NEW ISSUE—BOOK-ENTRY ONLY

	Insured Ratings:	Underlying Ratings:
S&P:	"AAA"	"AAA"
Moody's:	"Aaa"	"Aa3"
Fitch:	"AAA"	"AA-"

See "RATINGS" herein

In the opinion of Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel, under existing law, interest on the 2007 Series A Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the tax covenants described herein, interest on the 2007 Series A Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 from the gross income of the owners thereof for federal income tax purposes and is not an item of preference for purposes of the federal alternative minimum tax. See "TAX MATTERS" herein.

$26,275,000
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Sales Tax Revenue Refunding Bonds
2007 Series A

DAC Bond®

Dated: Date of Delivery **Due: June 1 as set forth on the inside cover**

The $26,275,000 Santa Clara Valley Transportation Authority Sales Tax Revenue Refunding Bonds, 2007 Series A (the "2007 Series A Bonds") are being issued by the Santa Clara Valley Transportation Authority (the "Authority") pursuant to an Indenture, dated as of November 1, 1997 (as supplemented, the "Indenture"), between the Authority and U.S. Bank National Association, as successor to First Trust of California, National Association, as trustee (the "Trustee"), to refund certain maturities of the Santa Clara County Transit District Sales Tax Revenue Refunding Bonds, 1997 Series A (the "1997 Bonds"), which are currently outstanding in the aggregate principal amount of $31,440,000, and to pay certain costs of issuing the 2007 Series A Bonds.

Interest on the 2007 Series A Bonds will be payable on June 1 and December 1 of each year, commencing June 1, 2007. The Bonds will be issued as fully registered bonds, without coupons, in the denomination of $5,000 or any integral multiple thereof. The 2007 Series A Bonds will be registered in the name of Cede & Co., as holder of the 2007 Series A Bonds and nominee for The Depository Trust Company, New York, New York ("DTC"). Purchasers will not receive physical certificates representing their interest in the 2007 Series A Bonds purchased. The principal or redemption price of and interest on the 2007 Series A Bonds is payable by wire transfer to DTC which, in turn, will remit such principal, redemption price or interest to the DTC Participants for subsequent disbursement to the beneficial owners of the 2007 Series A Bonds. See APPENDIX E – "Book-Entry System" herein.

The 2007 Series A Bonds are subject to optional redemption prior to maturity as more fully discussed herein. See "THE 2007 SERIES A BONDS – Redemption" herein.

The 2007 Series A Bonds are limited obligations of the Authority secured solely by a pledge of sales tax revenues derived from the imposition in the County of Santa Clara (the "County") of a one-half of one percent retail transactions and use tax authorized in 1976 (the "1976 Sales Tax"), less certain administrative fees paid to the California State Board of Equalization, as described herein, and certain amounts held by the Trustee under the Indenture. The 1976 Sales Tax was approved by the electorate of the County in 1976 and does not expire. The 2007 Series A Bonds are being issued on a parity with certain other bonds and obligations of the Authority. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2007 SERIES A BONDS" herein.

Payment of the principal of and interest on the 2007 Series A Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the 2007 Series A Bonds. See "BOND INSURANCE" herein.

Ambac

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COUNTY OF SANTA CLARA, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION OR PUBLIC AGENCY THEREOF, OTHER THAN THE AUTHORITY, TO THE EXTENT OF THE PLEDGE OF THE SALES TAX REVENUES AND OTHER AMOUNTS HELD UNDER THE INDENTURE, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE 2007 SERIES A BONDS.

This cover page contains certain information for general reference only. It is not a summary of the security or terms of this issue. Investors must read the entire Official Statement to obtain information essential to make an informed investment decision with respect to the 2007 Series A Bonds.

The 2007 Series A Bonds are offered when, as and if issued and accepted by the Underwriter, subject to the approval as to legality by Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel. Certain legal matters will be passed on for the Authority by the Authority's General Counsel, for the Authority by Fulbright & Jaworski L.L.P., Los Angeles, California, as Disclosure Counsel, and for the Underwriter by Ronald E. Lee, Attorney at Law, Davis, California. It is anticipated that the 2007 Series A Bonds will be available for delivery through the facilities of DTC on or about May 1, 2007.

Goldman, Sachs & Co.

Dated: April 24, 2007

$26,275,000
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
SALES TAX REVENUE REFUNDING BONDS
2007 SERIES A

MATURITY SCHEDULE

Maturity Date (June 1)	Principal Amount	Interest Rate	Yield	CUSIP (No. 80168N) †
2010	$1,750,000	4%	3.55%	BV0
2011	1,840,000	5	3.56	BW8
2012	1,960,000	5	3.59	BX6
2013	2,085,000	5	3.63	BY4
2014	2,220,000	5	3.70	BZ1
2015	2,360,000	4	3.76	CA5
2016	2,015,000	4	3.82	CB3
2017	2,130,000	5	3.86	CC1
2018	2,260,000	5	3.92 c	CD9
2019	2,405,000	5	3.96 c	CE7
2020	2,555,000	4	4.16	CF4
2021	2,695,000	5	4.02 c	CG2

c Priced to the June 1, 2017 redemption date at par.

† CUSIP Copyright 2007, American Bankers' Association. CUSIP data herein is provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The Authority and the Underwriter do not guarantee the accuracy of the CUSIP data herein.

No dealer, broker, salesperson or other person has been authorized by the Santa Clara Valley Transportation Authority (the "Authority") or the Underwriter to give any information or to make any representations, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Authority or the Underwriter.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 2007 Series A Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. This Official Statement is not to be construed as a contract with the purchasers of the 2007 Series A Bonds. Statements contained in this Official Statement that involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The information set forth herein has been obtained from the Authority and other sources believed to be reliable. The information and expressions of opinions herein are subject to change without notice and neither delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority since the date hereof. All summaries contained herein of the Indenture (as defined herein) or other documents are made subject to the provisions of such documents and do not purport to be complete statements of any or all of such provisions. All statements made herein are made as of the date of this document by the Authority except statistical information or other statements where some other date is indicated in the text.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2007 SERIES A BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL ON THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE 2007 SERIES A BONDS TO CERTAIN DEALERS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGE HEREOF AND SUCH PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

FORWARD-LOOKING STATEMENTS

Certain statements included or incorporated by reference in this Official Statement constitute forward-looking statements. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. No assurance is given that actual results will meet the forecasts of the Authority in any way, regardless of the level of optimism communicated in the information. Such forward-looking statements include, but are not limited to, the projections of future operating results of the Authority in Appendix A attached hereto.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE AUTHORITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ANY OF ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

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Liz Kniss, Vice-Chairperson
Nora Campos
David Cortese
Don Gage
Breene Kerr
Sam Liccardo

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Jack Collins, Chief Construction Officer
Suzanne Gifford, General Counsel
Carolyn Gonot, Chief Development Officer
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Donald Smith, Chief Operations Officer
Maria Marinos, Board Secretary

SPECIAL SERVICES

Financial Advisor

Ross Financial
San Francisco, California

Bond Counsel

Fulbright & Jaworski L.L.P.
Los Angeles, California

Trustee

U.S. Bank National Association
San Francisco, California

Verification Agent

Samuel Klein and Company, Certified Public Accountants
Morristown, New Jersey

Santa Clara County Bus and Rail Transit Service Area

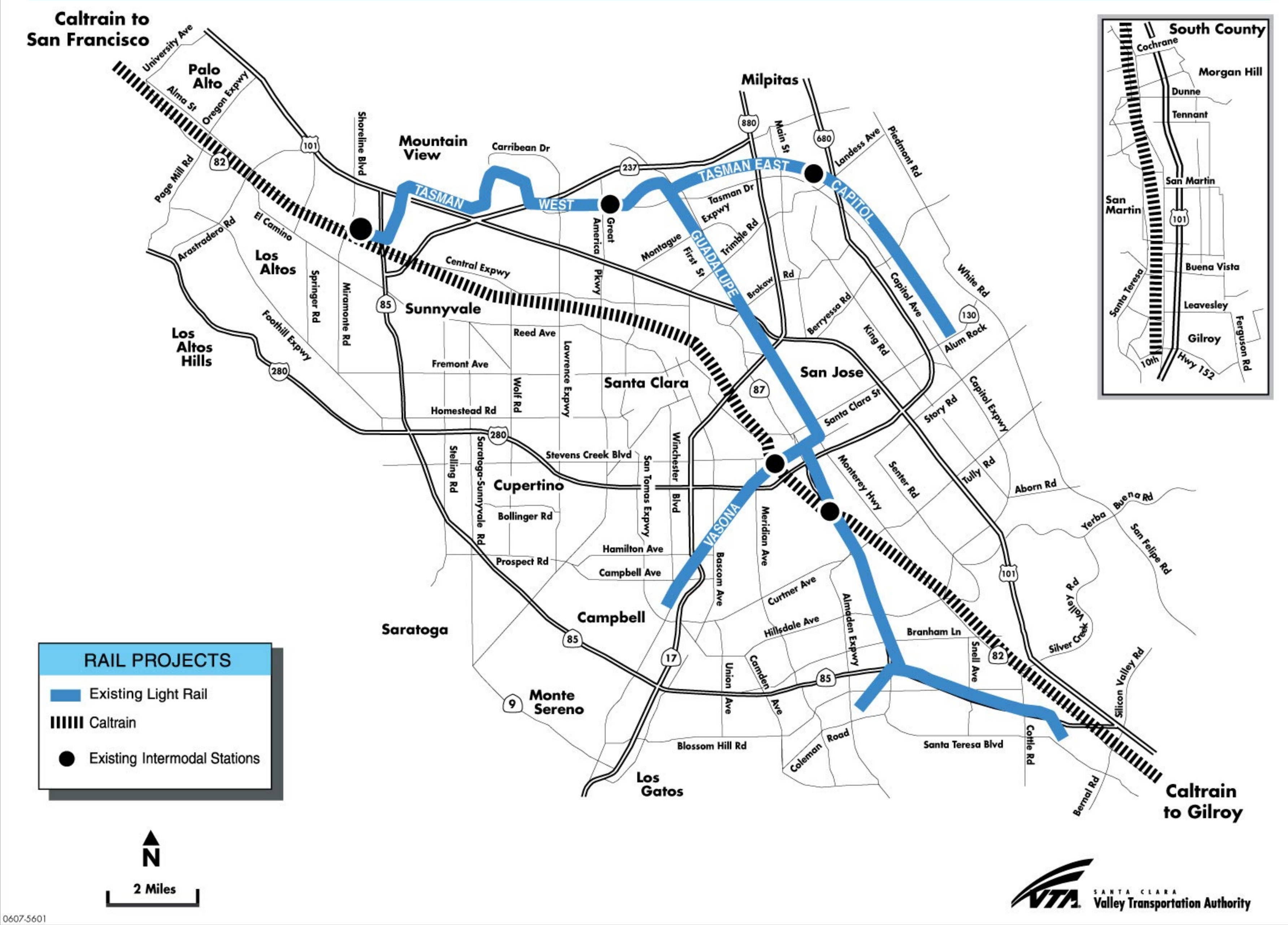

TABLE OF CONTENTS

Page

OFFICIAL STATEMENT

$26,275,000
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Sales Tax Revenue Refunding Bonds,
2007 Series A

INTRODUCTION

General

This Official Statement, which includes the cover page and the appendices hereto, sets forth certain information in connection with the offering by the Santa Clara Valley Transportation Authority (the "Authority") of $26,275,000 in aggregate principal amount of its Sales Tax Revenue Refunding Bonds, 2007 Series A (the "2007 Series A Bonds"). A full review should be made of the entire Official Statement, including the cover page and attached appendices. The offering of the 2007 Series A Bonds to potential investors is made only by means of the entire Official Statement.

Authority for Issuance

The 2007 Series A Bonds are being issued by the Authority under and pursuant to the Santa Clara Valley Transportation Authority Act, being Sections 100000 *et seq.* of the California Public Utilities Code and the provisions of the Revenue Bond Law of 1941, being Section 54300 *et seq.* of the California Government Code as referenced in the Santa Clara Valley Transportation Authority Act (collectively, the "Act") and the Indenture, dated as of November 1, 1997, between the Authority and U.S. Bank National Association, as successor to First Trust of California, National Association, as trustee (the "Trustee"), as supplemented by a First Supplemental Indenture, dated as of November 1, 1997, a Second Supplemental Indenture, dated as of May 1, 2001, a Third Supplemental Indenture, dated as of November 1, 2003, a Fourth Supplemental Indenture, dated as of July 1, 2005, a Fifth Supplemental Indenture, dated as of June 1, 2005, and a Sixth Supplemental Indenture, dated as of May 1, 2007 (together, the "Indenture"), between the Authority and the Trustee.

Purpose and Application of Proceeds

The 2007 Series A Bonds are being issued to refund certain maturities (the "1997 Refunded Bonds") of the Santa Clara County Transit District Sales Tax Revenue Refunding Bonds, 1997 Series A (the "1997 Bonds"), which are currently outstanding in the aggregate principal amount of $31,440,000. The Authority was formerly known as the Santa Clara County Transit District. In addition, a portion of the proceeds of the 2007 Series A Bonds will be applied to pay certain costs of issuing the 2007 Series A Bonds. See "PLAN OF REFUNDING" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

Security

The 2007 Series A Bonds are limited obligations of the Authority secured under the Indenture by a pledge of sales tax revenues (the "Sales Tax Revenues") derived from a one-half of one percent retail transactions and use tax (the "1976 Sales Tax"), imposed in accordance with the Act and the California Transactions and Use Tax Law (Revenue and Taxation Code Section 7251 *et seq.*), less certain administrative fees paid to the California State Board of Equalization (the "Board of Equalization") in connection with the collection and disbursement of the 1976 Sales Tax. The 2007 Series A Bonds are further secured by a pledge of certain amounts held by the Trustee under the Indenture. The 1976 Sales Tax was approved by the electorate of the County of Santa Clara (the "County") in October 1976 and does not expire. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2007 SERIES A BONDS" herein.

Payment of the principal of and interest on the 2007 Series A Bonds is secured by a pledge of the Sales Tax Revenues on parity with the following obligations of the Authority:

- the 1997 Bonds;

- the Authority's Sales Tax Revenue Bonds, 2001 Series A, which are currently outstanding in the aggregate principal amount of $19,145,000 (the "2001 Bonds");

- the Authority's Sales Tax Revenue Refunding Bonds, 2005 Series A, 2005 Series B and 2005 Series C, which are currently outstanding in the aggregate principal amount of $170,860,000 (collectively, the "2005 Bonds");

- the Santa Clara County Transit District Adjustable Rate Refunding Equipment Trust Certificates, Series 1985 A, which are currently outstanding in the aggregate principal amount of $29,660,000 (the "Equipment Trust Certificates");

- certain regularly scheduled payments (the "1998 Swap Payments") made by the Authority under a 1998 Swap Agreement (as defined herein) and certain regularly scheduled payments (the "2005 Swap Payments") made by the Authority under a 2005 Swap Agreement (as defined herein) as described in APPENDIX B – "AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY FOR THE FISCAL YEAR ENDED JUNE 30, 2006," at Note 7(d);

- and any additional Bonds and parity debt hereafter authorized by, and at any time Outstanding under the Indenture, all of which are referred to collectively herein as the "Bonds."

See "SECURITY AND SOURCES OF PAYMENT FOR THE 2007 SERIES A BONDS – Additional Bonds and Parity Debt" herein.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COUNTY OF SANTA CLARA, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION OR PUBLIC AGENCY THEREOF, OTHER THAN THE AUTHORITY, TO

THE EXTENT OF THE PLEDGE OF THE SALES TAX REVENUES AND OTHER AMOUNTS HELD UNDER THE INDENTURE, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE 2007 SERIES A BONDS.

Bond Insurance

Payment of the principal of and interest on the 2007 Series A Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the 2007 Series A Bonds. See "BOND INSURANCE" herein and APPENDIX H – "SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY."

References

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

THE AUTHORITY

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

In August 2006, the Authority engaged Hay Group, a Philadelphia-based management consulting firm, to perform an assessment of the Authority's governance, organizational structure, financial practices and operations. Hay Group released its Organizational and Financial Assessment of the Authority in March 2007. See APPENDIX A – "THE AUTHORITY – Hay Group Organizational and Financial Assessment."

THE 2007 SERIES A BONDS

General

The 2007 Series A Bonds will be dated their date of delivery, will bear interest at the rates and will mature on the dates set forth on the inside cover of this Official Statement. Interest on the 2007 Series A Bonds shall be payable on June 1, 2007 and semiannually thereafter on June 1 and December 1 of each year by check mailed by first class mail or, as provided in Indenture and upon the written request of any Owner of $1,000,000 or more in aggregate principal amount of Bond Obligation who has provided the Trustee with wire transfer instructions, by wire transfer on each interest payment date to the Owner thereof as of the close of business on the fifteenth (15th) day of the calendar month immediately preceding such interest payment date. Interest on the 2007 Series A Bonds shall be computed on the basis of a 360-day year of twelve 30-day months.

