

# Comprehensive Annual Financial Report

For Fiscal Year Ended  
June 30, 2003  
Santa Clara County, California



SANTA CLARA  
Valley Transportation Authority

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**SANTA CLARA VALLEY  
TRANSPORTATION AUTHORITY**

**SAN JOSE, CALIFORNIA**

Comprehensive Annual Financial Report

For Fiscal Year Ended June 30, 2003

Prepared by:  
Fiscal Resources Division

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**  
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# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Santa Clara Valley  
Transportation Authority,  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2002

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



President

Executive Director

## SECTION 1 — INTRODUCTION

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LETTER OF TRANSMITTAL

BOARD OF DIRECTORS

ORGANIZATION CHARTS

PRINCIPAL OFFICIALS

SERVICE AREA MAP



October 31, 2003

Board of Directors  
Santa Clara Valley Transportation Authority

**Subject: Comprehensive Annual Financial Report**

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

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

This report is organized into three sections:

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

The independent auditor for fiscal year 2003 was Macias, Gini & Company LLP, which issued an unqualified opinion on the VTA's June 30, 2003 basic financial statements.

It is management's intention to submit this and future CAFRs to the Government Finance Officers Association of the United States and Canada to determine its eligibility for another Certificate of Achievement for Excellence under the Financial Reporting



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

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

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

## **PROFILE OF VTA**

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

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

### **Bus Transit Service**

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

## **Light Rail Transit (LRT) Service**

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

## **Paratransit Services**

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

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

## **Contracted, Interagency and Other Transit Services**

### ***Caltrain Peninsula Corridor Joint Powers Board (PCJPB)***

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

### ***Altamont Commuter Express Rail Service***

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

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

### ***Capitol Corridor Intercity Rail***

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

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

### ***Inter-County Bus Service***

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

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

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

### **Shuttle Program**

#### ***Light Rail Shuttle***

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

### ***Downtown & HP Pavillion Shuttles***

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

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

### ***San Jose Airport Flyer***

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

### **Congestion Management**

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

## **FACTORS AFFECTING FINANCIAL CONDITION**

### **Local Economy**

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

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

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

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

### **Sales Tax**

Sales tax is the primary source of funds for VTA's operations, maintenance, and capital needs. Local sales tax is derived from a one-half cent sales tax restricted for transit purposes, levied within Santa Clara County. VTA also receives State of California Transportation Development Act (TDA) funds, which are derived from a one-quarter cent sales tax levied by the State of California and allocated on a "return to source" basis for transportation use. These two sales taxes account for approximately 64% of the total revenue (less capital contributions) for the year ended June 30, 2003.

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

### **Ridership & Farebox Revenue**

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

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

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

### **Federal Section 5307 Urbanized Formula Program**

Federal Section 5307 allows eligible recipients (such as VTA) to claim capital grant funds for maintenance costs and other projects such as routine bus replacement. Grant applicants may apply for FTA grants in an amount up to 80 percent of annual vehicle maintenance costs. VTA has incorporated this policy in its grant application strategies. The funds are reflected in the financial statements as Federal Operating Assistance.

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

### **1996 Measure B Transportation Improvement Program**

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

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

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

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

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

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

1. Tasman East Light Rail Project - extending the current Light Rail system from Milpitas to Northeast San Jose
2. Vasona Light Rail Extension Project - constructing the Vasona Light Rail line from downtown San Jose to Winchester, utilizing the Union Pacific Vasona rail corridor
3. Capitol Light Rail Extension Project – building the Capitol Light Rail line from northeast San Jose (connecting to the Tasman line) down Capitol Avenue through east San Jose to the Alum Rock area, with eventual service to Eastridge
4. 30 low-floor light rail vehicles (LFV's)



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

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

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

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

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

### **Financial Status – Enterprise Fund**

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

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

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

<b>Budgetary Reserves ( in millions)</b>	
Restricted	
Operating Reserves	\$ 46.8
Local Share of Approved Capital	62.5
Operating Encumbrance	<u>    .9</u>
Total Restricted	110.2
Unrestricted	<u>    4.7</u>
<b>Total Budgetary Reserves</b>	<b>\$ 114.9</b>

In accordance with the Board policy, 15% of the subsequent year operating budget is restricted to meet emergency needs that cannot be funded from any other source. This is meant to ensure that some funds are available in the event of unanticipated revenue shortfalls or if unavoidable expenditures may be required.

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

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

### **Future Long-Term Financial Planning**

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

## **FY2003/2004 Goals, Projects and Major Efforts**

### ***Business Review Team Recommendations:***

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

### ***Ad Hoc Financial Stability Committee Recommendations:***

#### **CONCLUSIONS**

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

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

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

***Adopted Board Actions***

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

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

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

### **Operations Division**

#### **OPERATIONS ADMINISTRATION:**

##### **Protective Services**

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

##### **Service Planning**

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

##### **Operations Planning**

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

##### **Accessible Services**

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

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

**TRANSPORTATION:**

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

**MAINTENANCE:**

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

**Administrative Services Division**

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

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

### **Construction Division**

#### **CAPITAL IMPROVEMENTS:**

##### **Transit Operations**

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

#### **1996 MEASURE B TRANSPORTATION IMPROVEMENT PROGRAM:**

##### **Transit Program**

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

##### **Highway Program**

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

#### **HIGHWAY PROJECT DEVELOPMENT & ADMINISTRATION**

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



## **OTHER PROJECTS**

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

### **Development & Congestion Management Division**

#### **CONGESTION MANAGEMENT PROGRAM**

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

#### **TRANSIT PLANNING & DEVELOPMENT**

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

#### **MARKETING & CUSTOMER SERVICE**

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

### **Fiscal Resources Division**

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

## **2000 Measure A Transportation Improvement Program and VTP 2020**

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

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

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

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

## **TransLink Demonstration Project**

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

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

## **Cash & Investment Management Policies and Practices**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Funds invested for restricted assets include workers’ compensation, general liability, and retiree medical activities. The expense for these activities is recognized in the Enterprise Fund for contribution payments that is net of expected earnings. The contribution amounts are based on actuarial studies. The increase in investment assets is recognized as an increase in cash and increase in other accrued liabilities.

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

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

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

**Risk Management**

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

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

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

### **Internal Controls**

To reasonably assure compliance with established policies and procedures, and to protect assets, VTA has established a system of internal controls, including budget guidelines. The Internal Audit Department reviews internal controls, conducts performance audits, and then issues reports on its findings, which include recommendations for improvement. Internal Audit reports to the Chief Financial Officer. There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal control. The concept of reasonable assurance is based on the recognition that the cost of a system of internal control should not exceed the benefits derived therefrom, and that the evaluation of those factors requires estimates and judgments made by management. We believe VTA's internal controls adequately safeguard assets against loss from unauthorized use or disposition, and provides reasonable assurance of adherence to prescribed managerial policies as well as proper recording of financial transactions in the financial statements.

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

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

### **Pension and Other Post-employment Benefits**

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

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

### **Awards and Acknowledgements**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to VTA for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2002. This was the 7<sup>th</sup> consecutive year that VTA has achieved this prestigious award.

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

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

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

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



Peter M. Cipolla  
General Manager



Scott Buhner  
Chief Financial Officer

**2003 VTA  
BOARD OF DIRECTORS**

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

1. Five city council members from the City of San Jose.
2. Three city council members from among the Cities of Los Altos, Los Altos Hills, Mountain View, Palo Alto, Santa Clara and Sunnyvale.
3. One city council member from among the Cities of Campbell, Cupertino, Los Gatos, Monte Sereno, and Saratoga.
4. One city council member from among the Cities of Gilroy, Milpitas and Morgan Hill.
5. Two members from the Santa Clara County Board of Supervisors.
6. Ex-Officio, Santa Clara County's two representatives to the Metropolitan Transportation Commission (MTC).

Each of these groupings has one alternate.

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

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

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



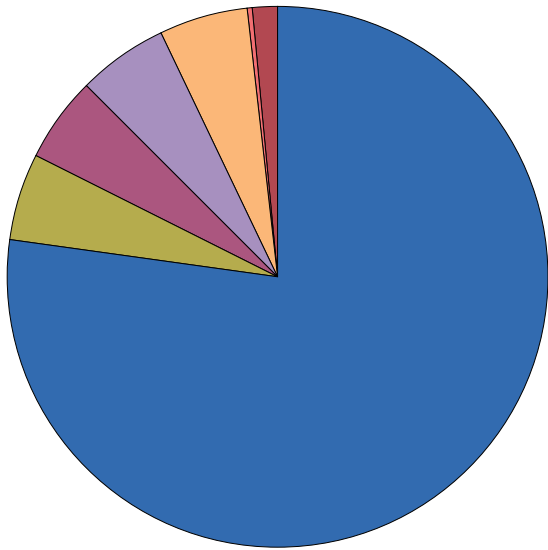
The Board of Directors established three policy committees and six advisory committees. The policy committees advise on policy matters and provide in-depth review of individual issues before the Board of Directors take final action. The committees include:

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

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

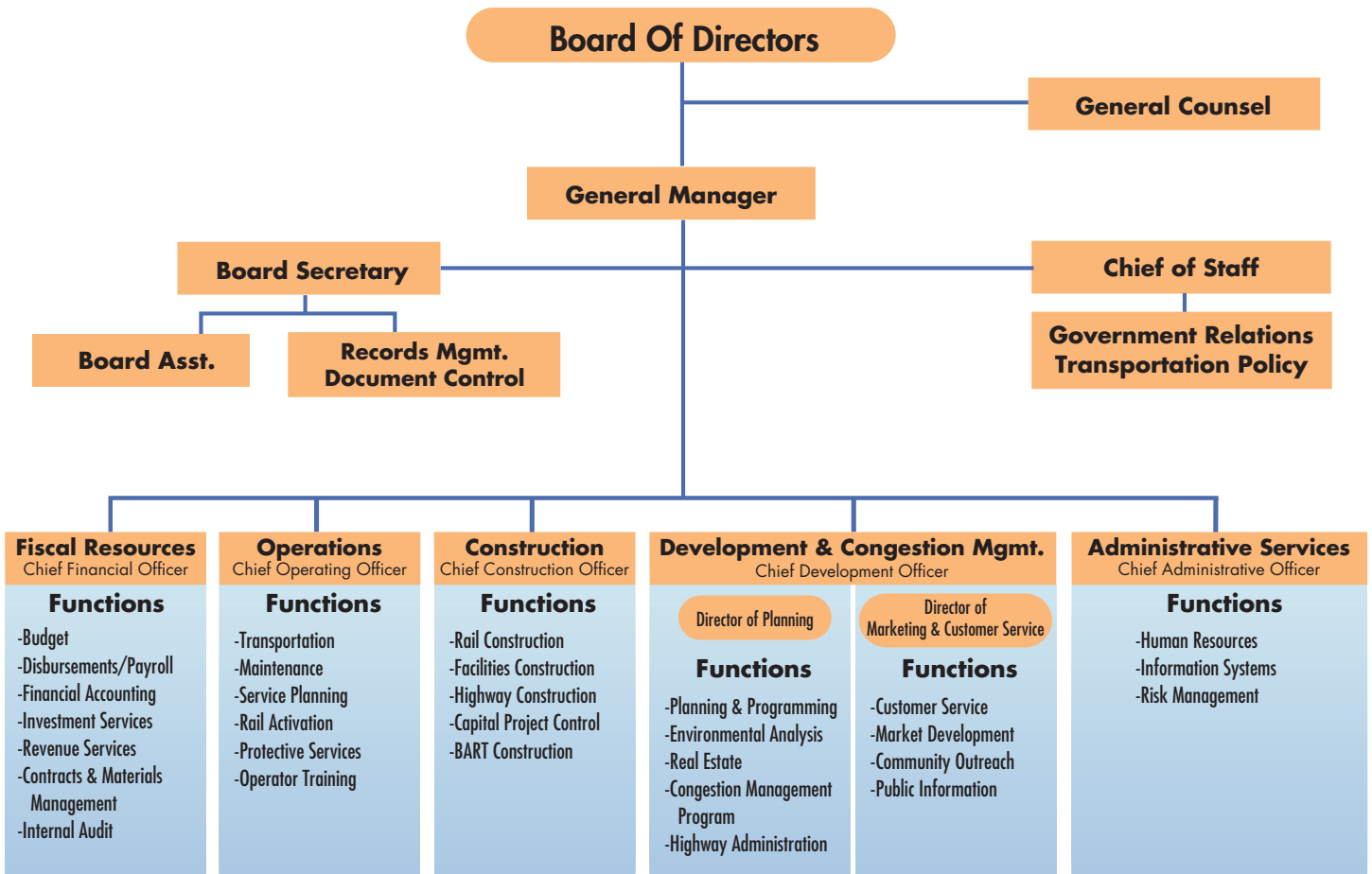
1. Committee for Transit Accessibility (CTA)
2. Citizens Advisory Committee (CAC)
3. Bicycle and Pedestrian Advisory Committee (BPAC)
4. Technical Advisory Committee (TAC)
5. Policy Advisory Committee (PAC)
6. Transportation Corridor Policy Advisory Boards (PABS)

## Number of Employee Positions in Organizational Units



<span style="color: blue;">■</span> Operations	1850	77.2%
<span style="color: olive;">■</span> Development & Congestion Management	125	5.2%
<span style="color: purple;">■</span> Fiscal Resources	122	5.1%
<span style="color: lightpurple;">■</span> Construction	130	5.4%
<span style="color: orange;">■</span> Administrative Services	126	5.3%
<span style="color: red;">■</span> General Counsel	8	0.3%
<span style="color: maroon;">■</span> General Manager	37	1.5%
<b>Total</b>	<b>2398</b>	<b>100%</b>

## Santa Clara Valley Transportation Authority

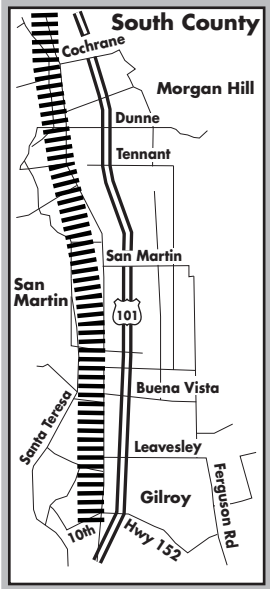
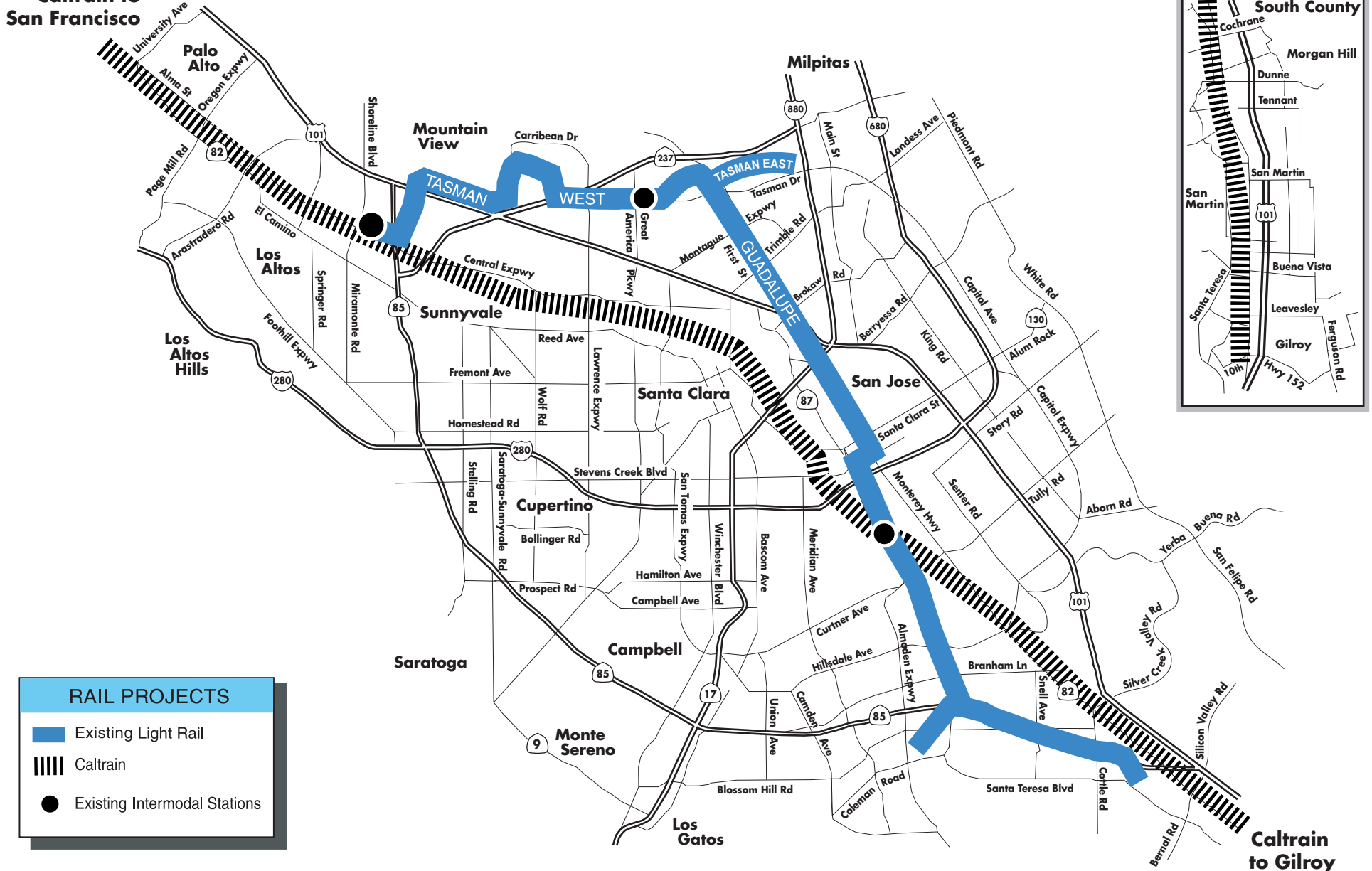


## **Principal Officials as of June 30, 2003**

<b>General Manager</b>	<b>Peter M. Cipolla</b>
<b>General Counsel</b>	<b>Suzanne Gifford</b>
<b>Board Secretary</b>	<b>Sandra Weymouth</b>
<b>Chief of Staff</b>	<b>Denise Daly</b>
<b>Chief Administrative Officer</b>	<b>Kaye Evleth</b>
<b>Chief Construction Officer</b>	<b>Jack Collins</b>
<b>Chief Development Officer</b>	<b>Michael P. Evanhoe</b>
<b>Chief Financial Officer</b>	<b>Scott Buhner</b>
<b>Chief Technology Officer</b>	<b>George Barlow</b>
<b>Chief Operating Officer</b>	<b>Frank T. Martin</b>
<b>Director of Marketing and Customer Service</b>	<b>Anne-Catherine Vinickas</b>
<b>Director of Planning &amp; Development</b>	<b>James Pierson</b>
<b>Director of Transportation &amp; Maintenance</b>	<b>Matthew Tucker</b>
<b>Controller</b>	<b>Gerald Rosenquist</b>
<b>Deputy Director of Highways</b>	<b>Jeff Funk</b>
<b>Deputy Director Rail Design &amp; Construction</b>	<b>Les Miller</b>
<b>Deputy Director, Congestion Management Program</b>	<b>Carolyn Gonot</b>
<b>Deputy Director, Program &amp; Highway Administration</b>	<b>John Ristow</b>
<b>Deputy Director, Service &amp; Operations Planning</b>	<b>Mike Aro</b>
<b>Government Affairs Manager</b>	<b>Kurt Evans</b>
<b>Transportation Policy &amp; Program Manager</b>	<b>Frank Sharpless</b>

# Santa Clara County Bus and Rail Transit Service Area

Caltrain to San Francisco



**RAIL PROJECTS**

- Existing Light Rail
- Caltrain
- Existing Intermodal Stations



## SECTION 2 — FINANCIAL SECTION

### Independent Auditor's Report

### Management's Discussion and Analysis (Required Supplementary Information)

#### Basic Financial Statements:

##### Government-wide Financial Statements:

- ◆ Statement of Net Assets
- ◆ Statement of Activities

##### Fund Financial Statements:

###### Enterprise Fund:

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

###### Governmental Funds:

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

###### Fiduciary Funds:

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

#### Notes to the Basic Financial Statements

#### Required Supplementary Information (other than MD&A):

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

#### Supplementary Information – Combining and Individual Fund Statements:

##### Enterprise Fund:

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

##### Fiduciary Funds:

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



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

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the business-type activity, the governmental activity, each major fund, and the aggregate remaining fund information of the Santa Clara Valley Transportation Authority (VTA), as of and for the year ended June 30, 2003, which collectively comprise VTA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of VTA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity, the governmental activity, each major fund, and the aggregate remaining fund information of VTA, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 7(f) to the basic financial statements, VTA adopted the provisions of Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*, as of July 1, 2002.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2003, on our consideration of VTA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis, schedules of funding progress and the budgetary comparison schedule, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise VTA's basic financial statements. The introductory section, combining and individual fund financial statements and schedules section, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements and schedules section has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Macias, Gini & Company LLP*  
Certified Public Accountants

Walnut Creek, California  
October 31, 2003, except for Note 21, as to  
which the date is November 20, 2003

## Management's Discussion and Analysis

The purpose of the information presented in the discussion and analysis portion of this report is to provide an overview of the Santa Clara Valley Transportation Authority's (VTA) financial condition as of June 30, 2003. This discussion and analysis should be read in conjunction with the transmittal letter starting on page 1-7, and VTA's financial statements, which begin on page 2-15.

### Financial Highlights

- As of June 30, 2003, VTA's assets exceeded liabilities by almost \$1.9 billion. Business-type activity (Transit Operations) and Governmental activity (Congestion Management) net assets were \$1.85 billion and \$1.3 million, respectively. Of the \$1.9 billion in net assets, approximately \$1.7 billion was invested in capital assets net of related debt which was associated with our capital expansion program.
- As of June 30, 2003, VTA had issued bonds in the amount of \$417.5 million compared to the \$343.3 million the previous fiscal year. The increase was due to the issuance of the 2002 Grant and Bond Anticipation Note of \$82 million.
- The Statement of Revenues, Expenses and Changes in Fund Net Assets reports that VTA had a net operating loss of \$301.4 million. Even with an addition of \$223.2 million in non-operating revenues, there still was a \$78.1 million dollar decrease in net assets before Capital contributions of \$317 million. Net Assets increased by \$239 million. This can be seen on the Statement of Revenues, Expenses and Changes in Fund Net Assets, page 2-19.
- Sales tax revenue continued to decrease significantly during FY03, declining over \$11.5 million (8%) compared to last fiscal year.
- There was a \$287.7 thousand decrease in net assets for Congestion Management due primarily to an increase in operations and operating project expenses.

### Overview of the Financial Statements

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

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

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



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

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

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. VTA, like local and state governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of VTA can be divided into three categories: governmental funds, proprietary funds (i.e. the enterprise fund), and fiduciary funds. The fund financial statements can be found on pages 2-15 to 2-25 of this report.

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

VTA maintains four individual governmental funds and uses the governmental funds to account for the Congestion Management Program, the Traffic Authority, the Congestion Management Highway and the 1996 Measure B Highway Capital Project programs. Information, on miscellaneous funds, is presented in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances.

**Proprietary (Enterprise) Funds.** VTA maintains one type of proprietary fund: an enterprise fund. The enterprise fund is used to report the same function presented as "business-type activity" in the government-wide financial statements. VTA uses the enterprise fund to account for its transit operation and capital activities, 1996 Measure B Transit projects and 2000 Measure A transit and operating activities.

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

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

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

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

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 2-26 to 2-59 of this report.

**Other information.** In addition to the basic financial statements and notes, *required supplementary information* is also being presented. The required supplementary information shows VTA's progress in funding its obligation to provide employees with pension benefits and it also shows the Congestion Management Program Budgetary Schedule. These schedules can be found on pages 2-60 to 2-63.

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

## **Government-wide Financial Analysis**

The Statement of Net Assets and the Statement of Activities report a total increase in net assets of \$238.6 million, resulting primarily from a net loss of \$78.1 million and capital contributions of \$317 million. The inclusion of \$317 million in capital contributions (revenue) has no corresponding expenses associated with it within the statements which is likely to be misconstrued. During FY03, VTA acquired capital assets and completed construction in progress (CIP) projects of approximately \$553 million. These capital assets were funded by the capital contributions as well as existing budgetary reserves. The operating loss was covered by budgetary reserves as well.

