

Comprehensive Annual Financial Report

For Fiscal Year Ended
June 30, 1997

Santa Clara County, California



SANTA CLARA
Valley Transportation Authority

Part of every trip you takeSM

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 1997

Prepared by the Fiscal Resources Division

Scott Buhrer, Chief Financial Officer

Table of Contents

Section - 1 Introduction

Title Page	1-1
Table of Contents	1-2
Certificate of Achievement for Excellence in Financial Reporting	1-4
Letter of Transmittal	1-7
Board of Directors	1-20
Organization Chart	1-21
Principal Officials	1-22
Service Area Map	1-23

Section -2 Financial

Independent Auditor's Report	2-1
General Purpose Financial Statements:	
Combined Balance Sheet	2-2
Combined Statement of Revenues and Expenses - Enterprise Fund	2-4
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Fund Type (Special Revenue Funds)	2-5
Combined Statement of Revenues, Expenditures and Changes in Fund Balances- Budget and Actual - Governmental Fund Type (Special Revenue Funds)	2-6
Combined Statement of Changes in Net Assets (Fund Balance) - Pension Trust Fund	2-7
Combined Statement of Changes in Enterprise Equity	2-8
Statement of Cash Flows - Enterprise Funds	2-9
Notes to Financial Statements	2-11
Required Supplementary Information - Pension Plan (Unaudited):	
Schedule of Funding Progress	2-36
Actuarial Methods and Assumptions for December 31, 1996 Valuation	2-37
Combining Schedules:	
Combining Schedule of Assets, Liabilities, and Equity - Governmental fund Type (Special Revenue Funds)	2-38
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Governmental Fund Type (Special Revenue Funds)	2-39
Combining Schedule of Assets, Liabilities, and Equity - Fiduciary Fund Type (Trust and Agency Funds)	2-40
Combining Schedule of Assets, Liabilities, and Equity - Trust Funds	2-41
Schedule of Changes in Assets and Liabilities - Fiduciary Fund Type (Agency Fund)	2-42
Supplemental Schedule of Restricted Assets and Related Liabilities - Enterprise Fund	2-43
Supplemental Schedule of Budget Versus Actual Revenues and Expenses, and Capital Program Costs - Enterprise Fund	2-44

Table of Contents

Combined Schedule of Revenues, Expenditures, and Changes in Fund Balances - Traffic Authority - Year Ended June 30, 1997 (Unaudited)	2-45
Note to Combined Schedule of Revenues, Expenditures, and Changes in Fund Balances - Traffic Authority - Year Ended June 30, 1997 (Unaudited)	2-46
 Section -3 Statistical	
 Financial Ratios:	
Current Ratios	3-2
Debt and Equity Ratios	3-2
Operating Recovery Ratios	3-3
Times Debt Service Coverage	3-3
Ten - Year Comparisons:	
Operating Revenue and Net Operating Expenses	3-4
Non Operating Assistance and Interest Income	3-4
Actual Reserve to Target Reserve	3-5
Vehicle Revenue Miles	3-6
Passenger Miles	3-6
Selected Financial Data	3-7
Selected Statistical Data	3-8
Santa Clara County Demographic Data	3-10

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Santa Clara Valley
Transportation Authority,
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 1996

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



Linda M. Savitsky
President

Jeffrey L. Esser
Executive Director

SECTION 1 —INTRODUCTION

LETTER OF TRANSMITTAL

BOARD OF DIRECTORS

PRINCIPAL OFFICIALS

ORGANIZATION CHART

SERVICE AREA MAP



December, 1997

Board of Directors
Santa Clara Valley Transportation Authority

Subject: Comprehensive Annual Financial Report

The Santa Clara Valley Transportation Authority (VTA) Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 1997 was prepared in accordance with the guidelines recommended by the Government Finance Officers Association of the United States and Canada (GFOA).

Responsibility for the accuracy, completeness, and fairness of the data and the clarity of the presentation, including all disclosures, rests with VTA. To the best of our knowledge, the enclosed data is reported in a manner designed to fairly present, in all material respects, VTA's results of operations, financial position, and cash flows in accordance with the requirements of generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

Management is proud in the fact that the FY 1996 CAFR report earned the recognition of the GFOA with a Certificate of Achievement for Excellence in Financial Reporting. This award evidences the fact that the CAFR complied with stringent GFOA standards for professional financial reporting.

This report is organized into three sections:

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

THE REPORTING ENTITY

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

Separation of VTA from the County of Santa Clara also provided for the merger of VTA and the Congestion Management Agency. VTA's governing board now consists of two members of the Santa Clara County Board of Supervisors, five city council members from the City of San Jose, and five city council members selected from among the remaining incorporated cities in Santa Clara County. The separation did not alter or impair any of VTA's rights, powers, contracts or obligations.

On April 1, 1997 pursuant to SB374, VTA became the successor entity for purposes of winding up the affairs of the Santa Clara County Traffic Authority (Traffic Authority). The Traffic Authority was created upon the approval of a one-half-cent sales and use tax in Santa Clara county by voters in November 1984. The tax commenced April 1, 1985 and expired on March 31, 1995. The proceeds of the tax are restricted for specific highway improvements improvements on routes 85, 101, and 237 in Santa Clara County. All improvements become the property of and are maintained by the State of California. The California State Board of Equalization will continue its obligation to administer the collection of the tax including audits and related prosecutions. VTA has segregated the accounts of the Traffic Authority and management is of the opinion that obligations of the Traffic Authority are not liabilities of VTA.

Bus Transit Service

VTA operates a bus fleet of 460 diesel-powered coaches on 70 bus routes within a service area of approximately 326 square miles. The average age of its buses is approximately 6.2 years, with the oldest having been replaced recently or scheduled to be replaced by 133 new Gillig buses upon delivery in 1997 and 1998. VTA maintains approximately 4,600 bus stops, 420 bus shelters and 32 park-and-ride lots, 14 of which are shared with Caltrans and other agencies.

Light Rail Transit Service

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

Other Services

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

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

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

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

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

ECONOMIC CONDITION AND OUTLOOK

Sales Tax

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

The economy of Santa Clara County is heavily dependent on high-tech industries such as computer manufacturing, software and communications. These industries have their own unique business cycle that is more volatile than the traditional manufacturing cycle. VTA's sales tax streams closely mirror this high-tech pattern. Drastic swings are usually driven up by the introduction of new technologies or down by the lack of promising applications or systems. The 21.6% upswing in 1996 sales tax receipts for VTA is a good example. The FY 1997 sales tax receipts returned to a modest 5.47% increase.

Economic Growth in Santa Clara County has been strong in FY 1997. Total job growth was 4.37% over fiscal year 1996 and the local unemployment rate dropped to 3.39%. However, there are signs that a slowdown has already started. We believe that the economy in Santa Clara County has reached the peak of its current business cycle and the growth for sales tax will be flat in FY 1998. The long term ten-year outlook is for growth of 4.25%.

Ridership & Farebox Revenue

FY 1997 VTA ridership and farebox revenue have surpassed last years performance. Overall ridership increased 7.8% and farebox revenue marked another high of \$23.6 million, an increase of 9.8%. A fare increase was implemented in July, 1997 following a considerable public involvement process.

Management expects continued growth, albeit slower, for both ridership and farebox revenue.

Federal Section 9 Operating Assistance

Consistent with trends in Washington DC, Section 9 operating assistance is in the fourth year of a four-year phase-out. These funds are designated for VTA and are allocated through the Metropolitan Transportation Commission (MTC). The CalTrain (Peninsula Corridor Joint Powers Board) receives these funds directly from MTC in exchange for a dollar-for-dollar reduction in VTA's annual subsidy for

the Peninsula rail service. The amount for FY 1997 was \$2,583,873. As the federal government eliminates the Section 9 operating assistance program, continuation of the current service will put greater pressure on local funds. A new Section 9 policy allows eligible recipients to claim capital grant funds on the basis of maintenance costs. Grant applicants may apply for FTA grants in an amount up to 20 percent of annual vehicle maintenance costs. VTA intends to incorporate this policy in its grant application strategies.

FUTURE TRANSPORTATION PROJECTS

Tasman West Light Rail Project

VTA began construction on the Tasman West light rail project in the summer of 1996. Tasman West will extend VTA's existing 20 mile light rail system 7.6 miles into the heart of Silicon Valley. Beginning at the terminus of the Guadalupe Line in Santa Clara, Tasman West will continue through the industrial area to northern Sunnyvale, around Moffett Federal Airfield, and into downtown Mountain View. The entire corridor is scheduled to be open for service by December 2000. The estimated capital cost is \$327 million, with the remaining construction phase amounting to \$244 million. Local contributions by VTA of \$1 million and \$15 million from the City of Mountain View augment \$228 million in funds programmed from State and Federal sources.

1996 Measure A Transportation Improvements

On November 5, 1996, the voters of Santa Clara county approved Measure A, an advisory ballot measure that expresses the electorate's concurrence that any new funds be spent on various transportation improvement projects. The Measure A Program consists of a balanced investment in both roadway and transit projects.

Altamont Commuter Express

The lack of affordable housing in the Bay Area is forcing more and more Silicon Valley employees to commute for 2-3 hours one-way from the Central Valley area. A recent study by DKS Associates found that commuting across this area increased 466 percent from 1980. By 2010 growth is estimated to more than double the demand through this corridor to 175,000 people per day. The San Joaquin Regional Rail commission (SJRRRC) began planning for the Altamont Commuter Express (ACE) in 1990 and service could begin as early as March 1998.

Upon commencement of service in early 1998, the ACE will provide twice-daily round trip commuter rail service from Stockton through the Tri-Valley area of Alameda County to Santa Clara County with stops in Stockton, Lathrop, Tracy, Livermore, Pleasanton, Fremont, Santa Clara and San Jose. Shuttle and feeder bus service will be provided at all station locations. The ACE will be operated by the member agencies of VTA, the Alameda County Congestion Management Agency and the San Joaquin Regional Rail Commission. The corridor serves the counties of San Joaquin, Stanislaus, Contra Costa, Alameda and Santa Clara. The Board of Directors has approved \$2.6 million to aid in the support of the Altamont Commuter Express.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

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

Proprietary Fund Type - Enterprise Fund

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

Governmental Fund Type - Special Revenue Funds

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

Fiduciary Fund Type - Trust and Agency Funds

The activities of the ATU Pension Plan, ATU Spousal Medical Trust, and Deferred Compensation Plans, are accounted for in trust funds. Trust funds are used to account for assets held by VTA as a trustee for individuals and other governmental units. The Bay Area Air Quality Management District program is accounted for in an agency fund.

Budgetary Control

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

Component Unit Financial Statements

VTA issues separate component unit financial statements for the Amalgamated Transit Union Pension Plan and the Congestion Management Program.

INTERNAL CONTROLS

To reasonably assure compliance with published policies and procedures and to protect VTA's assets, a system of internal control, including budget guidelines, is essential. Internal controls are reviewed by the internal audit department and audit reports of performance including suggested improvements are reported to the General Manager. The internal auditors report to the Chief Financial Officer. There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal control. The concept of reasonable assurance is based on the recognition that the cost of a system of internal control should not exceed the benefits derived and that the evaluation of those factors requires estimates and judgments by management. We believe VTA's internal control structures adequately safeguard assets against loss from unauthorized use or disposition and provide reasonable assurance of proper recording of financial transactions in the financial statements.

Major subjects reported on during the 1997 fiscal year by the internal audit department are listed below:

- Compliance of selected contractors
- Payroll and Human Resources Employee Database System
- GFI Revenue Collection Process
- General Liability Claims & Expense Payment Request Process

MAJOR INITIATIVES AND ACCOMPLISHMENTS

The Board has established policy directions in four key areas:

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

Consistent with the Board mission statement VTA continues its aggressive program of change. Most important are efforts to continue the strong ridership growth of the past two years. VTA has set a goal of increasing ridership an additional 8% to 10% in fiscal year 1998. Major initiatives to support this goal and our other strategic priorities will affect all elements of the organization, some more noticeably than others. Major initiatives and accomplishments include the following:

Major Initiatives:

- Light Rail and some bus routes will soon be expanded to operate 24 hours a day.
- Installation of bike racks on light rail vehicles.
- Begin development of a computerized tracking system to ensure the highest possible maintenance level of all VTA assets, particularly bus and light rail vehicles.
- Develop and implement a revised employee health insurance structure with the dual goal of enhancing benefits and reducing overall cost.
- Implement a Disaster Recovery Plan for VTA's computer systems, to ensure continuity of critical functions.

Major Accomplishments

- Continued marketing of the Eco Pass program has resulted in increased ridership through pricing alternatives which attract employees of participating firms and agencies.
- Increase passenger comfort with the placement of 150 new bus shelters and better maintenance of the existing 420 shelter facilities.
- Installation of bike racks on buses.
- Take delivery of the first element of 133 new buses, increasing reliability and passenger comfort.
- Undertake the 1997 Countywide Transportation Plan.
- Continue construction of the Tasman West Light Rail line extension.
- Institute several aggressive training programs for employees throughout VTA, including a state-of-the-art computer learning center.

FINANCIAL HIGHLIGHTS

Revenues (VTA operations)

Operating revenues are derived from the sale of monthly passes, bus farebox receipts, light rail ticket vending machines and the sale of advertising space. VTA offers the following ticket options; cash fares, day pass, books of 10 day pass, monthly flash pass, Eco pass. Discounted passes are offered for youth, seniors, disabled and homeless patrons. Increased ridership and favorable advertising contracts resulted in an increase of 11.4% increase in operating revenues.

Non-operating revenues include one-half of one percent local sales tax, California Transportation Development Act funds one-quarter of one percent (TDA), State Transit Assist funding (STA), State license fees (AB434), interest, and federal planning grants. Local sales tax increased 5.5% from 1996 to 1997 due to economic growth in the area. The increase in TDA funding amounted to 30.7% during this same period. This increase is due to an accumulation in the States Local Transportation fund over the past two years which is distributed on the basis of estimates with over/under adjustments carried forward. VTA is the primary applicant for transportation funds in the Santa Clara County area.

STA and AB434, (state operating assistance programs), both increased a combined 47% during this period. This increase resulted from funding increases for the shuttle program (AB434) and state allocations made through the Metropolitan Transportation Commission.

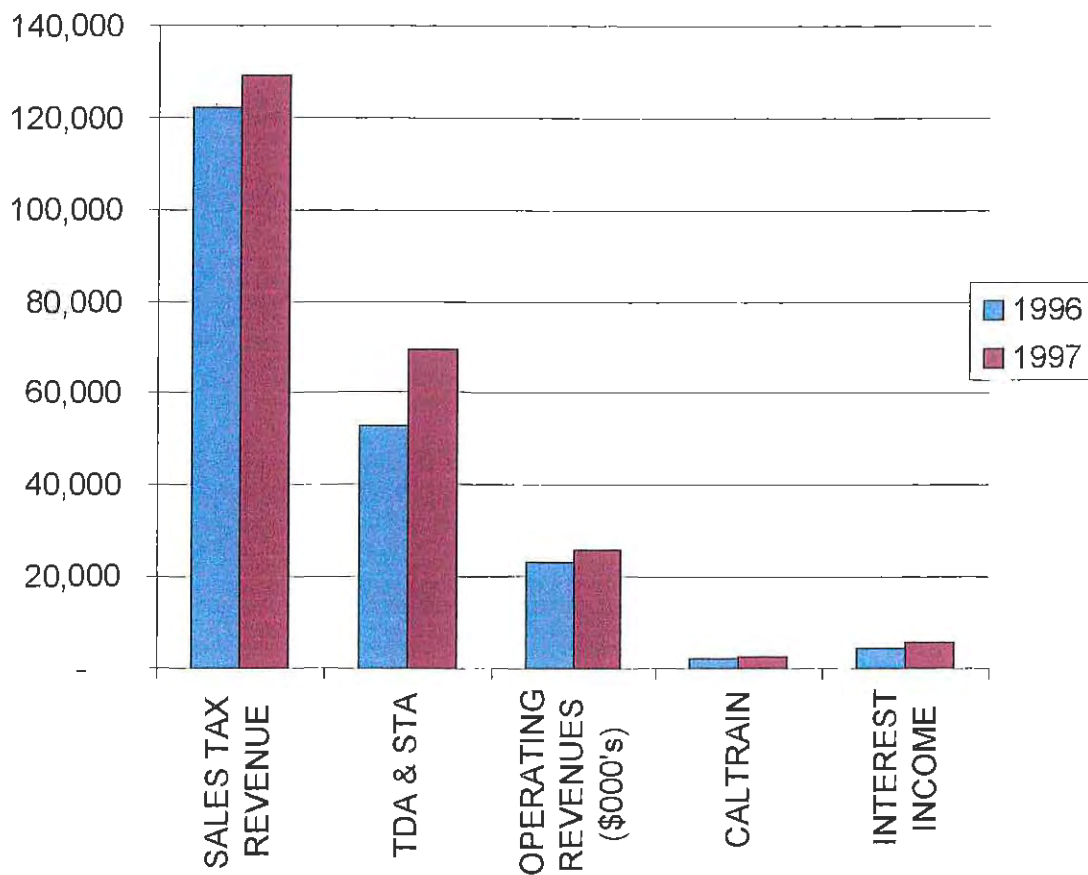
Caltrain revenue represents reimbursements from the Peninsula Corridor Joint Powers Board (PCJPB). VTA transferred its federal operation assistance allocation to the PCJPB and in turn the PCJPB provides a dollar-for-dollar reduction in VTA member agency contribution requirement. Future funding from this source is determined by the grants allocation process at the Metropolitan Transportation Commission.