The 2007 Series A Bonds will be issued in fully registered form without coupons and will initially be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), as the securities depository for the 2007 Series A Bonds. The term "Owner" as used herein shall refer to DTC as the registered owner of the Bonds. Purchases of the 2007 Series A Bonds are to be made in book-entry only form in the principal amount of $5,000 or any integral multiple thereof. See APPENDIX E – "BOOK-ENTRY SYSTEM."

Redemption

Optional Redemption. The 2007 Series A Bonds maturing on or before June 1, 2017 shall not be subject to redemption prior to their respective stated maturities. The 2007 Series A Bonds maturing on or after June 1, 2018 shall be subject to redemption prior to their respective stated maturities, at the option of the Authority, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the Authority and by lot within a maturity), on or after June 1, 2017 at the principal amount of 2007 Series A Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

Selection of Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the 2007 Series A Bonds of any maturity (and interest rate) thereof the Trustee shall select the 2007 Series A Bonds to be redeemed, from all 2007 Series A Bonds of the respective maturity (and interest rate) not previously called for redemption, in minimum denominations of $5,000, by lot in any manner which the Trustee in its sole discretion shall deem appropriate and fair.

Notice of Redemption. Notice of redemption shall be mailed by the Trustee, not less than thirty (30) nor more than sixty (60) days prior to the redemption date, (i) to the respective Owners of any 2007 Series A Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee by first class mail, (ii) to the Securities Depositories by registered or certified mail, return receipt requested, or by some other confirmable delivery method, and (iii) to two or more Information Services by first class mail. Notice of redemption shall be given in the form and in accordance with the terms of the Indenture. The Trustee shall mail an additional copy of such notice of redemption to any Owner who has not surrendered such Owner's Bonds called for redemption within 60 days after the redemption date.

The Authority shall have the right to rescind any notice of optional redemption by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of redemption shall be cancelled and annulled if for any reason funds are not or will not be available on the date fixed for redemption for the payment in full of the 2007 Series A Bonds then called for redemption, and neither the lack of available funds nor such cancellation shall constitute an Event of Default. The Authority and the Trustee shall have no liability to the Owners or any other party related to or arising from such rescission of notice of redemption. The Trustee shall mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent.

Partial Redemption of Bonds. Upon surrender of any 2007 Series A Bond redeemed in part only, the Authority shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the Authority, a new 2007 Series A Bond of authorized denominations, and of the same maturity and interest rate, equal in aggregate principal amount to the unredeemed portion of the 2007 Series A Bond surrendered.

Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, the 2007 Series A Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the 2007 Series A Bonds (or portions thereof) so called for redemption shall become due and payable at the Redemption Price specified in such notice together with interest accrued thereon to the date fixed for redemption, interest on the 2007 Series A Bonds so called for redemption shall cease to accrue, said 2007 Series A Bonds (or portions thereof) shall cease to be entitled to any benefit or security under this Indenture, and the Owners of said 2007 Series A Bonds shall have no rights in respect thereof except to receive payment of said Redemption Price and accrued interest to the redemption date.

PLAN OF REFUNDING

A portion of the proceeds from the sale of the 2007 Series A Bonds, together with certain other available funds, are expected to be used to refund the 1997 Refunded Bonds set forth below.

Santa Clara County Transit District
Sales Tax Revenue Refunding Bonds, 1997 Series A
Redemption Date: June 1, 2007
Redemption Price: 102%

Maturity (June 1)	Principal Amount	Interest Rate	CUSIP† (801638)
2010	$ 1,745,000	4.90%	BB2
2011	1,850,000	5.00	BC0
2012	1,975,000	5.00	BD8
2013	2,100,000	5.00	BE6
2014	2,235,000	5.00	BF3
2015	2,375,000	5.00	BG1
2017	4,250,000	5.25	BJ5
2021	10,300,000	5.25	BN6

The Authority will effect the refunding of the 1997 Refunded Bonds by causing a portion of the proceeds of the 2007 Series A Bonds to be deposited into an escrow fund (the "Escrow Fund") created under an Escrow Agreement, dated as of May 1, 2007, by and between the Authority and the U.S. Bank National Association, as escrow agent (the "Escrow Agent"). Amounts in the Escrow Fund are to be invested in U.S. Treasury obligations and are to be sufficient to pay the principal of, redemption premium and accrued interest on, the 1997 Refunded Bonds on the redemption date of June 1, 2007.

The Verification Agent will verify the mathematical accuracy of computations relating to the sufficiency of the amounts on deposit in the Escrow Fund, together with the expected investment earnings thereon, to pay the principal, interest and redemption premium with respect to the 1997 Refunded Bonds when due. See "VERIFICATION" herein.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the 2007 Series A Bonds and certain other amounts are expected to be applied as follows:

Sources of Funds:

Principal Amount of the 2007 Series A Bonds	$26,275,000
Plus Net Original Issue Premium	1,434,421
Funds transferred from the Indenture	573,388
Total Sources:	$28,282,809

Uses of Funds:

Deposit to Escrow Fund	$27,938,030
Costs of Issuance[1]	344,779
Total Uses:	$28,282,809

(1) Includes underwriter's discount, rating agency fees, trustee fees, verification fees, printing costs, bond counsel, disclosure counsel and financial advisor fees and expenses, bond insurance premium, and other miscellaneous expenses.

DEBT SERVICE SCHEDULE

The following table sets forth the annual debt service requirements on the 2007 Series A Bonds, the 2001 Bonds, the 2005 Bonds, the Equipment Trust Certificates and the 1997 Bonds that will remain Outstanding under the Indenture after issuance of the 2007 Series A Bonds and refunding of the 1997 Refunded Bonds.

Santa Clara Valley Transportation Authority
Combined Annual Debt Service Schedule

Year Ending June 1	2007 Series A Bonds Principal	2007 Series A Bonds Interest [1]	2007 Series A Bonds Annual Debt Service[1]	1997 Bonds Principal	1997 Bonds Interest[1]	Other Existing Debt Annual Debt Service[1] [2]	Combined Debt Service[1][2]
2007	--	$ 102,246	$ 102,246	$1,440,000	$1,477,158	$14,343,189	$17,362,592
2008	--	1,226,950	1,226,950	1,540,000	149,465	14,310,437	17,226,852
2009	--	1,226,950	1,226,950	1,630,000	78,240	14,295,271	17,230,461
2010	$1,750,000	1,226,950	2,976,950	--	--	14,262,931	17,239,881
2011	1,840,000	1,156,950	2,996,950	--	--	14,243,644	17,240,594
2012	1,960,000	1,064,950	3,024,950	--	--	14,215,515	17,240,465
2013	2,085,000	966,950	3,051,950	--	--	14,198,384	17,250,334
2014	2,220,000	862,700	3,082,700	--	--	14,174,814	17,257,514
2015	2,360,000	751,700	3,111,700	--	--	14,155,685	17,267,385
2016	2,015,000	657,300	2,672,300	--	--	14,603,037	17,275,337
2017	2,130,000	576,700	2,706,700	--	--	14,594,733	17,301,433
2018	2,260,000	470,200	2,730,200	--	--	14,587,329	17,317,529
2019	2,405,000	357,200	2,762,200	--	--	14,580,524	17,342,724
2020	2,555,000	236,950	2,791,950	--	--	14,574,012	17,365,962
2021	2,695,000	134,750	2,829,750	--	--	14,562,492	17,392,242
2022	--	--	--	--	--	17,560,811	17,560,811
2023	--	--	--	--	--	17,592,373	17,592,373
2024	--	--	--	--	--	17,624,074	17,624,074
2025	--	--	--	--	--	17,660,457	17,660,457
2026	--	--	--	--	--	17,695,918	17,695,918
Totals	**$26,275,000**	**$11,019,446**	**$37,294,446**	**$4,610,000**	**$1,704,863**	**$303,835,630**	**$347,444,938**

(1) Totals may not add due to rounding.
(2) Debt Service on the 2005 Bonds is calculated based on the annual rate established pursuant to the 2005 Swap Agreements, 3.033% and is exclusive of all fees. Debt service on the Equipment Trust Certificates is calculated based on the annual rate established pursuant to the 1998 Swap Agreement, 4.355%.

SECURITY AND SOURCES OF PAYMENT FOR THE 2007 SERIES A BONDS

Pledge of Sales Tax Revenues and Certain Amounts Held by Trustee

All Sales Tax Revenues are irrevocably pledged by the Authority to secure the punctual payment of the principal of, premium, if any, and interest on the Bonds and Parity Debt, each in accordance with their terms, and the Sales Tax Revenues shall not be used for any other purpose while any of the Bonds or Parity Debt remain Outstanding, except as permitted by the provisions of the Indenture and the Equipment Trust Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, as described below. Pursuant to the Indenture, the pledge of Sales Tax Revenues constitutes a first lien to secure the Bonds and Parity Debt, which includes the Equipment Trust Certificates, the 1998 Swap Payments and the 2005 Swap Payments. The pledge of Sales Tax Revenues is irrevocable until all Bonds issued under the Indenture, including the 2007 Series A Bonds, and all Parity Debt are no longer Outstanding.

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

For a more detailed description of the 1976 Sales Tax and historical and projected receipts of Sales Tax Revenues, see "THE 1976 SALES TAX" herein.

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

Limited Obligations

The 2007 Series A Bonds are limited obligations of the Authority secured by a pledge of Sales Tax Revenues and certain amounts held by the Trustee under the Indenture. The Authority shall not be required to advance any moneys derived from any source other than Revenues, which include all Sales Tax Revenues and all other funds legally available to the Authority for payment of Debt Service on the Bonds and Parity Debt, and amounts held by the Trustee and pledged under the Indenture, whether for the payment of the principal or Redemption Price of or interest on the Bonds or for any other purpose of the Indenture.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COUNTY OF SANTA CLARA, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION OR PUBLIC AGENCY THEREOF, OTHER THAN THE AUTHORITY, TO THE EXTENT OF THE PLEDGED SALES TAX REVENUES AND OTHER AMOUNTS UNDER THE INDENTURE, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON, THE 2007 SERIES A BONDS.

Revenue Fund; Allocation of Sales Tax Revenues

So long as any Bonds are Outstanding or any Parity Debt remains unpaid, the Authority has assigned the Sales Tax Revenues to the Trustee and shall cause the Board of Equalization to transmit the same directly to the Trustee. The Sales Tax Revenues shall be received and held in trust by the Trustee for the benefit of the Owners of the Bonds and Parity Debt. The Trustee shall forthwith deposit all Sales Tax Revenues in the Revenue Fund maintained and held in trust by the Trustee, when and as such Sales Tax Revenues are received by the Trustee. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Funds and Accounts; Allocation of Sales Tax Revenues." Investment income on amounts held by the Trustee (other than amounts held in the Rebate Fund or for which particular instructions are provided) shall also be deposited in the Revenue Fund.

In each month while Bonds remain Outstanding, the Trustee is required to set aside receipts of Sales Tax Revenues in the following respective funds, amounts and order of priority (provided that deficiencies in any previously required deposit shall be made up prior to the deposit to a fund subsequent in priority and further provided that set asides or transfers required with respect to outstanding Parity Debt shall be made on a parity basis each month, as provided in the Indenture):

i. Interest Fund. The Indenture requires the Trustee to make monthly deposits in the Interest Fund in an amount equal to one-sixth of the aggregate half-yearly amount of interest (calculated at the rate of 12% per annum if the actual rate of interest is not known) becoming due and payable on Outstanding Bonds during the ensuing six-month period.

ii. Principal Fund; Sinking Accounts. The Indenture also requires the Trustee to make monthly deposits in the Principal Fund in an amount equal to at least (a) one-sixth of the aggregate semiannual amount of principal, accreted value, if applicable, and mandatory sinking account payments becoming due and payable within the next six months on Outstanding Bonds having semiannual maturity dates and mandatory sinking account redemption, plus (b) one-twelfth of the aggregate yearly amount of principal, accreted value, if applicable, and mandatory sinking account payments becoming due and payable within the next twelve months on Outstanding Bonds having annual maturity dates and mandatory sinking account redemption.

See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Funds and Accounts; Allocation of Sales Tax Revenues" for a more complete discussion.

After the allocations described above have been made on a monthly basis, any funds remaining in the Revenue Fund are transferred by the Trustee to The Bank of New York Trust Company, N.A., as successor trustee (the "Junior Lien Trustee") under that certain Indenture, dated as of March 1, 1998 (as supplemented and amended pursuant to its terms, the "Junior Lien Indenture"), between the Authority and the Junior Lien Trustee. Such funds are to be applied by the Junior Lien Trustee as specified in the Junior Lien Indenture to the payment of the principal of, redemption premium, if any, and interest on bonds issued, and parity debt incurred, pursuant to the Junior Lien Indenture, and reserve fund requirements with respect thereto. As of the date of this Official Statement, obligations issued or incurred pursuant to the Junior Lien Indenture consist of the Santa Clara County Transit District Junior Lien Sales Tax Revenue Bonds, 1998 Series A (the "1998 Junior Lien Bonds") and the Santa Clara County Transportation Authority Junior Lien Sales Tax Revenue Bonds, 2000 Series A (the "2000 Junior Lien Bonds" and, together with the 1998 Junior Lien Bonds, hereinafter collectively referred to as the "Junior Lien Obligations"). Commitment fees under the Standby Bond Purchase Agreement relating to the 2005 Bonds are to be made following the payment of Bonds, Parity Debt and the Junior Lien Obligations. Termination payments, if any, are then to be made on the 1998 Swap Agreement (as defined herein), followed by termination payments under the 2005 Swap Agreements (as defined herein). After making the foregoing allocations, all remaining funds shall be available to the Authority for all lawful Authority purposes.

Bond Reserve Fund

The Bond Reserve Requirement as of any date of calculation shall be zero dollars ($0), except that if Sales Tax Revenues during the immediately preceding Fiscal Year do not cover Maximum Annual Debt Service by at least 3.00 times, the Authority shall be required to fund the Bond Reserve Fund in an amount equal to the amount specified in the definition of Bond Reserve Requirement set forth in the Indenture. If the Authority shall be required to fund the Bond Reserve Fund, the Bond Reserve Requirement with respect to any Series of Bonds bearing interest at a fixed rate means an amount not less than the lesser of: (i) 10% of the aggregate original principal amount of such Series (less any original issue discount); (ii) 125% of Average Annual Debt Service for such Series; or (iii) 100% of Maximum Annual Debt Service for such Series as of any date of calculation. For a more complete discussion of the Bond Reserve Fund provisions, see APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Funds and Accounts; Allocation of Sales Tax Revenues – Bond Reserve Fund" and "– Funding and Application of Bond Reserve Fund."

Additional Bonds and Parity Debt

The Authority may issue additional Bonds and may issue or incur other obligations secured in whole or in part by a pledge of Sales Tax Revenues on a parity with the Bonds, subject to compliance with the terms and provisions set forth in the Indenture and, for so long as any Equipment Trust Certificates are outstanding, compliance with the terms and provisions set forth in the Equipment Trust Indenture.

Issuance of Additional Series of Bonds. The Authority may by Supplemental Indenture establish one or more Series of Bonds payable from Revenues and secured by the pledge made under the Indenture equally and ratably with Bonds previously issued, but only upon compliance by the Authority with the provisions of the Indenture and, for so long as any Equipment Trust Certificates are outstanding, upon compliance with the terms and provisions of the Equipment Trust Indenture. Certain of the applicable provisions of the Indenture are described below:

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

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

(c) The Authority shall have placed on file with the Trustee the report of the Authority, certifying that the lesser of (i) the amounts of Sales Tax Revenues for a period of twelve (12) consecutive months during the eighteen (18) months immediately preceding the date on which such Bonds will become outstanding, or (ii) the estimated Sales Tax Revenues for the Fiscal Year in which the Bonds are to be issued, will equal at least 2.00 times Maximum Annual Debt Service for all Series of Bonds and Parity Debt then Outstanding and the additional Series of Bonds then proposed to be issued.

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

Issuance of Refunding Bonds. Refunding Bonds may be authorized and issued by the Authority without compliance with the provisions of the Indenture summarized above under the caption "Issuance of Additional Series of Bonds"; provided, that Maximum Annual Debt Service on all Bonds and Parity Debt Outstanding following the issuance of such refunding Bonds is less than or equal to Maximum Annual Debt Service on all Bonds and Parity Debt Outstanding prior to the issuance of such refunding Bonds and, provided further that, as long as any Equipment Trust Certificates are outstanding, the provisions of the Equipment Trust Indenture with respect to the issuance of additional 1976 Sales Tax Debt are satisfied.