**Santa Clara Valley Transportation Authority's  
Condensed Statement of Net Assets**  
(\$000's)

	Business-type activity		Governmental activity		Total	
	2003	2002	2003	2002	2003	2002
Current and other assets	\$ 389,726	\$ 424,209	\$ 82,819	\$ 40,082	\$ 472,545	\$ 464,291
Capital assets, net	2,126,091	1,740,912	-	-	2,126,091	1,740,912
Total assets	2,515,817	2,165,121	82,819	40,082	2,598,636	2,205,203
Current liabilities	249,390	105,776	81,217	38,251	330,607	144,027
Long-term liabilities outstanding	417,470	449,245	266	207	417,736	449,452
Total liabilities	666,860	555,021	81,483	38,458	748,343	593,479
Net assets:						
Invested in capital assets, net of related debt	1,686,313	1,367,401	-	-	1,686,313	1,367,401
Unrestricted	162,644	242,699	1,336	1,624	163,980	244,323
Total net assets	\$ 1,848,957	\$ 1,610,100	\$ 1,336	\$ 1,624	\$ 1,850,293	\$ 1,611,724

By far the largest portion of the VTA's net assets (approximately 91.2%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment), less any related outstanding debt used to acquire those assets. VTA uses these capital assets to provide services to customers. Consequently, these assets are not available for future spending. Although VTA's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot reasonably be used to liquidate these liabilities.

The reduction in unrestricted net assets resulted primarily to the increase in investments in capital assets, which led VTA to utilize other unrestricted sources of funds to meet its obligations.

**Santa Clara Valley Transportation Authority's  
Statement of Activities  
(\$000's)**

	Business-type activity		Governmental activity		Total	
	2003	2002	2003	2002	2003	2002
<b>Expenses:</b>						
Operations and operating projects	\$ 335,760	\$ 340,885	\$ 3,582	\$ 2,740	\$ 339,342	\$ 343,625
Caltrain subsidy & capital contribution	22,298	25,315	-	-	22,298	25,315
Altamont commuter express subsidy	2,715	1,740	-	-	2,715	1,740
Interest Expense	14,222	14,717	-	-	14,222	14,717
Other non-operating expenses	4,858	3,163	-	-	4,858	3,163
Capital projects for the benefit of other agencies	-	-	141,271	112,697	141,271	112,697
Total expenses	<u>379,853</u>	<u>385,820</u>	<u>144,853</u>	<u>115,437</u>	<u>524,706</u>	<u>501,257</u>
<b>Program revenues:</b>						
Charges for services	34,376	37,122	2,177	1,686	36,553	38,808
Operating grants	104,132	127,373	852	2,405	104,984	129,778
Capital grants	316,997	226,125	141,364	112,668	458,361	338,793
Total program revenues	<u>455,505</u>	<u>390,620</u>	<u>144,393</u>	<u>116,759</u>	<u>599,898</u>	<u>507,379</u>
Net program revenues (expense)	<u>75,652</u>	<u>4,800</u>	<u>(460)</u>	<u>1,322</u>	<u>75,192</u>	<u>6,122</u>
<b>General revenues:</b>						
Sales tax revenue	132,632	144,218	61	-	132,693	144,218
Investment income	14,245	24,512	99	30	14,344	24,542
Other income	4,104	2,883	12	8	4,116	2,891
Total general revenues	<u>150,981</u>	<u>171,613</u>	<u>172</u>	<u>38</u>	<u>151,153</u>	<u>171,651</u>
Special item - gain on sale of land	12,224	-	-	-	12,224	-
Change in net assets	238,857	176,413	(288)	1,360	238,569	177,774
Net assets, beginning of year	<u>1,610,100</u>	<u>1,433,685</u>	<u>1,624</u>	<u>264</u>	<u>1,611,724</u>	<u>1,433,949</u>
Net assets, end of year	<u>\$ 1,848,957</u>	<u>\$ 1,610,100</u>	<u>\$ 1,336</u>	<u>\$ 1,624</u>	<u>\$ 1,850,293</u>	<u>\$ 1,611,724</u>

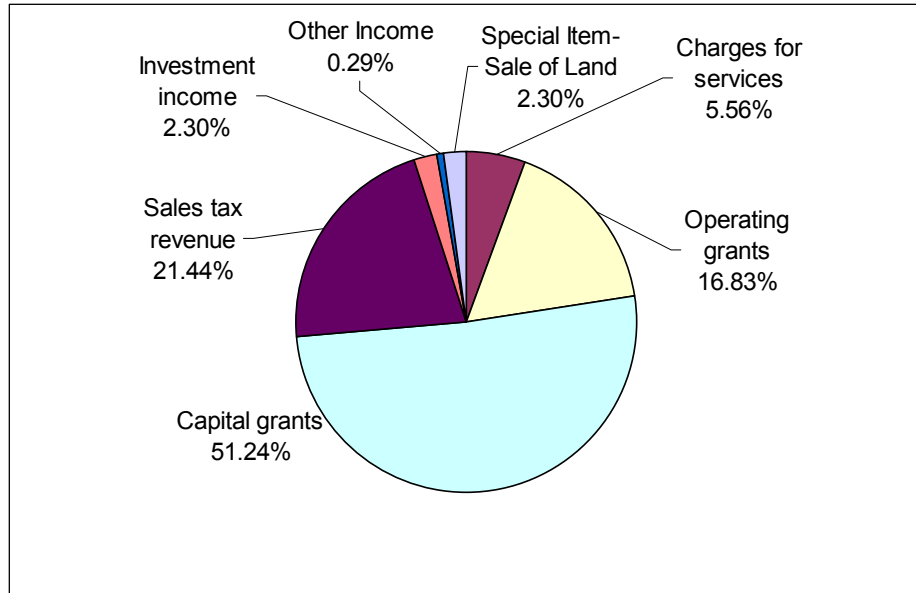
**Business-type activity.** In FY 03, expenses decreased by 1.5% compared to FY 02. Although the Statement of Activities reports VTA's Business-type activity having increased by \$238.9 million, VTA had a \$78.1 million decrease in net assets before capital contributions.

- Business-type activity (Transit Operations) net assets were \$1.85 billion. Approximately \$1.7 billion of the net assets is invested in capital assets net of related debt.
- Capital grants increased by \$90.9 million (40.2%) compared to FY 02. This increase is a result of VTA's aggressive capital projects funding program. Federal grant project revenue was \$94.1 million, State capital grants were \$32 million, 1996 Measure B funding consisted of \$122 million in revenue, and Local contributions totaled \$68.9 million.
- Sales tax revenue decreased by \$11.5 million or (8%) in FY03. This is the second continuous year VTA experienced a lag in sales tax dollars compared to the prior year due to the significant decline in taxable sales within the County (primarily business-to-business transactions). The decrease in sales tax is a contributing factor to VTA's continuous reevaluation of operations.
- Investment income decreased by \$10.3 million, or (41.9%), due to a reduction in investment principal. Funds earmarked to underwrite operating deficits were

withdrawn in FY03 and used for operations and local capital projects. There was also a decrease due to the continuous decline in interest rates.

- Special items amounting to \$12.2 million resulted from the gain on the sale of three land parcels: the Guadalupe Corridor Parcel, the North Yard Parcel, and the Evans Lane Parcel.

### Revenues By Source – Business-type Activity



### Comparison of Business-Type Activity Revenue for Fiscal Years 2002 and 2003

(Dollars in \$000's)	2003	2002	Change	
			Amount	Percent
Charges for services	\$ 34,376	\$ 37,122	\$ (2,746)	-7.4%
Operating grants	104,132	127,373	(23,241)	-18.2%
Capital grants	316,997	226,125	90,872	40.2%
Sales tax revenue	132,632	144,218	(11,586)	-8.0%
Investment income	14,245	24,512	(10,267)	-41.9%
Other income including special item	16,328	2,883	13,445	466.4%
<b>TOTAL</b>	<b>\$ 618,710</b>	<b>\$ 562,233</b>	<b>\$ 56,477</b>	<b>10.0%</b>

Charges for services are derived from the sale of monthly passes (including Eco Pass), tokens, bus fare box receipts, light rail ticket vending machine receipts and the sale of advertising space. Operating grants include the one-quarter of one percent California Transportation Development Act (TDA), State Transit Assistance (STA) funding, Federal grants converted to operating assistance under the Federal Transit Administration Preventative Maintenance Program, State license fees (AB434), investment and interest,

and federal planning grants. Sales tax revenue is the one-half of one percent local sales tax.

There was a total increase in revenues of 10% over FY02. The half-cent local sales tax and the quarter-cent state sales tax (TDA) are driven by the local economy and are the two most important income sources to VTA for funding operations. During FY03, half-cent sales tax revenue decreased by 8%, primarily as a result of declined business-to-business transactions. Fortunately, the negative growth in sales tax revenue is not expected to carry through FY04, but VTA is only projecting a 1.7% increase in the revenue source during the next fiscal year. TDA funds dropped by \$36.5 million (38.3%) to \$58.9 million in FY03. Due to the fact that TDA funds are derived from the same tax base as the half-cent sales tax, VTA experienced a decline in these funds as well. In addition, VTA received TDA funds in FY02 that pertained to FY03. These funds are projected to make a small gain in FY04 to \$63.4 million. In addition, STA funds decreased by over \$600 thousand (8.2%). Fifty percent of STA apportionments to regional planning agencies are distributed on a basis proportional to operator revenues in the region for the prior year. MTC's most recent estimate predicts STA funds to only reach \$4.3 million in FY04. A decrease in ridership and the decline in advertising revenue contributed to the cumulative drop in operating revenue.

Other income increased substantially (466.4%), due primarily to the gain from the sale of three land parcels totaling \$12.2 million (special items): Evans Lane \$7.4 million; North Yard portion \$4.2 million; and Guadalupe Corridor \$.6 million.

### Comparison of Business-Type Activity Expenses for Fiscal Years 2002 and 2003

(Dollars in \$000's)	2003	2002	Change	
			Amount	Percent
<b>Operations and operating projects</b>	\$ 335,760	\$ 340,885	\$ (5,125)	-1.5%
<b>Caltrain subsidy&amp; capital contribution</b>	22,298	25,315	(3,017)	-11.9%
<b>Altamont Commuter Express subsidy</b>	2,715	1,740	975	56.0%
<b>Interest expense</b>	14,222	14,717	(495)	-3.4%
<b>Other non-operating expenses</b>	4,858	3,163	1,695	53.6%
<b>TOTALS</b>	<b>\$ 379,853</b>	<b>\$ 385,820</b>	<b>\$ (5,967)</b>	<b>-1.5%</b>

Operations and operating projects expenses are incurred for personnel, support services, contracted services, insurance, purchased transportation and other overhead costs related to bus and light rail operations, services, and support programs. The implementation of the goals of VTA's Strategic Plan is set forth in the Short-Range Transit Plan (SRTP). The SRTP adopted by VTA outlined a number of transit service reliability and headway improvements, network expansion, and the expansion of the light rail system. The resulting expenses for the year are representative of the implementation efforts throughout the organization.

Total expenses remained fairly constant with a minimal decline of 1.5% in comparison to FY02. The decrease was due to many factors. Purchased Transportation costs

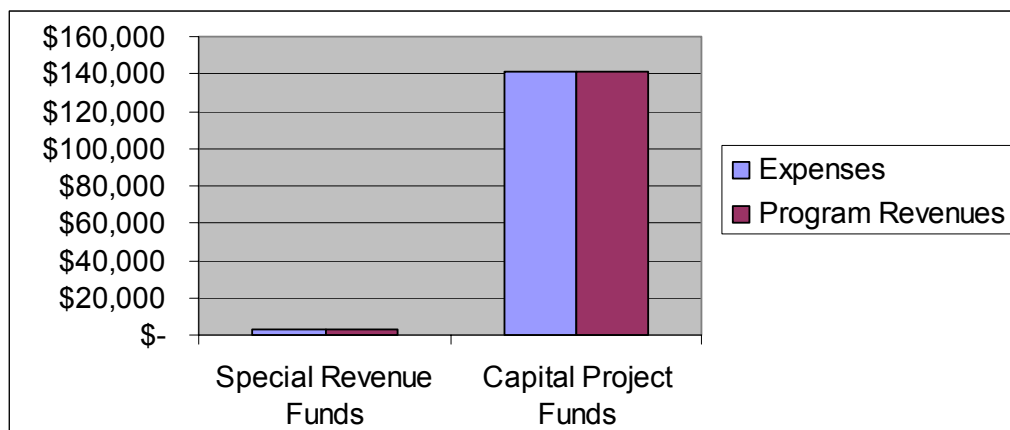
decreased compared to last year's figures. Paratransit ridership continues to increase, but the growth in program costs have slowed significantly. Costs fell by 12.3% primarily as a result of the implementation of the Paratransit Service Business Practices Improvement Plan aimed at increasing operational improvements and efficiencies.

The change in the casualty and liability costs is attributed to an increase in the provision of claims and claims adjustment expense for workers' compensation. Although there was an increase in fringe benefits due to the rising cost of employee health care premiums, labor costs decreased by \$2.7 million due in part to VTA reorganization and streamlining during the year. Traction power expense decreased due to light rail service reduction. There was a \$20.2 million dollar reduction in operating costs due to labor, indirect costs, and internal charges which were allocated to capital and other programs. VTA also benefited from sizable savings in professional and special services with the transition away from the prior level of consultant services.

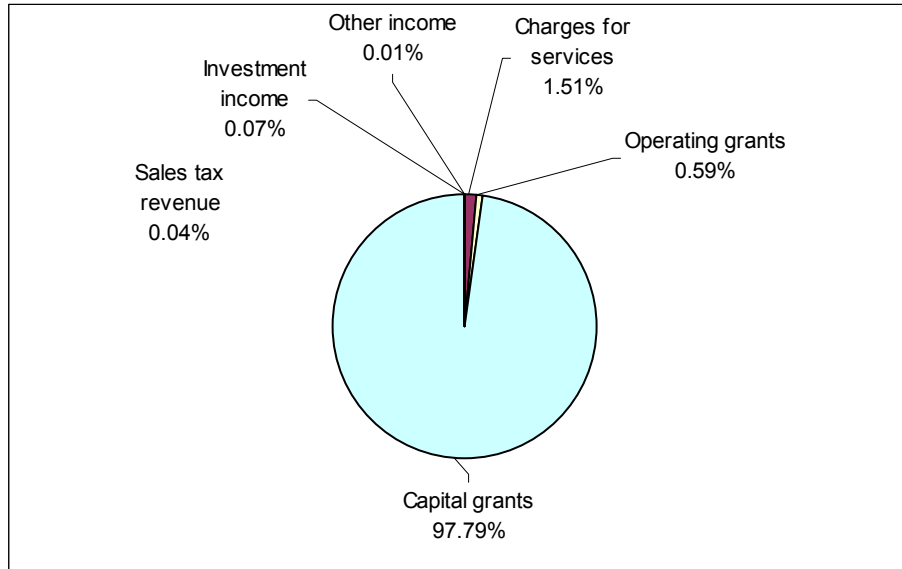
**Governmental activity.** The governmental activity net assets were reduced by \$287.7 thousand in FY03, leaving it with a net asset balance of \$1.3 million. Elements of this decrease are as follows:

- There was an increase in the Congestion Management Program's salaries and benefits expense during FY03 of approximately \$1.2 million or 87.6%. This contributed to the decrease in governmental activity net assets.
- Although total grants received increased by 23.6% compared to FY02, the increase in capital grants was not enough to offset both the corresponding amount in capital projects expense for the benefit of other agencies and the operations and operating projects.
- Operating grants decreased by \$1.6 million (64.6%) during the year. The large variation is primarily due to a one-time contribution of the 1996 Measure B Ancillary Program received in FY02.

**Expenses and Program Revenues – Governmental Activity**  
(\$000's)



## Revenues By Source – Governmental Activity



### Financial Analysis of VTA's Funds

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

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

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

At the end of the current fiscal year, VTA's governmental funds reported a decrease of approximately \$288 thousand.



## Capital Assets and Debt Administration

**Capital assets.** VTA's investment in capital assets for its business-type activity as of June 30, 2003, amounts to \$2.1 billion net of accumulated depreciation. VTA has no capital assets invested in the governmental activities. This investment in capital assets includes: Land and Right-of-way, Buildings, Improvements, Equipment & Furniture, Vehicles, the Caltrain-Gilroy Extension, Light Rail Tracks/Electrification, and Other Operating Equipment. The total net increase in VTA's investment in capital assets for the current fiscal year was 22.1%.

Some of the significant changes in the capital assets during FY03 are as follows:

- Receipt of 34 light rail vehicles (28 of which are in revenue service)
- Acquisition of 106 new buses
- Increases in Construction In Progress for the Tasman East, Capitol, and Vasona light rail extensions
- Acquisition of 64 non-revenue vehicles

The remainder of the changes in capital assets can be attributed to capital improvements and construction projects.

### Capital Assets (net of depreciation) (000's)

	Business-type activity	
	2003	2002
Land and Right-of-way	\$ 570,715	\$ 572,665
Construction in Progress	923,872	608,403
Buildings & Improvements		
Equipment & Furniture	132,931	133,282
Vehicles	218,239	137,211
Caltrain-Gilroy Extension	43,284	43,806
Light Rail Tracks/Electrification	219,609	226,142
Other Operating Equipment	17,441	19,403
Total	<u>\$ 2,126,091</u>	<u>\$ 1,740,912</u>

VTA has outstanding commitments of \$260,888,000 as of June 30, 2003, related to the capital projects below.

### Outstanding Capital Commitments

(000's)

Vasona Corridor Projects	\$	60,922
Tasman Corridor Project Extensions - West		557
Tasman Corridor Project Extensions -East		26,220
Facilities Modifications		24,859
New Rail Vehicles		90,256
Capitol Corridor Projects		25,635
Guadalupe Corridor		2,213
Software Development		110
Silicon Valley Rapid Transit Corridor		10,665
Study Projects		1,969
Coach & Vehicles Replacement		8,049
Caltrain Service Improvements		9,433
	\$	260,888

Additional information on VTA's capital assets can be found in Note 6 on page 2-37 of this report.

**Long-term debt.** At the end of the current fiscal year, the Authority had total bonded debt outstanding of \$417,469,961. Of this amount, \$417,433,077 represents bonds secured solely by sales tax revenues and \$36,884 is a special assessment relating to Improvement District 78-153SJ River Oaks Bond Series 22R and Maintenance District 6 River Oaks Landscape Maintenance. In FY03 VTA issued the 2002 Bond and Grant Anticipation Notes of \$81,500,000, which will mature December 4, 2003. The notes were issued to finance the purchase of BART to San Jose right-of way from Union Pacific Railroad. The source of funds for the new debt will be the 2000 Measure A sales tax.

### Outstanding Debt

(000's)

	Business-type activity	
	2003	2002
Jr. Lien Sales Tax Revenue Bonds	\$ 84,635	\$ 86,795
Sr. Lien Sales Tax Revenue Bonds	221,048	226,775
2002 Grant and Bond Anticipation Note	82,090	-
Equipment Trust Certificates	29,660	29,660
Special Assessment with Governmental Commitment	37	71
Total	\$ 417,470	\$ 343,301

The Santa Clara Valley Transportation Authority maintains an "AA" rating from Standard & Poor's and an "Aa3" rating from Moody's for its Sr. Lien Sales Revenue Bonds. On September 3, 2003, Fitch Ratings downgraded VTA's outstanding 2001 series A and 1997 series A sales tax revenue bonds to 'A+' from their prior 'AA' rating. The Equipment Trust Certificates have a rating of Aaa/VMIG-1 from Moody's and AAA from Standard &

Poor's. The 2002 Bond and Grant Anticipation Notes are rated M IG-1 by Moody's and SP1+ by Standard & Poor's.

Additional information on the VTA's long-term debt can be found in note 7 starting on page 2-39 of this report.

### **Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing VTA's budget for the 2004 fiscal year:

- Additional staffing eliminations
- Increased costs for benefits of over \$1 million due to an increase in health care costs for employees and retirees, as well as increased pension plan contribution costs
- A 1.5% inflation rate
- Minimal half-cent sales tax growth of 1.7%
- A fare increase in August 2003
- A ridership loss of 5.8% due to the fare increase.

A high level of scrutiny was paid to requests for new projects and augmentations to existing projects in fiscal year 2003-04. As a result, the budget proposes the smallest locally funded VTA Capital Program in eight years. The budget also initiates twelve new projects and augmented two previously approved projects, for an additional new commitment of \$4,717,000. There are 71 active projects, excluding the 1996 Measure B Program, being carried forward from prior capital budgets.

The following are major capital programs:

- Information Technology Infrastructure Replacement
- Information Technology Disaster Recovery Site Infrastructure
- Non-Revenue Vehicle Procurement
- Facilities and Equipment Emergency Repair Allowance
- Maintenance Equipment Replacement Program
- Cerone Complex Safety, Communication & Security Equipment
- Pavement Management Program
- Painting Management Program
- Roofing Management Program
- Bus Stop Improvement Program
- Palo Alto Depot Station Renovation
- Light Rail T-Signal Retrofit.

### **Requests for Information**

Please address all questions or requests for additional information to Financial Accounting Department, Office of the Fiscal Resources Manager, Santa Clara Valley Transportation Authority, 3331 North First Street Building C, Second Floor, San Jose, CA 95134-1906.