Interest income increased by 43.6% over the 1996 amount primarily due to an increase in the amount of invested funds. The average earnings in the Santa Clara County Investment Pool has remained relatively constant at approximately 5.6% during the two year period. VTA cash balances, however, increased substantially

(Dollars in thousands)				Percent
	1997	1996	Change	Change
OPERATING REVENUES	\$ 25,577	\$ 22,964	\$ 2,613	11.4%
SALES TAX REVENUE	128,969	122,274	6,695	5.5%
TDA	64,676	49,491	15,185	30.7%
STA & AB434	4,567	3,106	1,461	47.0%
CALTRAIN	2,584	2,086	498	23.9%
INTEREST INCOME	5,943	4,140	1,803	43.6%

The following chart shows a comparison by selected revenue category for 1997 and 1996.

COMPARATIVE REVENUES 1997 AND 1996 (\$000'S)



Expenses

Operating expense increases were held to approximately 2.6% over the 1996 fiscal year. Labor costs increased by 7.6% over the 1996 amount resulting from the addition of 94 new positions, and pay increases achieved through collective bargaining. Other factors were one-time payment of certain back pay issues. Fringe benefits decreased 7.3% due primarily to favorable actuarial determinations of workers compensation claim experience. Management reduced the contribution rate into the workers compensation fund and returned contributions of approximately \$2.6 million to the operating fund attributable to overfunding in prior years.

Materials and supplies, services and utility cost categories remained relatively constant at the 1996 level.

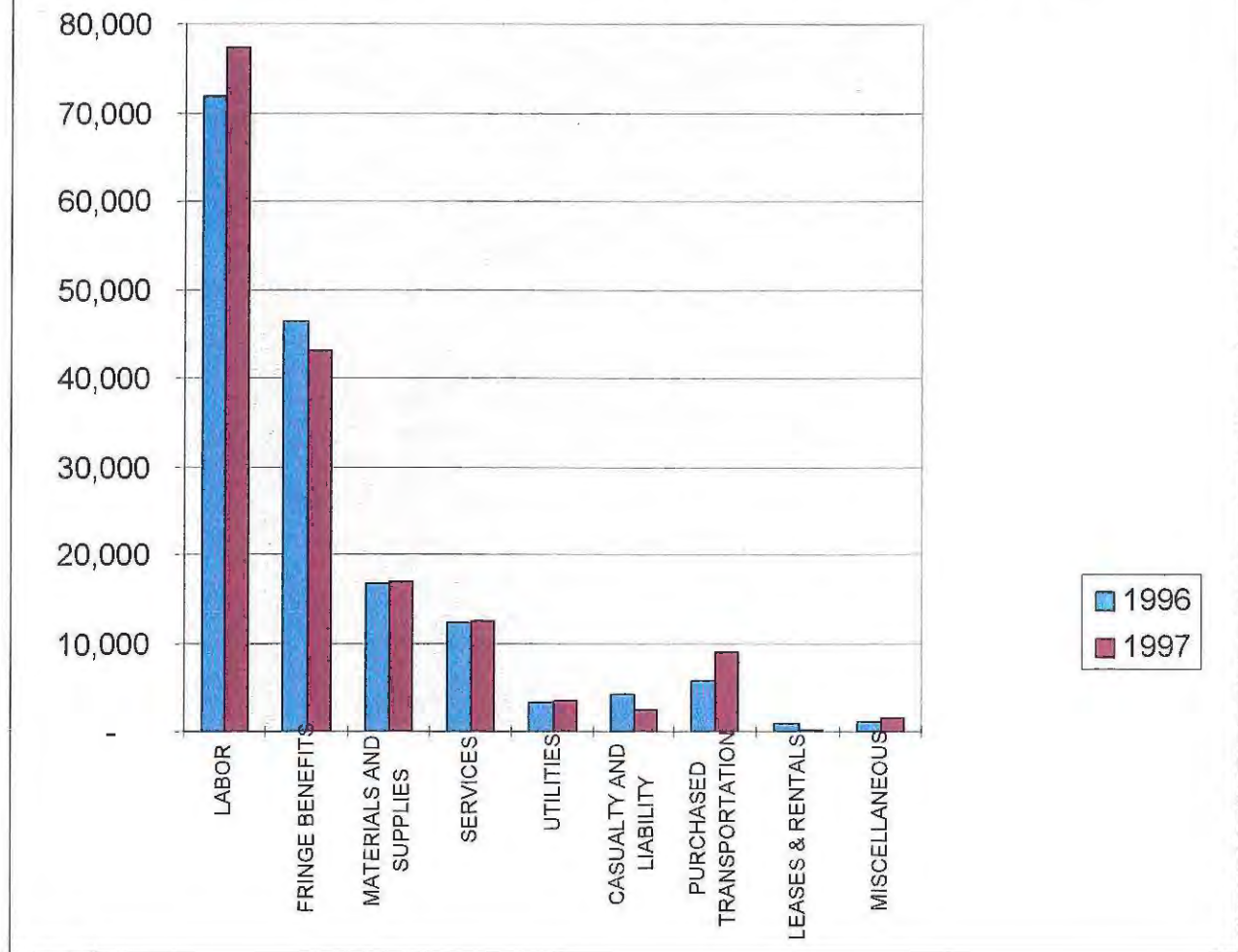
Casualty and liability costs decreased significantly by 41.4% due to a reduction in contributions into the insurance fund. VTA has accumulated excess amounts in the general liability fund. During fiscal year 1996 management developed a plan to reduce the contribution rate into the general liability fund and returned contributions of approximately \$1.7 million to the operating fund.

Purchased Transportation costs increased 55.2% due to full compliance with the Americans with Disabilities Act. This cost increase resulted primarily due to the elimination of the limitation on the number of trips per month an eligible individual can take.

The following table and chart shows the operating expenses for fiscal years 1997 and 1996 by major category:

(Dollars in thousands)				Percent
	1997	1996	Change	Change
OPERATING EXPENSES (\$000's)				
LABOR	\$ 77,297	\$ 71,810	\$ 5,487	7.6%
FRINGE BENEFITS	43,054	46,457	(3,403)	-7.3%
MATERIALS AND SUPPLIES	16,911	16,649	262	1.6%
SERVICES	12,583	12,310	273	2.2%
UTILITIES	3,410	3,277	133	4.1%
CASUALTY AND LIABILITY	2,414	4,120	(1,706)	-41.4%
PURCHASED TRANSPORTATION	8,916	5,746	3,170	55.2%
LEASES & RENTALS	299	773	(474)	-61.3%
MISCELLANEOUS	1,627	1,184	443	37.4%
	\$ 166,511	\$ 162,326	4,185	2.6%

COMPARATIVE EXPENDITURES 1997 AND 1996



CASH AND INVESTMENTS

VTA deposits cash with the County Treasurer in an investment pool commingled with cash from various governmental entities within the County. The commingled cash is principally invested in bank deposits, bankers' acceptances, negotiable certificates of deposit, U.S. Treasury Securities and various U.S. government agency and commercial notes. Commingled investments are short-term in nature, with a weighted average maturity of less than one-year. VTA directs the County to make separate long-term investments of funds for ATU pension, workers compensation, general liability and retiree medical accounts. These long-term investments total approximately \$158,000,000 and have differing weighted average maturities ranging from 4-5 years.

Interest income, recognized on the Combined Statement of Revenues and Expenses - Enterprise Fund, amounted to approximately \$5.9 million during fiscal year 1997. Special Revenue funds recorded approximately \$ 0.2 million in interest revenue. \$7.6 million in interest earned is reported on the component unit statements of the Amalgamated Transit Union Pension Plan.

Funds invested for restricted assets include workers' compensation, general liability, and retiree medical activities. The expense for these activities is recognized in the Enterprise fund for payments of the contribution amount which is net of expected earnings. The contribution amounts are based on actuarial studies. The increase in investment assets is recognized as an increase in cash and increase in other accrued liabilities. Approximately \$3.9 million in restricted investment earnings are accounted for in this manner.

Increases attributed to earnings and unrecognized gains of self-directed investment assets of deferred compensation plans (Trust Fund Type) totaled \$2.5 million for fiscal year 1997. The following table summarizes the investment earnings.

Enterprise Fund Earnings	\$ 5.9
Special Revenue Fund Earnings	.2
ATU Pension Interest Earnings	<u>7.6</u>
Income Recognized	<u>13.7</u>
Reduction of Contribution	3.9
Deferred Compensation Asset Increase	<u>2.5</u>
Total Investment Earnings	<u>\$ 20.1</u>

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

VTA hired a firm to perform asset allocation studies to make recommendations regarding allocation of investments by market sectors. During fiscal year 1997, VTA hired an investment program manager who will engage investment managers to invest funds in accordance with specific goals and strategies resulting from the study. It is anticipated that the asset allocation study will also result in recommended changes in the investment policy which will be submitted for Board consideration in 1998. The long term strategy will see VTA managing its own assets by the end of fiscal 1999. VTA investment assets exceeded \$353 million as of June 30, 1997.

RISK MANAGEMENT

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

DEBT

VTA's four major debt issues outstanding at June 30, 1997 total \$66,628,993. Proceeds from the issues were used to finance light rail vehicles, purchase an administration facility and acquire certain parcels of land. VTA retains a firm that acts as trustee for the debt issues and performs administrative responsibilities.

Subsequent to June 30, 1997, VTA issued bonds to advance refund \$33,270,000 outstanding principal amount of VTA's Sales Tax Revenue bonds, 1991 Series A and to advance refund \$4,940,000 outstanding principal amount of installment payments and prepayments known as the 1994 Certificates of Participation dated December 1, 1994. All proceeds of the 1991 Bonds and the 1994 Certificates have been expended and the projects for which they were issued have been completed. The new issue is known as the Santa Clara County Transit District Sales Tax Revenue Refunding Bonds, 1997 Series A. The refunding produced net present value savings of approximately \$2.8 million, or 7.25%.

INDEPENDENT AUDIT

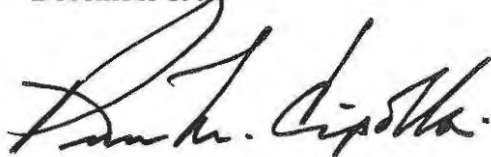
The independent auditor for fiscal year 1997 is KPMG Peat Marwick LLP, who has issued an unqualified audit report on the VTA's June 30, 1997 financial statements.

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

ACKNOWLEDGMENTS

We express our thanks to the staff of the Accounting Department, directed by Mr. Gerald Rosenquist for their work in preparing this report. Ms. Judy Sakai, of the Marketing Department, designed the cover and assisted in preparing the entire document for printing. Mr. Victor Chan, budget manager, assisted in assembling supporting demographics and economic analysis.

December 1997



Peter M. Cipolla
General Manager



Scott Buhrer
Chief Financial Officer

1997 VTA BOARD OF DIRECTORS

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

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

Each of these groupings has one alternate.

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

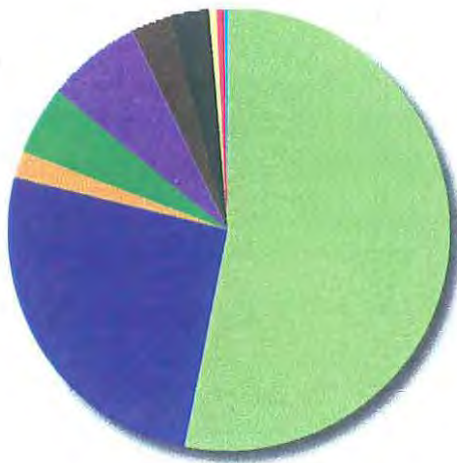
The Board of Directors meets at 6 p.m. on the first Thursday of each month in the Santa Clara County Board of Supervisors chambers.

Patricia Figueroa, Chairperson

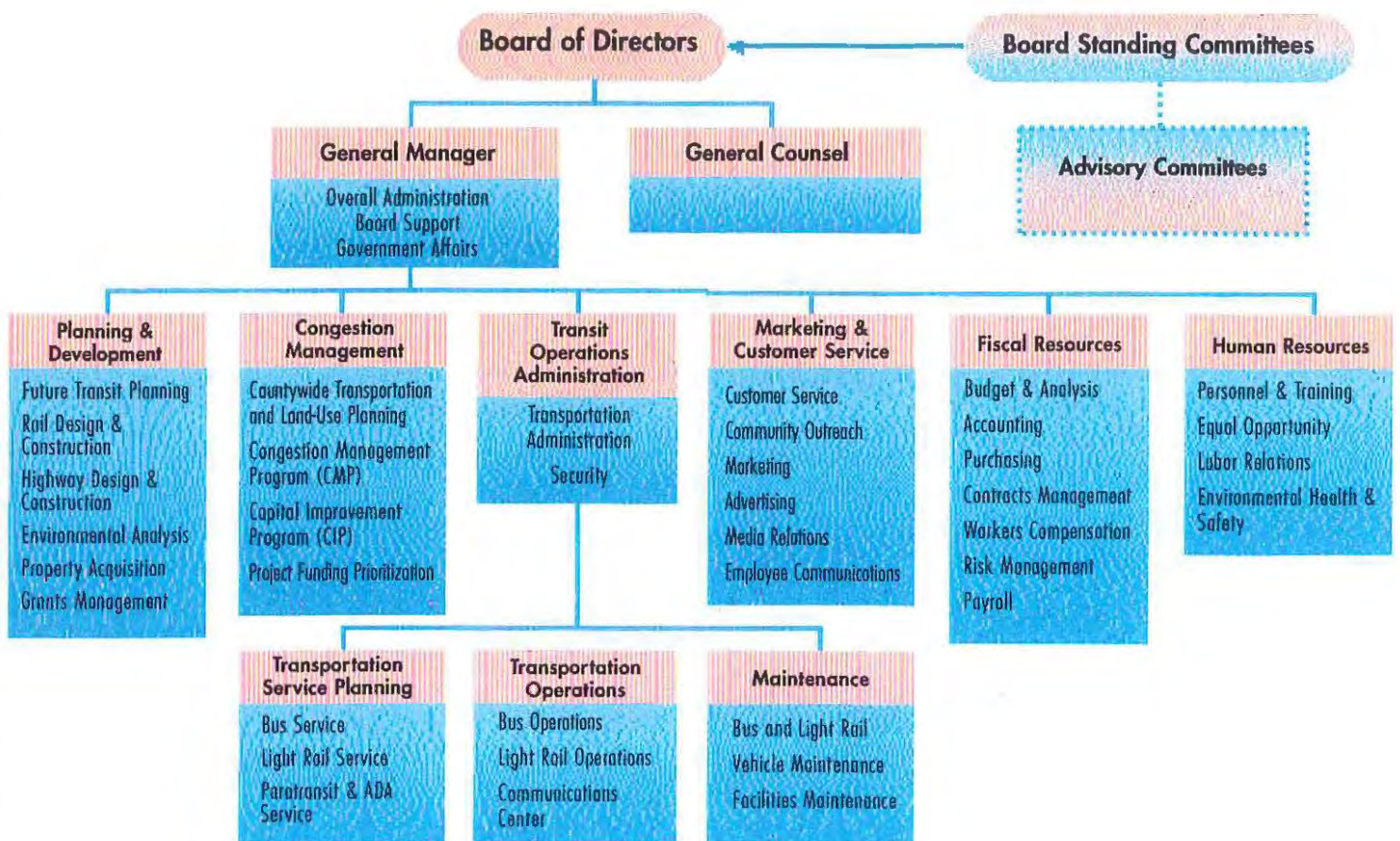
Charlotte Powers, Vice-Chairperson

GROUP 1 City of San Jose Manny Diaz Margie Fernandes Trixie Johnson Charlotte Powers Alice Woody George Shirakawa, Jr., Alt.	GROUP 3 City of Campbell City of Cupertino Town of Los Gatos City of Monte Sereno City of Saratoga Jack Lucas, Alt. Donald Wolfe
GROUP 2 City of Los Altos Town of Los Altos Hills City of Mountain View City of Palo Alto City of Santa Clara City of Sunnyvale Bill Siegel Patricia Figueroa Judy Nadler, Alt. Manuel Valerio	GROUP 4 City of Gilroy City of Milpitas City of Morgan Hill Pete Valdez Jim Lawson, Alt. GROUP 5 County of Santa Clara Jim Beall, Jr. Blanca Alvarado Pete McHugh, Alt.

