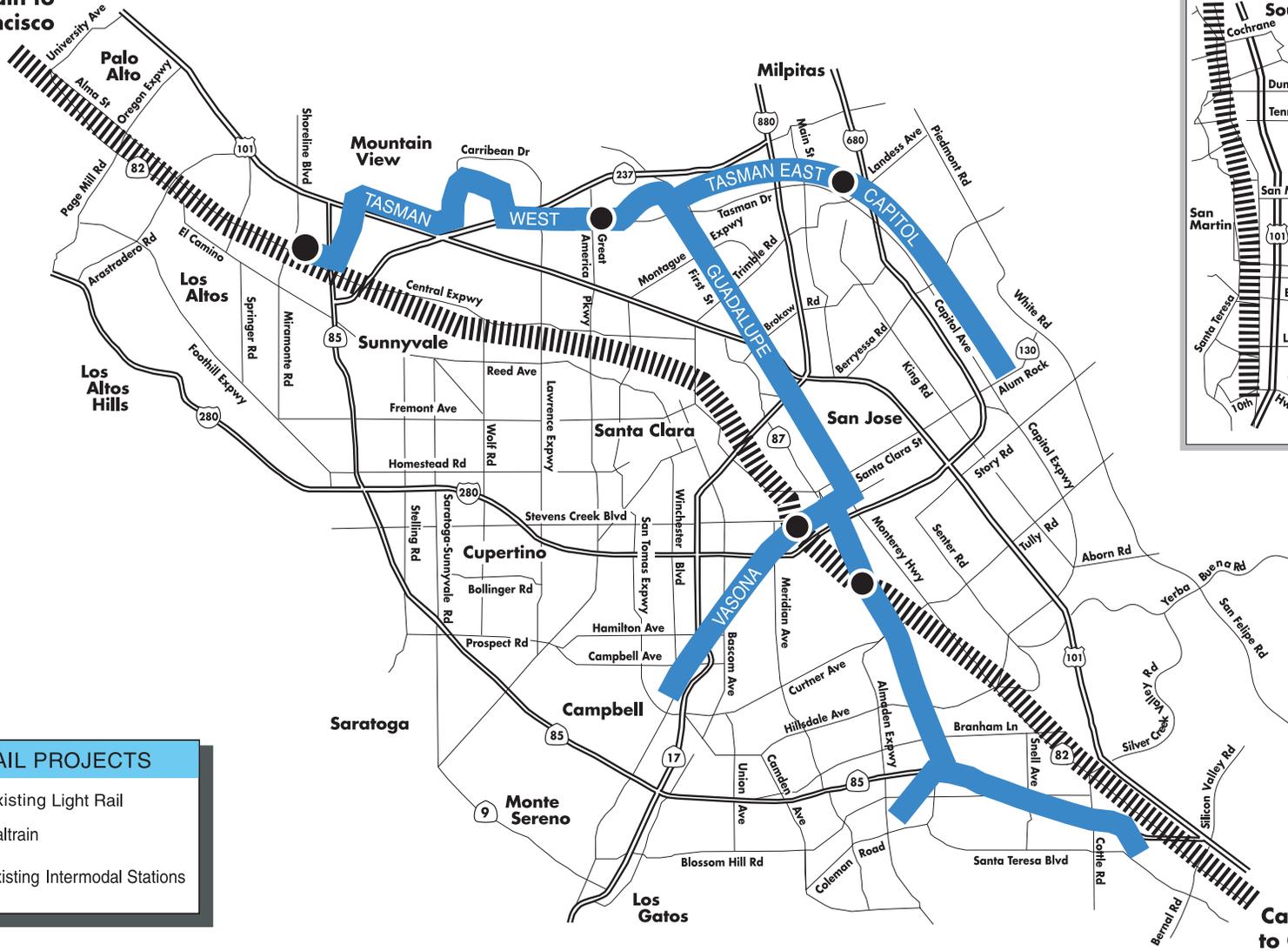
Orrick, Herrington & Sutcliffe LLP
San Francisco, California

Trustee

Deutsche Bank National Trust Company
San Francisco, California

Santa Clara County Bus and Rail Transit Service Area

Caltrain to San Francisco



RAIL PROJECTS

- Existing Light Rail
- Caltrain
- Existing Intermodal Stations

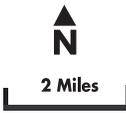


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OFFICIAL STATEMENT

\$236,730,000

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY 2000 MEASURE A SALES TAX REVENUE REFUNDING BONDS, 2008 SERIES A, 2008 SERIES B, 2008 SERIES C AND 2008 SERIES D

INTRODUCTION

General

This Official Statement, which includes the cover page and the appendices hereto, sets forth certain information in connection with the offering by the Santa Clara Valley Transportation Authority (the "Authority") of \$236,730,000 of Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Refunding Bonds, 2008 Series A, 2008 Series B, 2008 Series C and 2008 Series D (hereinafter collectively referred to as the "2000 Measure A 2008 Series Bonds"). The 2000 Measure A 2008 Series Bonds are being issued pursuant to the Indenture, dated as of August 1, 2006, between the Authority and Deutsche Bank National Trust Company, as trustee (the "Trustee"), as supplemented and amended by a First Supplemental Indenture, dated as of August 1, 2006 (the "First Supplemental Indenture"), a Second Supplemental Indenture, dated as September 1, 2007 (the "Second Supplemental Indenture") and a Third Supplemental Indenture, dated as of June 1, 2008 (the "Third Supplemental Indenture"), between the Authority and the Trustee. The Indenture, as so supplemented and amended and as further supplemented and amended from time to time pursuant to its terms is hereinafter referred to as the "Indenture." All capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE," or, if not defined therein, shall have the meanings assigned to such terms in the Indenture.

Authority for Issuance

The 2000 Measure A 2008 Series Bonds are being issued by the Authority under and pursuant to the Santa Clara Valley Transportation Authority Act, being Sections 100000 *et seq.* of the California Public Utilities Code and the provisions of the Revenue Bond Law of 1941, being Section 54300 *et seq.* of the California Government Code as referenced in the Santa Clara Valley Transportation Authority Act (collectively, the "Act").

Purpose and Application of Proceeds

The 2000 Measure A 2008 Series Bonds are being issued in order to refund on a current basis \$58,950,000 aggregate principal amount of the Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds, 2006 Series A (the "2006 Series A Bonds"), \$58,975,000 aggregate principal amount of the Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds, 2006 Series B (the "2006 Series B Bonds"), \$58,975,000 aggregate principal amount of the Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds, 2006 Series C (the "2006 Series C Bonds"), and \$58,975,000 aggregate principal amount of the Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds, 2006 Series D (the "2006 Series D Bonds," and together with the 2006 Series A Bonds, the 2006 Series B Bonds and the 2006 Series C Bonds, hereinafter collectively referred to as the "Prior Bonds"). In addition, a portion of the proceeds of the 2000 Measure A 2008 Series Bonds will be used to pay the costs of issuance of the 2000 Measure A 2008 Series Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" herein.

Security

The 2000 Measure A 2008 Series Bonds are limited obligations of the Authority secured by a pledge of sales tax revenues (herein called the "2000 Measure A Sales Tax Revenues") derived from a one-half of one percent (0.5%) retail transactions and use tax (the "2000 Measure A Sales Tax"), imposed in accordance with the Act and the California Transactions and Use Tax Law (Revenue and Taxation Code Section 7251 *et seq.*), net of an administrative fee paid to the California State Board of Equalization (the "Board of Equalization") in connection with the collection and disbursement of the 2000 Measure A Sales Tax. The 2000 Measure A Sales Tax was approved by more than 2/3rds of the electorate of the County of Santa Clara (the "County") voting on the ballot measure in November 2000 and is scheduled to expire March 31, 2036.

The 2000 Measure A 2008 Series Bonds are further secured by a pledge of certain amounts held by the Trustee under the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Pledge of 2000 Measure A Sales Tax Revenues and Certain Amounts Held by Trustee" herein.

Upon their issuance, the 2000 Measure A 2008 Series Bonds will be secured on a parity basis under the Indenture with the Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds, 2007 Series A (the "2000 Measure A 2007 Series Bonds") issued in the aggregate principal amount of \$120,095,000, all of which will remain Outstanding upon the issuance of the 2000 Measure A 2008 Series Bonds.

Additional Bonds and other obligations secured by a pledge of the 2000 Measure A Sales Tax Revenues on a parity with the 2000 Measure A 2008 Series Bonds and the 2000 Measure A 2007 Series Bonds may hereafter be issued or incurred. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Additional Bonds and Parity Obligations" herein. The 2000 Measure A 2007 Series Bonds, the 2000 Measure A 2008 Series Bonds and any additional bonds hereafter authorized by, and at any time Outstanding under, the Indenture are referred to collectively herein as the "Bonds."

Limited Obligations

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COUNTY OF SANTA CLARA, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION OR PUBLIC AGENCY THEREOF, OTHER THAN THE AUTHORITY TO THE EXTENT OF THE PLEDGE OF THE 2000 MEASURE A SALES TAX REVENUES AND OTHER AMOUNTS PLEDGED UNDER THE INDENTURE, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS.

Initial Liquidity Facilities

Pursuant to a Standby Bond Purchase Agreement, dated June 1, 2008 (the "JPMorgan Chase Initial Liquidity Facility"), between the Authority and JPMorgan Chase Bank, National Association ("JPMorgan Chase"), JPMorgan Chase will provide funds for the purchase of the 2008 Series A Bonds and the 2008 Series B Bonds that are tendered for optional or mandatory purchase but are not remarketed. Pursuant to a Standby Bond Purchase Agreement, dated June 1, 2008 (the "BBVA Initial Liquidity Facility" and, together with the JPMorgan Chase Initial Liquidity Facility, the "Initial Liquidity Facilities"), between the Authority and Banco Bilbao Vizcaya Argentaria S.A. ("BBVA" and together with JPMorgan Chase, the "Liquidity Facility Providers"), BBVA will provide funds for the purchase of the 2008 Series C Bonds and the 2008 Series D Bonds that are tendered for optional or mandatory purchase but are not remarketed. **The JPMorgan Chase Initial Liquidity Facility is not available to**

provide liquidity support for the 2008 Series C Bonds or the 2008 Series D Bonds and the BBVA Initial Liquidity Facility is not available to provide liquidity support for the 2008 Series A Bonds or the 2008 Series B Bonds. Each of the Initial Liquidity Facilities will expire on June 24, 2009, unless extended or earlier terminated upon the occurrence of certain events, including termination at direction of the Authority. Under certain circumstances described herein, the obligation of the Liquidity Facility Providers to provide funds for the purchase of 2008 Series Bonds may be terminated immediately without notice to the Holders and without a mandatory tender of the 2008 Series Bonds. See "THE LIQUIDITY FACILITY PROVIDERS AND THE INITIAL LIQUIDITY FACILITIES" herein.

References

The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each such document for the complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each such document, copies of which are available for inspection at the offices of the Authority.

THE AUTHORITY

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

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

THE 2000 MEASURE A 2008 SERIES BONDS

This Official Statement provides information with respect to the 2000 Measure A 2008 Series Bonds while bearing interest at Weekly or Daily Rates only. Holders and prospective purchasers of the 2000 Measure A 2008 Series Bonds should not rely on this Official Statement for information concerning 2000 Measure A 2008 Series Bonds bearing interest at a rate other than the Weekly Rate or Daily Rate.

Each Series of 2000 Measure A 2008 Series Bonds will operate independently of each other Series. The definitions and provisions described herein shall apply generally to each Series of 2000 Measure A 2008 Series Bonds while bearing interest at Weekly or Daily Rates unless otherwise noted.

General

The 2000 Measure A 2008 Series Bonds will be dated their date of delivery, will mature on April 1, 2036, subject to prior redemption and will initially bear interest at Weekly Rates. During a Weekly Rate Period, interest on the 2000 Measure A 2008 Series Bonds shall be payable on first Business

Day of each month, commencing July 1, 2008 and shall be computed on the basis of a 365/366 day year for the actual number of days elapsed. The 2000 Measure A 2008 Series Bonds will be issued in fully registered form without coupons and will initially be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), the initial Securities Depository for the 2000 Measure A 2008 Series Bonds. Under the Indenture, the Authority may appoint a successor Securities Depository or may choose to discontinue the use of a book-entry only system.

The 2000 Measure A 2008 Series Bonds will be issued initially in book-entry only form pursuant to a book-entry system (the "Book-Entry System"). While the 2000 Measure A 2008 Series Bonds are in the Book-Entry System, the provisions described in APPENDIX E – "BOOK-ENTRY ONLY SYSTEM" shall apply and the term "Holder" as used herein shall refer to DTC or its nominee as the registered owner of the 2000 Measure A 2008 Series Bonds. Payments to beneficial owners of the 2000 Measure A 2008 Series Bonds, including payment of Purchase Price to the beneficial owners of the 2000 Measure A 2008 Series Bonds will be made in accordance with the provisions described in APPENDIX E - "BOOK – ENTRY ONLY SYSTEM."

Unless otherwise specified herein, all references to a particular time are to New York City Time.

Certain Defined Terms

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

Authorized Denominations means with respect to 2000 Measure A 2008 Series Bonds in a Daily Mode or Weekly Mode, \$100,000 and any integral multiple of \$5,000 in excess thereof.

Beneficial Owner means, so long as the 2000 Measure A 2008 Series Bonds are held in the Book-Entry System, any Person who acquires a beneficial ownership interest in a 2000 Measure A 2008 Series Bond held by the Securities Depository. If at any time the 2000 Measure A 2008 Series Bonds are not held in the Book-Entry System, Beneficial Owner shall mean the registered owner.

Business Day means for any Series of 2000 Measure A 2008 Series Bonds any day other than (i) a Saturday or Sunday or (ii) a day on which the Trustee or applicable Remarketing Agent are required or authorized to be closed or (iii) a day on which the office of the Insurer, if any, or applicable Liquidity Facility Provider at which draws or advances will be paid is required or authorized to be closed or (iv) a day on which The New York Stock Exchange is closed.

Daily Rate means the per annum interest rate on any 2000 Measure A 2008 Series Bond in the Daily Mode determined pursuant to the provisions of the Indenture described below.

Daily Rate Period means the period during which a 2000 Measure A 2008 Series Bond in the Daily Mode shall bear a Daily Rate, which shall be from the Business Day upon which a Daily Rate is set to but not including the next succeeding Business Day.

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

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

Interest Accrual Period means the period during which a 2000 Measure A 2008 Series Bond accrues interest payable on the next Interest Payment Date applicable thereto. Each Interest Accrual Period shall commence on (and include) the last Interest Payment Date to which interest has been paid (or, if no interest has been paid, from the date of original authentication and delivery of the 2000 Measure A 2008 Series Bonds) to, but not including, the Interest Payment Date on which interest is to be paid. If, at the time of authentication of any 2000 Measure A 2008 Series Bond, interest is in default or overdue on the 2000 Measure A 2008 Series Bonds, such 2000 Measure A 2008 Series Bond shall bear interest from the date to which interest has previously been paid in full or made available for payment in full on Outstanding 2000 Measure A 2008 Series Bonds.

Mandatory Purchase Date means: (i) any Mode Change Date (except a change in Mode between the Daily Mode and the Weekly Mode if the then-existing Liquidity Facility provides for the payment of the purchase price of the affected Series of 2000 Measure A 2008 Series Bonds in both the Daily Mode and the Weekly Mode); (ii) any Substitution Date; (iii) the fifth Business Day prior to the Expiration Date; (iv) with respect to the affected Series of 2000 Measure A 2008 Series Bonds, the date specified by the Trustee following the occurrence of an event of default (other than an event of default which constitutes an Automatic Termination Event) under the applicable Reimbursement Agreement, which date shall be a Business Day not less than 20 days after the Trustee's receipt of notice of such event of default from the applicable Liquidity Facility Provider and in no event later than the Business Day preceding the termination date specified in the notice of event of default delivered to the Trustee by such Liquidity Facility Provider; and (v) for 2000 Measure A 2008 Series Bonds in the Daily Mode or Weekly Mode, any Business Day specified by the Authority not less than 20 days after the Trustee's receipt of such notice from the Authority.

Maximum Rate means with respect to all 2000 Measure A 2008 Series Bonds, other than Liquidity Facility Bonds, a rate of interest of 12% per annum, and, with respect to Liquidity Facility Bonds, such rate as is specified in the applicable Liquidity Facility, which rate shall not exceed the highest rate then permitted by law.

Mode Change Date means with respect to all of any Series of the 2000 Measure A 2008 Series Bonds in a particular Mode, the day on which another Mode for all of such Series of the 2000 Measure A 2008 Series Bonds begins.

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

Purchase Date means (i) for a 2000 Measure A 2008 Series Bond in the Daily Mode or the Weekly Mode, any Business Day selected by the Beneficial Owner for which a Tender Notice is given prior to the Tender Notice Deadline in accordance with the provisions of the Indenture, and (ii) any Mandatory Purchase Date.

Rate Determination Date means any date on which the interest rate on 2000 Measure A 2008 Series Bonds shall be determined, which: (i) in the case of the Daily Mode, shall be each Business Day commencing with the first day (which must be a Business Day) any of the 2000 Measure A 2008 Series Bonds become subject to the Daily Mode; and (ii) in the case of a Weekly Mode, shall be each Wednesday (or if Wednesday is not a Business Day, then the next succeeding Business Day), provided that upon the issuance of the 2000 Measure A 2008 Series Bonds, the Weekly Rate for the first Weekly Rate Period shall be determined no later than the Business Day prior to issuance of the 2000 Measure A 2008 Series Bonds and in the case of a subsequent conversion to the Weekly Mode, the Weekly Rate shall be determined no later than the Business Day prior to the Mode Change Date for the Series of 2000 Measure A 2008 Series Bonds being converted.

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

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

Substitution Date means, with respect to any Series of 2000 Measure A 2008 Series Bonds, the date upon which an Alternate Liquidity Facility is substituted for the Liquidity Facility then in effect.

Tender Notice means a notice delivered by Electronic Means or in writing that states: (i) the principal amount of the 2000 Measure A 2008 Series Bond to be purchased pursuant to provisions of the Indenture relating to optional tender of 2000 Measure A 2008 Series Bonds; (ii) the Purchase Date on which such 2000 Measure A 2008 Series Bond is to be purchased; (iii) applicable payment instructions with respect to such 2000 Measure A 2008 Series Bonds being tendered for purchase; and (iv) an irrevocable demand for such purchase.

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

Weekly Rate means the per annum interest rate on any 2000 Measure A 2008 Series Bonds in the Weekly Mode determined pursuant to the provisions of the Indenture described below.

Weekly Rate Period means the period during which a Series of 2000 Measure A 2008 Series Bonds bear interest at a Weekly Rate, which shall be the period commencing on Thursday of each week

to and including Wednesday of the following week, except (i) the first Weekly Rate Period which shall be from the date of issuance of the 2000 Measure A 2008 Series Bonds to and including the Wednesday of the following week, (ii) the first Weekly Rate Period following a subsequent change in Mode for a Series of 2000 Measure A 2008 Series Bonds which shall be from the Mode Change Date for such Series of 2000 Measure A 2008 Series Bonds to and including the Wednesday of the following week, and (iii) the last Weekly Rate Period which shall be from and including the Thursday of the week prior to the Mode Change Date to and including the day next preceding the Mode Change Date.

Determination of Interest Rate on 2000 Measure A 2008 Series Bonds

Interest on the 2000 Measure A 2008 Series Bonds will initially be calculated based on a Weekly Rate. From time to time, the Authority may convert 2000 Measure A 2008 Series Bonds from one interest rate mode (each, a "Mode") to a different Mode, which may be a Daily Mode, a Flexible Mode, a Term Rate Mode, a Fixed Rate Mode or an ARS Mode. As set forth below under "Conversion to Other Interest Rate Modes," the Authority may effect a change in Mode with respect to all of any Series of 2000 Measure A 2008 Series Bonds by following the procedures set forth in the Indenture and described under this caption. The interest rate during any particular period (an "Interest Period") will be determined by the applicable Remarketing Agent as described below and will be in effect for, and adjust at the expiration of, the applicable Interest Period.

Determination of Interest Rates During the Daily Mode and the Weekly Mode

The interest rate for 2000 Measure A 2008 Series Bonds in the Daily Mode or Weekly Mode shall be the rate of interest per annum determined by the applicable Remarketing Agent on and as of the applicable Rate Determination Date as the minimum rate of interest which, in the opinion of the applicable Remarketing Agent under then-existing market conditions, would result in the sale of such 2000 Measure A 2008 Series Bonds in the Daily Rate Period or Weekly Rate Period, as applicable, at a price equal to 100% of the principal amount thereof. The interest rate shall not exceed the Maximum Rate.

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

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

In the event: (i) the applicable Remarketing Agent fails or is unable to determine the interest rate for any 2000 Measure A 2008 Series Bond, (ii) the method by which the applicable Remarketing Agent determines the interest rate with respect to any 2000 Measure A 2008 Series Bond shall be held to be unenforceable by a court of law of competent jurisdiction, or (iii) the applicable Remarketing Agent suspends its remarketing effort in accordance with the applicable Remarketing Agreement, then the affected 2000 Measure A 2008 Series Bonds shall bear interest during each subsequent Interest Period at the Alternate Rate in effect on the first day of such Interest Period. The provisions of the Indenture

described in the immediately preceding sentence shall continue to apply to the affected 2000 Measure A 2008 Series Bonds until such time as the events described in clauses (i), (ii) or (iii) above are no longer applicable to such 2000 Measure A 2008 Series Bonds and the applicable Remarketing Agent again determines the interest rate. In the case of clause (ii) above, the applicable Remarketing Agent shall again make such determination at such time as there is delivered to the applicable Remarketing Agent and the Authority an opinion of Bond Counsel to the effect that there are no longer any legal prohibitions against such determination.

Conversion to Other Interest Rate Modes

General. The 2000 Measure A 2008 Series Bonds will initially bear interest at a Weekly Rate. The Indenture provides that the Authority may elect to adjust the interest rate on any Series of 2000 Measure A 2008 Series Bonds to a Daily Rate, a Flexible Rate, a Term Rate, a Fixed Rate or an ARS Rate, in each case in accordance with the provisions set forth in the Indenture.

Notice to Holders. Notice of the proposed change in Mode, unless otherwise specified in the Indenture, shall be given by the Trustee to the Holders of the affected Series of 2000 Measure A 2008 Series Bonds not less than the 10th day next preceding the applicable Mode Change Date; provided that no notice need be given for a Mode Change Date occurring on the first Business Day following the last day of a Flexible Rate Period or a Term Rate Mode or on a Substitution Date. Such notice shall state the Mode to which the conversion will be made (hereinafter referred to as the "New Mode") and the proposed Mode Change Date and, if applicable, shall be combined with the notice of mandatory purchase required to be delivered by the Trustee pursuant to the provisions of the Indenture. If the Book-Entry System is no longer in effect, such notice shall also provide information with respect to required delivery of 2000 Measure A 2008 Series Bond certificates and procedures for payment of Purchase Price.

Determination of Interest Rates. The New Mode shall commence on the Mode Change Date and the interest rate(s) (together, in the case of a change to the Flexible Mode, with the Interest Period(s)) shall be determined by the applicable Remarketing Agent (or the Authority in the case of the Interest Period for 2000 Measure A 2008 Series Bonds being converted to the Term Rate Mode) in the manner provided in the Indenture.

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

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

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

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

Failure to Satisfy Conditions Precedent to a Mode Change. In the event the conditions described above have not been satisfied by the applicable Mode Change Date, then the New Mode shall not take effect (although any mandatory purchase shall be made on such date if notice has been sent to the Holders stating that such 2000 Measure A 2008 Series Bonds would be subject to mandatory purchase on

such date). If the failed change in Mode was from the Daily Mode, the affected 2000 Measure A 2008 Series Bonds shall remain in the Daily Mode, and if the failed change in Mode was from the Weekly Mode, the affected 2000 Measure A 2008 Series Bonds shall remain in the Weekly Mode, in each case with interest rates established in accordance with the applicable provisions of the Indenture on and as of the failed Mode Change Date.

Rescission of Election. Notwithstanding anything in the Indenture to the contrary, the Authority may rescind any election made by the Authority to change a Mode as described above prior to the Mode Change Date by giving written notice thereof to the Notice Parties prior to such Mode Change Date. If the Trustee receives notice of such rescission prior to the time the Trustee has given notice to the holders of the Converted Portion, then such notice of change in Mode shall be of no force and effect. If the Trustee receives notice from the Authority of rescission of a Mode change after the Trustee has given notice thereof to the Holders of the affected 2000 Measure A 2008 Series Bonds, then if the proposed Mode Change Date would have been a Mandatory Purchase Date, such date shall continue to be a Mandatory Purchase Date. If the proposed change in Mode was from the Daily Mode, the affected 2000 Measure A 2008 Series Bonds shall remain in the Daily Mode, and if the proposed change in Mode was from the Weekly Mode, the affected 2000 Measure A 2008 Series Bonds shall remain in the Weekly Mode, in each case with interest rates established in accordance with the applicable provisions of the Indenture on and as of the proposed Mode Change Date. If the applicable Remarketing Agent is unable to determine the interest rate on the proposed Mode Change Date, the provisions of the Indenture describing the determination of interest rates in the event of the failure of the applicable Remarketing Agent to set the interest rate shall apply. See "Determination of Interest Rate on 2000 Measure A 2008 Series Bonds" above.

Optional Tender and Mandatory Purchase Provisions

Book-Entry Tenders. All tenders for purchase during any period in which the 2000 Measure A 2008 Series Bonds are registered in the name of Cede & Co. (or the nominee of any successor Securities Depository) shall be subject to the terms and conditions set forth in the Representations Letter delivered by the Authority to DTC and to any regulations promulgated by DTC (or any successor Securities Depository). Beneficial Holders will not have any rights to tender 2000 Measure A 2008 Series Bonds directly to the Trustee.

Optional Tender. Subject to the provisions of the Indenture relating to Book-Entry Tenders described above, Beneficial Holders of 2000 Measure A 2008 Series Bonds in a Daily Mode or a Weekly Mode may elect to have their 2000 Measure A 2008 Series Bonds (or portions of those 2000 Measure A 2008 Series Bonds in amounts equal to Authorized Denominations) purchased on any Business Day at a price equal to the Purchase Price, upon delivery of a Tender Notice to the Trustee by the Tender Notice Deadline. Immediately upon receipt of a Tender Notice, the Trustee shall notify the applicable Remarketing Agent and provide the applicable Remarketing Agent with a copy of such Tender Notice.

Upon immediate termination without notice of a Liquidity Facility provided in connection with any Series of 2000 Measure A 2008 Series Bonds due to the reduction in the long-term rating assigned to such Series of 2000 Measure A 2008 Series Bonds below "Baa3" by Moody's and "BBB-" by Standard & Poor's or the withdrawal or suspension of such long-term ratings for credit-related reasons relating to the credit of the Authority, notwithstanding any other provision of the Indenture to the contrary, no 2000 Measure A 2008 Series Bond of the affected Series shall be purchased as described above until such time as a Liquidity Facility meeting the requirements of the Indenture is provided by the Authority with respect to such Series of 2000 Measure A 2008 Series Bonds.

Mandatory Purchase on Mandatory Purchase Date. Subject to the provisions of the Indenture relating to Book-Entry Tenders described above, the 2000 Measure A 2008 Series Bonds shall be subject to mandatory purchase on each Mandatory Purchase Date. The Trustee shall give notice of such mandatory purchase by mail to the Holders of the 2000 Measure A 2008 Series Bonds subject to mandatory purchase no less than 15 days prior to the applicable Mandatory Purchase Date.

Any notice shall state the Mandatory Purchase Date, the Purchase Price, and shall identify which Series of the 2000 Measure A 2008 Series Bonds are to be purchased. Such notice shall also state that interest on 2000 Measure A 2008 Series Bonds subject to mandatory purchase shall cease to accrue from and after the Mandatory Purchase Date. The failure to mail such notice with respect to any 2000 Measure A 2008 Series Bond shall not affect the validity of the mandatory purchase of any other 2000 Measure A 2008 Series Bond with respect to which notice was so mailed. Any notice mailed will be conclusively presumed to have been given, whether or not actually received by any Holder.

Automatic Termination of Initial Liquidity Facilities Prior to Expiration Date

The obligation of the Liquidity Facility Providers to provide funds for the purchase of tendered Bonds pursuant to the respective Initial Liquidity Facilities will terminate or be suspended automatically and without prior notice upon the occurrence of certain defaults as is set forth in the respective Initial Liquidity Facilities. See "THE LIQUIDITY FACILITY PROVIDERS AND THE INITIAL LIQUIDITY FACILITIES" herein. The Trustee will provide notice to the Holders of the affected Series of 2000 Measure A 2008 Series Bonds as soon as practicable after receipt of notice of such termination or suspension from the Liquidity Facility Providers.

Source of Funds for Purchase of 2000 Measure A 2008 Series Bonds

The Trustee shall purchase tendered 2000 Measure A 2008 Series Bonds from the tendering Holders at the applicable Purchase Price by wire transfer in immediately available funds. Funds for the payment of such Purchase Price shall be derived solely from the following sources in the order of priority indicated and neither the Trustee nor the applicable Remarketing Agent shall be obligated to provide funds from any other source:

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

Insufficient Funds for Tenders

If sufficient funds are not available to pay the Purchase Price of all tendered 2000 Measure A 2008 Series Bonds to be purchased on any Purchase Date (such 2000 Measure A 2008 Series Bonds being hereinafter referred to as the "Tendered Variable Rate Bonds"): (i) no purchase shall be consummated on such Purchase Date; (ii) all such Tendered Variable Rate Bonds shall be returned to the Holders thereof; (iii) all remarketing proceeds shall be returned to the applicable Remarketing Agent for return to the Persons providing such moneys; and (iv) such insufficiency shall not constitute an Event of Default under the Indenture.

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

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

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

During the Delayed Remarketing Period, the Trustee may, upon direction of the Authority, apply amounts on deposit in the Redemption Fund to the redemption of such Tendered Variable Rate Bonds, as a whole or in part on any Business Day during the Delayed Remarketing Period, at a redemption price equal to the principal amount thereof, together with interest accrued thereon to the date fixed for redemption, without premium. Notwithstanding any provisions of the Indenture to the contrary, the Trustee shall give five Business Days' notice of such redemption to the Holders of the 2000 Measure A 2008 Series Bonds to be redeemed.

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

Redemption

Optional Redemption of 2000 Measure A 2008 Series Bonds in the Daily Mode or the Weekly Mode. While in the Daily Mode or the Weekly Mode, 2000 Measure A 2008 Series Bonds are subject to optional redemption by the Authority, in whole or in part, in Authorized Denominations on any Business Day, at a redemption price equal to the principal amount thereof, plus, accrued interest, if any, to the date fixed for redemption of such 2000 Measure A 2008 Series Bonds.

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The 2000 Measure A 2008 Series A Bonds shall be redeemed by mandatory sinking fund redemption, without premium, on April 1 in each of the years and in the principal amounts set forth below:

| <u>Year</u> | <u>Principal Amount</u> |
|-------------|-------------------------|
| 2009 | \$ 855,000 |
| 2033 | 13,925,000 |
| 2034 | 14,450,000 |
| 2035 | 15,025,000 |
| 2036* | 15,550,000 |

* Maturity.

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The 2000 Measure A 2008 Series B Bonds shall be redeemed by mandatory sinking fund redemption, without premium, on April 1 in each of the years and in the principal amounts set forth below:

| <u>Year</u> | <u>Principal Amount</u> |
|-------------|-------------------------|
| 2033 | \$13,925,000 |
| 2034 | 14,475,000 |
| 2035 | 15,000,000 |
| 2036* | 15,575,000 |

* Maturity.

The 2000 Measure A 2008 Series C Bonds shall be redeemed by mandatory sinking fund redemption, without premium, on April 1 in each of the years and in the principal amounts set forth below:

| <u>Year</u> | <u>Principal Amount</u> |
|-------------|-------------------------|
| 2033 | \$13,950,000 |
| 2034 | 14,450,000 |
| 2035 | 15,000,000 |
| 2036* | 15,575,000 |

* Maturity.

The 2000 Measure A 2008 Series D Bonds shall be redeemed by mandatory sinking fund redemption, without premium, on April 1 in each of the years and in the principal amounts set forth below:

| <u>Year</u> | <u>Principal Amount</u> |
|-------------|-------------------------|
| 2033 | \$13,950,000 |
| 2034 | 14,450,000 |
| 2035 | 15,000,000 |
| 2036* | 15,575,000 |

* Maturity.

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

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

With respect to any notice of optional redemption of 2000 Measure A 2008 Series Bonds, unless, upon the giving of such notice, such 2000 Measure A 2008 Series Bonds shall be deemed to have been paid in accordance with the provisions of the Indenture, such notice shall state that such redemption shall be conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of amounts sufficient to pay the principal of, and premium, if any, and interest on, such 2000 Measure A 2008 Series Bonds to be redeemed, and that if such amounts shall not have been so received said notice shall be of no force and effect and the Authority shall not be required to redeem such 2000 Measure A 2008 Series Bonds. In the event that such notice of redemption contains such a condition and such amounts are not so received, the redemption shall not be made and the Trustee shall within a reasonable time thereafter give notice to the Holders to the effect that such amounts were not so received and such redemption was not made, such notice to be given by the Trustee in the manner in which the notice of redemption was given.

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

Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, the 2000 Measure A 2008 Series Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the 2000 Measure A 2008 Series Bonds (or portions thereof) so called for redemption shall become due and payable at the Redemption Price specified in such notice together with interest accrued thereon to the date fixed for redemption, interest on the 2000 Measure A 2008 Series Bonds so called for redemption shall cease to accrue, said 2000 Measure A 2008 Series Bonds (or portions thereof) shall cease to be entitled to any benefit or security under the Indenture, and the Holders of said 2000 Measure A 2008 Series Bonds shall have no rights in respect thereof except to receive payment of said Redemption Price and accrued interest to the redemption date.

All 2000 Measure A 2008 Series Bonds redeemed pursuant provisions of the Indenture shall be cancelled upon surrender thereof.