Parity Debt. As defined in the Indenture, "Parity Debt" means the Equipment Trust Certificates and any indebtedness, installment sale obligation, lease obligation or other obligation of the Authority for borrowed money or interest rate swap agreement having an equal lien and charge upon the Sales Tax Revenues and therefore payable on a parity with the Bonds (whether or not any Bonds are Outstanding). As defined in the Indenture, the 1998 Swap Payments and the 2005 Swap Payments constitute Parity Debt. The Authority may issue or incur additional Parity Debt under the Equipment Trust Indenture, or another authorizing instrument, payable on a parity with the Bonds and which will have, when issued, an equal lien and charge upon the Sales Tax Revenues, provided that the conditions to the issuance of such Parity Debt set forth in the Indenture, the Equipment Trust Indenture and such other authorizing instruments are satisfied, including the coverage test described in subsection (c) above under the caption "Issuance of Additional Series of Bonds," unless such Parity Debt is for refunding purposes, in which case the coverage test shall not apply.

Existing Obligations

The following table sets forth the Authority's outstanding obligations as of April 1, 2007 which are secured by the 1976 Sales Tax.

	Original Principal Amount	Principal Amount Outstanding
1976 Senior Lien Obligations		
Sales Tax Revenue Refunding Bonds, 2005 Series A-C[(1)]	$172,530,000	$170,860,000
Sales Tax Revenue Bonds, 2001 Series A[(2)]	200,000,000	19,145,000
Sales Tax Revenue Bonds, 1997 Series A	40,570,000	31,440,000
Adjustable Rate Refunding Equipment Trust Certificates, Series 1985A[(1)]	52,860,000	29,660,000
1976 Junior Lien Obligations		
Junior Lien Sales Tax Revenue Bonds, 2000 Series A	40,000,000	33,830,000
Junior Lien Sales Tax Revenue Bonds, 1998 Series A	50,000,000	41,430,000

(1) In connection with these bonds, the Authority entered into interest rate swaps. For a further discussion regarding the Authority's existing swaps and potential risks in connection therewith, see APPENDIX B – "AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY FOR THE FISCAL YEAR ENDED JUNE 30, 2006," Note 7(d).

(2) A portion was refunded and defeased from proceeds of the Authority's Sales Tax Revenue Refunding Bonds, 2005 Series A-C.

Interest Rate Swap Agreements

In August 1998, the Authority entered into an interest rate swap agreement (the "1998 Swap Agreement") in connection with the Equipment Trust Certificates. Pursuant to the terms of the 1998 Swap Agreement, the Authority agreed to pay to the counterparty a fixed rate of interest and the counterparty agreed to pay the Authority a floating rate of interest. In connection with the issuance of the 2005 Bonds, the Authority entered into two Swap Agreements (the "2005 Swap Agreements"). Under the terms of each of the 2005 Swap Agreements, the Authority agreed to pay to each of the counterparties a fixed rate of interest and each of the counterparties agreed to pay to the Authority a floating rate of interest.

The terms of the 1998 Swap Agreement and the 2005 Swap Agreements will not alter or affect any of the obligations of the Authority with respect to the payment of principal of or interest on the 2007 Series A Bonds. Payments due to the Authority from the counterparties are not pledged to the payment of principal of or interest on the 2007 Series A Bonds.

Under certain circumstances, the 1998 Swap Agreement and the 2005 Swap Agreements may be terminated, at which time the Authority may be required to make a termination payment to the applicable counterparty.

Termination payments payable in accordance with the provisions of the 1998 Swap Agreement are secured by a lien on the Sales Tax Revenues on a subordinate basis to the Junior Lien Obligations (as defined hereafter) and termination payments payable in accordance with the provisions of the 2005 Swap Agreements are secured by a lien on the Sales Tax Revenues on a subordinate basis to termination payments payable pursuant to the 1998 Swap Agreement.

For a further discussion regarding the Authority's existing swaps and potential risks in connection therewith, see APPENDIX B – "AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2006," Note 7(d).

Subordinate Obligations

The Authority may issue obligations which are subordinate to the payment of the principal, premium, interest and reserve fund requirements for the Bonds, the Equipment Trust Certificates and all other Parity Debt, and which subordinated obligations are payable as to principal, premium, interest and reserve fund requirements, if any, only out of Sales Tax Revenues after the prior payment of all amounts then required to be paid from funds in the Revenue Fund for principal, premium, interest and reserve fund requirements for the Bonds, the Equipment Trust Certificates, and all other Parity Debt, as the same become due and payable; provided that while any Equipment Trust Certificates are outstanding, the provisions of the Equipment Trust Indenture for the issuance of additional 1976 Sales Tax debt shall be satisfied.

Future Financing Plans

The Authority has no current plan to issue additional obligations to be secured by a lien on the Sales Tax Revenues.

BOND INSURANCE

The information relating to Ambac Assurance Corporation and its Financial Guaranty Insurance Policy set forth below has been obtained from Ambac Assurance Corporation. No representation is made herein by the Authority or the Underwriter regarding the accuracy or the completeness of such information.

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance Corporation ("Ambac Assurance") has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the 2007 Series A Bonds, effective as of the date of issuance of the 2007 Series A Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York, or any successor thereto (the "Insurance Trustee"), that portion of the principal of and interest on the 2007 Series A Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and/or interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the 2007 Series A Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund redemption dates, in the case of principal, and on stated dates for payment, in the case of interest. If the 2007 Series A Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding 2007 Series A Bonds, Ambac Assurance will remain obligated to pay the principal of and interest on outstanding 2007 Series A Bonds on the originally scheduled interest and principal payment dates, including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the 2007 Series A Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration, except to the extent that Ambac Assurance elects, in its sole discretion, to pay all or a portion of the accelerated principal and interest accrued thereon to the date of acceleration (to the extent unpaid by the Obligor). Upon payment of all such accelerated principal and interest accrued to the acceleration date, Ambac Assurance's obligations under the Financial Guaranty Insurance Policy shall be fully discharged.

In the event the Trustee has notice that any payment of principal of or interest on an 2007 Series A Bond that has become Due for Payment and that is made to a holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, non-appealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does **not** insure any risk other than Nonpayment (as set forth in the Financial Guaranty Insurance Policy). Specifically, the Financial Guaranty Insurance Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity;

2. payment of any redemption, prepayment or acceleration premium; and

3. nonpayment of principal or interest caused by the insolvency or negligence of the Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of the 2007 Series A Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such 2007 Series A Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of holder entitlement to interest payments and an appropriate assignment of the holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the 2007 Series A Bond, appurtenant coupon, if any, or right to payment of the principal of or interest on such 2007 Series A Bond and will be fully subrogated to the surrendering holder's rights to payment.

In the event that Ambac Assurance were to become insolvent, any claims arising under the Financial Guaranty Insurance Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Ambac Assurance Corporation

Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin, and is licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately **$10,015,000,000** (unaudited) and statutory capital of approximately **$6,371,000,000** (unaudited) as of **December 31, 2006**. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service, Inc. and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in the Financial Guaranty Insurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor.

Ambac Assurance makes no representation regarding the 2007 Series A Bonds or the advisability of investing in the 2007 Series A Bonds and makes no representation regarding, nor has it participated in the preparation of, this Official Statement other than the information supplied by Ambac Assurance and presented under the heading "BOND INSURANCE."

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at *http://www.sec.gov* that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices is One State Street Plaza, 19th Floor, New York, New York 10004, and its telephone number is (212) 668-0340.

Incorporation of Certain Documents by Reference

The following document filed by the Company with the SEC (File No. 1-10777) is incorporated by reference in this Official Statement:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and filed on March 1, 2007.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "BOND INSURANCE – Available Information."

THE 1976 SALES TAX

General

The terms of the Act authorize the imposition of the 1976 Sales Tax upon the approval of the electorate of the County. Voter approval of the 1976 Sales Tax was obtained by special election in 1976. Since the Act does not provide for automatic expiration of the 1976 Sales Tax, there is no statutory termination provision for the 1976 Sales Tax.

The 1976 Sales Tax is a retail transactions and use tax of one half of one percent (0.5%) of the gross receipts of retailers from the sale of all tangible personal property sold at retail in the County and a use tax at the same rate upon the storage, use or other consumption in the County of such property purchased from any retailer for storage, use or other consumption in the County, subject to certain limited exceptions. The most important exemptions from the 1976 Sales Tax are the sales of food products for home consumption, prescription medicine, edible livestock and their feed, seed and fertilizer used in raising food for human consumption, and gas, electricity and water, when delivered to consumers through mains, lines and pipes. Additionally, occasional sales, *i.e.*, sales of property not held or used by a seller in the course of activities for which he or she is required to hold a seller's permit, are generally exempt from the 1976 Sales Tax. However, the "occasional sales" exemption does not apply to the sale of an entire business and other sales of machinery and equipment used in a business. Sales of property to be used outside the County which are shipped to a point outside the County pursuant to the contract of sale are exempt from the 1976 Sales Tax.

Sales Tax Revenues are net of an administrative fee paid to the Board of Equalization for the collection and disbursement of the 1976 Sales Tax, which by statute cannot exceed 1.5% of collections. In Fiscal Year 2006, the amount of the administrative fee was $1,497,800.

For a summary of the Sales Tax Revenues reported by the Authority for the ten Fiscal Years ended June 30, 2006, see "THE 1976 SALES TAX – Historical Sales Tax Revenues" herein.

Collection

Collection of the 1976 Sales Tax is administered by the Board of Equalization. The Authority and the Board of Equalization have entered into an agreement to authorize payment of

Sales Tax Revenues directly to the Trustee. Pursuant to its procedures, the Board of Equalization projects receipts of the 1976 Sales Tax on a quarterly basis and remits an advance of such receipts to the Trustee on a monthly basis based on such projection. During the last month of each quarter, the Board of Equalization adjusts the amount remitted to reflect the actual receipts of the 1976 Sales Tax for the quarter.

The Trustee is required to apply receipts of Sales Tax Revenues as provided in the Indenture and the Equipment Trust Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2007 SERIES A BONDS – Revenue Fund; Allocation of Revenues" and APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Funds and Accounts; Allocation of Sales Tax Revenues" herein. The Trustee is required to transfer any remaining unapplied Sales Tax Revenues to the Junior Lien Trustee for allocation to the Junior Obligations. Commitment fees under the Standby Bond Purchase Agreement for the 2005 Bonds are to be made following the payment of Bonds, Parity Debt and the Junior Lien Obligations. Termination payments, if any, are then to be made on the 1998 Swap Agreement, followed by termination payments under the 2005 Swap Agreements. After such allocations, any remaining unapplied Sales Tax Revenues are transferred to the Authority for use for any lawful purpose.

Historical Sales Tax Revenues

The following table shows Sales Tax Revenues received by the Authority during the ten Fiscal Years ended June 30, 2006.

Santa Clara Valley Transportation Authority
Historical Sales Tax Revenues
Fiscal Years Ended June 30, 1997 through 2006

Fiscal Year Ended June 30	Sales Tax Revenues	Percent Increase (Decrease)
1997	$128,968,746	5.5%
1998	138,428,805	7.3
1999	143,711,721	3.8
2000	166,764,390	16.0
2001	183,540,308	10.1
2002	144,217,679	(21.42)[1]
2003	132,632,377	(8.0)[1]
2004	138,917,173	4.7
2005	145,008,106	4.4
2006	157,283,101	8.5

Source: The Authority.

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

Based on the combined debt service set forth under the caption "DEBT SERVICE SCHEDULE," based on Fiscal Year 2006 Sales Tax Revenues of $157.3 million, combined maximum annual debt service coverage of the Bonds and the Equipment Trust Certificates, after taking into account the 1998 Swap Agreement and the 2005 Swap Agreements, is currently approximately 8.89 times.

Since October 1976 through June 30, 2006, the compound annual growth rate of the Sales Tax Revenue has been 5.73%.

Additional Sales Taxes Collected in the County

In addition to sales taxes levied at the County level, the State of California (the "State") also imposes a 7.25% sales tax. Combined with Sales Tax Revenues and the 2000 Measure A Sales Tax (See "2000 MEASURE A SALES TAX"), this State sales tax results in transactions in the County being taxed at an effective rate of 8.25%.

Legislation in July 1991 raised the State sales tax rate by 1.25% to its current level. There could be additional increases in the State sales tax that could have an adverse effect on consumption resulting in a reduction in the Sales Tax Revenues.

2000 Measure A Sales Tax

In the November 2000 general election, voters in the County authorized an additional ½-cent sales tax (the "2000 Measure A Sales Tax"). The 2000 Measure A Sales Tax took effect on April 1, 2006 and is scheduled to expire on March 31, 2036. The 2000 Measure A Sales Tax is a separate tax collected by the Authority and is not pledged as a source of repayment for the 2007 Series A Bonds. See APPENDIX A – "THE AUTHORITY."

INVESTMENT CONSIDERATIONS

Economy of the County and the State

The 2007 Series A Bonds are secured by a pledge of Sales Tax Revenues, which consist of the 1976 Sales Tax less an administrative fee paid to the Board of Equalization. The level of Sales Tax Revenues collected at any time is dependent upon the level of retail sales within the County, which level of retail sales is, in turn, dependent upon the level of economic activity in the County and in the State generally. As a result, any substantial deterioration in the level of economic activity within the County or in the State could have a material adverse impact upon the level of Sales Tax Revenues and therefore upon the ability of the Authority to pay principal of and interest on the 2007 Series A Bonds. For information relating to current economic conditions within the County and the State see APPENDIX C – "COUNTY DEMOGRAPHIC AND ECONOMIC INFORMATION."

The 1976 Sales Tax

With limited exceptions, the 1976 Sales Tax is imposed upon the same transactions and items subject to the sales tax levied statewide by the State. The State Legislature or the voters within the State, through the initiative process, could change or limit the transactions and items upon which the statewide sales tax and the 1976 Sales Tax are imposed. Any such change or limitation could have an adverse impact on the Sales Tax Revenues collected. For a further description of the 1976 Sales Tax, see "THE 1976 SALES TAX."

Proposition 218

On November 5, 1996, voters in the State approved an initiative known as the Right to Vote on Taxes Act ("Proposition 218"). Proposition 218 added Articles XIIIC and XIIID to the California Constitution. Article XIIIC requires majority voter approval for the imposition, extension or increase of general taxes and two-thirds voter approval for the imposition, extension or increase of special taxes by a local government, which is defined to include local or regional governmental agencies such as the Authority. However, the voter approval requirements of Article XIIIC do not apply to the 1976 Sales Tax since the 1976 Sales Tax was approved by the voters prior to January 1, 1995. Article XIIIC also removes limitations that may have applied to the voter initiative power with regard to reducing or repealing previously authorized local taxes, even previously voter-approved taxes like the 1976 Sales Tax. The Authority has been advised that any attempt by the voters to use the initiative provisions under Proposition 218 to rescind or materially reduce the levy and collection of the 1976 Sales Tax in a manner which would prevent the payment of debt service on the 2007 Series A Bonds would violate the Impairment Clause of the United States Constitution and, accordingly, would be precluded. The interpretation and application of the initiative provisions of Proposition 218 ultimately will be determined by the courts.

Further Initiatives

Proposition 218 and Proposition 42 (discussed in Appendix A) were each adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiative measures could be adopted, which may affect the Authority's ability to levy and collect the 1976 Sales Tax.

Loss of Tax Exemption

As discussed under "TAX MATTERS," interest on the 2007 Series A Bonds could become includable in federal gross income, possibly from the date of issuance of the 2007 Series A Bonds, as a result of acts or omissions of the Authority subsequent to the issuance of the 2007 Series A Bonds. Should interest become includable in federal gross income, the 2007 Series A Bonds are not subject to redemption by reason thereof and will remain outstanding until maturity or earlier redemption.

FINANCIAL STATEMENTS

The financial statements of the Authority for the Fiscal Year ended June 30, 2006, included in APPENDIX B of this Official Statement, have been audited by Vavrinek, Trine, Day & Co., LLP, independent auditors, as stated in their report therein. Vavrinek, Trine, Day & Co., LLP was not requested to consent to the inclusion of its report in APPENDIX B, nor has it undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official

Statement, and no opinion is expressed by Vavrinek, Trine, Day & Co., LLP with respect to any event subsequent to the date of its report. The Authority represents that there has been no material adverse change in its financial position since June 30, 2006.

LITIGATION

There is not now pending or, to the knowledge of the Authority, threatened, any litigation restraining or enjoining the issuance or delivery of the 2007 Series A Bonds or questioning or affecting the validity of the 2007 Series A Bonds or the proceedings and authority under which they are to be issued or the levy, collection and pledge of 1976 Sales Taxes. Neither the creation, organization or existence of the Authority, nor the title of the present members of the Authority to their respective offices is being contested. See APPENDIX A – "THE AUTHORITY – Litigation."

TAX MATTERS

The Internal Revenue Code of 1986 (the "Code") imposes certain requirements that must be met subsequent to the issuance and delivery of the 2007 Series A Bonds for interest thereon to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause the interest on the 2007 Series A Bonds to be included in the gross income of the owners thereof for federal income tax purposes retroactive to the date of issuance of the 2007 Series A Bonds. The Authority has covenanted to maintain the exclusion of the interest on the 2007 Series A Bonds from the gross income of the owners thereof for federal income tax purposes.

