

**SANTA CLARA VALLEY  
TRANSPORTATION AUTHORITY  
2000 Measure A Transit  
Improvement Program**

Independent Accountant's Report on Compliance  
Examination and Budgetary Comparison Schedule

For the Fiscal Year Ended June 30, 2008

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**

2000 Measure A Transit Improvement Program

[A Fund of the Santa Clara Valley Transportation Authority]

For the Fiscal Year Ended June 30, 2008

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2000 Measure A Citizens Watchdog Committee  
San Jose, California

### INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE EXAMINATION

We have examined the Santa Clara Valley Transportation Authority's (VTA) compliance with the requirements of the 2000 Measure A Transit Improvement Program (2000 Measure A Program), an activity of VTA, for the fiscal year ended June 30, 2008. The financial activity of the 2000 Measure A Program is included in the accompanying Budgetary Comparison Schedule and related notes. Management is responsible for VTA's compliance with those requirements. Our responsibility is to express an opinion on VTA's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about VTA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination of VTA's compliance with such requirements.

In our opinion, VTA complied, in all material respects, with the aforementioned requirements that are applicable to the 2000 Measure A Program for the fiscal year ended June 30, 2008.

This report is intended solely for the information and use of the 2000 Measure A Citizens Watchdog Committee and is not intended to be and should not be used by anyone other than this specified party.

*Macias Gini & O'Connell LLP*

Certified Public Accountants  
Walnut Creek, California

March 27, 2009

**Santa Clara Valley Transportation Authority**  
**2000 Measure A Transit Improvement Program**  
**[A Fund of the Santa Clara Valley Transportation Authority]**  
**Budgetary Comparison Schedule (on a Budgetary Basis)**  
**For the Fiscal Year Ended June 30, 2008**  
**(in thousands)**

	Original Budget	Final Budget	Actual	Positive (Negative) Variance
Revenues:				
Sales tax receipts	\$ 171,308	\$ 171,308	\$ 160,537	\$ (10,771)
Investment earnings	1,174	1,174	11,742	10,568
Other income	350	350	376	26
Total revenues	<u>172,832</u>	<u>172,832</u>	<u>172,655</u>	<u>(177)</u>
Non-project expenditures:				
Professional and special services	500	500	299	201
Operating assistance to VTA Transit	31,618	31,618	29,630	1,988
Repayment of debt service to VTA Transit	11,160	11,160	12,886	(1,726)
Repayment of debt principal	23,470	23,470	67,700	(44,230)
Total non-project expenditures	<u>66,748</u>	<u>66,748</u>	<u>110,515</u>	<u>(43,767)</u>
Project expenditures:				
Silicon Valley Rapid Transit Corridor Light Rail Program:	164,300	164,300	148,746	15,554
Low Floor Light Rail Vehicles	-	-	1	(1)
Capitol Expressway Light Rail to Eastridge	39,148	39,148	12,323	26,825
New Light Rail Corridor Study	5,078	5,078	106	4,972
Light Rail System Analysis	250	250	21	229
Commuter Rail Program:				
Dumbarton Rail Corridor	2,604	2,604	301	2,303
Caltrain Service Upgrades	15,515	15,515	1,429	14,086
Palo Alto Intermodal Transit Center	-	-	9	(9)
Caltrain South County	17,925	17,925	2,046	15,879
Bus program	10,000	10,000	1,275	8,725
Highway 17 Express bus service	125	125	-	125
San Jose Mineta Airport People Mover	2,000	2,000	66	1,934
Measure A program-wide	3,160	3,160	868	2,292
Total project expenditures	<u>260,105</u>	<u>260,105</u>	<u>167,191</u>	<u>92,914</u>
Capital contributions - funding from grants and other sources	<u>119,705</u>	<u>119,705</u>	<u>115,471</u>	<u>(4,234)</u>
Change in net assets, on a budgetary basis	<u>\$ (34,316)</u>	<u>\$ (34,316)</u>	<u>10,420</u>	<u>\$ 44,736</u>
Items not budgeted:				
Swap payment to Congestion Management & Highway Program			<u>(9,030)</u>	
GAAP reconciliation items:				
Assets contributed to the Enterprise Fund			(2,525)	
Project expenditures capitalized as construction in progress			160,595	
Project expenditures that were capitalized as deferred charges			89	
Project expenditures that were capitalized as Enterprise Fund assets			1,936	
Repayment of debt principal that reduces liabilities			<u>67,700</u>	
Total GAAP reconciliation items			<u>227,795</u>	
Change in net assets, on a GAAP basis			229,185	
Net assets, beginning of year			<u>316,991</u>	
Net assets, end of year			<u>\$ 546,176</u>	

The notes to budgetary comparison schedule are an integral part of this schedule.