Number of Employees by Division



Transportation Operations	1116	52%
Transportation Maintenance	547	26%
Transportation Service Planning	42	2%
Planning & Development	102	5%
Fiscal Resources	147	7%
Human Resources	67	3%
Marketing & Customer Service	56	3%
Congestion Management	11	1%
General Manager	12	1%
General Counsel	7	1%



Principal Officials

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

INDEPENDENT AUDITOR'S REPORT

GENERAL PURPOSE FINANCIAL STATEMENTS:

- ◆ Combined Balance Sheet
- ◆ Combined Statement of Revenues and Expenses — Enterprise Fund
- ◆ Combined Statement of Revenues, Expenditures, and Changes in Fund Balances — Governmental Fund Type (Special Revenue Funds)
- ◆ Combined Statement of Revenues, Expenditures and Changes in Fund Balances — Budget and Actual — Governmental Fund Type (Special Revenue Funds)
- ◆ Combined Statement of Changes in Net Assets (Fund Balance) — Pension Trust Fund
- ◆ Combined Statement of Changes in Enterprise Equity
- ◆ Statement of Cash Flows — Enterprise Funds
- ◆ Notes to Financial Statements

REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLAN (UNAUDITED):

- ◆ Schedule of Funding Progress
- ◆ Actuarial Methods and Assumptions for December 31, 1996 Valuation

COMBINING SCHEDULES:

- ◆ Combining Schedule of Assets, Liabilities, and Equity — Governmental fund Type (Special Revenue Funds)
- ◆ Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances — Governmental Fund Type (Special Revenue Funds)
- ◆ Combining Schedule of Assets, Liabilities, and Equity — Fiduciary Fund Type (Trust and Agency Funds)
- ◆ Combining Schedule of Assets, Liabilities, and Equity — Trust Funds
- ◆ Schedule of Changes in Assets and Liabilities — Fiduciary Fund Type (Agency Fund)
- ◆ Supplemental Schedule of Restricted Assets and Related Liabilities — Enterprise Fund
- ◆ Supplemental Schedule of budget Versus Actual Revenues and Expenses, and Capital Program Costs — Enterprise Fund
- ◆ Combined Schedule of Revenues, Expenditures, and Changes in Fund Balances — Traffic Authority — Year Ended June 30, 1997 (Unaudited)
- ◆ Note to Combined Schedule of Revenues, Expenditures, and Changes in fund Balances — Traffic Authority — Year Ended June 30, 1997 (Unaudited)

SANTA CLARA VALLEY TRANSPORTATION
AUTHORITY (VTA)

General Purpose Financial Statements

June 30, 1997

(With Independent Auditors' Report Thereon)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Table of Contents

	Page
Financial Section:	
Independent Auditors' Report.....	1
General Purpose Financial Statements:	
Combined Balance Sheet	2
Combined Statement of Revenues and Expenses – Enterprise Fund	4
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Fund Type (Special Revenue Funds)	5
Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Governmental Fund Type (Special Revenue Funds).....	6
Combined Statement of Changes in Net Assets (Fund Balance) – Pension Trust Fund.....	7
Combined Statement of Changes in Enterprise Equity	8
Combined Statement of Cash Flows – Enterprise Fund	9
Notes to General Purpose Financial Statements.....	11
Required Supplementary Information – Pension Plan (Unaudited):	
Schedule of Funding Progress.....	36
Actuarial Methods and Assumptions for January 1, 1997, Valuation.....	37
Combining Schedules:	
Combining Schedule of Assets, Liabilities, and Equity – Governmental Fund Type (Special Revenue Funds).....	38
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Governmental Fund Type (Special Revenue Funds)	39
Combining Schedule of Assets, Liabilities, and Equity – Fiduciary Fund Type (Trust and Agency Funds)	40
Combining Schedule of Assets, Liabilities, and Equity – Trust Funds.....	41
Schedule of Changes in Assets and Liabilities – Fiduciary Fund Type (Agency Fund).....	42
Supplemental Schedule of Restricted Assets and Related Liabilities – Enterprise Fund.....	43
Supplemental Schedule of Budget Versus Actual Revenues and Expenditures, and Capital Program Costs – Enterprise Fund.....	44
Combined Schedule of Revenues, Expenditures, and Changes in Fund Balances – Traffic Authority – Year Ended June 30, 1997 (Unaudited)	45
Note to Combined Schedule of Revenues, Expenditures, and Changes in Fund Balances – Traffic Authority – Year Ended June 30, 1997 (Unaudited)	46

Independent Auditors' Report

The Board of Directors
Santa Clara Valley Transportation Authority:

We have audited the accompanying general purpose financial statements of the Santa Clara Valley Transportation Authority (VTA) as of and for the year ended June 30, 1997, as listed in the accompanying table of contents under the caption "General Purpose Financial Statements." These general purpose financial statements are the responsibility of VTA's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Santa Clara Valley Transportation Authority as of June 30, 1997, and the results of its operations and cash flows of its Proprietary Fund Type for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 2 to the general purpose financial statements, the plan net assets, and changes in plan net assets (which were excluded in prior years) of the Santa Clara County District Amalgamated Transit Union Pension Plan, have been included in VTA's reporting entity as of and for the year ended June 30, 1997. Additionally, the assets, liabilities, and operating activities of the Santa Clara County Traffic Authority have been included in VTA's reporting entity for the period from April 1, 1997 to June 30, 1997. Certain other funds have been reclassified in order to enhance the usefulness of the general purpose financial statements.

The accompanying supplementary information reflecting the funding progress, and actuarial methods and assumptions relative to the Santa Clara County District Amalgamated Transit Union Pension Plan is not a required part of the basic general purpose financial statements but is a disclosure required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and do not express an opinion on it.

Our audit was made for the purpose of forming an opinion on the basic general purpose financial statements taken as a whole. The supplementary data listed in the accompanying table of contents under the caption "Combining Schedules" is presented for purposes of additional analysis and is not a required part of the basic general purpose financial statements of VTA. Such information has been subjected to the auditing procedures applied in the audit of the basic general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic general purpose financial statements taken as a whole.

The supplementary information listed in the accompanying table of contents as "Combined Schedule of Revenues, Expenditures, and Changes in Fund Balances - Traffic Authority - Year Ended June 30, 1997," and "Statistical" is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of VTA. The information has not been audited by us, and, accordingly, we express no opinion on such information.

KPMG Peat Marwick LLP

October 24, 1997, except as to Note 22,
which is as of November 25, 1997

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Combined Balance Sheet

June 30, 1997

Assets	Fund Types			Total (Memorandum only)
	Proprietary Enterprise	Governmental Special Revenue	Fiduciary Trust and Agency	
Current assets:				
Cash and equity in cash and investments held in County Treasury	\$ 81,807,514	23,711,348	-	105,518,862
Receivables	398,991	-	-	398,991
Due from other funds	33,742	35,776	-	69,518
Due from other governmental agencies	31,492,284	1,122,902	-	32,615,186
Inventories	11,053,923	-	-	11,053,923
Prepaid and other current assets	510,094	804,498	-	1,314,592
Total current assets	125,296,548	25,674,524	-	150,971,072
Restricted assets:				
Cash and equity in cash and investments held in County Treasury	101,745,717	326,763	7,740,520	109,813,000
Investments	-	-	115,505,616	115,505,616
Investments with fiscal agent	7,355,431	-	25,555,808	32,911,239
Receivables	1,907,985	-	2,400,560	4,308,545
Due from other funds	324,359	-	140,264	464,623
Due from other governmental agencies	9,212,215	4,509	154,856	9,371,580
Total restricted assets	120,545,707	331,272	151,497,624	272,374,603
Other noncurrent assets:				
Deferred bond issuance costs	900,556	-	-	900,556
Other	138,500	3,441	-	141,941
Total other noncurrent assets	1,039,056	3,441	-	1,042,497
Property, facilities, and equipment:				
Land and right-of-way	456,893,205	-	-	456,893,205
CalTrain - Gilroy extension	33,497,710	-	-	33,497,710
Buildings, improvements, furniture, and fixtures	139,373,187	-	-	139,373,187
Vehicles	152,395,369	-	-	152,395,369
Light-rail tracks and electrification	71,913,217	-	-	71,913,217
Other	15,014,655	-	-	15,014,655
Construction in progress	128,333,721	-	-	128,333,721
Total property, facilities, and equipment	997,421,064	-	-	997,421,064
Less accumulated depreciation	138,937,235	-	-	138,937,235
Total property, facilities, and equipment, net	858,483,829	-	-	858,483,829
Total assets	\$ 1,105,365,140	26,009,237	151,497,624	1,282,872,001

(Continued)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Combined Balance Sheet, (Continued)

June 30, 1997

	Fund Types			Total (Memorandum only)
	Proprietary Enterprise	Governmental Special Revenue	Fiduciary Trust and Agency	
<u>Liabilities and Equity</u>				
Current liabilities:				
Current portion of long-term debt	\$ 558,282	-	-	558,282
Accounts payable	7,083,275	582,830	-	7,666,105
Other accrued liabilities	15,211,532	24,396	-	15,235,928
Due to other funds	161,732	48,050	-	209,782
Due to other governmental agencies	2,269,638	20,456,363	-	22,726,001
Total current liabilities	25,284,459	21,111,639	-	46,396,098
Liabilities payable from restricted assets:				
Accounts payable	11,485,324	258,500	5,416,372	17,160,196
Other accrued liabilities - current	1,340,790	72,771	-	1,413,561
Due to other funds	-	-	324,359	324,359
Due to other governmental agencies	218,076	-	-	218,076
Long-term debt	7,355,431	-	-	7,355,431
Other accrued liabilities - noncurrent	66,986,954	-	28,017,663	95,004,617
Total liabilities payable from restricted assets	87,386,575	331,271	33,758,394	121,476,240
Noncurrent liabilities:				
Long-term debt	58,714,780	-	-	58,714,780
Other accrued liabilities	1,638,206	17,351	-	1,655,557
Total noncurrent liabilities	60,352,986	17,351	-	60,370,337
Total liabilities	173,024,020	21,460,261	33,758,394	228,242,675
Equity:				
Contributed capital:				
Federal grants	379,943,683	-	-	379,943,683
State grants	142,583,470	-	-	142,583,470
Other	17,837,825	-	-	17,837,825
Total contributed capital	540,364,978	-	-	540,364,978
Fund balance:				
Undesignated	-	4,548,976	-	4,548,976
Reserved for employees' retirement plan	-	-	117,739,230	117,739,230
Retained earnings:				
Reserved	33,159,132	-	-	33,159,132
Unreserved	358,817,010	-	-	358,817,010
Total retained earnings	391,976,142	-	-	391,976,142
Total equity	932,341,120	4,548,976	117,739,230	1,054,629,326
Total liabilities and equity	\$ 1,105,365,140	26,009,237	151,497,624	1,282,872,001

See accompanying notes to general purpose financial statements.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Combined Statement of Revenues and Expenses – Enterprise Fund

Year ended June 30, 1997

Operating revenues:	
Passenger fares	\$ 23,633,116
Advertising and other	<u>1,944,271</u>
Total operating revenues	<u>25,577,387</u>
Operating expenses:	
Labor	77,297,405
Fringe benefits	43,053,832
Materials and supplies	16,911,096
Services	12,583,492
Utilities	3,409,410
Casualty and liability	2,413,527
Purchased transportation	8,916,091
Leases and rentals	298,775
Miscellaneous	<u>1,627,171</u>
Total operating expenses, excluding depreciation	<u>166,510,799</u>
Operating loss before depreciation	<u>(140,933,412)</u>
Depreciation expense:	
On assets acquired with capital grants	(9,982,063)
On assets otherwise acquired	<u>(14,435,480)</u>
Total depreciation expense	<u>(24,417,543)</u>
Operating loss	<u>(165,350,955)</u>
Nonoperating revenues (expenses):	
Sales tax revenue	128,968,746
Federal operating assistance grants	48,591
State and local operating assistance grants	69,242,981
CalTrain subsidy	(11,688,588)
CalTrain reimbursements	2,583,873
Interest income	5,943,311
Interest expense	(3,731,056)
Other income	859,715
Other expense	<u>(1,409,785)</u>
Nonoperating revenues, net	<u>190,817,788</u>
Net income	<u>\$ 25,466,833</u>

See accompanying notes to general purpose financial statements.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)
 Combined Statement of Revenues, Expenditures, and Changes in Fund Balances –
 Governmental Fund Type (Special Revenue Funds)

Year ended June 30, 1997

Revenues:	\$ 217,208
Sales tax	1,257,743
Federal grants	201,672
Interest	1,239,993
Member agency assessment revenue	93,852
Program reimbursement	35,776
Administrative fees	<u>3,105</u>
Other revenues	<u>3,049,349</u>
Total revenues	
Expenditures:	525,873
Salaries and benefits	564,136
Services	2,521,569
Program expenses	<u>31,646</u>
Other	<u>3,643,224</u>
Total expenditures	
Total expenditures in excess of revenues before other financing sources	(593,875)
Other financing sources – sale of fixed assets	<u>3,720</u>
Total expenditures in excess of revenues	(590,155)
Fund balance, beginning of year	–
Residual equity transfer	<u>5,139,131</u>
Fund balance, end of year	<u>\$ 4,548,976</u>

See accompanying notes to general purpose financial statements.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

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

Year ended June 30, 1997

	<u>Budget</u>	<u>Actual</u>	Favorable (Unfavorable) <u>Variance</u>
Revenues:			
Sales tax	\$ 417,925	217,208	(200,717)
Federal grants	3,564,525	1,257,743	(2,306,782)
Interest	96,000	201,672	105,672
Member agency assessment revenue	1,239,994	1,239,993	(1)
Program reimbursement	–	93,852	93,852
Administrative fees	92,500	35,776	(56,724)
Other revenues	<u>–</u>	<u>3,105</u>	<u>3,105</u>
Total revenues	<u>5,410,944</u>	<u>3,049,349</u>	<u>(2,361,595)</u>
Expenditures:			
Salaries and benefits	909,099	525,873	383,226
Services	2,070,242	564,136	1,506,106
Program expenses	7,916,850	2,521,569	5,395,281
Other	<u>124,900</u>	<u>31,646</u>	<u>93,254</u>
Total expenditures	<u>11,021,091</u>	<u>3,643,224</u>	<u>7,377,867</u>
Total expenditures in excess of revenues before other financing sources	(5,610,147)	(593,875)	5,016,272
Other financing sources – sale of fixed assets	<u>–</u>	<u>3,720</u>	<u>3,720</u>
Total expenditures in excess of revenues	\$ <u>(5,610,147)</u>	<u>(590,155)</u>	<u>5,019,992</u>

See accompanying notes to general purpose financial statements.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

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

Year ended June 30, 1997

Additions:	
Pension contributions	\$ 4,232,627
Interest earned on investments	7,639,682
Net appreciation (depreciation) on investments:	
Corporate obligations	(1,317,538)
FNMA/FHLB/FHLMC	801,164
U.S. Treasury obligations	2,832,171
Municipal obligations	445,504
Mutual funds	<u>560,109</u>
Total additions	<u>15,193,719</u>
Deductions:	
Distributions to participants	3,362,235
Other benefits paid to participants	11,217
Administrative expenses	<u>59,159</u>
Total deductions	<u>3,432,611</u>
Net increase	11,761,108
Net assets available for benefits (fund balance):	
Beginning of year	-
Residual equity transfer	<u>105,978,122</u>
End of year	\$ <u><u>117,739,230</u></u>

See accompanying notes to general purpose financial statements.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Combined Statement of Changes in Enterprise Equity

Year ended June 30, 1997

	Contributed capital	Retained earnings		Total enterprise equity
		<u>Reserved</u>	<u>Unreserved</u>	
Balances, June 30, 1996	\$ 501,598,985	29,165,332	327,666,359	858,430,676
Residual equity transfer – Congestion Management Program	–	–	(604,156)	(604,156)
Net income	–	–	25,466,833	25,466,833
Capital grants	49,047,767	–	–	49,047,767
Depreciation on assets acquired with capital grants	(9,982,063)	–	9,982,063	–
Disposal of assets acquired with capital grants	(299,711)	–	299,711	–
Increase in reserved retained earnings	<u>–</u>	<u>3,993,800</u>	<u>(3,993,800)</u>	<u>–</u>
Balances, June 30, 1997	\$ <u>540,364,978</u>	<u>33,159,132</u>	<u>358,817,010</u>	<u>932,341,120</u>

See accompanying notes to general purpose financial statements.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Combined Statement of Cash Flows – Enterprise Fund

Year ended June 30, 1997

Cash flows from operating activities:	
Cash received from passenger fares	\$ 23,662,753
Cash received from advertising	2,117,188
Cash paid to employees	(118,122,182)
Cash paid to suppliers	(38,391,186)
Cash paid for purchased transportation	<u>(8,494,885)</u>
Net cash used in operating activities	<u>(139,228,312)</u>
Cash flows from noncapital financing activities:	
Operating grants received	69,153,393
Sales tax received	127,763,016
CalTrain subsidy	(11,468,433)
Other noncapital receipts	4,233,658
Other noncapital payments	<u>(9,350,638)</u>
Net cash provided by noncapital financing activities	<u>180,330,996</u>
Cash flows from capital and related financing activities:	
Payment of long-term debt	(501,451)
Interest paid	(3,718,029)
Acquisition and construction of capital assets	(56,436,152)
Repayment of construction advance	835,200
Capital grants received	46,432,677
Proceeds from sale of capital assets	<u>34,096</u>
Net cash used in capital and related financing activities	<u>(13,353,659)</u>
Cash flows provided by investing activities – interest received	<u>8,830,127</u>
Net increase in cash and cash equivalents	36,579,152
Cash and cash equivalents, beginning of year	<u>146,974,079</u>
Cash and cash equivalents, end of year	\$ <u><u>183,553,231</u></u>
Supplemental disclosures of cash flow information:	
Cash and cash equivalents, beginning of year:	
Unrestricted	\$ 46,775,418
Restricted	<u>100,198,661</u>
	\$ <u><u>146,974,079</u></u>
Cash and cash equivalents, end of year:	
Unrestricted	\$ 81,807,514
Restricted	<u>101,745,717</u>
	\$ <u><u>183,553,231</u></u>
Noncash transactions:	
Reduction of contributed capital for depreciation on assets acquired with capital grants	\$ <u><u>9,982,063</u></u>

(Continued)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Combined Statement of Cash Flows -- Enterprise Fund, (Continued)

Year ended June 30, 1997

Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (165,350,955)
Adjustments to operating loss:	
Depreciation	24,417,543
Changes in operating assets and liabilities:	
Receivables	(1,061,906)
Inventories	(548,834)
Prepaid and other current assets	1,009,236
Accounts payable	138,985
Other accrued liabilities	(560,975)
Due to other governmental agencies	348,637
Other accrued liabilities -- noncurrent	<u>2,379,957</u>
Net cash used in operating activities	\$ <u>(139,228,312)</u>

See accompanying notes to general purpose financial statements.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 1997

(1) Organization

In fiscal 1997, Santa Clara County Transit District changed its name to the Santa Clara Valley Transportation Authority (VTA). VTA, which was established in 1972, develops, maintains, and operates a public mass transit system for the benefit of the residents of the County of Santa Clara (the County), California (the State).

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

VTA is not subject to federal or state income taxes.