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**  
**Statement of Net Assets**  
**June 30, 2003**

	<u>Business-Type Activity</u>	<u>Governmental Activity</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and investments	\$ 26,322,203	\$ 2,924,798	\$ 29,247,001
Receivables, net	2,388,261	-	2,388,261
Due from other governmental agencies	35,124,025	222,956	35,346,981
Inventories	21,950,963	-	21,950,963
Other current assets	10,240,169	-	10,240,169
Restricted assets:			
Cash and investments	264,147,676	40,880,288	305,027,964
Receivables, net	704,929	-	704,929
Internal balances	(8,063,015)	8,063,015	-
Due from other governmental agencies	35,068,354	30,728,254	65,796,608
Deferred bond issuance costs	1,841,885	-	1,841,885
Capital Assets:			
Nondepreciable	1,494,586,976	-	1,494,586,976
Depreciable, net of accumulated depreciation	631,504,170	-	631,504,170
<b>Total assets</b>	<b><u>2,515,816,596</u></b>	<b><u>82,819,311</u></b>	<b><u>2,598,635,907</u></b>
<b>LIABILITIES</b>			
Accounts payable	21,787,661	57,487	21,845,148
Other accrued liabilities	9,180,738	80,302	9,261,040
Due to other governmental agencies	4,307,280	1,408,016	5,715,296
Liabilities payable from restricted assets:			
Accounts payable	35,677,503	24,791,460	60,468,963
Other accrued liabilities	136,947,764	-	136,947,764
Due to other government agencies	41,488,686	54,880,097	96,368,783
Long-term liabilities:			
Due within one year	8,541,884	3,972	8,545,856
Due in more than one year	408,928,077	261,823	409,189,900
<b>Total liabilities</b>	<b><u>666,859,593</u></b>	<b><u>81,483,157</u></b>	<b><u>748,342,750</u></b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,686,312,966	-	1,686,312,966
Unrestricted	162,644,037	1,336,154	163,980,191
<b>Total net assets</b>	<b><u>\$ 1,848,957,003</u></b>	<b><u>\$ 1,336,154</u></b>	<b><u>\$ 1,850,293,157</u></b>

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**

Statement of Activities

For the Year Ended June 30, 2003

	<u>Business-Type Activity</u>	<u>Governmental Activity</u>	
	<u>Transit</u>	<u>Congestion Management</u>	<u>Total</u>
Expenses:			
Operations and operating projects	\$ 335,760,206	\$ 3,581,701	\$ 339,341,907
Caltrain subsidy & capital contribution	22,297,937	-	22,297,937
Altamont Commuter Express subsidy	2,715,183	-	2,715,183
Interest expense	14,222,072	-	14,222,072
Other non-operating expenses	4,857,574	-	4,857,574
Capital projects for the benefit of other agencies	-	141,271,006	141,271,006
Total expenses	<u>379,852,972</u>	<u>144,852,707</u>	<u>524,705,679</u>
Program revenues:			
Charges for services	34,375,744	2,176,935	36,552,679
Operating grants	104,132,239	852,451	104,984,690
Capital grants	<u>316,996,725</u>	<u>141,363,650</u>	<u>458,360,375</u>
Total program revenues	<u>455,504,708</u>	<u>144,393,036</u>	<u>599,897,744</u>
Net program revenues (expenses)	<u>75,651,736</u>	<u>(459,671)</u>	<u>75,192,065</u>
General revenues:			
Sales tax revenue	132,632,377	60,424	132,692,801
Investment income	14,244,891	99,268	14,344,159
Other income	<u>4,103,722</u>	<u>12,276</u>	<u>4,115,998</u>
Total general revenues	<u>150,980,990</u>	<u>171,968</u>	<u>151,152,958</u>
Special item - Gain on sale of land	<u>12,224,277</u>	<u>-</u>	<u>12,224,277</u>
Change in net assets	238,857,003	(287,703)	238,569,300
Net assets beginning of year	<u>1,610,100,000</u>	<u>1,623,857</u>	<u>1,611,723,857</u>
Net assets, end of year	<u>\$ 1,848,957,003</u>	<u>\$ 1,336,154</u>	<u>\$ 1,850,293,157</u>

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**  
**Statement of Fund Net Assets**  
**Enterprise Fund (Business-type Activity)**  
**June 30, 2003**

**ASSETS**

**Current assets:**

Cash and cash equivalents	\$ 1,168,034
Investments	25,154,169
Receivables, net	2,388,261
Due from other governmental agencies	35,124,025
Inventories	21,950,963
Other current assets	<u>10,240,169</u>
<b>Total current assets</b>	<b><u>96,025,621</u></b>

**Restricted assets:**

Cash and cash equivalents	45,938,808
Cash and investments with fiscal agent	31,406,103
Investments	186,802,765
Receivables, net	704,929
Due from other funds	117,082
Due from other governmental agencies	<u>35,068,354</u>
<b>Total restricted assets</b>	<b><u>300,038,041</u></b>

**Noncurrent assets:**

Deferred bond issuance costs	1,841,885
<b>Capital Assets:</b>	
<b>Non-depreciable:</b>	
Land and right of way	570,714,935
Construction in progress	923,872,041
<b>Depreciable:</b>	
CalTrain - Gilroy extension	48,962,184
Buildings, improvements, furniture, and fixtures	237,238,946
Vehicles	306,338,319
Light-rail tracks and electrification	281,182,310
Other	28,706,147
Less accumulated depreciation	<u>(270,923,736)</u>
<b>Net capital assets</b>	<b><u>2,126,091,146</u></b>
<b>Total assets</b>	<b><u>2,523,996,693</u></b>

(Continued)

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**  
**Statement of Fund Net Assets**  
**Enterprise Fund (Business-type Activity)**  
**June 30, 2003**

**LIABILITIES**

**Current liabilities:**

Current portion of long-term debt	\$ 8,541,884
Accounts payable	21,787,661
Other accrued liabilities	9,147,902
Due to other governmental agencies	4,307,280
<b>Total current liabilities</b>	<b><u>43,784,727</u></b>

**Liabilities payable from restricted assets:**

Accounts payable	35,677,503
Other accrued liabilities-current	7,874,533
Due to other funds	8,180,097
Due to other governmental agencies	41,488,686
Long-term debt, excluding current portion	15,079,901
Other accrued liabilities - non-current	129,073,231
<b>Total liabilities payable from restricted assets</b>	<b><u>237,373,951</u></b>

**Non-current liabilities:**

Long-term debt, excluding current portion and amounts payable from restricted assets	393,848,176
Other accrued liabilities	32,836
<b>Total non-current liabilities</b>	<b><u>393,881,012</u></b>
<b>Total liabilities</b>	<b><u>675,039,690</u></b>

**NET ASSETS**

Invested in capital assets, net of related debt	1,686,312,966
Unrestricted	162,644,037
<b>Total net assets</b>	<b><u><u>\$ 1,848,957,003</u></u></b>

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
Enterprise Fund (Business-type Activity)  
For the Year Ended June 30, 2003

Operating revenues:	
Passenger fares	\$ 30,959,394
Advertising and other	3,416,350
	<u>34,375,744</u>
Total operating revenues	
Operating expenses:	
Labor	134,524,401
Fringe benefits	92,001,274
Materials and supplies	20,698,044
Services	22,055,307
Utilities	5,734,599
Casualty and liability	4,118,733
Purchased transportation	31,553,403
Leases and rentals	605,447
Miscellaneous	3,154,396
Depreciation expense	41,516,009
Costs allocated to capital and other programs	(20,201,407)
	<u>335,760,206</u>
Total operating expenses	
Operating loss	<u>(301,384,462)</u>
Non-operating revenues (expenses):	
Sales tax revenue	132,632,377
Federal operating assistance grants	33,176,056
State and local operating assistance grants	70,956,183
CalTrain subsidy	(14,104,840)
CalTrain capital contribution	(8,193,097)
Altamont Commuter Express subsidy	(2,715,183)
Investment earnings	14,244,891
Interest expense	(14,222,072)
Other income	4,103,722
Other expense	(4,857,574)
	<u>211,020,463</u>
Non-operating revenues, net	
Change in net assets before capital contributions and special item	(90,363,999)
Capital contributions	316,996,725
Special item - gain on sale of land	12,224,277
	<u>238,857,003</u>
Change in net assets	
Net assets, beginning of year	<u>1,610,100,000</u>
Net assets, end of year	<u>\$ 1,848,957,003</u>



**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**

Statement of Cash Flows  
Enterprise Fund (Business-type Activity)  
For the Year Ended June 30, 2003

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from passenger fares	\$ 30,856,421
Cash received from advertising	3,416,350
Cash paid to employees	(196,728,258)
Cash paid to suppliers	(61,877,582)
Cash paid for purchased transportation	(31,553,403)
Net cash used in operating activities	<u>(255,886,472)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating grants received	125,088,506
Sales tax received	132,596,836
Caltrain subsidy	(14,104,840)
Altamont Commuter Express subsidy	(2,715,183)
Other noncapital receipts	15,956,496
Other noncapital payments	(1,168,192)
Net cash provided by noncapital financing activities	<u>255,653,623</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payment of long-term debt	(8,159,007)
Proceeds from Bond and Grant Anticipation Notes	82,090,346
Interest paid on long-term debt	(13,866,495)
Cost of bond issuance	(206,117)
Acquisition and construction of capital assets	(441,043,932)
Capital contribution from other governments	316,996,725
Proceeds from sale of capital assets	14,847,164
Net cash used in capital and related financing activities	<u>(49,341,316)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale of investments	1,647,021,434
Purchases in investments	(1,623,409,418)
Interest income received	16,150,943
Net cash provided by investing activities	<u>39,762,959</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(9,811,206)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>88,324,151</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 78,512,945</u>

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**

Statement of Cash Flows (Continued)  
Enterprise Fund (Business-type Activity)  
For the Year Ended June 30, 2003

RECONCILIATION OF OPERATING LOSS TO NET

CASH USED IN OPERATING ACTIVITIES:

Operating loss	\$ (301,384,462)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	41,516,009
Changes in operating assets and liabilities:	
Receivables	(168,807)
Due from other governmental agencies	65,834
Inventories	(1,712,024)
Accounts payable	(11,774,761)
Other current liabilities	17,576,868
Non-current - other accrued liabilities	(5,129)
Net cash used in operating activities	<u>\$ (255,886,472)</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash and cash equivalents, end of year:

Unrestricted	\$ 1,168,034
Restricted	77,344,911
	<u>\$ 78,512,945</u>

NONCASH INVESTING ACTIVITIES:

Decrease in fair value of investments	<u>\$ 1,236,100</u>
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SANTA CLARA VALLEY TRANSPORTATION AUTHORITY  
Balance Sheet  
Governmental Funds  
June 30, 2003

	Special Revenue Funds		Capital Projects Funds		Total
	Congestion Management Program	Nonmajor Traffic Authority	Measure B Highway Program	Congestion Management & Highway Program	
<b>ASSETS</b>					
Cash and cash equivalents	\$ 228	\$ -	\$ -	\$ -	\$ 228
Investments	2,831,689	92,881	-	-	2,924,570
Due from other governmental agencies	222,956	-	-	-	222,956
Restricted assets:					
Cash and cash equivalents	-	-	20,403,120	15,030,693	35,433,813
Cash and investments with fiscal agents	-	-	5,446,475	-	5,446,475
Due from other funds	-	-	8,180,097	-	8,180,097
Due from other governmental agencies	-	-	26,732,878	3,995,376	30,728,254
<b>Total assets</b>	<b>\$ 3,054,873</b>	<b>\$ 92,881</b>	<b>\$ 60,762,570</b>	<b>\$ 19,026,069</b>	<b>\$ 82,936,393</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 51,727	\$ 5,760	\$ -	\$ -	\$ 57,487
Other accrued liabilities	80,302	-	-	-	80,302
Due to other governmental agencies	1,408,016	-	-	-	1,408,016
Liabilities payable from restricted assets:					
Accounts payable	-	-	21,829,088	2,962,372	24,791,460
Due to other funds	-	-	-	117,082	117,082
Due to other governmental agencies	-	-	38,933,482	15,946,615	54,880,097
<b>Total liabilities</b>	<b>1,540,045</b>	<b>5,760</b>	<b>60,762,570</b>	<b>19,026,069</b>	<b>81,334,444</b>
<b>FUND BALANCES</b>					
Unreserved	1,514,828	87,121	-	-	1,601,949
<b>Total liabilities and fund balances</b>	<b>\$ 3,054,873</b>	<b>\$ 92,881</b>	<b>\$ 60,762,570</b>	<b>\$ 19,026,069</b>	

Amounts reported for governmental activity in the statement of net assets are different because:

Compensated absences are not due and payable in the current period and therefore are not reported in the funds	(265,795)
Net assets of governmental activity (page 2-15)	<u>\$ 1,336,154</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2003

	Special Revenue Funds		Capital Projects Funds		Total
	Congestion Management Program	Nonmajor Traffic Authority	Congestion Management & Highway Program	Measure B Highways	
REVENUES:					
Member agency assessment revenue	\$ 2,031,608	\$ -	\$ -	\$ -	\$ 2,031,608
Federal technical studies operating assistance grants	452,451	-	-	-	452,451
Sales tax	-	60,424	-	-	60,424
Administrative fees	145,327	-	-	-	145,327
State operating assistance grants	400,000	-	-	-	400,000
Local grant revenue	-	-	10,053,680	131,309,970	141,363,650
Other revenues	11,475	-	-	801	12,276
Investment earnings	34,534	4,599	60,135	-	99,268
	<u>3,075,395</u>	<u>65,023</u>	<u>10,113,815</u>	<u>131,310,771</u>	<u>144,565,004</u>
EXPENDITURES:					
Current:					
Congestion management:					
Salaries and benefits	2,265,119	-	338,474	-	2,603,593
Services	892,395	26,669	6	-	919,070
Capital Outlay:					
Capital improvement projects	179,139	5,761	9,775,335	131,310,771	141,271,006
	<u>3,336,653</u>	<u>32,430</u>	<u>10,113,815</u>	<u>131,310,771</u>	<u>144,793,669</u>
NET CHANGE IN FUND BALANCES	(261,258)	32,593	-	-	(228,665)
FUND BALANCES, BEGINNING OF YEAR	1,776,086	54,528	-	-	1,830,614
	<u>1,514,828</u>	<u>87,121</u>	<u>-</u>	<u>-</u>	<u>1,601,949</u>

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities:

Amounts reported for governmental activity in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ (228,665)
Change in accrued compensated absences reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>(59,038)</u>
Change in net assets of governmental activity (page 2-16)	<u>\$ (287,703)</u>

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2003

	<u>Pension Trust Funds</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Restricted assets:		
Cash and cash equivalents	\$ -	\$ 5,776,140
Investments:		
Equity securities	64,097,892	-
Corporate bonds	36,277,386	-
Treasury and agency notes	49,718,121	-
Mutual funds	69,717,624	-
Pooled investments	10,628,078	83,161,360
Total investments	<u>230,439,101</u>	<u>83,161,360</u>
Receivables:		
Investment earnings	988,443	-
ATU clerical employee unfunded portion	113,507	-
Total receivables	<u>1,101,950</u>	<u>-</u>
Total assets	<u>231,541,051</u>	<u>\$ 88,937,500</u>
<b>LIABILITIES</b>		
Liabilities payable from restricted assets:		
Other accrued liabilities	-	\$ 84,413
Accounts payable	3,452	4,156,909
Due to other governmental agencies	-	84,696,178
Total liabilities	<u>3,452</u>	<u>\$ 88,937,500</u>
<b>NET ASSETS</b>		
Net assets held in trust for:		
Pension benefits	222,437,919	
Spousal medical benefits	7,661,381	
Retiree dental and vision benefits	1,438,299	
Total net assets	<u>\$ 231,537,599</u>	

SANTA CLARA VALLEY TRANSPORTATION AGENCY  
Statement of Changes in Plan Net Assets  
Pension Trust Funds  
For the Year Ended June 30, 2003

ADDITIONS	
Contributions	<u>\$ 13,544,731</u>
Investment earnings:	
Investment income	3,253,683
Net appreciation in the fair value of investments	5,103,755
Investment expense	<u>(834,046)</u>
Net investment income	<u>7,523,392</u>
Total additions	<u>21,068,123</u>
DEDUCTIONS	
Benefit payments	9,324,914
Other benefits paid to participants	<u>113,719</u>
Total deductions	<u>9,438,633</u>
Net increase	11,629,490
NET ASSETS HELD IN TRUST	
Beginning of year	<u>219,908,109</u>
End of year	<u><u>\$ 231,537,599</u></u>

## SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2003

### NOTE 1 – THE FINANCIAL REPORTING ENTITY

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

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

The Santa Clara County Traffic Authority (Traffic Authority) was created in November 1984, upon the approval 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 Traffic Authority is included as a nonmajor governmental fund in the accompanying basic financial statements.

The Santa Clara Valley Transportation Authority Congestion Management Program (CMP) was created in 1990 in response to Proposition 111. The CMP is not legally separate from VTA. The CMP is responsible for development and implementation of the Valley Transportation Plan 2020 (VTP2020), the long-range transportation and land use plan for the County, and for preparing and implementing the State mandated Congestion Management Program. It is also responsible for the programming and oversight of discretionary federal, State and local funds, and for serving as the program manager for certain county-wide grant funds, including the Transportation Fund for Clean Air (TFCA) and the County's Measure B Transportation Improvement Program's (MBTIP) Ancillary Program. 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 of Proposition 111, State gas tax monies, as well as employment within the County. The CMP is included as a major governmental fund in the accompanying basic financial statements.

# SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2003

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) *Basis of Presentation*

#### *Government-wide Financial Statements*

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

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

#### *Fund Financial Statements*

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

VTA reports the following major funds:

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



## SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

### Notes to the Basic Financial Statements (Continued) For the Year Ended June 30, 2003

- The *Measure B Highway Program Capital Projects Fund* is used to account for acquisition of capital assets or construction of Measure B Highway projects.
- The *Congestion Management and Highway Program Capital Projects Fund* is used to account for the acquisition of capital assets and construction of highway projects administered on behalf of state and other local governments (other than those accounted for in the Measure B Highway Program Capital Projects Fund).

VTA reports the following additional funds:

The Non-major Traffic Authority Special Revenue Fund is used to account for activities to wind up the affairs of the 1985 Measure A improvement projects, which become the property of the State.

The *Fiduciary Funds* are used to account for assets held by VTA as a trustee or as an agent for others and which assets cannot be used to support its own programs. VTA's trust and agency funds include the SCVTA/ATU Pension Plan, ATU Medical Trust, the Bay Area Air Quality Management District (BAAQMD) Program, and the Measure B Ancillary Program. The SCVTA/ATU Pension Plan and the ATU Medical Trust are reported as pension (other employees benefit) trust funds. The BAAQMD and the Measure B Ancillary Programs are reported as agency funds.

#### **(b) Basis of Accounting**

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

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

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Interest, certain state and federal grants and charges for services are accrued if their receipt occurs within sixty days after the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, compensated absences are recorded only when payment is due.

## SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

### Notes to the Basic Financial Statements (Continued) For the Year Ended June 30, 2003

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

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 (FASB), the Accounting Principles Board or any Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes accounting principles generally accepted in the United States of America (GAAP) for governmental units. VTA has elected not to follow subsequent private-sector guidance of FASB after November 30, 1989.

#### **(c) Cash and Investments**

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

The remaining cash balances in certain VTA funds are pooled and invested by the State of California and the County Treasury (cash and investments with fiscal agents). Unless there are specific legal or contractual requirements for specific allocations, income earned or losses arising from investments are allocated on a quarterly basis to the appropriate fund(s) based on their average daily balances.

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

VTA has reported its investments at fair value based on quoted market information obtained from a pricing service provided by the investment management firms and from its fiscal agents. The corresponding change in fair value of investments is recognized in the year in which the change occurs.

The fair value of VTA's investments commingled in County Treasury is based on VTA's cash position with the County as of the end of the fiscal year in proportion to the entire cash held in the commingled pool. The value reported is equal to VTA's share of the commingled pool value.

#### **(d) Inventories**

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

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**

Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2003

**(e) 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 leave benefits
- General liability insurance
- Retiree health care
- Debt service

**(f) Bond Issuance Cost, Discounts and Deferred Amounts on Refundings**

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

**(g) Capital Assets**

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

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

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

Interest is capitalized on construction in progress. 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. In the current year, VTA capitalized a net interest expense relating to the BART Right-of-Way purchase of \$712,000.

**(h) Other Accrued Liabilities**

Other accrued liabilities in the fund financial statements, including those payable from restricted assets, represent accruals for vacation and sick leave benefits, payroll, retiree health care programs, general liability claims, and workers' compensation claims. For government-wide financial statements, all of

## SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

### Notes to the Basic Financial Statements (Continued) For the Year Ended June 30, 2003

these liabilities with the exception of payroll, are reported within long-term liabilities and are disaggregated in Note 7.

**(i) *Vacation and Sick Leave Benefits***

It is the policy of VTA to permit employees to accumulate unused vacation and sick leave benefits up to the limit designated in the various collective bargaining agreements. As vacation and sick leave are used during the year, they are reported as an expense. Additionally, there is an amount charged each month to accrue the estimated increase in unused vacation and sick leave. This is adjusted annually to reflect the year-end value of unused vacation and sick leave. For the governmental funds, however, accumulated vacation and sick leave are reported as liabilities when payment is due.

**(j) *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 15).

**(k) *Net Assets***

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

- *Invested in Capital Assets, Net of Related Debt* - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Unrestricted Net Assets* – This category represents net assets of VTA, not restricted for any project or other purpose.

**(l) *Estimates***

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

**(m) *Costs Allocated to Capital and Other Programs***

On the Statement of Revenues, Expenses and Changes in Fund Net Assets, the Enterprise Fund reports \$20,201,407 as costs allocated to capital and other programs. This amount represents a credit for direct and indirect labor and associated fringe benefits, reproduction and mileage costs, and other costs that were capitalized as construction in progress.

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**

Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2003

**NOTE 3 - CASH AND INVESTMENTS**

Total cash and investments as of June 30, 2003, are reported in the accompanying basic financial statements as follows:

	Business-type Activity <u>Enterprise</u> <u>Fund</u>	Governmental Activity <u>Governmental</u> <u>Funds</u>	Pension <u>Trust Funds</u>	Agency <u>Funds</u>	<u>Total</u>
Unrestricted:					
Cash and cash equivalents	\$ 1,168,034	228	-	-	1,168,262
Investments	<u>25,154,169</u>	<u>2,924,570</u>	-	-	<u>28,078,739</u>
Total unrestricted	<u>26,322,203</u>	<u>2,924,798</u>	-	-	<u>29,247,001</u>
Restricted:					
Cash and cash equivalents	45,938,808	35,433,813	-	5,776,140	87,148,761
Cash and investments with fiscal agents	31,406,103	5,446,475	-	-	36,852,578
Investments	<u>186,802,765</u>	-	<u>230,439,101</u>	<u>83,161,360</u>	<u>500,403,226</u>
Total restricted	<u>264,147,676</u>	<u>40,880,288</u>	<u>230,439,101</u>	<u>88,937,500</u>	<u>624,404,565</u>
Total cash and investments	<u>\$290,469,879</u>	<u>43,805,086</u>	<u>230,439,101</u>	<u>88,937,500</u>	<u>653,651,566</u>

As of June 30, 2003, total cash and investments among all funds consisted of the following:

Cash and deposits	\$ 88,317,023
Investments	<u>565,334,543</u>
	<u>\$ 653,651,566</u>

***Deposits***

As of June 30, 2003, the carrying amount of VTA's deposit balance, which includes restricted deposits, was \$88,317,023 and the bank balance was \$113,578,704. The difference between the carrying amount and the bank balance is due to outstanding checks and deposits in transit. \$100,000 of the bank balance was covered by federal depository insurance, and \$113,478,704 was collateralized in accordance with Section 53652 of the California Government Code.

The California Government Code requires California banks and savings and loan associations to secure governmental deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of VTA's deposits, except for repurchase agreements, which should equal 102% of VTA's deposits. The California Government Code also allows financial institutions to secure governmental deposits by pledging first trust deed mortgage notes having a value of 150% of those deposits. Such collateral is held by the pledging financial institutions' trust department or agent in VTA's name.

## SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2003

VTA maintains checking accounts for unrestricted operations, the Congestion Management and Highway Programs (CM&HP) and the Measure B Transportation Improvement Program (Measure B account). These checking accounts earn interest based on the bank's monthly sweep average repurchase agreement rate. At June 30, 2003, the carrying amount of these cash balances were as follows:

Unrestricted operations account	\$ 1,168,262
CM&HP account	15,030,693
Measure B account:	
Business-type Activity (Enterprise Fund)	45,938,808
Governmental Activity (Capital Project Fund)	20,403,120
Measure B Ancillary Program Agency Fund	<u>5,776,140</u>
Measure B account	<u>72,118,068</u>
Total deposits	<u><u>\$ 88,317,023</u></u>

### *Investments*

VTA's investment policies (Unrestricted/Restricted Funds and ATU Pension Plan) conform to State statutes, and provide written investment guidance regarding the types of investments that may be made and amounts which may be invested in any one financial institution or amounts which may be invested in 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, the State of California Local Agency Investment Fund (LAIF), 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 Bankwatch, Inc. rating service.

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

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

VTA's portfolio includes structured notes and asset-backed securities, which are invested directly by VTA and indirectly through LAIF. At June 30, 2003, VTA's investment in LAIF is \$13,093,646. The total amount invested by all public agencies in LAIF at June 30, 2003, is \$55,422,506,000. Of that amount, 2.33% is in structured notes and asset-backed securities. Information is not available on whether the various mutual funds in which the VTA has invested used or held derivative financial products during the year ended June 30, 2003.

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**

Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2003

Investments are categorized below to give an indication of the custodial credit risk assumed by VTA as of June 30, 2003. 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.

A summary of the VTA's investments at June 30, 2003 is shown below.

	Category		Fair
	1	2	Value
<i>Pooled investments:</i>			
Investments subject to categorization:			
Corporate notes (commercial paper)	\$ 1,398,628	-	1,398,628
Corporate bonds	57,091,260	-	57,091,260
U.S. Treasury and government agency notes	222,953,198	-	222,953,198
Repurchase agreements	-	9,314,845	9,314,845
Subtotal	281,443,086	9,314,845	290,757,931
Uncategorized investments:			
Investments commingled in County Treasury			1,837,274
State of California Local Agency Investment Fund			13,093,646
Mutual funds (retention escrow fund)			17,516,044
Mutual funds			22,318,625
Total pooled investments			345,523,520
<i>Pension Plan investments:</i>			
Investments subject to categorization:			
Equity securities	64,097,892	-	64,097,892
Corporate bonds	36,277,386	-	36,277,386
U.S. Treasury and government agency notes	49,718,121	-	49,718,121
Subtotal investments	150,093,399	-	150,093,399
Uncategorized investments:			
Mutual funds			69,717,624
Total pension plan investments			219,811,023
Total investments	\$431,536,485	9,314,845	565,334,543

As of June 30, 2003, the Pension Trust Fund's restricted investments consisted of the following:

<i>ATU Pension:</i>	
Pension plan investments	\$ 219,811,023
Pooled investments	1,528,398
<i>ATU Medical:</i>	
Pooled investments	9,099,680
	\$ 230,439,101

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**

Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2003

**NOTE 4 – INTERFUND TRANSACTIONS**

The composition of interfund balances as of June 30, 2003 is as follows:

<u>Receiving Fund</u>	<u>Paying Fund</u>	<u>Amount</u>
Measure B Highway Program	Enterprise Fund	\$ 8,180,097 <sup>(a)</sup>
Enterprise Fund	Congestion Management & Highway Program	117,082 <sup>(a)</sup>
		<u>\$ 8,297,179</u>

(a) Reported as internal balances in the government-wide financial statements.

The Enterprise Fund collects advances from the Santa Clara County for the Measure B Transit Highway Project. The \$8,180,097 due to the Measure B Highway Program Capital Projects Fund is the revolving fund to be used for future project expenditures. The Congestion Management & Highway Program owes the Enterprise Fund the sum of \$117,082 for labor charges to its projects.