Mandatory Purchase in Lieu of Redemption. Each Holder, by purchase and acceptance of any 2000 Measure A 2008 Series Bond irrevocably grants to the Authority the option to purchase such 2000 Measure A 2008 Series Bond, on any date such 2000 Measure A 2008 Series Bond is subject to optional redemption provided in the Indenture at a purchase price equal to the Redemption Price then applicable to such 2000 Measure A 2008 Series Bond plus accrued interest thereon to the date of purchase. In order to exercise such option, the Authority shall deliver to the Trustee a Favorable Opinion of Bond Counsel and shall direct the Trustee to provide notice of mandatory purchase in lieu of redemption, such notice to be provided, as and to the extent applicable, in accordance with the provisions of the Indenture relating to the mandatory purchase of 2000 Measure A 2008 Series Bonds on Mandatory Purchase Dates. On the date fixed for purchase of any 2000 Measure A 2008 Series Bond pursuant to the provisions of the Indenture described herein, the Authority shall pay the purchase price of such 2000 Measure A 2008 Series Bond to the Trustee in immediately available funds and the Trustee shall pay the same to the Holders of 2000 Measure A 2008 Series Bonds being purchased against delivery thereof. Following such purchase, the Trustee shall register such 2000 Measure A 2008 Series Bonds in accordance with the written instructions of the Authority. No Holder may elect to retain a 2000 Measure A 2008 Series Bond subject to mandatory purchase pursuant to the provisions of the Indenture described herein.

In the event that the Authority lacks sufficient funds to pay the purchase price of any 2000 Measure A 2008 Series Bond subject to mandatory purchase in lieu of redemption on the date fixed for

such purchase, the Authority shall cancel such mandatory purchase in lieu of redemption and shall return each such 2000 Measure A 2008 Series Bond to the Holder who shall have tendered such 2000 Measure A 2008 Series Bond for mandatory purchase in lieu of redemption. The Trustee shall give notice that such mandatory purchase was not effected promptly following the date fixed for such purchase. Any failure to pay the purchase price of any 2000 Measure A 2008 Series Bond subject to mandatory purchase in lieu of redemption shall not constitute an Event of Default under the Indenture.

Special Considerations Relating to the 2000 Measure A 2008 Series Bonds

The Remarketing Agents are Paid by the Authority. The responsibilities of each Remarketing Agent include determining the interest rate from time to time and remarketing 2000 Measure A 2008 Series Bonds of the applicable Series that are tendered by the owners thereof for optional or mandatory purchase (subject, in each case, to the terms of the Remarketing Agreement entered into by such Remarketing Agent), all as further described in this Official Statement. Each Remarketing Agent is appointed by the Authority and is paid by the Authority for its services. As a result, the interests of the Remarketing Agents may differ from those of existing Holders and potential purchasers of 2000 Measure A 2008 Series Bonds.

The Remarketing Agents Routinely Purchase 2000 Measure A 2008 Series Bonds for their Own Accounts. Each Remarketing Agent acts as a remarketing agent for a variety of variable rate demand obligations in addition to the Series of 2000 Measure A 2008 Series Bonds it serves as Remarketing Agent for and, in its sole discretion, routinely purchases such obligations for its own account. Each Remarketing Agent is permitted, but not obligated, to purchase tendered 2000 Measure A 2008 Series Bonds for its own account and, in its sole discretion, routinely acquires such tendered 2000 Measure A 2008 Series Bonds in order to achieve a successful remarketing of the 2000 Measure A 2008 Series Bonds (i.e., because there otherwise are not enough buyers to purchase the 2000 Measure A 2008 Series Bonds) or for other reasons. However, no Remarketing Agent is obligated to purchase 2000 Measure A 2008 Series Bonds, and may cease doing so at any time without notice. If a Remarketing Agent ceases to purchase 2000 Measure A 2008 Series Bonds, it may be necessary for the Trustee to draw on the applicable Liquidity Facility. Each Remarketing Agent may also make a market in the 2000 Measure A 2008 Series Bonds by routinely purchasing and selling 2000 Measure A 2008 Series Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales must be at fair market value, which may be at or below par. However, no Remarketing Agent is required to make a market in any Series of 2000 Measure A 2008 Series Bonds. Each Remarketing Agent may also sell any 2000 Measure A 2008 Series Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the 2000 Measure A 2008 Series Bonds. The purchase of 2000 Measure A 2008 Series Bonds by the Remarketing Agents may create the appearance that there is greater third party demand for the 2000 Measure A 2008 Series Bonds in the market than is actually the case. The practices described above also may result in fewer 2000 Measure A 2008 Series Bonds being tendered in a remarketing.

2000 Measure A 2008 Series Bonds May be Offered at Different Prices on Any Date Including a Rate Determination Date. Pursuant to each Remarketing Agreement, each Remarketing Agent is required to determine the minimum rate of interest which, in its opinion, under then-existing market conditions, would result in the sale of the applicable Series of 2000 Measure A 2008 Series Bonds at a price equal to 100% of the principal amount thereof on the applicable Rate Determination Date. At the time a new interest rate becomes effective, the applicable Remarketing Agent is required to use its best efforts to remarket the applicable Series of 2000 Measure A 2008 Series Bonds at par. Each interest rate will reflect, among other factors, the level of market demand for the applicable Series of 2000 Measure A

2008 Series Bonds (including whether the applicable Remarketing Agent is willing to purchase 2000 Measure A 2008 Series Bonds for its own account). There may or may not be 2000 Measure A 2008 Series Bonds tendered and remarketed on a Rate Determination Date, the applicable Remarketing Agent may or may not be able to remarket any 2000 Measure A 2008 Series Bonds tendered for purchase on such date at par and each Remarketing Agent may sell 2000 Measure A 2008 Series Bonds at varying prices to different investors on such date or any other date. No Remarketing Agent is obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the 2000 Measure A 2008 Series Bonds at the remarketing price. In the event a Remarketing Agent owns any 2000 Measure A 2008 Series Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such 2000 Measure A 2008 Series Bonds on any date, including the Rate Determination Date, at a discount to par to some investors.

The Ability to Sell 2000 Measure A 2008 Series Bonds other than through Tender Process May Be Limited. Each Remarketing Agent may buy and sell 2000 Measure A 2008 Series Bonds other than through the tender process. However, no Remarketing Agent is obligated to do so and may cease doing so at any time without notice and may require holders that wish to tender their 2000 Measure A 2008 Series Bonds to do so through the Trustee with appropriate notice. Thus, investors who purchase the 2000 Measure A 2008 Series Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their 2000 Measure A 2008 Series Bonds other than by tendering the 2000 Measure A 2008 Series Bonds in accordance with the tender process.

Under Certain Circumstances, a Remarketing Agent May Be Removed, Resign or Cease Remarketing the 2000 Measure A 2008 Series Bonds, Without a Successor Being Named. Under certain circumstances, a Remarketing Agent may be removed, may resign or may cease its remarketing efforts, without a successor having been named, subject to the terms of the applicable Remarketing Agreement. In the event there is no Remarketing Agent for a Series of 2000 Measure A 2008 Series Bonds, the Trustee may assume certain duties as described in the Indenture.

Dealing in 2000 Measure A 2008 Series Bonds by the Authority. To the extent permitted by law, the Authority may in good faith buy, sell, own, hold and deal in any Bonds offered and sold by a Remarketing Agent pursuant to a Remarketing Agreement, and such Remarketing Agent may in good faith remarket and sell to the Authority any 2000 Measure A 2008 Series Bonds offered and sold by a Remarketing Agent pursuant to a Remarketing Agreement on the same basis as and without preference or priority over any other purchaser or prospective purchaser of 2000 Measure A 2008 Series Bonds.

PLAN OF FINANCE

General

Proceeds of the 2000 Measure A 2008 Series Bonds will be applied to (i) refund on a current basis all of the outstanding principal amount of the Prior Bonds and (ii) pay costs of issuance of the 2000 Measure A 2008 Series Bonds. Excluding the mandatory sinking account payment due April 1, 2009, the 2000 Measure A 2008 Series Bonds will be hedged by the Swap Agreements, as described further below under "Swap Agreements."

Plan of Refunding

A portion of the proceeds and the amounts on deposit in the Interest Fund being held to pay interest on the Prior Bonds will be deposited in the escrow fund (the "Escrow Fund"), to be held by Deutsche Bank National Trust Company, trustee and escrow agent for the Prior Bonds, and used to purchase direct obligations of the United States of America (the "Escrow Securities") for irrevocable

deposit in the escrow fund. The amount deposited to the Escrow Fund will be sufficient to pay the principal of and interest on the Prior Bonds on their redemption dates. See "VERIFICATION" herein. The 2006 Series A Bonds will be redeemed on July 1, 2008, the 2006 Series B Bonds will be redeemed on July 2, 2008, the 2006 Series C Bonds will be redeemed on June 27, 2008 and the 2006 Series D Bonds will be redeemed on June 30, 2008, at a redemption price of 100% of the principal amount thereof plus accrued and unpaid interest to the date of redemption. The deposit of Escrow Securities into the Escrow Fund will constitute an irrevocable deposit for the benefit of the holders of the Prior Bonds. No amounts held in the Escrow Fund will be available to make payments on the 2000 Measure A 2008 Series Bonds. Upon such irrevocable deposit of the Escrow Securities in the Escrow Fund, the Prior Bonds will be deemed paid and no longer outstanding.

Swap Agreements

In conjunction with the issuance of the Prior Bonds, the Authority entered into separate swap agreements (each, a "Swap Agreement," and hereinafter collectively referred to as the "Swap Agreements") with Bank of America, N.A., Citibank, N.A., Goldman Sachs Mitsui Marine Derivative Products, L.P., and Morgan Stanley Capital Services, Inc. (each, a "Counterparty," and hereinafter collectively referred to as the "Counterparties"), respectively. Each Swap Agreement took effect on the date of issuance of the Prior Bonds and is scheduled to terminate on April 1, 2036. Under the terms of each of the Swap Agreements, the Authority agreed to pay to each of the Counterparties a fixed rate of interest and each of the Counterparties agreed to pay to the Authority a floating rate of interest, based on amortizing notional amounts and tied to a formula based on (i) the USA-BMA Municipal Swap Index from the effective date of the Swap Agreements to but not including October 1, 2007, and (ii) 65% of three month USD LIBOR thereafter. Each of the Swap Agreements will continue in full force and effect after the refunding of the Prior Bonds and will be applied by the Authority to manage interest rate exposure with respect to the 2000 Measure A 2008 Series Bonds. The Swap Agreements will not hedge \$855,000 principal amount of 2000 Measure A 2008 Series A Bonds maturing on April 1, 2009, and being used to the pay costs of issuance of the 2008 Series Bonds. The remaining \$58,950,000 principal amount of 2000 Measure A 2008 Series A Bonds will be hedged. See "OUTSTANDING 2000 MEASURE A SALES TAX OBLIGATIONS - Swap Agreements" herein.

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ESTIMATED SOURCES AND USES OF FUNDS

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

Sources of Funds:

| | |
|---|-------------------------|
| Par Amount of 2000 Measure A 2008 Series Bonds | \$236,730,000.00 |
| Interest Fund ⁽¹⁾ | <u>99,182.95</u> |
| Total Sources: | \$236,829,182.95 |

Uses of Funds:

| | |
|---------------------------------------|-------------------------|
| Deposit to Escrow Fund ⁽²⁾ | \$235,974,182.95 |
| Costs of Issuance ⁽³⁾ | <u>855,000.00</u> |
| Total Uses: | \$236,829,182.95 |

⁽¹⁾ Amounts on deposit in the Interest Fund being held to pay interest on the Prior Bonds will be transferred to the Escrow Fund and applied to the payment of interest on the Prior Bonds. Interest amount calculated based on actual rate of interest for the 2006 Series A Bonds, the 2006 Series C Bonds and the 2006 Series D Bonds. Interest amount calculated at an assumed interest rate of 2% for the 2006 Series B Bonds.

⁽²⁾ Includes proceeds of 2000 Measure A 2008 Series Bonds and amounts transferred from the Interest Fund.

⁽³⁾ Includes underwriters' discount, rating agency fees, trustee fees, printing costs, liquidity facility provider fees and expenses, bond counsel, liquidity facility provider counsel and financial advisor fees and expenses and other miscellaneous expenses.

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DEBT SERVICE SCHEDULE

The following table shows the annual debt service requirements on the 2000 Measure A 2007 Series Bonds and the 2000 Measure A 2008 Series Bonds.

| Fiscal Year Ending June 30 | 2000 Measure A 2008 Series Bonds Principal ⁽¹⁾ | 2000 Measure A 2008 Series Bonds Interest ⁽¹⁾⁽²⁾⁽³⁾ | 2000 Measure A 2007 Series Bonds Principal ⁽¹⁾ | 2000 Measure A 2007 Series Bonds Interest ⁽²⁾ | Combined Debt Service ⁽²⁾ |
|-------------------------------------|---|--|---|--|---|
| 2009 | \$855,000.00 | \$8,905,373.36 | - | \$5,900,700.00 | \$15,661,073.36 |
| 2010 | - | 8,880,693.78 | - | 5,900,700.00 | 14,781,393.78 |
| 2011 | - | 8,880,693.78 | \$2,430,000.00 | 5,900,700.00 | 17,211,393.78 |
| 2012 | - | 8,880,693.78 | 2,525,000.00 | 5,803,500.00 | 17,209,193.78 |
| 2013 | - | 8,880,693.78 | 2,625,000.00 | 5,702,500.00 | 17,208,193.78 |
| 2014 | - | 8,880,693.78 | 2,760,000.00 | 5,571,250.00 | 17,211,943.78 |
| 2015 | - | 8,880,693.78 | 2,895,000.00 | 5,433,250.00 | 17,208,943.78 |
| 2016 | - | 8,880,693.78 | 3,040,000.00 | 5,288,500.00 | 17,209,193.78 |
| 2017 | - | 8,880,693.78 | 3,170,000.00 | 5,159,300.00 | 17,209,993.78 |
| 2018 | - | 8,880,693.78 | 3,295,000.00 | 5,032,500.00 | 17,208,193.78 |
| 2019 | - | 8,880,693.78 | 3,460,000.00 | 4,867,750.00 | 17,208,443.78 |
| 2020 | - | 8,880,693.78 | 3,635,000.00 | 4,694,750.00 | 17,210,443.78 |
| 2021 | - | 8,880,693.78 | 3,815,000.00 | 4,513,000.00 | 17,208,693.78 |
| 2022 | - | 8,880,693.78 | 4,005,000.00 | 4,322,250.00 | 17,207,943.78 |
| 2023 | - | 8,880,693.78 | 4,205,000.00 | 4,122,000.00 | 17,207,693.78 |
| 2024 | - | 8,880,693.78 | 4,415,000.00 | 3,911,750.00 | 17,207,443.78 |
| 2025 | - | 8,880,693.78 | 4,640,000.00 | 3,691,000.00 | 17,211,693.78 |
| 2026 | - | 8,880,693.78 | 4,870,000.00 | 3,459,000.00 | 17,209,693.78 |
| 2027 | - | 8,880,693.78 | 5,115,000.00 | 3,215,500.00 | 17,211,193.78 |
| 2028 | - | 8,880,693.78 | 5,370,000.00 | 2,959,750.00 | 17,210,443.78 |
| 2029 | - | 8,880,693.78 | 5,635,000.00 | 2,691,250.00 | 17,206,943.78 |
| 2030 | - | 8,880,693.78 | 5,920,000.00 | 2,409,500.00 | 17,210,193.78 |
| 2031 | - | 8,880,693.78 | 6,215,000.00 | 2,113,500.00 | 17,209,193.78 |
| 2032 | - | 8,880,693.78 | 6,525,000.00 | 1,802,750.00 | 17,208,443.78 |
| 2033 | 55,750,000.00 | 8,880,693.78 | 6,850,000.00 | 1,476,500.00 | 72,957,193.78 |
| 2034 | 57,825,000.00 | 6,781,706.28 | 7,195,000.00 | 1,134,000.00 | 72,935,706.28 |
| 2035 | 60,025,000.00 | 4,604,595.04 | 7,555,000.00 | 774,250.00 | 72,958,845.04 |
| 2036 | 62,275,000.00 | 2,344,653.78 | 7,930,000.00 | 396,500.00 | 72,946,153.78 |
| Total | \$236,730,000.00 | \$235,772,979.18 | \$120,095,000.00 | \$108,247,900.00 | \$700,845,879.18 |

⁽¹⁾ Includes mandatory sinking fund payments.

⁽²⁾ Totals may not add due to rounding.

⁽³⁾ Debt Service on the 2008 Series A Bonds, 2008 Series B Bonds, 2008 Series C Bonds and the 2008 Series D Bonds is calculated based on the rate established pursuant to the Swap Agreements, 3.765%. See "OUTSTANDING 2000 MEASURE A SALES TAX OBLIGATIONS - Swap Agreements."

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Limited Obligations

The Bonds are limited obligations of the Authority secured by a pledge of 2000 Measure A Sales Tax Revenues and certain amounts held by the Trustee in the funds and accounts established under the Indenture. The Authority shall not be required to advance any moneys derived from any source other than Revenues, which include all 2000 Measure A Sales Tax Revenues, and amounts held by the Trustee

in the funds and accounts established under the Indenture, excluding amounts in the Rebate Fund and any Purchase Fund for Bonds subject to purchase, and pledged under the Indenture, including interest earnings on such amounts, whether for the payment of the principal or Redemption Price of or interest on the Bonds or for any other purpose of the Indenture.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COUNTY OF SANTA CLARA, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION OR PUBLIC AGENCY THEREOF, OTHER THAN THE AUTHORITY, TO THE EXTENT OF THE 2000 MEASURE A SALES TAX REVENUES AND OTHER AMOUNTS PLEDGED UNDER THE INDENTURE, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON, THE BONDS.

Pledge of 2000 Measure A Sales Tax Revenues and Certain Amounts Held by Trustee

All 2000 Measure A Sales Tax Revenues are irrevocably pledged by the Authority to secure the punctual payment of the principal of, premium, if any, and interest on the Bonds and Parity Obligations, each in accordance with their terms, and the 2000 Measure A Sales Tax Revenues shall not be used for any other purpose while any of the Bonds or Parity Obligations remain Outstanding, except as permitted by the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, as described below. Pursuant to the Indenture, the pledge of 2000 Measure A Sales Tax Revenues constitutes a first lien to secure the Bonds and Parity Obligations. The pledge of 2000 Measure A Sales Tax Revenues is irrevocable until all Bonds issued under the Indenture, including the 2000 Measure A 2008 Series Bonds, and all Parity Obligations are no longer Outstanding.

The 2000 Measure A Sales Tax Revenues pledged to the payment of the Bonds and Parity Obligations shall be applied without priority or distinction of one over the other and the 2000 Measure A Sales Tax Revenues shall constitute a trust fund for the security and payment of the Bonds and Parity Obligations; but nevertheless out of 2000 Measure A Sales Tax Revenues certain amounts may be applied for other purposes as provided in the Indenture.

For a more detailed description of the 2000 Measure A Sales Tax and projected receipts of 2000 Measure A Sales Tax Revenues, see "THE 2000 MEASURE A SALES TAX" herein.

Additionally, there are pledged to secure the payment of the principal of, redemption premium, if any, and interest on the Bonds in accordance with their terms all amounts held by the Trustee under the Indenture (except for amounts held in the Rebate Fund and any Purchase Fund), subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein.

Revenue Fund; Allocation of 2000 Measure A Sales Tax Revenues

As long as any Bonds are Outstanding or any Parity Obligations remain unpaid, the Authority has assigned the 2000 Measure A Sales Tax Revenues to the Trustee and shall cause the Board of Equalization to transmit the same directly to the Trustee each month, less the Board of Equalization administrative fee which is deducted quarterly. The 2000 Measure A Sales Tax Revenues shall be received and held in trust by the Trustee for the benefit of the Holders of the Bonds and Parity Obligations. The Trustee shall forthwith deposit all 2000 Measure A Sales Tax Revenues in the Revenue Fund, maintained and held in trust by the Trustee, when and as such 2000 Measure A Sales Tax Revenues are received by the Trustee. See APPENDIX D- "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Allocation of 2000 Measure A Sales Tax Revenues." Investment income on amounts

held by the Trustee (other than amounts held in the Rebate Fund or any Purchase Fund or for which particular instructions are provided) shall also be deposited in the Revenue Fund.

So long as any Bonds remain Outstanding, following receipt and deposit of the 2000 Measure A Sales Tax Revenues in the Revenue Fund in each month, the Trustee is required to set aside such Measure A Sales Tax Revenues in the following respective funds, amounts and order of priority (provided that deficiencies in any previously required deposit may be made up prior to the deposit to a fund subsequent in priority and further provided that set asides or transfers required with respect to outstanding Parity Obligations shall be made on a parity basis each month, as provided in the Indenture):

1. **Interest Fund.** The Indenture requires the Trustee to make monthly deposits in the Interest Fund in an amount equal to (a) one-sixth of the aggregate half-yearly amount of interest becoming due and payable on Outstanding fixed interest rate bonds during the ensuing six-month period, plus (b) the aggregate amount of interest to accrue during that month on Outstanding variable rate bonds calculated, if the actual rate of interest is not known, at the interest rate specified by the Authority, or if the Authority has not specified an interest rate, at the maximum interest rate borne by such variable rate bonds during the month prior to the date of deposit plus one hundred (100) basis points; subject to such adjustments as are provided pursuant to the provisions of the Indenture. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Allocation of 2000 Measure A Sales Tax Revenues."

2. **Principal Fund; Sinking Accounts.** The Indenture also requires the Trustee to make monthly deposits in the Principal Fund in an amount equal to at least (a) one-sixth of the aggregate semiannual amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds of all Series having semiannual maturity dates within the next six (6) months, plus (b) one-twelfth of the aggregate yearly amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds of all Series having annual maturity dates within the next twelve (12) months, plus (c) one-sixth of the aggregate of the Mandatory Sinking Account Payments to be paid during the next six-month period into the respective Sinking Accounts for the Term Bonds of all Series for which Sinking Accounts have been created and for which semiannual mandatory redemption is required from said Sinking Accounts, plus (d) one-twelfth of the aggregate of the Mandatory Sinking Account Payments to be paid during the next 12-month period into the respective Sinking Accounts for the Term Bonds of all Series for which Sinking Accounts shall have been created and for which annual mandatory redemption is required from such Sinking Accounts; provided that if the Authority certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from amounts on deposit in a Bond Reserve Fund that would be in excess of the Bond Reserve Requirement applicable to such Bond Reserve Fund upon such payment, no amounts need be set aside towards such principal to be so refunded or paid.

No deposit need be made into the Principal Fund so long as there shall be in such fund (i) moneys sufficient to pay the Bond Obligations of all Serial Bonds then Outstanding and maturing by their terms within the next twelve (12) months plus (ii) the aggregate of all Mandatory Sinking Account Payments required to be made in such 12-month period, but less any amounts deposited into the Principal Fund during such 12-month period and theretofore paid from the Principal Fund to redeem or purchase Term Bonds during such 12-month period; provided that if the Authority certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from amounts on deposit in a Bond Reserve Fund that would be in excess of the Bond Reserve Requirement applicable to such Bond Reserve Fund upon such payment, no amounts need be on deposit with respect to such principal

payments. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Allocation of 2000 Measure A Sales Tax Revenues."

3. **Bond Reserve Funds.** The Indenture also requires the Trustee to make deposits to any of the Bond Reserve Funds established pursuant to the provisions of the Indenture. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Allocation of 2000 Measure A Sales Tax Revenues."

4. **Subordinate Obligations Fund.** In the event the Authority issues subordinate obligations, the Authority may direct the Trustee to establish a Subordinate Obligations Fund. The Trustee shall deposit in the Subordinate Obligations Fund in each month such amount as the Authority shall specify in writing is necessary to pay principal of and interest due and payable during the following month with respect to Subordinate Obligations then outstanding.

5. **Fees and Expenses Fund.** After the transfers described above have been made, the Trustee shall deposit as soon as practicable in each month in the Fees and Expenses Fund amounts necessary for payment of fees, expenses and similar charges owing in such month or the following month by the Authority in connection with the Bonds or any Parity Obligation (excluding termination payments on Interest Rate Swap Agreements).

See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Allocation of 2000 Measure A Sales Tax Revenues" for a more complete discussion.

After making the foregoing allocations, all remaining 2000 Measure A Sales Tax Revenues shall be transferred to the Authority and may be applied by the Authority for all lawful Authority purposes.

Establishment and Application of 2008 Series Bond Reserve Fund

No 2008 Series Bond Reserve Fund will be established upon the issuance of the 2008 Series Bonds. Under the Indenture, if, subsequent to the date of issuance of the 2008 Series Bonds, a Bond Reserve Funding Event occurs, the Authority shall instruct the Trustee to establish and maintain a fund designated as the "2008 Series Bond Reserve Fund" and shall make, or cause to be made, a deposit to the 2008 Series Bond Reserve Fund in an amount equal to the Bond Reserve Requirement within one (1) year of the applicable Bond Reserve Fund Calculation Date, such deposit to be made in accordance with the provisions set forth in the Indenture. If for a period of two consecutive fiscal years subsequent to funding the 2008 Series Bond Reserve Fund, the amount of 2000 Measure A Sales Tax Revenues during the Fiscal Year immediately preceding a Bond Reserve Fund Calculation Date equals at least 2.0 times Maximum Annual Debt Service, then the Trustee shall transfer the amount then on deposit to the Authority upon receipt of a Request of the Authority (the "Bond Reserve Fund Release Request"), a copy of which Bond Reserve Fund Release Request shall be accompanied by the calculations of the Authority demonstrating compliance with the requirements for release of the 2008 Series Bond Reserve Fund established in the Indenture.

All amounts in the 2008 Series Bond Reserve Fund (including all amounts which may be obtained from any Reserve Facility deposited therein) shall be used and withdrawn by the Trustee solely for the purpose of making up any deficiency in the Interest Fund or the Principal Fund related to the 2000 Measure A 2008 Series Bonds or (together with any other moneys available therefor) for the payment or redemption of all 2000 Measure A 2008 Series Bonds then Outstanding or, for the payment of the final principal and interest payment of the 2000 Measure A 2008 Series Bonds. No amounts on deposit in the 2008 Series Bond Reserve Fund (including any amounts which may be obtained from any Reserve

Facility deposited therein) may be applied for any other purpose nor shall any such amounts secure any other Bonds.

Bond Reserve Funding Event means that the amount of 2000 Measure A Sales Tax Revenues during the Fiscal Year immediately preceding a Bond Reserve Fund Calculation Date does not at least equal two (2) times Maximum Annual Debt Service.

Bond Reserve Fund Calculation Date means October 15 of each year, or if October 15 is not a Business Day, the first Business Day following October 15.

Bond Reserve Requirement means, with respect to the 2000 Measure A 2008 Series Bonds, as of any Bond Reserve Fund Calculation Date, an amount equal to fifty percent (50%) of Maximum Annual Debt Service on the 2008 Series Bonds.

Additional Bonds and Parity Obligations

Following the redemption of the Prior Bonds, the only obligations secured by 2000 Measure A Sales Tax Revenues at such time will be the 2000 Measure A 2007 Series Bonds, the 2000 Measure A 2008 Series Bonds and the regularly scheduled payments on the Swap Agreements. The Authority may issue additional Bonds and may issue or incur other obligations secured in whole or in part by a pledge of 2000 Measure A Sales Tax Revenues on a parity with the Bonds and the regularly scheduled payments on the Swap Agreements, subject to compliance with the terms and provisions set forth in the Indenture. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Issuance of Additional Bonds and Other Obligations."

Issuance of Additional Series of Bonds. Subsequent to the issuance of the 2000 Measure A 2008 Series Bonds, the Authority may by Supplemental Indenture establish one or more Series of Bonds payable from 2000 Measure A Sales Tax Revenues and secured by the pledge made under the Indenture equally and ratably with Bonds previously issued, but only upon compliance by the Authority with the provisions of the Indenture. Certain of the applicable provisions of the Indenture are described below:

(a) No Event of Default shall have occurred and then be continuing.

(b) If a Bond Reserve Fund is required in connection with the issuance of an additional Series of Bonds, the Supplemental Indenture providing for the issuance of such Series of additional Bonds may require either (i) the establishment of a Bond Reserve Fund for such Series of Bonds or (ii) that the balance in an existing Bond Reserve Fund, forthwith upon the receipt of the proceeds of the sale of Bonds of such Series, be increased to an amount at least equal to the Bond Reserve Requirement with respect to such Series of Bonds and all other Bonds secured by such Bond Reserve Fund to be considered Outstanding upon the issuance of such additional Series of Bonds. Said deposit may be made from the proceeds of the sale of Bonds of such Series or from other funds of the Authority or from both such sources or in the form of a letter of credit or surety bond or insurance policy as described under APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Establishment and Application of Funds and Accounts - Funding and Application of Bond Reserve Funds."

(c) The Authority shall have placed on file with the Trustee a certificate of the Authority, certifying that the lesser of (i) the amounts of 2000 Measure A Sales Tax Revenues for a period of twelve (12) consecutive months (selected by the Authority) during the eighteen (18) months immediately preceding the date on which such Bonds will become Outstanding, or (ii) the

estimated 2000 Measure A Sales Tax Revenues for the Fiscal Year in which the Bonds are to be issued, shall have, or will, as applicable, equal at least 1.3 times Maximum Annual Debt Service on all Series of Bonds and Parity Obligations then Outstanding and the additional Series of Bonds then proposed to be issued.

Nothing in the Indenture shall prevent or be construed to prevent the Supplemental Indenture providing for the issuance of an additional Series of Bonds from pledging or otherwise providing, in addition to the security given or intended to be given by the Indenture, additional security for the benefit of such additional Series of Bonds or any portion thereof.

Issuance of Refunding Bonds. Refunding Bonds may be authorized and issued by the Authority without compliance with the provisions of the Indenture summarized above under the caption "Issuance of Additional Series of Bonds;" provided that Maximum Annual Debt Service on all Bonds and Parity Obligations Outstanding following the issuance of such Refunding Bonds is less than or equal to Maximum Annual Debt Service on all Bonds and Parity Obligations Outstanding prior to the issuance of such Refunding Bonds. The 2000 Measure A 2008 Series Bonds are Refunding Bonds.

Parity Obligations. As defined in the Indenture, "Parity Obligations" means any indebtedness, installment sale obligation, lease obligation or other obligation of the Authority for borrowed money or any Interest Rate Swap Agreement (excluding fees and expenses and termination payments on Interest Rate Swap Agreements which fees and expenses and termination payments shall be secured by a lien and charge on the 2000 Measure A Sales Tax Revenues subordinate to the lien and charge upon the 2000 Measure A Sales Tax Revenues which secures the Bonds, Parity Obligations and payment of principal and interest on Subordinate Obligations) entered into in connection with a Series of Bonds, in each case incurred in accordance with the provisions of the Indenture described herein and having an equal lien and charge upon the 2000 Measure A Sales Tax Revenues and therefore payable on a parity with the Bonds (whether or not any Bonds are Outstanding). See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Additional Bonds and Parity Obligations - Outstanding 2000 Measure A Sales Tax Obligations" herein. The Authority may issue or incur additional Parity Obligations which will have, when issued, an equal lien and charge upon the 2000 Measure A Sales Tax Revenues, provided that the conditions to the issuance of such Parity Obligations set forth in the Indenture are satisfied, including satisfaction of the coverage test described in subsection (c) above under the caption "Issuance of Additional Series of Bonds," unless such Parity Obligations are being issued for refunding purposes, in which case the coverage test shall not apply.

Subordinate Obligations

The Authority may also issue obligations which are payable as to principal, premium, interest and reserve fund requirements, if any, only out of 2000 Measure A Sales Tax Revenues after the prior payment of all amounts then required to be paid from 2000 Measure A Sales Tax Revenues for principal, premium, interest and reserve fund requirements for the Bonds and all Parity Obligations, as the same become due and payable. Currently, there are no Subordinate Obligations outstanding.

OUTSTANDING 2000 MEASURE A SALES TAX OBLIGATIONS

Bonds. As of the date of issuance of the 2000 Measure A 2008 Series Bonds, the aggregate principal amount of 2000 Measure A Bonds Outstanding will equal \$356,825,000, comprised of \$120,095,000 aggregate principal amount of 2000 Measure A 2007 Series A Bonds and \$236,730,000 aggregate principal amount of 2000 Measure A 2008 Bonds.

Swap Agreements. As indicated above under the caption "Plan of Finance - Swap Agreements," the Authority entered into the Swap Agreements in conjunction with the issuance of the Prior Bonds. Each of the Swap Agreements will continue in full force and effect after the refunding of the Prior Bonds and will be applied by the Authority to manage interest rate exposure with respect to the 2000 Measure A 2008 Series Bonds. Pursuant to the terms of the Swap Agreements, the Authority agreed to pay to the counterparties a fixed rate of interest and the counterparties agreed to pay the Authority a floating rate of interest. The Authority's obligation to make regularly scheduled payments of interest to the counterparties under the Swap Agreements is payable from and secured by 2000 Measure A Sales Tax Revenues on a parity basis with the Bonds. The fixed interest rate paid by the Authority pursuant to each of the Swap Agreements has been used in computing debt service on the 2008 Measure A 2008 Series Bonds subject to the Swap Agreements. See the table entitled "Santa Clara Valley Transportation Authority Combined Annual Debt Service Schedule," set forth herein under the caption "DEBT SERVICE SCHEDULE." See also APPENDIX D - "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Definitions - Debt Service."

The terms of the Swap Agreements will not alter or affect any of the obligations of the Authority with respect to the payment of principal of or interest on the 2000 Measure A 2008 Series Bonds. Neither the Holders nor the Beneficial Owners of the 2000 Measure A 2008 Series Bonds will have any rights under the Swap Agreements or against the Counterparties. Payments due to the Authority from the Counterparties are not pledged to the payment of principal of or interest on the 2000 Measure A 2008 Series Bonds.

Under certain circumstances, the Swap Agreements may be terminated, at which time the Authority may be required to make a termination payment to the applicable Counterparty. Termination payments payable pursuant to the Swap Agreements are secured by a lien on 2000 Measure A Sales Tax Revenues subordinate to the lien which secures the Bonds, Parity Obligations and Subordinate Obligations. It cannot be predicted at this time what the value of such termination payments owed by the Authority would be if any of the Swap Agreements were to be terminated; however, such termination payments could be substantial. To the extent that the Authority did not have sufficient funds on hand to make any such payment, it is likely that the Authority would seek to borrow such amounts through the issuance of additional Bonds or otherwise. For a further discussion regarding the Authority's existing swaps (including swaps that have liens on the Authority's 1976 Sales Tax) and potential risks in connection therewith, see APPENDIX B – "AUTHORITY AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2007, Note 7(d) and 7(e)."