In the opinion of Fulbright & Jaworski L.L.P., Bond Counsel, under existing law, interest on the 2007 Series A Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the aforementioned covenant, interest on the 2007 Series A Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Bond Counsel is also of the opinion that, assuming compliance with the aforementioned covenant, the 2007 Series A Bonds are not "specified private activity bonds" within the meaning of section 57(a)(5) of the Code and, therefore, that the interest on the 2007 Series A Bonds will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. The receipt or accrual of interest on the 2007 Series A Bonds owned by a corporation may affect the computation of its alternative minimum taxable income, upon which the alternative minimum tax is imposed, to the extent that such interest is taken into account in determining the adjusted current earnings of that corporation (75 percent of the excess, if any, of such adjusted current earnings over the alternative minimum taxable income being an adjustment to alternative minimum taxable income (determined without regard to such adjustment or to the alternative tax net operating loss deduction)).

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the 2007 Series A Bonds may affect the tax status of interest on the 2007 Series A Bonds or the tax consequences of the ownership of the 2007 Series A Bonds. No assurance can be given that future legislation, if enacted into law, will not contain provisions that could directly or indirectly reduce the benefit of the exemption of interest on the 2007 Series A Bonds from personal income taxation by the State of California or of the exclusion of the interest on the 2007 Series A Bonds from the gross income of the owners thereof for federal income tax purposes. Furthermore, Bond Counsel expresses no opinion as to any federal, state or local tax law consequences with respect to the 2007 Series A Bonds, or the interest thereon, if any action is taken with respect to the 2007 Series A Bonds or the proceeds thereof predicated or permitted upon the advice or approval of bond counsel if such advice or approval is given by counsel other than Bond Counsel.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the Authority described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the 2007 Series A Bonds is commenced, under current procedures the Service is likely to treat the Authority as the "taxpayer," and the Owners would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the 2007 Series A Bonds, the Authority may have different or conflicting interest from the Owners. Further, the disclosure of the initiation of an audit may adversely affect the market price of the 2007 Series A Bonds, regardless of the final disposition of the audit.

The excess of the initial offering price to the public of the 2007 Series A Bonds over the stated redemption price at maturity of the 2007 Series A Bonds set forth on the inside cover of this Official Statement is "bond premium." In general, any bond premium with respect to a 2007 Series A Bond must be amortized under section 171 of the Code. The amount of premium so amortized will reduce the owner's basis in such 2007 Series A Bond for federal income tax purposes, but such amortized premium will not be deductible for federal income tax purposes. The rate of the amortization of the bond premium and the corresponding basis reduction may result in an owner realizing a taxable gain when a 2007 Series A Bond owned by such owner is sold or disposed of for an amount equal to or in some circumstances even less than the original cost of that 2007 Series A Bond to the owner. Purchasers should consult their own tax advisors as to the computation and treatment of such amortizable bond premium, including, but not limited to, the calculation of gain or loss upon the sale, maturity or other disposition of a 2007 Series A Bond.

The excess of the stated redemption price at maturity of the 2007 Series A Bonds over the initial offering price to the public of the 2007 Series A Bonds set forth on the inside cover of this Official Statement is "original issue discount." Such original issue discount accruing on a 2007 Series A Bond is treated as interest excluded from the gross income of the owner thereof for federal income tax purposes and exempt from California personal income tax. Original issue discount on any 2007 Series A Bond purchased at such initial offering price and pursuant to such initial offering will accrue on a semiannual basis over the term of the 2007 Series A Bond on the basis of a constant yield method and, within each semiannual period, will accrue on a ratable daily basis. The amount of original issue discount on such a 2007 Series A Bond accruing during each period is added to the adjusted basis of such 2007 Series A Bond to determine taxable gain upon disposition (including sale, redemption or payment on maturity) of such 2007

Series A Bond. The Code includes certain provisions relating to the accrual of original issue discount in the case of purchasers of the 2007 Series A Bonds who purchase the 2007 Series A Bonds other than at the initial offering price and pursuant to the initial offering. Any person considering purchasing a 2007 Series A Bond should consult his or her own tax advisors with respect to the tax consequences of ownership of bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering and at the original offering price, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such bonds under federal individual and corporate alternative minimum taxes.

Although Bond Counsel is of the opinion that interest on the 2007 Series A Bonds is exempt from state personal income tax and that interest on the 2007 Series A Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes, an owner's federal, state or local tax liability may be otherwise affected by the ownership or disposition of the 2007 Series A Bonds. The nature and extent of these other tax consequences will depend upon the owner's other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the 2007 Series A Bonds should be aware that (i) section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the 2007 Series A Bonds or, in the case of a financial institution, that portion of an owner's interest expense allocated to interest on the 2007 Series A Bonds, (ii) with respect to insurance companies subject to the tax imposed by section 831 of the Code, section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the 2007 Series A Bonds, (iii) interest on the 2007 Series A Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by section 884 of the Code, (iv) passive investment income, including interest on the 2007 Series A Bonds, may be subject to federal income taxation under section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income, (v) section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest on the 2007 Series A Bonds and (vi) under section 32(i) of the Code, receipt of investment income, including interest on the 2007 Series A Bonds, may disqualify the recipient thereof from obtaining the earned income credit. Bond Counsel has expressed no opinion regarding any such other tax consequences.

LEGAL MATTERS

Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel, will render an opinion substantially in the form set forth in APPENDIX G hereto, with respect to the Indenture and the Bonds. Bond Counsel expresses no opinion regarding the accuracy, completeness or fairness of the Official Statement. Compensation paid to Bond Counsel is contingent on the successful issuance of the 2007 Series A Bonds. Certain legal matters will be passed upon for the Authority by the Authority's General Counsel.

RATINGS

The Authority anticipates that Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies ("S&P"), Moody's Investors Service, Inc. ("Moody's") and Fitch Ratings ("Fitch") will assign their municipal bond ratings of "AAA," "Aaa" and "AAA" to the 2007 Series A Bonds, based on the understanding that simultaneously with the delivery of the 2007 Series A Bonds the Financial Guaranty Insurance Policy will be issued by Ambac Assurance. S&P, Moody's and Fitch have assigned underlying ratings of "AAA," "Aa3," and "AA-," respectively, to the 2007 Series A Bonds. These ratings reflect only the views of the rating agencies, and do not constitute a recommendation to buy, sell or hold securities. The Authority has furnished to the rating agencies certain information respecting the 2007 Series A Bonds and the Authority. Generally, rating agencies base their ratings on such information and materials and their own investigations, studies and assumptions. The ratings are subject to revision or withdrawal at any time by the rating agencies, and there is no assurance that the ratings will continue for any period of time or that they will not be lowered or withdrawn. Any reduction or withdrawal of the ratings may have an adverse effect on the market price of the 2007 Series A Bonds.

VERIFICATION

Upon delivery of the 2007 Series A Bonds the arithmetical accuracy of certain computations included in the schedules provided by the Underwriter on behalf of the Authority relating to the adequacy of forecasted receipts of principal of and interest on the U.S. Treasury obligations and cash held in the Escrow Fund relating to the 1997 Refunded Bonds and (ii) the scheduled payments of principal and interest with respect to the 1997 Refunded Bonds on June 1, 2007, will be verified by Samuel Klein and Company, Certified Public Accountants (the "Verification Agent").

UNDERWRITING

The 2007 Series A Bonds are being purchased by Goldman, Sachs & Co. (the "Underwriter"). The Underwriter has agreed, subject to certain conditions, to purchase 2007 Series A Bonds at a price of $27,624,086.98 (representing $26,275,000.00 aggregate principal amount of 2007 Series A Bonds, plus a net original issue premium of $1,434,421.35, less an Underwriter's discount of $85,334.37). Compensation to the Underwriter is contingent on the Authority's issuance and delivery of the 2007 Series A Bonds to the Underwriter. The Underwriter may offer and sell the 2007 Series A Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices on the 2007 Series A Bonds may be changed from time to time by the Underwriter.

FINANCIAL ADVISOR

The Authority has retained Ross Financial, San Francisco, California, as financial advisor (the "Financial Advisor") in connection with the authorization and delivery of the 2007 Series A Bonds. Compensation paid to the Financial Advisor is contingent on the successful issuance of the 2007 Series A Bonds.

CONTINUING DISCLOSURE

The Authority has covenanted for the benefit of the owners and beneficial owners of the 2007 Series A Bonds to provide certain financial information and operating data relating to the Authority by not later than 210 days following the end of the Authority's Fiscal Year (presently June 30) (the "Annual Report"), commencing with the report for the 2006-2007 Fiscal Year, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by Digital Assurance Certification, L.L.C. (the "Dissemination Agent") on behalf of the Authority with each Nationally Recognized Municipal Securities Information Repository (the "NRMSIRs"). The notices of material events will be filed by the Dissemination Agent on behalf of the Authority with the Municipal Securities Rulemaking Board and with the NRMSIRs. The specific nature of the information to be contained in the Annual Report and the notices of material events is set forth under the caption APPENDIX G – "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12 (the "Rule") of the U.S. Securities and Exchange Commission promulgated under the Securities Exchange Act of 1934, as amended. The Authority has never failed to comply in all material respects with any previous continuing disclosure undertaking pursuant to the Rule to provide annual reports or notices of material events.

MISCELLANEOUS

The references herein to the Act and the Indenture are brief summaries of certain provisions thereof. Such summaries do not purport to be complete or definitive. For full and complete statements of such provisions reference is made to the Act or said documents, as the case may be. A copy of the Indenture is available for inspection at the Authority and following delivery of the 2007 Series A Bonds will be on file at the offices of the Trustee in San Francisco, California.

Any statement in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or Owners of any of the 2007 Series A Bonds.

The execution and delivery of this Official Statement has been duly authorized by the Authority.

SANTA CLARA VALLEY
TRANSPORTATION AUTHORITY

By: /s/ Jerry G. Mikolajczyk
Chief Financial Officer

APPENDIX A

THE AUTHORITY

All capitalized terms used and not defined in this Appendix A shall have the meanings assigned to such terms in the forepart of this Official Statement. Source data for tables is provided by the Authority unless otherwise noted.

Administration

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

The current members of the Board, the local agency each Board member represents and the expiration of each member's term are as follows:

Name	Local Agency
Dean J. Chu, Chairperson	City of Sunnyvale
Liz Kniss, Vice Chairperson	County of Santa Clara
Nora Campos	City of San Jose
David Cortese	City of San Jose
Don Gage	County of Santa Clara
Breene Kerr	Town of Los Altos Hills
Sam Liccardo	City of San Jose
Laura Macias	City of Mountain View
Chuck Reed	City of San Jose
Dolly Sandoval	City of Cupertino
Greg Sellers	City of Morgan Hill
Forrest Williams	City of San Jose

The alternate members of the Board include Judy Chirco (City of San Jose), Dominic Caserta (City of Santa Clara), Kathleen King (City of Saratoga), Roland Velasco (City of Gilroy) and Pete McHugh (County of Santa Clara).

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

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

MICHAEL BURNS–General Manager since August 2005. Mr. Burns has been in the transportation industry for 30 years and formerly served as Executive Director of the San Francisco

Municipal Transportation Agency. Mr. Burns has also served as Executive Director of the San Francisco Department of Parking and Traffic. Prior to that, Mr. Burns served as Chief Operations Officer of the Southeastern Pennsylvania Transportation Authority ("SEPTA"). Prior to serving as Chief Operations Officer at SEPTA, Mr. Burns served as Assistant General Manager in charge of the Railroad Division and as Chief Mechanical Officer. He has also served as Assistant General Manager for Railroad Operations for the Massachusetts Bay Transportation Authority ("MBTA").

DOUG BELEY–Acting Chief Technology Officer since May 2006. Mr. Beley joined the Authority as a senior technology manager in August 1999. Prior to that, Mr. Beley was a career Army officer serving in diverse roles that included technology management, modeling and simulation, and officer development.

JACK COLLINS–Chief Construction Officer since November 1998. Mr. Collins has been in the transportation industry for 27 years implementing large transit projects as a senior executive of the Authority and in the private sector as a professional consultant and contractor. Before joining the Authority, Mr. Collins served as Vice President of O'Brien Kreitzberg, a construction management consultant firm and UTDC (USA) , Inc., a turnkey contractor of automated transit systems

SUZANNE GIFFORD–General Counsel since June 1995. Ms. Gifford formerly served as General Counsel of the Southern California Rapid Transit District. Ms. Gifford is a member of the American Public Transit Association Legal Affairs Committee and has over 30 years of public transit experience.

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

BILL LOPEZ–Chief Administrative Officer since April 2006. Prior to joining the Authority, Mr. Lopez spent 22 years with the City of San Diego most recently as Director of Risk Management. Prior to that, Mr. Lopez formerly served as the Deputy Director for the Operations and Maintenance Division, Metropolitan Wastewater Department, and the Labor Relations Officer for the City of San Diego City Manager's Office.

JERRY G. MIKOLAJCZYK–Chief Financial Officer since April 2007. Mr. Mikolajczyk has more than 27 years of experience in accounting, auditing, and financial management. Much of his experience is in the construction industry, with an emphasis on project controls and reporting. He served as Chief Financial Officer with SCI Group and American Benefits Group, and most recently as Chief Operating Officer of MineCore International. He earned his business administration degree at Red River Community College in Winnipeg, Manitoba, and is a certified general accountant (the Canadian equivalent of a CPA).

DONALD SMITH–Chief Operating Officer since May 2006. Mr. Smith joined the Authority in April 2006 as Deputy Director, Operations. Mr. Smith has extensive experience in operations, management, and paratransit including 25 years at the MBTA in Boston. Mr. Smith has also worked at SEPTA in Philadelphia and as a consultant in the private sector.

MARIA MARINOS–Board Secretary since October 2005. Prior to her appointment as Board Secretary, Ms. Marinos served as Senior Transportation Planner of Programming and Grants for the Authority since January 2001. Ms. Marinos has been in the transit industry for 23 years and served in the positions of Grants & Legislative Analyst and Administrative Services Coordinator for the Santa Cruz Metropolitan Transit District.

Employees

The Authority presently has approximately 2,040 employees. The Amalgamated Transit Union, Division 265, represents mechanics and maintenance personnel, bus and light rail operators, dispatchers, and customer service representatives. Other Authority employees are either represented by the Service Employees International Union, Local 715 representing technical and administrative positions, while the Transportation Authority Engineers and Architects Association represent approximately 38 employees in engineering occupations. Managers, supervisors and other professional staff are represented by the American Federation of State, County and Municipal Employees, Local 101. There are approximately 110 non-represented employees consisting of executive and senior level classifications. Authority has never experienced any major work stoppages or job actions.

The Authority Transit System

Bus Transit Service. The Authority presently operates a bus system providing service to the approximately 326 square mile urbanized portion of the Santa Clara County, a county of 1,300 square miles with a population of approximately 1.8 million. The Authority currently maintains an active fleet of 435 diesel-powered and 5 unleaded-powered buses and three zero emission buses. The average age of these buses is approximately 7 years and the buses range from one to 14 years old. Buses are operated and maintained from three operating divisions and an Overhaul and Repair (O&R) facility: Cerone Operating Division, Don Pedro Chaboya Operating Division, North Operating Division and Cerone O&R Division. There are approximately 4,300 bus stops and 740 bus shelters along the bus routes. The Authority also maintains eight park and ride lots – five owned by the Authority and three provided under a lease, permit, or joint use agreement with other agencies.

Light Rail Transit Service. The Authority currently operates and maintains a 42.2 mile light rail system (the "LRT System") connecting areas of Mountain View, Sunnyvale, Santa Clara, North San Jose and Milpitas to areas in South San Jose and Campbell. The Authority's fleet consists of 100 low floor light rail vehicles and three historic trolleys. With the completion of the Vasona Light Rail Project Phase One in October 2005 the LRT System now has 62 stations and 21 park and ride lots, which are fully integrated with the bus system.

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

The Authority is also a member of the Capitol Corridor Joint Powers Authority (the "Capitol Corridor JPA") that provides the Capitol Corridor Intercity Rail Service, which runs 24 daily trains between Oakland and Sacramento, with 14 continuing to San Jose. Stops are located at stations in Auburn, Rocklin, Roseville, Sacramento, Davis, Suisun/Fairfield, Martinez, Richmond, Berkeley, Emeryville, Oakland (2), Hayward, Fremont, Santa Clara and San Jose. The Capitol Corridor JPA is comprised of the Authority, the Sacramento Regional Transit District, the Placer County Transportation Planning Agency, the congestion management agencies of Solano and Yolo Counties and the San

Francisco Bay Area Rapid Transit District ("BART"). Under contract with the Capitol Corridor JPA, BART manages the service and Amtrak operates the service on tracks owned by Union Pacific Railroad. Funding is provided by the State of California (the "State of California" or the "State").