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**  
**2000 Measure A Transit Improvement Program**  
**[A Fund of the Santa Clara Valley Transportation Authority]**  
**Notes to Budgetary Comparison Schedule**  
**For the Fiscal Year Ended June 30, 2008**

**NOTE A – DESCRIPTION OF REPORTING ENTITY**

The Santa Clara Valley Transportation Authority's (VTA) 2000 Measure A Transit Improvement Program (the Measure A Program) was created in response to the Measure A ballot approved by the voters of Santa Clara County on November 7, 2000. The Measure A Program is responsible for a number of key capital transit projects, including the connection of BART to San Jose and increased bus and light rail service, and to provide for related operating expenses.

The Measure A Program is funded by a half-cent sales tax imposed for a period of 30 years effective April 1, 2006 upon expiration of the County of Santa Clara 1996 Measure B half-cent sales tax on March 31, 2006. VTA has been aggressively moving forward and leveraging its capital structure, by issuing sales tax revenue bonds to provide funding for some of the Measure A Program, including engineering and design of the Silicon Valley Rapid Transit (SVRT) project and the procurement of Low Floor Light Rail Vehicles. VTA has also secured funding under the State's Transportation Congestion Relief Program (TCRP) and the Federal Transit Administration's (FTA) grant programs to facilitate this effort and they are reported as capital contributions on the Budgetary Comparison Schedule (financial schedule).

The Program provides funding for the following projects:

- Extending BART from Alameda County to the cities of Milpitas, San Jose and Santa Clara (also known as the Silicon Valley Rapid Transit (SVRT) project).
- Providing connections from the Norman Y. Mineta San Jose International Airport to BART, Caltrain and VTA light rail.
- Extending light rail from downtown San Jose to the East Valley.
- Purchasing low-floor light rail vehicles.
- Improving Caltrain by double-tracking to Gilroy and electrifying from Palo Alto to Gilroy.
- Increasing the level of Caltrain service.
- Constructing a new Palo Alto Intermodal Transit Center.
- Improving service in major bus corridors.
- Upgrading the Altamont Commuter Express (ACE) service.
- Improving Highway 17 Express bus service.
- Connecting Caltrain with the Dumbarton Rail Corridor.
- Purchasing zero-emission buses and constructing support facilities.
- Developing new light rail corridors.
- Funding operating and maintenance costs for increased bus, rail and paratransit services.

As provided by the 2000 Measure A ballot, the VTA Board of Directors is responsible for implementation of the 2000 Measure A Program and for all policy-related decisions including the composition, implementation schedule and funding level of projects. The Citizens Watchdog Committee is responsible for reviewing 2000 Measure A expenditures to ensure funds are being spent in accordance with the intent of the ballot and for informing the public on how the funds are being spent.

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**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

The accompanying financial schedule presents only the financial activities of the Measure A Program, and are not intended to present the financial position, and changes in financial position and cash flows of the VTA in conformity with accounting principles generally accepted in the United States of America.

***Basis of Accounting***

The financial activity of the Measure A Program is accounted for as an enterprise fund. Enterprise funds are used to account for government operations in a manner similar to private business enterprises. Enterprise funds are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting. With this measurement focus, all assets and liabilities associated with the operation of the Measure A Program are included on the accompanying financial schedule. Revenues are recognized when earned, and expenses are recognized when incurred. There are no operating revenues or expenses, as the purpose of the Measure A Program is to collect sales taxes and other grant revenues for carrying out the capital projects and service improvements of Measure A Program. Revenues from capital grants are recognized in the period in which all eligibility requirements have been satisfied.

***Budgetary Control***

VTA budgets biennially for its enterprise fund operation which includes the Measure A Program. The annual appropriations for the operating budget lapse at the fiscal year to the extent that they have not been expended. The unexpended capital budget at fiscal year-end is carried forward from year to year until the project is completed.

***Operating Assistance to VTA Transit***

The Board of Directors adopted the Valley Transportation Plan (VTP) 2030 in February 2005. VTP 2030 is VTA's 25-year countywide long-range multimodal transportation plan. As part of VTP 2030, the Board of Directors allocated 18.46% of VTA Transit operating costs to the Measure A Program to provide operating assistance for VTA related to increased bus, rail and paratransit service. The allocation percentage is the basis for determining the amount of actual 2000 Measure A Sales Tax revenues that were used by the VTA Transit Fund for operating activities.

***Program-wide Expenditures***

VTA has incurred costs associated with environmental and design studies that have been identified to the Measure A Program, but not a specific project. As VTA develops a methodology for allocating these costs among the applicable projects, these expenditures will be reallocated accordingly.

***Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

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**NOTE C – CAPITAL CONTRIBUTIONS**

The Measure A Program received capital contributions totaling \$115,471,230 during the fiscal year. The composition of these contributions was as follows:

Traffic Congestion Relief Program	\$ 96,533,006
Federal Transit Cluster Grants	8,858,281
Other state grants	6,822,000
Local grants	2,878,972
Other federal grants	<u>378,971</u>
Total Grants	<u><u>\$ 115,471,230</u></u>

The Measure A Program has received a majority of its funding from the Traffic Congestion Relief Program administered by Caltrans. The Measure A Program has used these funds to assist in the financing of the Silicon Valley Rapid Transit Corridor Project that will extend BART from Fremont to San Jose and capacity improvements on Caltrain in the South County.