**NOTE 5 – DUE FROM AND DUE TO OTHER GOVERNMENTAL AGENCIES**

Due from other governmental agencies as of June 30, 2003 consisted of the following:

	<u>Business-type Activity</u>	<u>Governmental Activity</u>		<u>Total</u>
	<u>Enterprise Fund</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Current:				
Federal government	\$ 16,322,152	\$ 118,048	\$ -	\$ 16,440,200
State government	37,180,710	-	22,667,954	59,848,664
County of Santa Clara				
Court deposits:				
VTA account	71,100	-	-	71,100
Measure B Highway	-	-	4,582,800	4,582,800
Measure B Transit	13,525,400	-	-	13,525,400
Total court deposits	<u>13,596,500</u>	<u>-</u>	<u>4,582,800</u>	<u>18,179,300</u>
Swap Fund	500,000	-	-	500,000
Parking citation revenue	20,365	-	-	20,365
Others	10,392	-	-	10,392
Total County of Santa Clara	<u>14,127,257</u>	<u>-</u>	<u>4,582,800</u>	<u>18,710,057</u>
Others	<u>2,562,260</u>	<u>104,908</u>	<u>3,477,500</u>	<u>6,144,668</u>
Total	<u>\$ 70,192,379</u>	<u>\$ 222,956</u>	<u>\$ 30,728,254</u>	<u>\$ 101,143,589</u>



**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**

Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2003

Due from other governmental agencies as of June 30, 2003, is reported in the accompanying basic financial statements as follows:

	Business-type Activity	Governmental Activity	
	Enterprise Fund	Special Revenue	Capital Projects
Current	\$ 35,124,025	\$ 222,956	\$ -
Restricted	35,068,354	-	30,728,254
<b>Total</b>	<b>\$ 70,192,379</b>	<b>\$ 222,956</b>	<b>\$ 30,728,254</b>

Due to other governmental agencies as of June 30, 2003, consisted of the following:

	Business-type Activity	Governmental Activity		
	Enterprise Fund	Special Revenue	Capital Projects	Agency
Federal Transit Administration	\$ 7,098,901	\$ -	\$ -	\$ -
State government	1,454,849	16	77,482	-
Peninsula Corridor Joint Powers Board	2,944,387	-	-	-
County of Santa Clara	33,454,918	1,408,000	51,319,922	84,696,178
City of Campbell	554,324	-	-	-
San Mateo County Transportation Authority	224,257	-	-	-
City of San Jose	64,330	-	3,302,146	-
City of Sunnyvale	-	-	180,547	-
<b>Total</b>	<b>\$ 45,795,966</b>	<b>\$ 1,408,016</b>	<b>\$ 54,880,097</b>	<b>\$ 84,696,178</b>

Due to other governmental agencies as of June 30, 2003, is reported in the accompanying basic financial statements as follows:

	Business-type Activity	Governmental Activity		
	Enterprise Fund	Special Revenue	Capital Projects	Agency
Current liabilities	\$ 4,307,280	\$ 1,408,016	\$ -	\$ -
Liabilities payable from restricted assets	41,488,686	-	54,880,097	84,696,178
<b>Total</b>	<b>\$ 45,795,966</b>	<b>\$ 1,408,016</b>	<b>\$ 54,880,097</b>	<b>\$ 84,696,178</b>

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**

Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2003

**NOTE 6 – CAPITAL ASSETS**

Capital asset changes for VTA’s business-type activity for the year ended June 30, 2003 were as follows:

	July 1, 2002	Additions	Retirements	June 30, 2003
<i>Capital assets, not being depreciated:</i>				
Land and right of way	\$ 572,664,544	2,440,730	(4,390,339)	570,714,935
Construction in progress	<u>608,403,203</u>	<u>434,368,556</u>	<u>(118,899,718)</u>	<u>923,872,041</u>
Total capital assets, not being depreciated	<u>1,181,067,747</u>	<u>436,809,286</u>	<u>(123,290,057)</u>	<u>1,494,586,976</u>
<i>Capital assets, being depreciated:</i>				
Buildings, improvements, furniture and fixtures	227,826,416	13,658,004	(4,245,474)	237,238,946
Vehicles	220,504,063	97,489,578	(11,655,322)	306,338,319
Light-rail tracks and electrification	276,398,247	4,784,063	-	281,182,310
Caltrain – Gilroy extension	48,774,692	187,492	-	48,962,184
Other operating equipment	<u>28,366,298</u>	<u>339,849</u>	<u>-</u>	<u>28,706,147</u>
Total capital assets, being depreciated	<u>801,869,716</u>	<u>116,458,986</u>	<u>(15,900,796)</u>	<u>902,427,906</u>
<i>Less accumulated depreciation for:</i>				
Buildings, improvements, furniture and fixtures	(94,544,377)	(10,806,787)	1,043,569	(104,307,595)
Vehicles	(83,293,516)	(16,379,837)	11,574,359	(88,098,994)
Light-rail tracks and electrification	(50,256,047)	(11,317,348)	-	(61,573,395)
Caltrain – Gilroy extension	(4,968,777)	(709,461)	-	(5,678,238)
Other operating equipment	<u>(8,962,938)</u>	<u>(2,302,576)</u>	<u>-</u>	<u>(11,265,514)</u>
Total accumulated depreciation	<u>(242,025,655)</u>	<u>(41,516,009)</u>	<u>12,617,928</u>	<u>(270,923,736)</u>
Total capital assets, being depreciated, net	<u>559,844,061</u>	<u>74,942,977</u>	<u>(3,282,868)</u>	<u>631,504,170</u>
Total capital assets, net	<u>\$1,740,911,808</u>	<u>511,752,263</u>	<u>(126,572,925)</u>	<u>2,126,091,146</u>

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**

Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2003

Construction in progress (CIP), includes capitalized costs and right-of-way acquisitions associated with the following projects as of June 30, 2003:

Vasona Corridor Project	\$ 207,444,168
Tasman Corridor Project Extensions	172,337,109
Facilities Modifications	136,860,459
New Rail Vehicles	118,319,922
Capitol Corridor Projects	125,649,947
Guadalupe Corridor	31,289,795
Software Development	8,785,496
Silicon Valley Rapid Transit Corridor	101,573,270
Study Projects	6,679,830
Coach and Vehicle Replacement	7,296,353
Caltrain Service Improvements	17,684,163
VTA Administration Building Improvements	247,466
Fremont Rail Connection	<u>3,229,463</u>
Total project costs expended to date	937,397,441
Less right-of-way acquisitions not yet settled <sup>(1)</sup>	<u>(13,525,400)</u>
CIP, as reported on the balance sheet at 6/30/03	<u><u>\$ 923,872,041</u></u>

<sup>(1)</sup> The projects listed above include \$13,525,400 paid for right-of-way acquisitions that have not yet settled. During the process of acquiring right-of-way, VTA makes deposits with the County of Santa Clara, which are reported as due from other governments. Upon settlement of the purchase and transfer of title to VTA, these acquisitions will be reported as construction in progress.

Additional information regarding projects in progress as of June 30, 2003 is as follows:

Total Board approved project budget	\$ 1,361,182,151
Expended to date	<u>(937,397,441)</u>
Remaining budget available for CIP	<u><u>\$ 423,784,710</u></u>
Anticipated funding sources are as follows:	
Federal, State, and other local assistance (Note 10)	\$ 361,237,706
Local contributions (Note 10)	<u>62,547,004</u>
Total funding sources	<u><u>\$ 423,784,710</u></u>

VTA has outstanding commitments of \$260,888,000 as of June 30, 2003, related to the above capital projects.

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**

Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2003

**NOTE 7 - LONG-TERM LIABILITIES**

Long-term debt as of June 30, 2003, consisted of the following:

Sales Tax Revenue Bonds:

2002 Bond and Grant Anticipation Note (\$81,500,000 plus unamortized premium of \$590,346) <b>(a)</b>	\$ 82,090,346
2001 Series A Senior Lien (\$190,385,000, less unamortized discount of \$1,562,834) <b>(b)</b>	188,822,166
2000 Series A Junior Lien <b>(c)</b>	38,070,000
1998 Series A Junior Lien <b>(d)</b>	46,565,000
1997 Series A Refunding (\$35,270,000, less unamortized discount of \$299,262 and unamortized deferred amount on refunding of \$2,745,173) <b>(e)</b>	32,225,565
Series 1985A Equipment Trust Certificates <b>(f)</b>	29,660,000
Improvement Bond Series 22R <b>(g)</b>	36,884
Total long-term debt	417,469,961
Less current portion of long-term debt	(8,541,884)
Long-term debt, excluding current portion	408,928,077
Less portion of long-term debt payable from restricted assets	(15,079,901)
Long-term debt, excluding current and restricted portions	<u>\$ 393,848,176</u>

**(a) 2002 Bond and Grant Anticipation Note**

The 2002 Bond and Grant Anticipation Note was issued to finance the purchase of BART to San Jose right-of-way from Union Pacific Railroad. The note, bearing an interest rate of 3% and yield of 1.28% will mature on December 4, 2003. The note will be paid out of the VTA's debt offering plan that would be secured by the 2000 Measure A sales tax (please refer to note 21). The transaction to refinance the note closed on November 20, 2003.

**(b) 2001 Series A Senior Lien Sales Tax Revenue Bonds**

In June 2001, VTA issued \$200,000,000 of 2001 Series A Senior Lien Sales Tax Revenue Bonds (2001 Bonds) to finance portions of the Tasman East, Vasona, and Capitol Corridor Light Rail projects. Issuance costs are being amortized over the term of the debt. The 2001 Bonds are special obligations of VTA, which are payable and secured by sales tax revenues.

The 2001 Bonds mature serially, through June 1, 2026. Future annual principal payments range from \$3,295,000 to \$17,945,000 and bear interest at rates ranging from 4.5% to 5.5%.

**(c) 2000 Series A Junior Lien Sales Tax Revenue Bonds**

In November 2000, through the California Transit Variable Rate Program of the California Transit Finance Authority (Note 19d), VTA issued \$40,000,000 of 2000 Series A Junior Lien Sales Tax Revenue Bonds (2000 Bonds) to finance certain capital expenditures. Issuance costs related to such bonds are

## SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

### Notes to the Basic Financial Statements (Continued) For the Year Ended June 30, 2003

being amortized over the term of the debt. The 2000 Bonds are special obligations of VTA, which are payable from and secured by sales tax revenue.

The 2000 Bonds mature serially, through October 1, 2027. Future annual principal payments range from \$1,265,000 to \$2,175,000 and bear a variable rate of interest not to exceed 12%. At June 30, 2003, the variable interest rate was 1.00%, which is determined weekly based on the Bond Buyers Revenue Bond Index plus 50 basis points.

**(d) 1998 Series A Junior Lien Sales Tax Revenue Bonds**

In March 1998, through the California Transit Variable Rate Program of the California Transit Finance Authority (Note 19d), VTA issued \$50,000,000 of 1998 Series A Junior Lien Sales Tax Revenues Bonds (1998 Bonds) to finance certain capital projects. Issuance costs related to such bonds are being amortized over the term of the debt. The 1998 Bonds are special obligations of VTA, which are payable from and secured by sales tax revenues.

The 1998 Bonds mature serially, through October 1, 2027. Future annual principal payments on the 1998 Bonds range from \$1,045,000 to \$2,690,000 and bear a variable rate of interest. At June 30, 2003, the variable interest rate was 1.00%, which is determined weekly based on the Bond Buyers Revenue Bond Index plus 50 basis points.

**(e) 1997 Series A Sales Tax Revenue Refunding Bonds**

In November 1997, VTA issued \$40,570,000 of 1997 Series A Sales Tax Revenue Refunding Bonds (1997 Bonds). The proceeds were used to advance refund \$33,270,000 of the outstanding principal amount of its 1991 Series A Bonds, advance refund \$4,940,000 of the outstanding principal amount of its Series C Certificates, and to pay for certain capital expenditures of VTA. The 1997 bonds are special obligations of VTA, which are payable from and secured by sales tax revenues.

The bonds mature serially, through June 1, 2015. Future annual principal payments on the 1997 Bonds range from \$1,195,000 to \$2,825,000 and bear interest ranging from 4.3% to 5.0%.

**(f) 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 are being amortized over the term of the debt. In August 1998, VTA executed a Fixed Rate Swap (Swap) for the variable rate 1985A Certificates.

*Objective of the Interest Rate Swap.* In 1998, VTA entered into a variable interest rate to fixed interest rate swap agreement with respect to its 1985A Equipment Trust Certificates (1985 ETC's) to effectively change VTA's variable interest rate on the 1985 ETC's to a synthetic fixed rate of 4.355%.

*Significant Terms.* The 1985 ETC's are subject to mandatory redemption prior to their maturity date on each June 1 on or after June 1, 2007, in part by lot, solely from sinking fund payments and interest earnings deposited in the 1985 ETC Sinking Fund Account. Sinking fund payments are due in 2007 through 2015 and range from \$460,000 to \$4,800,000. The 1985 ETC's bear interest at a weekly rate,

## SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

### Notes to the Basic Financial Statements (Continued) For the Year Ended June 30, 2003

which is determined by the Remarketing Agent to be the rate necessary to remarket the 1985 ETC's at par value. The notional amount of the swap, which was effective September 11, 1998 and terminates June 1, 2015, is \$29,660,000 (the amount outstanding on the 1985 ETC's as of the effective date) and, starting with fiscal year 2007, declines concurrently with payments made to the 1985 ETC Sinking Fund Account. Under the swap VTA pays the counterparty an interest payment based on a fixed interest rate of 4.355% every six months and receives a monthly payment equal to the actual variable rate of interest on the 1985 ETC's.

*Fair Value.* Because interest rates have declined since the execution of the swap, the swap had a negative fair value of \$4,013,558 as of June 30, 2003. Since the coupons on the 1985 ETC's adjust to changing interest rates, they do not have a corresponding fair value increase. The fair value is the net present value of the swap using market data and the terms of the swap, which include the expectations of the probability of occurrence of certain underlying tax events as defined in the swap documentation.

*Basis Risk.* There is no basis risk to VTA. The counterparty is required to pay VTA the actual variable rate of interest on the 1985 ETC's.

*Credit Risk.* VTA bears the risk that the counterparty will not be able to make its offsetting payments on the 1985 ETC's. To mitigate the potential credit risk, the counterparty is required to post collateral, in the form of government securities, within 10 business days if its credit ratings for long-term unsecured debt obligations fall below "Aa3" by Moody's Investors Service or "AA" by Standard and Poor's. As of June 30, 2003, there were no changes in the Counterparty ratings, which are "AA1" by Moody's Investor Service and "AAA" by Standard and Poor's.

*Termination Risk.* The swap agreement uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination event". That is, VTA has the right to terminate the swap if the counterparty 1) fails to post collateral satisfactory to VTA in the event of ratings downgrade below "Aa3" by Moody's Investors Service or "AA" by Standard and Poor's, or, 2) if the counterparty's ratings are downgraded below "Baa3" by Moody's Investors Service or "BBB-" by Standard and Poor's. The counterparty has the right to terminate the swap if the bond insurer's financial strength rating falls below Aa3 by Moody's investors Service, its claims paying ability rating falls below AA- by Standard and Poor's or it fails to maintain a rating of AA- by Fitch Ratings, or, if VTA's long-term debt obligations fall below "Baa2" by Moody's Investors Service, "BBB" by Standard and Poor's or "BBB" by Fitch Ratings. If the swap were terminated, the variable rate ETC's would no longer carry a synthetic fixed interest rate. Also, if at the time of termination the swap has a negative fair value, VTA would be liable to the counterparty for payment equal to the swap's fair value. The ratings of the bond insurer have not changed and are "Aaa" by Moody's Investors Service, "AAA" by Standard and Poor's and "AAA" by Fitch Ratings.

*Swap payments and associated debt.* The debt service requirements of the variable-rate 1985 ETC's and net swap payments are shown on the following page.

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**

Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2003

	Principal	Interest *	Interest Rate Swap, Net	Total
2004	\$ -	\$ 354,437	\$ 937,256	\$ 1,291,693
2005	-	354,437	937,256	1,291,693
2006	-	354,437	937,256	1,291,693
2007	460,000	354,437	937,256	1,751,693
2008	2,700,000	348,940	922,720	3,971,660
2009	2,900,000	316,675	837,400	4,054,075
2010	3,100,000	282,020	745,760	4,127,780
2011	3,400,000	244,975	647,800	4,292,775
2012	3,800,000	204,345	540,360	4,544,705
2013	4,000,000	158,935	420,280	4,579,215
2014	4,500,000	111,135	293,880	4,905,015
2015	4,800,000	57,360	151,680	5,009,040
	<u>\$ 29,660,000</u>	<u>\$ 3,142,133</u>	<u>\$ 8,308,904</u>	<u>\$ 41,111,037</u>

\* For the purposes of calculating the annual debt service requirements, the June 30, 2003 effective rate of 1.195% was used for the variable rate debt.

The 1985A Certificates are limited general obligations of VTA and are secured by sales tax revenue and an irrevocable letter of credit in the amount of \$30,074,000, which expires on June 1, 2015. 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, 2003, VTA had repaid \$23,200,000 of the 1985A Certificates. As a result of making payments prior to scheduled maturity dates, the next required sinking fund payments are due in 2007 through 2015 and range from \$460,000 to \$4,800,000.

**(g) Improvement Bond Series 22R**

The Improvement Bond Series 22R (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. The final principal payment due next year is \$36,884.

**(h) Scheduled Payments**

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

Year ending June 30,	Principal <sup>(1)</sup>	Interest <sup>(2)</sup>
2004	90,632,230	14,597,667
2005	8,895,000	13,190,835
2006	9,285,000	12,842,267
2007	9,735,000	12,438,247
2008	10,160,000	12,005,755
2009-2013	57,725,000	53,922,538
2014-2018	71,685,000	41,719,605
2019-2023	89,825,000	25,663,081
2024-2028	74,135,000	5,887,796
Total debt service requirements	<u>\$422,077,230</u>	<u>192,267,790</u>

<sup>(1)</sup> Included in annual debt service requirements for the year ending June 30, 2004 is the principal and interest payments of the 2002 Bond and Grant Anticipation Note (Note), which has a maturity date of December 4, 2003. However, the Note will be paid out of the debt offering plan as discussed above in Note 7(a) and, accordingly, is not treated as a current obligation.

<sup>(2)</sup> For the purposes of calculating the annual debt service requirements, the June 30, 2003 effective rate of 1.15% was used for the variable rate debt.

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**

Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2003

Changes in long-term liabilities for the business-type activity are as follows:

	July 1, 2002	Additions	Retirements	June 30, 2003	Amounts Due Within One Year
Sales Tax Revenue Bonds:					
2001 Series A Senior Lien	\$195,230,000	-	(4,845,000)	190,385,000	5,085,000
2000 Series A Junior Lien	39,050,000	-	(980,000)	38,070,000	1,010,000
1998 Series A Junior Lien	47,745,000	-	(1,180,000)	46,565,000	1,215,000
1997 Series A Refunding	36,390,000	-	(1,120,000)	35,270,000	1,195,000
Series 1985A Equipment					
Trust Certificates	29,660,000	-	-	29,660,000	-
Improvement Bond, Series 22R	70,891	-	(34,007)	36,884	36,884
Bond & Grant Anticipation Note	-	81,500,000	-	81,500,000	-
Plus Premium	-	590,346	-	590,346	-
Total outstanding debt	348,145,891	82,090,346	(8,159,007)	422,077,230	8,541,884
Less deferred amounts and discounts	(4,845,387)	-	238,118	(4,607,269)	-
Outstanding debt, net	343,300,504	82,090,346	(7,920,889)	417,469,961	8,541,884
Claims liability:					
General liability insurance	13,113,698	(3,912,550)	(3,557,237)	5,643,911	-
Worker's compensation liability	39,243,905	19,646,352	(9,561,155)	49,329,102	-
Total claims liability	52,357,603	15,733,802	(13,118,392)	54,973,013	-
Accrued vacation and sick leave	14,604,748	(161,541)	-	14,443,207	-
Accrued vacation & sick leave current	6,066,308	279,240	-	6,345,547	6,345,547
Total accrued vacation and sick leave	20,671,056	117,699	-	20,788,754	6,345,547
Retiree health care	32,915,556	13,216,054	-	46,131,610	-
Total long-term liabilities	\$449,244,719	111,157,901	(21,039,281)	539,363,338	14,887,431

Changes in long-term liabilities for the governmental activity are as follows:

	July 1, 2002	Additions	Retirements	June 30, 2003	Amounts Due Within One Year
Accrued vacation and sick leave	\$ 206,757	59,038	-	265,795	3,972

**(i) 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.

**(j) Lease – Leaseback**

In September 1998, VTA simultaneously entered into two transactions to lease out 50 vehicle cars to investors (Headlease), State Street Bank and Trust Company of Connecticut, National Association (Trustee), and simultaneously sublease the vehicles back from the investors for a period of 32 to 33 years. VTA maintains ownership of the vehicles and is obligated to insure and maintain the vehicles throughout the term of the lease. VTA has the right to buy out the lease after 16.5 and 18.5 years depending on the equity investor and the condition of the equipment.



## SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

### Notes to the Basic Financial Statements (Continued) For the Year Ended June 30, 2003

VTA received a prepayment of approximately \$92,286,000, which represented all rental obligations up to the date of the early buy-out option. Investors made equity contributions of approximately 20% and a financial institution made loans to the trust for the balance of the Headlease rental prepayment amount. VTA is required to make annual rental payments pursuant to the sublease.

Simultaneously, VTA entered into a sublease prepayment agreement with the financial institution. VTA made a payment to the financial institution in the amount of \$68,149,000 in consideration of the assumption by the financial institution of the debt portion of future rental payments, the debt portion of the early buy-out option and its absolute, unconditional and irrevocable guarantee of the prompt payment of such amounts when due.

VTA used an additional \$16,853,000 of the Headlease prepayment to purchase obligations of the United States government in various dollar amounts and maturities which coincide with the due dates of the equity portion of the sublease rental obligations and the equity portion of the early buy-out option. The investments have been transferred to a custodian. Additionally, VTA acquired a financial guaranty insurance policy to secure the equity portion of the sublease rental obligations.

VTA paid \$1,683,000 in appraisal, legal advisor and other fees. The pecuniary benefit to VTA in fiscal 1999 was \$5,600,000.

#### **(k) Japanese Operating Lease**

In June 2000, VTA had entered into a Japanese operating lease (JOL) transaction covering 285 buses of various vintages manufactured by Gillig and Flexible (Buses). VTA received payments totaling \$55.4 million and VTA is obligated to make semi-annual rental payments throughout the term of the leases. VTA paid \$53.4 million to financial institutions to assume the rental obligations. As a result of the JOL transaction, VTA realized a financial benefit of \$2,022,000.

VTA has the ability to terminate the leases on the Buses after 6 years with respect to some of the Buses, and after 8 years with respect to the remainder of the Buses. VTA will continue to operate, maintain, and insure the Buses throughout the term of the lease.

#### **NOTE 8 – 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 7. Collection fees charged by the State Board of Equalization were approximately \$1,112,000 in fiscal year 2002/03. The amount of sales tax collected during fiscal year 2003 was \$132,632,377.

## SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2003

### NOTE 9 – VTA PROGRAMS FUNDED THROUGH LOCAL SALES TAX MEASURES

#### *Measure B Transportation Improvement Program (MBTIP)*

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

In March 1999, the VTA Board of Directors and the County Board of Supervisors approved a Memorandum of Understanding (MOU) formalizing the partnership to implement Measure A. With this partnership in place, the County and VTA are in a position to complete a transportation program valued at \$2.1 billion. The County will administer the funding, and VTA will be responsible for project management of the transit and highway projects and will assist in the administration of the pavement management and bicycle elements of the program.

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

In fiscal year 2001, VTA and the County entered into two agreements for Fund Swap arrangements, whereby VTA agreed to secure federal and/or State grant funds and program them for certain 1996 MBTIP Projects in exchange for the County to release the corresponding 1996 MBTIP Project funds for other local projects. The Tasman East Light Rail Project was programmed for \$72.8 million in grant funds with \$67.9 million being available for other local projects and the Vasona Light Rail Project was programmed for \$51.6 million with the same amount being available for other local projects.

A third agreement provided for a simultaneous exchange of funds. VTA secured 2001 Series A Senior Lien Sales Tax Revenue Bonds to reimburse the County approximately \$184.1 million of 1996 MBTIP project costs, namely the Tasman East, Vasona and Capitol Corridor Light Rail Projects. The reimbursement of 1996 MBTIP project costs made \$184.1 million available for the acquisition of low floor vehicles. On February 15, 2002, amendment #1 to the agreement was executed to increase the amount of reimbursement to \$198.3 million. As of June 30, 2002, full reimbursement of the \$198.3 million was made to the Measure B Ancillary Program Agency Fund. As of June 30, 2003 approximately \$115.9 million have been expended for the acquisition of low floor vehicles.