The Altamont Commuter Express ("ACE") is administered under a cooperative agreement among the Authority, Alameda County Congestion Management Agency and the San Joaquin Regional Rail Commission (SJRRC). ACE rail service provides peak hour and midday weekday commuter rail service from the Central Valley to Santa Clara County. The rail line includes stops located in Stockton, Lathrop, Tracy, Livermore (2), Pleasanton, Fremont, Great America, Santa Clara and San Jose Diridon Station. The Authority provides eight free shuttles to transport ACE riders between the Great America and San Jose Diridon stations. Pursuant to the ACE agreement, funding of operating costs is based on Fiscal Year 2003 contributions, escalated annually by consumer price index ("CPI") increases. The Authority's share is approximately 42% of the cost associated with peak hour weekday service. SJRRC, CalTrans and the San Joaquin/Amtrak Intercity Rail Service provide funding for the midday service.

The Dumbarton Express is a transbay express bus route operating between the Union City BART station and Stanford Research Park in Palo Alto. A consortium comprised of representatives from the Alameda-Contra Costa Transit District ("AC Transit"), BART, the City of Union City, SamTrans, and the Authority fund the net operating costs of the service. Each member of the consortium pays a share of the operating expenses based on the origin and destination of the passengers as determined by an annual ridership survey (currently approximately 36% for the Authority). AC Transit manages and operates the service.

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

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

Under the Authority's Rail Shuttle Program, the Authority offers financial assistance to employers that wish to operate shuttle bus service between LRT System stations and nearby employment/activity centers. This service is operated through a private contractor provided by the Authority or the employer. Funding to operate this program is provided by the employers, the Authority, and grants from the State Transportation Fund for Clean Air Act (AB434).

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

In August 2006, the Authority, Monterey-Salinas Transit (MST) and the Capitol Corridor Joint Powers Authority partnered on a one-year pilot express bus service operating from Monterey to San Jose, funded by a federal Jobs Access Reverse Commute grant, the Capitol Corridor Joint Powers Authority and VTA. The VTA portion of the cost for Fiscal Year 2007 is $22,500 per quarter. The Line 55 Monterey-San Jose Express operates daily with three round trips, covering commute times in the morning, mid-day and evening. The service provides passengers with transfers to and from Capitol Corridor trains that operate between San Jose-Oakland-Sacramento, Caltrain (including "Baby Bullet" express trips), and VTA's bus and light rail services. The service originates in downtown Monterey with other stops in Monterey County before stopping at the Gilroy Caltrain Station, Morgan Hill Caltrain Station, San Jose State University, downtown San Jose and the San Jose Diridon Station.

Authority Revenues

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

1976 Sales Tax Revenues. The 1976 Sales Tax is the Authority's single largest source of revenue for operations. The California State Board of Equalization (the "Board of Equalization") collects the 1976 Sales Tax for the Authority and, pursuant to an agreement between the Authority and the Board of Equalization remits sales tax revenues to the trustee for the senior lien debt secured by the 1976 Sales Tax (the "1976 Sales Tax Senior Lien Trustee") on a monthly basis. Pursuant to its procedures, the Board of Equalization projects receipts of the 1976 Sales Tax on a quarterly basis and remits an advance of such receipts to the 1976 Sales Tax Senior Lien Trustee each month based on such projection. During the last month of each quarter, the Board of Equalization adjusts the amount remitted to reflect the actual receipts of the 1976 Sales Tax for the previous quarter less administration costs. After application for payment of the senior obligations and the junior obligations secured by the 1976 Sales Tax, (see "Authority Obligations-Obligations Secured by the 1976 Sales Tax"), 1976 Sales Tax Revenues are budgeted to pay operating expenses and to pay capital expenditures where State or Federal capital assistance programs require that the recipient of assistance contribute locally derived revenue.

For a discussion of the Authority's 1976 Sales Tax Revenues over the last five years, see the information in the forepart of this Official Statement under the caption "Historical 1976 Sales Tax Revenues."

2000 Measure A Sales Tax Revenues. The 2000 Measure A Sales Tax is also collected by the Board of Equalization and is remitted to the Trustee pursuant to a separate agreement between the Authority and the State Board of Equalization relating to the 2000 Measure A Sales Tax in the same manner as the Authority's 1976 Sales Tax. The 2000 Measure A Sales tax provides funding for transit projects and operations listed in the Authority's Valley Transportation Plan 2030 (VTP 2030). VTP 2030 was formulated to provide a balanced transportation system consisting of transit, roadway, bicycle and pedestrian improvements. Transit projects included in VTP 2030 include an extension of the Bay Area Rapid Transit (BART) system from Fremont to San Jose/Santa Clara; light rail extensions; bus service improvements, and commuter rail service improvements. The Board of Directors of the Authority adopted an initial 30-year expenditure plan for the transit component of VTP 2030 in June 2006. The expenditure plan will be updated periodically to reflect trends in 2000 Measure A Sales Tax Revenue and project readiness.

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

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

The table on the following page shows the total amount of TDA Revenues for operations available from annual State of California sales tax collections in Santa Clara County during the five Fiscal Years ended June 30, 2006.

Santa Clara Valley Transportation Authority
Historical TDA Revenues

Fiscal Year Ended June 30	TDA Revenues for Operations Distributed to the Authority
2002	$95,400,982
2003	$58,878,303[(1)]
2004	$64,993,308
2005	$67,098,151
2006	$71,044,484

(1) Allocations by MTC were based on projections with adjustments made in following fiscal years based on actual receipts. Excess actual receipts for 2001 and over allocation in 2002 resulted in reduced allocations in 2003.

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

The Authority has been receiving STA Revenues since Fiscal Year 1980. STA Revenues have to be claimed by the Authority based on actual cash expenditures, normally on a quarterly basis. The table on the following page reflects STA Revenues received by the Authority for the five Fiscal Years ended June 30, 2006.

Santa Clara Valley Transportation Authority
Historical STA Revenues

Fiscal Year Ended June 30	STA Funds Received
2002	$7,003,123
2003	$6,429,687
2004	$4,417,128
2005	$7,285,035
2006	$7,736,714

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

On November 7, 2006, the voters of California approved Proposition 1A, a constitutional amendment designed to protect Proposition 42 revenues from being loaned or diverted by the state to nontransportation purposes, thereby curbing a practice that the Governor and California State Legislature used quite regularly during the state's economic downtown earlier this decade. While Proposition 1A does not prevent the state from borrowing Proposition 42 entirely, it does put restrictions on when and how often these revenues can be diverted to the General Fund, and when they must be paid back. Specifically, Proposition 1A includes the following:

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

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

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

On January 10, 2007, the Governor submitted his proposed Fiscal Year 2008 budget to the Legislature. His budget proposes to fully fund Proposition 42 in the upcoming fiscal year and to repay prior-year Proposition 42 loans pursuant to the minimum amount required under Proposition 1A. This would result in $1.558 billion in Proposition 42 revenues being made available for state transportation programs in FY 2008 as follows:

- $684 million for TCRP projects.

- $699 million for the State Transportation Improvement Program (STIP).

- $176 million for the Public Transportation Account, half of which would be allocated to the STA.

Ridership and Farebox and Advertising Revenues. The table set forth below shows the Authority's ridership and the amount of passenger fare revenues, revenues from advertisements placed on the Authority's vehicles and bus shelters and other revenues received by the Authority for the five Fiscal Years ended June 30, 2006.

Santa Clara Valley Transportation Authority
Ridership [(1)] and Farebox and Advertising Revenues

Fiscal Year Ended June 30	Number of Passengers [(1)]	Farebox, Advertising and Other Revenues Received
2002	52,690,092	$37,122,197
2003	45,221,844	34,375,744
2004	38,375,374	33,421,425
2005	37,077,149	34,757,671
2006	39,217,851	36,925,269

(1) Directly operated services.

Bus ridership reached a peak in Fiscal Year 1999 of 154,100 riders per day. Due to the economic downturn in the County culminating in the loss of approximately 200,000 jobs, bus ridership declined to 97,100 riders per day in Fiscal Year 2005. However, Fiscal Year 2006 bus ridership reflects a slight upturn at approximately 100,000 riders per day.

Light rail ridership increased from less than 1,000 riders per day when the system initially opened in December 1987, to a high of 30,400 riders per day in Fiscal Year 2001. Due to the severe downturn in the local economy, ridership fell to approximately 17,600 riders per day in Fiscal Year 2004 but rebounded to 21,400 riders per day in Fiscal Year 2005 and increased to 26,100 riders per day in Fiscal Year 2006. Light rail ridership for June 2006 was 31,900 per day. A portion of the increase in light rail ridership from Fiscal Year 2004 to the present is due to the opening of the Tasman East and Capitol Light Rail extensions in June 2004 and the Vasona Light Rail extension in October 2005.

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

Authority Expenditures

Operating Expenditures. Expenditures due to directly operated services account for approximately 79% of the Authority's revised Fiscal Year 2007 Budget. Approximately 11% of these expenditures are related to light rail service, 43% to bus service and 25% are related to administrative support, which includes operations administration, administrative service and fiscal services. The remaining portions of each annual budget are for expenditures for other than directly operated services, such as debt service, Paratransit Service, Caltrain, and Altamont Commuter Express. See the table under the caption entitled "Authority Budgetary Policies and Budget," below, for a listing of the Authority's adopted and revised budget operating expenses by category for the Fiscal Year ended June 30, 2006 and June 30, 2007.

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

Significant Accounting Policies

The Authority follows the accrual basis of accounting. Vavrinek, Trine, Day & Co., LLP audited the Authority's Fiscal Year 2006 records. A five-year contract with the Authority's prior auditor, Macias Gini & Company, LLP was completed in 2005, after which the Authority issued a Request For Proposals for financial compliance audit services. Based on evaluation criteria set forth in the Request For Proposal, Vavrinek, Trine, Day & Co., LLP was selected as the Authority's independent auditor for a period of three years. The Authority has the option to extend the contract for two additional one-year periods. See APPENDIX B – "Audited Financial Statements of the Authority for the Fiscal Year Ended June 30, 2006."

Revenues and expenditures are monitored continually using an enterprise resource system called SAP R/3. In addition, the Authority maintains additional mechanized reporting systems, which provide up-to-date data for the Authority to meet a variety of management needs and reporting requirements.

Financial Results - GAAP Presentation

The table on the following page summarizes the Statement of Revenues, Expenses and Changes in Fund Net Assets for the Enterprise Fund of the Authority for the five Fiscal Years ended June 30, 2006. The summary statements are presented in accordance with generally accepted accounting principles ("GAAP"), are excerpted from the audited financial statements of the Authority for the Fiscal Years indicated therein and are qualified in their entirety by reference to such statements, including the notes thereto. See APPENDIX B – "Audited Financial Statements of the Authority for the Fiscal Year Ended June 30, 2006."

Santa Clara Valley Transportation Authority
Statements of Revenues and Expenses
Fiscal Years Ending June 30[1]
(In Thousands)

	2002	2003	2004	2005	2006
Operating Revenues:					
Passenger fares	$31,282	$30,959	$30,625	$32,061	$34,335
Advertising and other	5,840	3,416	2,796	2,631	2,591
Total operating revenues	**37,122**	**34,375**	**33,421**	**34,692**	**36,926**
Operating Expenses:					
Labor	130,990	134,524	127,044	120,402	123,941
Fringe benefits	80,877	92,001	95,349	108,921	114,056
Materials and supplies	20,460	20,698	16,169	19,996	27,777
Services	24,063	22,055	17,114	18,226	20,141
Utilities	7,212	5,735	5,064	5,795	6,186
Casualty and liability	3,199	4,119	3,413	3,763	6,114
Purchased transportation	35,780	31,553	27,242	25,538	27,395
Leases and rentals	792	605	569	580	205
Miscellaneous	4,471	3,154	2,609	1,773	2,000
Costs allocated to capital and other programs[2]	--	(20,201)	(29,698)	(29,346)	(26,239)
Total operating expenses, excluding depreciation	**307,854**	**294,244**	**264,877**	**275,648**	**301,576**
Operating loss before depreciation	**(270,731)**	**(259,868)**	**(231,455)**	**(240,956)**	**(264,650)**
Depreciation Expense:					
Total depreciation expense	33,356	41,516	46,552	56,557	63,766
Operating loss	**(304,087)**	**(301,384)**	**(278,007)**	**(297,513)**	**(328,416)**
Non-operating revenues (expenses):					
Sales Tax Revenue	144,218	132,632	138,917	145,008	195,453[3]
Federal operating grants and reimbursements	23,811	33,176	38,143	34,416	33,565
State and local operating grants and reimbursements	103,561	70,956	73,433	79,509	81,199
Caltrain contributions[4]	(25,315)	(22,298)	(16,805)	(14,112)	(42,200)[5]
Altamont Commuter Express subsidy	(1,740)	(2,715)	(2,392)	(2,470)	(2,470)
Interest income	24,513	14,245	1,592	5,666	6,457
Interest expense	(14,717)	(14,222)	(13,691)	(13,761)	(11,562)
Other (expense)/Income, net	45	(754)	(919)	(688)	2,186
Total non-operating revenues, net	**254,377**	**211,020**	**218,279**	**233,568**	**262,628**
Net income (loss)[6]	**($49,711)**	**($90,363)**	**($59,728)**	**($63,945)**	**($65,788)**

(1) Presentation of Statements of Revenues and Expenses based on GAAP.
(2) Represents a credit for direct and indirect labor and associated fringe benefits, reproduction and mileage costs and other costs that were capitalized as construction in progress. See Note 2(k) to the audited financial statements of the Authority attached hereto as Appendix B.
3) Represents $157.3M in 1976 Sales Tax Revenues and $38.2M in 2000 Measure A Sales Tax Revenues. Collection of 2000 Measure A Sales Tax started in April 2006.
(4) After Fiscal Year 2001, this category was broken out into "Caltrain subsidy" and "Caltrain capital contributions" in the audited financial statements. The categories have been combined for all years shown for convenience of presentation.
(5) Includes one-time transfer of assets to Caltrain Peninsula Corridor Joint Power Board ("PCJPB") in the amount of $27.4M.
(6) Net income (loss) is presented in accordance with GAAP. A loss is funded from Budgetary Reserves. For an explanation of Budgetary Reserves, see "Management's Discussion of Financial Results and Certain Other Matters."

Financial Results - Budgetary Basis Presentation

The table on the following page summarizes net income on a budgetary basis for the Enterprise Fund of the Authority for the five Fiscal Years ended June 30, 2006. The data in the table is derived from budgetary comparison schedules included in the Authority's Comprehensive Annual Financial Reports for the fiscal years indicated in the table. Budgetary basis accounting excludes certain bond transactions, unrealized loss from stating investments at the lower of cost or market value, loss from the sale of assets and sublease agreements, and depreciation, which are included in the GAAP presentation. Such budgetary comparison schedules do not constitute basic financial statements as defined by the Governmental Accounting Standards Board ("GASB"). The Independent Auditor's Reports on the basic financial statements of the Authority do not express any opinion with respect to such budgetary comparison schedules. However, for the Fiscal Year ending June 30, 2005, the Authority's Independent Auditor performed a separate audit on the Budgetary Comparison Schedule – Enterprise Fund, which is included in the Authority's audited financial statements attached hereto as APPENDIX B.