The accompanying general purpose financial statements also include the financial activities of the Santa Clara County Transit District Amalgamated Transit Union (ATU) Pension Plan (the Plan) in the Trust and Agency Funds (Notes 2 and 12).

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

As of March 31, 1997, the Traffic Authority ceased operations as a separate entity, and, effective April 1, 1997, VTA assumed responsibility as successor organization for the purpose of winding up the affairs of the Traffic Authority. The accompanying general purpose financial statements include three months of financial activities of the Traffic Authority (Note 2). The Traffic Authority is a blended component unit of VTA and is included in the accompanying general purpose financial statements in the Special Revenue and Trust Funds.

(Continued)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

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

(2) Restatements and Reclassifications

- (a) As previously noted, the general purpose financial statements include the net assets, and changes in accompanying net assets (which were excluded in prior years) of the Plan. The inclusion of the Plan in the accompanying general purpose financial statements has been reflected as a residual equity transfer of \$105,978,122 as of July 1, 1996, into the Trust and Agency Funds.

In November 1994, the Governmental Accounting Standards Board (GASB) issued Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, which requires, among other things, that plan investments be reported in a statement of net assets at their fair value at the reporting date and that associated unrealized gains and losses be included in the net appreciation (depreciation) in the fair value of plan investments reported in a statement of changes in net assets. It also requires reporting of certain actuarially determined information. The provisions of the statement are effective for periods beginning after June 15, 1996. The impact of the adoption of GASB Statement No. 25 was an increase in pension plan net assets taken as a whole of approximately \$330,000 as of July 1, 1996, to reflect net unrealized gains in plan investments (Note 12). The residual equity transfer into the Trust and Agency Funds, as noted above, included the effect of such increase.

- (b) Also, as previously noted, the assets, liabilities, and operating activities of the Traffic Authority have been included in VTA's general purpose financial statements for the period from April 1, 1997 to June 30, 1997. The difference between assets and liabilities of the Traffic Authority as of March 31, 1997, of \$4,534,975 has been reflected as a residual equity transfer into the Special Revenue Funds.

(Continued)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

- (c) Due to the inclusion of the operations of the Traffic Authority (effective April 1, 1997), and the Plan (effective July 1, 1997), VTA has reclassified certain other funds retroactively to July 1, 1996, in order to enhance the usefulness of the general purpose financial statements. In particular, activities related to the CMP have been reclassified from the Enterprise Fund to a Special Revenue Fund and an Agency Fund. Additionally, activities related to the deferred compensation plan (Note 14) and the ATU Spousal Medical Trust (Note 15) have been reclassified from the Enterprise Fund to Trust Funds. The net effect of these reclassifications was to reduce the Enterprise Fund equity balance by \$604,156. This amount has been reflected as a residual equity transfer from the Enterprise Fund to the Special Revenue Funds.

(3) Significant Accounting Policies

Financial Statement Presentation

As described in Note 2, VTA's reporting entity was expanded to include the operations of the Plan and the Traffic Authority. This resulted in VTA changing its financial statement presentation during fiscal 1997 to include Special Revenue Funds and Trust and Agency Funds, along with the Enterprise Fund.

Description of Funds

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

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

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

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

(Continued)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

Basis of Accounting

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

The Proprietary Fund Type and Pension Trust Fund are accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

VTA has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements, as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

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

Cash and Investments

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

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

Investments with Fiscal Agent

Investments with fiscal agent are stated at the lower of amortized cost or market, except for investments of the Pension Trust Fund, which are stated at fair value. See Note 4 for market value information.

(Continued)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

Inventories

Inventories are stated at average cost and charged to expense at the time individual items are withdrawn from inventory (consumption method).

Restricted Assets

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

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

Deferred Bond Issuance Costs

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

Property, Facilities, and Equipment

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

Structures and improvements	15 to 50 years
Buses and maintenance vehicles	7 to 12 years
Light-rail structures and light-rail vehicles	25 to 30 years
Other operating equipment	5 to 15 years

Depreciation on such assets is included in the accompanying combined statement of revenues and expenses.

Interest is capitalized on construction in progress in accordance with Statement of Financial Accounting Standards No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants*. Accordingly, interest capitalized is the total interest cost from the date of the borrowing net of any allowable interest earned on temporary investments of the proceeds of those borrowings until the specified asset is ready for its intended use. There was no interest capitalized in 1997.

Other Accrued Liabilities

Other accrued liabilities, including those payable from restricted assets, represent accruals for compensated absences for vacation and sick leave benefits, payroll, deferred compensation, Retiree Health Care Programs, general liability insurance, workers' compensation liabilities, and the Aerospace settlement of sales taxes scheduled to be repaid to the State through June 2000.

(Continued)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

Self-Insurance

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

Federal, State, and Local Grant Funds

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

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

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

Sales Tax Revenues

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

Pension Costs

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

In November 1994, GASB issued Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. This statement established standards for the measurement, recognition, and display of pension expenditures and related liabilities, note disclosures, and required supplementary information. VTA adopted this statement for the 1997 fiscal year.

Use of Estimates

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

(Continued)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

Memorandum Only - Total Columns

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

(4) Cash and Investments

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

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

Bank deposits are collateralized as required by state law (Government Code Section 53652) with assets held in a common pool with other governmental agencies. State law requires that the market value of the common pool of collateral be equal to or greater than 110% of all public deposits with the pledging financial institution if government securities are used, or 150% if first trust deed mortgage notes are used as collateral. The collateral is not held by, or held in the name of, the County or VTA. As of June 30, 1997, VTA had no bank deposits held by a fiscal agent. Cash of approximately \$240,000 consisted primarily of deposits in transit and change funds. This cash balance is uncollateralized.

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

Mutual funds and certificates of deposits held for the deferred compensation plans are invested at the discretion of participating employees. Such investments are not subject to statutes relating to other VTA investments.

(Continued)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

VTA's investments are categorized below to give an indication of the custodial risk assumed by VTA as of June 30, 1997. Category 1 includes investments that are insured or registered or for which the securities are held by VTA or its agent in VTA's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in VTA's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in VTA's name.

Type of Investment	1997			Carrying value	Market value
	Category 1	Category 2	Category 3		
Corporate notes	\$ 9,449,314	-	-	9,449,314	9,498,399
Corporate notes - Pension Plan	34,085,759	-	-	34,085,759	34,085,759
U.S. Treasury and government agency notes	44,379,685	-	-	44,379,685	44,404,857
U.S. Treasury and government agency notes - Pension Plan	<u>73,538,407</u>	<u>-</u>	<u>-</u>	<u>73,538,407</u>	<u>73,538,407</u>
Subtotal	\$ <u>161,453,165</u>	<u>-</u>	<u>-</u>	161,453,165	161,527,422
Investments commingled in County Treasury				167,453,606	167,405,377
Investments commingled in County Treasury - Pension Plan				5,151,669	5,151,669
Money market funds specifically for VTA				1,111,392	1,111,392
Mutual funds and certificates of deposits held for the deferred compensation plan				25,609,108	25,609,108
Mutual funds and certificates of deposits - Pension Plan				<u>2,729,781</u>	<u>2,729,781</u>
Total investments				\$ <u>363,508,721</u>	<u>363,534,749</u>

As of June 30, 1997, VTA's cash and investments consisted of the following:

Cash	\$ 239,996
Investments	<u>363,508,721</u>
	\$ <u>363,748,717</u>

(Continued)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

Total cash and investments as of June 30, 1997, are reported in the accompanying combined balance sheet as follows:

Unrestricted:

Cash and equity in cash and investments held in County Treasury	\$ <u>105,518,862</u>
---	-----------------------

Restricted:

Cash and equity in cash and investments held in County Treasury	109,813,000
Investments	115,505,616
Investments with fiscal agent	<u>32,911,239</u>

Total restricted	<u>258,229,855</u>
------------------	--------------------

Total cash and investments	<u>\$ 363,748,717</u>
----------------------------	-----------------------

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

Due from other funds and due to other funds as of June 30, 1997, consisted of the following:

<u>Fund Type</u>	<u>Due from</u>	<u>Due to</u>
Enterprise	\$ 358,101	161,732
Special Revenue	35,776	48,050
Trust and Agency	<u>140,264</u>	<u>324,359</u>
Total	<u>\$ 534,141</u>	<u>534,141</u>

(6) Due From Other Governmental Agencies

Due from other governmental agencies as of June 30, 1997, consisted of the following:

		<u>Fund Types</u>	
		<u>Enterprise</u>	<u>Special Revenue</u>
			<u>Trust and Agency</u>
Federal government	\$ 3,486,385	69,056	—
State government	5,590,356	376,233	—
County of Santa Clara	5,057,205	415,618	154,856
Sales tax	23,930,889	—	—
CalTrain reimbursement	2,583,873	—	—
Other	<u>55,791</u>	<u>266,504</u>	<u>—</u>
Total	<u>\$ 40,704,499</u>	<u>1,127,411</u>	<u>154,856</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

Due from other governmental agencies as of June 30, 1997, is reported in the accompanying combined balance sheet as follows:

	Fund Types			
	<u>Enterprise</u>	<u>Special Revenue</u>	<u>Trust and Agency</u>	<u>Total</u>
Current assets	\$ 31,492,284	1,122,902	—	32,615,186
Restricted assets	<u>9,212,215</u>	<u>4,509</u>	<u>154,856</u>	<u>9,371,580</u>
	<u>\$ 40,704,499</u>	<u>1,127,411</u>	<u>154,856</u>	<u>41,986,766</u>

(7) Construction In Progress

Construction in progress (CIP), included in property, facilities, and equipment, includes capitalized costs associated with the following projects as of June 30, 1997:

Tasman Corridor project	\$ 122,149,494
Environmental building and site modifications	559,005
Facilities modifications	2,299,577
Software development	691,474
Vasona Corridor project	1,605,155
VTA administration building improvements	563,485
Coach replacement	452,727
Bike rack project	<u>12,804</u>
Total	<u>\$ 128,333,721</u>

Additional information regarding projects in progress as of June 30, 1997, follows:

Total Board approved project budget	\$ 405,816,990
Expended to date	<u>128,333,721</u>
Expenditure budget available for CIP	<u>\$ 277,483,269</u>
Anticipated funding sources are as follows:	
Federal, state, and other local assistance	\$ 245,748,423
Local contribution (Note 10)	<u>31,734,846</u>
Total funding sources	<u>\$ 277,483,269</u>

VTA has outstanding encumbrances of approximately \$126,384,000 as of June 30, 1997, related to the above capital projects.

(Continued)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

(8) Long-Term Debt

Long-term debt as of June 30, 1997, consisted of the following:

1994 ABAG33 Series C Certificates, net of unamortized discount of \$87,123	\$ 4,852,705
1991 Series A Sales Tax Revenue Bonds, net of unamortized discount of \$1,361,393	31,908,607
Series 1985A Equipment Trust Certificates	29,660,000
Improvement Bond Series 22R	<u>207,181</u>
Total debt	66,628,493
Less current portion	<u>558,282</u>
Long-term debt	<u>\$ 66,070,211</u>

Long-term debt as of June 30, 1997, is reported in the accompanying combined balance sheet as follows:

Long-term debt payable from restricted assets	\$ 7,355,431
Unrestricted	<u>58,714,780</u>
	<u>\$ 66,070,211</u>

1994 ABAG33 Series C Certificates

The 1994 ABAG33 Series C Certificates (Series C Certificates) were issued to finance the purchase of certain parcels of land from the County. Issuance costs are being amortized over the term of the debt. The Series C Certificate payments are special obligations payable solely from revenues derived principally from the imposition of a one-half percent retail transaction and use tax. Series C Certificates are secured by a pledge of and first lien on the sales tax revenues on parity with the 1991 Series A Sales Tax Revenue Bonds (1991 Series A Bonds) and the Series 1985A Equipment Trust Certificates (the 1985A Certificates).

The Series C Certificates mature serially through November 15, 2014. Future annual principal payments on the serial bonds range from \$155,000 to \$455,000 and bear interest ranging from 5.6% to 7.00%.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

The Series C Certificates are subject to mandatory redemption prior to their maturity date on each December 1 on or after December 1, 2009, through mandatory sinking fund account payments at a redemption price equal to the principal amount to be redeemed, plus accrued interest to the redemption date. Prior to December 1, 2005, the Series C Certificates are subject to optional redemption at a redemption rate of 102% of the principal amount, plus accrued interest from December 1, 2004, through November 30, 2005, at a rate of 101% from December 1, 2005, through November 30, 2006, and at a rate of 100% from December 1, 2006, through November 30, 2009.

1991 Series A Sales Tax Revenue Bonds

The 1991 Series A Bonds, which originally included \$2,930,000 of serial bonds and \$31,445,000 of term bonds, were issued to finance the acquisition, renovation, and equipping of new administration buildings for VTA. Issuance costs related to this issuance are being amortized over the term of the debt. The 1991 Series A Bonds are special obligations of VTA payable from and secured by sales tax revenue.

The \$2,930,000 serial bonds mature serially beginning June 1, 1994, through June 1, 2001. Future annual principal payments on the serial bonds range from \$380,000 to \$535,000 and bear interest ranging from 6.0% to 6.30%. The \$31,445,000 term bonds consist of \$9,570,000, \$3,155,000, and \$18,720,000, which mature in 2011, 2013, and 2021, respectively. The term bonds are subject to redemption prior to their stated maturity through mandatory sinking fund account payments. The term bonds bear interest ranging from 6.25% to 6.75%, and annual sinking fund payments range from \$595,000 to \$2,975,000 beginning June 1, 2002, through June 1, 2021.

Series 1985A Equipment Trust Certificates

The 1985A Certificates were issued to finance the retirement of the Series 1984A Equipment Trust Certificates, which had been issued to finance the acquisition of light-rail vehicles for the Guadalupe Corridor light-rail project. Proceeds from the sale of the 1985A Certificates were \$52,155,000, which was net of issuance costs of \$705,000. Issuance costs related to this issuance are being amortized over the term of the debt. The interest on the 1985A Certificates is adjusted daily by the Trustee (3.8% as of June 30, 1997).

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

The 1985A Certificates mature beginning in 2007 and are subject to redemption prior to their maturity date on each June 1 through deposit on such date in a separate sinking fund account, of the principal amount due together with accrued interest to the date of redemption. As of June 30, 1997, VTA had repaid \$23,200,000 on the 1985A Certificates. As a result of making payments prior to scheduled repay maturity dates, the next required sinking fund payments are due in 2007 through 2015 and range from \$460,000 to \$4,800,000.

(Continued)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

Improvement Bond Series 22R

The Improvement Bond Series 22R (the Bonds) were assumed by VTA upon the purchase of land in fiscal 1992 to be used as VTA's administration building site. The Bonds were originally issued in 1979, bear interest at 6.9%, and mature through 2004. Future annual principal payments range from \$23,300 to \$36,900.

Five Year Debt Maturity

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

Year ending <u>June 30,</u>	
1998	\$ 4,160,694
1999	4,188,994
2000	4,212,827
2001	4,232,822
2002	4,262,886
Thereafter	<u>100,890,564</u>
Total debt service requirements	121,948,787
Less amounts representing interest and unamortized discount	<u>55,320,294</u>
Total debt	66,628,493
Less current portion	<u>558,282</u>
Long-term debt	\$ <u>66,070,211</u>

Limitations and Restrictions

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

(9) Sales Tax Revenue

Sales tax revenue represents sales tax revenue from the California State Board of Equalization, which, under a sales tax measure, collects for VTA 0.5% for each taxable sales dollar spent in the County. These amounts are available to fund both operations and capital expenditures except that portion which is to be used to repay long-term debt as described in Note 8. Collection fees charged by the State Board of Equalization were approximately \$2,857,000 in fiscal 1997.

(Continued)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

As of June 30, 1997, VTA accrued a liability of approximately \$1,543,000 as a result of the Aerospace settlement by the State requiring the refunding of certain sales taxes previously collected and remitted to VTA. The State is charging interest at 6% on the unrefunded portion of such sales taxes.

(10) Reservation of Retained Earnings

The excess of assets restricted for encumbrances and the local share of capital projects over the related liabilities payable from restricted assets is recorded as a reservation of retained earnings in the accompanying combined balance sheet. Reserved retained earnings as of June 30, 1997, totaled \$33,159,132.

(11) Federal, State, and Local Assistance

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

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

Federal Grants

Federal grants are approved principally by the Federal Transportation Administration (FTA) and the Federal Highway Administration (FHWA). Federal grants for the years ended June 30, 1997, are summarized as follows:

	Fund Types	
	<u>Enterprise</u>	<u>Special Revenue</u>
Operating assistance grants:		
Federal Highway	\$ —	1,129,750
Planning	—	127,993
Federal Technical Studies	<u>48,591</u>	<u>—</u>
Total operating assistance grants	<u>48,591</u>	<u>1,257,743</u>
Capital grants:		
FTA Section 3	15,328,104	—
FTA Section 9	<u>21,759,803</u>	<u>—</u>
Total capital grants	<u>37,087,907</u>	<u>—</u>
Total federal grants	\$ <u>37,136,498</u>	<u>1,257,743</u>

(Continued)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

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.

State and Local Grants

State and local grants for the year ended June 30, 1997, are summarized as follows:

Operating assistance grants:	
Transportation Development Act	\$ 64,676,234
State Transit Assistance	3,819,458
AB434	<u>747,289</u>
Total operating assistance grants	<u>69,242,981</u>
Capital grants:	
Transit Capital Improvement	255,522
Proposition 116	9,793,265
Traffic Systems Management	1,274,925
AB434	356,148
City of San Jose	<u>280,000</u>
Total capital grants	<u>11,959,860</u>
Total state and local grants	\$ <u>81,202,841</u>

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

VTA transferred its federal operating assistance allocation of \$2,583,873 to the Peninsula Corridor Joint Powers Board for the year ended June 30, 1997, for the purpose of achieving a dollar-for-dollar reduction in its Member Agency contribution requirements. This amount is included as CalTrain reimbursements in the accompanying statement of revenues and expenses (see Note 20).