THE LIQUIDITY FACILITY PROVIDERS AND THE INITIAL LIQUIDITY FACILITIES

The Liquidity Facility Providers

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

JPMorgan Chase Bank, National Association. JPMorgan Chase Bank, National Association ("JPMorgan Chase") is a wholly owned bank subsidiary of JPMorgan Chase & Co., a Delaware corporation whose principal office is located in New York, New York. JPMorgan Chase offers a wide

range of banking services to its customers, both domestically and internationally. It is chartered and its business is subject to examination and regulation by the Office of the Comptroller of the Currency.

As of March 31, 2008, JPMorgan Chase Bank, National Association, had total assets of \$1,407.6 billion, total net loans of \$477.5 billion, total deposits of \$806.3 billion, and total stockholder's equity of \$108.9 billion. These figures are extracted from JPMorgan Chase's unaudited Consolidated Reports of Condition and Income (the "Call Report") as at March 31, 2008, prepared in accordance with regulatory instructions that do not in all cases follow U.S. generally accepted accounting principles, which are filed with the Federal Deposit Insurance Corporation. The Call Report, including any update to the above quarterly figures, can be found at www.fdic.gov.

Additional information, including the most recent annual report on Form 10-K for the year ended December 31, 2007, of JPMorgan Chase & Co., the 2007 Annual Report of JPMorgan Chase & Co., and additional annual, quarterly and current reports filed with or furnished to the Securities and Exchange Commission (the "SEC") by JPMorgan Chase & Co., as they become available, may be obtained without charge by each person to whom this Official Statement is delivered upon the written request of any such person to the Office of the Secretary, JPMorgan Chase & Co., 270 Park Avenue, New York, New York 10017 or at the SEC's website at www.sec.gov.

The information contained under this heading "THE LIQUIDITY FACILITY PROVIDERS AND THE INITIAL LIQUIDITY FACILITIES – The Liquidity Facility Providers – JPMorgan Chase Bank, National Association" relates to and has been obtained from JPMorgan Chase. The delivery of the Official Statement shall not create any implication that there has been no change in the affairs of JPMorgan Chase since the date hereof, or that the information contained or referred to under this heading is correct as of any time subsequent to its date.

Banco Bilbao Vizcaya Argentaria, S.A. Banco Bilbao Vizcaya Argentaria, S.A. ("BBVA") is a multinational financial services group. Its 7,984 branches and 112,460 employees provide banking and financial services solutions to a global customer base of 35 million customers in 32 countries. The financial services include corporate and consumer lending, credit card services, ATMs, telephone and Internet banking. Internationally, BBVA provides investment banking and brokerage services, venture capital, private banking and investment management.

As of the period ended March 31, 2008, BBVA's total assets were 483,391 million Euros and net attributed profit was 1,442 million Euros (excluding non-recurrent items).

The BBVA and its subsidiaries four business areas are:

Spain and Portugal: this includes Corporate Banking and Financial Services for individual customers, small companies and businesses in the domestic market, plus consumer finance provided by Finanzia and Uno-e, mutual and pension fund managers, the insurance business and BBVA Portugal.

Global Businesses: this area consists of SMEs, large companies and global institutions. Global Businesses covers the global customer unit, investment banking, treasury management, private banking and distribution. The area also services, business and real estate projects.

Mexico and the United States: this area includes the banking, insurance and pension businesses in Mexico and the United States (including Puerto Rico).

South America: this consists of banking, insurance and pension businesses in Argentina, Chile, Colombia, Panama, Paraguay, Peru, Uruguay and Venezuela.

For further information log on to www.bbva.com

The Initial Liquidity Facilities

General. JPMorgan Chase will provide a liquidity facility (the "JPMorgan Chase Initial Liquidity Facility") for the 2008 Series A Bonds and the 2008 Series B Bonds on the date the 2008 Series Bonds are issued. Banco Bilbao Vizcaya Argentaria S.A. ("BBVA") will provide a liquidity facility (the "BBVA Initial Liquidity Facility") for the 2008 Series C Bonds and the 2008 Series D Bonds on the date the 2008 Series Bonds are issued. JPMorgan Chase and BBVA are sometimes referred to herein as the applicable Bank with respect to the related 2008 Series Bonds to which each is providing a Liquidity Facility. The JPMorgan Chase Initial Liquidity Facility and the BBVA Initial Liquidity Facility are sometimes referred to herein as the applicable Liquidity Facility. Each Liquidity Facility contains various provisions, covenants and conditions, certain of which are summarized below. Certain words or terms used in the following summary are defined herein below and other words or terms not defined herein below are defined elsewhere in this Official Statement, in the applicable Liquidity Facility or the Indenture and reference thereto is made for such definitions. Each Liquidity Facility contains substantially identical terms. The following summary of the Initial Liquidity Facilities does not purport to be comprehensive or definitive and is subject to all of the terms and provisions of each Liquidity Facility to which reference is made hereby. Investors are urged to obtain and review a copy of each Liquidity Facility in order to understand all of the terms of those documents.

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

Each Liquidity Facility requires the applicable Bank to provide funds for the purchase of the related 2008 Series Bonds that have been tendered and not remarketed subject to certain conditions described below. Neither Liquidity Facility guarantees the payment of principal of or interest nor redemption premium, if any, on the related 2008 Series Bonds in the event of non-payment of such interest, principal or redemption premium, if any, by the Authority.

The obligation of the applicable Bank pursuant to the applicable Liquidity Facility to provide funds for the purchase of the related 2008 Series Bonds that have been tendered and not remarketed shall end on the earliest of (i) June 24, 2009, as such date may be extended from time to time in accordance with the applicable Liquidity Facility, (ii) the date on which no related 2008 Series Bonds are Outstanding, (iii) the close of business on the Business Day immediately following the Conversion Date, (iv) the close of business on the thirtieth (30th) day following the date on which the Authority and the Trustee receive a notice from the applicable Bank that the applicable Liquidity Facility is being terminated following certain events of default under such Liquidity Facility, or if such thirtieth (30th) day is not a Business Day, the next succeeding Business Day, (v) the date on which Available Commitment has been reduced to zero or terminated in its entirety at the option of the Authority and (vi) immediately and without notice following certain events of default under each Liquidity Facility under the circumstances described below under "Events of Default and Remedies." The period referred to in the preceding sentence is hereinafter referred to as the "Commitment Period."

Subject to the terms and conditions of the applicable Liquidity Facility, the applicable Bank agrees from time to time during the Commitment Period to purchase, with its own funds, related 2008 Series Bonds that have been tendered for purchase and not remarketed, at the purchase price on a purchase date. Each Bank's obligation is limited to an amount equal to the aggregate principal amount of the related 2008 Series Bonds then Outstanding plus an amount equal to at least 34 days of interest at the per annum rate of 12% on such Outstanding 2008 Series Bonds.

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

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

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

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

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

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

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

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

(7) (a) The Authority shall commence any case, proceeding or other action (i) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it as bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it, or seeking to declare a moratorium

with respect to the related 2008 Series Bonds or the Parity Obligations, or (ii) seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of its assets or for all or any portion of the Sales Tax Revenues; or the Authority shall make a general assignment for the benefit of its creditors; or (b) there shall be commenced against the Authority any case, proceeding or other action of a nature referred to in clause (a) above which (i) results in an order for such relief or in the appointment of a receiver or similar official or (ii) remains undismissed, undischarged or unbonded for a period of sixty (60) days; or (c) there shall be commenced against the Authority, any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets or for all or any portion of the Sales Tax Revenues, which results in the entry of an order for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within sixty (60) days from the entry thereof; or (d) the Authority shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (a), (b) or (c) above; or (e) the Authority shall generally not, or shall be unable to, or shall admit in writing, its inability to, pay its debts; or

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

extraordinary restriction on repayment of principal or interest on any debt shall have been declared or imposed (whether or not in writing) with respect to the related 2008 Series Bonds (including any Bank Bond) or on any Parity Obligation; or

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

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

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

(a) In the case of any Event of Default or Default specified in paragraph 1(a), 6, 7(a), 7(d), 7(e), 8(a), 8(b), 8(c), 8(f), 9 or 10(b) above (each, a "Special Event of Default"), the Available Commitment (as defined in the applicable Liquidity Facility) shall immediately be reduced to zero, in which case the obligations of each applicable Bank under such applicable Liquidity Facility shall immediately terminate and expire without requirement of notice by the applicable Bank; provided, that (i) the Event of Default described in paragraph 1(a) above will not qualify as a Special Event of Default if the failure to pay principal of, or interest on, a Bank Bond is due solely to an acceleration of all of the Bank Bonds by the applicable Bank for any reason other than nonpayment as described in paragraph 1(a) hereof and (ii) the Suspension Events described in paragraph (b) below will not qualify as Special Events of Default unless and until the conditions described in said paragraph (b) below for such qualification have been satisfied. After such termination or expiration, the applicable Bank shall deliver promptly to the Authority, the Trustee and the applicable Remarketing Agent written notice of such termination or expiration; provided, however, that failure to provide such written notice shall have no effect on the validity or enforceability of such termination or expiration.

(b) In the case of any Event of Default or Default specified in paragraph 1(b), 7(b), 7(c), 8(d) or 8(e) above (each, a "Suspension Event"), the obligation of each applicable Bank to purchase related 2008 Series Bonds under the applicable Liquidity Facility shall be immediately suspended without notice or demand and, thereafter, the applicable Bank shall be under no obligation to purchase related 2008 Series Bonds until the Available Commitment is reinstated as described below. Promptly upon the

occurrence of any such Suspension Event, the applicable Bank shall notify the Authority, the Trustee and the applicable Remarketing Agent of such suspension and the effective date of such suspension in writing by facsimile, promptly confirmed by regular mail; provided, that the applicable Bank shall incur no liability of any kind by reason of its failure to give such notice and such failure shall in no way affect the suspension of the Available Commitment or its obligation to purchase related 2008 Series Bonds pursuant to such applicable Liquidity Facility.

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

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

Upon the occurrence of a Default described in paragraph 7(b)(ii) above, each applicable Bank's obligations to purchase related 2008 Series Bonds shall be immediately and automatically suspended and remain suspended until the case, proceeding or other action referred to therein is either dismissed, discharged or bonded within sixty (60) days from the commencement of such case, proceeding or action, or the Termination Date occurs, whichever is first. In the event that said Suspension Event shall have been dismissed, discharged or bonded within the sixty (60) day period described therein and prior to the Termination Date, then the Available Commitment and the obligation of the applicable Bank to purchase such related 2008 Series Bonds shall be reinstated and the terms of such applicable Liquidity Facility shall continue in full force and effect as if there had been no suspension (unless the Commitment Period shall otherwise have been terminated, suspended or expired as provided in the applicable Liquidity Facility). In the event that said Suspension Event shall not have been dismissed, discharged or bonded within such sixty (60) day period when the Termination Date occurs, then the Available Commitment and the obligation of the applicable Bank to purchase such related 2008 Series Bonds shall terminate on the

Termination Date without notice or demand and, thereafter, the applicable Bank shall be under no obligation to purchase such related 2008 Series Bonds.

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

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

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

(c) Upon the occurrence of any Event of Default, the applicable Bank shall have all remedies provided at law or equity, including, without limitation, specific performance; and in addition, the

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

Substitution of Alternate Liquidity Facility

Pursuant to the provisions of the Indenture, the Authority may provide an Alternate Liquidity Facility with respect to any Series of 2000 Measure A 2008 Series Bonds. The Authority shall give at least 30 days' written notice to the Trustee and each of the Notice Parties of its intent to furnish an Alternate Liquidity Facility to the Trustee. The applicable Series of 2000 Measure A 2008 Series Bonds shall be subject to mandatory purchase on the Substitution Date.

THE 2000 MEASURE A SALES TAX

Authorization, Application and Collection of the 2000 Measure A Sales Tax

In November of 2000, more than 70% of the voters in the County voting on such ballot measure approved Measure A ("2000 Measure A") implementing a 30-year half-cent sales tax that became effective on April 1, 2006 and is scheduled to expire on March 31, 2036. The 2000 Measure A Sales Tax is a special retail transactions and use tax of one half of one percent (0.5%) of the gross receipts of retailers from the sale of all tangible personal property sold at retail in the County and a use tax at the same rate upon the storage, use or other consumption in the County of such property purchased from any retailer for storage, use or other consumption in the County, subject to certain exceptions. Revenues from the 2000 Measure A Sales Tax may be used to finance the transit projects and operations listed in 2000 Measure A, the ordinance which imposed the 2000 Measure A Sales Tax (the "2000 Measure A Ordinance") and in the Authority's Valley Transportation Plan, which was formulated to provide a balanced transportation system consisting of transit, roadway, bicycle and pedestrian improvements. See "THE 2000 MEASURE A PROGRAM," herein.

Collection of the 2000 Measure A Sales Tax is administered by the Board of Equalization. The Authority has authorized the Board of Equalization to make payment of 2000 Measure A Sales Tax Revenues directly to the Trustee. Pursuant to its procedures, the Board of Equalization projects receipts of the 2000 Measure A Sales Tax on a quarterly basis and remits an advance of such receipts to the Trustee on a monthly basis based on such projection. During the last month of each quarter, the Board of Equalization adjusts the amount remitted to reflect the actual receipts of the 2000 Measure A Sales Tax for the prior quarter and to deduct the full amount of the administrative fee for the prior quarter. Upon

receipt of the 2000 Measure A Sales Tax Revenues, the Trustee retains an amount necessary to meet debt service requirements and make the other deposits required by the Indenture. The balance is then forwarded to the Authority.

Historical 1976 Sales Tax Revenues

In addition to the 2000 Measure A Sales Tax, the Authority levies another retail transactions and use tax of one half of one percent (0.5%) for transportation purposes (the "1976 Sales Tax"). The 1976 Sales Tax, also approved by the voters, is levied against the same sales tax base as the 2000 Measure A Sales Tax. Collection of the 1976 Sales Tax is also administered by the Board of Equalization and is remitted to the trustee for the senior lien obligations secured by the 1976 Sales Tax pursuant to a separate agreement between the Authority and the Board of Equalization in the same manner and subject to payment of a separate administrative charge in the same manner as the 2000 Measure A Sales Tax.

The following table shows 1976 Sales Tax Revenues reported by the Authority during the ten Fiscal Years ended June 30, 2007.

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**Santa Clara Valley Transportation Authority
Historical 1976 Sales Tax Revenues
Fiscal Years Ended June 30, 1998- 2007**

| Fiscal Year Ended June 30 | 1976 Sales Tax Revenues | Percent Increase (Decrease) |
|--------------------------------------|------------------------------------|--|
| 1998 | \$138,428,805 | -- |
| 1999 | 143,711,721 | 3.8 |
| 2000 | 166,764,390 | 16.0 |
| 2001 | 183,540,308 | 10.1 |
| 2002 | 144,217,679 | (21.4) ⁽¹⁾ |
| 2003 | 132,632,377 | (8.0) ⁽¹⁾ |
| 2004 | 138,917,173 | 4.7 |
| 2005 | 145,008,106 | 4.3 |
| 2006 | 157,283,101 | 8.5 |
| 2007 | 163,675,750 ⁽²⁾ | 4.1 |

⁽¹⁾ The Authority attributes the Fiscal Year 2002 and 2003 reductions shown above to the effects of a severe downturn of the local economy (principally in the high-tech industry), which began in 2001 and resulted in reductions in 1976 Sales Tax Revenues and available jobs within the County.

⁽²⁾ The amount of 1976 Sales Tax Revenues reported for Fiscal Year 2007 differs from the amount of 2000 Measure A Sales Tax Revenues reported for Fiscal Year 2007 due to the fact that the amount of 1976 Sales Tax Revenues reported for Fiscal Year 2007 reflects adjustments for prior Fiscal Years.

Source: The Authority.

The 2000 Measure A 2008 Series Bonds are not secured by 1976 Sales Tax Revenues. For a summary of historical taxable retail sales within the County see the table entitled "County of Santa Clara, Taxable Transactions by Sector" in APPENDIX C – "COUNTY OF SANTA CLARA DEMOGRAPHIC AND ECONOMIC INFORMATION."

2000 Measure A Sales Tax Revenues

Commencing April 1, 2006 and ending June 30, 2006, the Authority received \$38,169,934 of 2000 Measure A Sales Tax Revenues. For the Fiscal Year ended June 30, 2007, the Authority received \$161,360,552 in 2000 Measure A Sales Tax Revenues. For the first two quarters of the Fiscal Year ending June 30, 2008, the Authority has received \$82,326,866 of 2000 Measure A Sales Tax Revenues. This compares to \$81,686,437 of 2000 Measure A Sales Tax Revenues received by the Authority during the first two quarters of the Fiscal Year ended June 30, 2007. For a discussion regarding the procedures related to the collection of the 2000 Measure A Sales Tax, see APPENDIX A -- "THE AUTHORITY – Authority Revenues – 2000 Measure A Sales Tax Revenues."

Based on projected 2000 Measure A Revenues for Fiscal Year ended June 30, 2008 in the amount of \$162,654,497, 2000 Measure A Revenues are anticipated to equal at least 2.23 times Maximum Annual Debt Service on the Bonds through April 1, 2036, the final maturity of the 2008 Series Bonds assuming such Maximum Annual Debt Service amounts as are shown in the table "DEBT SERVICE SCHEDULE" herein.

The table below shows a projection of 2000 Measure A Sales Tax Revenues for the ten Fiscal Years ending June 30, 2008 through 2017.

**Santa Clara Valley Transportation Authority
Projected 2000 Measure A Sales Tax Revenues
Fiscal Years Ending June 30, 2008 – 2017**

| Fiscal Year Ending June 30 | Projected 2000 Measure A Sales Tax Revenues | Percent Increase (Decrease) |
|---------------------------------------|--|--|
| 2008 | \$162,654,497 | 0.80% |
| 2009 | 162,654,497 | 0.00 |
| 2010 | 171,649,291 | 5.53 |
| 2011 | 181,244,486 | 5.59 |
| 2012 | 191,430,426 | 5.62 |
| 2013 | 202,265,388 | 5.66 |
| 2014 | 213,774,289 | 5.69 |
| 2015 | 226,002,178 | 5.72 |
| 2016 | 238,432,298 | 5.50 |
| 2017 | 247,969,590 | 4.00 |

Source: The Authority.

The Authority has obtained the services of an outside economist, who has provided projected assumptions and projections of taxable sales for Santa Clara County through 2016 to assist the Authority in developing sales tax revenue forecasts. The taxable sales projections are developed by applying high, middle, and low growth assumptions to several key variables affecting taxable sales, including population, jobs, earnings per job, non-earnings income per person, the ratio of taxable sales to personal income and total personal income and were most recently updated in December 2006. The Authority has developed its sales tax revenue forecasts using the midpoint between middle and low growth projections of taxable sales for Santa Clara County. As described below, growth rate projections for Fiscal Year 2008 and Fiscal Year 2009 have been revised by the Authority due to current economic conditions. In developing its projection for 2017, the Authority used a growth rate of 4.00%, which is below the 5.9% historical average percentage increase since Fiscal Year 1978, the first full year of collection of the 1976 Sales Tax. As with all assumptions, actual achievement of certain results or other expectations contained in such assumptions involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forecasts. No assurance is given that actual results will meet the forecasts of the Authority in any way, regardless of the level of optimism communicated in the information. The Authority is not obligated to issue any updates or revisions to the forecasts if or when its expectations, or events, conditions or circumstances on which such statements are based occur.

The local economy started to slow down in late calendar year 2007 and the beginning of 2008. Contributing to the slow down of the local economy are recent increases in energy, food, raw material costs, and a downturn in the housing industry. Reduced home building, home sales, and auto sales contributed to a slowdown in taxable sales growth. As a result of the economic slow down, the Authority

is experiencing a flattening of growth in 2000 Measure A Sales Tax Revenues and has adjusted its 2000 Measure A Sales Tax Revenues forecast for Fiscal Year 2008 and Fiscal Year 2009.

The 2000 Measure A Sales Tax Revenue projections in the preceding table are based in part on the data provided by the economist referenced above and in part on assumptions of the Authority. Annual 2000 Measure A Revenues for the Fiscal Year ended June 30, 2007, total \$161,360,552.

THE 2000 MEASURE A PROGRAM

General

Revenues from the 2000 Measure A Sales Tax may be used to finance the transit projects and the increased cost of operations as described in the 2000 Measure A Ordinance and the Authority's Valley Transportation Plan (see APPENDIX A - "THE AUTHORITY – Authority Capital Improvement Programs - Valley Transportation Plan"), which was formulated to provide a balanced transportation system consisting of transit, roadway, bicycle and pedestrian improvements.

The 2000 Measure A Transit Improvement Program

The 2000 Measure A Transit Improvement Program, which represents the transit portion of the Authority's Valley Transportation Plan and is funded primarily by 2000 Measure A Sales Tax Revenues, consists of those projects and increased operations included in the 2000 Measure A Ordinance, as noted below.

- Extend San Francisco Bay Area Rapid Transit District service ("BART") from Fremont through Milpitas to Downtown San Jose and the Santa Clara Caltrain Station (the "Silicon Valley Rapid Transit Project" or "SVRT");
- Provide connections from the San Jose International Airport to BART, Caltrain commuter rail service ("Caltrain") and the Authority's light rail system;
- Extend the Authority's light rail system from Downtown San Jose to the East Valley portion of Santa Clara County ("DTEV Extension");
- Purchase low floor light rail vehicles to better serve the disabled, senior and other segments of the ridership;
- Improve Caltrain by extending the system's double track to Gilroy and providing funds to electrify the system;
- Increase Caltrain service;
- Construct a new Palo Alto Intermodal Transit Center;
- Improve bus service in major bus corridors;
- Upgrade the Altamont Commuter Express ("ACE") service;
- Improve the Highway 17 express bus service;

- Connect Caltrain with the Dumbarton Rail Corridor (serving Alameda and San Mateo County);
- Purchase zero emission buses and construct service facilities;
- Provide funds to develop new light rail corridors;
- Fund operating and maintenance costs associated with increased bus, rail and paratransit service.

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

The Authority publishes a quarterly report as a periodic update regarding the implementation of the 2000 Measure A Transit Improvement Program (the most current copy of which may be requested through the Authority). The following activities have either been completed or are in progress, funded by a combination of funds, including 2000 Measure A Sales Tax Revenues, state and federal grants, bond proceeds and other locally obtained funds:

- Completed conceptual design, preliminary engineering and proceeding with 65% design and engineering phase on the Silicon Valley Rapid Transit Project;
- Completed conceptual design, preliminary design and began final design on Capitol Expressway Light Rail to Eastridge (part of the DTEV extension);
- Purchased low floor light rail vehicles and placed in revenue service;
- Completed preliminary design and began final design for extending Caltrain's double track to Gilroy;
- Implemented a rapid bus service on the Authority's busiest bus route and have begun studying potential bus rapid transit improvements in other major bus corridors;
- Participated in a regional zero emission bus demonstration project;

- Conducting new rail corridor study consisting of two phases; developing a transit sustainability policy and mode-specific service design guidelines; and identifying potential new transit corridors using aforementioned policy and guidelines;
- Providing operating assistance to the Authority.

The Expenditure Plan, which was adopted by the Board in June 2006 is currently undergoing a regularly scheduled update, which is expected to be completed in September 2008.

Future Financing Plans

The Authority anticipates that the Expenditure Plan will be funded through a combination of pay-as-you-go and bond financing. The initial Expenditure Plan adopted in June 2006 assumes additional bond financing beginning in Fiscal Year 2011; however, based on actual receipts of projected revenues, including 2000 Measure A Sales Tax Revenues, as well as the results of periodic updates to the Expenditure Plan, this assumption may be modified.

INVESTMENT CONSIDERATIONS

Economy of the County and the State

The 2000 Measure A 2008 Series Bonds are secured by a pledge of 2000 Measure A Sales Tax Revenues, which consist of the 2000 Measure A Sales Tax less an administrative fee paid to the Board of Equalization. The level of 2000 Measure A Sales Tax Revenues collected at any time is dependent upon the level of retail sales within the County, which is, in turn, dependent upon the level of economic activity in the County and in the State generally. As a result, any substantial deterioration in the level of economic activity within the County or in the State could have a material adverse impact upon the level of 2000 Measure A Sales Tax Revenues and therefore upon the ability of the Authority to pay principal of and interest on the 2000 Measure A 2008 Series Bonds. For example, during the economic downturn between 2001 and 2003, 1976 Sales Tax Revenues decreased 21.8% between the Fiscal Year ended June 30, 2001 and the Fiscal Year ended June 30, 2002 and decreased 8.0% between the Fiscal Year ended June 30, 2002 and the Fiscal Year ended June 30, 2003. See "THE 2000 MEASURE A SALES TAX – Historical 1976 Sales Tax Revenues" above.

The local economy started to slow down in late calendar year 2007 and the beginning of 2008. Contributing to the slow down of the local economy are recent increases in energy, food, raw material costs, and a downturn in the housing industry. Reduced home building, home sales, and auto sales contributed to a slowdown in taxable sales growth. As a result of the economic slow down, the Authority is experiencing a flattening of growth in 2000 Measure A Sales Tax Revenues and has adjusted its Fiscal Year 2008 and Fiscal Year 2009 2000 Measure A Sales Tax Revenues forecast. See "THE 2000 MEASURE A SALES TAX - 2000 Measure A Sales Tax Revenues" above.

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

The 2000 Measure A Sales Tax

With limited exceptions, the 2000 Measure A Sales Tax is imposed upon the same transactions and items subject to the sales tax levied statewide by the State. The State Legislature or the voters within

the State, through the initiative process, could change or limit the transactions and items upon which the statewide sales tax and the 2000 Measure A Sales Tax are imposed. Any such change or limitation could have an adverse impact on the 2000 Measure A Sales Tax Revenues collected. For a further description of the 2000 Measure A Sales Tax. See "THE 2000 MEASURE A SALES TAX" herein.

Proposition 218

On November 5, 1996, voters in the State approved an initiative known as the Right to Vote on Taxes Act ("Proposition 218"). Proposition 218 added Articles XIIC and XIID to the California Constitution. Article XIIC requires majority voter approval for the imposition, extension or increase of general taxes and two-thirds voter approval for the imposition, extension or increase of special taxes by a local government, which is defined to include local or regional governmental agencies such as the Authority. The 2000 Measure A Sales Tax received the approval of more than 2/3rds of the voters as required by Article XIIC. However, Article XIIC also removes limitations that may have applied to the voter initiative power with regard to reducing or repealing previously authorized taxes. In the opinion of the Authority, however, any attempt by the voters to use the initiative provisions under Proposition 218 to rescind or reduce the levy and collection of the 2000 Measure A Sales Tax in a manner which would prevent the payment of debt service on the 2000 Measure A 2008 Series Bonds would violate the Impairment Clause of the United States Constitution and, accordingly, would be precluded. However, it is likely that the interpretation and application of Proposition 218 will ultimately be determined by the courts.

Further Initiatives

Proposition 218 and Proposition 42 (discussed in Appendix A) were each adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiative measures could be adopted, which may affect the Authority's ability to levy and collect the 2000 Measure A Sales Tax.

Limitations of Liquidity Facilities and Related Risks

The ability to obtain funds under any Liquidity Facility, including each of the Initial Liquidity Facilities, in accordance with its respective terms may be limited by federal or state law. Bankruptcy, conservatorship, receivership and similar laws governing financial institutions may prevent or restrict payment under a Liquidity Facility, including each of the Initial Liquidity Facilities. In the event funds are not provided to pay Purchase Price of any tendered 2000 Measure A 2008 Series Bond pursuant to a draw on a Liquidity Facility, the Authority may, but is not obligated to, provide funds to pay such Purchase Price. To the extent the short-term rating on the principal of and interest on any Series of 2000 Measure A 2008 Series Bonds depends in any manner on the rating of the Liquidity Facility Provider then providing the Liquidity Facility for such Series of 2000 Measure A 2008 Series Bonds, the short-term ratings on such Series of 2000 Measure A 2008 Series Bonds could be downgraded or withdrawn if such Liquidity Facility Provider was downgraded, placed on credit watch or had its credit suspended or withdrawn or refused to perform under its Liquidity Facility.

Investment Considerations Related to Variable Rate Bonds and Interest Rate Swaps

The 2000 Measure A 2008 Series Bonds are being issued as variable rate bonds. Each Series of 2000 Measure A 2008 Series Bonds may be converted to fixed rates. However, the Authority's protection against rising interest rates is limited because the Authority would be required to continue to pay interest

at variable rates until such time as the Authority is permitted to convert 2000 Measure A 2008 Series Bonds to fixed rate bonds pursuant to the provisions of the Indenture.

As described above under the caption "Plan of Finance - Swap Agreements," the Authority has entered into the Swap Agreements to manage its interest rate exposure with respect to the 2000 Measure A 2008 Series Bonds, excluding the amount of 2000 Measure A 2008 Series A Bonds subject to mandatory sinking fund redemption on April 1, 2009. The total notional amount of the Swap Agreements is equal to the aggregate principal amount of the 2000 Measure A 2008 Series Bonds, excluding the amount of 2000 Measure A 2008 Series A Bonds subject to mandatory sinking fund redemption on April 1, 2009. In accordance with the provisions of the Swap Agreements, the Authority will pay a fixed rate of interest to the Counterparties and will receive a variable rate of interest from the Counterparties, the effect of which is intended to achieve a synthetic fixed interest rate.

The variable rate of interest received by the Authority on the Swap Agreements may be less than the variable rate of interest on the 2000 Measure A 2008 Series Bonds, which would effectively increase the borrowing costs of the Authority. Debt service on the 2000 Measure A 2008 Series Bonds shown in the debt service schedule set forth above under the caption, "Debt Service Schedule" has been calculated based on the fixed rate of interest payable by the Authority to the Counterparties established pursuant to the Swap Agreements. Actual debt service on the 2000 Measure A 2008 Series Bonds may be higher or lower than the debt service shown in the Debt Service Schedule. In addition, if one or more of the Swap Agreements were to be terminated for any reason, the Authority would have variable interest rate exposure. For a discussion of additional investment considerations relating to the Swap Agreements, see also "Outstanding 2000 Measure A Sales Tax Obligations - Swap Agreements."

Springing 2008 Series Bond Reserve Fund

No 2008 Series Bond Reserve Fund will be established upon the issuance of the 2008 Series Bonds. In the event a Bond Reserve Funding Event occurs subsequent to the date of issuance of the 2008 Series Bonds, no assurances are provided that sufficient funds will be available to fund the 2008 Series Bond Reserve Fund in accordance with the provisions of the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Establishment and Application of 2008 Series Bonds Reserve Fund" herein.

No Acceleration Provision

The Indenture does not contain a provision allowing for the acceleration of the 2000 Measure A 2008 Series Bonds in the event of a default in the payment of principal and interest on the 2000 Measure A 2008 Series Bonds when due. In the event of a default by the Authority, each Holder of a 2008 Series Bond will have the rights to exercise the remedies, subject to the limitations thereon, set forth in the Indenture. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

Loss of Tax Exemption

As discussed under "TAX MATTERS," interest on the 2000 Measure A 2008 Series Bonds could become includable in federal gross income, possibly from the date of issuance of the 2000 Measure A 2008 Series Bonds, as a result of acts or omissions of the Authority subsequent to the issuance of the 2000 Measure A 2008 Series Bonds. Should interest become includable in federal gross income, the 2000 Measure A 2008 Series Bonds are not subject to redemption by reason thereof and will remain outstanding until maturity or earlier redemption.

FINANCIAL STATEMENTS

The financial statements of the Authority for the Fiscal Year ended June 30, 2007, included in APPENDIX B of this Official Statement have been audited by Vavrinek, Trine, Day & Co., LLP, independent auditors, as stated in their report therein. Vavrinek, Trine, Day & Co., LLP was not requested to consent to the inclusion of its report in APPENDIX B, nor has it undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by Vavrinek, Trine, Day & Co., LLP with respect to any event subsequent to the date of its report. The Authority represents that there has been no material adverse change in its financial position since June 30, 2007.

LITIGATION

There is not now pending or, to the knowledge of the Authority, threatened, any litigation restraining or enjoining the issuance or delivery of the 2000 Measure A 2008 Series Bonds or questioning or affecting the validity of the 2000 Measure A 2008 Series Bonds or the proceedings and authority under which they are to be issued or the levy, collection and pledge of 2000 Measure A Sales Tax. Neither the creation, organization or existence of the Authority, nor the title of the present members of the Authority to their respective offices is being contested. See APPENDIX A - "THE AUTHORITY - Litigation."

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2000 Measure A 2008 Series Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the 2000 Measure A 2008 Series Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix F hereto.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the 2000 Measure A 2008 Series Bonds. The Authority has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 2000 Measure A 2008 Series Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the 2000 Measure A 2008 Series Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2000 Measure A 2008 Series Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the 2000 Measure A 2008 Series Bonds may adversely affect the value of, or the tax status of interest on, the 2000 Measure A 2008 Series Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the 2000 Measure A 2008 Series Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California

personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the 2000 Measure A 2008 Series Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2000 Measure A 2008 Series Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the 2000 Measure A 2008 Series Bonds. Prospective purchasers of the 2000 Measure A 2008 Series Bonds should consult their own tax advisers regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authorities, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the 2000 Measure A 2008 Series Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the 2000 Measure A 2008 Series Bonds ends with the issuance of the 2000 Measure A 2008 Series Bonds and unless separately engaged, Bond Counsel is not obligated to defend the Authority or the Beneficial Owners regarding the tax-exempt status of the 2000 Measure A 2008 Series Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the 2000 Measure A 2008 Series Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the 2000 Measure A 2008 Series Bonds, and may cause the Authority or the Beneficial Owners to incur significant expense.

LEGAL MATTERS

The validity of the 2000 Measure A 2008 Series Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority. A complete copy of the proposed form of opinion of Bond Counsel is attached hereto as APPENDIX F. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Authority by the general counsel for the Authority. Certain legal matters will be passed upon for the Liquidity Facility Providers by Nixon Peabody LLP. Certain legal matters will be passed upon for the Underwriters by Ronald E. Lee, Esq., Davis, California.