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Santa Clara Valley Transportation Authority
VTA Transit Operations Statement of Net Income, Budget Basis
Fiscal Years Ending June 30
(In Thousands)

Revenue/Expense Category	**2002**	**2003**	**2004**	**2005**[(1)]	**2006**[(1)]
Fares[(2)]	$ 31,282	$ 30,959	$ 30,625	$ 32,061	$34,335
1976 Sales Tax and 2000 Measure A Sales Tax[(3)]	144,218	132,632	138,917	145,008	164,328
Transportation Development Act funds[(3)]	95,401	58,878[(5)]	64,993	67,098	71,044
State Transit Assistance funds[(4)]	7,003	6,430	4,417	7,285	7,737
Federal operating grants[(4)]	23,811	33,176	38,143	34,416	33,565
State operating grants[(4)]	1,046	1,457	751	1,018	1,518
Local operating assistance	112	4,191	3,272	4,108	900
Investment earnings	24,381	14,229	2,352	2,985	3,351
Advertising income	4,425	3,303	1,871	1,925	1,899
Other income[(6)]	4,339	6,278	52,789[(7)]	43,830[(8)]	23,058
Total revenues	**336,018**	**301,534**	**338,130**	**339,735**	**341,735**
Labor costs	220,456	226,809	222,722	229,322	237,997
Materials and supplies	11,042	11,647	7,047	8,059	12,615
Security	9,909	9,147	7,687	7,954	6,730
Professional and special services	8,326	4,473	3,226	3,524	3,745
Other services	10,277	8,402	6,071	6,631	7,787
Fuel	4,809	5,380	6,060	8,249	10,907
Traction power	3,612	2,603	2,152	2,486	2,802
Tires	1,034	961	963	1,054	1,172
Utilities	2,160	2,152	2,013	2,274	2,387
Insurance	3,199	4,119	3,413	3,763	6,114
Data processing	3,690	2,744	2,221	2,753	2,493
Office expense	744	413	383	351	392
Communications	1,440	980	899	1,036	997
Employee related expense	1,506	673	458	661	777
Leases and rents	792	605	569	580	482
Miscellaneous	1,510	2,544	1,900	1,122	1,322
Reimbursements[(9)]	(12,682)	(19,732)	(29,698)	(29,346)	(33,180)
Total operating expenses	**271,826**	**263,919**	**238,087**	**250,470**	**265,539**
Paratransit	33,122	29,064	25,465	23,774	26,309
Caltrain	14,897	14,105	14,000	14,112	15,485
Light rail shuttles	1,237	1,039	728	732	1,732
Altamont Commuter Express	3,160	3,865	3,441	3,503	3,785
Highway 17 Express	520	402	317	321	353
Dumbarton Express	246	329	355	364	411
Contribution to other agencies	436	530	1,060	475	508
Debt service	14,717	22,714	22,699	23,125	23,449
Miscellaneous expenses	510	415	139	556	14
Contingencies	0	0	0	5	0
Total other expenses	**68,846**	**72,464**	**68,205**	**66,968**	**72,046**
Total operating and other expenses	**340,673**	**336,383**	**306,292**	**317,438**	**337,585**
Net Income (loss) - budget basis[(10)]	**($4,654)**[(11)]	**($34,849)**[(11)]	**$ 31,838**	**$ 22,297**	**$4,150**

(see footnotes on the next page)

(1) Budgetary presentation based on Budgetary Comparison Schedules included as Supplementary Information in audited financial statements of the Authority. See page 2-73 and page 2-74 of the Authority's audited financial statements attached hereto as Appendix B.

(2) Passenger fares are budgeted based on ridership trends as adjusted by anticipated fare and route changes and certain other factors.

(3) The 1976 Sales Tax, 2000 Measure A Sales Tax and TDA Revenues are budgeted on the basis of historical collections and factored against inflation and other growth, see "THE 1996 SALES TAX – Historical Sales Tax Revenues" in the forepart of the Official Statement. In 2006 1976 Sales Tax Revenues were $157.3M and 2000 Measure A Sales Tax Revenues, dedicated to operating assistance, were $6.9M.

(4) Federal, state and regional funding sources are budgeted in accordance with allocations and commitments.

(5) Allocations are based on projections with adjustments made in following fiscal years based on actual receipts. Excess actual receipts for 2001 and over allocation in 2002 resulted in reduced allocations in 2003.

(6) Comprised of permit fees, property rental income, services to other agencies, shuttle revenue for contracted services, one-time revenues, 2000 Measure A repayment obligation, and other non-operating revenue. The 2000 Measure A repayment obligation represents a reimbursement from 2000 Measure A Sales Tax for the Authority's payments of debt service on the Santa Clara Valley Transportation Authority Sales Tax Revenue Bonds, Series 2001, the proceeds of which provided funding towards the completion of the Tasman East, Capitol and Vasona Light Rail Extensions in exchange for a like amount of the County of Santa Clara 1996 Measure B Sales Tax funds (pursuant to an agreement with the County), which were used to advance the acquisition of low floor light rail vehicles, a project which was to be funded from 2000 Measure A Sales Tax Revenues.

(7) Includes 2000 Measure A repayment obligation (referenced in footnote 3 above) of $20.0 million and $30.0 million of one-time lease revenue associated with the leasing of certain light rail vehicles. See Note 9 and Note 20 (d) to the audited financial statements of the Authority attached hereto as Appendix B.

(8) Includes 2000 Measure A repayment obligation (referenced in footnote 3 above) of $38.5 million and $2.3 million of one-time lease revenue associated with the subleasing of certain light rail vehicles. See Note 9 and Note 20 (c) to the audited financial statements of the Authority attached hereto as Appendix B.

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

(10) Net income (loss)-budget basis is presented using budgetary basis of accounting and does not include unrealized loss from stating investments at lower of cost or market, loss from sale of assets and sublease agreements, or depreciation.

(11) Funded from Reserves. For an explanation of Reserves, see "Management's Discussion of Financial Results and Certain Other Matters."

Management's Discussion of Financial Results and Certain Other Matters

The Authority presents financial results both in accordance with generally accepted accounting principles (GAAP) and on a budgetary basis. The Statements of Revenues and Expenses table on page A-14 are presented in accordance with GAAP. The Statements of Net Income, Budget Basis table on page A-15 are presented using budgetary basis accounting. Budgetary basis accounting excludes certain bond transactions, unrealized loss from stating investments at the lower of cost or market value, loss from the sale of assets and sublease agreements, and depreciation which are included in the GAAP presentation.

On a GAAP basis, the Authority experienced deficits of approximately $49.7 million, $90.4 million, $59.7 million, $63.9 million and $65.8 million for the Fiscal Years ended June 30, 2002, 2003, 2004, 2005 and 2006, respectively. Such deficits include all relevant non-cash related expenses, including depreciation.

On a budgetary basis, the Authority experienced a deficit of approximately $4.7 million and $34.8 million for the Fiscal Year ended June 30, 2002 and 2003 and budgetary surpluses of approximately $31.8 million, $22.3 million and $4.2 million for the Fiscal Years ended June 30, 2004, 2005 and 2006.

The Authority funds any budgetary deficits from its Reserves. Reserves consist of: (a) restricted reserves, comprised of (i) operating reserves (the "Operating Reserves"), which represent an amount equal to 15% of budgeted operating expenses or the amount of uncommitted available funds, whichever is less, to be held in reserve to fund unanticipated revenue shortfalls or unavoidable expenditure needs, (ii) the local share of approved capital projects, which represents the amount of revenue to be provided by the Authority towards capital projects approved by the Board of Directors, and (iii) operating encumbrance, which represents funds provided for one-time non-recurring programs and projects; and (b) unrestricted reserves, which represent funds not committed to a specific purpose.

The Authority attributes the Fiscal Year 2002 and 2003 deficits described above to the effects of a severe downturn of the local economy (principally in the high-tech industry), which began in 2001 and resulted in reductions in 1976 Sales Tax Revenues and available jobs within the county (which resulted in a corresponding reduction in ridership). 1976 Sales Tax Revenues declined approximately 21.0% between the Fiscal Year ended June 30, 2001 and the Fiscal Year ended June 30, 2005. See "The 2000 Measure A Sales Tax-Historical 1976 Sales Tax Revenues " in the forepart of this Official Statement. The decline in 1976 Sales Tax Revenues and reduction in ridership reduced operating and non-operating revenue at the same time that the Authority was experiencing increased operating and non-operating expenses resulting from increases in salaries and benefits, insurance, and non-operating expenses.

To address the effects of the economic downturn, the Authority eliminated positions, reduced its capital program, increased fares and reduced service. In addition, the Authority increased operational efficiencies and obtained revenues from one-time financing transactions. As a result of these steps the Authority was successful in replenishing its Operating Reserves which the Authority had utilized to fund the deficits described above. As of June 30, 2001, reserves available for operating expenses totaled $111 million. By the end of Fiscal Year 2003, reserves available for operating expenses had decreased to $4 million. As of June 30, 2006, Reserves totaled approximately $104.8 million, of which approximately $55.4 million is available for operating expenses.

Based on current revenues and expenses, the Authority anticipates being able to continue existing service but service increases would require additional revenue sources or the reallocation of existing resources.

In 1998, the Authority entered into two transactions to lease out 50 light rail vehicles with an appraised value of approximately $106.8 million and to simultaneously sublease back those vehicles. In 2003, the Authority entered into four leases to service contract transactions covering 66 light rail vehicles with an appraised value of approximately $291.2 million. Descriptions of certain aspects of these lease transactions appear in Note 20 to the Authority's audited financial statements in Appendix B of this Official Statement.

On May 17, 2006, President Bush signed into law an act entitled the "Tax Increase Prevention and Reconciliation Act of 2005" (the "Prevention and Reconciliation Act"). Among other provisions, the Prevention and Reconciliation Act imposes an excise tax on certain types of leasing transactions entered into by tax-exempt entities, including states and their political subdivisions (including the Authority). Based on Notice 2007-18 published by the Internal Revenue Service, which provides clarifications to language included in the Prevention and Reconciliation Act, the Authority is not expected to incur an excise tax liability with respect to the Authority's lease transactions.

Authority Budget

The Authority's budget is prepared biennially before the commencement of its Fiscal Year (July l-June 30). The Adopted Biennial Budget Fiscal Years 2006 and 2007 was approved by the Board of Directors on June 2, 2005, and last revised on January 4, 2007. The table on the following page summarizes the Authority's Fiscal Year 2006 and Fiscal Year 2007 Adopted and Revised Budgets. Budget figures are generally revised in January of each year if additional appropriations are necessary.

The Authority is currently developing the Recommended Fiscal Year 2008 and Fiscal Year 2009 Budget, which is expected to be adopted by the Board of Directors at its regularly scheduled June 2007 meeting.

Santa Clara Valley Transportation Authority
Fiscal Years 2006 and 2007 Adopted and Revised Budgets
Statement of Revenues and Expenses
(In Thousands)

	Fiscal Year 2006 Adopted Budget	**Fiscal Year 2006 Revised Budget**	**Fiscal Year 2007 Adopted Budget**	**Fiscal Year 2007 Revised Budget**
Fares	$ 36,732	$ 35,120	$ 36,857	$ 35,107
Sales Tax Revenues(1)	148,865	150,765	156,120	163,462
TDA	71,044	71,044	73,376	81,210
2000 Measure A Sales Tax Operating Support(2)	6,869	6,869	28,815	30,170
STA	6,331	8,909	8,112	22,511
Federal Operating Grants	33,381	33,381	34,546	35,598
State Operating Grants	1,100	1,100	1,100	1,442
Local Operating Assistance	474	500	-	-
Investment Earnings	2,425	2,920	2,097	4,175
Advertising Income	1,921	1,921	1,933	1,933
Other Income(3)	16,345	19,496(4)	15,901(5)	15,901(5)
Total Revenue	**$325,487**	**$332,025**	**$358,857**	**$391,509**
Labor Costs	$238,613	$238,855	$240,507	$246,915
Materials & Supplies	12,784	11,947	12,925	13,926
Security	7,880	7,360	8,062	6,823
Professional & Special Services	5,807	5,676	4,790	6,348
Other Services	7,567	7,408	7,483	7,466
Fuel	9,976	11,476	10,119	13,619
Traction Power	3,441	3,441	3,441	3,426
Tires	1,050	1,292	1,105	1,446
Utilities	2,321	2,321	2,373	2,373
Insurance	3,899	3,813	4,194	4,159
Data Processing	2,708	2,708	2,652	2,502
Office Expense	422	404	422	432
Communications	1,138	1,033	1,208	1,208
Employee Related Expense	1,017	990	1,011	1,053
Leases & Rents	638	638	654	654
Miscellaneous	1,258	1,152	1,265	1,466
Reimbursements(6)	(35,710)	(34,717)	(26,886)	(29,475)
Total Operating Expense	**$264,807**	**$265,796**	**$275,326**	**$284,341**
Paratransit(7)	26,662	26,528	27,446	27,446
Caltrain(7)	15,461	15,461	15,940	15,923
Light Rail Shuttles(7)	906	1,551	927	927
Altamont Commuter Express(7)	3,842	3,842	3,952	3,902
Highway 17 Express(7)	427	427	443	443
Dumbarton Express(7)	449	449	413	413
Monterey – San Jose Express Service			68	68
Contribution to Other Agencies	567	567	597	597
Debt Service	23,336	24,566	23,593	25,613
Other Expense	219	219	20	22
Total Other Expense	**$ 71,886**	**$ 73,609**	**$ 73,331**	**$ 75,354**
Total Operating and Other Expense	**$336,675**	**$339,405**	**$348,657**	**$359,695**
Contingency	2,000	2,000	2,000	1,121
Surplus/(Deficit) to Reserves	**($ 13,188)**	**($ 9,380)**	**$ 8,200**	**$ 30,693**

(see footnotes on next page)

(1) Represents 1976 Sales Tax.
(2) Represents 18.5% of 2000 Measure A Sales Tax effective April 1, 2006, which is provided for support of operations through March 31, 2036.
(3) Comprised of permit fees, property rental, services to other agencies, shuttle revenue (not directly operating by the VTA), contracted services, ongoing 2000 Measure A Sales Tax repayment obligation (for an explanation of the 2000 Measure A Sales Tax repayment obligation, see footnote 3 to the table above entitled "Santa Clara Valley Transportation Authority Statement of Net Income, Budget Basis, Fiscal Years Ending June 20, 2002 through June 30, 2006" and Note 9 to the audited financial statements of the Authority attached hereto as Appendix B), and other non-operating revenue.
(4) Includes 2000 Measure A repayment obligation (see footnote 3 to the table above entitled "Santa Clara Valley Transportation Authority Statement of Net Income, Budget Basis, Fiscal Years Ending June 20, 2002 through June 30, 2006" and Note 9 to the audited financial statements of the Authority attached hereto as Appendix B) of $14.0 million and a one-time reimbursement of $2.5 million from 2000 Measure A for lost interest income as a result of advancing debt service payments.
(5) Includes 2000 Measure A repayment obligation (see footnote 3 to the table above entitled "Santa Clara Valley Transportation Authority Statement of Net Income, Budget Basis, Fiscal Years Ending June 20, 2002 through June 30, 2006" and Note 9 to the audited financial statements of the Authority attached hereto as Appendix B) of $14.0 million.
(6) Costs allocated to capital and other programs.
(7) Amounts include allocation of Authority support staff.

Hay Group Organizational and Financial Assessment

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

As a result of the RFP, in August 2006 the Authority engaged Hay Group, a Philadelphia-based management consulting firm. In March 2007, Hay Group released its Organizational and Financial Assessment of the Authority (the "Assessment"). Among other things, the Assessment concludes that the Authority suffers from weaknesses in financial management processes and policies, including those relating to internal audit functions, cash management, budgeting and expenditure controls. The Assessment also makes a number of specific organizational and financial management recommendations. The Authority's Board is currently reviewing the Assessment and its recommendations.

The Assessment is not a financial audit, and Hay Group's methodology was not intended or designed to comply with generally accepted government auditing standards. At no time have the Authority's present independent auditors, Vavrinek, Trine, Day & Co., LLP, or any of its former independent auditors advised the Authority of the existence of any material weaknesses in the Authority's internal controls over financial reporting or any other reportable condition that the auditors would be required to report to the Authority's Board pursuant to generally accepted government auditing standards. See APPENDIX B – "AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY FOR THE FISCAL YEAR ENDED JUNE 30, 2006."

The Authority does not believe that the operational and financial management issues raised in the Assessment will have a material impact on its ability to make timely payments of principal of and interest on the 2007 Series A Bonds.

Authority Obligations

Obligations Secured by the 1976 Sales Tax. The following table sets forth the Authority's outstanding obligations as of April 1, 2007 which are secured by the Authority's 1976 Sales Tax.

	Original Principal Amount	Principal Amount Outstanding
1976 Senior Lien Obligations		
Sales Tax Revenue Refunding Bonds, 2005 Series A-C [(1)]	$172,530,000	$170,860,000
Sales Tax Revenue Bonds, 2001 Series A [(2)]	200,000,000	19,145,000
Sales Tax Revenue Bonds, 1997 Series A	40,570,000	31,440,000
Adjustable Rate Refunding Equipment Trust Certificates, Series 1985A [(1)]	52,860,000	29,660,000
1976 Junior Lien Obligations		
Junior Lien Sales Tax Revenue Bonds, 2000 Series A	40,000,000	33,830,000
Junior Lien Sales Tax Revenue Bonds, 1998 Series A	50,000,000	41,430,000

[(1)] In connection with these bonds, the Authority entered into interest rate swaps. For a detailed discussion of the interest rate swaps, please refer to the Authority's audited financial statements, note 7 (d), attached hereto as Appendix B.
[(2)] A portion was refunded and defeased from proceeds of the Sales Tax Revenue Refunding Bonds, 2005 Series A-C.

Obligation Secured by the 2000 Measure A Sales Tax. The following table sets forth the Authority outstanding obligations of $428,375,000 as of April 1, 2007, which are secured by the Authority's 2000 Measure A Sales Tax Revenues.

	Original Principal Amount	Principal Amount Outstanding
2000 Measure A Sales Tax		
Sales Tax Revenue Bonds, 2006 Series A-D[(1)]	$235,875,000	$235,875,000
Sales Tax Revenue Bonds, 2006 Series E-G	$192,500,000	$192,500,000

[(1)] In connection with these bonds, the Authority entered into four interest rate swap agreements under which regularly scheduled payments are made by the Authority and secured by 2000 Measure A Sales Tax Revenues. A description of the swaps is included in note 21 of the Authority's audited financial statements attached hereto as Appendix B.