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.

(Continued)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

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

Proposition 116 funds are received from the California Transportation Commission from Rail Bond funds pursuant to the 1990 Clean Air and Transportation Improvement Act. These funds are used to reimburse project costs relating to final engineering on the Tasman Corridor Project and construction of a commuter rail service from San Jose to Gilroy.

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

City of San Jose funds received are related to work in progress on the Tasman Corridor Project.

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

Plan Description

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

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

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

The current membership of the Plan as of June 30, 1997, is comprised of the following:

Retirees and beneficiaries currently receiving benefits	420
Terminated vested members not yet receiving benefits	127
Active members	<u>1,467</u>
Total	<u>2,014</u>

(Continued)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

Basis of Accounting

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

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

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

Concentration

No investments in any one nonfederal organization represent 5% or more of the Plan's net assets.

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, 1997, were made in accordance with actuarially determined requirements computed as of January 1, 1996. VTA contribution rate as a percentage of payroll was 6.57% for the 1997 fiscal year.

Net Pension Obligation

VTA's net pension obligation to the Plan was zero for the year ended June 30, 1997, which was determined in accordance with GASB Statement No. 27.

Three-Year Trend Information

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 1997	\$ 4,232,627	100%	—
June 30, 1996	4,104,206	100%	—
June 30, 1995	4,175,282	100%	—

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

(13) Public Employees Retirement System

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

VTA contributed 16.2% of payroll for covered employees to PERS for the year ended June 30, 1997. VTA's contribution includes the employees' required payroll contribution. VTA's total covered payroll, applicable to non-ATU employees, for the year ended June 30, 1997, was approximately \$24,624,000. Employees have no additional obligation to contribute to PERS.

Funding Status and Progress

As a result of the separation from the County, certain administrative employees were transferred from the County to VTA. Based on discussions with PERS' staff, it was determined that all of those administrative employees' service credits earned during the period they worked for the County's transportation agency would be transferred to VTA's PERS account. The transfer of related assets and liabilities is expected to result in a net impact of \$5,000,000 of assets transferred greater than liabilities. Until the transfer is completed, PERS is unable to determine the pension benefit obligation relating to such employees and VTA separate from the County.

Actuarially Determined Contributions Required and Contributions Made

The funding policy of PERS provides for actuarially determined periodic contributions by VTA at rates such that sufficient assets will be available to pay PERS' benefits when due. VTA's contributions to PERS were made in accordance with the actuarially determined requirements. VTA's contributions to PERS for the year ended June 30, 1997, were based on preliminary actuarial studies performed by PERS. VTA's total pension expense (all normal cost) for the year ended June 30, 1997, was approximately \$3,995,000, which consisted of \$1,669,000 of employees' total required contributions paid by VTA (6.8% of current covered payroll), and VTA's employer contributions of \$2,326,000 (9.4% of current covered payroll).

PERS uses the level percentage of payroll modification of the Entry Age Normal Actuarial Cost Method to determine the contribution rate for normal cost and to amortize any unfunded actuarial liabilities through June 30, 2011.

(Continued)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

Historical Trend Information

Due to the separation from the County, 10-year trend information, specifically applicable to VTA, is not available. PERS system wide 10-year trend information may be found in the PERS Annual Reports.

(14) Deferred Compensation Plan

VTA offers its employees a deferred compensation plan (Deferred Plan) created in accordance with Section 457 of the Internal Revenue Code. The Deferred Plan permits the employees to defer a portion of their salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or emergency.

As of June 30, 1997, a total of approximately \$25,556,000 had been deferred under the Deferred Plan. The assets and liabilities of the Deferred Plan are included in the accompanying combined balance sheet under restricted assets and other accrued liabilities – noncurrent. All amounts of compensation deferred under the Deferred Plan may be invested, at the option of the employees, in certificates of deposits, money market, mutual, growth or fixed income funds, and all assets and related earnings thereon are solely the property of VTA until paid or made available to the employees or other beneficiaries, subject only to the claims of general creditors. Participants' rights under the Deferred Plan are equal to those of general creditors of VTA in an amount equal to the fair market value of the deferred account for each participant. It is VTA's fiduciary duty to protect the assets of the Deferred Plan. To date, the Deferred Plan's assets have only been used to pay deferred compensation amounts to employees. In the opinion of VTA's management, it is unlikely that deferred compensation assets will be used to satisfy the claims of VTA's general creditors in the future. Amounts paid to participants in 1997 were approximately \$1,136,000.

(15) ATU Spousal Medical Trust

VTA had assets and related liabilities as of June 30, 1997, of approximately \$2,462,000 for the ATU Spousal Medical Trust (the Trust), a medical insurance benefit for eligible pensioners' spouses. Pursuant to a collective bargaining agreement, VTA is required to contribute to the Trust \$0.15 per hour worked by all ATU employees. As of June 30, 1997, 129 participating spouses met the eligibility requirements. Contributions to the Trust, which were expensed by VTA, were approximately \$428,000 for the year ended June 30, 1997. Benefit payments made by the Trust for the year ended June 30, 1997, were approximately \$150,000.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

(16) **Retiree Health Care Programs**

ATU

VTA provides an ATU Retiree Health Care Program (the ATU Program), a postemployment benefit, in accordance with the agreement between VTA and the ATU, to all ATU employees who retire from VTA on or after attaining the age of 55 with at least 15 years of service, or if an employee becomes disabled and has completed at least 10 years of service. As of June 30, 1997, 302 retirees met the eligibility requirements. VTA pays medical premiums for its eligible retirees. Benefits paid to participants of the ATU Program for the year ended June 30, 1997, were approximately \$873,000. For the year ended June 30, 1997, VTA made contributions to the ATU Program, which were expensed by VTA, of approximately \$2,708,000. An actuarial study as of June 30, 1996, (the latest available) projected that the present value of future VTA paid retiree medical benefits for the current group of active employees, retirees, and terminated vested employees (excluding new employees) was approximately \$33,563,000, of which approximately \$10,301,000 represents the unfunded actuarial liability. The actuarial study recommended a fiscal 1998 contribution of approximately \$1,825,000, which was determined using the Projected Unit Credit Method, to fund the unfunded actuarial liability over an amortization period of 17 years, commencing June 30, 1996. VTA's fiscal 1997 contribution approximated the actuarially determined contribution.

Non-ATU

All non-ATU employees upon retirement with at least five years of service and attaining age 50 are also covered under a Retiree Health Care Program (the Non-ATU Program). As of June 30, 1997, 198 retirees met the eligibility requirements. For the year ended June 30, 1997, benefits paid to participants of the Non-ATU Program were approximately \$243,000 while contributions, which were made by VTA, were approximately \$1,250,000. An actuarial study as of June 30, 1996, (the latest available) projected that the present value of future VTA paid retiree medical benefits for the current group of active employees, retirees, and terminated vested employees (excluding new employees) was approximately \$13,997,000, of which approximately \$7,067,000 represents the unfunded actuarial liability. The actuarial study recommended a fiscal 1998 contribution of approximately \$1,030,000, which was determined using the Projected Unit Credit Method, to fund the unfunded actuarial liability over an amortization period of 17 years, commencing June 30, 1996. VTA's fiscal 1997 contribution approximated the actuarially determined contribution.

As of June 30, 1997, VTA had restricted assets and related liabilities of approximately \$20,100,000 to cover future costs of the ATU and Non-ATU Programs.

(Continued)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

(17) Self-Insurance

VTA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors, and omissions; injuries to employees; injuries to the public; and natural disasters. Coverage provided by self-insurance and excess coverage is generally as follows as of June 30, 1997:

<u>Type of Coverage</u>	<u>Self-Insurance (in aggregate)</u>	<u>Excess Coverage (in aggregate)</u>
Workers' compensation	Up to \$5,000,000	\$5,000,000 to \$15,000,000
Commercial general liability	Up to \$5,000,000	\$5,000,000 to \$15,000,000
Property:		
Flood	Up to \$50,000	\$50,000 to \$5,050,000
Earthquake	All Self-Insured	-
Other perils	Up to \$50,000	\$50,000 to \$195,000,000

Amounts in excess of these limits are self-insured and no losses have occurred above the self-insured retention. Effective July 1, 1997, the deductibles for certain of the above coverages were reduced to take advantage of changing market conditions.

Workers' Compensation and General Liability

The unpaid general liability and workers' compensation claim liabilities, included in other accrued liabilities, are based on the results of actuarial studies and include amounts for claims incurred but not reported. Claims liability discount rates are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of pay-outs, and other economic and social factors. Estimated losses for general liability and workers' compensation claims are charged to expense in the period the loss is incurred (including estimates for claims incurred but not yet reported) and are accrued as a liability based on the present value of estimated future cash payments using a 6.5% average discount rate for workers' compensation as of June 30, 1997, and a 6% average discount rate for general liability as of June 30, 1997, until paid. It is VTA's practice to obtain full actuarial studies annually. VTA uses a third-party administrator to perform its workers' compensation claims processing function.

Changes in the balances of workers' compensation claims liabilities for the two years ended June 30, 1997, are as follows:

	<u>1997</u>	<u>1996</u>
Unpaid claims, beginning of fiscal year	\$ 26,630,000	25,160,000
Provision for claim and claim adjustment expense	5,681,000	7,070,000
Payments for claims	<u>(6,691,000)</u>	<u>(5,600,000)</u>
Unpaid claims, end of fiscal year	\$ <u>25,620,000</u>	<u>26,630,000</u>

(Continued)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

Changes in the balances of general liability claims liabilities for the two years ended June 30, 1997, are as follows:

	<u>1997</u>	<u>1996</u>
Unpaid claims, the beginning of fiscal year	\$ 19,636,000	—
Transfer from the County	—	17,926,000
Provision for claim and claim adjustment expense	3,811,000	5,314,000
Payments for claims	<u>(2,769,000)</u>	<u>(3,604,000)</u>
Unpaid claims, end of fiscal year	\$ <u>20,678,000</u>	<u>19,636,000</u>

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

(18) Leases

VTA leases various properties for use as transfer facilities, parking lots, information centers, and warehouses under lease agreements that expire at various dates through 2013. These agreements are accounted for as operating leases. Rent expense was approximately \$120,000 in fiscal 1997.

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

Year ending <u>June 30,</u>	
1998	\$ 156,000
1999	163,000
2000	170,000
2001	178,000
2002	186,000
Thereafter	<u>2,184,000</u>
Total	\$ <u>3,037,000</u>

(19) Litigation

As of June 30, 1997, VTA had accrued amounts that management believes are adequate to provide for claims and litigation which arose during the normal course of business. Other claims and litigation are outstanding for which VTA cannot determine the ultimate outcome and resulting liability, if any. However, VTA's management believes the ultimate outcome of these claims and lawsuits will not significantly impact VTA's financial position.

(Continued)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

(20) Related Party Transactions

County of Santa Clara

Through June 30, 1997, the County continued to provide certain support services to VTA. Amounts paid to the County for such services were approximately \$2,800,000 in fiscal 1997.

Peninsula Corridor Joint Powers Board

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

The net operating costs and administrative expenses of the PCJPB for services provided between San Francisco and San Jose are reimbursed by the member agencies. VTA, SamTrans, and CCSF are responsible for 38.8%, 51.0%, and 10.2%, respectively, of the member agencies' total reimbursement for such expenses. VTA is also responsible for 100% of the operating costs between San Jose and Gilroy. During the year ended June 30, 1997, VTA paid approximately \$11,689,000 to the PCJPB.

In 1997, VTA's Section 9 federal operating assistance, which is allocated through the Metropolitan Transportation Commission, was allocated to the PCJPB. As a result, VTA will be reimbursed a portion of their CalTrain operating subsidy by the PCJPB in the amount of \$2,583,873, which is included in "Due from other governmental agencies" as of June 30, 1997 (see Note 6).

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

Summary financial information (not included in VTA's financial statements) for the PCJPB as of and for the year ended June 30, 1997, is as follows (unaudited):

Total assets	\$ 433,004,000
Total liabilities	<u>26,249,000</u>
Equity	<u>\$ 406,755,000</u>
Operating revenue	\$ 17,949,000
Expenses	(43,141,000)
Nonoperating revenue	<u>25,192,000</u>
Excess of expenses over revenues	<u>\$ -</u>

No debt has been issued by PCJPB.

Altamont Commuter Express

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

Upon its commencement in early 1998, ACE will provide twice daily round trip commuter rail service from Stockton through the Tri-Valley area of Alameda County to Santa Clara County. ACE will be operating through the joint efforts of VTA, the Alameda County Congestion Management Agency, and the San Joaquin Regional Rail Commission.

Capitol Corridor Intercity Rail Service

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

(Continued)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

(21) Santa Clara Valley Traffic Authority

As described in Notes 1 and 2, effective April 1, 1997, VTA assumed responsibility as successor organization for the purpose of winding up the affairs of the Traffic Authority. The following items related to the Traffic Authority will have an ongoing impact.

Agreement with Caltrans

Caltrans was contracted to act as the technical director for Measure A programs, and to plan, review, and approve all plans and specifications for development, as well as to supervise construction. In the three-month period ended June 30, 1997, payments to Caltrans totaled approximately \$399,000.

The Traffic Authority's contract with Caltrans requires a final determination of cost from the close out process of construction projects. Caltrans is in the process of finalizing certain projects for which the Traffic Authority may be responsible for additional payments. As of June 30, 1997, known claims have been accrued and reported at expected settlement amounts. A stipulation agreement with Caltrans limits the Traffic Authority's claim exposure for closed projects. The project close out costs are currently being negotiated with Caltrans and are expected to be resolved within one year.

(22) Subsequent Event

On November 25, 1997, VTA issued \$40,570,000 of sales tax refunding revenue bonds at a true interest cost of 5.172%. Proceeds of the issuance will be used to advance refund \$33,270,000 of the outstanding principal amount of its 1991 Series A Bonds and to advance refund \$4,940,000 of the outstanding principal amount of its Series C Certificates.

**REQUIRED SUPPLEMENTARY INFORMATION –
PENSION PLAN**

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

(21) Santa Clara Valley Traffic Authority

As described in Notes 1 and 2, effective April 1, 1997, VTA assumed responsibility as successor organization for the purpose of winding up the affairs of the Traffic Authority. The following items related to the Traffic Authority will have an ongoing impact.

Agreement with Caltrans

Caltrans was contracted to act as the technical director for Measure A programs, and to plan, review, and approve all plans and specifications for development, as well as to supervise construction. In the three-month period ended June 30, 1997, payments to Caltrans totaled approximately \$399,000.

The Traffic Authority's contract with Caltrans requires a final determination of cost from the close out process of construction projects. Caltrans is in the process of finalizing certain projects for which the Traffic Authority may be responsible for additional payments. As of June 30, 1997, known claims have been accrued and reported at expected settlement amounts. A stipulation agreement with Caltrans limits the Traffic Authority's claim exposure for closed projects. The project close out costs are currently being negotiated with Caltrans and are expected to be resolved within one year.

(22) Subsequent Event

On November 25, 1997, VTA issued \$40,570,000 of sales tax refunding revenue bonds at a true interest cost of 5.172%. Proceeds of the issuance will be used to advance refund \$33,270,000 of the outstanding principal amount of its 1991 Series A Bonds and to advance refund \$4,940,000 of the outstanding principal amount of its Series C Certificates.

**REQUIRED SUPPLEMENTARY INFORMATION –
PENSION PLAN**

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Schedule of Funding Progress^(a)

(Unaudited – See accompanying independent auditors' report)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded AAL as a Percentage of Covered Payroll</u>
1/1/95	\$ 95,741,300	\$ 98,674,600	\$ 2,933,300	97.0%	\$ 60,199,900	4.9%
1/1/96	104,143,300	107,111,800	2,968,500	97.2	62,013,600	4.8
1/1/97	112,455,500	136,331,700 ^(b)	23,876,200	82.5	64,799,849	36.9

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

^(b)The AAL as of January 1, 1997 increased relative to the AAL as of January 1, 1996 due to normal operating activity, as well as due to an increase in the actuarially assumed investment rate of return from 7.5% to 8.0%, and a decrease in actuarially assumed projected salary increases from 5.0% to 4.5%.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Actuarial Methods and Assumptions for January 1, 1997 Valuation^(a)

(Unaudited – See accompanying independent auditors' report)

<u>Description</u>	<u>Method/Assumption</u>
Actuarial cost method	Entry Age Normal
Amortization method for actuarial accrued liabilities	Level dollar method, closed periods
Remaining amortization period	17 years and 20 years Equivalent Single Amortization Period is 18 years
Actuarial asset valuation method	Fixed income portfolio assets valued at amortized cost. Short-term investments and cash equivalents valued at cost.
Actuarial assumptions	Investment rate of return 8.0% Projected salary increases 4.5%

^(a)Santa Clara County District Amalgamated Transit Union Pension Plan.