RATINGS

Standard & Poor's Ratings Group, a division of The McGraw Hill Companies ("S&P") and Moody's Investors Service, Inc. ("Moody's") are expected to assign long-term ratings of "AA+" and "Aa3," respectively, to the 2000 Measure A 2008 Series Bonds based on information provided to such agencies by the Authority. S&P and Moody's are expected to assign short-term ratings of "A-1+" and "VMIG 1," respectively, to the 2000 Measure A 2008 Series Bonds based upon the understanding that the Initial Liquidity Facilities will be executed and delivered by the Liquidity Facility Providers. These ratings reflect only the views of the rating agencies, and do not constitute a recommendation to buy, sell or hold securities. The Authority has furnished to the rating agencies certain information respecting the 2000 Measure A 2008 Series Bonds and the Authority. Generally, rating agencies base their ratings on such information and materials and their own investigations, studies and assumptions. The ratings are subject to revision or withdrawal at any time by the rating agencies, and there is no assurance that the ratings will continue for any period of time or that they will not be lowered or withdrawn. Any reduction or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

VERIFICATION

Upon delivery of the 2000 Measure A 2008 Series Bonds the arithmetical accuracy of certain computations included in the schedules provided by the Underwriters on behalf of the Authority relating to computation of the sufficiency of the amounts deposited in the Escrow Fund to pay the principal and interest with respect to the Prior Bonds, at maturity or upon prior redemption, will be examined by Samuel Klein and Company, Certified Public Accountants (the "Verification Agent"). Such examination will be based solely upon information and assumptions supplied the Verification Agent by the Underwriters. The Verification Agent will restrict its procedures to examining the arithmetical accuracy of certain computations and will not make any study or evaluation of the assumptions and information upon which the computations are based, and accordingly, will not express an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome. The Verification Agent will have no obligation to update its examination because of events occurring, or data or information coming to its attention, subsequent to the date of issuance of the 2000 Measure A 2008 Series Bonds.

UNDERWRITING

Goldman, Sachs & Co., as representative of the underwriters of the 2000 Measure A 2008 Series Bonds listed on the cover hereof (the "Representative"), has agreed, subject to certain conditions, to purchase the 2000 Measure A 2008 Series Bonds at a price of \$236,334,967.80 (representing \$236,730,000 aggregate principal amount of 2000 Measure A 2008 Series Bonds, less an Underwriters' discount of \$395,032.20). The purchase contract provides that the Underwriters will purchase all the 2000 Measure A 2008 Series Bonds if any are purchased.

FINANCIAL ADVISOR

The Authority has retained Ross Financial, San Francisco, California, as financial advisor (the "Financial Advisor") in connection with the authorization and delivery of the 2000 Measure A 2008 Series Bonds. Compensation paid to the Financial Advisor is conditioned on the issuance of the 2000 Measure A 2008 Series Bonds.

RELATIONSHIPS AMONG THE PARTIES

As indicated above under the caption "PLAN OF FINANCE - Swap Agreements," the Authority has entered into a Swap Agreement with Goldman Sachs Mitsui Marine Derivative Products, L.P., with Bank of America, N.A., and with Morgan Stanley Capital Services, Inc. Goldman Sachs Mitsui Marine Derivative Products, L.P. is an affiliate of Goldman, Sachs & Co., which is an underwriter and will serve as remarketing agent for the 2008 A Bonds. Bank of America, N.A. is an affiliate of Banc of America Securities LLC, which is an underwriter and will serve as remarketing agent for the 2008 B Bonds, and both are subsidiaries of the Bank of America Corporation. Morgan Stanley Capital Services Inc. is an affiliate of Morgan Stanley & Co. Incorporated, which is an underwriter and will serve as remarketing agent for the 2008 D Bonds.

JPMorgan Chase Bank, National Association, is expected to provide the JPMorgan Chase Initial Liquidity Facility. As indicated above, J.P. Morgan Securities Inc. is an underwriter and will serve as remarketing agent of the 2008 C Bonds, which will not be supported by the JPMorgan Chase Initial Liquidity Facility. JPMorgan Chase, National Association and J.P. Morgan Securities Inc. are subsidiaries of JPMorgan Chase & Co.

CONTINUING DISCLOSURE

The offering of the 2000 Measure A 2008 Series Bonds is exempt from the continuing disclosure requirements set forth in Securities and Exchange Commission Rule 15c2-12 (the "Rule") issued under the Securities Exchange Act of 1934, as amended pursuant to the exemptions provided in paragraph (d)(1) of the Rule. However, in the event the Authority has no fixed rate debt outstanding that is subject to the Rule, the Authority has covenanted to continue to provide continuing disclosure information of the type provided in connection with its fixed rate debt. Additionally, in accordance with the provisions of the Indenture, upon the conversion of a Series of 2000 Measure A 2008 Series Bonds to an interest rate mode requiring a continuing disclosure undertaking under the Rule, the Authority has covenanted to comply with the applicable requirements promulgated under the Rule, as it may from time to time hereafter be amended or supplemented, and to incur all costs associated with such continuing disclosure undertaking.

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

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APPENDIX A

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

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

Administration

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

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

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

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

The Board has established three standing committees, each consisting of four Board members: Administration and Finance, Congestion Management Program and Planning, and Transit Planning and Operations. Several advisory committees have also been formed to make recommendations to the Board on technical and policy issues.

Certain key members of the Authority's administrative staff include the following:

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

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

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

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

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

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

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

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

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

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

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

Employees

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

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

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

consisting of executive and senior level classifications. To date, the Authority has never experienced any major or minor work stoppages or job actions.

The Authority Transit System

Bus Transit Service. The Authority presently operates a bus system providing service to the approximately 326 square mile urbanized portion of the Santa Clara County, a county of 1,300 square miles with a population of approximately 1.8 million. The Authority currently maintains an active fleet of 444 diesel-powered, 34 unleaded gasoline-powered buses and three zero emission buses. The average age of these buses is approximately 8.5 years and the buses range from one to 16 years old. Buses are operated and maintained from three operating divisions and an Overhaul and Repair (O&R) facility: Cerone Operating Division, Don Pedro Chaboya Operating Division, North Operating Division and Cerone O&R Division. Along the bus routes, there are approximately 3,800 bus stops, 786 of which have bus shelters. The Authority also maintains eight park and ride lots – five owned by the Authority and three provided under a lease, permit, or joint use agreement with other agencies.

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

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

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

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

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

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

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

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

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

The Authority, in partnership with the City of San Jose, provides free Airport Flyer bus service connecting the Norman Y. Mineta San Jose International Airport terminals and airport employee parking

lots with the Authority's Metro/Airport Light Rail Station and the Santa Clara Caltrain Station. The City of San Jose contributes approximately 30% to the net operating costs for this service with the Authority funding the remainder.

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

Authority Revenues

The Authority's primary revenue sources include the 1976 Sales Tax (as defined in the forepart of this Official Statement), the 2000 Measure A Sales Tax (as defined in the forepart of this Official Statement), the 1/4% sales tax imposed pursuant to the California Transportation Development Act of 1971, as amended, described herein under the caption "Transportation Development Act Revenues," a portion of gasoline sales tax revenues apportioned to the State Public Transportation Account, described herein under the caption "State Transit Assistance Program," a portion of the State sales and use tax revenues derived from the sale, storage, use or other consumption of motor vehicle fuel, described herein under the caption "Proposition 42," and passenger fares charged by the Authority.

1976 Sales Tax Revenues. The 1976 Sales Tax is the Authority's single largest source of revenue for operations. The 1976 Sales Tax is collected by the State Board of Equalization (the "SBOE"). Pursuant to an agreement between the Authority and the SBOE, the SBOE remits revenues from the 1976 Sales Tax to the trustee for senior lien obligations secured by the 1976 Sales Tax (herein referred to as the "1976 Sales Tax Bond Trustee") on a monthly basis. Pursuant to its procedures, the SBOE projects receipts of the 1976 Sales Tax on a quarterly basis and remits an advance of such receipts to the 1976 Sales Tax Bond Trustee each month based on such projection. During the last month of each quarter, the SBOE adjusts the amount remitted to reflect the actual receipts of the 1976 Sales Tax for the previous quarter less administration costs. After application for payment of the senior lien obligations and the junior lien obligations secured by the 1976 Sales Tax (herein referred to as the "1976 Sales Tax Obligations"), 1976 Sales Tax Revenues are budgeted to pay operating expenses and to pay capital expenditures where State or federal capital assistance programs require that the recipient of assistance contribute locally derived revenue. For a discussion of the Authority's 1976 Sales Tax Revenues over the last ten (10) years, see the information in the forepart of this Official Statement under the caption "Historical 1976 Sales Tax Revenues." See also "Authority Obligations - Obligations Secured by the 1976 Sales Tax."

The 1976 Sales Tax secures the 1976 Sales Tax Obligations. The 1976 Sales Tax is not pledged as a source of repayment for the 2008 Series Bonds and does not secure the 2008 Series Bonds.

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

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

The 2000 Measure A Sales Tax secures the 2000 Measure A Sales Tax Obligations. The 2000 Measure A Sales Tax is not pledged as a source of repayment for the 1976 Sales Tax Obligations and does not secure the 1976 Sales Tax Obligations.

Transportation Development Act Revenues. Transportation Development Act revenues (the "TDA Revenues") are a State subsidy consisting of an allocation of State sales tax revenue under the California Transportation Development Act of 1971, as amended (the "TDA"), whereby a 0.25% levy of the State's sales tax (net of collection costs) is made available for public transportation operating and capital expenses in the county in which the sales tax is collected. TDA Revenues are the Authority's second largest source of revenue for operations and are separate and distinct from revenues derived from the 1976 Sales Tax and the 2000 Measure A Sales Tax.

TDA Revenues are apportioned, allocated and paid by the Metropolitan Transportation Commission ("MTC"), the regional planning organization for the nine-county San Francisco Bay Area. Under TDA regulations, MTC allocates approximately 11% of the TDA Revenues to fund community and paratransit service programs, facilities for the use of pedestrians and bicycles and the transportation planning and programming process. The remaining 89% of the TDA Revenues are allocated to operators who provide public transportation services in the County. As the only public transit service provider in the County, the Authority is eligible to receive the entire amount of the 89% allocation of TDA Revenues. TDA Revenues are available to the Authority in an amount up to 50% of the Authority's operating budget, after deduction of the amount received from federal grants, provided that certain TDA eligibility requirements are met. The Authority, formerly known as the Santa Clara County Transit District, began operations in 1972 and has complied with TDA eligibility requirements since it began receiving TDA funds in 1973. In accordance with procedures and eligibility requirements set forth in the TDA, the Authority submits a request for TDA Revenues to MTC on each April 1 for the next Fiscal Year. If MTC approves the request, MTC then directs the Controller of the County (in the case of the County, the County Treasurer) to release the TDA Revenues to the Authority. TDA Revenues are received by the County Treasurer and distributed to the Authority based on direction from MTC in substantially equal monthly installments.

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

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

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

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

State Transit Assistance Program. Pursuant to the State Transit Assistance Program (the "STA"), a portion of gasoline sales tax revenues is appropriated by the State Legislature to the State Public Transportation Account (the "STA Revenues") for certain transit and energy-related purposes. These STA Revenues are allocated throughout the State based on population and operating revenues.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

⁽¹⁾ Directly operated services.

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

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

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

Other Revenues. Federal guidelines established pursuant to the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users ("SAFETEA-LU"), the successor to the Transportation Equity Act for the 21st Century, allow the Authority to claim grants under the Section 5307 Urbanized Area Formula Program (which are normally restricted to capital projects) for preventive maintenance costs. The Authority's principal motivation in programming this source of capital grants for preventive maintenance is to accelerate cash flow, and hence improve its financial position. In addition to the above-described revenues, the Authority, from time to time, receives other state assistance that may be used to pay operating expenses; and receives interest on its operating funds.

Authority Budgeted Revenues and Expenditures

The Authority's budget is prepared biennially. The Adopted Budget for FY 2008 and FY 2009 was approved by the Board of Directors on June 7, 2007 and includes appropriations for operating expenditures in support of all activities under the jurisdiction of the Authority's Board, including bus and rail operations in the County, regional commuter and inter-city rail service, ADA Paratransit service, congestion management, specific highway improvement and other transportation projects, and county wide transportation planning and funding. If additional appropriations are necessary, budget figures are generally revised in January of each year. A detailed discussion of the adopted budgets related to congestion management, highway improvements and countywide transportation planning is included in the Adopted FY 2008 and FY 2009 Budget, which may be obtained directly from the Authority. The remaining approved budgeted amounts are in support of transit-related transportation projects (2000 Measure A Program), and bus and rail operations in the County, and regional commuter and inter-city rail service. For a description of the 2000 Measure A Program, see "The 2000 Measure A Program" in the forepart of this Official Statement.

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

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2000 Measure A Program Budget. The following table summarizes the Authority's revised 2000 Measure A Program Budget.

Santa Clara Valley Transportation Authority
Fiscal Years 2008 and 2009 – 2000 Measure A Revenues and Expenses
(In Thousands)

| | FY 2008 | FY 2009 |
|--|-------------------------|-------------------------|
| 2000 Measure A Program Funds Balance, July 1 | \$240,307 | \$205,991 |
| 2000 Measure A Sales Tax | \$171,308 | \$179,531 |
| State Grants (TCRP Funds) ⁽¹⁾ | 117,300 | 68,777 |
| Prop 1B Funds ⁽²⁾ | | 45,000 |
| Local and Others | 2,405 | 3,885 |
| Investment Earnings | 1,174 | 592 |
| Other Income | <u>350</u> | <u>350</u> |
| Total Revenues | <u>\$292,537</u> | <u>\$298,135</u> |
| Total Available For 2000 Measure A Program Expenses | <u>\$532,844</u> | <u>\$504,126</u> |
| 2000 Measure A Expenditures | | |
| 2000 Measure A Operating Expenses: | | |
| Authority Operating Assistance ⁽³⁾ | \$ 31,618 | \$ 33,136 |
| Professional Services and Special Services | 500 | 500 |
| Debt Service | 23,470 | 21,675 |
| Repayment Obligation ⁽⁴⁾ | <u>11,160</u> | <u>11,057</u> |
| Total Operating Expenses | <u>\$ 66,748</u> | <u>\$ 66,368</u> |
| 2000 Measure A Capital Expenses: | | |
| Facilities and Equipment | \$ 5,250 | \$ 15,250 |
| Rail Facility Expansion | 249,570 | 241,306 |
| Miscellaneous | <u>5,285</u> | <u>3,460</u> |
| Total Capital Expenses⁽⁵⁾ | <u>\$260,105</u> | <u>\$260,016</u> |
| Total 2000 Measure A Operating & Capital Expenses | <u>\$326,853</u> | <u>\$326,384</u> |
| Net Balance Forward of 2000 Measure A Program Funds | <u>\$205,991</u> | <u>\$177,742</u> |

⁽¹⁾ The Transportation Congestion Relief Program (TCRP) was established in Fiscal Year 2000 pursuant to the Traffic Congestion Relief Act (Chapters 91 and 656, California Statute 2000). The California Transportation Commission, which oversees the implementation of TCRP, has approved allocation requests of \$401.5 million, of which the Authority has already received \$203.8 million.

⁽²⁾ Proposition 1B: Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006. This measure authorizes the State to sell general obligation bonds to fund transportation projects to relieve congestion, improve the movement of goods, improve air quality and enhance the safety and security of the transportation system.

⁽³⁾ Represents 18.5% of 2000 Measure A Sales Tax effective April 1, 2006, which is provided for support of operations through March 31, 2036.

⁽⁴⁾ For an explanation of the Repayment Obligation, see Note 9 to the audited financial statements of the Authority attached hereto as Appendix B.

⁽⁵⁾ These capital expenditures fund and augment a total of seventeen 2000 Measure A projects over the two year budget period. Such projects are part of an overall 30 year capital improvement program (see "Authority Capital Improvement Plan – Valley Transportation Plan," herein). Funding for these projects consists of revenues obtained from 2000 Measure A Sales Tax Revenues, proceeds from the issuance of bonds secured by 2000 Measure A Sales Tax Revenues, proceeds from the sale of real property owned by the Authority and other funding sources.

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

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

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

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

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

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

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

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

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

Authority Capital Improvement Programs. The Authority is committed to facilitating and providing enhanced customer focus, improved mobility and access for the community and integrated transportation and land use planning, while maintaining financial stability. Based on these commitments, the Authority has embarked on the extensive capital programs described below under "Short Range Transportation Plan" and "Valley Transportation Plan".

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

The Capital Improvement Program (CIP) included in the SRTP assumes federal, state and local regional funding of projects that maintain and enhance services provided by the Authority. Revenues for the CIP also come from the Authority's 1976 Sales Tax to match funding received from other sources.

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

Capital Improvement Program Summary
(In Thousands)

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

Valley Transportation Plan. As the designated Congestion Management Agency for the County, the Authority is responsible for preparing the County's long-range countywide transportation plan. In August 2000, the Authority's Board of Directors adopted the Valley Transportation Plan 2020 (as revised, from time to time, the "Valley Transportation Plan") to satisfy this requirement. The Board of Directors adopted the current revision of the Valley Transportation Plan, Valley Transportation Plan 2030, on February 3, 2005.

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

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

Significant Accounting Policies

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

Financial Results

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

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

| | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|--|--------------------------|--------------------------|--------------------------|-------------------------------|-------------------------|
| Operating Revenues: | | | | | |
| Passenger fares | \$30,959 | \$30,625 | \$32,061 | \$34,335 | \$35,242 |
| Advertising and other | <u>3,416</u> | <u>2,796</u> | <u>2,631</u> | <u>2,591</u> | <u>2,634</u> |
| Total operating revenues | <u>34,375</u> | <u>33,421</u> | <u>34,692</u> | <u>36,926</u> | <u>37,876</u> |
| Operating Expenses: | | | | | |
| Labor | 134,524 | 127,044 | 120,402 | 123,941 | 126,387 |
| Fringe benefits | 92,001 | 95,349 | 108,921 | 114,056 | 116,723 |
| Materials and supplies | 20,698 | 16,169 | 19,996 | 27,777 | 28,398 |
| Services | 22,055 | 17,114 | 18,226 | 20,141 | 27,943 |
| Utilities | 5,735 | 5,064 | 5,795 | 6,186 | 6,638 |
| Casualty and liability | 4,119 | 3,413 | 3,763 | 6,114 | 3,856 |
| Purchased transportation | 31,553 | 27,242 | 25,538 | 27,395 | 28,132 |
| Leases and rentals | 605 | 569 | 580 | 205 | 112 |
| Miscellaneous | 3,154 | 2,609 | 1,773 | 2,000 | 1,821 |
| Costs allocated to capital and other programs ⁽¹⁾ | <u>(20,201)</u> | <u>(29,698)</u> | <u>(29,346)</u> | <u>(26,239)</u> | <u>(35,159)</u> |
| Total operating expenses, excluding depreciation | <u>294,244</u> | <u>264,877</u> | <u>275,648</u> | <u>301,576</u> | <u>304,851</u> |
| Operating loss before depreciation | <u>(259,868)</u> | <u>(231,455)</u> | <u>(240,956)</u> | <u>(264,650)</u> | <u>(266,975)</u> |
| Depreciation Expense: | | | | | |
| Total depreciation expense | <u>41,516</u> | <u>46,552</u> | <u>56,557</u> | <u>63,766</u> | <u>51,022</u> |
| Operating loss | <u>(301,384)</u> | <u>(278,007)</u> | <u>(297,513)</u> | <u>(328,416)</u> | <u>(317,997)</u> |
| Non-operating revenues (expenses): | | | | | |
| 1976 Sales Tax Revenue | 132,632 | 138,917 | 145,008 | 157,283 | 163,676 |
| 2000 Measure A Sales Tax | - | - | - | 38,173 ⁽²⁾ | 161,361 |
| Federal operating grants and reimbursements | 33,176 | 38,143 | 34,416 | 33,565 | 35,514 |
| State and local operating grants and reimbursements | 70,956 | 73,433 | 79,509 | 81,199 | 104,917 |
| Caltrain contributions ⁽³⁾ | <u>(22,298)</u> | <u>(16,805)</u> | <u>(14,112)</u> | <u>(42,200)⁽⁴⁾</u> | <u>(22,509)</u> |
| Altamont Commuter Express Subsidy | <u>(2,715)</u> | <u>(2,392)</u> | <u>(2,470)</u> | <u>(2,470)</u> | <u>(2,542)</u> |
| Interest income | 14,245 | 1,592 | 5,666 | 6,457 | 11,304 |
| Interest expense | <u>(14,222)</u> | <u>(13,691)</u> | <u>(13,761)</u> | <u>(11,562)</u> | <u>(13,672)</u> |
| Other (expense)/Income, net ⁽⁵⁾ | <u>(754)</u> | <u>(919)</u> | <u>(688)</u> | <u>2,186</u> | <u>(2,234)</u> |
| Total non-operating revenues, net | <u>211,020</u> | <u>218,279</u> | <u>233,568</u> | <u>262,628</u> | <u>435,815</u> |
| Net income (loss)⁽⁶⁾ | <u>(\$90,363)</u> | <u>(\$59,728)</u> | <u>(\$63,945)</u> | <u>(\$65,788)</u> | <u>\$117,818</u> |

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

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

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

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

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

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

Management's Discussion of Financial Results

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

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

Management of the Authority is currently projecting that 2000 Measure A Sales Tax Revenues for the Fiscal Year ending June 30, 2008 will be 5% under budget. This projection is based upon actual 2000 Measure A Sales Tax receipts for the first two quarters of the current Fiscal Year and the third quarter advance received from the SBOE. The potential effects of this decrease in revenues on Operating Reserves are being managed through reduced expenditures. See "The 2000 Measure A Sales Tax - 2000 Measure A Sales Tax Revenues" in the forepart of this Official Statement.

Bureau of State Audits Audit of the Authority

On August 15, 2007, three members of the State Legislature whose districts are in the County requested that the Joint Legislative Audit Committee authorize an audit of the Authority by the Bureau of State Audits. The Authority has been advised that the scope and objective of this audit is to provide an independent analysis of various aspects of the Authority's activities, including the Authority's governance structure, strategic and project planning, financial reporting, long-term financial planning efforts and the level of oversight the Board and Authority management exercise over the Authority's operations and financial records. The audit commenced in January 2008 and the Bureau of State Audits is currently estimating a July 2008 release date for its audit. The Bureau of State Audits has no rule making or enforcement authority with respect to the Authority and will submit its audit directly to the State Legislature. Although it is premature to predict the findings and recommendations of the audit, management of the Authority believes that the audit will have no adverse impact on its ability to repay any obligations secured by the 1976 Sales Tax or the 2000 Measure A Sales Tax.

Hay Group Organizational and Financial Assessment

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

As a result of the RFP, in August 2006 the Authority engaged the Hay Group, a Philadelphia-based management consulting firm. In March 2007, the Hay Group released its report on the Organizational and Financial Assessment of the Authority (the "Assessment"). Among other things, the Assessment concluded that the Authority suffered from weaknesses in financial management processes and policies, including those relating to internal audit functions, cash management, budgeting and expenditure controls. The Assessment included a number of specific organizational and financial management recommendations and recommendations for improving the Authority's governance practices.

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

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

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

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

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

Authority Obligations

Obligations Secured by the 1976 Sales Tax. The following table sets forth the obligations secured by the Authority's 1976 Sales Tax which will be outstanding upon the issuance of the 2008 Series Bonds.

| | Original Principal Amount | Principal Amount Outstanding |
|---|--------------------------------------|---|
| 1976 Senior Lien Obligations | | |
| Sales Tax Revenue Refunding Bonds, 2005 Series A, 2005 Series B and 2005 Series C ⁽¹⁾ | \$168,585,000 | \$168,585,000 |
| Sales Tax Revenue Refunding Bonds, 2007 Series A | 26,275,000 | 26,275,000 |
| Sales Tax Revenue Bonds, 2001 Series A ⁽²⁾ | 200,000,000 | 10,380,000 |
| Sales Tax Revenue Bonds, 1997 Series A ⁽³⁾ | 40,570,000 | 1,630,000 |
| Adjustable Rate Refunding Equipment Trust Certificates, Series 1985A ⁽⁴⁾ | 52,860,000 | 26,500,000 |
| 1976 Junior Lien Obligations | | |
| Junior Lien Sales Tax Revenue Bonds, 2000 Series A | \$ 40,000,000 | \$ 32,685,000 |
| Junior Lien Sales Tax Revenue Bonds, 1998 Series A | 50,000,000 | 40,045,000 |

⁽¹⁾ The proceeds of the Santa Clara Valley Transportation Authority Sales Tax Revenue Refunding Bonds, 2008 Series A, 2008 Series B and 2008 Series C (the "1976 Sales Tax 2008 Series Bonds"), expected to be issued on June 26, 2008, will be used to refund the Santa Clara Valley Transportation Authority Sales Tax Revenue Refunding Bonds, 2005 Series A, 2005 Series B and 2005 Series C (the "1976 Sales Tax 2005 Series Bonds"). The Authority has entered into interest rate swap agreements in connection with the 1976 Sales Tax 2005 Series Bonds. A description of the swaps is included in Note 7(d) of the Authority's audited financial statements attached hereto as Appendix B. In connection with the refunding of the 1976 Sales Tax 2005 Series Bonds and the issuance of the 1976 Sales Tax 2008 Series Bonds the rate of the swaps may require adjustment based on current market conditions in order to enable the swaps to be qualified hedges with respect to the 1976 Sales Tax 2008 Series Bonds.

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

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

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

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

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

⁽¹⁾ The proceeds of the 2008 Series Bonds will be used to refund the Prior Bonds. The Authority has entered into Swap Agreements in connection with the Prior Bonds. The Swap Agreements will continue in full force and effect after the refunding of the Prior Bonds and will be applied by the Authority to manage interest rate exposure with respect to the 2008 Series Bonds. A description of the Swap Agreements is included in the front part of this Official Statement under the heading "OUTSTANDING 2000 MEASURE A SALES TAX OBLIGATIONS - Swap Agreements" and in Note 7(d) of the Authority's audited financial statements attached hereto as Appendix B.

Litigation

The Authority has accrued amounts that its management believes are adequate to provide for claims and litigation which have arisen during the normal course of business. Other claims and litigation are outstanding for which the Authority cannot determine the ultimate outcome and resulting liability, if any. However, the Authority's management believes the ultimate outcome of these claims and lawsuits will not significantly impact the Authority's financial position.

Investments and Investment Policy

The information presented in this section is a general description only and is not intended to be and does not purport to be a complete description of the Authority's Investment Policy. Reference is made to the full text of the Authority's Investment Policy for a complete description of the terms thereof, which is available from the Authority upon request.

Amounts held in funds and accounts established pursuant to the Indenture will be invested as provided in the Indenture, and as may be further restricted by the Authority's Investment Policy (the "Investment Policy"), adopted by the Board of Directors on April 4, 1996, as amended by the Board of Directors on December 14, 2000 and February 6, 2003, and most recently reaffirmed May 3, 2007. The Investment Policy covers all funds (other than any Amalgamated Transit Union Pension Funds) and investment activities under the direction of the Authority.

The Investment Policy has three primary objectives, listed below in descending order of priority:

1. **Safety.** Safety of principal is the foremost objective of the Investment Policy. The Authority's investments shall be undertaken in a manner that seeks to ensure the preservation of capital.
2. **Liquidity.** The Authority's investment portfolio shall remain sufficiently liquid to enable the Authority to meet its cash flow requirements.
3. **Return on Investment.** The Authority's investment portfolio shall be designed with the objective of attaining a market rate of return on its investments consistent with the constraints imposed by its safety objective and cash flow considerations.

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Listed below are the investments specifically permitted in the Investment Policy, together with the maximum share of the total Authority portfolio that each type of investment may comprise:

| Investment | Maximum % of Portfolio |
|---|-------------------------------------|
| U.S. Treasury Obligations | 100% |
| Obligations of Federal Agencies and U.S. Government-Sponsored Enterprises | 100% |
| State of California Obligations | 30% |
| Bankers' Acceptances | 40% |
| Commercial Paper not to exceed 180 days rated "A-1/P-1" | |
| if weighted average maturity of all paper is 31 days or more | 25% |
| if weighted average maturity of all paper is less than 31 days | 15% |
| Negotiable Certificates of Deposit | 30% |
| Repurchase Agreements | 100% |
| Reverse Repurchase Agreements | 20% |
| Medium Term Notes | 30% |
| Savings and Money Market Accounts | 15% |
| Mortgage and Asset-Backed Obligations | 20% |
| Mutual Funds | 15% |
| State of California Local Agency Investment Fund (LAIF) | Maximum limit by law (\$40 million) |
| Santa Clara County Investment Pool | 100% |

Prohibited investments include inverse floaters, range notes, interest-only strips that are derived from a pool of mortgages, any security that could result in zero interest accrual if held to maturity and any security with an unusually high degree of interest rate sensitivity or credit risk.

Issuer/Credit Diversification:

| | |
|--|-----|
| Any one federal agency or government sponsored enterprise | 25% |
| Any one repurchase agreement or other collateralized counterparty name | 10% |
| Any one corporation, bank, local agency, or other name | 5% |

Risk Management

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

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

An actuarial analysis as of June 30, 2007, dated October 1, 2007, disclosed that the present values of estimated outstanding losses, at 4% average discount rate using a 90% confidence level, projected for June 30, 2007, are \$24.8 million and \$4.3 million for Workers' Compensation and General Liability,

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

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

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

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

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

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

Pension and Retirement Plans

Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan.

All Amalgamated Transit Union ("ATU") employees are covered by the Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan ("ATU Plan"). The ATU Plan is a noncontributory single-employer defined benefit pension plan. The ATU Plan provides retirement, disability, and death benefits based on the employees' years of service, age, and final compensation. As of January 1, 2008, there were 2,592 members of the ATU Plan. Employees with ten (10) or more years of service are entitled to full annual pension benefits beginning at normal retirement age of 65. Employees with less than ten (10) but at least five (5) years of service are entitled to a reduced annual benefit at age 65 provided that the Pension Board approves such benefit. Employees with fifteen (15) or more years of service are entitled to full annual pension benefits beginning at age 55. The ATU Plan permits early retirement if an employee becomes disabled after ten (10) or more years of service, and deferred vested retirement upon employee termination after ten (10) or more years of service, with benefits payable permitted at age 65. Employees may elect to receive their benefits in the form of a joint or survivor annuity. These benefit provisions and all other requirements are established by State statute and the labor agreement with the ATU. The following actuarial methods and assumptions are based on a report dated January 1, 2008.

Actuarial Methods and Assumptions:

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

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

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

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

⁽¹⁾ As of June 30, 2007.

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

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

The schedule of funding progress is as follows:

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

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

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

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

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

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

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

Public Employees' Retirement Plan. All eligible non-ATU employees of the Authority participate in the State's Public Employees Retirement System ("CalPERS"). Prior to separation from the County on January 1, 1995, all eligible Authority employees participated in CalPERS through the County. As a result of the separation from the County, certain administrative employees were transferred from the County to the Authority. All of those administrative employees' service credits earned during the period they worked for the County's transportation agency were transferred to the Authority's CalPERS account. The transfer of related assets at a market value totaling approximately \$52.3 million was completed by CalPERS in Fiscal Year 1999.

CalPERS is an agent multiple-employer defined benefit retirement plan that acts as a common investment and administrative agent for various local and state governmental agencies within the State. CalPERS provides retirement, disability, and death benefits based on the employees' years of service, age, and final compensation. Employees vest after five (5) years of service and may receive retirement benefits at age 50. These benefit provisions and all other requirements are established by state statute and Authority resolutions. The Authority contracts with CalPERS to administer these benefits. The following actuarial methods and assumptions are based on a report dated October 29, 2007.