During the year, VTA paid approximately \$366.2 million for current year costs for the program. Of this amount, the County of Santa Clara contributed approximately \$263.3 million; namely \$123.3 million (\$122 million Measure B funding and \$1.3 million swap fund) for transit projects in the Enterprise Fund; \$90.5 million for highway projects in the Measure B Highway Capital Projects Fund; and \$49.5 million

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**

Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2003

for the Ancillary Program (Pavement and Bikeways). The remaining balance was received from various federal, State and local fund sources.

**2000 Measure A Program**

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

The MAP is funded by the half-cent sales tax to be imposed for a period of 30 years and to take effect upon expiration of the current County of Santa Clara 1996 Measure B half-cent sales tax, April 1, 2006. VTA will receive the half-cent sales tax directly.

**NOTE 10 – FEDERAL, STATE, AND LOCAL ASSISTANCE**

The 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:

**(a) Federal Grants**

Federal grants are approved principally by the Federal Transportation Administration (FTA) and the Federal Highway Administration (FHWA). Federal grants for the year ended June 30, 2003, are summarized as follows:

	<u>Business-type Activity</u>	<u>Governmental Activity</u>
	<u>Enterprise Fund</u>	<u>Special Revenue Funds</u>
Operating assistance grants:		
FTA Section 9	\$ 32,858,906	-
Job Access and Reverse Commute Program	297,843	-
Federal Technical Studies	<u>19,307</u>	<u>452,451</u>
Total operating assistance grants	<u>33,176,056</u>	<u>452,451</u>
Capital grants:		
FTA Section 3	12,213,347	-
FTA Section 9	<u>81,924,343</u>	-
Total capital grants	<u>94,137,690</u>	-
Total operating assistance and capital grants	<u>\$ 127,313,746</u>	<u>452,451</u>

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 the VTA's

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**

Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2003

financial position. FTA and FHWA retain their interest in assets acquired under federal grants should the assets be disposed of prior to the end of their economic lives, or not be used for mass transit purposes.

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

**(b) State and Local Grants and Assistance**

State and local grants for the business-type activity and the enterprise fund for the year ended June 30, 2003, are summarized as follows:

Operating assistance grants:	
Transportation Development Act	\$ 58,878,303
State Transit Assistance	6,429,687
Measure B Assistance– JPB	4,041,055
Contribution	
AB434	1,457,086
Other programs	<u>150,052</u>
Total operating assistance grants	<u>70,956,183</u>
Capital grants:	
Transportation Capital Improvement	158,125
Proposition 116	152,159
Traffic Congestion Relief Program	21,434,339
State Flexible Congestion Relief	2,342,689
AB434	6,000
State General Fund	7,808,428
State/Local Partnership	32,235
Other local grants:	
Santa Clara County (Fund Swap Program) – (Note 9)	122,023,263
Santa Clara County (Measure B Program) – (Note 9)	67,430,036
Various cities and counties	<u>1,471,761</u>
Total capital grants	<u>222,859,035</u>
Total state and local grants	<u><u>\$ 293,815,218</u></u>

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

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

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

## SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

### Notes to the Basic Financial Statements (Continued) For the Year Ended June 30, 2003

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 Bonds funds pursuant to the 1990 Clean Air and Transportation Improvement Act. These funds are used to reimburse project costs relating to the construction of the Tasman Corridor Project and other light rail projects.

The Traffic Congestion Relief Program (TCRP) provides funds for projects throughout the State of California to reduce traffic congestion, provide for safe and efficient movement of goods, and provide system connectivity. TCRP is being implemented by the California Transportation Commission, in consultation with State Department of Transportation.

State Flexible Congestion Relief (State FCR) funds are from the State Highway Account (SHA) which is programmed in the State Transportation Improvement Program (STIP). These funds are used to reimburse project costs relating to construction of the Tasman Corridor Project.

General funds are received from the State of California through its Business Transportation and Housing Agency, Department of Transportation. The funds are to be used to reimburse project costs relating to the Vasona Light Rail-Winchester Extension Project.

State/Local Partnership (SLP) was originally created by SB140 and subsequently funded by the passage of Proposition 111 for locally funded and constructed highway and exclusive mass transit guideway projects. Applications for eligible projects are submitted to Caltrans and the amount of state match available is dependent on the number of applicants and the size of the legislative appropriation. The funds are used to reimburse project costs relating to the Tasman East Project.

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

Various cities and districts contribute revenue to light rail projects for project enhancements.

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**

Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2003

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

**(a) Plan Description**

All ATU employees are covered by the Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan (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 service are entitled to full annual pension benefits beginning at normal retirement age of 65. Employees with less than 10 years of service are entitled to a reduced annual benefit at age 65 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.

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

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

The current membership of the Plan as of June 30, 2003, is comprised of the following:

Retirees and beneficiaries currently receiving benefits	616
Terminated vested members not yet receiving benefits	174
Active members	<u>1,587</u>
Total	<u><u>2,377</u></u>

**(b) Basis of Accounting**

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

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

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**

Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2003

**(c) Actuarial Methods and Assumptions**

<u>Description</u>	<u>Methods/Assumptions</u>	
Valuation date	January 1, 2003	
Actuarial cost method	Entry Age Normal, with normal cost determined on an aggregated basis.	
Amortization method	Level dollar open method	
Remaining amortization period	20 years (Level dollar open method)	
Actuarial asset valuation method	Market value of assets less unrecognized investment gain or losses during the prior four years, phased in at 20% per year, subject to a minimum of 80% and a maximum of 110% of market value	
Actuarial assumptions	Investment rate of return	8.00%
	Projected salary increases	19.03% for the first three years of service
	Inflation rate	3.50%

**(d) Concentrations**

Investments in the commingled State Street Bank and Trust Company S&P 500 Conservative Index Fund and commingled Putnam International Trust Fund represented 14% and 14%, respectively, of the Plan's net assets as of June 30, 2003.

**(e) Funding Policy**

VTA contributes to the Plan at actuarially determined rates applied to eligible payroll sufficient to maintain funding of vesting benefits. VTA's contributions to the Plan for the year ended June 30, 2003, were made in accordance with actuarially determined requirements computed as of January 1, 2002. VTA's contribution rate as a percentage of payroll was 12.76% for fiscal year 2002/03. The schedule of funding progress can be found on page 2-60.

**(f) Net Pension Obligation**

VTA's net pension obligation to the Plan was zero as of June 30, 2003. The three-year trend information is as follows:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/01	\$ 7,349,000	100%	-
6/30/02	10,302,000	100%	-
6/30/03	12,362,000	100%	-

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**

Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2003

**NOTE 12 – PUBLIC EMPLOYEES’ RETIREMENT PLAN**

**(a) Plan Description**

All eligible non-ATU employees of VTA participate in the State's Public Employees Retirement System (CalPERS). Prior to separation from the County on January 1, 1995, all eligible VTA employees participated in CalPERS through the County. As a result of the separation from the County, certain administrative employees were transferred from the County to VTA. All of those administrative employees’ service credits earned during the period they worked for the County’s transportation agency were transferred to VTA’s CalPERS account. The transfer of related assets at a market value totaling approximately \$52,300,000 was completed by CalPERS in fiscal 1999.

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

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

**(b) Actuarial Methods and Assumptions**

<u>Description</u>	<u>Methods/Assumptions</u>
Valuation date	June 30, 2000
Actuarial cost method	Entry Age Actuarial Cost Method
Amortization method	Level percent of Payroll
Average Remaining Period	15 years as of the Valuation Date, closed period
Asset Valuation Method	3 Year Smoothed Market
Actuarial Assumptions	
Investment Rate of Return	8.25% compounded annually (net of expenses)
Projected Salary Increases	3.75 to 14.20% depending on Age, Service, and type of employment
Inflation	3.50%
Payroll Growth	3.75%
Individual Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.50% and an annual production growth of 0.25%

**(c) Funding Policy**

Active members in VTA’s CalPERS Plan (CalPERS Plan) are not required to contribute to the CalPERS Plan. VTA elected to contribute the actuarially determined amount necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of



**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**

Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2003

Administration. The required contribution rate from July 1, 2002 through June 30, 2003, was 5.363% for the employer and 7.0% for employees. The required employee contribution was paid by VTA. The contribution requirements of the CalPERS Plan are established by State statute and the employer contribution is established and may be amended by CalPERS. The schedule of funding progress can be found on page 2-61.

**(d) Net Pension Obligation**

VTA's net pension obligation to the CalPERS Plan was zero as of June 30, 2003. For fiscal year 2003, VTA's annual pension cost was approximately \$6,995,000, which was fully contributed. The required contribution for fiscal year 2003 was determined as part of the June 30, 2000, actuarial valuation using the entry age normal cost method with the contributions determined as a percent of pay. Three-year trend information follows:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/01	\$ 5,077,000	100%	-
6/30/02	6,361,000	100%	-
6/30/03	6,995,000	100%	-

**NOTE 13 - ATU MEDICAL TRUST**

VTA had total assets as of June 30, 2003 of \$7,661,381 for the Spousal Medical Trust and \$1,438,299 for the Retiree Vision and Dental Trust.

The Spousal Medical Trust is a medical insurance benefit for eligible pensioners' spouses. Pursuant to a collective bargaining agreement, VTA's required contribution to the Trust was increased from \$.20 to \$.25 per hour worked by all ATU employees, effective February 4, 2002. As of June 30, 2003, there were 193 participating spouses who were eligible for benefits from the Trust. Contributions by VTA were approximately \$805,000. Benefit payments made by the Trust for fiscal year 2003 were approximately \$491,000.

The Retiree Vision and Dental Trust is a vision and dental benefit for eligible pensioners. Effective February 8, 1999 and pursuant to a collective bargaining agreement, VTA is required to contribute \$0.10 per hour worked by ATU employees. As of June 30, 2003, there were 559 eligible participants. Contributions by VTA were approximately \$377,000 for the Retiree Vision and Dental Trust.

**NOTE 14 - RETIREE HEALTH CARE PROGRAMS**

**(a) ATU**

VTA provides an ATU Retiree Health Care Program (ATU Program), a post-employment benefit, in accordance with the agreement between VTA and the ATU, to all ATU represented employees who retire from VTA on or after attaining the age of 55 with at least 15 years of service, or if an employee becomes disabled and has completed at least 10 years of service. As of June 30, 2003, 559 retirees met the eligibility requirements. VTA pays medical premiums for its eligible retirees.

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**

Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2003

**(b) 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 (Non-ATU Program). As of June 30, 2003, 143 retirees met the eligibility requirements.

**(c) Actuarial Information**

An actuarial analysis of Retiree Health Benefits as of July 1, 2002 disclosed that the actuarial liability, which is the present value of benefits attributed to past service, is \$132,621,222. VTA's contributions are advance funded on an actuarially determined basis. For the year ended June 30, 2003, VTA made contributions to both the ATU and Non-ATU programs, which were expensed, of approximately \$12,436,000. Benefits paid to participants of the program were approximately \$2,534,000.

The actuarial cost method used for determining the benefit obligations is the projected unit benefit cost method. The significant economic assumptions used were as follows: 1) a discount rate of 7.0%, 2) a projected salary increase of 5.0%, and 3) a health inflation assumption of 12.0%, graded down 1.0% per year to 5% after 7 years.

As of June 30, 2003, VTA had restricted assets of \$46,131,611 to cover future payments of the ATU and Non-ATU Programs.

**NOTE 15 – 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. For the past three fiscal years, settlement amounts have not exceeded commercial insurance coverage. Coverage provided by self-insurance and excess coverage is generally as follows as of June 30, 2003:

Type of Coverage	Self-Insurance/Deductible	Excess Coverage (in aggregate)
Workers' compensation	Self-Insured	None
Employer's liability	\$1,000,000	\$3,000,000 per accident
Excess public entity liability	\$2,000,000	\$23,000,000
Property, boiler, and machinery	\$100,000	\$168,432,000 combined blanket limit
Flood/earthquake:		
National Flood Insurance (eligible locations)	\$5,000	\$500,000
Other insurance - flood	\$100,000 – flood	\$5,000,000
Other insurance - earthquake	5% of location value	\$5,000,000
Light rail vehicles include spare parts coverage, no earthquake coverage	\$250,000	\$20,000,000
Buses	\$100,000	\$20,000,000
Vans and mobile equipment	\$25,000	\$20,000,000
Crime	\$25,000	\$5,000,000
Owner-controlled insurance programs:		
Light rail construction projects	\$-0-	\$10,000,000
Highway construction projects	\$-0-	\$50,000,000
Builder's risk	\$-0-	\$100,000,000

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**

Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2003

***Workers' Compensation and General Liability***

The unpaid general liability and workers' compensation claim liability, included in other accrued liabilities, are based on the results of actuarial studies and include amounts for claims incurred but not reported and claims adjustment expenses. 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% average discount rate for workers' compensation as of June 30, 2003, and a 6% average discount rate for general liability as of June 30, 2003, until paid. It is VTA's practice to obtain full actuarial studies annually. VTA uses third-party administrators to perform its claims processing function.

Changes in the balances of workers' compensation and general claims liabilities for the two years ended June 30, 2003, are as follows:

	<u>Workers'</u> <u>Compensation</u>	<u>General</u> <u>Liability</u>
Unpaid claims at June 30, 2001	\$ 37,044,068	12,463,490
Provision for claims and claims adjustment expense	11,476,846	4,043,380
Payment for claims	<u>(9,277,009)</u>	<u>(3,393,172)</u>
Unpaid claims at June 30, 2002	39,243,905	13,113,698
Provision for claims and claims adjustment expense	19,646,352	(3,912,550)
Payment for claims	<u>(9,561,155)</u>	<u>(3,557,237)</u>
Unpaid claims at June 30, 2003	<u>\$ 49,329,102</u>	<u>5,643,911</u>

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

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**

Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2003

**NOTE 16 – LEASES**

VTA leases various properties for use as transfer facilities, parking lots, information centers, and warehouses under lease agreements that expire at various dates through 2013. These agreements are accounted for as operating leases. Rent expense was approximately \$605,000 in fiscal year 2002/03. The future lease payments under noncancellable lease agreements are as follows:

<u>Year ending June 30,</u>	
2004	\$ 431,098
2005	244,984
2006	215,792
2007	224,943
2008	142,947
2009-2013	<u>821,887</u>
Total	<u>\$ 2,081,651</u>

**NOTE 17 – LITIGATION**

Claims and litigation are outstanding for which VTA cannot determine the ultimate outcome and resulting liability, if any. However, VTA's management believes its actuarially determined reserves and excess insurance coverage will adequately cover estimated potential material adverse losses as of June 30, 2003.

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

The County provides support services to VTA for protection (Office of the Sheriff), fuel for vehicles and vehicle maintenance and repairs. Amounts paid to the County for such services were approximately \$6,761,000 during fiscal year 2002/03.

**NOTE 19 – JOINT VENTURES**

**(a) Peninsula Corridor Joint Powers Board**

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

The net operating costs and administrative expenses of the PCJPB, for services provided between San Francisco and San Jose are reimbursed by the member agencies. VTA, SamTrans, and CCSF are responsible for 40.18%, 41.66%, and 18.16%, respectively, of the member agencies' total reimbursement for such expenses.

## SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

### Notes to the Basic Financial Statements (Continued) For the Year Ended June 30, 2003

During the year ended June 30, 2003, VTA paid \$14,104,840 to the PCJPB for operating costs and \$8,193,097 for capital contributions and other costs. The balance of VTA's prepaid contribution at the end of fiscal year 2003 was approximately \$6.4 million.

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

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

Summary financial information (not included in VTA's financial statements) for the PCJPB as of and for the year ended June 30, 2003 (unaudited), is as follows:

Total assets	\$ 840,080,011
Total liabilities	<u>(166,222,130)</u>
Total equity	<u>\$ 673,857,881</u>
Operating revenues	\$ 23,560,951
Operating expenses	(51,158,496)
Non-operating revenues, net	<u>27,597,545</u>
Net loss	<u>\$ -</u>

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

#### **(b) *Altamont Commuter Express***

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

ACE commenced operations in October 1998, and now provides three daily round trip commuter rail service from San Joaquin County through the Tri-Valley Area of Alameda County to Santa Clara County. The operating maintenance and management costs of the service is reimbursed by the members at a rate of approximately 43% from VTA, 23% from San Joaquin Regional Rail Commission and 34% from the Alameda County Congestion Management Agency. During the year ended June 30, 2003, VTA contributed approximately \$2,715,183 for operating costs.

## SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

### Notes to the Basic Financial Statements (Continued) For the Year Ended June 30, 2003

The balance of VTA's prepaid contribution at the end of fiscal year 2003 was \$2,678,430 based on the fiscal year 2002 audited balance of ACE deferred member contribution. In July 2003, a partial settlement of \$2,345,097 was received as partial settlement of VTA's deferred member contribution. See Note 21 under Cooperative Agreement Among VTA, San Joaquin Regional Rail Commission and Alameda County Congestion Management Agency.

Complete financial statements for ACE can be obtained from the San Joaquin Regional Rail Commission at 5000 South Airport Way, Room 201, Stockton, California 95213.

#### **(c) *Capitol Corridor Intercity Rail Service***

VTA is a member agency of the Capitol Corridor Joint Powers Authority, which provides intercity rail service between Sacramento and San Jose. The Capitol Corridor intercity rail service is provided by the Capitol Corridor Joint Powers Board, which is comprised of members of the governing bodies of VTA, the Sacramento Regional Transit District, the Placer County Transportation Planning Agency, the congestion management agencies of Solano and Yolo counties, and the Bay Area Rapid Transit District. BART is the managing agency for the Capitol Corridor Service.

Complete financial statements for the Capitol Corridor Service can be obtained from the San Francisco Bay Area Rapid Transit District (BART) at P.O. Box 12688, Oakland, California 94606-2688.

#### **(d) *California Transit Finance Authority***

VTA is a participant of the California Transit Finance Authority (CTFA), which was formed in 1999 through a joint powers agreement for the purpose of establishing the California Transit Variable Rate Finance Program (Program). The Program makes low-cost, variable rate financing available to the members of the California Transit Association for the acquisition of transit equipment and facilities. Through the Program, VTA issued \$50,000,000 of Junior Lien Sales Tax Revenues Bonds in March of 1999 and \$40,000,000 in November 2000 (Note 7).

Complete financial statements for the CTFA can be obtained from Shaw/Yoder Inc. at 1414 K Street, Suite 320, Sacramento, California 95814.

## **NOTE 20 – SANTA CLARA VALLEY TRAFFIC AUTHORITY**

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

## SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2003

### *Agreement with Caltrans*

Caltrans was contracted to act as the technical director for the 1985 Measure A programs, and to plan, review, and approve all plans and specifications for development, as well as to supervise construction. The Traffic Authority's contract with Caltrans required a final determination of costs from the close out

process of construction projects. On April 19, 2002, VTA and Caltrans executed a Closeout and Settlement Agreement (Agreement) to finalize all remaining obligations incurred as a result of projects funded under the Santa Clara County Commuter Relief Act of 1984 (1985 Measure A). The Agreement resulted in a net settlement amount of \$3,811 in favor of VTA.

### NOTE 21 – SUBSEQUENT EVENTS

#### *Cooperative Agreement Among VTA, San Joaquin Regional Rail Commission and Alameda County Congestion Management Agency*

On June 24, 2003, VTA entered into a Cooperative Service Agreement with the San Joaquin Regional Rail Commission (SJRR) and the Alameda County Congestion Management Agency (ACCMA) for continued VTA funding of Altamont Commuter Express (ACE) commuter rail service in the amount of \$3,960,000 in fiscal year 2004 and \$4,034,000 in fiscal year 2005. The cooperative agreement replaced the ACE Joint Powers Agreement (JPA), which was executed on May 15, 1997 by the three ACE member agencies – VTA, SJRR and ACCMA.

Since October 19, 1998, ACE commuter rail service has operated from Stockton to San Jose, via the Tri-Valley area of Alameda County. ACE service currently consists of three weekday morning trains originating in San Joaquin County providing service to Santa Clara County with stops at Great America, Santa Clara Caltrain and San Jose Diridon Stations. Three afternoon trains provide return trip service from San Jose.

On July 29, 2003, VTA received a partial settlement of its deferred member contribution to ACE in the amount of \$2,345,097. This amount represents the audited deferred member contribution of VTA as of June 30, 2002, net of the Self Insured Retention Reserve of \$333,333, which will be retained by SJRR when all statutes of limitations for filing claims have lapsed, and claims against the ACE Service, if any, as operated under the original ACE JPA, have been settled.

#### *\$550 million debt offering plan*

VTA plans to borrow up to \$550 million that would be secured by the VTA's additional half-cent sales tax approved by more than two-thirds of the voters voting on the measure on November 7, 2000 (the 2000 Measure A Sales Tax).

The bond plan earmarks more than \$230.5 million for BART and other new projects, while an additional 80 million would be spent on operating expenses associated with deferral of service reductions. Bonds would also cover the \$65 million for accelerated reimbursement of some of the repayment obligations, \$92.5 million in interest on the bonds, as well as other bond-related costs, and \$82 million for retirement of the 2002 Grant and Bond Anticipation Note for Fremont-South Bay Right of Way purchased from Union Pacific Railroad.

## SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

### Notes to the Basic Financial Statements (Continued) For the Year Ended June 30, 2003

On September 24, 2003 a Superior Court ruling allowed the implementation of VTA's plan to defray current operational expenses using a portion of the debt offering. A tax passed to pay for construction and operations for future projects can now be used to keep the current buses and trolleys running.

On November 20, 2003, Measure A sales tax revenue bonds were issued for the amount of \$131 million to pay the VTA 2002 Bond and Grant Anticipation Notes and capitalize interest on certain bond issuance costs associated with 2000 Measure A sales tax revenue bonds and generate new money.

#### ***1997 Series A and 2001 Series A Sales Tax Revenue Bonds Downgrade***

On September 3, 2003, Fitch Ratings downgraded VTA's outstanding 2001 Series A and 1997 Series A sales tax revenue bonds. Outstanding bonds, totaling \$225.7 million, were downgraded to 'A+' from their prior 'AA' rating.

Fitch reports that the downgrade was a result of substantial declines in sales tax revenue, in addition to current and near-term uncertainty for operating recovery.

VTA has undertaken activities that begin to align its operations with the lower revenue base. Measures implemented to date include an increase in fares and reduction in service levels as well as deferral of certain capital projects.

#### ***Kinkisharyo Lease-leaseback Agreement***

In August 2003, VTA entered into two "lease to service contract" transactions over 46 Kinkisharyo low floor light rail vehicles (the "LRVs"). These transactions incorporate separate Head Lease agreements under which the LRVs are leased to statutory trusts formed on behalf of the equity investors. The trusts lease the LRVs back to VTA under separate Lease Agreements. The Head Leases are for a period of 65 years. The agreements with the trusts leasing the vehicles back to VTA are for periods of approximately 23.4 and 29.4 years followed by service contract periods of approximately 13 years. VTA maintains legal ownership of the LRVs and, under the Lease Agreements, is obligated to operate, maintain and insure the LRVs. VTA has the option to repurchase the vehicles after the end of the Lease.

VTA received prepayments of the Head Lease rents in the aggregate amount of approximately \$203,187,500. Of this amount, an aggregate of approximately \$153,474,300 was invested with a debt payment undertaker whose repayment obligations are guaranteed by American Internal Group, Inc. Investment in REFCORP securities amounted to \$10,350,000, while investment in equity payment undertaking agreements with AIG Matched Funding Corp. and Valley Car Deal Ltd. amounted to \$12,845,000. These investments will be used to fund VTA's rent payments under the Lease Agreement and to fund VTA's purchase portion (if exercised) at the end of the term of each Lease Agreement, and are held with a trustee.

VTA paid \$4,804,600 in legal, financial advisory, and other fees. The pecuniary benefit to VTA received in August 2003 amounted to \$21,713,600.