COMBINING SCHEDULES

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Combining Schedule of Assets, Liabilities, and Equity

Governmental Fund Type

(Special Revenue Funds)

June 30, 1997

<u>Assets</u>	<u>Traffic Authority</u>	<u>CMP</u>	<u>Total</u>
Current assets:			
Cash and equity in cash and investments held in County Treasury	\$ 22,729,068	982,280	23,711,348
Due from other funds	-	35,776	35,776
Due from other governmental agencies	914,080	208,822	1,122,902
Prepaid and other current assets	804,498	-	804,498
Total current assets	<u>24,447,646</u>	<u>1,226,878</u>	<u>25,674,524</u>
Restricted assets:			
Cash and equity in cash and investments held in County Treasury	326,763	-	326,763
Due from other governmental agencies	4,509	-	4,509
Total restricted assets	<u>331,272</u>	<u>-</u>	<u>331,272</u>
Noncurrent assets - other	-	3,441	3,441
Total assets	<u>\$ 24,778,918</u>	<u>1,230,319</u>	<u>26,009,237</u>
<u>Liabilities and Equity</u>			
Current liabilities:			
Accounts payable	\$ 511,357	71,473	582,830
Other accrued liabilities	-	24,396	24,396
Due to other funds	-	48,050	48,050
Due to other governmental agencies	20,393,918	62,445	20,456,363
Total current liabilities	<u>20,905,275</u>	<u>206,364</u>	<u>21,111,639</u>
Liabilities payable from restricted assets:			
Accounts payable	258,500	-	258,500
Other accrued liabilities - current	72,771	-	72,771
Total liabilities payable from restricted assets	<u>331,271</u>	<u>-</u>	<u>331,271</u>
Noncurrent liabilities - other accrued liabilities	-	17,351	17,351
Total liabilities	<u>21,236,546</u>	<u>223,715</u>	<u>21,460,261</u>
Equity - fund balance - undesignated	<u>3,542,372</u>	<u>1,006,604</u>	<u>4,548,976</u>
Total liabilities and equity	<u>\$ 24,778,918</u>	<u>1,230,319</u>	<u>26,009,237</u>

See accompanying independent auditors' report.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances –
Governmental Fund Type
(Special Revenue Funds)
Year ended June 30, 1997

	<u>Traffic Authority^(a)</u>	<u>CMP</u>	<u>Total</u>
Revenues:			
Sales tax	\$ 217,208	–	217,208
Federal grants	1,129,750	127,993	1,257,743
Interest	162,899	38,773	201,672
Member agency assessment revenue	–	1,239,993	1,239,993
Program reimbursement	93,852	–	93,852
Administrative fees	–	35,776	35,776
Other revenues	<u>3,105</u>	<u>–</u>	<u>3,105</u>
Total revenues	<u>1,606,814</u>	<u>1,442,535</u>	<u>3,049,349</u>
Expenditures:			
Salaries and benefits	–	525,873	525,873
Services	49,922	514,214	564,136
Program expenses	2,521,569	–	2,521,569
Other	<u>31,646</u>	<u>–</u>	<u>31,646</u>
Total expenditures	<u>2,603,137</u>	<u>1,040,087</u>	<u>3,643,224</u>
Total (expenditures) revenues exceeding (revenues) expenditures before other financing sources	(996,323)	402,448	(593,875)
Other financing sources – sales of fixed assets	<u>3,720</u>	<u>–</u>	<u>3,720</u>
Total (expenditures) revenues exceeding (revenues) expenditures	(992,603)	402,448	(590,155)
Fund balance, beginning of year	–	–	–
Residual equity transfer	<u>4,534,975</u>	<u>604,156</u>	<u>5,139,131</u>
Fund balance, end of year	<u>\$ 3,542,372</u>	<u>1,006,604</u>	<u>4,548,976</u>

^(a)Operating activities for the Traffic Authority are for the period from April 1, 1997 to June 30, 1997.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Combining Schedule of Assets, Liabilities, and Equity

Fiduciary Fund Type

(Trust and Agency Funds)

June 30, 1997

<u>Assets</u>	<u>Trust Funds^(a)</u>	<u>Agency Fund</u>	<u>Total</u>
Restricted assets:			
Cash and equity in cash and investments held in			
County Treasury	\$ 2,426,331	5,314,189	7,740,520
Investments	115,505,616	-	115,505,616
Investments with fiscal agent	25,555,808	-	25,555,808
Receivables	2,400,560	-	2,400,560
Due from other funds	121,040	19,224	140,264
Due from other governmental agencies	<u>76,651</u>	<u>78,205</u>	<u>154,856</u>
Total assets	<u>\$ 146,086,006</u>	<u>5,411,618</u>	<u>151,497,624</u>
 <u>Liabilities and Equity</u>			
Liabilities payable from restricted assets:			
Accounts payable	\$ 4,754	5,411,618	5,416,372
Due to other funds	324,359	-	324,359
Other accrued liabilities – noncurrent	<u>28,017,663</u>	<u>-</u>	<u>28,017,663</u>
Total liabilities payable from restricted assets	28,346,776	5,411,618	33,758,394
Equity – fund balance – reserved for employees’ retirement plan	<u>117,739,230</u>	<u>-</u>	<u>117,739,230</u>
Total liabilities and equity	<u>\$ 146,086,006</u>	<u>5,411,618</u>	<u>151,497,624</u>

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

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

June 30, 1997

<u>Assets</u>	<u>SCCTD/ATU Pension Fund</u>	<u>ATU Spousal Medical Trust</u>	<u>Deferred Compensation Plan</u>		<u>Total</u>
			<u>VTA</u>	<u>Traffic Authority</u>	
Restricted assets:					
Cash and equity in cash and investments held in County Treasury	\$ -	2,426,331	-	-	2,426,331
Investments	115,505,616	-	-	-	115,505,616
Investments with fiscal agent	-	-	25,190,356	365,452	25,555,808
Receivables	2,377,283	23,277	-	-	2,400,560
Due from other funds	121,040	-	-	-	121,040
Due from other governmental agencies	64,404	12,247	-	-	76,651
Total assets	\$ <u>118,068,343</u>	<u>2,461,855</u>	<u>25,190,356</u>	<u>365,452</u>	<u>146,086,006</u>
<u>Liabilities and Equity</u>					
Liabilities payable from restricted assets:					
Accounts payable	\$ 4,754	-	-	-	4,754
Due to other funds	324,359	-	-	-	324,359
Other accrued liabilities – noncurrent	-	2,461,855	25,190,356	365,452	28,017,663
Total liabilities payable from restricted assets	<u>329,113</u>	<u>2,461,855</u>	<u>25,190,356</u>	<u>365,452</u>	<u>28,346,776</u>
Equity – fund balance – reserved for employees’ retirement plan	<u>117,739,230</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>117,739,230</u>
Total liabilities and equity	\$ <u>118,068,343</u>	<u>2,461,855</u>	<u>25,190,356</u>	<u>365,452</u>	<u>146,086,006</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Schedule of Changes in Assets and Liabilities – Fiduciary Fund Type

(Agency Fund)

Year ended June 30, 1997

<u>Assets</u>	<u>Balance July 1, 1996</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 1997</u>
Current assets:				
Cash and equity in cash and investments held in County				
Treasury	\$ 3,911,635	1,839,663	437,109	5,314,189
Due from other funds	—	55,000	35,776	19,224
Due from other governmental agencies	<u>49,533</u>	<u>78,205</u>	<u>49,533</u>	<u>78,205</u>
Total assets	\$ <u>3,961,168</u>	<u>1,972,868</u>	<u>522,418</u>	<u>5,411,618</u>
<u>Liabilities</u>				
Liabilities payable from restricted assets:				
Accounts payable	\$ 3,914,821	2,414,095	917,298	5,411,618
Due to other funds	<u>46,347</u>	<u>—</u>	<u>46,347</u>	<u>—</u>
Total liabilities	\$ <u>3,961,168</u>	<u>2,414,095</u>	<u>963,645</u>	<u>5,411,618</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Supplemental Schedule of Restricted Assets and Related Liabilities – Enterprise Fund

June 30, 1997

	Restricted for						
	Capital and Operating	General Liability Insurance	Workers' Compensation Insurance	Retiree Health Care	Long-Term Accrued Vacation and Sick Benefits	Debt Service	Total
Restricted assets:							
Cash and equity in cash and investments held in County Treasury	\$ 28,893,700	19,647,028	25,118,720	19,480,962	8,605,307	–	101,745,717
Investments with fiscal agent	–	–	–	–	–	7,355,431	7,355,431
Receivables	–	1,065,281	644,119	198,585	–	–	1,907,985
Due from other funds	–	–	–	324,359	–	–	324,359
Due from other governmental agencies	<u>8,967,081</u>	<u>90,406</u>	<u>63,842</u>	<u>90,886</u>	<u>–</u>	<u>–</u>	<u>9,212,215</u>
Total	<u>\$ 37,860,781</u>	<u>20,802,715</u>	<u>25,826,681</u>	<u>20,094,792</u>	<u>8,605,307</u>	<u>7,355,431</u>	<u>120,545,707</u>
Liabilities payable from restricted assets:							
Accounts payable	\$ 3,319,038	123,870	8,000,504	41,912	–	–	11,485,324
Other accrued liabilities – current	1,340,789	–	–	1	–	–	1,340,790
Due to other governmental agencies	–	–	–	218,076	–	–	218,076
Long-term debt	–	–	–	–	–	7,355,431	7,355,431
Other accrued liabilities – noncurrent	<u>41,822</u>	<u>20,678,845</u>	<u>17,826,177</u>	<u>19,834,803</u>	<u>8,605,307</u>	<u>–</u>	<u>66,986,954</u>
Total	<u>\$ 4,701,649</u>	<u>20,802,715</u>	<u>25,826,681</u>	<u>20,094,792</u>	<u>8,605,307</u>	<u>7,355,431</u>	<u>87,386,575</u>
Retained earnings – reserved	<u>\$ 33,159,132</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>33,159,132</u>

See accompanying independent auditors' report.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

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

Year ended June 30, 1997

	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>
Operating revenues:			
Passenger fares	\$ 23,604,000	23,633,116	29,116
Advertising and other	<u>2,918,861</u>	<u>1,944,271</u>	<u>(974,590)</u>
Total operating revenues	<u>26,522,861</u>	<u>25,577,387</u>	<u>(945,474)</u>
Operating expenditures:			
Labor and fringe benefits	130,229,832	120,351,237	9,878,595
Services and supplies	43,532,478	37,243,471	6,289,007
Purchased transportation	<u>11,920,110</u>	<u>8,916,091</u>	<u>3,004,019</u>
Total operating expenditures	<u>185,682,420</u>	<u>166,510,799</u>	<u>19,171,621</u>
Operating loss	<u>(159,159,559)</u>	<u>(140,933,412)</u>	<u>18,226,147</u>
Nonoperating revenues (expenditures):			
Sales tax revenue	117,368,000	128,968,746	11,600,746
Federal operating assistance grants	40,000	48,591	8,591
State and local operating assistance grants	69,472,518	69,242,981	(229,537)
CalTrain subsidy	(12,729,662)	(11,688,588)	1,041,074
CalTrain reimbursements	1,890,000	2,583,873	693,873
Interest income	3,788,716	5,943,311	2,154,595
Interest cost	(4,869,756)	(3,731,056)	1,138,700
Other, net	<u>(588,921)</u>	<u>(550,070)</u>	<u>38,851</u>
Total nonoperating revenues, net	<u>174,370,895</u>	<u>190,817,788</u>	<u>16,446,893</u>
Net income – budget basis	15,211,336	49,884,376	34,673,040
Depreciation	<u>—</u>	<u>24,417,543</u>	<u>(24,417,543)</u>
Net income – GAAP basis	\$ <u>15,211,336</u>	<u>25,466,833</u>	<u>10,255,497</u>
Capital program costs	\$ <u>349,209,000</u>	<u>58,602,321</u>	<u>290,606,679</u>

See accompanying independent auditors' report.

UNAUDITED SCHEDULE

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Combined Schedule of Revenues, Expenditures, and Changes in Fund Balances –
Traffic Authority – Year Ended June 30, 1997 (Unaudited) – (Note 1)

	Nine months ended March 31, <u>1997</u>	Three months ended June 30, <u>1997</u>	<u>Total</u>
Revenues:			
Sales taxes	\$ 2,272,225	217,208	2,489,433
State and local transportation partnership program	428,010	–	428,010
Federal grants	5,395,804	1,129,750	6,525,554
Interest	699,647	162,899	862,546
Program reimbursement	1,114,631	93,852	1,208,483
Sales of excess land	389,544	–	389,544
Other revenues	<u>39,931</u>	<u>3,105</u>	<u>43,036</u>
Total revenues	<u>10,339,792</u>	<u>1,606,814</u>	<u>11,946,606</u>
Expenditures:			
Salaries and benefits	388,266	–	388,266
Services	234,248	49,922	284,170
Program expenses	19,121,174	2,521,569	21,642,743
Other	<u>99,239</u>	<u>31,646</u>	<u>130,885</u>
Total expenditures	<u>19,842,927</u>	<u>2,603,137</u>	<u>22,446,064</u>
Total expenditures exceeding revenues before other financing sources	(9,503,135)	(996,323)	(10,499,458)
Other financing sources – sales of fixed assets	<u>11,603</u>	<u>3,720</u>	<u>15,323</u>
Total expenditures exceeding revenues	(9,491,532)	(992,603)	(10,484,135)
Fund balance, beginning of year	14,834,235	–	14,834,235
Adjustments to fund balance	<u>(807,728)</u>	<u>–</u>	<u>(807,728)</u>
Fund balance, end of year	<u>\$ 4,534,975</u>	<u>(992,603)</u>	<u>3,542,372</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Note to Combined Schedule of Revenues, Expenditures, and Changes in Fund Balances – Traffic Authority – Year Ended June 30, 1997 (Unaudited)

(1) **Santa Clara County Traffic Authority**

The Santa Clara County Traffic Authority (the Traffic Authority) was created upon the approval, in November 1984, of a one-half cent sales and use tax in the County by the County voters. The tax, known as Measure A, commenced April 1, 1985, and expired on March 31, 1995. The Traffic Authority ceased operations as a separate entity 12 years from the date the Measure A tax was first collected and, effective April 1, 1997, VTA assumed responsibility as successor organization for the purpose of winding up the affairs of the Traffic Authority. The accompanying combined schedule of revenues, expenditures, and changes in fund balances – Traffic Authority, presents operating information for the year ended June 30, 1997, by combining the activities during the nine months ended March 31, 1997 (while the Traffic Authority operated as a separate entity) with the activities during the three months ended June 30, 1997 (while the Traffic Authority was a component unit of VTA).