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Actuarial Methods and Assumptions:

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

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

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

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

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

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

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

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

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

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

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

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

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

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APPENDIX B

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

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Independent Auditor's Report

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

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

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

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

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

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

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

Vawrinek Time Day + Co. LLP

Palo Alto, California
November 26, 2007

Management's Discussion and Analysis

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

Financial Highlights

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

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Government-wide Financial Analysis

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

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

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

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

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

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

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

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

Comparison of Business-Type Activity Revenue for FY2007 and FY2006

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

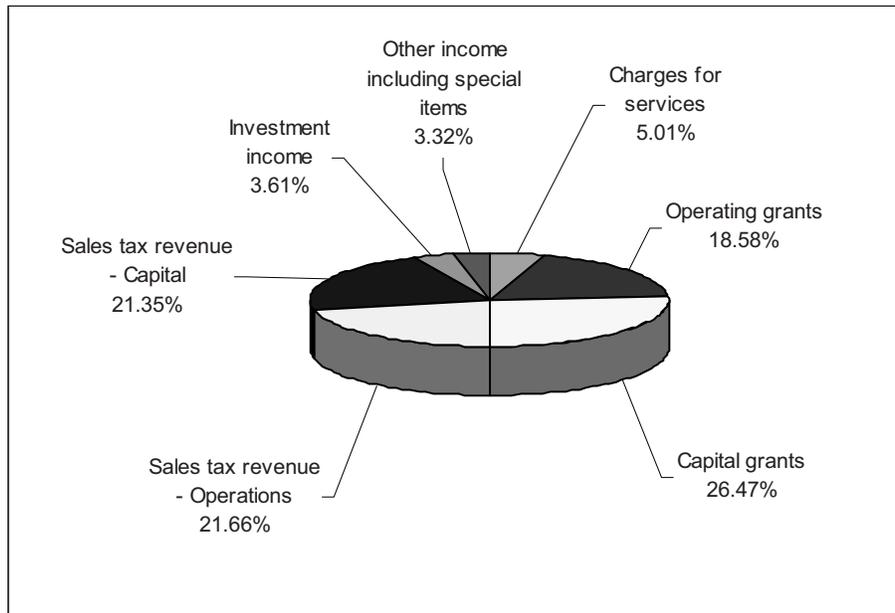
- Charges for services, derived from bus fare box receipts, light rail ticket sales, the sale of monthly passes (including ECO Pass and tokens) and advertisement income, were up \$1.0 million (2.6%) compared to FY2006. This was due to an increase in ridership mainly in the light rail segment as FY2007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

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

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

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

Revenues By Source – Business-type Activity



Comparison of Business-Type Activity Expenses for FY2007 and FY2006

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

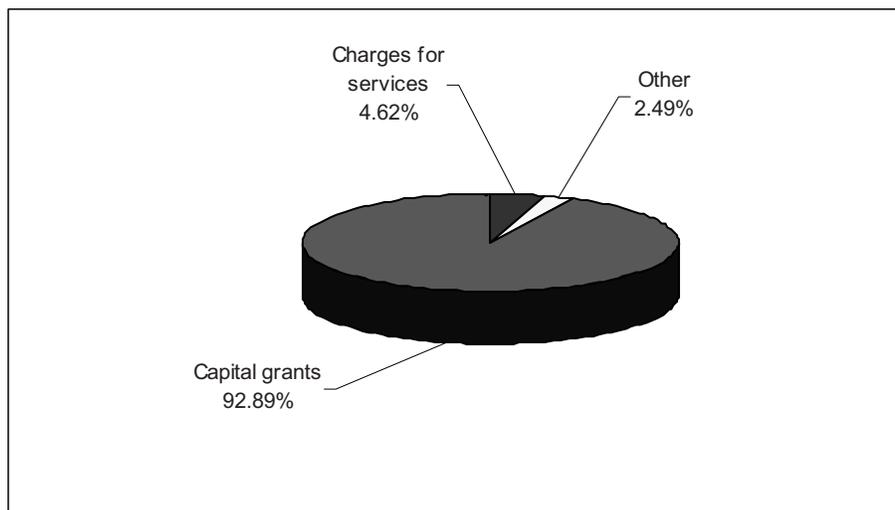
- Total expenses for business-type-activity in FY2007 decreased \$35.9 million or 8.7% compared to FY2006. Major contributors for the decrease include lower capital contribution of \$19.7 million to other agencies, lower depreciation expenses of \$12.8 million, and \$8.9 million higher overhead charges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

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

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

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

Revenues By Source - Governmental Activity



Financial Analysis of VTA's Funds

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

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

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

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

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

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

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

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

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

Capital Assets and Debt Administration

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

Capital Assets (Net of Accumulated Depreciation)

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

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

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

Outstanding Debt

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

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

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

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

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

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

Economic Factors

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

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

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

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

Budgetary Information

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

Requests for Information

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

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

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

See accompanying Notes to the Basic Financial Statements

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

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

See accompanying Notes to the Basic Financial Statements

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

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

See accompanying Notes to the Basic Financial Statements

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

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

See accompanying Notes to the Basic Financial Statements

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

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

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

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

See accompanying Notes to the Basic Financial Statements

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

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

See accompanying Notes to the Basic Financial Statements

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

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

See accompanying Notes to the Basic Financial Statements

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

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

See accompanying Notes to the Basic Financial Statements

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

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

See accompanying Notes to the Basic Financial Statements

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

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

See accompanying Notes to the Basic Financial Statements

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

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

See accompanying Notes to the Basic Financial Statements

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

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

NOTE 1 – THE FINANCIAL REPORTING ENTITY

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) *Basis of Presentation*

Government-wide Financial Statements

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

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

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

Fund Financial Statements

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

VTA reports the following major funds:

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

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

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

VTA reports the following additional funds:

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

(b) Basis of Accounting

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

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

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

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

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

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

(c) Cash and Investments

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

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

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

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

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

(d) Inventories

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

(e) Restricted Assets

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

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

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

(g) Capital Assets

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

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

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

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

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

(h) *Vacation and Sick Leave Benefits*

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

(i) *Self-Insurance*

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

(j) *Net Assets*

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

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

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

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

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

(l) *Estimates*

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

(m) *GASB Pronouncements*

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

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

NOTE 3 - CASH AND INVESTMENTS

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

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

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

| | |
|--|-------------------|
| Cash and equivalents | \$ 14,034 |
| Cash and cash equivalents with fiscal agents | 112,378 |
| Investments | 844,990 |
| | <u>\$ 971,402</u> |

Cash and Equivalents

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

| | |
|---------------------------------|------------------|
| Unrestricted operations account | \$ 3,036 |
| CM&HP account | 10,998 |
| Total deposits | <u>\$ 14,034</u> |

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

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

Investments

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

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

Specific restrictions of investment are noted below:

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

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

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

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

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

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

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

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

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

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

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

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

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

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**Notes to the Basic Financial Statements
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The following is a summary of the credit quality distribution for investments with credit exposure as a percentage of total investments as rated by Standards and Poors:

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

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

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

NOTE 4 – INTERFUND TRANSACTIONS

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

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

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

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

NOTE 5 – DUE FROM AND DUE TO OTHER GOVERNMENTAL AGENCIES

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

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

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

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

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

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

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

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

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

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

NOTE 6 – CAPITAL ASSETS

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

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

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

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

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

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

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

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

NOTE 7 - LONG-TERM LIABILITIES

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

Secured by VTA's 1976 ½ Cent Sales Tax

| | |
|---|-----------|
| Series 1985A Equipment Trust Certificates | \$ 29,200 |
| 1997 Series A Refunding (\$3,170, less unamortized discount of \$212) | 2,958 |
| 1998 Series A Junior Lien | 41,430 |
| 2000 Series A Junior Lien | 33,830 |
| 2001 Series A Senior Lien (\$13,770 less unamortized discount of \$102) | 13,668 |
| 2005 Series A-C Refunding (\$169,740 less unamortized deferred amount in refunding of \$15,370) | 154,370 |
| 2007 Series A Refunding (\$26,275 plus unamortized premium of \$1,406 and less unamortized deferred amount in refunding of \$2,660) | 25,021 |

Secured by VTA's 2000 Measure A ½ Cent Sales Tax

| | |
|--|-------------------|
| 2006 Series A-G Senior Lien (\$428,375 plus unamortized deferred amount in refunding \$17,276) | <u>445,651</u> |
| Total long-term debt | 746,128 |
| Less current portion of long-term debt | <u>(66,015)</u> |
| Long-term debt, excluding current portion | <u>\$ 680,113</u> |

(a) Equipment Trust Certificates

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

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

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

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

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

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

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

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

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

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

¹ London Interbank Offered Rate

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

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

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**Notes to the Basic Financial Statements
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(d) Interest Rate Swaps

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

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

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

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

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

Dollars in thousands

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

¹ Includes accrued interest

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

³ Sales Tax Revenue Refunding Bonds

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

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

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

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

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

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

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

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

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

(e) Swap Payments and Associated Debt

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

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

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

(f) Long-term Debt Obligation Summary

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

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

(g) Restrictions and Limitations

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

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

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

(h) Long-term Liabilities

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

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

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

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

NOTE 8 –SALES TAX REVENUES

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

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

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

NOTE 9 – VTA PROGRAMS FUNDED THROUGH LOCAL SALES TAX MEASURES

Measure B Transportation Improvement Program (MBTIP)

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

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

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

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

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

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

2000 Measure A Transit Improvement Program

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

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

NOTE 10 – FEDERAL, STATE, AND LOCAL ASSISTANCE

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

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

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

(a) Federal Grants

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

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

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

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

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

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

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

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

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

(b) State and Local Grants and Assistance

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

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

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

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

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

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

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

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

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

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

(a) Plan Description

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

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

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

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

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

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

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

(b) *Basis of Accounting*

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

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

(c) *Actuarial Methods and Assumptions*

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

(d) *Concentration*

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

(e) *Funding Policy*

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

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

(f) Net Pension Obligation

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

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

NOTE 12 – PUBLIC EMPLOYEES’ RETIREMENT PLAN

(a) Plan Description

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

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

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

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

(b) Actuarial Methods and Assumptions

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

(c) Funding Policy

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

(d) Net Pension Obligation

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

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

NOTE 13 – ATU SPOUSAL MEDICAL AND VISION/DENTAL TRUST

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

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

The Retiree Vision and Dental Trust is a vision and dental benefit for eligible pensioners. Effective February 8, 1999 and pursuant to a collective bargaining agreement, VTA is required to contribute \$.10 per hour worked by ATU employees. As of June 30, 2007, there were 747 eligible participants. Contributions, which were expensed by VTA, were approximately \$341 thousand for the Retiree Vision and Dental Trust.

NOTE 14 – INTERNAL SERVICE FUND

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

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

Workers' Compensation and General Liability

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

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

Actuarial Information

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

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

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

Retiree Health

(a) ATU

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

(b) Non-ATU

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

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

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

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

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

Actuarial Information

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

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

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

Compensated Absences

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

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

NOTE 15 – INSURANCE

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

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

NOTE 16 – LEASES

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

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

NOTE 17 – LITIGATION

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

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

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

NOTE 19 – JOINT VENTURES

(a) Peninsula Corridor Joint Powers Board

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

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

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

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

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

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

^(a) Latest audited information available.

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

(b) Altamont Commuter Express

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

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

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

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

^(a) Latest audited information available.

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

(c) Capitol Corridor Intercity Rail Service

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

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

(d) California Transit Finance Authority

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

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

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

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

NOTE 20 – OTHER FINANCING TRANSACTIONS

(a) Lease-Leaseback

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

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

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

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

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

(b) Japanese Operating Lease

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

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

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

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

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

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

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

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

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

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

(d) Lease to Service Contracts

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

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

(e) Excise Tax on Lease/Leaseback Transactions

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

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

NOTE 21 – SUBSEQUENT EVENTS

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

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

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

(Unaudited)

(In thousands)

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

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

Santa Clara Valley Transportation Authority CalPERS Plan

(Unaudited)

(In thousands)

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

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

Budgetary Basis of Accounting

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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APPENDIX C

COUNTY OF SANTA CLARA DEMOGRAPHIC AND ECONOMIC INFORMATION

General Information

The County of Santa Clara (the "County") lies immediately south of San Francisco Bay and is the sixth most populous county in the State of California (the "State"). It encompasses an area of approximately 1,300 square miles. The County was incorporated in 1850 as one of the original 27 counties of the State and operates under a home rule charter adopted by County voters in 1950 and amended in 1976.

The southern portion of the County has retained the agricultural base which once existed throughout the area and has two cities, separated by roughly 10 miles. The northern portion of the County is densely populated, extensively urbanized and heavily industrialized. The County contains 15 cities, the largest of which is the City of San Jose, the third largest city in the State and the County seat. The uppermost northwestern portion of the County, with its concentration of high-technology, electronics-oriented industry, is popularly referred to as the "Silicon Valley." Large employers include Hewlett-Packard, Intel Corp., National Semiconductor Corp., Lockheed Martin Space Systems Co., and IBM Corp.

Neighboring counties include San Mateo in the northwest, Santa Cruz in the southwest, San Benito in the south, Merced and Stanislaus in the east, and Alameda in the northeast. The City of San Jose is approximately 50 miles south of San Francisco and 42 miles south of the City of Oakland. These are the three largest cities of the nine-county San Francisco Bay Area, with the City of San Jose being the largest.

As required under the County Charter and under County ordinances, or by State and federal mandate, the County is responsible at the local level for activities involving public welfare, health and justice (courts and jails) and for the maintenance of public records. The County also operates recreational and cultural facilities serving the unincorporated areas of the County and on a regional basis.

Population

Historical Population Growth. Over the past 60 years, the County's population growth pattern has exhibited three decades of rapid growth followed by three decades of more sustainable growth rates.

According to U.S. Census figures, the number of County residents grew by 66% between 1940 and 1950, with most of the increase concentrated in the unincorporated areas and in the largest cities of San Jose, Palo Alto and Santa Clara. In the next decade, from 1950 to 1960, population grew by 121% with every major city as well as the unincorporated areas experiencing huge increases. The County also recorded the incorporation of four new cities during the 1950s, raising the total number of cities to its current level of fifteen.

The County's population growth subsided somewhat during the 1960s, although the 66% growth rate was over four times the 15.4% statewide increase. The population of San Jose doubled for the second decade in a row, while the cities of Mountain View, Santa Clara, and Sunnyvale added at least 23,000 residents each. As a result of the incorporation of four cities, the unincorporated area of the County posted its first decline in the 1960s, setting the stage for further drops in each of the subsequent three decades.

The County population growth rate fell to 21.5% during the 1970s. San Jose continued to add more residents (183,621) than any other city, while two of the larger cities (Palo Alto and Santa Clara) recorded small population declines and residents in the unincorporated area fell by 25,160. The slower growth of the 1970's reflected a slowing urbanization, due in part to policies adopted by the County to preserve agricultural areas.

The data from the 2000 U.S. Census indicate that the County's population reached 1,682,585, representing a 12.4% increase from the population base in 1980. Over the same period, statewide population grew more rapidly at a rate of 13.8%. San Jose surpassed San Francisco as the largest city in the Bay Area, with a population of 894,943. According to the 2000 census data, over one-half of the County's residents live in San Jose.

The proportion of residents living in cities is currently 94.4%, in contrast to the County's makeup in 1940 when urban residents made up only 6.5% of the County's population. Since the 1940s, the increasing maturation of the County's employment and economic sectors has resulted in the incorporation of new cities as well as the expansion of city boundaries, resulting in a shrinking fraction (currently 5.6%) of residents living in unincorporated areas.

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

By the year 2020, the State Department of Finance predicts that the County's population will grow to approximately 2.0 million residents, a 13.2% increase from 2006.⁽¹⁾ The following table provides a historical summary of population in the County and its incorporated cities.

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⁽¹⁾ State of California, Department of Finance, Demographic Research Unit (Report P-1).

County of Santa Clara Population

| | 1970 | 1980 | 1990 | 2000 | 2005 ⁽¹⁾ | 2006 ⁽¹⁾ | 2007 ⁽¹⁾ |
|-----------------------------|------------------|------------------|------------------|------------------|---------------------|---------------------|---------------------|
| Campbell | 24,731 | 26,843 | 36,088 | 38,138 | 38,262 | 38,580 | 39,748 |
| Cupertino | 18,216 | 34,297 | 39,967 | 50,602 | 53,238 | 54,082 | 55,162 |
| Gilroy | 12,665 | 21,641 | 31,487 | 41,464 | 47,482 | 48,747 | 49,649 |
| Los Altos | 24,872 | 25,769 | 26,599 | 27,693 | 27,505 | 27,729 | 28,104 |
| Los Altos Hills | 6,862 | 7,421 | 7,514 | 8,025 | 8,417 | 8,520 | 8,607 |
| Los Gatos | 23,466 | 26,906 | 27,357 | 28,592 | 28,863 | 29,116 | 29,407 |
| Milpitas | 27,149 | 37,820 | 50,690 | 62,698 | 64,751 | 65,554 | 66,568 |
| Monte Sereno | 3,074 | 3,434 | 3,287 | 3,483 | 3,491 | 3,528 | 3,565 |
| Morgan Hill | 6,485 | 17,060 | 23,928 | 33,586 | 36,279 | 37,256 | 38,418 |
| Mountain View | 54,206 | 58,655 | 67,365 | 70,708 | 71,747 | 72,316 | 73,262 |
| Palo Alto | 55,999 | 55,225 | 55,900 | 58,598 | 61,431 | 62,424 | 62,615 |
| San Jose | 445,779 | 629,400 | 782,224 | 895,131 | 941,116 | 957,915 | 973,672 |
| Santa Clara | 87,717 | 87,700 | 93,613 | 102,361 | 108,680 | 111,258 | 114,238 |
| Saratoga | 27,199 | 29,261 | 28,061 | 29,849 | 30,729 | 30,973 | 31,401 |
| Sunnyvale | 95,408 | 106,618 | 117,324 | 131,844 | 132,555 | 134,142 | 135,721 |
| Unincorporated | 152,181 | 127,021 | 106,173 | 99,813 | 98,107 | 98,309 | 97,919 |
| County Total ⁽²⁾ | <u>1,066,009</u> | <u>1,295,071</u> | <u>1,497,577</u> | <u>1,682,585</u> | <u>1,752,653</u> | <u>1,780,449</u> | <u>1,808,056</u> |
| California | 18,136,045 | 23,668,145 | 29,760,021 | 33,873,086 | 36,728,196 | 37,195,240 | 37,662,518 |

⁽¹⁾ As of January 1.

⁽²⁾ Totals may not be precise due to independent rounding.

Source: U.S. Census; State of California, Department of Finance, Demographic Research Unit (E-1 City/County Population).

Employment and Industry

The County is home to a highly skilled and diverse work force, a situation that has traditionally translated into lower unemployment rates in the County when compared to State and national average unemployment rates. From 1997 through 2000, job growth in Silicon Valley was extraordinary, with the addition of more than 103,300 jobs. However, the County's unemployment rate rose sharply between 2000 and 2003 as a result of the retraction in the communications and high technology industries that dominate the County's employment base. From December 2000 to January 2004, over 200,000 jobs were lost in Santa Clara County. Since 2003, the unemployment rate in the County declined, and averaging 4.5% for 2006 compared to 8.4% in 2003. However, as was the case in the rest of the United States, economic growth in the County slowed considerably in 2007, with much lower job growth than in the prior several years, and with the unemployment rate in the County increasing from 4.5% in 2006 to 4.8% in 2007.

At the end of 2006 the County had 898,000 wage and salary jobs. Three major industry sectors comprise approximately 53% of the County's employment: Manufacturing (18.7%), Professional & Business Activities (18.5%) and Trade, Transportation & Utilities (15.5%).

Development of high technology has been enhanced by the presence of Stanford University, Santa Clara University, San Jose State University, other institutions of higher education, and research and development facilities, such as SRI International, the Stanford Linear Accelerator Center, and Ames Research Center (NASA) within the County. In addition, the Rincon de los Esteros Redevelopment Area in northern San Jose has been the site of industrial/research and development submarkets in Silicon Valley.

The following table lists wage and salary employment in the County by Industry.

County of Santa Clara
Average Annual Employment by Industry⁽¹⁾
(In Thousands)

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 ⁽⁴⁾ |
|-------------------------------------|--------|-------|-------|-------|-------|-------|---------------------|
| Civilian Labor Force ⁽²⁾ | 967.0 | 918.0 | 876.8 | 854.8 | 850.0 | 859.3 | 880.3 |
| Employment | 917.6 | 841.0 | 803.2 | 798.9 | 804.0 | 820.3 | 838.0 |
| County Unemployment | 49.4 | 77.0 | 73.6 | 55.9 | 46.0 | 39.0 | 42.3 |
| Unemployment Rate: | | | | | | | |
| County | 5.1% | 8.4% | 8.4% | 6.5% | 5.4% | 4.5% | 4.8% |
| State of California | 5.4% | 6.7% | 6.8% | 6.2% | 5.4% | 4.9% | 5.4% |
| Industry Employment ⁽³⁾ | | | | | | | |
| Total, All Industries | 1024.9 | 924.1 | 876.9 | 868.7 | 876.3 | 898.6 | |
| Total Farm | 7.0 | 6.9 | 6.6 | 6.7 | 6.3 | 6.1 | |
| Total Nonfarm | 1017.9 | 917.2 | 870.3 | 862.0 | 869.9 | 892.4 | |
| Goods Producing | 297.8 | 253.2 | 224.5 | 217.3 | 215.7 | 218.3 | |
| Natural Resources and | | | | | | | |
| Mining | 0.2 | 0.2 | 0.2 | 0.1 | 0.2 | 0.3 | |
| Construction | 49.9 | 44.4 | 41.6 | 43.0 | 44.5 | 47.0 | |
| Manufacturing | 247.6 | 208.5 | 182.8 | 174.2 | 170.9 | 171.0 | |
| Service Providing | 720.2 | 664.0 | 645.7 | 644.7 | 654.3 | 674.1 | |
| Trade, Transportation & | 148.8 | 137.4 | 132.0 | 130.9 | 132.8 | 135.8 | |
| Utilities | | | | | | | |
| Information | 42.0 | 34.3 | 31.4 | 32.6 | 35.3 | 38.5 | |
| Financial Activities | 35.7 | 35.6 | 35.1 | 35.4 | 36.3 | 37.1 | |
| Professional & Business | 204.5 | 167.3 | 160.3 | 158.6 | 159.8 | 164.7 | |
| Activities | | | | | | | |
| Education & Health | 90.4 | 91.7 | 93.5 | 95.0 | 96.8 | 101.3 | |
| Services | | | | | | | |
| Leisure & Hospitality | 73.3 | 68.8 | 69.0 | 70.9 | 72.8 | 75.5 | |
| Other Services | 26.7 | 26.4 | 25.3 | 25.0 | 24.6 | 25.0 | |
| Government | 98.8 | 102.5 | 99.2 | 96.3 | 95.9 | 96.4 | |

⁽¹⁾ Data in this table is for Santa Clara and San Benito Counties combined (San Jose-Santa Clara-Sunnyvale MSA), where Santa Clara County employment share is approximately 98.3% of the total. Industry classification is using the North American Industry Classification System (NAICS).

⁽²⁾ Labor force data are based upon place of residence. Employment includes self-employed, unpaid family workers, domestics, and workers involved in labor-management disputes.

⁽³⁾ Industry employment is reported by place of work. Data are benchmarked to March 2006.

⁽⁴⁾ Information not available for Industry Employment.

Source: Employment Development Department.

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Major Employers

The County, which is centered in the heart of Silicon Valley, is home to numerous high technology and computer software and hardware manufacturing companies. Public-sector employers continue to top the list of the largest employers in Silicon Valley. The County ranks as number one, employing over 15,000 workers. In addition, the City of San Jose has over 6,500 full-time employees. Although there have been hiring freezes and cut-backs that have impacted public-sector organizations, such organizations typically tend to remain more stable in a volatile job market.

The tables on the following pages list the 15 largest private-sector and public-sector employers in the Silicon Valley, which encompasses the County and surrounding areas.

15 Largest Private-Sector Employers Silicon Valley

| Employer Name | Employees | Nature of Operations |
|--|-----------|--|
| Stanford University, Hospital & Clinics, Linear Accelerator | 23,756 | Academic research, hospital, medical research, electron accelerators, related facilities |
| Cisco Systems Inc. | 16,500 | Computer network equipment manufacturer |
| AT&T Inc. | 15,500 | IP-based communications, wireless, high-speed Internet, voice, directory publishing |
| Lockheed Martin Space Systems Co. | 7,951 | Aerospace systems |
| Oracle Corp. | 7,500 | Software |
| Hewlett-Packard Co. | 7,000 | Technology solutions provider |
| IBM Corp. | 6,500 | Creates, develops and manufactures information technologies |
| Intel Corp. | 5,700 | Microprocessors manufacturer |
| New United Motor Manufacturing Inc. | 5,500 | Automobile manufacturing |
| Applied Materials Inc. | 4,156 | Semiconductor equipment manufacturer |
| Sun Microsystems Inc. | 3,500 | Network computing servers, storage, software and services |
| Hitachi America Ltd. | 2,880 | Supplies North America with a broad range of high-tech products |
| Network Appliance Inc. | 2,324 | Provides unified network storage solutions |
| Xilinx Inc. | 2,300 | Supplies field-programmable gate arrays and complex programmable logic devices |
| Ebay Inc. | 2,200 | Online global trading platform |

Source: Silicon Valley/San Jose Business Journal, *Book of Lists 2007*, July 27, 2007.

**15 Largest Public-Sector Employers
Silicon Valley**

| Employer Name | Employees | Nature of Operations |
|---|----------------------|---|
| Santa Clara County | 15,012 | County government |
| State of California | 7,568 ⁽¹⁾ | State government |
| City of San Jose | 7,169 | Municipal government |
| San Jose State University | 4,100 | Education |
| San Jose Unified School District | 2,927 | Public education |
| Santa Cruz County | 2,627 | County government |
| Santa Clara Valley Transportation Authority | 2,035 | Bus, light rail and paratransit operations; transportation planning |
| Santa Clara County Office of Education | 1,800 | Educational resource to 33 school districts in Santa Clara County |
| Alum Rock Union School District | 1,350 | School district |
| Oak Grove Elementary School District | 1,308 | School district |
| Santa Clara Unified School District | 1,279 | School district |
| San Mateo County Community College District | 1,091 | Community college district |
| City of Palo Alto | 1,079 | Municipal government |
| Gilroy Unified School District | 953 | School district |
| City of Santa Clara | 889 | Municipal government |

⁽¹⁾ Full-time employees in Santa Clara, San Mateo, Santa Cruz, San Benito and Monterey Counties.
Source: Silicon Valley/San Jose Business Journal, *Book of Lists 2007*, July 27, 2007.

Income

Owing to the presence of relatively high-wage skilled jobs and wealthy residents, the County historically achieves high rankings relative to the rest of the state on a variety of income measurements. The U.S. Census Bureau reported Santa Clara County as having the 10th highest median household income in the United States, and the highest among California counties, at \$76,810 (2005 inflation adjusted).⁽²⁾

Commercial Activity

Ranking first among San Francisco Bay Area counties and fourth among all California counties in terms of retail activity through 2004, the County is an important center of commercial activity. Taxable sales activity at business and personal service outlets, as well as at other non-retail commercial establishments, are a significant component of the County's commercial activity. The following table sets forth the amount of taxable transactions from 2001 through 2006, which is the last full calendar year for which information is available.

⁽²⁾ U.S. Census Bureau, Factsheet, Santa Clara County, California.

**County of Santa Clara
Taxable Transactions by Sector
2001 through 2006
(In Millions)**

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 ⁽¹⁾ |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|---------------------|
| Apparel Stores | \$ 883.4 | \$ 881.9 | \$ 929.5 | \$ 1,051.0 | \$1,169.1 | \$ 1,264.2 |
| General Merchandise Stores | 2,720.4 | 2,569.6 | 2,589.3 | 2,718.4 | 2,839.9 | 2,979.4 |
| Specialty Stores | 3,489.3 | 2,952.5 | 2,908.6 | 3,059.4 | 3,377.9 | 3,674.3 |
| Food Stores | 860.8 | 833.9 | 819.9 | 819.6 | 830.5 | 849.3 |
| Eating and Drinking Places | 2,239.0 | 2,136.9 | 2,139.3 | 2,283.2 | 2,440.4 | 2,645.8 |
| Home Furnishings and Appliances | 968.2 | 851.5 | 798.6 | 830.5 | 850.6 | 879.9 |
| Building Materials | 1,316.6 | 1,278.0 | 1,314.7 | 1,539.7 | 1,577.2 | 1,659.8 |
| Automotive | 4,948.9 | 4,440.3 | 4,556.4 | 4,936.5 | 5,289.9 | 5,534.3 |
| Other Retail Stores | 510.1 | 480.6 | 458.7 | 485.8 | 528.1 | 552.9 |
| Total Retail Stores | \$17,936.7 | \$16,425.2 | \$16,515.1 | \$17,724.1 | \$18,903.5 | 20,039.9 |
| Business and Personal Services | 1,897.5 | 1,577.2 | 1,335.6 | 1,190.6 | 1,214.6 | 1265.3 |
| All Other Outlets | 12,299.1 | 9,451.5 | 9,211.9 | 9,576.9 | 10,075.7 | 10,968.0 |
| Total All Outlets⁽²⁾ | \$32,133.2 | \$27,453.9 | \$27,062.7 | \$28,491.6 | \$30,193.8 | \$32,273.2 |

⁽¹⁾ Most recent data available.

⁽²⁾ Totals may not add due to independent rounding.

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

The local economy started to slow down in late calendar year 2007 and the beginning of 2008, leading to a decline in taxable sales. Contributing to the slow down of the local economy are recent increases in energy, food, and raw material costs, and a downturn in the housing industry. Reduced home building, home sales, and auto sales contributed to a slowdown in taxable sales growth. As a result of the economic slow down, the Authority is experiencing a flattening of growth in 2000 Measure A Sales Tax Revenues and has adjusted its Fiscal Year 2008 and Fiscal Year 2009 2000 Measure A Sales Tax Revenues projection. See "THE 2000 MEASURE A SALES TAX-2000 Measure A Sales Tax Revenues" in the forepart of this Official Statement.

Construction Activity and Home Sales

The housing downturn continued to slow the County economy in 2007. Home building, home sales, and related retail sales all declined in the County. The problems with subprime mortgages and the related financial market volatility and credit tightening have worsened the housing sector downturn and raised the risk of further deterioration. Construction data for the County indicates that the value of new residential permits in 2007 is above the 2000 level, but the value of non-residential permits in 2007 remains significantly below the 2000 level. The number of new single family dwelling units in the County for 2007 is also below the 2000 level. New multiple-family dwelling units in 2007 have

decreased from the 2000 level by 38%. The valuations of new residential building permit activity have increased from the 2000 level by 2.2%. The total valuation of new residential and non-residential construction permits issued in the County was approximately \$3.36 billion in 2007, representing a decrease of \$0.850 billion (20.2%) from the 2000 total valuation.

The following tables provide a summary of building permit valuations and the number of new dwelling units authorized in the County since 1998.

**County of Santa Clara
Building Permit Valuations
1998 to 2007
(In Millions of Dollars)**

| Year | New Residential | New Non-Residential | Total |
|-------------|------------------------|----------------------------|--------------|
| 1998 | \$1,294.6 | \$1,882.0 | \$3,176.5 |
| 1999 | 1,306.0 | 1,855.9 | 3,162.0 |
| 2000 | 1,348.8 | 2,865.9 | 4,214.6 |
| 2001 | 1,051.5 | 2,254.8 | 3,306.3 |
| 2002 | 1,087.3 | 1,330.6 | 2,417.9 |
| 2003 | 1,466.4 | 972.9 | 2,439.3 |
| 2004 | 1,406.2 | 915.8 | 2,322.0 |
| 2005 | 1,557.0 | 1,285.7 | 2,842.7 |
| 2006 | 1,647.0 | 1,534.1 | 3,181.1 |
| 2007 | 1,378.2 | 1,986.2 | 3,364.4 |

Source: Construction Industry Research Board.

**County of Santa Clara
Number of New Dwelling Units
1998 to 2007**

| Year | Single Family | Multiple Family | Total |
|-------------|----------------------|------------------------|--------------|
| 1998 | 3,911 | 3,615 | 7,526 |
| 1999 | 3,333 | 3,677 | 7,010 |
| 2000 | 2,834 | 4,220 | 7,054 |
| 2001 | 1,641 | 4,319 | 5,960 |
| 2002 | 2,057 | 2,456 | 4,513 |
| 2003 | 2,320 | 5,170 | 7,490 |
| 2004 | 2,688 | 2,816 | 5,504 |
| 2005 | 2,577 | 3,295 | 5,872 |
| 2006 | 2,132 | 4,072 | 6,204 |
| 2007 | 1,982 | 2,615 | 4,597 |

Source: Construction Industry Research Board.

Existing home sales in the County continued the decrease that began at the start of 2005. Sales of single-family homes fell 22.8% for the calendar year 2006 compared to calendar year 2005, but the median price for a single-family home in the County was up 4.9% for the calendar year 2006 compared to calendar year 2005.⁽¹⁾

⁽¹⁾ Source: 2006 RE Report, The Real Estate Report for Santa Clara County, California (www.rereport.com).

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APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a brief summary of certain provisions of the Indenture, dated as of August 1, 2006, between the Santa Clara Valley Transportation Authority (the "Issuer") and Deutsche Bank National Trust Company, as trustee (the "Trustee"), as supplemented and amended by the First Supplemental Indenture, dated as of August 1, 2006 (hereinafter collectively referred to as the "Indenture"), between the Issuer and the Trustee. Such summary is not intended to be complete or definitive, is supplemental to the summary of other provisions of the Indenture contained elsewhere in this Official Statement, and is qualified in its entirety by reference to the full terms of the Indenture. All capitalized terms used and not otherwise defined in this Official Statement shall have the meanings assigned to such terms in the Indenture.

Definitions

Accreted Value means, with respect to any Capital Appreciation Bond, the principal amount thereof plus the interest accrued thereon, compounded at the approximate interest rate thereon on each date specified therein. The Accreted Value at any date shall be the amounts set forth in the Accreted Value Table as of such date, if such date is a compounding date, and if not, as of the immediately preceding compounding date.

Accreted Value Table means the table denominated as such which appears as an exhibit to, and to which reference is made in, a Supplemental Indenture providing for a Series of Capital Appreciation Bonds issued pursuant to such Supplemental Indenture.

Act means the Santa Clara Valley Transportation Authority Act, Part 12 of Division 10 (Section 100000 et seq.) of the Public Utilities Code of the State of California and Chapter 6 of Part 1 of Division 2 of Title 5 (Section 54300 et seq.) of the Government Code of the State of California as referenced in the Santa Clara Valley Transportation Authority Act.

Alternate Liquidity Facility means, with respect to a Series of Bonds, a line of credit, letter of credit, standby purchase agreement or similar liquidity facility, issued by a commercial bank or other financial institution, and delivered or made available to the Trustee, as a replacement or substitute for any Liquidity Facility then in effect.

Annual Debt Service means, for any Fiscal Year, the aggregate amount (without duplication) of principal and interest on all Bonds and Parity Obligations becoming due and payable during such Fiscal Year calculated using the principles and assumptions set forth under the definition of Debt Service.

ARS Mode means, with respect to a Series of 2006 Series Bonds, the Mode during which such Series of 2006 Series Bonds bear interest at the ARS Rate.

Assumed Debt Service means for any Fiscal Year the aggregate amount of principal and interest which would be payable on all Bonds if each Excluded Principal Payment were amortized on a substantially level debt service basis for a period commencing on the date of calculation of such Assumed Debt Service and ending on the earlier of (i) the date specified by the Issuer, which date may be the final maturity date of such Bonds or (ii) the Tax Expiration Date, such Assumed Debt Service to be calculated based on a fixed interest rate equal to the rate at which the Issuer could borrow for such period, as set forth in a certificate of a financial advisor or investment banker, delivered to the Trustee, who may rely

conclusively on such certificate, such certificate to be delivered within thirty (30) days of the date of calculation.

Authority or Issuer means the Santa Clara Valley Transportation Authority, a public transit district duly established and existing under the laws of the State of California.

Authorized Representative means the Chairperson of the Board, the General Manager, the Chief Financial Officer, the Fiscal Resources Manager, Treasury and Financial Planning or such other person as may be designated to act on behalf of the Issuer by a written certificate furnished to the Trustee containing the specimen signature of such person and signed on behalf of the Issuer by an Authorized Representative.

Beneficial Owner means any Person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of any Bond, including, without limitation, any Person holding Bonds through nominees or depositories, including the Securities Depository.

BMA Municipal Swap Index means the index based upon the weekly interest rates of tax-exempt variable rate issues included in a database maintained by Municipal Market Data or any successor indexing agent which meets the specific criteria established by the Bond Market Association.

Board means the Board of Directors of the Issuer.

Bond Obligation means, as of any given date of calculation, (1) with respect to any Outstanding Current Interest Bond, the principal amount of such Bond, and (2) with respect to any Outstanding Capital Appreciation Bond, the Accreted Value thereof.

Bond Reserve Fund means any fund by that name established with respect to one or more Series of Bonds pursuant to the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

Bond Reserve Requirement with respect to a Series of Bonds for which the Issuer shall have established a Bond Reserve Fund shall have the meaning specified in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

Bondholder or Holder or Owner, whenever used in the Indenture or in this Official Statement with respect to a Bond, means the person in whose name such Bond is registered.

Bonds means the Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds authorized by, and at any time Outstanding pursuant to, the Indenture.

Business Day means, except as is otherwise provided in the Supplemental Indenture pursuant to which a Series of Bonds are issued, any day other than (1) a Saturday, Sunday, or a day on which banking institutions in the State or the State of New York are authorized or obligated by law or executive order to be closed, (2) for purposes of payments and other actions relating to Bonds secured by a Credit Enhancement or supported by a Liquidity Facility, a day upon which commercial banks in the city in which is located the office of the issuing bank at which demands for payment under the Credit Enhancement or Liquidity Facility, as applicable, are to be presented are authorized or obligated by law or executive order to be closed, and (3) a day on which the New York Stock Exchange is closed.