Capital Programs

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

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

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

Measure A Sales Tax (See "THE 1976 SALES TAX – 2000 Measure A Sales Tax" in the forepart of this Official Statement.

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

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

The 10-year CIP includes routine bus replacement needs, essential facility rehabilitation, bus facilities, technology upgrades, and rehabilitation needs of the light rail system as the Guadalupe line approaches 20 years of age. The table on the following page summarizes costs for currently identified baseline capital projects for the 10-year period of the SRTP (Fiscal Years 2007-2016). The current SRTP does not include capital program investments that are funded from the 2000 Measure A Sales Tax (see 1976 SALES TAX-2000 Measure A Sales Tax) in the forepart of this Official Statement.

Capital Improvement Program Summary
(In Thousands)

Program Area	FY 2007-2016 Totals
Revenue Vehicles & Equipment	$197,136
Operations Facilities & Equipment	97,831
Light Rail Way, Power & Signal	40,510
Passenger Facilities	24,014
Information Systems & Technology	39,646
Miscellaneous Projects	127,779
Total Program Project Costs	**$526,916**

Litigation

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

Investments and Investment Policy

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

Amounts held in funds and accounts established pursuant to the Indenture will be invested as provided in the Indenture, and as may be further restricted by the Authority's Investment Policy (the "Investment Policy"), adopted by the Authority Board of Directors on April 4, 1996 and amended by the Board of Directors on December 14, 2000 and February 6, 2003, and most recently reaffirmed June 1,

2006. The Investment Policy covers all funds (other than any Amalgamated Transit Union Pension Funds) and investment activities under the direction of the Authority.

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

1. Safety. Safety of principal is the foremost objective of the Investment Policy. The Authority's investments shall be undertaken in a manner that seeks to ensure the preservation of capital.

2. Liquidity. The Authority's investment portfolio shall remain sufficiently liquid to enable the Authority to meet its cash flow requirements.

3. Return on Investment. The Authority's investment portfolio shall be designed with the objective of attaining a market rate of return on its investments consistent with the constraints imposed by its safety objective and cash flow considerations.

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

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

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

Issuer/Credit Diversification:

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

Risk Management

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

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

Actuarial Information:

An actuarial analysis as of December 31, 2005, dated February 13, 2007 disclosed that the present values of estimated outstanding losses, at 5% average discount rate using a 75% confidence level, projected for June 30, 2006, are $42.6 million and $9.0 million for Workers' Compensation and General Liability, respectively. This report reflects the enactment of AB 749, SB 228 and SB 899. AB 749 increased the cost of indemnity benefits, whereas SB 228 and SB 899 have reduced the cost of medical and indemnity benefits. The report is currently being evaluated by the VTA. The accrued liabilities for Workers' Compensation and General Liability claims were based on the actuarial estimates. It is VTA's practice to obtain full actuarial studies annually.

Changes in the balance of Workers' Compensation and General Claims Liabilities for the two years ended June 30, 2006, are as follows (in thousands):

	Workers' Compensation (in thousands)	General Liability (in thousands)
Unpaid claims at June 30, 2004	$46,757	$6,368
Provision for claims and claims adjustment expense	18,948	2,684
Payment for claims	(15,494)	(2,684)
Unpaid claims at June 30, 2005	50,211	6,368
Provision for claims and claims adjustment expense	19,751	5,164
Payment for claims	(27,372)	(2,565)
Unpaid claims at June 30, 2006	$42,590	$8,967

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. For additional information on worker's compensation and general liability, see "'Worker's Compensation and General Liability" above.

Coverage provided by self-insurance/insurance and excess coverage as of June 30, 2006, is shown below:

Type of Coverage	Self-Insurance Deductible	Excess Coverage (in aggregate)
Workers' compensation	Self-Insured	None
Employer's liability	$3,000,000	$23,000,000 per accident
Excess public entity liability	$3,000,000	$22,000,000
Property, boiler, and machinery	$100,000	$70,000,000 combined blanket limit
National Flood Insurance (eligible locations)	$5,000	$500,000
Light rail vehicles include spare parts coverage, no earthquake coverage	$250,000	$20,000,000/maximum loss limit per year
Buses	$100,000	$20,000,000
Vans and Mobile Equipment	$25,000	Included in the $20,000,000 with buses
Owner-controlled insurance programs:		
Highway construction projects	$-0-	$52,000,000
Builder's risk	$25,000-Highway	$200,000,000-Highway
Public Officials liability	Self-insured $3,000,000	$22,000,000

Pension and Retirement Plans

Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan. All Amalgamated Transit Union (the "ATU") employees are covered by the Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan (the "ATU Plan"). The ATU Plan is a noncontributory single-employer defined benefit pension plan. The ATU Plan provides retirement, disability, and death benefits based on the employees' years of service, age, and final compensation. As of January 1, 2006, there were 2,500 members of the ATU Plan. 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 but at least five years of service are entitled to a reduced annual benefit at age 65 provided that the Pension Board approves such benefit. Employees with 15 or more years of service are entitled to full annual pension benefits beginning at age 55. The ATU Plan permits early retirement if an employee becomes disabled after 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. The following actuarial methods and assumptions are based on a report dated January 1, 2006.

Actuarial Methods and Assumptions:

Description	Methods/Assumptions
Valuation Date	January 1, 2006
Actuarial cost method	Aggregate Entry Age Normal
Amortization method	Level dollar open
Remaining amortization period	20 years (level dollar open)
Asset Valuation Method	Market value less unrecognized investment gains or losses during the prior four years, phased in at 20% per year, subject to a minimum of 80% and a maximum of 110% of market value
Actuarial Assumptions	
Investment Rate of Return	8.00% (includes inflation at 3.50%)
Projected Salary Increases	19.03% for the first three years of service, 4.28% thereafter
Inflation	3.50% per year
Costs of living adjustments	None

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

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

Asset Allocation	Range	Actual[(1)]	Ongoing Target
Domestic Fixed Income	35-45%	35%	39%
Domestic Large-Cap Value	15-25%	22%	20%
Domestic Large-Cap Index	10-20%	14%	15%
Domestic Small-Cap Value	5-15%	11%	10%
International Equity	10-20%	18%	15%
Cash	0-5%	0%	1%

(1) As of June 30, 2006.

The Authority contributes to the ATU Plan at actuarially determined rates applied to eligible payroll sufficient to maintain funding of vested benefits. Such contribution includes an amortized amount of unfunded accrued actuarial liability ("UAAL") as well as current year normal costs. The Authority's contributions to the ATU Plan for the year ended June 30, 2005, were made in accordance with the actuarially determined requirements computed as of January 1, 2005. The Authority's contribution rate as a percentage of payroll was 15.74% for Fiscal Year 2006. The Adopted Fiscal Year 2007 Budget includes a contribution of approximately 16.56%. The contributions are approximately $14.5 million and $14.7 million, for Fiscal Years 2006 and 2007 respectively.

UAAL is amortized over a future period and is included in the contribution rate recommended by the actuary for the ATU Plan. The Authority by contributing at the actuarial recommended rate maintains the funding of vested benefits. Totals of the actual cost and the amortized cost of the UAAL equal the actuarial rate that would liquidate the UAAL over a period of years.

The schedule of funding progress is as follows:

Schedule of Funding Progress[1]
Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Unfunded AAL	Funded Ratio	Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
12/31/02	$224,004,253	$278,113,814	$54,109,561	81%	$93,951,901	58%
12/31/03	247,693,872	325,530,324	77,836,452	76%	91,255,094	85%
12/31/04	268,428,853	350,895,167	82,466,314	76%	88,448,718	93%
12/31/05[2]	288,829,224	363,114,404	74,285,180	80%	92,663,178	80%

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

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

For calendar year 2005, the Authority's annual pension cost was approximately $14.8 million, which was fully contributed. Based on a report prepared by EFI as actuary dated January 1, 2006, the three-year trend information is as follows:

Year Ended	Annual Pension Cost ("APC")	Percentage of APC Contributed	Net Pension Obligation
12/31/03	$12,428,573	100%	-
12/31/04	13,107,662	100%	-
12/31/05	14,779,229	100%	-

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

CalPERS is an agent multiple-employer defined benefit retirement plan that acts as a common investment and administrative agent for various local and state governmental agencies within 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 Authority resolutions. The Authority contracts with CalPERS to administer these benefits. The following actuarial methods and assumptions are based on a report dated October 13, 2005.

Actuarial Methods and Assumptions:

Description	Methods/Assumptions
Valuation Date	June 30, 2005
Actuarial cost method	Entry Age Actuarial Cost Method
Amortization method	Level percent of Payroll
Average Remaining Period	28 years as of the Valuation Date
Asset Valuation Method	15 years smoothed market
Actuarial Assumptions	
Investment Rate of Return	7.75% compounded annually (net of investment expense)
Projected Salary Increases	3.25 to 14.45% depending on Age, Service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.00% and an annual production growth of 0.25%

Active members in the Authority's CalPERS Plan ("CalPERS Plan") are not required to contribute to the CalPERS Plan. The Authority elected to contribute the actuarially determined amount necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required contribution rate in Fiscal Year 2006 is 11.925% of payroll for the employer and 7.0% for employees. Based on the latest actuarial valuation dated October 17, 2006, the employer contribution will be 11.852% for Fiscal Year 2007 and is projected to be 12.014% for Fiscal Year 2008. The required employee contribution is paid by the Authority. 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 is as follows:

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

Actuarial Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/2000	$74,228,216	$88,459,322	($14,231,106)	119.2%	$40,000,651	(35.6%)
6/30/2001	87,012,005	97,221,500	(10,209,495)	111.7%	48,235,12	(21.2%)
6/30/2002	103,253,419	98,352,244	4,901,175	95.3%	56,796,212	8.6%
6/30/2003	126,069,247	107,060,545	19,008,702	84.9%	56,006,441	33.9%
6/30/2004	142,662,507	119,708,580	22,953,927	83.9%	50,876,724	45.1%
6/30/2005	160,103,833	135,508,064	24,595,769	84.6%	50,193,561	49.0%

For Fiscal Year 2005, the Authority's annual pension cost was approximately $5.2 million, which was fully contributed. The required contribution for Fiscal Year 2005 was determined as part of the June 30, 2003, 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
6/30/03	$3,052,000	100%	-
6/30/04	3,750,000	100%	-
6/30/05	5,171,000	100%	-
6/30/06	6,501,000	100%	-

On April 20, 2005, the CalPERS board adopted a new policy that spread CalPERS' market value asset gains and losses over 15 years rather than the current three years. CalPERS also adopted a policy of widening the "corridor" limits for establishing the actuarial value of assets from 90-110 percent at market value to 80-120 percent of market value. Since the changes were designed to reduce fluctuations in employer contributions over time, the Authority currently anticipates that the new policy changes will stabilize Authority contributions to the CalPERS Plan.

Retiree Health Care Program. The Authority provides an ATU Retiree Health Care Program (ATU Program), a post-employment benefit, in accordance with the agreement between the Authority and the ATU, to all ATU represented employees who retire from the Authority on or after attaining the age of 55 with at least 15 years of service, or if an employee becomes disable and has completed at least 10 years of service. As of July 1, 2006, 771 retirees met the eligibility requirements. The Authority pays medical premiums for its eligible retirees. Effective September 1, 2004 ATU members pay $25 per month toward medical premiums.

All non-ATU employees upon retirement with at least five years of service and attaining age 50 are also covered under a Retiree Health Care Program (Non-ATU Program). As of July 1, 2006, 254 retirees met the eligibility requirements. Effective January 1, 2005 all non-ATU members pay $25 per month toward medical premiums.

An actuarial analysis of Retiree Health Benefits as of July 1, 2006 disclosed that the actuarial liability, which is the present value of benefits attributed to past service, is $200 million. The unfunded actuarial accrued liability of the Authority as of July 1, 2006 is $120 million. The Authority contributions are advance funded on an actuarially determined basis. For the year ended June 30, 2006, the Authority made contributions to both the ATU and Non-ATU programs, which were expensed, of approximately $11.3 million. Benefits paid to participants of the program were approximately $5.3 million.

The actuarial cost method used for determining the benefit obligations is the projected unit benefit cost method. The significant economic assumptions used were as follows: 1) a discount rate of 7.0%, 2) a projected salary increase of 5.0% and 3) a health inflation assumption of 10.0%, graded down 1.0% per year to 5% after 6 years.

In 2004, the Government Accounting Standards Board ("GASB") issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions ("GASB 45"). GASB 45 requires governmental agencies to change their accounting for other post employment benefits from pay-as-you-go to an accrual basis. However, the Authority has been advance funding contributions on an actuarially determined basis since prior to its legal separation from the County of Santa Clara in 1995. As of July 1, 2006, the Authority has restricted assets of $79.3 million to cover cost of the ATU and Non-ATU Programs. (see "Audited Financial Statements of the Authority for the Fiscal Year Ended June 30, 2006, pages 2-56 & 2-57, attached hereto as Appendix B). The Authority will implement the requirements of GASB 45, including financial statement reporting and disclosures, by July 1, 2007.

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APPENDIX B

AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants & Consultants

VALUE THE DIFFERENCE

Independent Auditor's Report

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

We have audited the accompanying financial statements of the business-type activity, the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Clara Valley Transportation Authority (VTA), as of and for the year ended June 30, 2006, which collectively comprise VTA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of VTA's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity, the governmental activities, each major fund, and the aggregate remaining fund information of VTA as of June 30, 2006, 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 discussed in Note 2*(m)* to the financial statements, VTA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries,* GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section—an amendment of NCGA Statement 1*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation—an amendment of GASB Statement No. 34* and GASB Statement No. 47, *Accounting for Termination Benefits*.

8270 Aspen Street Rancho Cucamonga, CA 91730 Tel: 909.466.4410 Fax: 909.466.4431 www.vtdcpa.com

FRESNO • LAGUNA • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2006, on our consideration of VTA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, the schedules of funding progress and the budgetary comparison schedules on pages 2-3 through 2-14 and 2-65 through 2-68 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the VTA's basic financial statements. The introductory section, combining and comparative individual fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The VTA's financial statements for the year ended June 30, 2005, which are not presented with the accompanying financial statements, were audited by other auditors whose report thereon dated November 10, 2005, expressed unqualified opinions on the respective financial statements of the business-type activity, the governmental activities, each major fund, and the aggregate remaining fund information. Their report on the 2005 combining and individual fund financial statements and schedules stated that, in their opinion, such information was 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.

Vavrinek Trine Day + Co. LLP

Palo Alto, California
November 16, 2006

Management's Discussion and Analysis

This Section of the Santa Clara Valley Transportation Authority's (VTA) CAFR presents a narrative overview and analysis of the financial activities of VTA for FY2006. Please read this document in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

Financial Highlights

- As of June 30, 2006, VTA's assets exceeded liabilities by approximately \$2.1 billion. Business-type activity (Transit Operations) and governmental activity (Congestion Management) net assets were approximately \$2.1 billion and \$1.9 million, respectively. Of the \$2.1 billion in net assets, approximately \$1.8 billion was invested in capital assets net of related debt which was associated with our capital expansion program.
- As of June 30, 2006, VTA had issued bonds in the amount of \$700 million compared to \$708.7 million the previous fiscal year. The decrease was due to the principal pay-off during FY2006.
- The Statement of Revenues, Expenses and Changes in Fund Net Assets reports that VTA's Enterprise Funds had a net operating loss of \$328.4 million. With an addition of \$262.6 million of non-operating revenues and a capital contribution of \$22.5 million, net assets decreased by \$43.3 million, mainly as a result of depreciation expense of \$63.8 million. This can be seen on the Statement of Revenues, Expenses and Changes in Fund Net Assets, page 2-19.
- Internal Service Funds had a net operating gain of \$13.9 million. With an addition of \$4.1 million in non-operating revenues, net assets increased by \$18.1 million to \$95.4 million in FY2006. This can be seen on the Statement of Revenues, Expenses and Changes in Fund Net Assets, page 2-19.
- 1976 Sales Tax revenues increased \$12.3 million or 8.5% in FY2006 compared to FY2005.
- 2000 Measure A Sales Tax revenues were \$38.2 million. The collection of this voter-approved sales tax revenue started in the 4^{th} Quarter of FY2006.
- Net assets for the Governmental Funds decreased \$163 thousand primarily due to the increase in Congestion Management Program (CMP) costs and higher labor costs incurred for the CMP projects.