SECTION 3 —STATISTICAL

FINANCIAL RATIOS

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

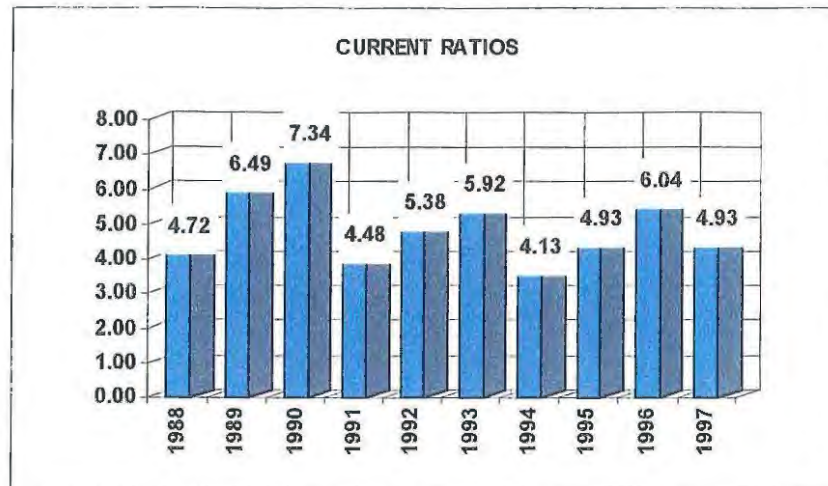
TEN-YEAR COMPARISONS

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

FINANCIAL RATIOS 1988 - 1997

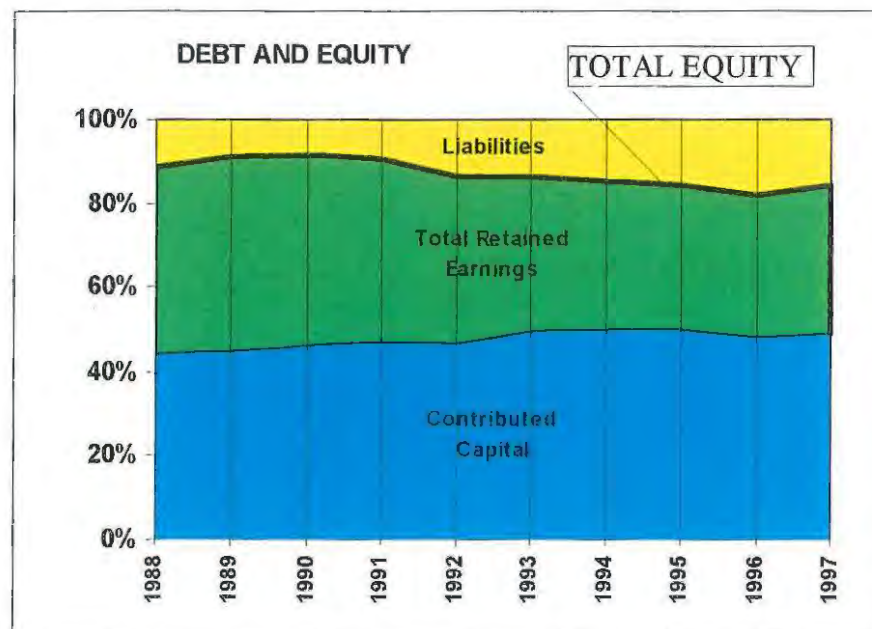
Current Ratios

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



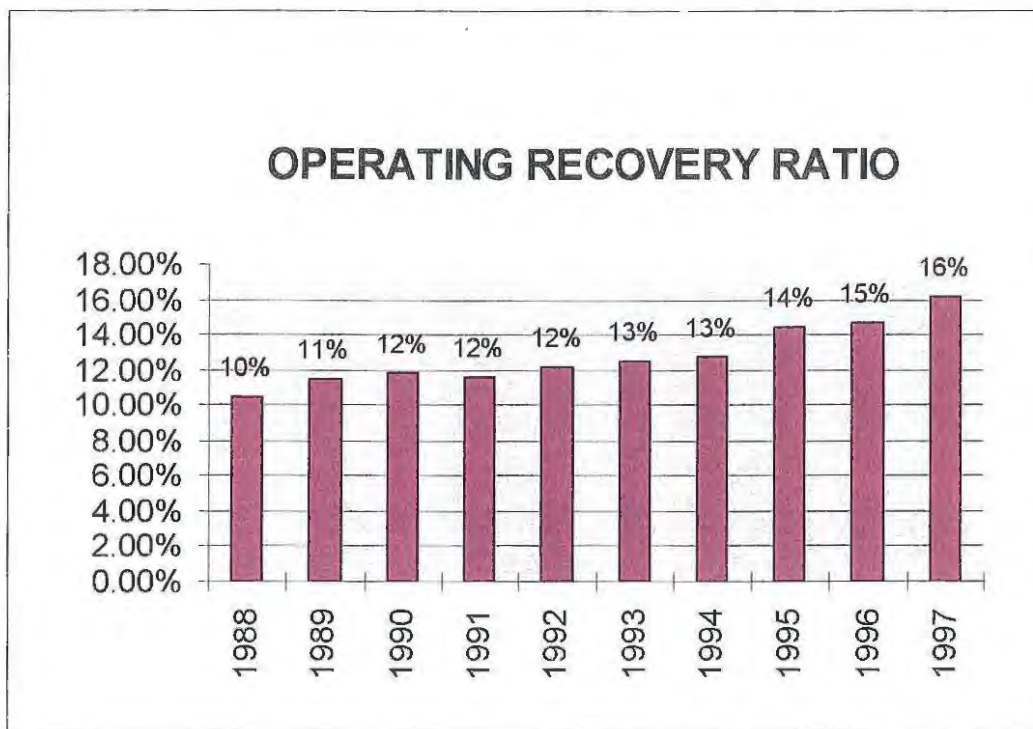
Debt and Equity Ratios

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



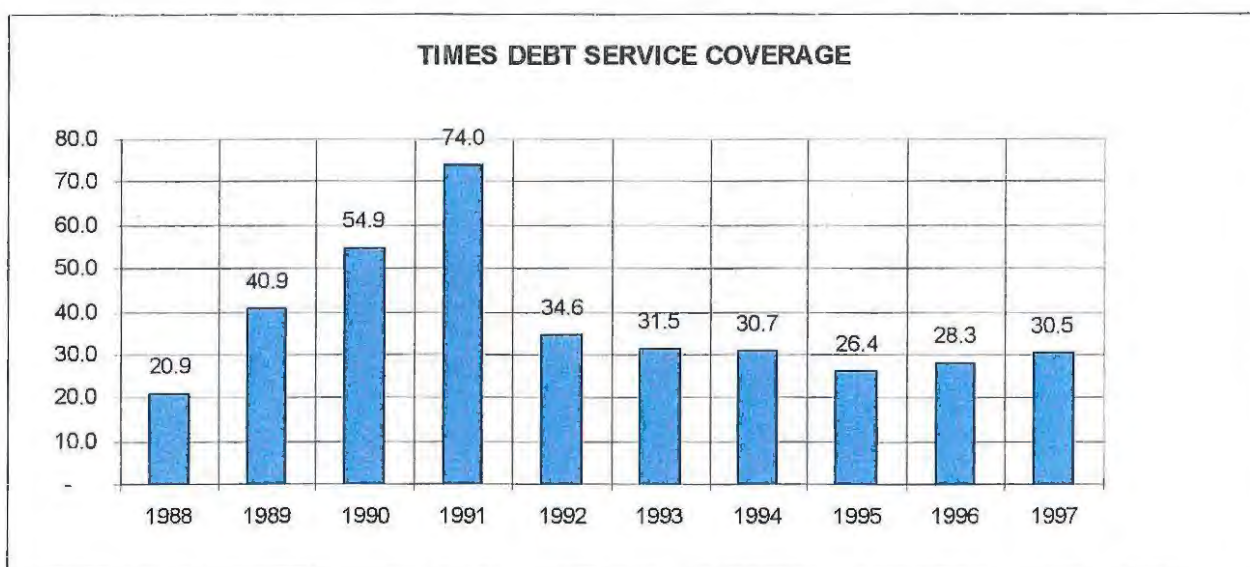
Operating Recovery Ratio

The operating recovery ratio is the operating income divided by the net operating expenses. This key measure shows a three percent gain from 1994 to fiscal 1997 in keeping with the long range strategic plan. VTA plans to achieve a 19% ratio in the year 2000 by a combination of cost containment measures, increasing ridership and modest fare increases.



Times Debt Service Coverage

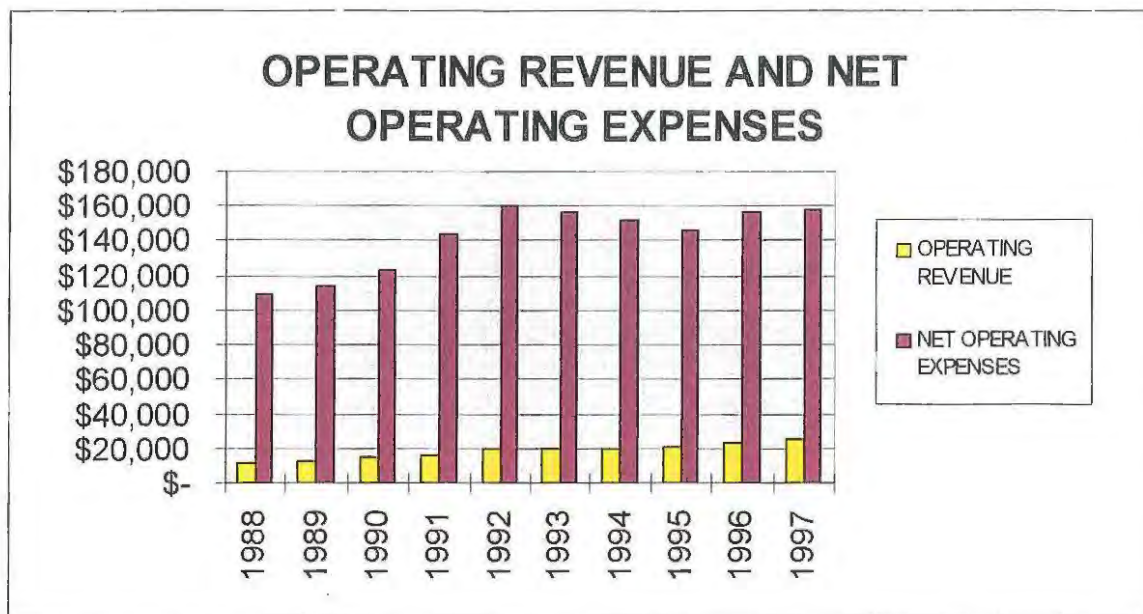
The following schedule of the ratio of sales tax revenues to debt service reflects historically that the pledged sales tax has adequately covered the principal and interest payments.



TEN - YEAR COMPARISONS (1988 - 1997)

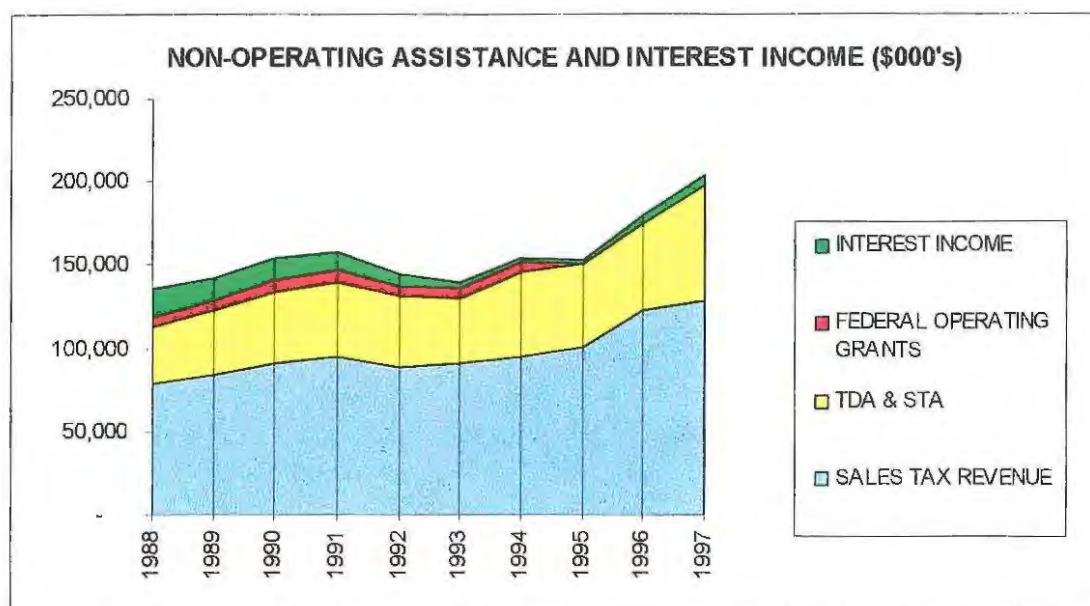
Operating Revenues and Net Operating Expenses

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



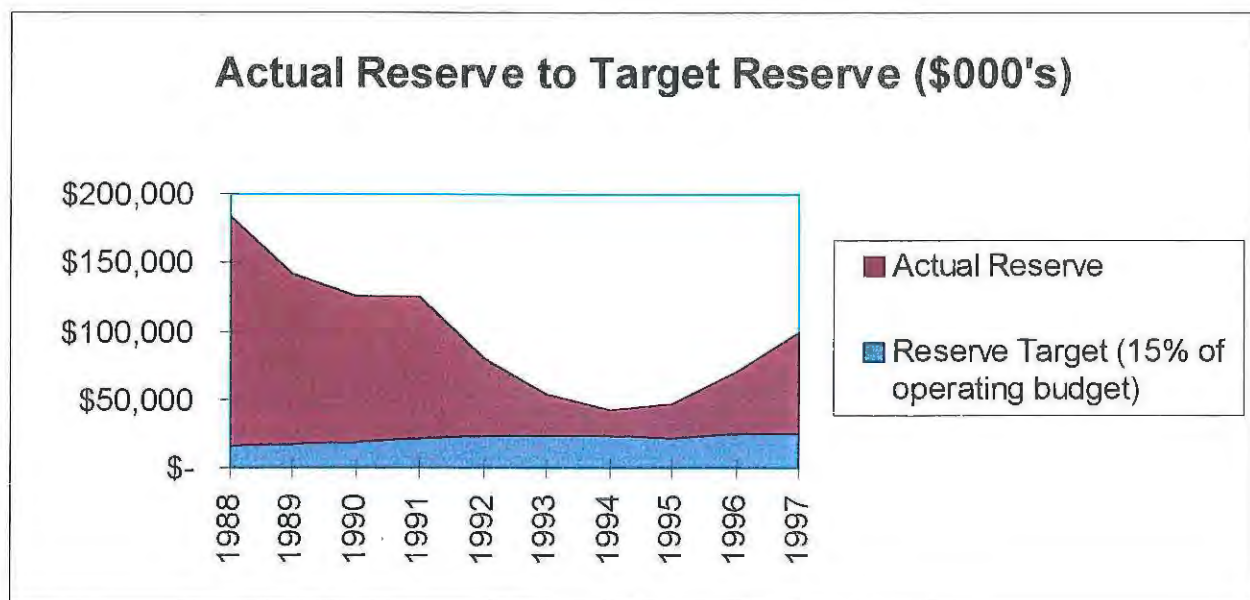
Non-operating Assistance and Interest Income

The following chart illustrates trends in selected material non-operating revenue sources. Taxable sales growth in Santa Clara County is the greatest contributing factor to the non-operating revenue sources shown in the following graph. Federal operating assistance was transferred to the Peninsula Corridor Joint Powers Board in 1995.



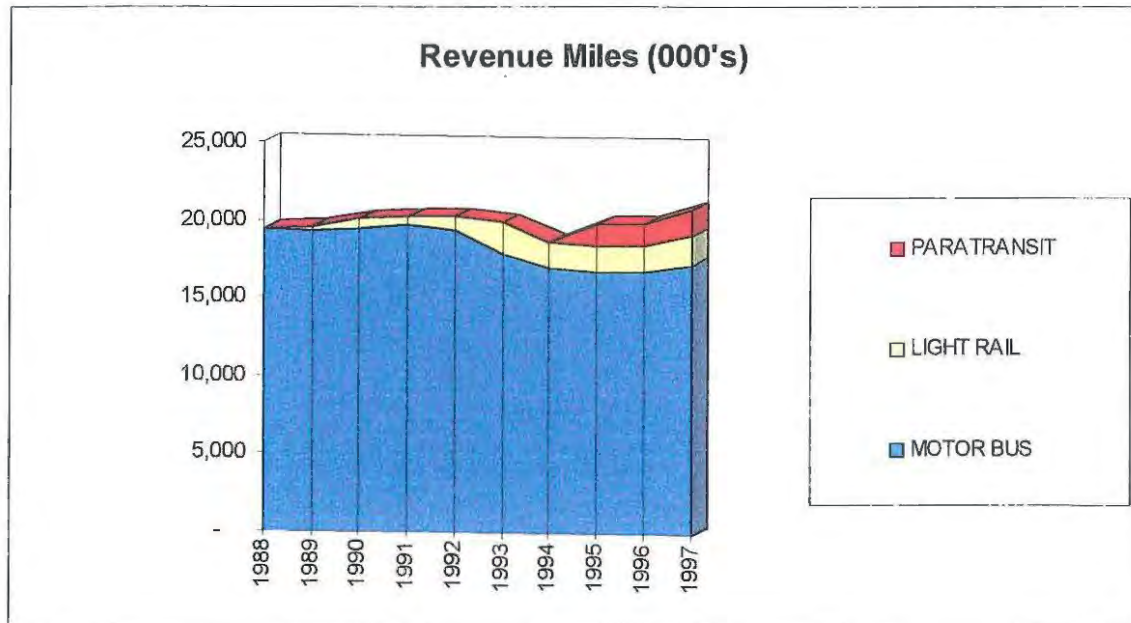
Actual Reserves to Target Reserves

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



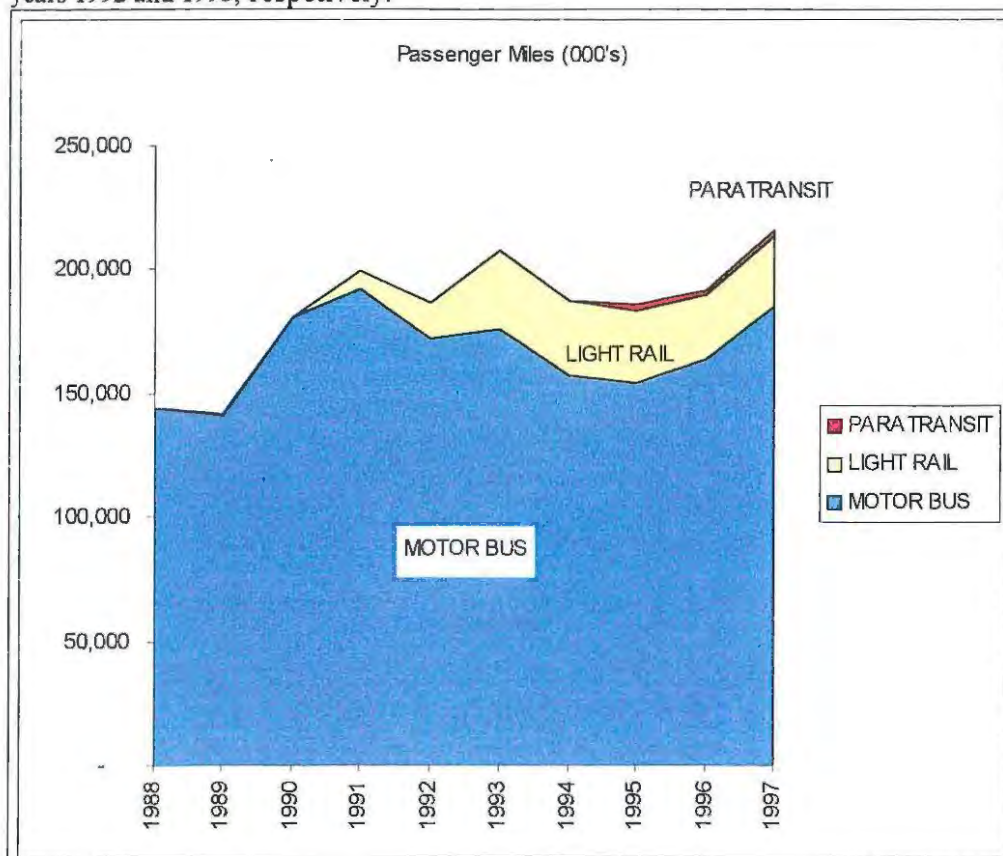
Vehicle Revenue Miles

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



Passenger Miles

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



Section - 3

Selected Financial Data

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
OPERATING REVENUES (\$000's)	\$ 11,390	\$ 13,074	\$ 14,653	\$ 16,752	\$ 19,484	\$ 19,705	\$ 19,279	\$ 21,096	\$ 22,964	\$ 25,577
OPERATING EXPENSES (\$000's)										
LABOR	52,412	56,329	59,842	64,702	68,361	67,458	67,387	68,533	71,810	77,297
FRINGE BENEFITS	28,105	29,810	32,466	41,759	54,235	50,719	44,100	39,146	46,457	43,054
MATERIALS AND SUPPLIES	11,603	10,309	14,340	14,960	13,599	13,536	15,455	14,582	16,649	16,911
SERVICES	10,475	10,277	9,798	14,714	15,343	13,954	12,449	10,400	12,310	12,583
UTILITIES	1,104	1,567	1,422	2,117	2,775	3,300	3,152	3,337	3,277	3,409
CASUALTY AND LIABILITY	3,278	3,406	2,986	3,184	3,641	5,419	6,102	7,200	4,120	2,413
PURCHASED TRANSPORTATION	179	-	761	1,096	238	3,240	4,340	4,714	5,746	8,916
LEASES & RENTALS	1,338	1,233	1,621	1,619	1,535	1,710	1,448	1,079	773	299
MISCELLANEOUS	489	1,015	975	1,068	854	779	1,592	1,576	1,184	1,628
TOTAL OPERATING EXPENSES	108,983	113,946	124,211	145,219	160,581	160,115	156,025	150,567	162,326	166,510
DEPRECIATION EXPENSE	10,490	11,629	12,262	12,060	13,187	14,784	15,043	17,263	23,266	24,418
NONOPERATING REVENUES (EXPENSES)										
SALES TAX REVENUE	78,776	83,429	90,819	95,077	88,731	90,547	95,134	100,638	122,274	128,969
FEDERAL OPERATING GRANTS	6,762	6,739	6,313	6,524	6,324	6,042	6,067	146	110	49
TDA & STA	33,974	38,609	43,231	45,091	41,954	38,897	50,411	50,007	52,597	69,243
CALTRAIN SUBSIDY	(3,257)	(3,099)	(4,282)	(3,770)	(4,733)	(4,803)	(11,793)	(11,900)	(11,973)	(11,689)
CALTRAIN	0	0	0	0	0	0	0	4,972	2,086	2,584
INTEREST INCOME	16,362	12,735	13,258	10,626	7,932	4,236	2,310	2,554	4,148	5,943
INTEREST EXPENSE	(3,763)	(2,041)	(1,655)	(1,284)	(2,786)	(2,915)	(2,932)	(3,640)	(3,863)	(3,731)
OTHER (EXPENSES)/REVENUE	6,155	704	(2,075)	(8,125)	(3,246)	(7,525)	291	(1,355)	(231)	(550)
OTHER NON-OPERATING										
TOTAL NON OPERATING REVENUES - NET	135,009	137,076	145,609	144,139	134,176	124,479	139,488	141,422	165,148	190,818
NET INCOME (LOSS)	\$ 26,926	\$ 24,575	\$ 23,789	\$ 3,612	\$ (20,108)	\$ (30,715)	\$ (12,301)	\$ (5,312)	\$ 2,520	\$ 25,467