Capital Appreciation Bonds means the Bonds of any Series designated as Capital Appreciation Bonds in the Supplemental Indenture providing for the issuance of such Series of Bonds and on which interest is compounded and paid at maturity or on prior redemption.

Certificate, Statement, Request, Requisition and Order of the Issuer mean, respectively, a written certificate, statement, request, requisition or order signed in the name of the Issuer by an Authorized Representative.

Code means the Internal Revenue Code of 1986, and the regulations applicable thereto or issued thereunder, or any successor to the Internal Revenue Code of 1986. Reference to any particular Code section shall, in the event of such a successor Code, be deemed to be reference to the successor to such Code section.

Continuing Disclosure Certificate means, with respect to each Series of Bonds requiring an undertaking regarding disclosure under Rule 15c2-12, the Continuing Disclosure Certificate, dated the date of issuance of such Series of Bonds, executed by the Issuer, as the same may be supplemented, modified or amended in accordance with its terms.

Corporate Trust Office or corporate trust office means the corporate trust office of the Trustee at 101 California Street, 46th Floor, San Francisco, California 94111, Attention: Corporate Trust, or such other or additional offices as may be designated by the Trustee from time to time.

Costs of Issuance means all items of expense directly or indirectly payable by or reimbursable to the Issuer and related to the authorization, execution, sale and delivery of a Series of Bonds, including but not limited to advertising and printing costs, costs of preparation and reproduction of documents, filing and recording fees, travel expenses and costs relating to rating agency meetings and other meetings concerning such Series of Bonds, initial fees and charges of the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, financial advisor fees and expenses, rating agency fees, fees and charges for preparation, execution, transportation and safekeeping of Bonds, surety, insurance, credit enhancement and liquidity costs, and any other cost, charge or fee in connection with the initial delivery of a Series of Bonds or any Parity Obligations delivered in connection with a Series of Bonds.

Costs of Issuance Fund means a fund by that name established pursuant to the provisions of a Supplemental Indenture to pay Costs of Issuance with respect to a Series of Bonds being issued pursuant to such Supplemental Indenture.

Counterparty means an entity which has entered into an Interest Rate Swap Agreement with the Issuer.

Credit Enhancement means, with respect to a Series of Bonds, any Insurance, letter of credit, line of credit, surety bond or other instrument, if any, which secures or guarantees the payment of principal of and interest on a Series of Bonds, issued by an insurance company, commercial bank or other financial institution, and delivered or made available to the Trustee, as from time to time supplemented or amended pursuant to its terms, or, in the event of the delivery or availability of an Alternate Credit Enhancement, such Alternate Credit Enhancement.

Credit Enhancement Provider means, with respect to a Series of Bonds, the Insurer, commercial bank or other financial institution issuing (or having primary obligation, or acting as agent for the financial institutions obligated, under) a Credit Enhancement then in effect with respect to such Series of Bonds.

Current Interest Bonds means the Bonds of any Series designated as Current Interest Bonds in the Supplemental Indenture providing for the issuance of such Series of Bonds and which pay interest at least semiannually to the Holders thereof excluding the first payment of interest thereon.

Daily Mode means, with respect to a Series of 2006 Series Bonds, the Mode during which such Series of 2006 Series Bonds bear interest at the Daily Rate.

Daily Rate means the per annum interest rate on any Series of 2006 Series Bonds in the Daily Mode determined pursuant to the Indenture.

Debt Service, when used with respect to any Bonds, means, as of any date of calculation and with respect to any Fiscal Year, the sum of (1) the interest falling due on such Bonds during such Fiscal Year and (2) the principal or mandatory sinking account payments required with respect to such Bonds during such Fiscal Year; computed on the assumption that no portion of such Bonds shall cease to be Outstanding during such Fiscal Year except by reason of the application of such scheduled payments; provided, however, that for purposes of such computation:

(a) Excluded Principal Payments and the interest related thereto, provided such interest is being paid by the same source as the Excluded Principal Payments, shall be excluded from such calculation and Assumed Debt Service shall be included in such calculation;

(b) in determining the principal amount due in each Fiscal Year, payment shall (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made in accordance with any amortization schedule established for such Bonds, including any Mandatory Sinking Account Payments or any scheduled redemption or payment of Bonds on the basis of Accreted Value, and for such purpose, the redemption payment or payment of Accreted Value shall be deemed a principal payment and interest that is compounded and paid as Accreted Value shall be deemed due on the scheduled redemption or payment date of such Capital Appreciation Bond;

(c) if any Bonds bear, or if any Bonds proposed to be issued will bear, interest at a variable interest rate for which an Interest Rate Swap Agreement is not in place and the interest on which is excluded or expected to be excluded from gross income for federal income tax purposes, the interest rate on such variable interest rate Bonds shall be calculated at an interest rate listed in The Bond Buyer "25 Revenue Bond Index" published on a date selected by the Issuer, which date shall be no earlier than the first day of the calendar month preceding the date of sale of such Bonds and no later than the date of sale of such Bonds plus twenty-five (25) basis points or if such index is not published on the date of sale such Bonds, at the interest rate listed in such index published immediately prior to the date of sale such Bonds plus twenty-five (25) basis points (provided, however, that if such index is no longer published, the interest rate on such Bonds shall be calculated based upon such index as the Issuer shall designate in writing to the Trustee);

(d) if any Bonds bear, or if any Bonds proposed to be issued will bear, interest at a variable interest rate for which an Interest Rate Swap Agreement is not in place and the interest on which is included or expected to be included in gross income for federal income tax purposes, the interest rate on such Bonds shall be calculated at an interest rate equal to 110% of the average One Month USD LIBOR Rate during the three (3) months preceding the month of sale of such Bonds, or if the One Month USD LIBOR Rate is no longer available, such similar rate as the Issuer shall designate in writing to the Trustee;

(e) with respect to any Bonds bearing interest, or expected to bear interest, at a variable interest rate for which an Interest Rate Swap Agreement is in place, if (i) the interest rate on such Bonds, plus (ii) the payments received and made by the Issuer under an Interest Rate Swap Agreement with respect to such Bonds, are expected to produce a synthetic fixed rate to be paid by the Issuer (e.g., an interest rate swap under which the Issuer pays a fixed rate and receives a variable rate that is expected to equal or approximate the rate of interest on such Bonds), such Bonds shall be treated as bearing such synthetic fixed rate for the duration of the synthetic fixed rate;

(f) if any Bonds bear, or are expected to bear, a fixed interest rate and an Interest Rate Swap Agreement is entered into with respect to such Bonds, if (i) the interest rate on such fixed interest rate Bonds, plus (ii) the payments received and made by the Issuer under an Interest Rate Swap Agreement with respect to such fixed interest rate Bonds, are expected to produce a synthetic variable rate to be paid by the Issuer (e.g., an interest rate swap under which the Issuer pays a variable rate and receives a fixed rate that is expected to equal or approximate the rate of interest on such fixed interest rate Bonds), the fixed interest rate Bonds, shall be treated as bearing such synthetic variable rate for the duration of the Interest Rate Swap Agreement calculated as provided in subparagraph (c) or subparagraph (d), as applicable, above; and

(g) principal and interest payments on Bonds shall be excluded to the extent such payments are to be paid from amounts on deposit with the Trustee or other fiduciary in escrow specifically therefor and interest payments shall be excluded to the extent that such interest payments are to be paid from the proceeds of Bonds held by the Trustee or other fiduciary as capitalized interest specifically to pay such interest or are to be paid from Revenues then held on deposit by the Trustee.

Event of Default means any of the events of default specified in the Indenture.

Excluded Principal Payments means each payment of principal of Bonds which the Issuer determines (in the Supplemental Indenture) that the Issuer intends to pay with moneys which are not Revenues (such as commercial paper, balloon indebtedness or bond anticipation notes) but from future debt obligations of the Issuer, grants from the State or federal government, or any agency or instrumentality thereof, or any other source of funds of the Issuer, upon which determination of the Issuer the Trustee may conclusively rely. No such determination shall affect the security for such Bonds or the obligation of the Issuer to pay such payments from Revenues. No payment of principal of Bonds may be determined to be an Excluded Principal Payment unless it is due on or prior to the later of April 1, 2036 or the Tax Expiration Date.

Favorable Opinion of Bond Counsel means, with respect to any action the occurrence of which requires such an opinion, an Opinion of Bond Counsel, addressed to the Trustee, to the effect that the action proposed to be taken will not, in and of itself, adversely affect any exclusion from gross income of interest on the affected Series of 2006 Series Bonds.

Fees and Expenses Fund means the fund by that name established pursuant to the Indenture.

Fiscal Year means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other 12-month period hereafter selected and designated as the official fiscal year period of the Issuer, which designation shall be provided to the Trustee in a Certificate delivered by the Issuer.

Fitch means Fitch Inc., and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term

"Fitch" shall be deemed to refer to any other nationally recognized securities rating agency selected by the Issuer.

Fixed Rate means the per annum interest rate or interest rates on any Series of 2006 Series Bonds in a Fixed Rate Mode determined pursuant to the Indenture.

Fixed Rate Mode means, with respect to a Series of 2006 Series Bonds, the Mode during which such Series of 2006 Series Bonds bear interest at a Fixed Rate.

Fixed Rate Remarketing Agent means, an investment banking firm or firms selected by the Issuer which has or have entered into a written agreement with the Issuer to remarket or purchase and remarket a Series of 2006 Series Bonds being converted to a Fixed Rate Mode in accordance with the terms and provisions set forth in the Indenture.

Flexible Mode means, with respect to a Series of 2006 Series Bonds, the Mode during which such Series of 2006 Series Bonds bear interest at Flexible Rates.

Flexible Rate means, with respect to any 2006 Series Bond in a Flexible Mode, the per annum interest rate determined for such 2006 Series Bond pursuant to the Indenture.

Holder or **Bondholder**, whenever used in the Indenture with respect to a Bond, means the person in whose name such Bond is registered.

Indenture means the Indenture, dated as of August 1, 2006, between the Trustee and the Issuer, as originally executed or as it may from time to time be supplemented or amended by any Supplemental Indenture delivered pursuant to the provisions of the Indenture.

Insurance means any financial guaranty insurance policy or municipal bond insurance policy issued by an Insurer insuring the payment when due of principal of and interest on a Series of Bonds as provided in such financial guaranty insurance policy or municipal bond insurance policy. The 2006 Series Insurance is the financial guaranty insurance policy issued in connection with the 2006 Series Bonds.

Insurer means any provider of Insurance with respect to a Series of Bonds. The Insurer of the 2006 Series Bonds is the 2006 Series Insurer.

Interest Fund means the fund by that name established pursuant to the Indenture.

Interest Payment Date, with respect to each Series of Bonds, shall have the meaning specified in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

Interest Rate Swap Agreement or **Swap** means an interest rate swap, cap, collar, option, floor, forward, derivative or other hedging agreement, arrangement or security, however denominated, entered into between the Issuer and a Counterparty, in connection with, or incidental to, the issuance or carrying of Bonds including, without limitation, an interest rate swap, cap, collar, option, floor, forward, derivative or other hedging agreement, arrangement or security entered into in advance of the issuance of Bonds.

Investment Policy means the investment policy adopted by the Board on April 4, 1996 and reaffirmed by the Board on June 1, 2006, as heretofore modified, amended and supplemented, and as such investment policy may be further modified, amended or supplemented from time to time by action of the Board.

Investment Securities means any of the following to the extent such Investment Securities are permitted pursuant to the Investment Policy:

(A) The following obligations may be used as Investment Securities for all purposes, including defeasance investments in refunding escrow accounts:

(1) Cash (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with obligations described in paragraph (2) below);

(2) Direct obligations of (including obligations issued or held in book entry form on the books of) the Department of the Treasury of the United States of America;

(3) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including

- Export-Import Bank
- Farm Credit System Financial Assistance Corporation
- Rural Economic Community Development Administration (formerly the Farmers Home Administration)
- General Services Administration
- U.S. Maritime Administration
- Small Business Administration
- Government National Mortgage Association (GNMA)
- U.S. Department of Housing & Urban Development (PHA's)
- Federal Housing Administration
- Federal Financing Bank; and

(4) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- Senior debt obligations rated "Aaa" by Moody's and "AAA" by Standard & Poor's issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC)
- Obligations of the Resolution Funding Corporation (REFCORP)
- Senior debt obligations of the Federal Home Loan Bank System
- Senior debt obligations of other Government Sponsored Agencies approved by each Credit Enhancement Provider then providing Credit Enhancement for a Series of Bonds.

(B) The following obligations may be used as Investment Securities for all purposes other than defeasance investments in refunding escrow accounts:

(1) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks (including the Trustee and its affiliates) which have a rating (ratings on holding companies are not considered as the rating of the banks) on their short-term certificates of deposit on the date of purchase of "A-1" or "A-1+" by Standard & Poor's and "P-1" by Moody's and maturing no more than three hundred sixty (360) days after the date of purchase;

(2) Commercial paper which is rated at the time of purchase in the single highest classification, "A-1" by Standard & Poor's or "P-1" by Moody's and which matures not more than two hundred seventy (270) days after the date of purchase;

(3) Investments in a money market fund rated "AAAm or "AAAm-G" or better by Standard & Poor's including funds for which the Trustee or an affiliate provides investment advice or other services;

(4) Pre-refunded Municipal Obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(A) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Standard & Poor's and Moody's or any successors thereto; or

(B) (i) which are fully secured as to principal and interest and prepayment premium, if any, by an escrow consisting only of cash or obligations described in paragraph A(2) above, which escrow may be applied only to the payment of such principal of and interest and prepayment premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified prepayment date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and prepayment premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(5) General obligations of states with a rating of at least "A2/A" or higher by both Moody's and Standard & Poor's;

(6) Any investment agreement with a financial institution or insurance company which has at the date of execution thereof an outstanding issue of unsecured, uninsured and unguaranteed debt obligations or a claims paying ability rated (or the parent company or guarantor of which is rated) in either of the two highest long-term Rating Categories by Moody's and Standard & Poor's;

(7) The Local Agency Investment Fund managed by the Treasurer of the State of California, as referred to in Section 16429.1 of the Government Code of the State but only to the extent such investment is registered in the name of the Trustee;

(8) Shares in a common law trust established pursuant to Title 1, Division 7, Charter 5 of the Government Code of the State which invests exclusively in investments permitted by Section 53601 of Title 5 Division 2, Chapter 4 of the Government Code of the State, as it may be amended ("CAMP");

(9) The commingled investment fund of the County of Santa Clara, California, which is administered in accordance with the investment policy of said County as established by the Director of Finance thereof, as permitted by Section 53601 of the Government

Code of the State, copies of which policy are available upon written request to said Director of Finance; and

(10) Any other forms of investments, including repurchase agreements, approved in writing by each Credit Enhancement Provider then providing Credit Enhancement for a Series of Bonds.

Issuer or Authority means the Santa Clara Valley Transportation Authority, a public transit district duly established and existing under the laws of the State of California.

Liquidity Facility means, with respect to a Series of Bonds, a line of credit, letter of credit, standby purchase agreement or similar liquidity facility, issued by a commercial bank, insurance company, pension fund or other financial institution, and delivered or made available to the Trustee, as from time to time supplemented or amended pursuant to its terms, or, in the event of the delivery or availability of an Alternate Liquidity Facility, such Alternate Liquidity Facility.

Liquidity Facility Bonds means any Bonds purchased with moneys drawn under (or otherwise obtained pursuant to the terms of) a Liquidity Facility, but excluding any Bonds no longer considered to be Liquidity Facility Bonds in accordance with the terms of the applicable Liquidity Facility.

Liquidity Facility Provider means, with respect to a Series of Bonds, the commercial bank, insurance company, pension fund or other financial institution issuing (or having primary obligation, or acting as agent for the financial institutions obligated, under) a Liquidity Facility then in effect with respect to such Series of Bonds.

Liquidity Facility Rate means, with respect to a Series of Bonds, the interest rate per annum, if any, specified in the Liquidity Facility delivered in connection with such Series of Bonds as applicable to Liquidity Facility Bonds.

Mandatory Sinking Account Payment means, with respect to Bonds of any Series and maturity, the amount required by the Supplemental Indenture establishing the terms and provisions of such Series of Bonds to be deposited by the Issuer in a Sinking Account for the payment of Term Bonds of such Series and maturity.

Maturity Date means, with respect to a Series of Bonds, the date of maturity or maturities specified in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

Maximum Annual Debt Service means the maximum amount of Annual Debt Service becoming due and payable on all Bonds Outstanding and all Parity Obligations outstanding during the period from the date of such calculation through the final maturity date of the Bonds and Parity Obligations, calculated utilizing the assumptions set forth under the definition of Debt Service.

Maximum Rate means the lesser of (i) twelve percent (12%) and (ii) the maximum rate of interest that may legally be paid on the Bonds from time to time.

Moody's means Moody's Investors Service, a corporation duly organized and existing under the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the Issuer.

Mode or Interest Rate Mode means, as the context may require, the ARS Mode, the Daily Mode, the Weekly Mode, the Flexible Mode, the Term Rate Mode, or the Fixed Rate Mode.

Mode Change Date means with respect to all of any Series of 2006 Series Bonds in a particular Mode, the day on which another Mode for all of such Series of 2006 Series Bonds begins, and includes an ARS Rate Conversion Date and a Conversion Date.

Notice Parties means the Issuer, the Trustee, the Credit Enhancement Provider, if any, the Liquidity Facility Provider, if any, the Broker-Dealer, if any, the Auction Agent, if any, the Remarketing Agent, if any, and the Fixed Rate Remarketing Agent, if any, for the Series of 2006 Series Bonds to which the notice being given relates.

One Month USD LIBOR Rate means the British Banker's Association average of interbank offered rates in the London market for deposits in U. S. dollars for a one month period as reported in The Wall Street Journal or, if not reported in such newspaper, as reported in such other source as may be selected by the Issuer.

Opinion of Bond Counsel means a written opinion of a law firm of national standing in the field of public finance selected by the Issuer.

Ordinance means Ordinance No. 01.1 adopted by the Board on March 1, 2001, pursuant to the provisions of Article 9 of Chapter 5 of the Act, as now in effect and as it may from time to time hereafter be amended or supplemented.

Outstanding, when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except: (1) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (2) Bonds with respect to which all liability of the Issuer shall have been discharged in accordance with the provisions of the Indenture described below under the caption "Discharge of Liability on Bonds," and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture; provided, however, that in the event the principal of or interest due on any Bonds shall be paid by the Credit Enhancement Provider pursuant to the Credit Enhancement issued in connection with such Bonds, such Bonds shall remain Outstanding for all purposes and shall not be considered defeased or otherwise satisfied or paid by the Issuer and the pledge of Revenues and all covenants, agreements and other obligations of the Issuer to the Holders shall continue to exist and shall run to the benefit of such Credit Enhancement Provider and such Credit Enhancement Provider shall be subrogated to the rights of such Holders.

Parity Obligations means (i) any indebtedness, installment sale obligation, lease obligation or other obligation of the Issuer for borrowed money or (ii) any Interest Rate Swap Agreement (excluding fees and expenses and termination payments on Interest Rate Swap Agreements which fees and expenses and termination payments shall be secured by a lien and charge on the 2000 Measure A Sales Tax Revenues subordinate to the lien and charge upon the 2000 Measure A Sales Tax Revenues which secures the Bonds, Parity Obligations and payment of principal and interest on Subordinate Obligations) entered into in connection with a Series of Bonds, in each case incurred in accordance with the Indenture and having an equal lien and charge upon the 2000 Measure A Sales Tax Revenues and therefore payable on a parity with the Bonds (whether or not any Bonds are Outstanding).

Participating Underwriter means any of the original underwriters of a Series of Bonds required to comply with Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission, under the Securities Act of 1934, as the same may be amended from time to time.

Person means an association, corporation, firm, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

Principal Fund means the fund by that name established pursuant to the Indenture.

Project means the acquisition, construction improvement or equipping of any or all real and personal and intellectual property, equipment, computers, information services, software rights or interests to be owned, held or used for transit purposes, including, but not limited to, rights-of-way, rail lines, bus lines, stations, platforms, switches, yards, terminals, parking lots and any and all facilities necessary or convenient for transit service within or partly without the County as permitted under the Ordinance, and the payment and/or reimbursement of all costs incidental to or connected with the accomplishment of such purpose including, without limitation, engineering, inspection, legal, fiscal agents, financial consultant and other fees, bond and other reserve funds, working capital, bond interest estimated to accrue during construction and for a period not to exceed one (1) year thereafter or such greater period as shall be specified in the Tax Certificate delivered in connection with a Series of Bonds. As and to the extent permitted pursuant to 2000 Measure A and the Ordinance, Project shall also include the payment of operating expenses relating to increased bus, light rail and paratransit services.

Project Fund means, with respect to any Series of Bonds, a fund by that name established pursuant to the provisions of a Supplemental Indenture to hold the proceeds of a Series of Bonds or a portion thereof prior to expenditure on the portion of the Project being financed with the proceeds of such Series of Bonds.

Proportionate Basis, when used with respect to the redemption of Bonds, means that the amount of Bonds of each maturity to be redeemed shall be determined as nearly as practicable by multiplying the total amount of funds available for redemption by the ratio which the amount of Bond Obligation of Bonds of such maturity bears to the amount of all Bond Obligation of Bonds to be redeemed, provided, however that, any Bond may only be redeemed in an authorized denomination. For purposes of the foregoing, Term Bonds shall be deemed to mature in the years and in the amounts of the Mandatory Sinking Account Payments, and Capital Appreciation Bonds and Current Interest Bonds maturing or subject to Mandatory Sinking Account Payments in the same year shall be treated as separate maturities. When used with respect to the payment or purchase of Bonds, "Proportionate Basis" shall have the same meaning set forth above except that "pay" or purchase" shall be substituted for "redeem" or "redemption" and "paid" or "purchased" shall be substituted for "redeemed."

Purchase Fund means a fund by that name established to hold funds to be applied to pay the purchase price of a Series of Bonds, which fund shall be established pursuant to the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

Rating Agency means, as and to the extent applicable to a Series of Bonds, each of Fitch, Moody's and Standard & Poor's then maintaining a rating on such Series of Bonds at the request of the Issuer.

Rating Category means: (i) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier; and (ii) with respect to any short-term or commercial paper rating category, all

ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

Rebate Fund means that fund by that name established pursuant to the Indenture.

Rebate Instructions means, with respect to any Series of Bonds, those calculations and directions required to be delivered to the Trustee by the Issuer pursuant to the Tax Certificate delivered in connection with such Series of Bonds.

Rebate Requirement means, with respect to any Series of Bonds, the Rebate Requirement determined in accordance with the Tax Certificate delivered in connection with such Series of Bonds.

Record Date, with respect to each Series of Bonds, shall have the meaning specified in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

Redemption Fund means the fund by that name established pursuant to the Indenture.

Redemption Price means, with respect to any Bond (or portion thereof) the principal amount of such Bond (or portion thereof) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the Indenture.

Refunding Bonds means a Series of Bonds or a portion of a Series of Bonds issued pursuant to the provisions of the Indenture described below under the caption "Issuance of Refunding Bonds."

Remarketing Agent means, with respect to any Series of 2006 Series Bonds, the remarketing agent for such Series of 2006 Series Bonds selected by the Issuer pursuant to the Indenture.

Repositories means the public or private entities designated as Repositories in a Continuing Disclosure Certificate entered into in connection with a Series of Bonds.

Reserve Facility means any insurance policy, letter of credit or surety bond issued by a Reserve Facility Provider, meeting the requirements set forth in the Indenture described below under the caption "Funding and Application of Bond Reserve Funds," and delivered to the Trustee in satisfaction of all or a portion of the Bond Reserve Requirement applicable to one or more Series of Bonds.

Reserve Facility Provider means any issuer of a Reserve Facility.

Revenue Fund means the Sales Tax Revenue Fund established pursuant to the Indenture.

Revenues means: (i) all 2000 Measure A Sales Tax Revenues; and (ii) all investment earnings on amounts held by the Trustee in the funds and accounts established under the Indenture, excluding amounts deposited to the Rebate Fund and any Purchase Fund. Revenues does not include any funds or assets of the Issuer except 2000 Measure A Sales Tax Revenues and investment earnings on amounts held by the Trustee in the funds and accounts established under the Indenture, excluding amounts deposited to the Rebate Fund and any Purchase Fund; provided, however, that in accordance with the provisions of the Indenture described below under the caption "Issuance of Additional Bonds," the Issuer by Supplemental Indenture may provide for additional revenues or assets of the Issuer to be included in the definition of Revenues.

Rule 15c2-12 means Securities and Exchange Commission Rule 15c2-12, as supplemented and amended from time to time.

Securities Depository means The Depository Trust Company, or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depository, or no such depositories, as the Issuer may designate in a Request of the Issuer delivered to the Trustee.

Serial Bonds means Bonds, maturing in specified years, for which no Mandatory Sinking Account Payments are provided.

Series, whenever used in the Indenture with respect to Bonds, means all of the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction regardless of variations in maturity, interest rate, redemption and other provisions, and any Bonds thereafter authenticated and delivered upon transfer or exchange or in lieu of or in substitution for (but not to refund) such Bonds as in the Indenture provided.

Sinking Account means an account by that name established in the Principal Fund for the payment of Term Bonds.

Standard & Poor's or **S&P** means Standard & Poor's, a division of The McGraw-Hill Companies, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Standard & Poor's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the Issuer.

State means the State of California.

State Board of Equalization means the California State Board of Equalization.

Subordinate Obligations means any obligations issued or incurred in accordance with the provisions of the Indenture described in paragraph (D) under the caption "Limitations on the Issuance of Obligations Payable from 2000 Measure A Sales Tax Revenues; Parity Obligations; Subordinate Obligations" set forth below.

Subordinate Obligations Fund means the fund by that name established pursuant to the Indenture.

Supplemental Indenture means any indenture hereafter duly executed and delivered, supplementing, modifying or amending the Indenture, but only if and to the extent that such supplemental indenture is specifically authorized under the Indenture.

Tax Certificate means each Tax Certificate delivered by the Issuer at the time of issuance and delivery of a Series of Bonds, as the same may be amended or supplemented in accordance with its terms.

Tax Expiration Date means March 31, 2036 or such later date to which the levy of the 2000 Measure A Sales Tax is extended in accordance with the Act.

Term Bonds means Bonds payable at or before their specified maturity date or dates from Mandatory Sinking Account Payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

Term Rate means the per annum interest rate for any Series of 2006 Series Bonds in the Term Rate Mode determined pursuant to the Indenture.

Term Rate Mode means, with respect to a Series of 2006 Series Bonds, the Mode during which such Series of 2006 Series Bonds bear interest at a Term Rate.

Trustee means Deutsche Bank National Trust Company, a national banking association duly organized and existing under and by virtue of the laws of the United States of America, or its successor, as Trustee as provided in the Indenture.

2000 Measure A means the ballot measure which authorized the 2000 Measure A Sales Tax.

2000 Measure A Sales Tax means the retail transactions and use tax authorized by 2000 Measure A.

2000 Measure A Sales Tax Revenues or **Sales Tax Revenues** means the amounts available for distribution to the Issuer after the date of issuance of the 2006 Series Bonds on account of the 2000 Measure A Sales Tax after deducting amounts payable by the Issuer to the State Board of Equalization for costs and expenses for its services in connection with the 2000 Measure A Sales Tax collected pursuant Section 100250 et seq. of the Act and levied pursuant to the Ordinance.

2006 Series Bonds means the Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds, 2006 Series A, 2006 Series B, 2006 Series C, 2006 Series D, 2006 Series E, 2006 Series F and 2006 Series G authorized by, and at any time Outstanding pursuant to, the Indenture.

2006 Series Insurance means the financial guaranty insurance policy issued by the 2006 Series Insurer insuring the scheduled payment when due of the principal of and interest on the 2006 Series Bonds as provided therein.

2006 Series Insurer means Ambac Assurance Corporation, a Wisconsin domiciled stock insurance corporation, or any successor thereto.

Variable Rate Indebtedness means any indebtedness the interest rate on which is not fixed at the time of incurrence of such indebtedness, and has not at some subsequent date been fixed, at a numerical rate or rates for the entire term of such indebtedness.

Weekly Rate means the per annum interest rate on any Series of 2006 Series Bonds in the Weekly Mode determined pursuant to the Indenture.

Weekly Mode means, with respect to any Series of 2006 Series Bonds, the Mode during which such Series of 2006 Series Bonds bear interest at the Weekly Rate.

Pledge of 2000 Measure A Sales Tax Revenues; Sales Tax Revenue Fund

The Bonds are limited obligations of the Issuer and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from the 2000 Measure A Sales Tax Revenues and other funds pledged under the Indenture. All 2000 Measure A Sales Tax Revenues are pledged to secure the punctual payment of the principal of, redemption premium, if any, and interest on the Bonds and any Parity Obligations in accordance with their terms, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and provisions set forth in the Indenture. All amounts (including proceeds of the Bonds) held by the Trustee under the Indenture (except for amounts held in the Rebate Fund and any Purchase Fund) are pledged to secure the payment of the principal of and redemption premium, if any, and interest on the Bonds in accordance with their terms, subject only to the provisions of the Indenture permitting the application thereof for the purposes

and on the terms and conditions set forth in the Indenture. Said pledge shall constitute a first lien on the 2000 Measure A Sales Tax Revenues and on the amounts in such funds and shall be valid and binding from and after delivery by the Trustee of the 2006 Series Bonds or Parity Obligations incurred in connection with the 2006 Series Bonds, without any physical delivery thereof or further act.

The 2000 Measure A Sales Tax Revenues pledged to the payment of Bonds and Parity Obligations shall be applied without priority or distinction of one over the other and the 2000 Measure A Sales Tax Revenues shall constitute a trust fund for the security and payment of the Bonds and Parity Obligations; but nevertheless out of 2000 Measure A Sales Tax Revenues certain amounts may be applied for other purposes as provided in the Indenture.

Out of 2000 Measure A Sales Tax Revenues there shall be applied as hereinafter described all sums required for the payment of the principal of (including any premium thereon) and interest on the Bonds and all Parity Obligations, together with any sinking fund payments of Bonds and Parity Obligations and reserve requirements with respect thereto and fees and expenses and similar charges payable in connection with the Bonds and Parity Obligations. All remaining 2000 Measure A Sales Tax Revenues, after making the foregoing allocation, shall be available to the Issuer for all lawful Issuer purposes. The pledge of 2000 Measure A Sales Tax Revenues made in the Indenture shall be irrevocable until all of the Bonds, all Parity Obligations and amounts owed in connection with the Bonds and Parity Obligations.

The 2000 Measure A Sales Tax Revenues shall be received and held in trust by the Trustee for the benefit of the Holders of the Bonds and the Parity Obligations and shall be disbursed, allocated and applied solely for the uses and purposes set forth in the Indenture and described below under the caption "Allocation of Revenues." As long as any Bonds are Outstanding or any Parity Obligations remain unpaid, the Issuer assigns and shall cause 2000 Measure A Sales Tax Revenues to be transmitted by the California State Board of Equalization directly to the Trustee. The Trustee shall forthwith deposit in a trust fund, designated as the "Sales Tax Revenue Fund," which fund the Trustee shall establish and maintain, all 2000 Measure A Sales Tax Revenues, when and as received by the Trustee. Investment income on amounts held by the Trustee under the Indenture (other than amounts held in the Rebate Fund or for which particular instructions (such as with respect to a Project Fund or a Purchase Fund) are provided in a Supplemental Indenture) shall also be deposited in the Revenue Fund. All moneys at any time held in the Revenue Fund shall be held in trust for the benefit of the Holders of the Bonds and the holders of Parity Obligations and shall be disbursed, allocated and applied solely for the uses and purposes set forth in the Indenture and described below under the caption "Allocation of Revenues."

Allocation of 2000 Measure A Sales Tax Revenues

So long as any Bonds are Outstanding, the Trustee shall set aside in each month following receipt of the 2000 Measure A Sales Tax Revenues the moneys in the Revenue Fund in the following respective funds (each of which the Trustee shall establish, maintain and hold in trust for the benefit of the Holders of the Bonds and, as and to the extent applicable, the holders of Parity Obligations) in the following amounts, in the following order of priority, the requirements of each such fund (including the making up of any deficiencies in any such fund resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any fund subsequent in priority; provided that on a parity with such deposits the Trustee may set aside or transfer amounts with respect to any outstanding Parity Obligations as provided in the proceedings for such Parity Obligations delivered to the Trustee (which shall be proportionate in the event such amounts are insufficient to provide for all deposits required as of any date to be made with respect to the Bonds and such Parity Obligations):

Interest Fund. Following receipt of the 2000 Measure A Sales Tax Revenues in each month, the Trustee shall set aside in the Interest Fund as soon as practicable in such month an amount equal to (a) one-sixth of the aggregate half-yearly amount of interest becoming due and payable on the Outstanding Current Interest Bonds (except for Bonds constituting Variable Rate Indebtedness which shall be governed by subparagraph (b) below) during the next ensuing six (6) months (excluding any interest for which there are moneys deposited in the Interest Fund from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay such interest during said next ensuing six (6) months), until the requisite half-yearly amount of interest on all such Outstanding Current Interest Bonds (except for Bonds constituting Variable Rate Indebtedness which shall be governed by subparagraph (b) below) is on deposit in such fund; provided that from the date of delivery of a Series of Current Interest Bonds until the first interest payment date with respect to such Series of Bonds the amounts set aside in such fund with respect to such Series of Bonds shall be sufficient on a monthly pro rata basis to pay the aggregate amount of interest becoming due and payable on said interest payment date with respect to such Series of Bonds, plus (b) the aggregate amount of interest to accrue during that month on Outstanding Variable Rate Indebtedness, calculated, if the actual rate of interest is not known, at the interest rate specified in writing by the Issuer, or if the Issuer shall not have specified an interest rate in writing, calculated at the maximum interest rate borne by such Variable Rate Indebtedness during the month prior to month of deposit plus one hundred (100) basis points (provided, however, that the amount of such deposit into the Interest Fund for any month may be reduced by the amount by which the deposit in the prior month exceeded the actual amount of interest accrued during that month on said Outstanding Variable Rate Indebtedness and provided further that the amount of such deposit into the Interest Fund for any month shall be increased by the amount by which the deposit in the prior month was less than the actual amount of interest accruing during that month on said Outstanding Variable Rate Indebtedness). No deposit need be made into the Interest Fund if the amount contained therein is at least equal to the interest to become due and payable on the Interest Payment Dates falling within the next six (6) months upon all of the Bonds issued under the Indenture and then Outstanding and on April 1 of each year any excess amounts in the Interest Fund not needed to pay interest on such date (and not held to pay interest on Bonds having interest payment dates other than April 1 and October 1) shall be transferred to the Issuer (but excluding, in each case, any moneys on deposit in the Interest Fund from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay interest on any future interest payment dates following such interest payment dates).

