

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
RETIREES' OTHER POST EMPLOYMENT BENEFITS TRUST
INDEPENDENT AUDITORS' REPORT,
MANAGEMENT'S DISCUSSION AND ANALYSIS,
BASIC FINANCIAL STATEMENTS
AND
REQUIRED SUPPLEMENTARY INFORMATION**

FOR FISCAL YEAR ENDED JUNE 30, 2008

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
RETIREES' OTHER POST EMPLOYMENT BENEFITS TRUST
For Fiscal Year Ended June 30, 2008**

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INDEPENDENT AUDITORS' REPORT

Members of the Board of Directors
Santa Clara Valley Transportation Authority
Retirees' Other Post Employment Benefits Trust
San Jose, California

We have audited the accompanying basic financial statements of the Santa Clara Valley Transportation Authority Retirees' Other Post Employment Benefits Trust (the Trust), a component unit of the Santa Clara Valley Transportation Authority (VTA), as of and for the fiscal year ended June 30, 2008 as listed in the table of contents. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 2, the financial statements referred to above present only the Trust and do not purport to, and do not present the financial position of the Santa Clara Valley Transportation Authority as of June 30, 2008, and the changes in its financial position for the year then ended, in conformity with principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Trust as of June 30, 2008, and the changes in net assets for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the required supplementary information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Vavrinek Trine Day + Co. LLP

Palo Alto, California
November 7, 2008

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**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
RETIREES' OTHER POST EMPLOYMENT BENEFITS TRUST**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For Fiscal Year Ended June 30, 2008**

This section provides an overview and analysis of the financial activities of Santa Clara Valley Transportation Authority Retirees' Other Post Employment Benefits Trust (Trust) for the fiscal year ended June 30, 2008. The Trust was established in March 2008 by the VTA's Board of Directors and assets held for Other Post Employment Benefits were transferred to the Trust. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our financial statements.

FINANCIAL HIGHLIGHTS

The net assets of Santa Clara Valley Transportation Authority Retirees' Other Post Employment Benefits Trust at the close of fiscal year 2008 are \$104,409,346 (net assets held in trust for retiree medical benefits). All of the net assets are available to meet the Trust's ongoing obligations to Trust participants and beneficiaries.

The Trust's funding objective is to meet long-term benefit obligations through contributions and investment income. The Trust was funded by VTA in the amount of \$15,685,230 which represented the Annual Required Contribution (ARC) as determined by the actuary valuation report as of July 1, 2007. In addition, VTA made a one-time transfer of \$101,738,374 from its Proprietary Funds in FY 2008 to the Trust.

OVERVIEW OF THE FINANCIAL STATEMENTS

The following discussion and analysis are intended to serve as an introduction to the Trust's financial statements, which comprises these components:

1. Statement of Trust Net Assets
2. Statement of Changes in Trust Net Assets
3. Notes to the Basic Financial Statements

Please note, however, that this report also contains other supplementary information in addition to the basic financial statements themselves.

The Statement of Trust Net Assets is a snapshot of account balances at year-end. It indicates the assets available for future payments to retirees and any current liabilities that are owed at this time.

The Statement of Changes in Trust Net Assets, on the other hand, provides a view of current year additions to and deductions from the Trust. Both statements are in compliance with Governmental Accounting Standard Board Statements (GASB Pronouncements 34, 43 and 45). These pronouncements require certain disclosures and require the state and local governments to report using the full accrual method of accounting. The Trust complies with all material requirements of these pronouncements.

The Statement of Trust Net Assets and the Statement of Changes in Trust Net Assets report information about the Trust's activities. These statements include all assets and liabilities, using the full accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. All investment gains and losses are shown at trade date. In addition, both realized and unrealized gains and losses are shown on investments.

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
RETIREES' OTHER POST EMPLOYMENT BENEFITS TRUST**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For Fiscal Year Ended June 30, 2008**

These two statements report the Trust's net assets held in irrevocable trust account for retirees' medical benefits. Net assets, the difference between assets and liabilities, is one way to measure the trust's financial position. Over time, increase and decrease in net assets is one indicator of whether its financial health is improving or deteriorating. Other factors, such as market conditions, should also be considered in measuring the Trust's overall health.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. (See notes to Financial Statements on pages 7-12 of this report).

OTHER INFORMATION

In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning the Trust's progress in funding its obligations to provide retiree medical benefits to members.

FINANCIAL ANALYSIS

As previously noted, net assets may serve over time as a useful indication of the Trust's financial position. The assets of the Trust exceeded its liabilities at the end of fiscal year 2008.