**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**

Required Supplementary Information  
Schedule of Funding Progress <sup>(a)</sup>

Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan

(Unaudited)

<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>
1/1/2001	\$204,874,533	\$226,732,913	\$21,858,380	90.4%	\$81,984,832	26.7%
1/1/2002 <sup>(b)</sup>	220,426,090	273,436,635	53,010,545	81.0%	100,320,190	53.0%
1/1/2003	224,004,253	278,113,814	54,109,561	81.0%	93,951,901	58.0%

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

(b) Benefit improvements effective February 1, 2001 are reflected in the January 1, 2002 valuation

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**

Required Supplementary Information  
Schedule of Funding Progress

Santa Clara Valley Transportation Authority CalPERS Plan

(Unaudited)

<b>Actuarial Valuation Date</b>	<b>Entry Age Normal Accrued Liability</b>	<b>Actuarial Value of Assets</b>	<b>Overfunded Actuarial Accrued Liability (AAL)</b>	<b>Funded Ratio</b>	<b>Annual Covered Payroll</b>	<b>Overfunded ALL as a Percentage of Covered Payroll</b>
6/30/1999	\$63,226,750	\$75,445,690	\$(12,218,940)	119.3%	\$34,844,154	(35.1%)
6/30/2000	74,228,216	88,459,322	(14,231,106)	119.2%	40,000,651	(35.6%)
6/30/2001	87,012,005	97,221,500	(10,209,495)	111.7%	48,235,128	(21.2%)

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**  
 Required Supplementary Information  
 Budgetary Comparison Schedule  
 Congestion Management Program Special Revenue Fund  
 For the Year Ended June 30, 2003

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES:</b>				
Member agency assessment revenue	\$ 2,032,000	\$ 2,032,000	\$ 2,031,608	\$ 392
Federal Technical Studies				
operating assistance grants	500,000	452,000	452,451	(451)
Local operating assistance grants	1,450,000	1,480,000	-	1,480,000
Administrative fees	120,000	120,000	145,327	(25,327)
State operating assistance grants	291,000	300,000	400,000	(100,000)
Other revenue	25,000	15,000	11,475	3,525
Investment earnings	-	-	34,534	(34,534)
<b>Total revenues</b>	<b>4,418,000</b>	<b>4,399,000</b>	<b>3,075,395</b>	<b>1,323,605</b>
<b>EXPENDITURES:</b>				
Salaries and benefits	3,003,000	3,000,000	2,265,119	734,881
Services and other	3,244,000	3,175,000	1,071,534	2,103,466
<b>Total expenditures</b>	<b>6,247,000</b>	<b>6,175,000</b>	<b>3,336,653</b>	<b>2,838,347</b>
<b>CHANGE IN FUND BALANCE</b>	<b>\$ (1,829,000)</b>	<b>\$ (1,776,000)</b>	<b>(261,258)</b>	<b>\$ (1,514,742)</b>
<b>FUND BALANCE, BEGINNING OF YEAR:</b>			<b>1,776,086</b>	
<b>FUND BALANCE, END OF YEAR</b>			<b>\$ 1,514,828</b>	

## **SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**

### **Note to Required Supplementary Information**

For the Fiscal Year Ended June 30, 2003

#### ***Budgetary Basis of Accounting***

State law requires the adoption of an annual budget, which must be approved by the Board of Directors. VTA budgets annually for its Congestion Management Program Special Revenue Fund. The budget for the Special Revenue Fund is prepared on a modified accrual basis.

Budgetary control is maintained at the fund level. 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. Annual appropriations for the operating budget lapse at the end of the fiscal year to the extent that they have not been expended. The unexpended capital budget at fiscal year end is carried forward from year to year until the project is completed.

Supplemental budgetary changes made to the Special Revenue Funds throughout the year are not significant but are reflected in the accompanying financial statements.

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**

Comparative Statements of Fund Net Assets

Enterprise Fund

June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,168,034	\$ 1,168,684
Investments	25,154,169	3,916,187
Receivables, net	2,388,261	4,125,506
Due from other governmental agencies	35,124,025	44,740,260
Inventories	21,950,963	20,238,940
Other current assets	<u>10,240,169</u>	<u>10,603,942</u>
Total current assets	<u>96,025,621</u>	<u>84,793,519</u>
Restricted assets:		
Cash and cash equivalents	45,938,808	54,290,997
Cash and investments with fiscal agent	31,406,103	32,864,470
Investments	186,802,765	231,652,764
Receivables, net	704,929	1,162,665
Due from other funds	117,082	10,042,123
Due from other governmental agencies	<u>35,068,354</u>	<u>18,487,543</u>
Total restricted assets	<u>300,038,041</u>	<u>348,500,562</u>
Other non-current assets:		
Deferred bond issuance costs	1,841,885	1,845,911
Due from other governmental agencies	<u>-</u>	<u>9,739,946</u>
Total other non-current assets	<u>1,841,885</u>	<u>11,585,857</u>
Capital Assets:		
Nondepreciable:		
Land and right-of-way	570,714,935	572,664,544
Construction in progress	923,872,041	608,403,203
Depreciable:		
Buildings, improvements, furniture, and fixtures	237,238,946	227,826,416
Vehicles	306,338,319	220,504,063
Light-rail tracks and electrification	281,182,310	276,398,247
CalTrain - Gilroy extension	48,962,184	48,774,692
Other	28,706,147	28,366,298
Less: Accumulated depreciation	<u>(270,923,736)</u>	<u>(242,025,655)</u>
Net capital assets	<u>2,126,091,146</u>	<u>1,740,911,808</u>
Total assets	<u>2,523,996,693</u>	<u>2,185,791,746</u>

(Continued)

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**  
 Comparative Statements of Fund Net Assets (Continued)  
 Enterprise Fund  
 June 30, 2003 and 2002

	2003	2002
<b>LIABILITIES</b>		
Current liabilities:		
Current portion of long-term debt	\$ 8,541,884	\$ 8,159,007
Accounts payable	21,787,661	20,512,900
Other accrued liabilities	9,147,902	8,913,513
Due to other governmental agencies	4,307,280	4,290,886
Total current liabilities	43,784,727	41,876,306
Liabilities payable from restricted assets:		
Accounts payable	35,677,503	48,727,023 <sup>a</sup>
Other accrued liabilities-current	7,874,533	8,070,000
Due to other funds	8,180,097	20,670,849
Due to other governmental agencies	41,488,686	23,293,891 <sup>a</sup>
Restricted portion of long-term debt	15,079,901	15,206,433
Other accrued liabilities - non-current	129,073,231	97,874,215
Total liabilities payable from restricted assets	237,373,951	213,842,411
Non-current liabilities		
Long-term debt, excluding current portion	393,848,176	319,935,064
Other accrued liabilities	32,836	37,965
Total non-current liabilities	393,881,012	319,973,029
Total liabilities	675,039,690	575,691,746
<b>NET ASSETS</b>		
Investment in capital assets, net of related debt	1,686,312,966	1,367,401,141
Unrestricted	162,644,037	242,698,859
Total net assets	\$ 1,848,957,003	\$ 1,610,100,000

<sup>a</sup> \$23 million accounts payable reclassified to due to other governmental agencies to agree with FY03 presentation.

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**  
Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets  
Enterprise Fund  
For the Years Ended June 30, 2003 and 2002

	2003	2002
<b>OPERATING REVENUES:</b>		
Passenger fares	\$ 30,959,394	\$ 31,282,143
Advertising and other	3,416,350	5,840,054
Total operating revenues	34,375,744	37,122,197
<b>OPERATING EXPENSES:</b>		
Labor	134,524,401	136,385,643
Fringe benefits	92,001,274	82,958,178
Materials and supplies	20,698,044	20,469,737
Services	22,055,307	28,618,516
Utilities	5,734,599	7,212,102
Casualty and liability	4,118,733	3,199,473
Purchased transportation	31,553,403	35,779,948
Leases and rentals	605,447	791,861
Miscellaneous	3,154,396	4,470,598
Depreciation expense	41,516,009	33,355,918
Costs allocated to capital and other programs	(20,201,407)	(12,356,974)
Total operating expense	335,760,206	340,885,001
Operating loss	(301,384,462)	(303,762,804)
<b>NON-OPERATING REVENUES (EXPENSES):</b>		
Sales tax revenue	132,632,377	144,217,679
Federal operating assistance grants	33,176,056	23,811,499
State and local operating assistance grants	70,956,183	103,561,477
Caltrain subsidy	(14,104,840)	(14,897,490)
Caltrain capital contribution	(8,193,097)	(10,417,503)
Altamont Commuter Express subsidy	(2,715,183)	(1,739,723)
Investment earnings	14,244,891	24,512,650
Interest expense	(14,222,072)	(14,716,798)
Other income	4,103,722	2,883,008
Other expense	(4,857,574)	(3,162,766)
Non-operating revenues, net	211,020,463	254,052,033
Change in net assets before capital contributions and special item	(90,363,999)	(49,710,771)
Capital contributions	316,996,725	226,125,304
Special item - gain on sale of land	12,224,277	-
Change in net assets	238,857,003	176,414,533
Net assets, beginning of year	1,610,100,000	1,433,685,467
Net assets, end of year	\$ 1,848,957,003	\$ 1,610,100,000

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**

Comparative Statements of Cash Flows

Enterprise Fund

For the Years Ended June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from passenger fares	\$ 30,856,421	\$ 34,245,867
Cash received from advertising	3,416,350	5,840,054
Cash paid to employees	(196,728,258)	(202,655,822)
Cash paid to suppliers	(61,877,582)	(64,817,156)
Cash paid for purchased transportation	(31,553,403)	(35,779,948)
Net cash used in operating activities	<u>(255,886,472)</u>	<u>(263,167,005)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Operating grants received	125,088,506	142,294,481
Sales tax received	132,596,836	150,536,472
Caltrain subsidy	(14,104,840)	(24,991,619)
Altamont Commuter Express subsidy	(2,715,183)	(2,826,297)
Other noncapital receipts	15,956,496	26,508,156
Other noncapital payments	(1,168,192)	(2,838,180)
Net cash provided by noncapital financing activities	<u>255,653,623</u>	<u>288,683,013</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Payment of long-term debt	(8,159,007)	(7,951,653)
Proceeds from Bond and Grant Anticipation Notes	82,090,346	-
Interest paid on long-term debt	(13,866,495)	(14,478,680)
Cost of bond issuance	(206,117)	-
Acquisition and construction of capital assets	(441,043,932)	(294,681,637)
Capital contribution from other governments	316,996,725	216,477,630
Proceeds from sale of capital assets	14,847,164	467,365
Net cash used in capital and related financing activities	<u>(49,341,316)</u>	<u>(100,166,975)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	1,647,021,434	2,199,240,418
Purchases in investments	(1,623,409,418)	(2,138,980,020)
Interest income received	16,150,943	18,770,773
Net cash provided by investing activities	<u>39,762,959</u>	<u>79,031,171</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(9,811,206)</b>	4,380,204
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	88,324,151	83,943,947
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$ 78,512,945</u></u>	<u><u>\$ 88,324,151</u></u>

(Continued)



**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**

Comparative Statements of Cash Flows (Continued)

Enterprise Fund

For the Years Ended June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
RECONCILIATION OF OPERATING LOSS TO NET		
CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (301,384,462)	\$ (304,087,390)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	41,516,009	33,355,918
Changes in operating assets and liabilities:		
Receivables	(168,807)	2,963,724
Due from other governmental agencies	65,834	-
Inventories	(1,712,024)	(4,604,878)
Other current assets	-	91,231
Accounts payable	(11,774,761)	(97,238)
Other current liabilities	17,576,868	9,211,628
Non-current - other accrued liabilities	(5,129)	-
Net cash used in operating activities	<u>\$ (255,886,472)</u>	<u>\$ (263,167,005)</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash and cash equivalents, end of year:		
Unrestricted	\$ 1,168,034	\$ 1,168,684
Restricted	77,344,911	87,155,467
	<u>\$ 78,512,945</u>	<u>\$ 88,324,151</u>
NONCASH INVESTING ACTIVITIES:		
Increase/(Decrease) in fair value of investments	<u>\$ (1,236,100)</u>	<u>\$ 4,152,063</u>

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**

Budgetary Comparison Schedule

Enterprise Fund

For the Year Ended June 30, 2003

	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
<b>OPERATING REVENUES:</b>				
Passenger fares	\$ 38,010,941	\$ 32,886,592	\$ 30,959,394	\$ (1,927,198)
Advertising and other	4,612,250	3,424,948	3,416,350	(8,598)
Total operating revenues	<u>42,623,191</u>	<u>36,311,540</u>	<u>34,375,744</u>	<u>(1,935,796)</u>
<b>OPERATING EXPENSES:</b>				
Labor and fringe benefits	227,486,429	345,428,023	226,525,675	118,902,348
Services and supplies	68,728,727	65,175,356	56,366,526	8,808,830
Purchased transportation	35,532,200	33,288,729	31,553,403	1,735,326
Costs allocated to capital and other programs	<u>(16,750,441)</u>	<u>(134,053,731)</u>	<u>(20,201,407)</u>	<u>(113,852,324)</u>
Total operating expenses	<u>314,996,915</u>	<u>309,838,377</u>	<u>294,244,197</u>	<u>15,594,180</u>
Operating loss	<u>(272,373,724)</u>	<u>(273,526,837)</u>	<u>(259,868,453)</u>	<u>13,658,384</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Sales tax revenue	155,000,000	133,000,000	132,632,377	(367,623)
Federal operating assistance grants	31,985,696	40,508,094	33,176,056	(7,332,038)
State and local operating assistance grants	72,470,613	76,511,668	70,956,183	(5,555,485)
Caltrain subsidy	(16,604,567)	(18,145,622)	(22,297,937)	(4,152,315)
Altamont Commuter Express subsidy	(3,360,000)	(2,450,000)	(2,715,183)	(265,183)
Investment income	12,320,000	14,739,688	14,244,891	(494,797)
Interest expense	(24,664,966)	(16,043,000)	(14,222,072)	1,820,928
Other income	22,527,500	60,430,714	4,103,722	(56,326,992)
Other expense	<u>(7,465,064)</u>	<u>(12,474,398)</u>	<u>(4,857,574)</u>	<u>7,616,824</u>
Non-operating revenues, net	<u>242,209,212</u>	<u>276,077,144</u>	<u>211,020,463</u>	<u>(65,056,681)</u>
Net income (loss) - budget basis, before capital contributions	(30,164,512)	2,550,307	(48,847,990)	(51,398,297)
Capital contributions	-	-	316,996,725	316,996,725
Special item - gain on sale of land	<u>-</u>	<u>-</u>	<u>12,224,277</u>	<u>12,224,277</u>
Change in net assets - budget basis	<u>(30,164,512)</u>	<u>2,550,307</u>	280,373,012	277,822,705
Depreciation			<u>(41,516,009)</u>	<u>(41,516,009)</u>
Change in net assets - GAAP basis			<u>\$ 238,857,003</u>	<u>\$ 236,306,696</u>

Santa Clara Valley Transportation Authority  
Schedule of Restricted Assets and Related Liabilities  
Enterprise Fund  
June 30, 2003

	Capital and Operating	General Liability Insurance	Workers' Compensation Insurance	Retiree Health Care	Accrued Vacation and Sick	Debt Service	Total
<b>Restricted assets:</b>							
Cash and cash equivalents	\$ 45,938,808	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 45,938,808
Cash and equity with fiscal agent	16,326,202	-	-	-	-	15,079,901	31,406,103
Investments	64,909,387	5,643,911	49,329,102	46,131,611	20,788,754	-	186,802,765
Receivable	704,929	-	-	-	-	-	704,929
Due from other funds	117,082	-	-	-	-	-	117,082
Due from other government agencies	35,068,354	-	-	-	-	-	35,068,354
<b>Total assets</b>	<b>\$ 163,064,762</b>	<b>\$ 5,643,911</b>	<b>\$ 49,329,102</b>	<b>\$ 46,131,611</b>	<b>\$ 20,788,754</b>	<b>\$ 15,079,901</b>	<b>\$ 300,038,041</b>
<b>Liabilities payable from restricted assets:</b>							
Accounts payable	\$ 35,677,503	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 35,677,503
Other accrued liabilities - current	1,528,986	-	-	-	6,345,547	-	7,874,533
Due to other governmental agencies	41,488,686	-	-	-	-	-	41,488,686
Due to other funds	8,180,097	-	-	-	-	-	8,180,097
Long-term debt, excluding current portion	-	-	-	-	-	15,079,901	15,079,901
Other accrued liabilities - noncurrent	13,525,400	5,643,911	49,329,102	46,131,611	14,443,207	-	129,073,231
<b>Total liabilities</b>	<b>\$ 100,400,672</b>	<b>\$ 5,643,911</b>	<b>\$ 49,329,102</b>	<b>\$ 46,131,611</b>	<b>\$ 20,788,754</b>	<b>\$ 15,079,901</b>	<b>\$ 237,373,951</b>

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**  
Combining Statement of Plan Net Assets  
Pension Trust Funds  
June 30, 2003

	<u>ATU Pension</u>	<u>ATU Medical</u>		<u>Total ATU Medical</u>	<u>Total</u>
		<u>Spousal Medical</u>	<u>Retiree Vision/Dental</u>		
<b>ASSETS</b>					
Restricted assets:					
Investments	\$ 221,339,421	\$ 7,661,381	\$ 1,438,299	\$ 9,099,680	\$ 230,439,101
Receivables	<u>1,101,950</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,101,950</u>
Total assets	<u>222,441,371</u>	<u>7,661,381</u>	<u>1,438,299</u>	<u>9,099,680</u>	<u>231,541,051</u>
<b>LIABILITIES</b>					
Accounts payable	<u>3,452</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,452</u>
<b>NET ASSETS</b>					
Net assets held in trust for:					
Pension benefits	222,437,919	-	-	-	222,437,919
Spousal medical benefits	-	7,661,381	-	7,661,381	7,661,381
Retiree dental and vision benefits	-	-	1,438,299	1,438,299	1,438,299
Total net assets	<u>\$ 222,437,919</u>	<u>\$ 7,661,381</u>	<u>\$ 1,438,299</u>	<u>\$ 9,099,680</u>	<u>\$ 231,537,599</u>

SANTA CLARA VALLEY TRANSPORTATION AGENCY  
Combining Statement of Changes in Plan Net Assets  
Pension Trust Funds  
For the Year Ended June 30, 2003

	ATU	ATU Medical Trust			Total
	Pension Trust	Spousal Medical	Vision/Dental	Total Medical Trust	
<b>ADDITIONS</b>					
Contributions	\$ 12,362,127	\$ 805,262	\$ 377,342	\$ 1,182,604	\$ 13,544,731
Investment earnings:					
Investment income	2,613,559	613,943	26,181	640,124	3,253,683
Net appreciation in the fair value of investments	5,103,755	-	-	-	5,103,755
Investment expense	(834,046)	-	-	-	(834,046)
Net investment income	6,883,268	613,943	26,181	640,124	7,523,392
Total additions	19,245,395	1,419,205	403,523	1,822,728	21,068,123
<b>DEDUCTIONS</b>					
Benefit payments	8,834,055	490,860	-	490,860	9,324,915
Other benefits paid to participants	113,718	-	-	-	113,718
Total deductions	8,947,773	490,860	-	490,860	9,438,633
Net increase	10,297,622	928,345	403,523	1,331,868	11,629,490
<b>NET ASSETS HELD IN TRUST</b>					
Beginning of year	212,140,297	6,733,036	1,034,776	7,767,812	219,908,109
End of year	\$ 222,437,919	\$ 7,661,381	\$ 1,438,299	\$ 9,099,680	\$ 231,537,599

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**  
**Combining Statements of Fiduciary Assets and Liabilities**  
**Agency Funds**  
**For the Year Ended June 30, 2003**

	<u>BAAQMD Program</u>	<u>Measure B Ancillary Program</u>	<u>Total</u>
<b>ASSETS</b>			
Restricted assets:			
Cash and cash equivalents	\$ -	\$ 5,776,140	\$ 5,776,140
Investments	4,864,368	78,296,992	83,161,360
Total assets	<u>\$ 4,864,368</u>	<u>\$ 84,073,132</u>	<u>\$ 88,937,500</u>
<b>LIABILITIES</b>			
Liabilities payable from restricted assets:			
Accounts payable	\$ 4,156,909	\$ -	\$ 4,156,909
Other accrued liabilities	-	84,413	84,413
Due to other governmental agencies	707,459	83,988,719	84,696,178
Total liabilities payable from restricted assets	<u>\$ 4,864,368</u>	<u>\$ 84,073,132</u>	<u>\$ 88,937,500</u>

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**  
**Combining Statement of Changes in Fiduciary Assets and Liabilities**  
**Agency Funds**  
**For the Year Ended June 30, 2003**

	<u>Balance as of July 1, 2002</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance As of June 30, 2003</u>
<b>BAAQMD Program</b>				
Restricted assets:				
Investments	\$ 6,453,190	\$ -	\$ 1,588,822	\$ 4,864,368
Liabilities payable from restricted assets:				
Accounts payable	\$ 6,024,558	\$ -	\$ 1,867,649	\$ 4,156,909
Due to other funds	-	-	-	-
Due to other governmental agencies	428,632	278,827	-	707,459
Total liabilities payable from restricted assets	<u>\$ 6,453,190</u>	<u>\$ 278,827</u>	<u>\$ 1,867,649</u>	<u>\$ 4,864,368</u>
<b>Measure B Ancillary Program</b>				
Restricted assets:				
Cash and cash equivalents	\$ 5,232,516	\$ 543,624	\$ -	\$ 5,776,140
Investments	152,733,666	-	74,436,674	78,296,992
Due from other governmental agencies	4,809,326	-	4,809,326	-
Total restricted assets	<u>\$ 162,775,508</u>	<u>\$ 543,624</u>	<u>\$ 79,246,000</u>	<u>\$ 84,073,132</u>
Liabilities payable from restricted assets:				
Other accrued liabilities	\$ -	\$ 84,413	\$ -	\$ 84,413
Due to other funds	11,442,124	-	11,442,124	-
Due to other governmental agencies	151,333,384	-	67,344,665	83,988,719
Total Liabilities payable from restricted assets	<u>\$ 162,775,508</u>	<u>\$ 84,413</u>	<u>\$ 78,786,789</u>	<u>\$ 84,073,132</u>
<b>Totals - All Agency Funds</b>				
Restricted assets:				
Cash and cash equivalents	\$ 5,232,516	\$ 543,624	\$ -	\$ 5,776,140
Investments	159,186,856	-	76,025,496	83,161,360
Due from other governmental agencies	4,809,326	-	4,809,326	-
Total restricted assets	<u>\$ 169,228,698</u>	<u>\$ 543,624</u>	<u>\$ 80,834,822</u>	<u>\$ 88,937,500</u>
Liabilities payable from restricted assets:				
Accounts payable	\$ 6,024,558	\$ -	\$ 1,867,649	\$ 4,156,909
Other accrued liabilities	-	-	(84,413)	84,413
Due to other funds	11,442,124	-	11,442,124	-
Due to other governmental agencies	151,762,016	-	67,065,838	84,696,178
Total liabilities payable from restricted assets	<u>\$ 169,228,698</u>	<u>\$ -</u>	<u>\$ 80,291,198</u>	<u>\$ 88,937,500</u>

## SECTION 3 — STATISTICAL SECTION

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### GOVERNMENT-WIDE INFORMATION:

- ◆ GOVERNMENT-WIDE EXPENSES BY FUNCTION
- ◆ GOVERNMENT-WIDE REVENUES

### FUND INFORMATION:

#### FINANCIAL RATIOS

- ◆ CURRENT RATIOS
- ◆ OPERATING RECOVERY RATIOS
- ◆ TIMES DEBT SERVICE COVERAGE

#### TEN YEAR COMPARISONS

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

#### BUS AND RAIL SYSTEM FACTS

- ◆ CURRENT BUS SYSTEM DATA
- ◆ CURRENT RAIL SYSTEM DATA



Santa Clara Valley Transportation Authority  
Government-wide Expenses by Function  
(amounts expressed in thousands)

Fiscal Year	Transit	Governmental Activity		Total
		Congestion Management	Capital Improvement Projects	
2002	\$ 385,819	2,740	112,697	501,256
2003	\$ 379,853	3,428	141,425	524,706

NOTE: Government-wide financial statements have been prepared in accordance with the requirements of GASB 34. Financial statements were not restated for previous years for purposes of providing ten year trend data. In future years, as information becomes available, additional years will be presented.