Principal Fund; Sinking Accounts. Following receipt of the 2000 Measure A Sales Tax Revenues in each month, the Trustee shall deposit in the Principal Fund as soon as practicable in such month an amount equal to at least (a) one-sixth of the aggregate semiannual amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds of all Series having semiannual maturity dates within the next six (6) months, plus (b) one-twelfth of the aggregate yearly amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds of all Series having annual maturity dates within the next twelve (12) months, plus (c) one-sixth of the aggregate of the Mandatory Sinking Account Payments to be paid during the next six-month period into the respective Sinking Accounts for the Term Bonds of all Series for which Sinking Accounts have been created and for which semiannual mandatory redemption is required from said Sinking Accounts, plus (d) one-twelfth of the aggregate of the Mandatory Sinking Account Payments to be paid during the next 12-month period into the respective Sinking Accounts for the Term Bonds of all Series for which Sinking Accounts shall have been created and for which annual mandatory redemption is required from such Sinking Accounts; provided that if the Issuer certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from amounts on deposit in a Bond Reserve Fund that would be in excess of the Bond Reserve Requirement applicable to such Bond Reserve Fund upon such payment, no amounts need be set aside towards such principal to be so refunded or paid. All of the aforesaid deposits made in connection with future Mandatory Sinking Account Payments shall be made without priority of any payment into any one such Sinking Account over any other such payment.

In the event that the Revenues shall not be sufficient to make the required deposits so that moneys in the Principal Fund on any principal or mandatory redemption date are equal to the amount of Bond Obligation to become due and payable on the Outstanding Serial Bonds of all Series plus the Bond Obligation amount of and redemption premium on the Outstanding Term Bonds required to be redeemed or paid at maturity on such date, then such moneys shall be applied on a Proportionate Basis and in such proportion as said Serial Bonds and said Term Bonds shall bear to each other, after first deducting for such purposes from said Term Bonds any of said Term Bonds required to be redeemed annually as shall have been redeemed or purchased during the preceding 12-month period and any of said Term Bonds required to be redeemed semiannually as shall have been redeemed or purchased during the six-month period ending on such date or the immediately preceding six month period. In the event that the Revenues shall not be sufficient to pay in full all Mandatory Sinking Account Payments required to be paid at any one time into all such Sinking Accounts, then payments into all such Sinking Accounts shall be made on a Proportionate Basis, in proportion that the respective Mandatory Sinking Account Payments required to be made into each Sinking Account during the then current 12-month period bear to the aggregate of all of the Mandatory Sinking Account Payments required to be made into all such Sinking Accounts during such 12-month period.

No deposit need be made into the Principal Fund so long as there shall be in such fund (i) moneys sufficient to pay the Bond Obligations of all Serial Bonds issued under the Indenture and then Outstanding and maturing by their terms within the next twelve (12) months plus (ii) the aggregate of all Mandatory Sinking Account Payments required to be made in such 12-month period, but less any amounts deposited into the Principal Fund during such 12-month period and theretofore paid from the Principal Fund to redeem or purchase Term Bonds during such 12-month period; provided that if the Issuer certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from amounts on deposit in a Bond Reserve Fund that would be in excess of the Bond Reserve Requirement applicable to such Bond Reserve Fund upon such payment, no amounts need be on deposit with respect to such principal payments. At the beginning of each Fiscal Year and in any event not later than April 1 of each year, the Trustee shall request from the Issuer a Certificate of the Issuer setting forth the principal payments for which deposits will not be necessary pursuant to the preceding sentence and the reason therefor. On April 1 of each year any excess amounts in the Principal Fund not needed to pay principal on such date (and not held to pay principal on Bonds having principal payment dates other than April 1) shall be transferred to the Issuer.

Bond Reserve Fund. Upon the occurrence of any deficiency in any Bond Reserve Fund, the Trustee shall make such deposit to such Bond Reserve Fund as is required pursuant to the provisions of the Indenture described in paragraph (D) under the caption "Funding and Application of Bond Reserve Funds," each such deposit to be made as soon as possible in each month, until the balance therein is at least equal to the applicable Bond Reserve Requirement.

Subordinate Obligations Fund. Upon the written direction of the Issuer, the Trustee shall establish, maintain and hold in trust a separate fund designated as the "Subordinate Obligations Fund." Upon the establishment of the Subordinate Obligations Fund at the direction of the Issuer, after the transfers to the Interest Fund, the Principal Fund and the Bond Reserve Funds described above have been made, the Trustee shall deposit in the Subordinate Obligations Fund in each month such amount as the Issuer shall specify in writing is necessary to pay principal of and interest due and payable during the following month with respect to Subordinate Obligations then outstanding.

Fees and Expenses Fund. After the transfers to the Interest Fund, the Principal Fund, the Bond Reserve Funds and the Subordinate Obligations Fund described above have been made if Issuer shall have instructed the Trustee to establish a Subordinate Obligations Fund or after the transfers described above to Interest Fund, Principal Fund, and Bond Reserve Funds have been made if no Subordinate

Obligations Funds shall have been established, the Trustee shall deposit as soon as practicable in each month in the Fees and Expenses Fund (which fund the Trustee hereby agrees to establish, maintain and hold in trust) amounts necessary for payment of fees, expenses and similar charges owing in such month or the following month by the Issuer in connection with the Bonds or any Parity Obligations (excluding termination payments on Interest Rate Swap Agreements). The Issuer shall inform the Trustee of such amounts, in writing, at the beginning of each month.

Any Revenues remaining in the Revenue Fund after the foregoing transfers in the funds and accounts described above, except as the Issuer shall otherwise direct in writing or as is otherwise provided in a Supplemental Indenture, shall be transferred to the Issuer on the same Business Day or as soon as is practicable thereafter. The Issuer may use and apply the Revenues when received by it for any lawful purpose of the Issuer, including the redemption of Bonds upon the terms and conditions set forth in the Supplemental Indenture relating to such Bonds and the purchase of Bonds as and when and at such prices as it may determine.

If five (5) days prior to any principal payment date, interest payment date or mandatory redemption date the amounts on deposit in the Interest Fund, the Principal Fund, including the Sinking Accounts therein, and, as and to the extent applicable, any Bond Reserve Fund established in connection with a Series of Bonds with respect to the payments to be made on such upcoming date are insufficient to make such payments, the Trustee shall immediately notify the Issuer, in writing, of such deficiency and direct that the Issuer transfer the amount of such deficiency to the Trustee on or prior to such payment date. The Issuer covenants and agrees to transfer to the Trustee from any Revenues in its possession the amount of such deficiency on or prior to the principal, interest or mandatory redemption date referenced in such notice.

Establishment and Application of Funds and Accounts

Each of the funds and accounts described below is established pursuant to the Indenture.

Interest Fund. All amounts in the Interest Fund shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture) and making periodic payments on Interest Rate Swap Agreements, as provided pursuant to the provisions of the Indenture described below under the caption "Payment Provisions Applicable to Interest Rate Swap Agreements."

Principal Fund. All amounts in the Principal Fund shall be used and withdrawn by the Trustee solely for the purposes of paying the Bond Obligation of the Bonds when due and payable, except that all amounts in the Sinking Accounts shall be used and withdrawn by the Trustee solely to purchase or redeem or pay at maturity Term Bonds, as provided in the Indenture.

The Trustee shall establish and maintain within the Principal Fund a separate account for the Term Bonds of each Series and maturity, designated as the "_____ Sinking Account," inserting therein the Series and maturity designation of such Bonds. On or before the Business Day prior to any date upon which a Mandatory Sinking Account Payment is due, the Trustee shall transfer the amount of such Mandatory Sinking Account Payment (being the principal thereof, in the case of Current Interest Bonds, and the Accreted Value, in the case of Capital Appreciation Bonds) from the Principal Fund to the applicable Sinking Account. With respect to each Sinking Account, on each Mandatory Sinking Account Payment date established for such Sinking Account, the Trustee shall apply the Mandatory Sinking Account Payment required on that date to the redemption (or payment at maturity, as the case may be) of Term Bonds of such Series and maturity for which such Sinking Account was established, in the manner

provided in the Indenture or the Supplemental Indenture pursuant to which such Series of Bonds was created; provided that, at any time prior to giving such notice of such redemption, the Trustee shall, upon receipt of a Request of the Issuer, apply moneys in such Sinking Account to the purchase of Term Bonds of such Series and maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Fund) as is directed by the Issuer, except that the purchase price (excluding accrued interest, in the case of Current Interest Bonds) shall not exceed the principal amount or Accreted Value thereof. If, during the 12-month period (or six-month period with respect to Bonds having semi-annual Mandatory Sinking Account Payments) immediately preceding said Mandatory Sinking Account Payment date, the Trustee has purchased Term Bonds of such Series and maturity with moneys in such Sinking Account, or, during said period and prior to giving said notice of redemption, the Issuer has deposited Term Bonds of such Series and maturity with the Trustee, or Term Bonds of such Series and maturity were at any time purchased or redeemed by the Trustee from the Redemption Fund and allocable to said Mandatory Sinking Account Payment, such Term Bonds so purchased or deposited or redeemed shall be applied, to the extent of the full principal amount thereof, to reduce said Mandatory Sinking Account Payment. All Term Bonds purchased or deposited pursuant to the provisions of the Indenture described herein shall be cancelled by the Trustee and destroyed by the Trustee and a certificate of destruction shall be delivered to the Issuer by the Trustee. Any amounts remaining in a Sinking Account on April 1 of each year following the redemption as of such date of the Term Bonds for which such account was established shall be withdrawn by the Trustee and transferred as soon as is practicable to the Issuer to be used for any lawful purpose. All Term Bonds purchased from a Sinking Account or deposited by the Issuer with the Trustee in a twelve month period ending March 31 (or in a six-month period ending March 31 or September 30 with respect to Bonds having semi-annual Mandatory Sinking Account Payments) and prior to the giving of notice by the Trustee for redemption from Mandatory Sinking Account Payments for such period shall be allocated first to the next succeeding Mandatory Sinking Account Payment for such Series and maturity of Term Bonds, if any, occurring on the next April 1 or October 1, then as a credit against such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of the Issuer. All Term Bonds redeemed by the Trustee from the Redemption Fund shall be credited to such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of the Issuer.

Funding and Application of Bond Reserve Funds. The Issuer may at its sole discretion at the time of issuance of any Series of Bonds or at any time thereafter by Supplemental Indenture provide for the establishment of a Bond Reserve Fund as additional security for a Series of Bonds. Any Bond Reserve Fund so established by the Issuer shall be available to secure one or more Series of Bonds as the Issuer shall determine and shall specify in the Supplemental Indenture establishing such Bond Reserve Fund. Any Bond Reserve Fund established by the Issuer shall be held by the Trustee and shall comply with the requirements of the Indenture described under this caption.

In lieu of making the Bond Reserve Requirement deposit applicable to one or more Series of Bonds in cash or in replacement of moneys then on deposit in any Bond Reserve Fund (which shall be transferred by the Trustee to the Issuer), or in substitution of any Reserve Facility comprising part of the Bond Reserve Requirement relating to one or more Series of Bonds, the Issuer may, at any time and from time to time, deliver to the Trustee an irrevocable letter of credit issued by a financial institution having unsecured debt obligations rated at the time of delivery of such letter of credit in one of the two highest Rating Categories of Moody's and Standard & Poor's, in an amount, which, together with cash, Investment Securities or other Reserve Facilities, as described in the paragraph below, then on deposit in such Bond Reserve Fund, will equal the Bond Reserve Requirement relating to the Bonds to which such Bond Reserve Fund relates. Such letter of credit shall have a term no less than three (3) years or, if less, the final maturity of the Bonds in connection with which such letter of credit was obtained and shall provide by its terms that it may be drawn upon as provided in this caption. At least one (1) year prior to

the stated expiration of such letter of credit, the Issuer shall either (i) deliver a replacement letter of credit, (ii) deliver an extension of the letter of credit for at least one (1) additional year or, if less, the final maturity of the Bonds in connection with which such letter of credit was obtained, or (iii) deliver to the Trustee a Reserve Facility satisfying the requirements of the Indenture described in the paragraph below. Upon delivery of such replacement Reserve Facility, the Trustee shall deliver the then-effective letter of credit to or upon the order of the Issuer. If the Issuer shall fail to deposit a replacement Reserve Facility with the Trustee, the Issuer shall immediately commence to make monthly deposits with the Trustee so that an amount equal to the Bond Reserve Requirement relating to the Bonds to which such Bond Reserve Fund relates will be on deposit in such Bond Reserve Fund no later than the stated expiration date of the letter of credit. If an amount equal to the Bond Reserve Requirement relating to the Bonds to which such Bond Reserve Fund relates as of the date following the expiration of the letter of credit is not on deposit in such Bond Reserve Fund one (1) week prior to the expiration date of the letter of credit (excluding from such determination the letter of credit), the Trustee shall draw on the letter of credit to fund the deficiency resulting therefrom in such Bond Reserve Fund.

In lieu of making a Bond Reserve Requirement deposit in cash or in replacement of moneys then on deposit in a Bond Reserve Fund (which shall be transferred by the Trustee to the Issuer) or in substitution of any Reserve Facility comprising part of a Bond Reserve Requirement for any Bonds, the Issuer may, at any time and from time to time, deliver to the Trustee a surety bond or an insurance policy securing an amount which, together with moneys, Investment Securities, or other Reserve Facilities then on deposit in a Bond Reserve Fund, is no less than the Bond Reserve Requirement relating to the Bonds to which such Bond Reserve Fund relates. Such surety bond or insurance policy shall be issued by an insurance company whose unsecured debt obligations (or for which obligations secured by such insurance company's insurance policies) are rated at the time of delivery in one of the two highest Rating Categories of Moody's and Standard & Poor's. Such surety bond or insurance policy shall have a term of no less than the final maturity of the Bonds in connection with which such surety bond or insurance policy is obtained. In the event that such surety bond or insurance policy for any reason lapses or expires, the Issuer shall immediately implement (i) or (iii) of the preceding paragraph or make the required deposits to such Bond Reserve Fund.

Subject to the provisions of the Indenture described in the final paragraph under this caption, all amounts in any Bond Reserve Fund (including all amounts which may be obtained from Reserve Facilities on deposit in such Bond Reserve Fund) shall be used and withdrawn by the Trustee, as hereinafter described for the purpose of making up any deficiency in the Interest Fund or the Principal Fund relating to the Bonds to which such Bond Reserve Fund relates, or (together with any other moneys available therefor) for the payment or redemption of all Bonds then Outstanding to which such Bond Reserve Fund relates or, for the payment of the final principal and interest payment of such Bonds. Unless otherwise directed in a Supplemental Indenture establishing the terms and provisions of a Series of Bonds, the Trustee shall apply amounts held in cash or Investment Securities in any Bond Reserve Fund prior to applying amounts held in the form of Reserve Facilities in any Bond Reserve Fund, and if there is more than one Reserve Facility being held on deposit in any Bond Reserve Fund, shall on a pro rata basis with respect to the portion of a Bond Reserve Fund held in the form of a Reserve Facility (calculated by reference to the maximum amount of such Reserve Facility), draw under each Reserve Facility issued with respect to such Bond Reserve Fund, in a timely manner and pursuant to the terms of such Reserve Facility to the extent necessary in order to obtain sufficient funds on or prior to the date such funds are needed to pay the Bond Obligation of, Mandatory Sinking Account Payments with respect to, and interest on the Bonds to which such Bond Reserve Fund relates when due. In the event that the Trustee has notice that any payment of principal of or interest on a Bond has been recovered from a Holder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee, pursuant to and provided that the terms of the Reserve Facility, if any, securing the Bonds so provide, shall so notify the issuer thereof and draw on such

Reserve Facility to the lesser of the extent required or the maximum amount of such Reserve Facility in order to pay to such Holders the principal of and interest so recovered.

The Trustee shall notify the Issuer of any deficiency in any Bond Reserve Fund (i) due to a withdrawal from such Bond Reserve Fund for purposes of making up any deficiency in the Interest Fund or the Principal Fund relating to the Bonds to which such Bond Reserve Fund relates or (ii) resulting from a valuation of Investment Securities held on deposit in such Bond Reserve Fund pursuant to the provisions of the Indenture described below under the caption "Investment in Funds and Accounts" and shall request that the Issuer replenish such deficiency or repay any and all obligations due and payable under the terms of any Reserve Facility comprising part of any Bond Reserve Requirement. Upon receipt of such notification from the Trustee, the Issuer shall instruct the Trustee to commence setting aside in each month following receipt of 2000 Measure A Sales Tax Revenues for deposit in the applicable Bond Reserve Fund an amount equal to one-twelfth (1/12th) of the aggregate amount of each unreplenished prior withdrawal from such Bond Reserve Fund or decrease resulting from a valuation of Investment Securities and shall further instruct the Trustee to transfer to each Reserve Facility Provider providing a Reserve Facility satisfying a portion of the Bond Reserve Requirement relating to the Bonds to which such Bond Reserve Fund relates, an amount equal to one-twelfth (1/12th) of the aggregate amount of any unreplenished prior withdrawal on such Reserve Facility, such amount to be transferred by the Trustee as promptly as possible after receipt of the 2000 Measure A Sales Tax Revenues each month, commencing with the month following the Issuer's receipt of notification from the Trustee of withdrawal or decrease resulting from a valuation, as applicable, until the balance on deposit in such Bond Reserve Fund is at least equal to the Bond Reserve Requirement relating to the Series of Bonds to which such Bond Reserve Fund relates.

Unless the Issuer shall otherwise direct in writing, amounts in any Bond Reserve Fund in excess of the Bond Reserve Requirement relating to the Bonds to which such Bond Reserve Fund relates shall be transferred by the Trustee to the Issuer on the Business Day following April 1 of each year; provided that such amounts shall be transferred only from the portion of such Bond Reserve Fund held in the form of cash or Investment Securities. In addition, amounts on deposit in any Bond Reserve Fund shall be transferred by the Trustee to the Issuer upon the defeasance, retirement or refunding of Bonds of the Series to which such Bond Reserve Fund relates or upon the replacement of cash on deposit in such Bond Reserve Fund with one or more Reserve Facilities in accordance with the provisions of the Indenture described above.

Subordinate Obligations Fund. All moneys in the Subordinate Obligations Fund shall be applied to the payment of principal of and interest on Subordinate Obligations in accordance with, and upon the written directions of, the Issuer.

Fees and Expenses Fund. All amounts in the Fees and Expenses Fund shall be used and withdrawn by the Trustee solely for the purpose of paying fees, expenses and similar charges owed by the Issuer in connection with the Bonds or any Parity Obligations (excluding termination payments on any Interest Rate Swap Agreement) as such amounts shall become due and payable.

Redemption Fund. The Trustee shall establish, maintain and hold in trust a special fund designated as the "Redemption Fund." All moneys deposited by the Issuer with the Trustee for the purpose of optionally redeeming Bonds of any Series shall, unless otherwise directed by the Issuer, be deposited in the Redemption Fund. All amounts deposited in the Redemption Fund shall be used and withdrawn by the Trustee solely for the purpose of redeeming Bonds of such Series and maturity as shall be specified by the Issuer in a Request to the Trustee, in the manner, at the times and upon the terms and conditions specified in the Supplemental Indenture pursuant to which the Series of Bonds was created; provided that, at any time prior to giving such notice of redemption, the Trustee shall, upon receipt of a

Request of the Issuer, apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding, in the case of Current Interest Bonds, accrued interest, which is payable from the Interest Fund) as is directed by the Issuer, except that the purchase price (exclusive of any accrued interest) may not exceed the Redemption Price or Accreted Value then applicable to such Bonds. All Term Bonds purchased or redeemed from the Redemption Fund shall be allocated to Mandatory Sinking Account Payments applicable to such Series and maturity of Term Bonds as may be specified in a Request of the Issuer.

Rebate Fund. Upon receipt of funds to be applied to the Rebate Requirement, the Trustee shall establish and maintain a fund separate from any other fund established and maintained under the Indenture designated as the Rebate Fund. Within the Rebate Fund, the Trustee shall maintain such accounts as shall be necessary in order to comply with the terms and requirements of each Tax Certificate as directed in writing by the Issuer. Subject to the transfer provisions provided in the Indenture, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement, for payment to the federal government of the United States of America, and neither the Trustee nor any Holder nor any other Person shall have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by the Indenture and by each of the Tax Certificates. The Issuer covenants to comply with the directions contained in each Tax Certificate and the Trustee covenants to comply with all written instructions of the Issuer delivered to the Trustee pursuant to each Tax Certificate (which instructions shall state the actual amounts to be deposited in or withdrawn from the Rebate Fund and shall not require the Trustee to make any calculations with respect thereto).

Payment Provisions Applicable to Interest Rate Swap Agreements

In the event the Issuer shall enter into an Interest Rate Swap Agreement in connection with a Series of Bonds, the amounts received by the Issuer, if any, pursuant to such Interest Rate Swap Agreement may be applied to the deposits required under the Indenture. If the Issuer so designates in a Supplemental Indenture establishing the terms and provisions of such Series of Bonds (or if such Interest Rate Swap Agreement is issued subsequent to the issuance of such Series of Bonds, if the Issuer so designates in a Certificate of the Issuer delivered to the Trustee concurrently with the execution of such Interest Rate Swap Agreement) amounts payable under such Interest Rate Swap Agreement (excluding termination payments and payments of fees and expenses which shall in all cases be payable from, and secured by, 2000 Measure A Sales Tax Revenues on a subordinate basis to Bonds, Parity Obligations and payment of principal and interest on Subordinate Obligations) shall constitute Parity Obligations under the Indenture, and, in such event, the Issuer shall pay or cause to be paid to the Trustee for deposit in the Interest Fund, at the times and in the manner provided in the Indenture, the amounts to be paid pursuant to such Interest Rate Swap Agreement, as if such amounts were additional interest due on the Series of Bonds to which such Interest Rate Swap Agreement relates, and the Trustee shall pay to the Counterparty to such Interest Rate Swap Agreement, to the extent required thereunder, amounts deposited in the Interest Fund for the payment of interest on the Series of Bonds with respect to which such Interest Rate Swap Agreement was entered into.

Investment in Funds and Accounts

All moneys in any of the funds and accounts held by the Trustee and established pursuant to the Indenture shall be invested, as directed by the Issuer, solely in Investment Securities, subject to the limitations set forth in the Indenture. If and to the extent the Trustee does not receive investment instructions from the Issuer with respect to the moneys in the funds and accounts held by the Trustee pursuant to the Indenture, such moneys shall be invested in Investment Securities described in clause

(B)(3) of the definition thereof and the Trustee shall thereupon request investment instructions from the Issuer for such moneys.

Moneys in any Bond Reserve Fund shall be invested in Investment Securities available on demand for the purpose of payment of the Bonds to which such Bond Reserve Fund relates as provided in the Indenture. Moneys in the remaining funds and accounts shall be invested in Investment Securities maturing or available on demand not later than the date on which it is estimated that such moneys will be required by the Trustee.

Unless otherwise provided in a Supplemental Indenture establishing the terms and provisions of a Series of Bonds: (i) all interest, profits and other income received from the investment of moneys in the Interest Fund representing accrued interest or capitalized interest shall be retained in the Interest Fund; (ii) all interest, profits and other income received from the investment of moneys in a Bond Reserve Fund shall be retained in such Bond Reserve Fund to the extent of any deficiency therein, and otherwise shall be transferred to the Revenue Fund; (iii) all interest, profits and other income received from the investment of moneys in a Project Fund shall be retained in such Project Fund, unless the Issuer shall direct that such earnings be transferred to the Rebate Fund; (iv) all interest, profits and other income received from the investment of moneys in the Rebate Fund shall be retained in the Rebate Fund, except as otherwise provided in the Indenture; and (v) all interest, profits and other income received from the investment of moneys in any other fund or account shall be transferred to the Revenue Fund.

All Investment Securities credited to any Bond Reserve Fund shall be valued (at market value) as of March 1 of each year (or the next succeeding Business Day if such day is not a Business Day), such market value to be determined by the Trustee in the manner then currently employed by the Trustee or in any other manner consistent with corporate trust industry standards. Notwithstanding anything to the contrary in the Indenture, in making any valuations of investments under the Indenture, the Trustee may utilize and rely on computerized securities pricing services that may be available to it, including those available through its regular accounting system.

The Trustee may commingle any of the funds or accounts established pursuant to the Indenture (except the Rebate Fund and any Purchase Fund) into a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Trustee under the Indenture shall be accounted for separately as required by the Indenture. The Trustee may act as principal or agent in the making or disposing of any investment and, with the prior written consent of the Issuer may impose its customary charge therefor. The Trustee may sell at the best price obtainable, or present for redemption, any Investment Securities so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Investment Security is credited. The Trustee shall not be liable or responsible for any loss resulting from any investment made in accordance with the provisions of the Indenture.

Issuance of Additional Bonds and Other Obligations

Issuance of Additional Bonds. Subsequent to the issuance of the 2006 Series Bonds, the Issuer may by Supplemental Indenture establish one or more additional Series of Bonds, payable from 2000 Measure A Sales Tax Revenues and secured by the pledge made under the Indenture equally and ratably with the 2006 Series Bonds, and the Issuer may issue, and the Trustee may authenticate and deliver to the purchasers thereof, Bonds of any Series so established, in such principal amount as shall be determined by the Issuer, but only, with respect to each additional Series of Bonds issued subsequent to the 2006 Series Bonds issued under the Indenture, upon compliance by the Issuer with the provisions of the Indenture described below under the caption "Proceedings for Issuance of Additional Bonds" and any additional requirements set forth in said Supplemental Indenture and subject to the specific conditions set forth

below, each of which is hereby made a condition precedent to the issuance of any such additional Series of Bonds.

(A) No Event of Default shall have occurred and then be continuing.

(B) Subject to the provisions of the Indenture described above under the caption "Funding and Application of Bond Reserve Funds," in the event a Supplemental Indenture providing for the issuance of such Series of Bonds shall require either (i) the establishment of a Bond Reserve Fund to provide additional security for such Series of Bonds or (ii) that the balance on deposit in an existing Bond Reserve Fund be increased, forthwith upon the receipt of the proceeds of the sale of such Series, to an amount at least equal to the Bond Reserve Requirement with respect to such Series of Bonds and all other Bonds secured by such Bond Reserve Fund to be considered Outstanding upon the issuance of such additional Series of Bonds, the Supplemental Indenture providing for the issuance of such additional Series of Bonds shall require deposit of the amount necessary. Said deposit shall be made as provided in the Supplemental Indenture providing for the issuance of such additional Series of Bonds and may be made from the proceeds of the sale of such Series of Bonds or from other funds of the Issuer or from both such sources or may be made in the form of a letter of credit, surety bond or insurance policy as provided in the provisions of the Indenture described above under the caption "Funding and Application of Bond Reserve Funds."

(C) The aggregate principal amount of Bonds issued under the Indenture shall not exceed any limitation imposed by law or by any Supplemental Indenture.

(D) The Issuer shall place on file with the Trustee a Certificate of the Issuer certifying that the lesser of (i) the amounts of 2000 Measure A Sales Tax Revenues for a period of twelve (12) consecutive months (selected by the Issuer) during the eighteen (18) months immediately preceding the date on which such additional Series of Bonds will become Outstanding, or (ii) the estimated 2000 Measure A Sales Tax Revenues for the Fiscal Year in which such Series of Bonds are to be issued, shall have been, or will be, as applicable, at least equal to 1.3 times Maximum Annual Debt Service, on all Series of Bonds and Parity Obligations then Outstanding and the additional Series of Bonds then proposed to be issued, which Certificate shall also set forth the computations upon which such Certificate is based.

(E) Principal payments of each additional Series of Bonds shall be due on April 1 in each year in which principal is to be paid if and to the extent deemed practical in the reasonable judgment of the Issuer with regard to the type of Bond to be issued, and, if the interest on such Series of Bonds is to be paid semiannually, such interest payments shall be due on April 1 and October 1 in each year to the extent deemed practical in the reasonable judgment of the Issuer with regard to the type of Bond to be issued.

Nothing in the Indenture shall prevent or be construed to prevent the Supplemental Indenture providing for the issuance of an additional Series of Bonds from pledging or otherwise providing, in addition to the security given or intended to be given by the Indenture, additional security for the benefit of such additional Series of Bonds or any portion thereof.

In the event additional assets or revenues are included within the definition of "Revenues" by a Supplemental Indenture, such additional assets or revenues shall be included in the calculations to be provided pursuant to the provisions of the Indenture described in paragraph (D) above as if such additional assets or revenues had always been included in "Revenues."

Proceedings for Issuance of Additional Bonds. Subsequent to the issuance of the 2006 Series Bonds, before any additional Series of Bonds shall be issued and delivered, the Issuer shall file each of the documents identified below with the Trustee (upon which documents the Trustee may conclusively

rely in determining whether the conditions precedent to the issuance of such Series of Bonds have been satisfied).

(A) A Supplemental Indenture authorizing such Series executed by the Issuer.

(B) A Certificate of the Issuer certifying: (i) that no Event of Default has occurred and is then continuing; and (ii) that the requirements of the Indenture described in paragraphs (B) and (C) under the caption "Issuance of Additional Bonds" have been satisfied by the Issuer.

(C) A Certificate of the Issuer certifying (on the basis of calculations made no later than the date of sale of such Series of Bonds) that the requirement of the Indenture described in paragraph (D) under the caption "Issuance of Additional Bonds" is satisfied.

(D) An Opinion of Bond Counsel to the effect that the Supplemental Indenture is being entered into in accordance with the Indenture and that such Series of Bonds, when duly executed by the Issuer and authenticated and delivered by the Trustee, will be valid and binding obligations of the Issuer.

Issuance of Refunding Bonds. Refunding Bonds may be authorized and issued by the Issuer without compliance with the provisions of the Indenture described above under the captions "Issuance of Additional Bonds" and "Proceedings for Issuance of Additional Bonds;" provided that Maximum Annual Debt Service on all Bonds Outstanding and all Parity Obligations outstanding following the issuance of such Refunding Bonds is less than or equal to Maximum Annual Debt Service on all Bonds Outstanding and all Parity Obligations outstanding prior to the issuance of such Refunding Bonds. Such Refunding Bonds may be issued in an aggregate principal amount sufficient (together with any additional funds available or to become available) to provide funds for the payment of all or a portion of the following:

(1) the principal or Redemption Price of the Outstanding Bonds or outstanding Parity Obligations to be refunded;

(2) all expenses incident to the calling, retiring or paying of such Outstanding Bonds or outstanding Parity Obligations and the Costs of Issuance of such Refunding Bonds;

(3) interest on all Outstanding Bonds or outstanding Parity Obligations to be refunded to the date such Bonds or Parity Obligations will be called for redemption or paid at maturity;

(4) interest on the Refunding Bonds from the date thereof to the date of payment or redemption of the Bonds or Parity Obligations to be refunded; and

(5) funding a Bond Reserve Fund for the Refunding Bonds, if required.

Before such Series of Refunding Bonds shall be issued and delivered pursuant to the provisions of the Indenture described under this caption, the Issuer shall file each of the documents identified below with the Trustee (upon which documents the Trustee may conclusively rely in determining whether the conditions precedent to the issuance of such Series of Refunding Bonds have been satisfied).

(1) A Supplemental Indenture authorizing such Series of Refunding Bonds executed by the Issuer.

(2) A Certificate of the Issuer certifying: (i) that Maximum Annual Debt Service on all Bonds and Parity Obligations which will be outstanding following the issuance of such Series of Refunding Bonds is less than or equal to Maximum Annual Debt Service on all Bonds Outstanding and Parity Obligations outstanding prior to the issuance of such Refunding Bonds; and (ii) that the requirements of the Indenture described in paragraphs (A), (B), and (C) under the caption "Issuance of Additional Bonds" are satisfied.

(3) If any of the Bonds to be refunded are to be redeemed prior to their stated maturity dates, irrevocable instructions to the Trustee to give the applicable notice of redemption or a waiver of the notice of redemption signed by the Holders of all or the portion of the Bonds or Parity Obligations to be redeemed, or proof that such notice has been given by the Issuer; provided, however, that in lieu of such instructions or waiver or proof of notice of redemption, the Issuer may cause to be deposited with the Trustee all of the Bonds and Parity Obligations proposed to be redeemed (whether canceled or uncanceled) with irrevocable instructions to the Trustee to cancel said Bonds or Parity Obligations so to be redeemed upon the exchange and delivery of said Refunding Bonds.

(4) An Opinion of Bond Counsel to the effect that the Supplemental Indenture is being entered into in accordance with the Indenture and that such Series of Refunding Bonds, when duly executed by the Issuer and authenticated and delivered by the Trustee, will be valid and binding obligations of the Issuer.

Limitations on the Issuance of Obligations Payable from 2000 Measure A Sales Tax Revenues; Parity Obligations; Subordinate Obligations. The Issuer will not, so long as any of the Bonds are Outstanding, issue any obligations or securities, howsoever denominated, payable in whole or in part from 2000 Measure A Sales Tax Revenues except the following:

(A) Bonds authorized pursuant to provisions in the Indenture described above under the caption "Issuance of Additional Bonds;"

(B) Refunding Bonds authorized pursuant to the provisions of the Indenture described above under the caption "Issuance of Refunding Bonds; "

(C) Parity Obligations, provided that the following conditions to the issuance or incurrence of such Parity Obligations are satisfied:

(1) Such Parity Obligations have been duly and legally authorized for any lawful purpose;

(2) No Event of Default shall have occurred and then be continuing, as evidenced by the delivery of a Certificate of the Issuer to that effect, which Certificate of the Issuer shall be filed with the Trustee;

(3) Such Parity Obligations are being issued or incurred either (i) for purposes of refunding in compliance with the requirements for the issuance of Refunding Bonds set forth in the Indenture and described above under the caption "Issuance of Refunding Bonds" or (ii) the Issuer shall have placed on file with the Trustee a Certificate of the Issuer, upon which the Trustee may conclusively rely certifying (on the basis of calculations made no later than the date of sale or incurrence of such Parity Obligations, as applicable) that the requirements of the Indenture described in paragraph (D) under the caption "Issuance of Additional Bonds" relating to the issuance of an additional Series of Bonds have been satisfied with respect to such Parity

Obligations, which Certificate shall also set forth the computations upon which such Certificate is based evidencing compliance with the requirements set forth in subsection (ii) of this paragraph;

(4) As and to the extent applicable, the Trustee shall be designated as paying agent or trustee for such Parity Obligations and the Issuer shall deliver to the Trustee a transcript of the proceedings providing for the issuance of such Parity Obligations (but the Trustee shall not be responsible for the validity or sufficiency of such proceedings or such Parity Obligations).