(Table 1)
Statement of Trust Net Assets
June 30, 2008

<hr/>	
Assets	
Investments at fair value	\$ 103,964,914
Other assets	444,432
Total Assets	<hr/> 104,409,346 <hr/>
 Net Assets	 <hr/> <hr/> \$ 104,409,346 <hr/> <hr/>

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
RETIREES' OTHER POST EMPLOYMENT BENEFITS TRUST**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For Fiscal Year Ended June 30, 2008**

(Table 2)

Additions to Trust Net Assets	
June 30, 2008	
Contributions	\$ 15,685,230
Transfers	\$ 101,738,374
Net investment income (loss)	(6,215,712)
Total Additions	<u>\$ 111,207,892</u>

(Table 3)

Deductions to Trust Net Assets	
June 30, 2008	
Distributions to participants	\$ 6,774,310
Administrative expenses	24,236
Total Deductions	<u>\$ 6,798,546</u>

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**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
RETIREES' OTHER POST EMPLOYMENT BENEFITS TRUST**

**STATEMENT OF TRUST NET ASSETS
AS OF FISCAL YEAR ENDED JUNE 30, 2008**

ASSETS

Investments	
Corporate obligations	\$ 16,292,470
U.S. Government agency	21,106,213
U.S. Treasury obligations	4,028,769
Pooled cash and investment with VTA Enterprise	1,232,189
Money market	1,047,486
Mutual funds	60,257,787
Total investments	<u>103,964,914</u>
Interest receivable	<u>444,432</u>
TOTAL ASSETS	<u><u>104,409,346</u></u>

NET ASSETS

Held in trust for retiree medical benefits	<u>104,409,346</u>
TOTAL NET ASSETS	<u><u>\$ 104,409,346</u></u>

(A schedule of funding progress is presented on page 13)

See accompanying notes to the basic financial statements

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
RETIREES' OTHER POST EMPLOYMENT BENEFITS TRUST**

**STATEMENT OF CHANGES IN TRUST NET ASSETS
FOR FISCAL YEAR ENDED JUNE 30, 2008**

ADDITIONS:

VTA Contributions	\$ 15,685,230
Transfers	101,738,374
Net investment income:	
Net appreciation (depreciation) on investments	(8,471,826)
Investment earnings	2,357,997
Investment expense	(101,883)
Total net investment income	<u>(6,215,712)</u>

TOTAL ADDITIONS 111,207,892

DEDUCTIONS

Distributions to participants	6,774,310
Administrative expenses	24,236

TOTAL DEDUCTIONS 6,798,546

INCREASE IN TRUST ASSETS 104,409,346

NET ASSETS

Beginning of year	-
End of year	<u><u>\$ 104,409,346</u></u>

See accompanying notes to the basic financial statements

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
RETIREES' OTHER POST EMPLOYMENT BENEFITS TRUST**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 1 – DESCRIPTION OF THE TRUST

The following description of the Retirees' Other Post Employment Benefits Trust, (Trust), a component unit of the Santa Clara Valley Transportation Authority (VTA), provides only general information. Readers should refer to the Trust agreement for a more complete description of the Trust's provisions.

A. General

The Trust is a contributory single-employer defined benefit Trust administered by the Santa Clara Valley Transportation Authority. The current membership of the Trust as of June 30, 2008 comprises the following:

ATU Retirees	858
Non - ATU Retirees	<u>315</u>
TOTAL	<u><u>1,173</u></u>

B. Trust Benefits

Employees who retire directly from VTA are eligible for retiree health benefits if they meet certain requirements relating to age and service. For ATU retirees, VTA provides an ATU Retiree Health Care Program (the ATU Program), a post-employment benefit, in accordance with the agreement between VTA and the ATU, to all ATU represented employees who retire from VTA on or after attaining the age of 55 with at least 15 years of service, or if an employee becomes disabled and has completed at least 10 years of service. ATU retirees can select either the Kaiser or Pacific Care retiree health plans. Certain ATU retirees are grandfathered in other plans. VTA pays the full cost of employee-only premium, and ATU retirees who are eligible for Medicare are reimbursed for the Medicare Part B premium. ATU employees who retire on or after September 1, 2004, must contribute \$25 toward the employee only monthly premium. As of June 30, 2008, 858 retirees met the eligibility requirements for the ATU Program.

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

- Service Employees International Union (SEIU) represented employees on or after May 15, 2006.
- Transportation Authority Engineers and Architects Association (TAEA) represented employees on or after December 5, 2006.
- American Federation of State, County and Municipal Employees (AFSCME) represented employees on or after August 30, 2007.

VTA's contribution towards retiree health benefits for Non-ATU retirees is limited to the Kaiser rate for active single employees. VTA also reimburses Medicare Part B premiums for retirees eligible for Medicare. Non-ATU employees who retire on or after January 1, 2006, must contribute \$25 toward the employee only monthly premium. As of June 30, 2008, 315 retirees met the eligibility requirements for the Non-ATU Program.