Santa Clara Valley Transportation Authority  
Government-wide Revenues  
(amounts expressed in thousands)

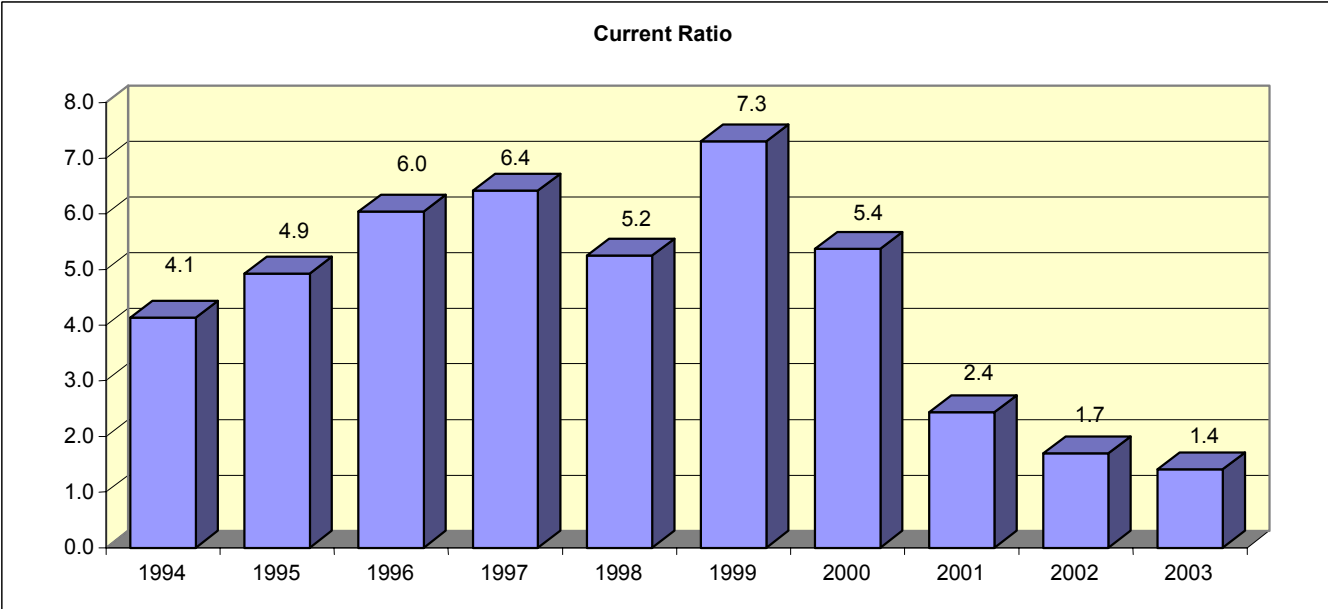
Fiscal Year	Program Revenues			General Revenues			Total
	Charges for Services	Operating Grants	Capital Grants	Sales Tax Revenue	Investment Income	Other Income	
2002	\$ 38,809	129,778	338,793	144,218	24,542	2,891	679,031
2003	\$ 36,553	104,985	458,360	132,693	14,344	16,340	763,275

NOTE: Government-wide financial statements have been prepared in accordance with the requirements of GASB 34. Financial statements were not restated for previous years for purposes of providing ten year trend data. In future years, as information becomes available, additional years will be presented.

# ENTERPRISE FUND FINANCIAL RATIOS 1994 - 2003

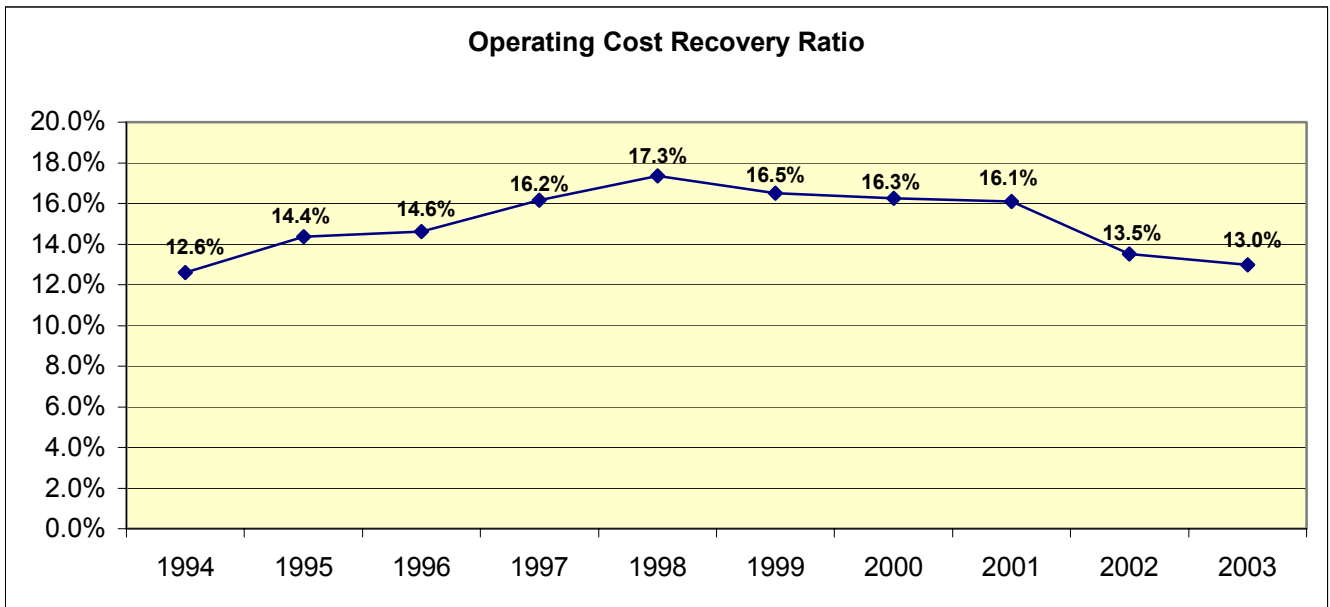
## Current Ratios

The Current Ratio indicates VTA’s ability to meet all of its short-term liabilities with liquid assets and is determined by dividing total current assets and restricted assets, by all current liabilities and liabilities payable from restricted assets. A Current Ratio of 1 or higher is an indication of financial strength. Although this is the fourth consecutive year that VTA’s current ratio has dropped, financial strength continues to be conveyed at a level of 1.4.



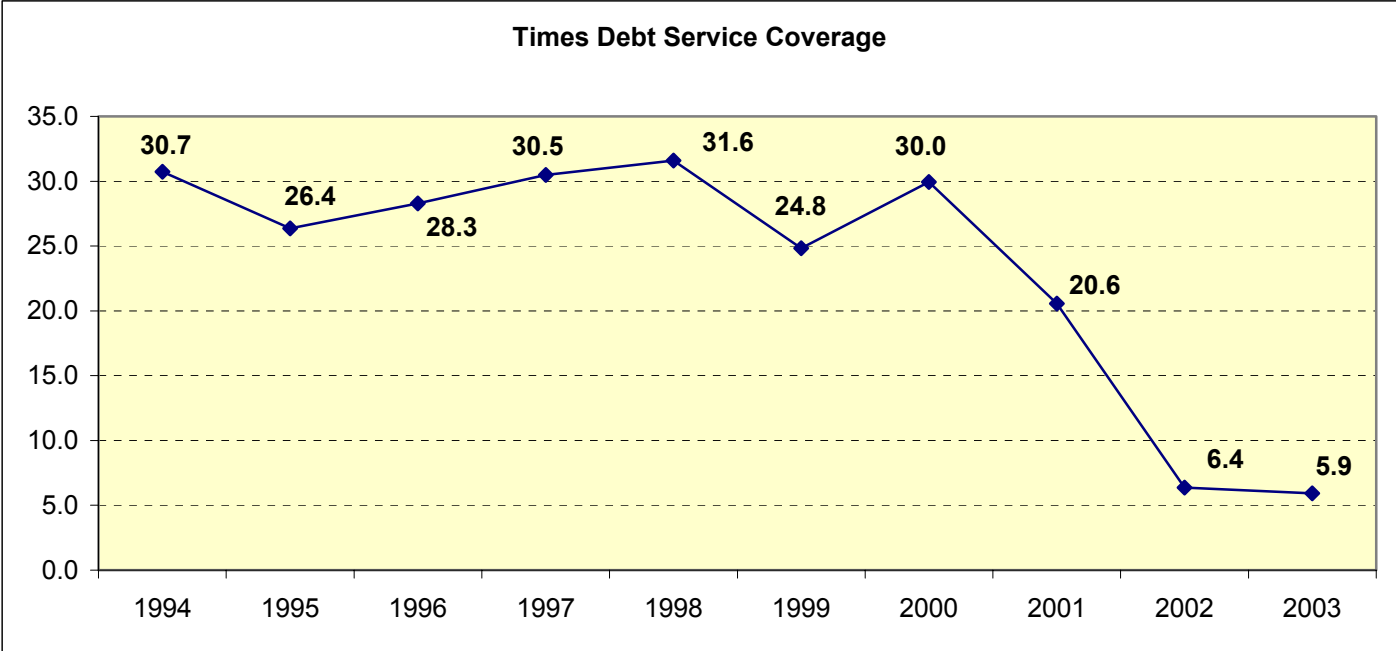
## Operating Recovery Ratio

The operating recovery ratio is the operating revenue divided by the net operating expenses. This key measure shows almost a four percent gain from 1994 to fiscal 1998 in keeping with VTA's strategic plan. During FY02 operating income decreased while the operating expenses increased, causing a sizable drop in the ratio. In FY03 VTA experienced a decrease in operating income as well, but it was in conjunction with a decrease in operating expenses. The proportion of the decrease in operating income was slightly more; therefore, the Operating Recovery Ratio decreased by only .5 percent compared to the prior year. VTA's ongoing target remains at 25%.



### Times Debt Service Coverage

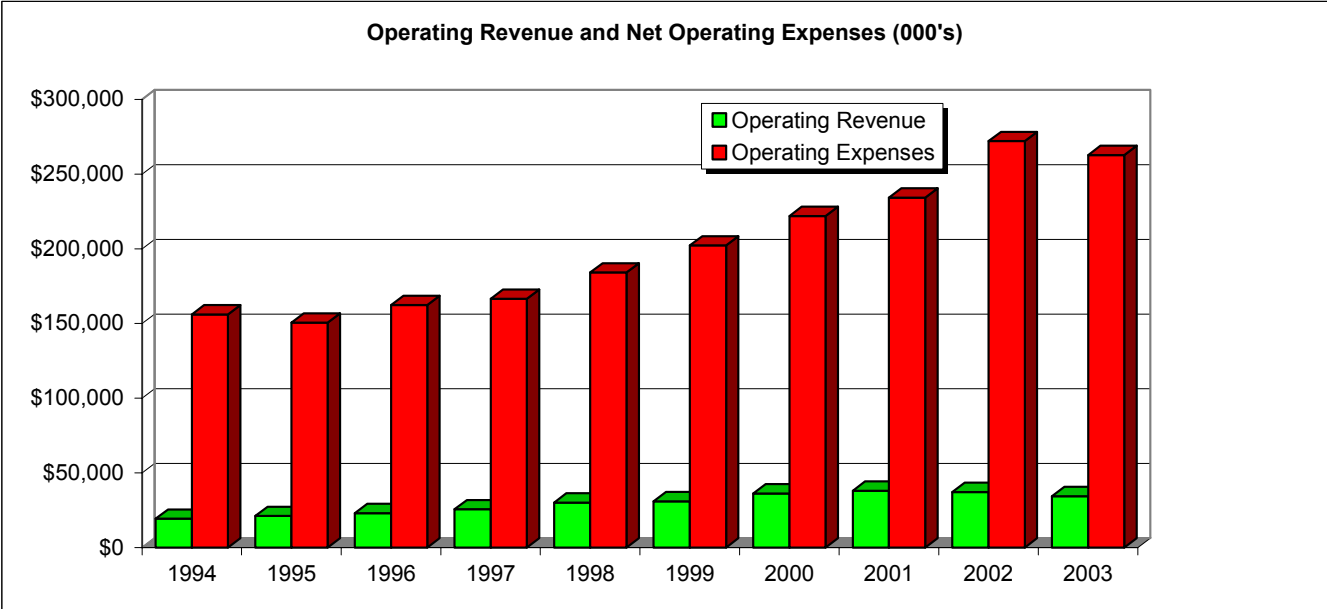
The Times-Debt-Service-Coverage Ratio indicates VTA’s financial position to cover its debt service with sales tax revenue and is determined by dividing sales tax revenue by debt service. For fiscal year 2003, the ratio decreased slightly by .5 due to the fact that sales tax revenue fell when compared to FY02, but as a much smaller percentage than prior years.



# TEN - YEAR COMPARISONS (1994 - 2003)

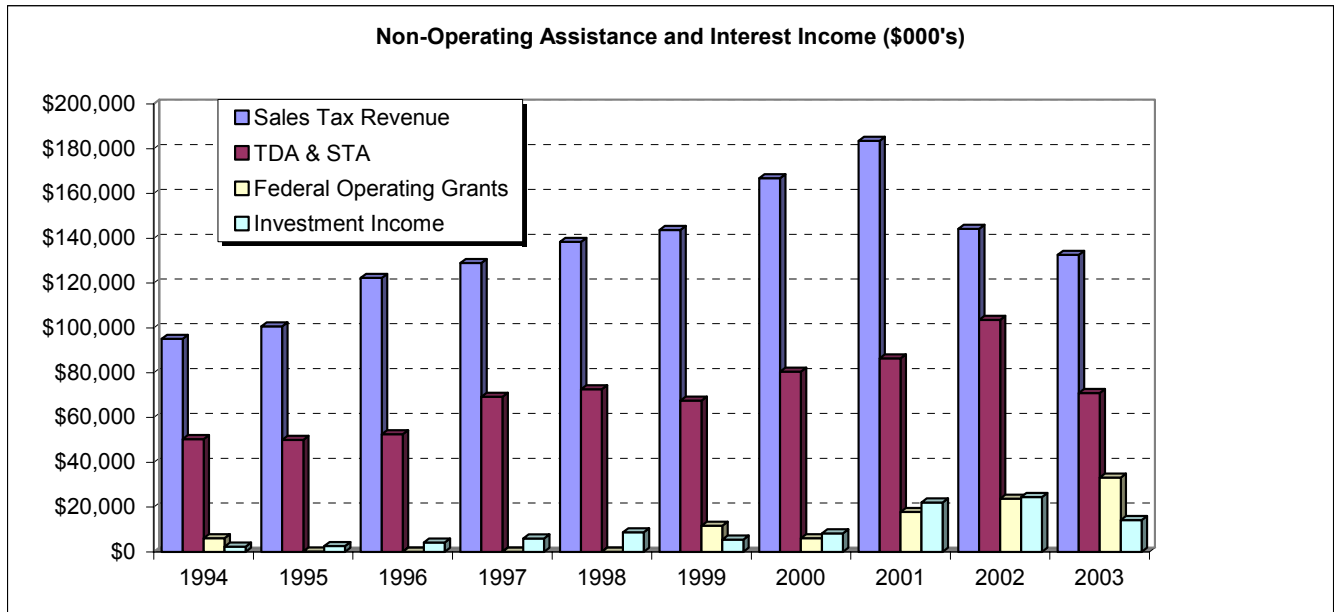
## Operating Revenues and Net Operating Expenses

The chart below shows a comparison of operating revenue to expenses. Operating expenses are exclusive of purchased transportation and depreciation to more accurately depict operations related to directly operated service.



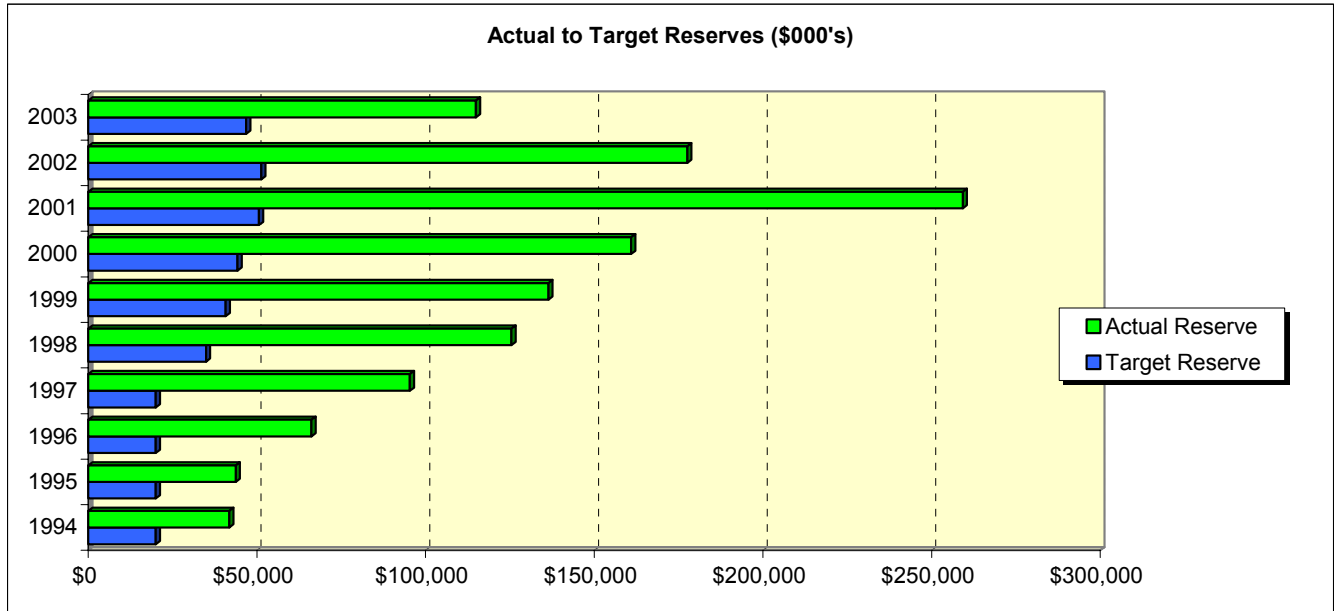
### Non-operating Assistance and Interest Income

The following chart illustrates trends in selected material non-operating revenue sources. Sales tax revenue in Santa Clara County is the greatest contributing factor to the non-operating revenue sources shown in the following graph. This is the second year in the last ten that there has been a significant drop in overall non-operating revenue.



### Actual Reserves to Target Reserves

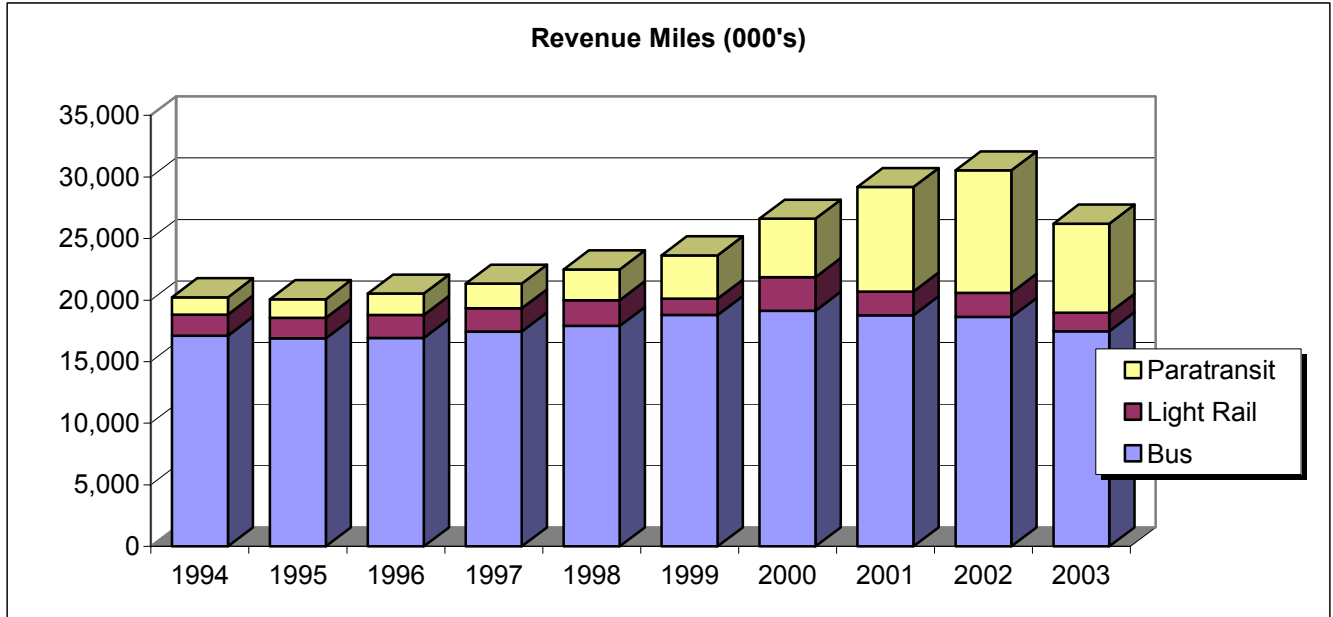
This table presents the actual reserve and the minimum target level reserve. Total budgetary reserves (actual reserve) result from the difference between current unrestricted assets and current unrestricted liabilities. The target reserve indicates the minimum amount (15%) of subsequent year operating budget VTA is required to set aside in order to cover unanticipated revenue shortfalls or unavoidable expenditures that may be required. FY02 was the first year since FY94 that VTA was not able to meet its target reserve goal and did not surpass the prior year's level, but in FY03 VTA overcame the shortfall.





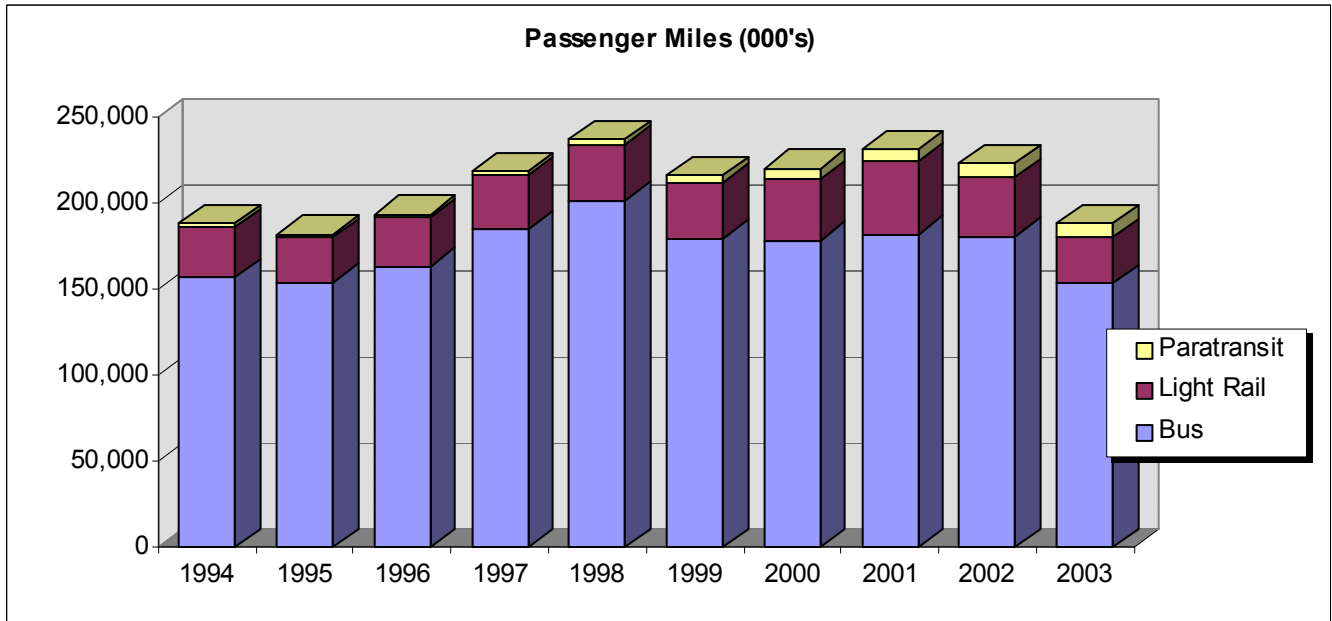
### Vehicle Revenue Miles

The following chart depicts vehicle miles in revenue service. During FY03 total revenue miles decreased primarily due to a drop service demand.



## Passenger Miles

Passenger mile statistics are presented in the chart below. FY03 is the second consecutive year since FY99 that VTA's passenger miles have dropped down below prior year levels. Paratransit continues to grow, but we experienced declines in Bus and Light Rail due primarily to the continued drop in employment and service cuts over the past year.