**NOTE D – SWAP PAYMENTS**

On February 1, 2007, the Board of Directors approved a swap of \$57.54 million of 2000 Measure A Sales Tax revenues for anticipated future grants funding from Caltrans through the State Transportation Improvement Program (STIP). The swapped 2000 Measure A Sales Tax revenues will fund a number of highway improvement projects that are ready to be completed but have not yet received STIP funding. In exchange, the anticipated future STIP funds will be used to pay the Measure A Program’s obligation for the Capitol Expressway Light Rail Extension Project. The Board believes that this swap will create savings because it releases the highway projects from the administrative burdens imposed by the state; it also improves cash flow management for the Measure A Program because it is anticipated that the Capitol Expressway Light Rail Extension Project will require more than \$150 million in financing over a three-year period while the highway projects should be completed using the swapped funds and will be spread over a five-year period.

The source of the STIP funds is Proposition 1B, the Transportation Infrastructure Bond Act, which the voters of the state passed on November 7, 2006. Proposition 1B authorized the sale of \$19.1 billion in general obligation bonds. Proposition 1B directs \$2 billion of the bond proceeds into the STIP, where it is to be distributed between the counties based on existing STIP formulas and can be used for eligible STIP projects. The Santa Clara County share of \$2 billion of STIP funds is \$57.54 million. For fiscal year 2008, the Measure A Program recorded \$9.03 million in swap payments to the Congestion Management & Highway Program to fund the highway projects.

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**NOTE E – DEBT SERVICE REPAYMENT**

The repayment of debt service to VTA Transit represents the amount of debt service VTA Transit paid for the sales tax revenue bonds issued on behalf of the Measure A Program. In addition to the scheduled debt service payments, VTA refunded the 2006 Sales Tax Revenue Bonds, Series A through G. While most of the refunding was paid through the issuance of new bonds, a portion was refunded from the Measure A Program using accumulated sales tax receipts as the source. During fiscal year 2008, the Measure A Program made a one-time principal payment of \$67.7 million to redeem the 2006 Sales Tax Revenue Bonds, Series E and F.



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**OBSERVATION ON OPERATING ASSISTANCE TO VTA TRANSIT**

During the fiscal year, the Measure A Program paid \$29.63 million in operating assistance to VTA Transit. Upon investigating the authorization and purpose of these costs, it was determined that they were approved by the Board of Directors through adoption of the Valley Transportation Plan (VTP) 2030 in February of 2005. As part of the VTP 2030, the Board allocated 18.46% of VTA Transit operating costs to the Measure A Program.

The Measure A ballot specifies that sales tax will be used to fund operating and maintenance costs for increased bus, rail and paratransit service. Specifically, the ballot states that the Measure A funds will provide revenue to ensure funding, to at least 2014, and possibly longer, of the following: the new Tasman East, Capitol and Vasona Light Rail lines; the commuter rail connection to BART; expanded paratransit services; expanded bus fleet of 750 vehicles; the Downtown/East Valley Light Rail line operations, which can commence in 2008; and the BART extension to San Jose, which can commence operations by 2010.

Upon investigating the reasonableness of the Board approved 18.46% of VTA Transit operating costs, staff of VTA were unable to distinguish how the approved rate relates to the costs specified in the ballot. While we agree that operating expenses of VTA Transit are an appropriate and authorized use of Measure A Program funds, we are unable to ascertain the basis of the 18.46%. Subsequently, management of VTA prepared an analysis that justified eligibility of the operating assistance to VTA Transit.

While the operating assistance to VTA Transit is in compliance with the Measure, using a flat budgeted rate of 18.46% as a long-term fixed rate doesn't seem to be a good business practice. As service levels change, it is reasonable to assume that VTA operating costs would change. Thus, service levels should be evaluated annually to determine the impacts of increased bus, rail and paratransit services under the Measure A Program.

**RECOMMENDATION**

We recommend that VTA annually evaluate the operating costs permitted under the Measure A Program, which relate to expanded services for bus, rail and paratransit. This will ensure that decision makers have the relevant information necessary to make informed decisions on the use of Measure A Program funds.

**MANAGEMENT RESPONSE**

VTA concurs.

The percentage of Measure A funds allocated to Operating Assistance (18.46%) was based on VTP 2030 and was validated by the VTA Board of Directors by their action in approving the VTA Transit and Measure A budgets for fiscal years 2008 and 2009 at their June 2007 meeting. VTA staff will perform the recommended annual evaluation of the operating costs permitted under the Measure A program effective fiscal year 2009.