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
RETIREES' OTHER POST EMPLOYMENT BENEFITS TRUST**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2008**

VTA also provides life insurance benefits for all ATU retirees and Executive Management retirees. ATU retirees receive \$5,000 in life insurance coverage. Executive Management retirees receive \$50,000 in life insurance coverage for the first year of retirement, decreasing to \$10,000 each year until its expiration in the sixth year.

C. VTA Contributions

VTA contributes to the Trust at actuarially determined rates applied to eligible payroll sufficient to maintain funding of vested benefits. VTA's contributions to the Trust for the fiscal year ended June 30, 2008, were made at a rate of 10.24% of covered payroll in accordance with the actuarially determined requirements computed as of July 1, 2007. In addition, VTA transferred \$101.7 million from its proprietary funds that were designated for payments for the retiree medical benefits liability. The transfer of the net assets of Retiree Medical Program from Internal Service Fund to the Trust is to comply with GASB Statement 45.

D. Trust Termination

In the event of Trust termination, the net assets of the Trust would be allocated as prescribed in the Trust documents, generally to pay in the order indicated:

- VTA's remaining retiree medical benefit liabilities
- Reasonable expenses of administering the Trust

Any assets remaining in the Trust after paying off the above liabilities shall revert back to VTA.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The accompanying basic financial statements are presented on the accrual basis of accounting. Contributions are recognized as revenue in the period in which employee services are performed, pursuant to formal commitments as well as statutory or contractual commitments. Benefits and refunds of contributions are recognized when due and payable under the provisions of the Trust.

B. Investments

Investments are reported at fair market 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. The fair market value of the investments in mutual funds of \$60,257,787 at June 30, 2008 was valued by the respective mutual fund management firms. Purchases and sales of securities are reflected on the trade date. Investment income is recognized as earned.

C. Net Appreciation (Depreciation) on Investments

Net appreciation (depreciation) on investments is comprised of unrealized and realized gains and losses. Unrealized appreciation (depreciation) adjusts investment carrying amounts to reflect current market values, based on quoted prices in an active market.

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
RETIREES' OTHER POST EMPLOYMENT BENEFITS TRUST**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2008**

D. Administrative Expenses

Certain internal costs of administering the Trust are paid by the Trust. Administrative expenses for the year ended June 30, 2008 were \$24,236.

E. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

NOTE 3 – INVESTMENTS

The Trust has adopted an internally developed investment policy that is governed by the standards established in the California Constitution. In addition, the Trust has written investment policies regarding the type of investments that may be made specifically for the Trust and the amount, which may be invested in any one financial institution, or amounts that may be invested in long-term instruments. Management believes the Trust has complied with the provisions of statutes pertaining to the types of investments held, institutions in which deposits were made, and security requirements.

The Trust maintains all of its operating cash funds in VTA's cash and investment pool. The pool functions as a demand deposit account for the Trust, as amounts can be withdrawn at any time upon demand. VTA's management and its Board of Directors are responsible for oversight of the cash and investment pool. Information regarding the characteristics of the entire investment pool can be found in the VTA's financial statements. That report may be obtained by writing to Santa Clara Valley Transportation Authority – Fiscal Resources Division, 3331 North First Street, San Jose, California, 95134. The fair market value of the Trust's position in the cash pool is the same as the value of the cash pool shares. As of June 30, 2008 the Trust has \$1,232,189 in VTA's cash and investment pool.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the Trust will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Trust's investment policy provides for the use of a custodian/trustee to invest the Trust's assets as directed by investment managers. The Trust's investment securities were held by Union Bank Trust Department, a custodial bank, at June 30, 2008 separate from the counterparty, in the name of Santa Clara Valley Transportation Authority (VTA). VTA's securities are not part of Union Bank's assets and not attachable by any of its creditors.

VTA held investments that are not registered in the name of the Trust but are held in a mutual fund as follows:

<u>Type of Investment</u>	<u>June 30, 2008 Amount</u>	<u>Percent of Portfolio</u>
State Street Global Advisors S&P 500 Conservative Index	\$ 60,257,787	58.0%

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
RETIREES' OTHER POST EMPLOYMENT BENEFITS TRUST**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2008**

Interest Rate Risk

Interest rate risk is the risk that changes in market rates will adversely affect the fair market value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market rates. One of the Trust's primary goals is to provide sufficient liquidity to meet future retirees' other post employment benefit obligations, however, the Trust does not have any policies specifically addressing interest rate risk

The following table shows the time distribution for the maturity of the Trust's assets as of June 30, 2008:

Type of Investment	Fair Value	Less Than 1 Year	1 - 5 Years	Greater Than 6 Years
Corporate Obligations	\$ 16,292,470	\$ 200,432	\$ 3,420,502	\$ 12,671,536
U.S. Government agency obligations	21,106,213	14,067	634,292	20,457,854
U.S. Treasury obligations	4,028,769	2,314,016	1,714,753	-
Money market*	1,047,486	-	-	-
TOTAL	\$ 42,474,938	\$ 2,528,515	\$ 5,769,547	\$ 33,129,390

* The time distribution for the money market funds is based on the weighted average maturity of investments comprising the funds.