Notwithstanding any other provision of the Indenture to the contrary, the execution and delivery of an Interest Rate Swap Agreement shall not be subject to compliance with the provisions of the Indenture described in paragraphs (C)(3) or (C)(4) above.

(D) Subordinate Obligations which are payable as to principal, premium, interest and reserve fund requirements, if any, only out of 2000 Measure A Sales Tax Revenues after the prior payment of all amounts then required to be paid under the Indenture from 2000 Measure A Sales Tax Revenues for principal, premium, interest and reserve fund requirements, if any, for all Bonds Outstanding, and all Parity Obligations outstanding, as the same become due and payable and at the times and in the manner as required in the Indenture and in the instrument or instruments pursuant to which any Parity Obligations were issued or incurred.

(E) Termination payments and fees and expenses on Interest Rate Swap Agreements and other obligations which shall be secured by a lien and charge on the 2000 Measure A Sales Tax Revenues subordinate to the lien and charge upon the 2000 Measure A Sales Tax Revenues which secures the Bonds, Parity Obligations and payment of principal and interest on Subordinate Obligations.

Calculation of Maximum Annual Debt Service with Respect to Parity Obligations. For purposes of the Indenture, Maximum Annual Debt Service with respect to Parity Obligations shall be determined no later than the date of incurrence of such Parity Obligations utilizing the assumptions set forth in the definition of Debt Service; provided, however, that if a Parity Obligation is contingent upon funds being provided pursuant to such Parity Obligation to pay principal, or purchase price of, or interest on a Bond, such Parity Obligations shall not be considered outstanding until such payment is made thereunder.

Conversion From ARS Mode

Change from ARS Mode to Daily Mode, Weekly Mode, Term Rate Mode or Flexible Mode. At the option of the Issuer, any Series of 2006 Series Bonds may be converted from an ARS Mode to a Daily Mode, a Weekly Mode, a Term Rate Mode or a Flexible Mode. The Conversion Date from an ARS Mode shall be the Interest Payment Date following the final Auction Period for the affected Series of 2006 Series Bonds.

(1) The Issuer shall give written notice of any such conversion in accordance with the provisions of the Indenture to the Trustee and each of the other Notice Parties not less than five (5) Business Days prior to the date on which the Trustee is required to notify the Holders of the conversion pursuant to the Indenture. Together with such notice, the Issuer shall file with the Trustee a Favorable Opinion of Bond Counsel. No change from the ARS Mode to another Mode shall become effective unless the Issuer shall also file with the Trustee, (i) a Favorable Opinion of Bond Counsel to the same effect dated the Conversion Date and (ii) notice from the Rating Agencies of the rating(s) to be assigned to the affected Series of 2006 Series Bonds on the Conversion Date, such notice to be provided on or prior to the Conversion Date.

(2) Not less than twenty (20) days prior to the Conversion Date, the Trustee shall mail a written notice of the conversion to the Holders of all of the affected Series of 2006 Series Bonds to be converted specifying the Conversion Date and the Mode to which the conversion will be made. Such notice shall be combined with the notice of mandatory purchase required to be delivered by the Trustee pursuant to the Indenture.

(3) A change from an ARS Mode to another Mode as described above is effective only if:

(a) The Issuer shall appoint a Remarketing Agent for the affected Series of 2006 Series Bonds as provided in the Indenture.

(b) In the event that the Mode on the affected Series of 2006 Series Bond is being changed to a Daily Mode, a Weekly Mode or a Flexible Mode, the Issuer shall provide a Liquidity Facility meeting the requirements specified in the Indenture, such Liquidity Facility to be delivered to the Trustee and to become effective on the Conversion Date.

(4) At anytime prior to 10:00 a.m. New York City time on the Business Day immediately preceding the proposed Conversion Date, the Issuer may withdraw its notice of conversion by giving written notice of such withdrawal to each of the Notice Parties. If the Issuer so withdraws such notice, the Auction for the affected Series of 2006 Series Bonds will be held on the scheduled Auction Date as if no notice of conversion had ever been given.

(5) On the Conversion Date applicable to the Series of 2006 Series Bonds to be converted, such Series of 2006 Series Bonds shall be subject to mandatory tender for purchase at a purchase price equal to 100% of the principal amount thereof. In the event that any of the conditions to conversion set forth in the Indenture and described above in this caption are not satisfied or if there is a failure to remarket all of the affected Series of 2006 Series Bonds on the proposed Conversion Date, the Mode on such Series of 2006 Series Bonds will not be converted, such Series of 2006 Series Bonds will not be purchased, such Series of 2006 Series Bonds will be returned to their Holders, the Auction Period will automatically convert to a seven-day Auction Period and such Series of 2006 Series Bonds will bear interest at the Maximum Interest Rate for the seven-day Auction Period then commencing. The Trustee shall notify by mail the Holders of the Series 2006 Bonds to have been converted of the failed conversion in accordance with the provisions of the Indenture. Notwithstanding any other provision of this Indenture, a failure to purchase 2006 Series Bonds on a proposed Conversion Date shall not constitute an Event of Default under the Indenture.

Change from ARS Mode to Fixed Rate Mode. At the option of the Issuer, any Series of 2006 Series Bonds may be converted from an ARS Mode to a Fixed Rate Mode. The Mode Change Date shall be the Interest Payment Date following the final Auction Period for the affected Series of 2006 Series Bonds.

(1) At least five (5) Business Days prior to the date the notice of the Mode Change Date is required to be given to the Holders by the Trustee as required by the Indenture, the Issuer shall give written notice to each of the Notice Parties in accordance with the provisions of the Indenture. Together with such notice, the Issuer shall file with the Trustee a Favorable Opinion of Bond Counsel. No conversion to a Fixed Rate Mode shall occur unless the Issuer shall also file with the Trustee a Favorable Opinion of Bond Counsel to the same effect dated the Mode Change Date.

(2) Not less than the twentieth (20th) day next preceding the Mode Change Date, the Trustee shall mail notice of such proposed change to the Holders of the affected Series of 2006 Series Bonds, stating that the Mode on such 2006 Series Bonds will be changed to a Fixed Rate Mode and setting forth the proposed Mode Change Date. Such notice shall be combined with the notice of mandatory purchase required to be delivered by the Trustee pursuant to the Indenture. The Trustee shall provide a copy of such notice to the Issuer and to each of the other Notice Parties.

(3) A change from an ARS Mode to a Fixed Rate Mode is effective only if the Issuer shall have selected a Fixed Rate Remarketing Agent to remarket the Series of 2006 Series of Bonds being changed to the Fixed Rate Mode and the following items shall have been delivered to the Issuer and each of the Notice Parties on or prior to the Mode Change Date: (a) a Favorable Opinion of Bond Counsel dated the Mode Change Date and (b) notice from the Rating Agencies of the rating(s) to be assigned such Series of 2006 Series Bonds on such Mode Change Date.

(4) The Fixed Rate for the affected Series of 2006 Series Bonds shall be established by the applicable Fixed Rate Remarketing Agent on the Rate Determination Date applicable thereto in accordance with the provisions set forth in the Indenture. Such Fixed Rate or Fixed Rates, as applicable, shall remain in effect until the Maturity Date or Maturity Dates, as applicable, of the affected Series of 2006 Series Bonds.

(5) Upon conversion of a Series of 2006 Series Bonds to a Fixed Rate Mode, such Series of 2006 Series Bonds shall be subject to the serialization and shall be subject to the optional redemption and mandatory sinking fund redemption provisions set forth in the Indenture and shall be remarketed at par.

(6) At anytime prior to 10:00 a.m. New York City time on the Business Day immediately preceding the proposed Conversion Date, the Issuer may withdraw its notice of conversion by giving written notice of such withdrawal to each of the Notice Parties. If the Issuer so withdraws such notice, the Auction for the affected Series of 2006 Series Bonds will be held on the scheduled Auction Date as if no notice of conversion had ever been given.

(7) On the Conversion Date applicable to the Series of 2006 Series Bonds to be converted, such Series of 2006 Series Bonds shall be subject to mandatory tender for purchase at a purchase price equal to 100% of the principal amount thereof. In the event that any of the conditions to conversion to a Fixed Rate Mode set forth in the Indenture and described above in this caption are not satisfied or if there is a failure to remarket all of the affected Series of 2006 Series Bonds on the proposed Conversion Date, the Mode on such Series of 2006 Series Bonds will not be converted, such Series of 2006 Series Bonds will not be purchased, such Series of 2006 Series Bonds will be returned to their Holders, the Auction Period will automatically convert to a seven-day Auction Period and such Series of 2006 Series Bonds will bear interest at the Maximum Interest Rate for the seven-day Auction Period then commencing. The Trustee shall notify by mail the Holders of the Series 2006 Bonds to have been converted of the failed conversion in accordance with the provisions of the Indenture. Notwithstanding any other provision of this Indenture, a failure to purchase 2006 Series Bonds on a proposed Conversion Date shall not constitute an Event of Default under the Indenture.

Failure to Satisfy Conditions Precedent to a Mode Change. In the event that the Issuer has not withdrawn any election by it to change from an ARS Mode to another Mode as provided in the Indenture and the conditions described above, as applicable, have not been satisfied by the applicable

Mode Change Date, then the new mode shall not take effect. The affected Series of 2006 Series Bonds shall automatically convert to a seven-day Auction Period and will bear interest at the Maximum Interest Rate. Succeeding Auction Periods shall be seven-day Auction Periods until subsequently changed in accordance with the provisions set forth in the Indenture and the Auction Rate for succeeding Auction Periods shall be determined in accordance thereto. the contrary, the Issuer may rescind any election by it to change a Mode as described above prior

Rescission of Election to Change Mode. Notwithstanding anything in the Indenture to the Mode Change Date by giving written notice thereof to the Notice Parties prior to such Mode Change Date. If the Trustee receives notice of such rescission prior to the time the Trustee has given notice to the Holders of the affected Series of 2006 Series Bonds, then such notice of change in Mode shall be of no force and effect. If the Trustee receives notice from the Issuer of rescission of a Mode change after the Trustee has given notice thereof to the Holders of the affected Series of 2006 Series Bonds, and if the proposed Mode Change Date would have been a Mandatory Purchase Date, the affected Series of 2006 Series Bonds shall in not be subject to mandatory purchase and shall remain in the ARS Mode. An Auction for the affected Series of 2006 Series Bonds will be held on the scheduled Auction Date as though no notice of conversion had ever been given.

Certain Covenants of the Issuer

Punctual Payments. The Issuer will punctually pay or cause to be paid the principal or Redemption Price of and interest on all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, and shall punctually pay or cause to be paid all Mandatory Sinking Account Payments, but in each case only out of 2000 Measure A Sales Tax Revenues as provided in the Indenture.

Against Encumbrances. The Issuer will not create any pledge, lien or charge upon any of the 2000 Measure A Sales Tax Revenues having priority over or having parity with the lien of the Bonds except only as permitted in the caption "Limitations on the Issuance of Obligations Payable from 2000 Measure A Sales Tax Revenues; Parity Obligations; Subordinate Obligations" above.

Accounting Records and Financial Statements. The Issuer will at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with generally accepted accounting principles, in which complete and accurate entries shall be made of all transactions relating to the Revenues. Such books of record and account shall be available for inspection by the Trustee at reasonable hours and under reasonable circumstances.

The Issuer will furnish the Trustee, within two hundred ten (210) days after the end of each Fiscal Year, the financial statements of the Issuer for such Fiscal Year, together with the report and opinion of an independent certified public accountant stating that the financial statements have been prepared in accordance with generally accepted accounting principles and that such accountant's examination of the financial statements was performed in accordance with generally accepted auditing standards and a Certificate of the Chief Financial Officer of the Issuer stating that no event which constitutes an Event of Default or which with the giving of notice or the passage of time or both would constitute an Event of Default has occurred and is continuing as of the end of such Fiscal Year, or specifying the nature of such event and the actions taken and proposed to be taken by the Issuer to cure such default. Thereafter, a copy of such financial statements will be furnished to any Holder upon written request to the Issuer, which copy of the financial statements may, at the sole discretion of the Issuer, be provided by means of posting such financial statements on an internet site that provides access to the Holders.

Collection of 2000 Measure A Sales Tax Revenues. The Issuer covenants and agrees that it has duly levied the 2000 Measure A Sales Tax in accordance with the Act, pursuant to and in accordance with the Ordinance, duly passed and adopted by the Issuer. Said Ordinance has not and will not be amended, modified or altered so long as any of the Bonds are Outstanding in any manner which would reduce the amount of or timing of receipt of 2000 Measure A Sales Tax Revenues, and the Issuer will continue to levy and collect the 2000 Measure A Sales Tax to the full amount permitted by law. The Issuer further covenants that the Issuer has entered into an agreement with the State Board of Equalization under and pursuant to which the State Board of Equalization will process and supervise collection of the 2000 Measure A Sales Tax and will transmit 2000 Measure A Sales Tax Revenues directly to the Trustee. Said agreement will be continued in effect so long as any of any Bonds are Outstanding and shall not be amended, modified or altered without the written consent of the Trustee so long as any of the Bonds are Outstanding. The Issuer will receive and hold in trust for (and remit immediately to) the Trustee any 2000 Measure A Sales Tax Revenues paid to the Issuer by the State Board of Equalization.

2000 Measure A Sales Tax Revenues received by the Trustee shall be transmitted to the Issuer pursuant to the caption "Allocation of Revenues" above; provided that, during the continuance of an Event of Default, any 2000 Measure A Sales Tax Revenues received by the Trustee shall be applied first to the payment of the fees, costs and expenses of the Trustee in declaring such Event of Default and pursuing remedies, including reasonable compensation of its agents, attorneys and counsel, which costs and expenses shall be paid from the Revenue Fund, and second, to deposit into the Interest Fund and Principal Fund and to the payment of Parity Obligations as more fully set forth in the caption "Application of Revenues and Other Funds After Default" below.

The Issuer covenants and agrees to separately account for all Revenues and to provide to the Trustee access to such accounting records at reasonable hours and under reasonable circumstances.

The Issuer covenants that so long as the Bonds are Outstanding, it will not, to the best of its ability, suffer or permit any change, modification or alteration to be made to the Act which would materially and adversely affect the rights of Bondholders.

Tax Covenants. The Issuer covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on the Bonds under Section 103 of the Code; provided that, prior to the issuance of any Series of Bonds, the Issuer may exclude the application of the covenants contained in this caption "Tax Covenant" and the caption "Rebate Fund" above to such Series of Bonds. The Issuer will not directly or indirectly use or permit the use of any proceeds of the Bonds or any other funds of the Issuer, or take or omit to take any action that would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148(a) of the Code. To that end, the Issuer will comply with all requirements of the Tax Certificate relating to each Series of the Bonds. In the event that at any time the Issuer is of the opinion that for purposes of this caption "Tax Covenants" it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture, the Issuer shall so instruct the Trustee in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

Without limiting the generality of the foregoing, the Issuer agrees that there shall be paid from time to time all amounts required to be rebated to the federal government of the United States of America pursuant to Section 148(f) of the Code and any temporary, proposed or final Treasury Regulations as may be applicable to the Bonds from time to time. The Issuer specifically covenants to pay or cause to be paid to the federal government of the United States of America the Rebate Requirement with respect to each Series of Bonds at the times and in the amounts determined under and as described in the Tax Certificate executed and delivered in connection with such Series of Bonds.

Notwithstanding any provision of this caption "Tax Covenant" and the caption "Rebate Fund" above and the Tax Certificate, if the Issuer shall receive an Opinion of Bond Counsel to the effect that any action required under this caption "Tax Covenant" and the caption "Rebate Fund" above or any Tax Certificate is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on the Bonds pursuant to Section 103 of the Code, the Issuer and the Trustee may rely conclusively on such opinion in complying with the provisions of the Indenture, and the covenants under the Indenture shall be deemed to be modified to that extent.

Notwithstanding any provisions of the Indenture, including particularly Article X, the covenants and obligations set forth in this caption shall survive the defeasance of the Bonds or any Series thereof.

Continuing Disclosure. Upon the issuance of any Series of Bonds requiring an undertaking regarding continuing disclosure under Rule 15c2-12, the Issuer hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate executed and delivered in connection with such Series of Bonds. Notwithstanding any other provision of the Indenture, failure of the Issuer to comply with the provisions of any Continuing Disclosure Certificate shall not be considered an Event of Default; however, the Trustee shall, at the written request of any Participating Underwriter or of the Holders of at least twenty-five (25%) aggregate principal amount of any Series of Bonds then Outstanding (but only to the extent funds in an amount satisfactory to the Trustee have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges and fees of the Trustee whatsoever, including, without limitation, reasonable fees and expenses of its attorneys), or any Holder or beneficial owner may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under this caption "Continuing Disclosure."

Events of Default and Remedies

Events of Default. The following are Events of Default:

(A) default in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise, or default in the redemption from any Sinking Account of any Bonds in the amounts and at the times provided therefor;

(B) default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(C) if the Issuer shall fail to observe or perform any covenant, condition, agreement or provision in the Indenture on its part to be observed or performed, other than as referred to in subsection (A) or (B) above, for a period of sixty (60) days after written notice, specifying such failure and requesting that it be remedied, has been given to the Issuer by the Trustee or by any Credit Enhancement Provider; except that, if such failure can be remedied but not within such sixty (60) day period and if the Issuer has taken all action reasonably possible to remedy such failure within such sixty (60) day period, such failure shall not become an Event of Default for so long as the Issuer shall diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time established by the Trustee;

(D) if any payment default shall exist under any agreement governing any Parity Obligations and such default shall continue beyond the grace period, if any, provided for with respect to such default;

(E) if the Issuer files a petition in voluntary bankruptcy, for the composition of its affairs or for its corporate reorganization under any state or federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or admits in writing to its insolvency or inability to pay debts as they mature, or consents in writing to the appointment of a trustee or receiver for itself;

(F) if a court of competent jurisdiction shall enter an order, judgment or decree declaring the Issuer insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of the Issuer, or approving a petition filed against the Issuer seeking reorganization of the Issuer under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within sixty (60) days from the date of the entry thereof;

(G) if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Issuer or of the Revenues, and such custody or control shall not be terminated within sixty (60) days from the date of assumption of such custody or control; or

(H) if the Legislature of the State shall repeal or amend all or any portion of the provisions of the Act relating to the 2000 Measure A Sales Tax, being Sections 100250 to 100256, inclusive, of the Act unless the Issuer has determined that said repeal or amendment does not materially and adversely affect the rights of Bondholders.

No Acceleration of Maturities. If an Event of Default occurs, the Trustee shall not have the right to declare the principal of and the interest on the Bonds then Outstanding to be due and payable immediately. Acceleration of the Bonds is not a remedy granted to the Trustee or to the Holders.

Application of Revenues and Other Funds After Default. If an Event of Default shall occur and be continuing, the Issuer shall immediately transfer to the Trustee all Revenues held by it and the Trustee shall apply all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture (excluding the Rebate Fund and any Purchase Fund and except as otherwise provided in the Indenture) as follows and in the following order:

(1) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Holders of the Bonds and Parity Obligations, including the costs and expenses of the Trustee and the Bondholders in declaring such Event of Default, and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel and other agents) incurred in and about the performance of its powers and duties under the Indenture;

(2) to the payment of the whole amount of Bond Obligation then due on the Bonds and Parity Obligations (upon presentation of the Bonds and Parity Obligations to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, with interest on such Bond Obligation, at the rate or rates of interest borne by the respective Bonds and on Parity Obligations, to the payment to the persons entitled thereto of all installments of interest then due and the unpaid principal or Redemption Price of any Bonds and Parity Obligations which shall have become due, whether at maturity, by call for redemption or otherwise, in the order of their due dates, with interest on the overdue Bond Obligation and Parity Obligations at the rate borne by the respective Bonds and Parity Obligations, and, if the amount available shall not be sufficient to pay in full all the Bonds and Parity Obligations due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or Accreted Value (plus accrued interest) due on such date to the persons entitled thereto, without any discrimination or preference.

Trustee to Represent Bondholders. The Trustee is hereby irrevocably appointed (and the successive respective Holders of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Holders of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Holders under the provisions of the Bonds, the Indenture, the Act and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bondholders, the Trustee in its discretion may, and, with respect to any Series of Bonds for which a Credit Enhancement has been provided, upon the written request of the Credit Enhancement Provider providing such Credit Enhancement, or if such Credit Enhancement Provider is then failing to make a payment required pursuant to such Credit Enhancement, upon the written request of the Holders of not less than a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power in the Indenture granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Holders under the Indenture, the Act or any other law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the 2000 Measure A Sales Tax Revenues and other assets pledged under the Indenture, pending such proceedings; provided, however, that, with respect to any Series of Bonds for which a Credit Enhancement has been provided, the Trustee may only act with the consent of the Credit Enhancement Provider providing such Credit Enhancement. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Holders of such Bonds, subject to the provisions of the Indenture.

Bondholders' Direction of Proceedings. Anything in the Indenture to the contrary (except provisions relating to the rights of a Credit Enhancement Provider to direct proceedings as set forth in the caption "Credit Enhancement Provider Directs Remedies Upon Event of Default" below), the Holders of a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee and upon furnishing the Trustee with indemnification satisfactory to it, to direct the method of conducting all remedial proceedings taken by the Trustee under the Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, that the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders or holders of Parity Obligations not parties to such direction.

Limitation on Bondholders' Right to Sue. No Holder of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Act or any other applicable law with respect to such Bond, unless: (1) such Holder shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Holders of not less than a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; (3) such Holder or said Holders shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; provided, however, that the written consent of a

Credit Enhancement Provider providing a Credit Enhancement with respect to a Series of Bonds shall be required if the Credit Enhancement with respect to such Series of Bonds is in full force and effect and if the Credit Enhancement Provider providing such Credit Enhancement is not then failing to make a payment as required in connection therewith.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Holder of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Holders of Bonds, or to enforce any right under the Indenture, the Act or other applicable law with respect to the Bonds, except in the manner in the Indenture provided, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner in the Indenture provided and for the benefit and protection of all Holders of the Outstanding Bonds, subject to the provisions of the Indenture.

Credit Enhancement Provider Directs Remedies Upon Event of Default. Anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default, the Credit Enhancement Provider then providing Credit Enhancement for any Series of Bonds shall be entitled to control and direct the enforcement of all rights and remedies granted to the Holders of the Bonds secured by such Credit Enhancement or granted to the Trustee for the benefit of the Holders of the Bonds secured by such Credit Enhancement, provided that the Credit Enhancement Provider's consent shall not be required as otherwise provided in the Indenture if such Credit Enhancement Provider is in default of any of its payment obligations as set forth in the Credit Enhancement provided by such Credit Enhancement Provider.

Modification or Amendment of the Indenture

Amendments Permitted. The Indenture and the rights and obligations of the Issuer, the Holders of the Bonds and the Trustee may be modified or amended from time to time and at any time by a Supplemental Indenture, which the Issuer and the Trustee may enter into when the written consent of: (i) each Credit Enhancement Provider then providing a Credit Enhancement for any Series of Bonds, provided that the Credit Enhancement provided by such Credit Enhancement Provider is in full force and effect and the Credit Enhancement Provider is not then failing to make a payment as required in connection therewith; or (ii) the Holders of a majority in aggregate amount of Bond Obligation of the Bonds (or, if such Supplemental Indenture is only applicable to a Series of Bonds, such Series of Bonds) then Outstanding shall have been filed with the Trustee; provided that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any particular maturity remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding under the Indenture; and provided, further, that if the Credit Enhancement provided for any Series of Bonds is in full force and effect and if the Credit Enhancement Provider providing such Credit Enhancement is not failing to make a payment as required in connection therewith, such Credit Enhancement Provider shall also consent in writing to such modification or amendment, which consent shall not be unreasonably withheld.

No such modification or amendment shall (a) extend the fixed maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment provided for the payment of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Holder of each Bond so affected, or (b) reduce the aforesaid percentage of Bond Obligation the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged

under the Indenture prior to or on a parity with the lien created by the Indenture, or deprive the Holders of the Bonds of the lien created by the Indenture on such Revenues and other assets (in each case, except as expressly provided in the Indenture), without the consent of the Holders of all of the Bonds then Outstanding. It shall not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof.

The Indenture and the rights and obligations of the Issuer, of the Trustee and of the Holders of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the Issuer may adopt without the consent of any Bondholders, but with the written consent of each Credit Enhancement Provider then providing a Credit Enhancement for any Series of Bonds which shall be materially and adversely affected by such amendment, which consent shall not be unreasonably withheld; provided, however, that such written consent shall be required only if the Credit Enhancement provided by such Credit Enhancement Provider is in full force and effect and if the Credit Enhancement Provider is not then failing to make a payment as required in connection therewith, but only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the Issuer in the Indenture contained other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power in the Indenture reserved to or conferred upon the Issuer;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Issuer may deem necessary or desirable, and which shall not materially and adversely affect the interests of the Holders of the Bonds;

(3) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially and adversely affect the interests of the Holders of the Bonds;

(4) to provide for the issuance of an additional Series of Bonds pursuant to the provisions of the Indenture described above under the caption "Issuance of Additional Bonds."

(5) to make modifications or adjustments necessary appropriate or desirable to provide for the issuance or incurrence, as applicable, of Capital Appreciation Bonds, Parity Obligations, Subordinate Obligations or Variable Rate Indebtedness, with such interest rate, payment, maturity and other terms as the Issuer may deem desirable; subject to the provisions of the Indenture described above under the captions "Issuance of Additional Bonds," "Proceedings for Issuance of Additional Bonds," and "Limitations on the Issuance of Obligations Payable from 2000 Measure A Sales Tax Revenues; Parity Obligations; Subordinate Obligations;"

(6) to make modifications or adjustments necessary, appropriate or desirable to provide for change from one interest rate mode to another in connection with any Series of Bonds;

(7) to make modifications or adjustments necessary, appropriate or desirable to accommodate Credit Enhancements, Liquidity Facilities and Reserve Facilities;

(8) to make modifications or adjustments necessary, appropriate or desirable to provide for the appointment of an auction agent, a broker-dealer, a remarketing agent, a tender agent and/or a paying agent in connection with any Series of Bonds;

(9) to modify the auction provisions applicable to any Series of Bonds in accordance with the terms and provisions set forth in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds;

(10) to provide for any additional covenants or agreements necessary to maintain the tax-exempt status of interest on any Series of Bonds;

(11) if the Issuer agrees in a Supplemental Indenture to maintain the exclusion of interest on a Series of Bonds from gross income for purposes of federal income taxation, to make such provisions as are necessary or appropriate to ensure such exclusion;

(12) to provide for the issuance of Bonds in book-entry form or bearer form and/or to modify or eliminate the book-entry registration system for any Series of Bonds;

(13) to modify, alter, amend or supplement the Indenture in any other respect, including amendments which would otherwise be described in the first two paragraphs under this caption, if the effective date of such amendments is a date on which all Bonds affected thereby are subject to mandatory tender for purchase pursuant to the provisions of the Indenture; or if notice of the proposed amendments is given to Holders of the affected Bonds at least thirty (30) days before the proposed effective date of such amendments and, on or before such effective date, such Holders have the right to demand purchase of their Bonds pursuant to the provisions of the Indenture or if all Bonds affected thereby are in an auction mode and a successful auction is held following notice of such amendment; and

(14) for any other purpose that does not materially and adversely affect the interests of the Holders of the Bonds.

Any Supplemental Indenture entered into pursuant to the provisions of the Indenture described under this caption shall be deemed not to materially adversely affect the interest of the Holders so long as (i) all Bonds are secured by a Credit Enhancement and (ii) each Credit Enhancement Provider shall have given its written consent to such Supplemental Indenture in accordance with the provisions of the Indenture.

Effect of Supplemental Indenture. From and after the time any Supplemental Indenture becomes effective, the Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Issuer, the Trustee and all Holders of Bonds Outstanding shall thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Defeasance

Discharge of Indenture. Bonds of any Series or a portion thereof may be paid by the Issuer in any of the following ways:

(A) by paying or causing to be paid the Bond Obligations of and interest on such Outstanding Bonds, as and when become due and payable;

(B) by depositing with the Trustee, an escrow agent or other fiduciary, in trust, at or before maturity, money or securities in the necessary amount (as provided pursuant to the provisions of the Indenture described below under the caption "Deposit of Money or Securities") to pay or redeem such Outstanding Bonds; or

(C) by delivering to the Trustee, for cancellation by it, such Outstanding Bonds.

If the Issuer shall pay all Series for which any Bonds are Outstanding and also pay or cause to be paid all other sums payable under the Indenture by the Issuer, then and in that case, at the election of the Issuer (evidenced by a Certificate of the Issuer, filed with the Trustee, signifying the intention of the Issuer to discharge all such indebtedness and the Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, the Indenture and the pledge of 2000 Measure A Sales Tax Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the Issuer under the Indenture shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon Request of the Issuer, the Trustee shall cause an accounting for such period or periods as may be requested by the Issuer to be prepared and filed with the Issuer and shall execute and deliver to the Issuer all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, a sign or deliver to the Issuer all moneys or securities or other property held by it pursuant to the Indenture which, as evidenced by a verification report, upon which the Trustee may conclusively rely, from a firm of certified public accountants or other independent consulting firm, are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

Discharge of Liability on Bonds. Upon the deposit with the Trustee, escrow agent or other fiduciary, in trust, at or before maturity, of money or securities in the necessary amount (as provided pursuant to the provisions of the Indenture described below under the caption "Deposit of Money or Securities") to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption shall have been given as in the Indenture provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the Issuer in respect of such Bond shall cease, terminate and be completely discharged, provided that the Holder thereof shall thereafter be entitled to the payment of the principal of and premium, if any, and interest on the Bonds, and the Issuer shall remain liable for such payment, but only out of such money or securities deposited with the Trustee as aforesaid for their payment.

Deposit of Money or Securities. Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and shall be:

(A) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as

in the Indenture provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or

(B) Investment Securities described in clause (A) of the definition thereof the principal of and interest on which when due will, in the opinion of an independent certified public accountant delivered to the Trustee (as confirmed by a verification report upon which verification report the Trustee may conclusively rely), provide money sufficient to pay the principal or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or Redemption Price and interest become due, provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in the Indenture provided or provision satisfactory to the Trustee shall have been made for the giving of such notice; provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of the Indenture or by Request of the Issuer) to apply such money to the payment of such principal or Redemption Price and interest with respect to such Bonds.

Payment of Bonds After Discharge of Indenture. Any moneys held by the Trustee in trust for the payment of the principal, Redemption Price, or interest on any Bond and remaining unclaimed for one (1) year after such principal, Redemption Price, or interest has become due and payable (whether at maturity or upon call for redemption as provided in this Indenture), if such moneys were so held at such date, or one (1) year after the date of deposit of such principal, Redemption Price or interest on any Bond if such moneys were deposited after the date when such Bond became due and payable, shall be repaid to the Issuer free from the trusts created by this Indenture, and all liability of the Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the Issuer as aforesaid, the Trustee may (at the cost of the Issuer) first mail to the Holders of any Bonds remaining unpaid at the addresses shown on the registration books maintained by the Trustee a notice, in such form as may be deemed appropriate by the Trustee, with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Issuer of the moneys held for the payment thereof. All moneys held by or on behalf of the Trustee for the payment of principal or Accreted Value of or interest or premium on Bonds, whether at redemption or maturity, shall be held in trust for the account of the Holders thereof and the Trustee shall not be required to pay Holders any interest on, or be liable to the Holders or any other person (other than the Issuer) interest earned on, moneys so held. Any interest earned thereon shall belong to the Issuer and shall be deposited upon receipt by the Trustee into the Revenue Fund.

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APPENDIX E

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Refunding Bonds, 2008 Series A, 2008 Series B, 2008 Series C and 2008 Series D Bonds (each a "Series of Bonds," and, hereinafter collectively referred to as the "Bonds"). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each Series of Bonds in the aggregate principal amount of such Series of Bonds, and will be deposited with DTC. Capitalized terms used herein and not otherwise defined herein shall have the meanings set forth in the front portion of this Official Statement or in Appendix D - Summary of Certain Provisions of the Indenture."

The following information has been provided by DTC, and neither the Santa Clara Valley Transportation Authority (the "Authority") nor Goldman, Sachs & Co., as an underwriter and the remarketing agent for the above-referenced 2008 Series A Bonds, nor Banc of America Securities LLC, as an underwriter and the remarketing agent for the above-referenced 2008 Series B Bonds, nor J.P. Morgan Securities Inc., as an underwriter and the remarketing agent of the above-referenced 2008 Series C Bonds, nor Morgan Stanley & Co. Incorporated, as an underwriter and the remarketing agent of the above-referenced 2008 Series D Bonds, makes any representation as to its accuracy or completeness. For further information, beneficial owners should contact DTC in New York, New York.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (each a "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their

purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a Series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Series to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority and the Trustee as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments, including upon redemption, will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of the Authority, DTC, or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest, including upon redemption, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the applicable remarketing agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the applicable remarketing agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the applicable remarketing agent's DTC account.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered in accordance with the provisions of the Indenture.

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APPENDIX F

PROPOSED FORM OF OPINION OF BOND COUNSEL

[Date of Closing]

Santa Clara Valley
Transportation Authority
San Jose, California

Santa Clara Valley Transportation Authority
2000 Measure A Sales Tax Revenue Refunding Bonds,
2008 Series A, 2008 Series B, 2008 Series C and 2008 Series D
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Santa Clara Valley Transportation Authority (the "Authority") in connection with the issuance by the Authority of \$236,730,000 aggregate principal amount of Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Refunding Bonds, 2008 Series A, 2008 Series B, 2008 Series C and 2008 Series D (hereinafter collectively referred to as the "Bonds"), issued pursuant to an Indenture, dated as of August 1, 2006, as previously supplemented and as further supplemented by a Third Supplemental Indenture, dated as of June 1, 2008 (hereinafter collectively referred to as the "Indenture"), between the Authority and Deutsche Bank National Trust Company, as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Tax Certificate, dated the date hereof (the "Tax Certificate"), certificates of the Authority, the Trustee, and others, opinions of counsel to the Authority and the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this opinion. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture and the Tax Certificate, including, without limitation, covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the

limitations on legal remedies against public entities similar to the Authority in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement, dated June 23, 2008, or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding special obligations of the Authority payable from and secured by a pledge of Sales Tax Revenues.

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority.

3. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that interest on the Bonds is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

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