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Current Assets (\$000's)	\$ 201,354	\$ 178,950	\$ 176,599	\$ 142,994	\$ 168,608	\$ 151,356	\$ 145,373	\$ 164,755	\$ 219,762	\$ 125,297
Current Liabilities	42,700	27,554	24,058	31,908	31,364	25,546	35,175	33,443	36,375	25,405
Net Working Capital	\$ 158,654	\$ 151,396	\$ 152,541	\$ 111,086	\$ 137,244	\$ 125,810	\$ 110,198	\$ 131,312	\$ 183,387	\$ 99,892
Current Ratio	4.72	6.49	7.34	4.48	5.38	5.92	4.13	4.93	6.04	4.93
Total Assets (\$000's)	\$ 697,174	\$ 735,325	\$ 809,455	\$ 873,449	\$ 915,941	\$ 931,217	\$ 966,761	\$ 1,007,266	\$ 1,046,516	\$ 1,105,068
Contributed Capital	309,575	330,127	372,902	411,938	425,256	460,037	483,864	505,388	501,599	540,365
Retained Earnings Restricted	83,680	80,702	67,995	59,133	39,453	31,531	25,451	31,693	29,165	33,159
Retained Earnings UnRestricted	225,052	257,813	299,024	316,220	323,523	308,871	313,100	311,910	326,650	358,089
Total Retained Earnings	308,732	338,515	367,019	375,353	362,976	340,402	338,551	343,603	355,815	391,248
Liabilities	78,867	66,683	69,535	83,159	127,709	130,778	144,345	158,275	189,101	173,455
Actual Reserve	\$ 184,000	\$ 141,300	\$ 125,300	\$ 125,900	\$ 80,900	\$ 54,600	\$ 41,800	\$ 46,006	\$ 70,102	\$ 99,284
DEBT SERVICE (\$000's)	3,763	2,041	1,655	1,284	2,786	2,915	3,096	3,817	4,323	4,231
DEBT COVERAGE FROM SALES TAX	20.9	40.9	54.9	74.0	31.8	31.1	30.7	26.4	28.3	30.5

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
OPERATING REVENUE	\$ 11,390	\$ 13,074	\$ 14,653	\$ 16,752	\$ 19,484	\$ 19,705	\$ 19,279	\$ 21,096	\$ 22,964	\$ 25,577
OPERATING EXPENSES	108,983	113,946	124,211	145,219	160,581	160,115	156,025	150,567	162,326	166,510
EXCLUSIONS (purchased transportation)	(179)	-	(761)	(1,096)	(238)	(3,240)	(4,340)	(4,714)	(5,746)	(8,916)
NET OPERATING EXPENSES	108,804	113,946	123,450	144,123	160,343	156,875	151,685	145,853	156,580	157,594
OPERATING RECOVERY RATIO	10.47%	11.47%	11.87%	11.62%	12.15%	12.56%	12.71%	14.46%	14.67%	16.23%

Selected Statistical Data

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
FAREBOX REVENUE (\$000's)	\$ 11,253	\$ 12,689	\$ 13,716	\$ 15,535	\$ 18,702	\$ 18,841	\$ 18,343	\$ 19,884	\$ 21,523	\$ 23,633
VEHICLE REVENUE MILES (000's)										
MOTOR BUS	19,390	19,373	19,536	19,815	19,445	18,027	17,112	16,896	16,931	17,451
LIGHT RAIL	225	662	553	981	2,080	1,724	1,715	1,662	1,868	1,888
PARATRANSIT							1,406	1,511	1,729	1,994
PASSENGER MILES (000's)										
MOTOR BUS	144,066	140,541	180,636	191,953	171,642	176,029	156,872	153,902	163,348	185,226
LIGHT RAIL	880	534	7,527	14,566	31,396	30,183	29,501	26,413	28,428	31,037
PARATRANSIT							1,937	1,795	1,881	2,420
FLEET										
ACTIVE BUS	509	499	508	542	512	605	464	460	460	470
LIGHT RAIL	32	50	53	55	55	56	55	55	55	55
CASH FARE SINGLE RIDE										
ADULT	\$ 0.75	\$ 0.75	\$ 0.75	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.10	\$ 1.10	\$ 1.10	\$ 1.10
YOUTH	\$ 0.50	\$ 0.50	\$ 0.50	\$ 0.50	\$ 0.50	\$ 0.50	\$ 0.55	\$ 0.55	\$ 0.55	\$ 0.60
SENIOR	\$ 0.10	\$ 0.10	\$ 0.10	\$ 0.25	\$ 0.25	\$ 0.25	\$ 0.35	\$ 0.35	\$ 0.35	\$ 0.35

Section - 3

Population

Over the past fifty years, the County's population growth pattern has exhibited three decades of rapid growth followed by two decades of more sustainable growth rates.

The proportion of residents living in cities is currently 93.5 percent, whereas it had been as low as 6.5 percent in the 1940s. Since the 1940s, the increasing maturation of the County's employment and economic sectors has resulted in the incorporation of new cities as well as the expansion of city boundaries, resulting in a shrinking fraction (6.5 percent) of residents living in unincorporated areas. The County's population stood at 1,653,100 as of January 1, 1997, representing an increase of 10.4 percent over 1990. All of the cities in the County reported population increases, with Morgan Hill posting the fastest population growth (22.2 percent). The number of residents living in the unincorporated areas of the County increased slightly.

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

County of Santa Clara Population

	1950	1960	1970	1980	1990	1997
Campbell	9,720.00	11,863.00	24,731.00	26,843.00	36,048.00	39,300.00
Cupertino	2,438.00	3,664.00	18,216.00	34,297.00	40,263.00	44,800.00
Gillroy	4,951.00	7,348.00	12,665.00	21,641.00	31,487.00	35,250.00
Los Altos		19,696.00	24,872.00	25,769.00	26,303.00	28,000.00
Los Altos Hills		3,412.00	6,862.00	7,421.00	7,514.00	7,975.00
Los Gatos	4,907.00	9,036.00	23,466.00	26,906.00	27,357.00	29,700.00
Milpitas		6,572.00	27,149.00	37,820.00	50,686.00	61,200.00
Monte Sereno		1,506.00	3,074.00	3,434.00	3,287.00	3,360.00
Morgan Hill	1,627.00	3,151.00	6,485.00	17,060.00	23,928.00	29,250.00
Mountain View	6,653.00	30,889.00	54,206.00	58,655.00	67,460.00	73,000.00
Palo Alto	25,475.00	52,475.00	55,999.00	55,225.00	55,900.00	59,900.00
San Jose	95,280.00	204,196.00	445,779.00	629,400.00	782,248.00	873,300.00
Santa Clara	11,702.00	58,880.00	87,717.00	87,700.00	93,613.00	100,000.00
Saratoga	1,329.00	14,861.00	27,199.00	29,261.00	28,061.00	30,600.00
Sunnyvale	9,829.00	51,898.00	95,408.00	106,618.00	117,229.00	129,300.00
Unincorporated	117,176.00	162,056.00	152,181.00	127,021.00	106,193.00	108,200.00
County total*	290,547.00	642,315.00	1,066,009.00	1,295,071.00	1,497,577.00	1,653,100.00
California	10,586,224.00	15,717,204.00	18,136,045.00	23,668,145.00	29,760,021.00	32,609,000.00

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

Employment and Industry

A highly skilled and diverse work force characterizes the County's labor market, a situation that has traditionally translated into lower unemployment rates in the County when compared to State and national average unemployment rates. The County did experience a decline in average employment in 1992, however, reflecting the impact of the national and regional recession on the County's labor market. As shown in the table below, the County's average unemployment rate has been below the

average for the entire State in each of the last six years, with the County's 3.6 percent average rate in 1996 more than three percentage points lower than the State's average of 7.2 percent.

The County, with approximately 884,000 wage and salary jobs in 1996, has the largest employment base of any county in Northern California. In 1996, the County experienced a very strong gain of 47,600 wage and salary positions. Three major industry sectors comprise 74 percent of the County's employment: manufacturing (28%), services (32%) and retail trade (14%). The percentage share of County payrolls for these sectors has remained relatively constant over the past six years.

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

	1991	1992	1993	1994	1995	1996
Civilian Labor Force*	827.5	835.7	856.2	860.6	867.4	896.6
Employment	780	777.8	797.9	806.9	824.6	864.3
County Unemployment	47.5	57.9	58.3	53.7	42.8	32.3
Unemployment Rate:						
County	5.7%	6.9%	6.8%	6.2%	4.9%	3.6%
State of California	7.7%	9.1%	9.4%	8.6%	7.8%	7.2%
Wage and Salary Employment **						
Agriculture	5.1	5.1	5.4	5.4	4.5	4.9
Construction and Mining	28.4	27.3	26.1	26.4	28.7	32.7
Manufacturing	251.5	236.8	231.7	226	231.2	246.6
Transportation and Public Utilities	22.6	22.4	23.6	23.8	24	25
Wholesale Trade	50.4	47.2	45.5	46	48.7	51.6
Retail Trade	114.6	111.4	112.2	114.3	117.4	121.8
Finance, Insurance, and Real Estat	31.5	31.5	31.5	30	28.7	29.9
Services	217.7	226.6	237.9	245.1	265.3	283.6
Government	89.1	88.8	87.9	88.3	87.8	87.8
Total***	810.9	797.2	802	805	836.4	884

* Labor force data are based upon place of residence. Employment includes self-employed, unpaid family workers, domestics, and workers involved in labor-management disputes. Data are benchmarked to 1996.

** Wage and salary employment is reported by place of work. Data are benchmarked to 1996.

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

Source: California State Department of Employment Development.

Major Employers

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

One of the County's large employers, Moffett naval Air Station, was closed as a military base in 1994. The site has been undergoing conversion to alternative uses, with the U.S. Navy having transferred most of the facilities to the National Aeronautics and Space Administration ("NASA"). NASA may, in conjunction with other federal agencies, maintain or replace a significant number of the 5,500 military personnel and 1,400 civilian employees currently working at the base.

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

Largest Employers Silicon Valley

Company Name	Number of Employees	Nature of Business
Hewlett-Packard	16400	Computers and peripherals
County of Santa Clara*	13471	County Government
Lockheed Martin Missiles & Space	10500	Comercial and Military Space Products
Stanford University	8735	Education
IBM	7800	Storage Drives and Software
Intel Corp.	7238	Computer Chips
Quantum Corp.	6770	Computer Storage and Peripherals
City of San Jose	6304	City Government
Kaiser Permanente Med. Centers	6190	Health Care
Cisco Systems Inc.	6050	Networking
Lucky Stores Inc.	6030	Retail Food
Solcort Corp.	5880	Electronics Manufacturing
Applied Materials Inc.	5550	Semiconductor Production Equipment
Apple Computer Inc.	4775	Computer Manufacturer
National Semiconductor	4400	Analog/Mixed-Signal Producer
Lam Research Corp.	3137	Semiconductor Supply Manufacturer
Advanced Micro Devices Inc.	2979	Integrated Circuit Manufacturer
San Jose State University*	2800	Public University
3Com Corp.	2554	Networking
Read-Rite Corp.	2252	Assemblies for Disk Drives
LSI Logic Corp.	2200	Semiconductors
Santa Clara Valley Transportation Authority**	2106	Transportation Agency
East-Side Union School District*	2000	Public School System
Alum Rock Union School District*	1720	Public School System
Foothill-De Anza Community College District	1680	Public College

Source: San Jose and Silicon Valley Business Journal (August 1997)

* Represents 1996 employment.

** From Santa Clara Valley Transportation Authority

Commercial Activity

Ranking first among San Francisco Bay Area counties and fourth among all California counties in terms of retail activity, the County is an important center of commercial activity. Taxable sales activity at business and personal service outlets, as well as at other non-retail commercial establishments, are a

significant component of the County's commercial activity. The following table sets forth the amount of taxable transactions from 1991 through 1996. Data provided for 1997 is for the first two quarters only.

County of Santa Clara
Taxable Transactions by Sector
1991 to 1996
(in \$millions)

	1991	1992	1993	1994	1995	1996	1997*
Apparel Stores	\$ 556.5	\$ 564.5	\$ 597.5	\$ 627.0	\$ 658.9	\$ 719.4	\$ 349.6
General Merchandise Stores	1,947.5	1,934.9	1,987.0	2,037.1	2,123.6	2,269.6	1,047.7
Specialty Stores	1,658.2	1,679.4	1,761.5	1,948.8	2,251.9	2,429.7	1,234.5
Food Stores	702.3	738.3	646.8	643.7	656.0	689.4	329.7
Package Liquor Stores	123.0	121.4	111.4	100.9	111.9	123.5	63.4
Eating and Drinking Places	1,341.4	1,366.1	1,419.7	1,462.3	1,584.3	1,709.8	901.5
Home Furnishings and Appliances	566.4	574.9	564.2	620.8	687.5	727.1	333.6
Building Materials and Farm Implements	689.7	632.8	681.0	714.8	776.2	854.6	447.0
Service Stations	726.2	800.1	809.5	826.3	816.3	1,048.4	530.5
Automotive	1,626.8	1,666.9	1,711.8	1,790.3	2,023.8	2,263.8	1,217.1
Total Retail Outlets**	9,938.1	10,079.3	10,290.4	10,771.9	11,690.3	12,835.1	6,454.6
Business and Personal Services	1,240.6	1,249.8	1,325.2	1,387.6	1,644.1	1,810.7	953.5
All Other Outlets	6,642.2	6,759.4	7,249.7	7,618.6	9,177.7	11,094.8	5,446.5
Total All Outlets**	\$ 17,820.9	\$ 18,088.5	\$ 18,865.2	\$ 19,778.0	\$ 22,512.1	\$ 25,740.5	\$ 12,854.6

* Data for 1997 includes the total of the first two quarter only.
** Totals may not be precise due to independent rounding.
Source: State board of Equalization, Taxable Sales in California (Sales & Use Tax)

Construction Activity

Construction data for the County indicates that the pace of total residential building activity exploded to levels in 1996 that have not been seen since the mid-1980s. total valuation of residential construction reached \$911.5 million in 1996, representing a yearly increase of \$254.4 million. The number of single-family units rose to 4,032 and was equivalent to an increase of 82% compared to activity in 1995. The number of multi-family units posted a gain of 3,542 units or 187% compared to activity in 1995.

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

County of Santa Clara
Building Permit Valuations
1988 to 1996

Year	Valuation (\$ millions)			Number of New Dwelling Units		
	New Residential	Non-Residential	Total	Single Family	Multiple Family	Total
1988	\$ 615.5	\$ 844.8	\$1,460.3	3,691	2,794	6,485
1989	689.5	761.2	1,450.7	2,571	2,312	4,883
1990	672.8	762.5	1,435.3	1,762	3,223	4,985
1991	607.7	617.1	1,224.8	1,638	2,134	3,772
1992	549.4	612.2	1,161.6	1,751	1,301	3,052
1993	556.6	597.6	1,154.2	1,848	1,331	3,179
1994	637.5	596.0	1,233.5	2,128	1,817	3,945
1995	657.1	859.4	1,516.5	2,213	1,232	3,445
1996	911.5	1,290.0	2,201.5	4,032	3,542	7,574
1997*	688.9	1,260.0	1,948.9	2,927	2,373	5,300

* Through August, 1997

Sources: Security Pacific National Bank, California construction Trends,
Economic Sciences Corporation, 1989-1996;
Construction Industry Research Board, 1996-