The fair value of interest sensitive instruments may also be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments, and other general market conditions. Certain fixed maturity investments have call provisions that could result in shorter maturity periods. U.S. Government agency obligations in the amount of \$19,644,441 at June 30, 2008 are backed by mortgage pass-throughs which are highly sensitive to interest rates changes. Therefore, if interest rates decline, the mortgages are subject to prepayment by borrowers.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by the nationally recognized statistical rating organizations. The Trust's investment policy has mitigated credit risk by prioritizing safety of principal above other investment objectives, by requiring third-party investment manager applicants to meet certain requirements, by diversifying the portfolio, and by establishing monitoring procedures.

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
RETIREES' OTHER POST EMPLOYMENT BENEFITS TRUST**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 3 – INVESTMENTS (Continued)

The following is a summary of the credit quality distribution for investments with credit exposure as a percentage of total investments at June 30, 2008 as rated by Standard and Poor's:

Type of Investment	Rating	Percentage of Portfolio 2008
Corporate obligations	AAA	1.4%
	AA	2.4%
	A	5.6%
	BBB	5.4%
	BB	0.1%
	B	0.9%
U.S. agency securities	Not Applicable	20.3%
U.S. government securities	Not Applicable	3.9%
Pooled cash and investment with VTA Enterprise	Not Applicable	1.2%
Money market	Not Applicable	1.0%
Mutual funds	Not Applicable	57.8%
TOTAL		100.0%

Concentration of Credit Risk

Concentration of credit risk is the risk that the failure of anyone issuer would place an undue financial burden on the Trust. The Trust's investment policy mitigates the concentration of credit risk by identifying percentage ranges for different types of investments and specific targets within the percentage ranges. Disclosure of concentration of credit risk is defined as any investments with one issuer that are greater than 5% of the total Trust investments. As of June 30, 2008, the Trust had \$8,039,613 or 7.7% of total Trust investments, invested in securities issued by Federal Home Loan Mortgage Corp \$11,570,971 or 11.1% of total Trust investments, invested in securities issued by Federal National Mortgage Association (Fannie Mae). Investments issued by or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools and other pooled investments are exempt from this requirement, as they are normally diversified themselves.

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
RETIREES' OTHER POST EMPLOYMENT BENEFITS TRUST**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 4 – ANNUAL TRUST COST AND NET TRUST OBLIGATIONS

VTA's Annual Required Contribution (ARC) to the Trust is an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Annual Required Contributions	\$ 14,762,138
Interest on Net Trust Obligations	-
Annual Trust Cost (Expense)	\$ 14,762,138
Contributions Made	(15,685,230)
Net Trust Obligation, Beginning of Year	-
Net Trust Asset, End of Year	\$ (923,092)

The annual Trust cost, the percentage of annual Trust cost contributed to the Trust, and the net Trust obligation for fiscal year ending 2008 is as follows:

Year Ended June 30,	Annual Required Contribution	Amount Contributed	Percentage of Annual Trust Cost Contributed	Net Trust Asset
2008	14,762,138	15,685,230	106%	923,092

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**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
RETIREES' OTHER POST EMPLOYMENT BENEFITS TRUST
SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS
FOR JULY 1, 2007 VALUATION
FOR FISCAL YEAR ENDED JUNE 30, 2008**

Funding Status and Funding Progress

Actuarial valuations of an ongoing Trust involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Trust and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding, presented as required supplementary information, presents multiyear trend information about whether the actuarial value of Trust assets is increasing or decreasing over time relative to actuarial accrued liabilities for benefits.

Schedule of Funding Progress for June 30, 2008 is as follows: (in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL) - Entry Age Normal (b)	Unfunded AAL UAAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
7/1/2007	101,738	208,775	107,037	49.7%	153,176	69.9%

(a) The schedule of funding progress presents the most recent actuarial information regarding the funding progress of the Trust.

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
 RETIREES' OTHER POST EMPLOYMENT BENEFITS TRUST
 SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS
 FOR JULY 1, 2007 VALUATION
 FOR FISCAL YEAR ENDED JUNE 30, 2008**

<u>Description</u>	<u>Methods/Assumptions</u>
Valuation date	July 1, 2007
Actuarial cost method	Projected Unit Benefit Cost Method
Amortization method	Level percentage of payroll on a fixed 20 year amortization schedule
Remaining amortization period	14 years
Actuarial assumptions	Investment rate of return 7.0%
	Fund Rate 7.0%
	Health Cost Trend 10% from 2007 to 2008, then graded down 1% per year for the next 5 years, and then 5% thereafter.
	Payroll growth 5% per year