**Section - 3**  
**Selected Financial Data - Enterprise Fund**

(Dollars in \$000's)	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
OPERATING REVENUES	\$ 19,279	\$ 21,096	\$ 22,964	\$ 25,577	\$ 30,003	\$ 30,956	\$ 36,253	\$ 37,982	\$ 37,122	\$ 34,376
OPERATING EXPENSES										
LABOR	67,387	68,533	71,810	77,297	82,030	88,779	98,372	106,878	136,386	134,524
FRINGE BENEFITS	44,100	39,146	46,457	43,054	48,661	53,575	75,354	61,845	82,958	92,001
MATERIALS AND SUPPLIES	15,455	14,582	16,649	16,911	17,044	19,646	15,540	27,428	20,470	20,698
SERVICES	12,449	10,400	12,310	12,583	14,709	15,200	21,379	27,428	28,619	22,055
UTILITIES	3,152	3,337	3,277	3,409	3,603	4,071	5,167	5,071	7,212	5,735
CASUALTY AND LIABILITY	6,102	7,200	4,120	2,413	3,923	3,895	2,403	1,473	3,199	4,119
PURCHASED TRANSPORTATION	4,340	4,714	5,746	8,916	11,821	15,487	17,456	23,489	35,780	31,553
LEASES & RENTALS	1,448	1,079	773	299	394	467	637	669	792	605
MISCELLANEOUS	1,592	1,576	1,184	1,628	1,915	1,107	3,011	3,415	4,471	3,154
COSTS ALLOCATED TO CAPITAL & OTHER PROGRAMS									(12,357)	(20,201)
TOTAL OPERATING EXPENSES	156,025	150,567	162,326	166,510	184,100	202,227	239,318	257,695	307,529	294,244
DEPRECIATION EXPENSE	15,043	17,263	23,266	24,418	24,322	24,263	25,910	31,428	33,356	41,516
NON-OPERATING REVENUES/(EXPENSES)										
SALES TAX REVENUE	95,134	100,638	122,274	128,969	138,429	143,712	166,764	183,540	144,218	132,632
FEDERAL OPERATING ASSISTANCE GRANT	6,067	146	110	49	59	11,656	6,051	17,867	23,811	33,176
TDA & STA	50,411	50,007	52,597	69,243	72,624	67,589	80,436	86,388	103,561	70,956
CALTRAIN SUBSIDY AND CAPITAL CONTRIBUTIONS	(11,793)	(11,900)	(11,973)	(11,689)	(12,254)	(11,291)	(7,850)	(14,821)	(25,315)	(22,298)
ACE SUBSIDY	-	4,972	2,086	2,584	-	(837)	(3,821)	(657)	(1,740)	(2,715)
INTEREST INCOME	2,310	2,554	4,148	5,943	8,785	5,535	8,286	22,078	24,513	14,245
INTEREST EXPENSE	(2,932)	(3,640)	(3,863)	(3,731)	(4,014)	(4,763)	(4,616)	(6,806)	(14,717)	(14,222)
OTHER REVENUES/(EXPENSES)	291	(1,355)	(231)	(550)	234	8,896	3,399	936	(280)	(754)
CONTRIBUTION TO FUND UNFUNDED LIABILITY					(22,889)					
TOTAL NON OPERATING REVENUES - NET	139,488	141,422	165,148	190,818	180,974	220,497	248,649	288,524	254,052	211,021
INCOME BEFORE CAPITAL CONTRIBUTIONS	\$ (12,301)	\$ (5,312)	\$ 2,520	\$ 25,467	\$ 2,555	\$ 24,963	\$ 19,674	37,383	(49,711)	(90,364)
CAPITAL CONTRIBUTIONS (1)								154,648	226,125	316,997
SPECIAL ITEM - GAIN ON SALE OF LAND										12,224
CHANGE IN NET ASSETS							\$ 192,031	\$ 176,415	\$ 238,857	

(1) The GASB issued Statements No. 33 and No. 36 established accounting and financial reporting standards for nonexchange transactions involving financial and capital resources. VTA reports grants received for the acquisition of property, facilities, and equipment, as capital contributions on the Statement of Revenues, Expenses and Net Assets instead of additions to contributed capital starting in fiscal year 2001.

Selected Financial Data (continued)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Current Assets (\$000's)	\$ 145,373	\$ 164,755	\$ 219,762	\$ 245,843	\$ 334,148	\$ 328,355	\$ 364,166	\$ 563,189	\$ 433,294	\$ 396,064
Current Liabilities	35,175	33,443	36,375	38,328	63,682	44,974	67,816	231,450	255,719	281,159
Net Working Capital	\$ 110,198	\$ 131,312	\$ 183,387	\$ 207,515	\$ 270,466	\$ 286,381	\$ 296,350	\$ 331,739	\$ 177,575	\$ 114,905
Current Ratio	4.1	4.9	6.0	6.4	5.2	7.3	5.4	2.4	1.7	1.4
Total Assets (\$000's)	\$ 966,761	\$ 1,007,266	\$ 1,046,516	\$ 1,105,068	\$ 1,297,983	\$ 1,427,642	\$ 1,596,048	\$ 1,994,191	\$ 2,185,792	\$ 2,523,997
Contributed Capital	483,864	505,388	501,599	540,365	634,828	746,779	851,494	744,766	N/A	N/A
Retained Earnings Restricted	25,451	31,693	29,165	33,159	122,914	90,828	116,361	208,638	177,575	114,905
Retained Earnings Unrestricted	313,100	311,910	326,650	358,089	286,849	355,661	366,309	480,281	1,432,525	1,734,052
Total Retained Earnings/Net Assets	338,551	343,603	355,815	391,248	409,763	446,490	479,670	688,919	1,610,100	1,848,957
Liabilities	144,345	158,275	189,101	173,455	253,392	234,393	264,884	560,505	575,692	675,040
Actual Reserve (including minimum target level)	\$ 41,800	\$ 43,744	\$ 66,195	\$ 95,310	\$ 125,410	\$ 136,400	\$ 160,910	\$ 259,245	\$ 177,575	\$ 114,905
DEBT SERVICE (\$000's)	\$ 3,096	\$ 3,817	\$ 4,323	\$ 4,231	\$ 4,382	\$ 5,786	\$ 5,568	\$ 8,930	\$ 22,668	\$ 22,381
Times Debt Service Coverage	30.7	26.4	28.3	30.5	31.6	24.8	30.0	20.6	6.4	5.9
OPERATING REVENUE	\$ 19,279	\$ 21,096	\$ 22,964	\$ 25,577	\$ 30,003	\$ 30,956	\$ 36,253	\$ 37,982	\$ 37,122	\$ 34,376
OPERATING EXPENSES (excluding depreciation)	156,025	150,567	162,326	166,510	184,100	202,227	239,318	257,695	307,529	294,244
EXCLUSIONS (ADA)	(2,934)	(3,836)	(5,074)	(8,172)	(11,150)	(14,510)	(16,443)	(21,558)	(33,122)	(29,064)
NET OPERATING EXPENSES	\$ 153,091	\$ 146,731	\$ 157,252	\$ 158,338	\$ 172,950	\$ 187,717	\$ 222,875	\$ 236,137	\$ 274,407	\$ 265,180
OPERATING COST RECOVERY RATIO	12.6%	14.4%	14.6%	16.2%	17.3%	16.5%	16.3%	16.1%	13.5%	13.0%

Selected Statistical Data

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>FAREBOX REVENUE (\$000's)</b>	\$ 18,343	\$ 19,884	\$ 21,523	\$ 23,633	\$ 27,201	\$ 27,070	\$ 32,326	\$ 33,837	\$ 31,282	\$ 34,376
<b>VEHICLE REVENUE MILES (000's)</b>										
BUS	17,112	16,896	16,931	17,451	17,904	18,784	19,140	18,770	18,633	17,471
LIGHT RAIL	1,715	1,662	1,868	1,888	2,092	1,328	2,722	1,924	1,962	1,499
PARATRANSIT	1,406	1,511	1,729	1,994	2,494	3,523	4,748	8,495	9,937	7,233
<b>PASSENGER MILES (000's)</b>										
BUS	156,872	153,902	163,348	185,226	201,818	179,561	178,688	182,187	180,720	153,481
LIGHT RAIL	29,501	26,413	28,428	31,037	32,992	32,820	35,758	42,462	34,656	26,815
PARATRANSIT	1,937	1,795	1,881	2,420	2,494	3,798	6,013	6,711	7,947	8,497
<b>FLEET</b>										
ACTIVE BUS	464	460	460	470	508	520	512	502	491	524
LIGHT RAIL	55	55	55	55	55	55	55	54	68	98
<b>CASH FARE SINGLE RIDE</b>										
ADULT	\$1.10	\$1.10	\$1.10	\$1.10	\$1.10	\$1.10	\$1.25	\$1.25	\$1.25	\$1.40
YOUTH	\$0.55	\$0.55	\$0.55	\$0.60	\$0.60	\$0.60	\$0.70	\$0.70	\$0.70	\$0.85
SENIOR	\$0.35	\$0.35	\$0.35	\$0.35	\$0.35	\$0.35	\$0.40	\$0.40	\$0.40	\$0.45

### Section - 3

#### Santa Clara County Demographic Data

##### Population

In comparison with the beginning of the decade, Santa Clara County's population has risen by 2.8%. Approximately 5.8% of County residents live in unincorporated areas, but the number has steadily decreased over time as the population continues to migrate toward the cities.

Los Altos Hills had the largest percentage increase over the past year, with a 2.8% gain. Gilroy was second at 2.6%, but has had the largest total gain for the last three years which totaled 8.5%. In the year 2020, it is predicted that the County's population will grow 25% to approximately 2.2 million residents.

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

County of Santa Clara Population

	1960	1970	1980	1990	2000	2003
Campbell	11,863	24,731	26,843	36,048	38,138	38,300
Cupertino	3,664	18,216	34,297	40,263	50,546	52,200
Gilroy	7,348	12,665	21,641	31,487	41,464	45,000
Los Altos	19,696	24,872	25,769	26,303	27,693	27,700
Los Altos Hills	3,412	6,862	7,421	7,514	7,902	8,225
Los Gatos	9,036	23,466	26,906	27,357	28,592	28,900
Milpitas	6,572	27,149	37,820	50,686	62,698	65,000
Monte Sereno	1,506	3,074	3,434	3,287	3,483	3,500
Morgan Hill	3,151	6,485	17,060	23,928	33,556	34,900
Mountain View	30,889	54,206	58,655	67,460	70,708	72,000
Palo Alto	52,475	55,999	55,225	55,900	58,598	60,500
San Jose	204,196	445,779	629,400	782,248	894,943	925,000
Santa Clara	58,880	87,717	87,700	93,613	102,361	105,800
Saratoga	14,861	27,199	29,261	28,061	29,843	30,500
Sunnyvale	51,898	95,408	106,618	117,229	131,760	132,500
Unincorporated	162,056	152,181	127,021	106,193	100,300	99,900
County Total*	641,503	1,066,009	1,295,071	1,497,577	1,682,585	1,729,900
California	15,717,204	18,136,045	23,668,145	29,760,021	33,871,648	35,591,000

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

Sources: Department of Finance, Statistics & Demographic Research  
 California Employment Development Department

## Employment and Industry

Silicon Valley continues to be a leader in technological advances, but job cuts continue. In the last three years, there have been about 200,000 jobs lost in Silicon Valley. In June 2003 employment figures showed a drop in jobs within Santa Clara County alone of 46,500 in comparison to June 2002. It is expected that it will take seven years to recover these Valley jobs and get us back up to the level that we were before the bubble burst. In June 2003 the County's unemployment rate was reported to have reached 8.5%, 1.8% higher than that of the State's. Typically Santa Clara County has a lower unemployment rate compared to both the State and national levels due primarily to the varied workforce, but for the last two years the number has soared upward. The frightening aspect is that these estimates are based solely on unemployment benefit claims, which excludes those who have chosen less suitable options as an alternative to unemployment (such as early retirement or relocation). Therefore, the percentage is somewhat skewed as the affected rate would be much higher.

In 2002 the County had 9.6 million wage and salary jobs. This was the first time since 1991 that there had been a drop from the prior year. Three major industry sectors comprise 74.6 percent of the County's employment: manufacturing (22.3%), services (43.2%) and retail trade (9.1%).

Sources: Department of Finance, Statistics & Demographic Research  
California Employment Development Department  
SFGate.com, September 23, 2003  
Silicon Valley biz ink, August 15, 2003

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

	1994	1995	1996	1997	1998	1999	2000	2001	2002
Civilian Labor Force *	861.0	867.0	895.0	937.5	958.8	965.5	1,001.8	1,005.8	958.2
Civilian Employment	807.3	824.2	862.8	909.2	927.9	936.3	982.0	960.0	877.6
Civilian Unemployment	53.7	42.8	32.2	28.3	30.9	29.2	19.8	45.8	80.6
Civilian Unemployment Rate									
County	6.2%	4.9%	3.6%	3.0%	3.2%	3.0%	2.0%	4.6%	8.4%
State of California	8.6%	7.8%	7.2%	6.3%	5.9%	5.2%	4.9%	5.3%	6.7%
Wage and Salary Employment **									
Total Farm Agriculture	5.1	4.5	5.1	5.1	5.2	5.3	5.0	4.6	4.5
Construction and Mining	26.6	28.8	32.7	36.5	41.3	44.8	47.6	48.0	43.2
Manufacturing	213.6	223.0	237.7	247.2	246.1	234.9	251.7	240.5	203.6
Transportation & Public Utilities	14.5	14.9	16.1	16.7	17.0	17.3	17.6	16.3	15.3
Wholesale Trade	34.5	36.4	39.2	41.9	42.4	42.3	42.2	40.7	36.3
Retail Trade	74.2	75.8	79.9	82.5	83.8	86.6	90.6	88.2	82.9
Finance, Insurance & Real Estate	31.2	30.4	31.4	32.4	33.8	34.2	34.0	35.2	34.9
Services	317.1	334.8	355.2	380.9	403.0	419.8	451.8	440.0	395.2
Government	88.3	87.8	87.7	88.5	88.9	91.4	94.5	94.6	97.9
Total ***	805.1	836.4	885.0	931.7	961.5	976.6	1,035.0	1,008.1	913.8
* 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 2002.									
** Wage and salary employment is reported by place of work. Data are benchmarked to 2002.									
*** Totals may not be precise due to independent rounding.									
Sources: California State Department of Employment Development. Department of Finance, Statistics & Demographic Research.									

### Major Employers

Santa Clara County, which is centered in the heart of Silicon Valley, is home to numerous high technology and computer software and hardware manufacturing companies. Public-sector employers continue to top the list of the largest employers in the Valley. Santa Clara County ranks as number one, employing almost 16,000 workers. The City of San Jose alone has over 6,500 full-time employees. Although there have been hiring freezes and cut-backs that have impacted many of the public-sector organizations, they typically tend to remain more stable in a volatile job market.

Source: [www.sccgov.org](http://www.sccgov.org) (Santa Clara County)  
San Jose and Silicon Valley Business Journal (Book of Lists 2003)



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

**Largest Employers  
Santa Clara County**

Company Name	Number of Employees	Nature of Business
Santa Clara County	15,930	Government Services
Cisco Systems	13,000	Computer Network Equipment Manufacturer
Stanford University	10,900	Higher Education
Hewlett-Packard Co.	10,000	Computing and Imaging Solutions
Lockheed Martin Space Systems Co. -Space & Strategic Missiles	6,730	Aerospace Systems
City of San Jose	6,591	Municipal Government
San Jose State University	5,760	Higher Education
Kaiser Permanente	5,249	Nonprofit Healthcare Organization
San Jose Unified School District	3,359	Public Education
Santa Clara Valley Transportation Authority	2,853	Public Transportation and Congestion Management
Seagate Technology LLC	2,100	Engineering
National Semiconductor Corp.	2,000	Design, Manufacture, and Market Semiconductors

Source: San Jose and Silicon Valley Business Journal (Book of Lists July 25, 2003)

Commercial Activity

Santa Clara 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. During 2002 there was a significant impact on sales tax revenue resulting from a \$7.6 million dollar decrease in taxable sales within the County. The following table sets forth the amount of taxable transactions from 1993 through 2002.

County of Santa Clara  
Taxable Transactions by Sector  
1993 to 2002  
(in \$thousands)

1993	18,865,200
1994	19,778,000
1995	22,512,100
1996	25,740,500
1997	26,967,000
1998	27,488,815
1999	30,348,644
2000	33,843,217
2001	36,597,963
2002	28,974,350

Source: State Board of Equalization, Taxable Sales in California (Sales & Use Taxes)

Construction Activity

Vacancy rates are an important indicator of economic activity. On a positive note, recent reports indicate that there appears to be an upturn in the office space leasing market. It is expected that the County will experience small vacancy increases during the rest of 2003 and only slight declines in deviation from asking rates.

New construction has been affected in Santa Clara County more than any other County in California. Non-residential construction has decreased by almost \$1 billion. New single-family homes and retail store construction is up countywide, but other commercial properties such as new office space has suffered due to the existing supply on hand. According to the Construction Industry Research Board, calendar year 2002 total permit valuations for new residential and non-residential construction decreased by 26.9%. The number of single-family units increased to 2,057, but the number of multiple family units decreased by 43.1% to 2,556.

Home sales in Santa Clara County showed a significant increase in June 2003 compared to June 2002. Sales were up 11%, with the largest gain occurring during the month of June equaling 7%. The average price and median price of a home was down 1% and 1.7% respectively. Currently, there appears to be a sense of stability in the County's real estate market.

Source: Department of Finance  
Silicon Valley biz ink, Sept 19-25, 2003  
www.btcommercial.com, March 10, 2003  
Silicon Valley/San Jose Business Journal, January 6, 2003  
[www.rereport.com](http://www.rereport.com), (Santa Clara County Real Estate Trends)

The following table provides a summary of building permit valuations and the number of new dwelling units authorized in the County since 1993.

County of Santa Clara  
 Building Permit Valuations  
 1993 to 2002

Year	Valuation (\$ millions)			New Dwelling Units		
	New Residential	Non-Residential	Total	Single Family	Multiple Family	Total
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	1,329.6	1,914.7	3,244.3	4,367	4,443	8,810
1998	1,294.6	1,882.0	3,176.6	3,911	3,615	7,526
1999	1,306.0	1,856.0	3,162.0	3,333	3,677	7,010
2000	1,348.8	2,865.9	4,214.7	2,834	4,220	7,054
2001	1,051.5	2,254.8	3,306.3	1,642	4,318	5,960
2002	1,087.3	1,330.6	2,417.9	2,057	2,556	4,513

Sources: Construction Industry Research Board



## CURRENT BUS SYSTEM DATA July 2003

Demographic Information of Service Area		Routes by Service Type		Bus Deployment	
Santa Clara County Population	1,729,900 *		No. of Routes	Weekday	Base to Peak ratio <b>65.9%</b>
Urbanized Area (UZA)	326 sq. miles	Grid	14	AM Peak	<b>346</b>
Route Mileage (round trip)	2,925	Crosstown - Regular	16	Midday	<b>230</b>
<b>Facilities</b>		Crosstown - Limited Stop	6	PM Peak	<b>349</b>
Number of Bus Stops	4,529	Feeder - Neighborhood	21	Evenings	<b>197</b>
Number of Shelters	719	Feeder - Shuttle	1	Saturday	<b>188</b>
Number of Benches	2,285	Express - Commute	7	Sunday	<b>154</b>
Number of Trash Receptacles	896	Express - Regional	4		
Number of Transit Centers	14	total	<b>69</b>		
<b>Park and Ride Lots</b>					
	Bus	Light Rail	Caltrain	Total	
Number of Lots	15	16	15	<b>46</b>	
Parking Spaces	770	6,399	4,586	<b>11,755</b>	

\* Source: Employment Development Department (EDD)

Historical Data						
Fiscal Year	Active Buses	Peak Buses	Scheduled Hours	Scheduled Miles	Ridership	Ave. Weekday Ridership
1978	250	175	680,351	9,874,025	15,740,000	54,200
1979	330	214	744,403	10,974,722	21,000,000	71,320
1980	410	245	866,922	13,208,223	27,220,000	93,690
1981	494	283	1,071,450	16,121,241	31,660,000	106,435
1982	654	340	1,289,275	19,315,699	34,310,000	114,614
1983	654	377	1,375,751	20,486,007	34,870,000	117,921
1984	587	398	1,393,663	20,709,523	35,745,658	120,025
1985	542	408	1,423,306	21,054,147	35,827,506	121,031
1986	542	412	1,478,363	21,828,651	34,970,518	117,218
1987	542	421	1,523,996	22,743,434	34,157,000	114,845
1988	526	420	1,534,980	23,054,441	35,220,000	118,432
1989	518	417	1,524,689	22,904,636	37,024,000	124,958
1990	508	412	1,539,093	22,983,312	38,700,000	132,000
1991	512	422	1,586,495	23,683,679	41,652,000	141,000
1992	512	413	1,563,141	23,313,885	40,104,000	135,375
1993	474	392	1,437,719	21,544,840	38,943,000	131,368
1994	461	380	1,367,725	20,577,474	38,737,136	128,392
1995	460	378	1,367,258	20,401,172	39,183,337	130,432
1996	457	377	1,371,163	20,452,092	42,625,173	139,787
1997	468	386	1,407,689	20,721,892	45,887,950	150,224
1998	506	398	1,464,964	21,184,990	46,118,198	150,437
1999	522	415	1,565,500	22,399,973	47,486,765	154,082
2000	512	427	1,623,603	22,923,518	47,007,594	151,480
2001	502	418	1,616,941	22,640,485	47,237,748	152,708
2002	491	402	1,589,200	22,043,527	44,900,522	144,823
2003	454	375	1,497,846	20,556,769	39,169,325	126,030



## CURRENT LIGHT RAIL SYSTEM DATA July 2003

Demographic Information of Service Area			Facilities and Transit Way Mileages			
Santa Clara County Population	1,729,900 <sup>a</sup>			Guadalupe	Tasman	Total
Urbanized Area (UZA)	326 sq. miles		Total Number of Stations	31	19	50
Hours of Operation per day	21 <sup>b</sup>		% of Platform Lifts equipped	100%	100%	100%
<b>Park and Ride Lots</b>			Length of Line <sup>c</sup>	18.0 miles	11.5 miles	29.5 miles
	No. of Lots	Parking Spaces	Route Mileage (round trip)	36.0 miles	22.4 miles	58.4 miles
Light Rail	16	6,399	<b>Headways</b>			
Caltrain	1 <sup>d</sup>	338		Weekday	Saturday	Sunday
total	17	6,737	Minutes	15	15	15
			<b>Active Cars</b>			
			Light Rail <sup>e</sup> 97	Historic Trolley	4	

<sup>a</sup> Source: Employment Development Department (EDD).

<sup>b</sup> Tasman Line operates 19 hrs. Almaden line operates 17.5 hrs. on weekdays and 16 hrs. on weekends.

<sup>c</sup> 0.6 miles of the rail track is a single track.

<sup>d</sup> Downtown Mountain View - Caltrain Station (non-VTA lot).

<sup>e</sup> 50 UTDC cars & 47 Kinkisharyo cars.

System Line Openings			
Segment Name	Opening Date	Length	Cumulative Length
Younger St. to Old Ironsides	December 11, 1987	7.6	7.6
Downtown San Jose to Younger St.	June 17, 1988	0.7	8.3
Tamien to Downtown San Jose	August 17, 1990	2.1	10.4
Almaden to Ohlone/Chynoweth	April 25, 1991	1.1	11.5
Santa Teresa to Tamien	April 25, 1991	8.6	20.1
Downtown Mountain View to Old Ironsides	December 20, 1999	7.6	27.7
Tasman to Baypointe	December 20, 1999	0.4	28.1
Baypointe to I-880 Milpitas	May 17, 2001	1.4	29.5

Historical Data							
Fiscal Year	Scheduled Hours	Scheduled Miles	Peak Cars	Light Rail Ridership	Historic Trolley Ridership	Total Ridership	Ave. Weekday Ridership
1988	16,622	222,329	6	359,965	0	359,965	1,101
1989	42,665	538,799	8	2,078,725	39,985	2,118,710	7,630
1990	45,378	557,449	8	2,431,520	67,465	2,498,985	8,083
1991	67,424	890,617	16	3,890,482	110,660	4,001,142	12,569
1992	94,191	1,394,480	34	6,018,280	117,281	6,135,561	19,756
1993	85,419	1,283,621	36	6,206,903	38,796	6,245,699	20,339
1994	79,280	1,203,823	32	6,108,755	24,246	6,133,001	19,735
1995	78,630	1,198,107	32	5,635,697	23,622	5,659,319	18,138
1996	82,006	1,274,202	31	6,144,587	23,498	6,168,085	20,008
1997	84,909	1,339,564	32	6,704,027	24,365	6,728,392	22,006
1998	87,285	1,368,229	33	6,865,223	44,877	6,910,100	22,727
1999	88,800	1,359,589	33	6,819,307	43,398	6,862,705	22,579
2000	112,202	1,648,334	43	7,874,710	39,020	7,913,730	25,673
2001	136,483	1,986,763	41	9,200,445	36,629	9,237,074	30,383
2002	137,087	2,032,588	41	7,769,121	20,449	7,789,570	25,573
2003	106,416	1,567,594	29	6,047,947	4,572	6,052,519	19,772