Overview of the Financial Statements

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

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

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

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

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

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. VTA, like local and state governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds of VTA can be divided into three categories: governmental funds, proprietary funds (i.e. enterprise fund and internal service fund), and fiduciary funds. The fund financial statements can be found on pages 2-17 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 three individual governmental funds and uses the governmental funds to account for the Congestion Management Program, 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 funds. VTA maintains two types of proprietary funds: an enterprise fund and an internal service fund. The enterprise fund is used to report the same function presented as "business-type activity" in the government-wide financial statements. The internal service fund is used to account for activities that provide services to other funds, departments or to other governments on a cost-reimbursement basis. General Liability, Workers' Compensation, Retiree Health, and Compensated Absences are accounted in the internal service fund. VTA uses the enterprise fund to account for its transit operation and capital activities, 1996 Measure B Transit projects, and 2000 Measure A capital and operating activities.

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

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

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

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 2-26 to 2-64 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 also shows the Congestion Management Program Budgetary Schedule. These schedules can be found on pages 2-65 to 2-68.

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

Government-wide Financial Analysis

The Entity-Wide Statement of Net Assets and the Statement of Activities report $25.4 million decrease in net assets. Of this, $25.2 million was in the VTA's Business-Type activities and the remaining $163 thousand was in the government-type activities. The business-type net asset decrease was primarily due to increased expenditures on transit operations and operating projects. During FY2006, VTA acquired capital assets of approximately $121.3 million (note 6). These capital assets were funded by a variety of sources such as capital contributions, federal and state grants, and local funding.

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

	Business-type activity		Governmental activity		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	$ 429,749	$ 504,632	$ 42,439	$ 36,180	$ 472,188	$ 540,812
Capital assets, net	2,500,211	2,470,374	-	-	2,500,211	2,470,374
Total assets	2,929,960	2,975,006	42,439	36,180	2,972,399	3,011,186
Current liabilities	51,279	66,198	40,509	33,996	91,788	100,194
Long-term liabilities outstanding	781,034	785,922	-	-	781,034	785,922
Total liabilities	832,313	852,120	40,509	33,996	872,822	886,116
Net assets:						
Invested in capital assets, net of related debt	1,817,396	1,867,513	-	-	1,817,396	1,867,513
Restricted	35,153	44,400	-	-	35,153	44,400
Unrestricted	245,098	210,973	1,930	2,184	247,028	213,157
Total net assets	$ 2,097,647	$ 2,122,886	$ 1,930	$ 2,184	$ 2,099,577	$ 2,125,070

The largest portion of VTA's net assets (approximately 87%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment), less any related outstanding debt used to acquire those assets. VTA uses these capital assets to provide services to its customers. Consequently, these assets are not available for future spending. Although VTA's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot reasonably be used to liquidate these liabilities.

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

	Business-type activity		Governmental activity		Total	
	2006	2005	2006	2005	2006	2005
Expenses:						
Operations and operating projects	$ 339,857	$ 300,430	$ 5,982	$ 4,735	$ 345,839	$ 305,165
Caltrain subsidy & capital contribution	42,200	14,112	-	-	42,200	14,112
Altamont Commuter Express subsidy	2,470	2,470	-	-	2,470	2,470
Interest Expense	11,562	13,761	-	-	11,562	13,761
Other non-operating expenses	6,972	3,316	-	-	6,972	3,316
Benefit payments	11,538	21,370	-	-	11,538	21,370
Capital projects for the benefit of other agencies	-	-	80,763	94,146	80,763	94,146
Total expenses	414,599	355,459	86,745	98,881	501,344	454,340
Program revenues:						
Charges for services	36,926	34,692	2,290	2,231	39,216	36,923
Operating grants	114,764	113,925	850	1,190	115,614	115,115
Capital grants	22,522	96,860	83,207	95,746	105,729	192,606
Total program revenues	174,212	245,477	86,347	99,167	260,559	344,644
Net program revenues	(240,387)	(109,982)	(398)	286	(240,785)	(109,696)
General revenues:						
Sales tax revenue	195,453	145,008	-	-	195,453	145,008
Investment income	10,537	11,206	207	174	10,744	11,380
Other income	9,158	2,628	28	19	9,186	2,647
Total general revenues	215,148	158,842	235	193	215,383	159,035
Special items:						
Loss from sublease of vehicles	-	(7,773)	-	-	-	(7,773)
Change in net assets	(25,239)	41,087	(163)	479	(25,402)	41,566
Net assets beginning of year	2,122,886	2,081,799	2,093	1,705	2,124,979	2,083,504
Net assets, end of year	$2,097,647	$2,122,886	$ 1,930	$ 2,184	$2,099,577	$2,125,070

Business-type activity. Despite an additional $50.4 million in sales tax receipts in FY2006, there was a decrease in total revenue of $15 million in comparison to FY2005 due to a drop in capital grants as a result of the completion of various Measure B projects. Total net assets decreased by $25.2 million due to lower capital grants and increased expenditures in operations due to higher depreciation expenses as a number of capital projects were capitalized in FY2006. In addition, VTA's capital contribution to Caltrain was higher as a large capital project was placed in service and handed over to Caltrain.

Comparison of Business-Type Activity Revenue for FY2006 and FY2005

(In thousands)	2006	2005	Change Amount	Change Percent
Charges for services	$ 36,926	$ 34,692	$ 2,234	6.4%
Operating grants	114,764	113,925	839	0.7%
Capital grants	22,522	96,860	(74,338)	-76.7%
Sales tax revenue	195,453	145,008	50,445	34.8%
Investment income	10,537	11,206	(669)	-6.0%
Other income	9,158	2,628	6,530	248.5%
TOTAL	$ 389,360	$ 404,319	$ (14,959)	-3.7%

- Business-type activity (Transit Operations) net assets were $2.1 billion. Approximately $1.8 billion of the net assets were invested in capital assets net of related debt.

- Charges for services, derived from bus fare box receipts, light rail ticket vending machine receipts, the sale of monthly passes (including ECO Pass & tokens) and the sale of advertising space, were up $2.2 million (6.4%) compared to FY2005. This was mainly due to an increase in ridership with the opening of Vasona Light Rail service in FY2006.

- Operating grants include the one-quarter of one percent of State sales tax from the California Transportation Development Act (TDA), State Transit Assistance (STA) funding, federal grants converted to operating assistance under the Federal Transit Administration Preventative Maintenance Program, State vehicle license fees (AB434), and federal planning grants. In FY2006, they increased by $839 thousand or 0.7% to $114.8 million.

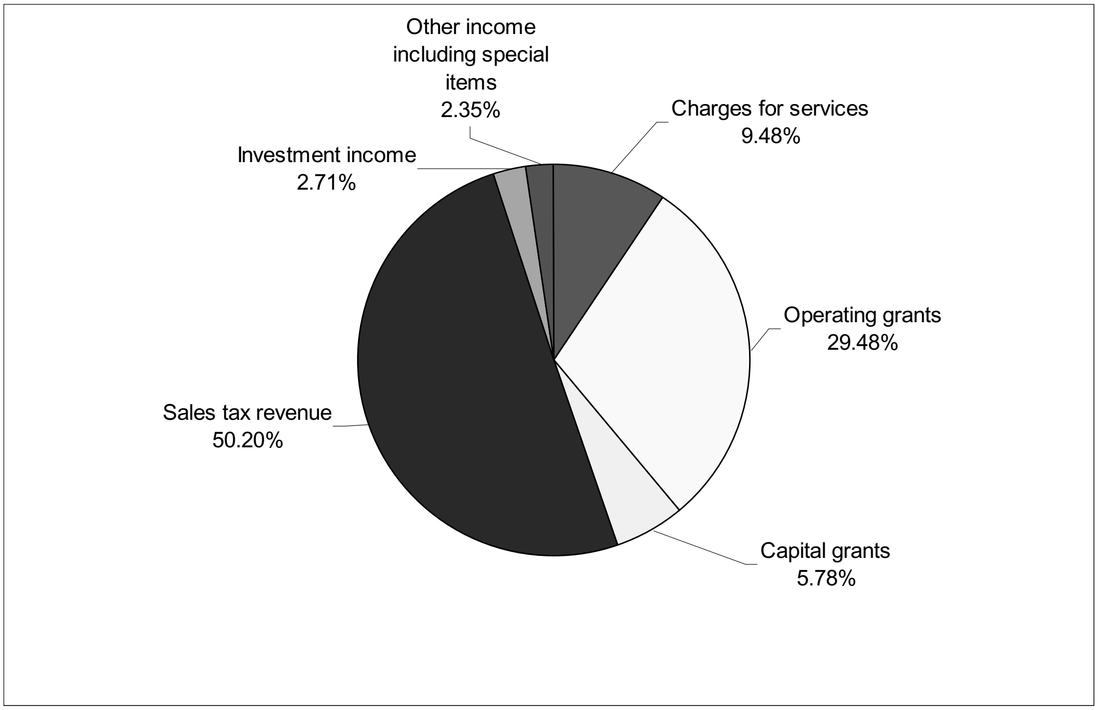
- The half-cent local sales tax and the quarter-cent state sales tax (TDA) are driven by the local economy and are the two most important revenue sources to VTA for funding operations. The 1976 Sales Tax revenues increased $12.3 million or 8.5% in FY2006 compared to FY2005. The 2000 Measure A Sales Tax revenues were $38.2 million. The collection of this voter-approved sales tax revenue started in the 4th Quarter of FY2006. TDA funds rose by $3.9 million or 5.9% to $71 million in FY2006. STA funds, which are allocated to VTA from the State sales tax on gasoline and diesel fuel, increased by approximately $452 thousand (6.2%) to a total of $7.7 million.

- Capital grants decreased $74.3 million or 76.7% compared to FY2005. The decrease is a result of completion of two major capital projects - Capitol Corridor and Vasona light rail extension. Federal grant project revenues were $7 million, State capital grants were $3.9 million, and 1996 Measure B and other local funding consisted of $11.6 million.

- Investment income decreased by $669 thousand or 6% compared to FY2005 due primarily to unrealized investments losses, the result of mark to market activities.

- Other income increased by $6.5 million in FY2006 due primarily to a one-time refund of capital contributions made to Peninsula Corridor Joint Powers Board in prior fiscal years.

Revenues By Source – Business-type Activity



Comparison of Business-Type Activity Expenses for FY2006 and FY2005

(In thousands)	2006	2005	Change Amount	Change Percent
Operations and operating projects	$ 339,857	$ 300,430	$ 39,427	13.1%
Caltrain subsidy & capital contribution	42,200	14,112	28,088	199.0%
Altamont Commuter Express subsidy	2,470	2,470	-	0.0%
Interest expense	11,562	13,761	(2,199)	-16.0%
Other non-operating expenses including special items	6,972	11,089	(4,117)	-37.1%
Benefit payments	11,538	21,370	(9,832)	-46.0%
TOTALS	$ 414,599	$ 363,232	$ 51,367	14.1%

Operations and operating project 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.

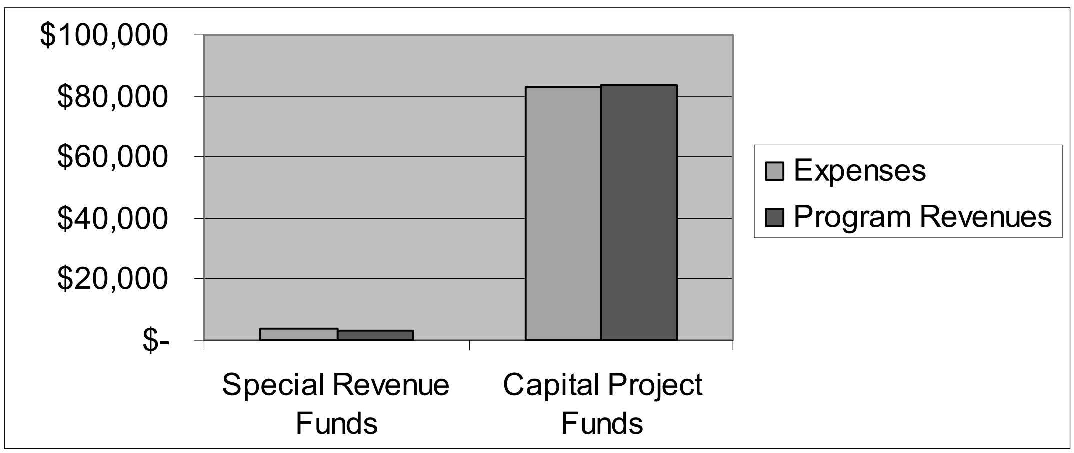
Expenses in FY2006 increased by $51.4 million or 14.1% compared to the prior fiscal year. The higher expenses reflect an increase in labor costs and higher operating expenses with the opening of Vasona light rail extension. The decreases in non-operating expenses during FY2006, namely interest expense and payments for workers compensation (benefit payments) and general liability claims, helped to offset the overall increase in operating expenses.

Governmental activity. The governmental activity net assets decreased by $163 thousand in FY2006, with an ending balance of $1.9 million. Elements of this decrease are as follows:

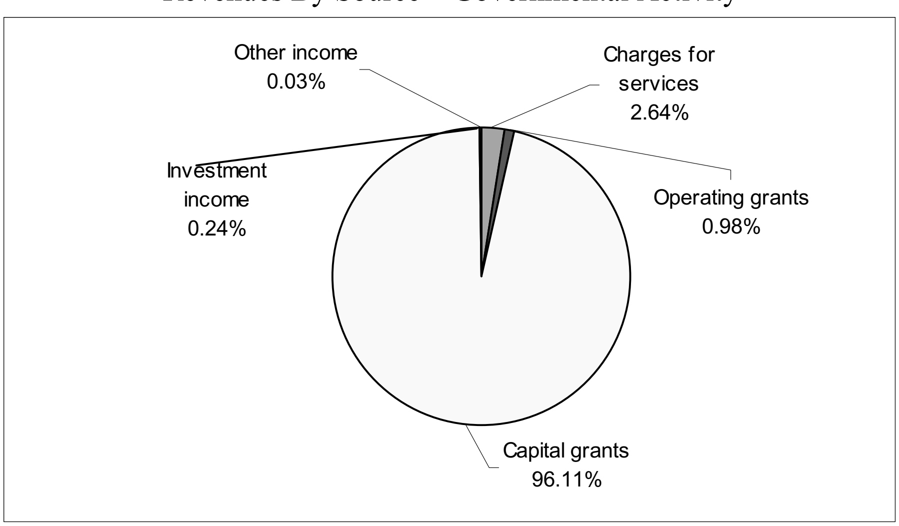
- Local grant revenues were $12.5 million lower with the completion of major highway projects.
- Federal operating assistance grant decreased $415 thousand compared to prior fiscal year.
- Labor costs were $1 million or 24% higher compared to prior fiscal year resulting mainly from reorganization of Development and Congestion Management Division.
- Capital project expenses were $13.3 million lower in FY2006 due to the completion of various highway projects.

Expenses and Program Revenues – Governmental Activity

(In thousands)



Revenues By Source – Governmental Activity



Financial Analysis of VTA's Funds

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

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

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

VTA uses the Enterprise Fund to account for its transit service operation. For FY2006, operating revenues were $36.9 million, up $2.2 million or 6.4% from prior fiscal year resulting from higher ridership in its transit service. Operating expenses were $33.1 million or 10% higher than FY2005 mainly due to higher labor, material, supplies and services, and depreciation costs. Net non-operating revenues totaled $262.6 million during this fiscal year. Total Enterprise Fund net assets were $2 billion, a decrease of approximately $43.3 million compared to FY2005.

Internal service fund. VTA also maintains an Internal Service Fund to account for the activities related to Retiree Health, Workers' Compensation, General Liability, and Compensated Absences. The cost of these activities are accounted for in this fund and then charged to other VTA funds. As of June 30, 2006, total net assets for this fund were $95.4 million which reflect an increase of $18 million over prior fiscal year.

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

Special revenue fund. This fund accounts for the activities of the Congestion Management Agency. Total fund revenues, which mainly include member assessments and federal grants, were $3.2 million in FY2006, $237 thousand lower than prior year. Total expenses were $3.6 million, an increase of $830 thousand due to staff reorganization within the Development and Congestion Management Agency. The ending fund balance was $1.9 million.

Capital project fund. This fund accounts for VTA's two major capital programs – Congestion Management Highway Program and Measure B Highway Program. As of June 30, 2006, total revenues were $83.4 million which represent the total amount expended on the projects during the fiscal year and billed to other governmental agencies. There is no fund balance in this fund.

Capital Assets and Debt Administration

Capital assets. VTA's investment in capital assets for its business-type activity as of June 30, 2006, amounts to $2.5 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

Some of the significant changes in the capital assets during FY2006 are as follows:

- The $305 million Vasona Corridor Light Rail Project was completed and put in service during FY2006.
- The North Yard Reconstruction, Cerone Improvement, and the Cerone Rehabilitation and Expansion Projects ($110 million) were completed in FY2006.
- The preliminary engineering phase of the BART project continued in FY2006 with $91 million in capital expenditures.

Capital Assets
(Net of Accumulated Depreciation)

	Business-type Activity	
(In thousands)	2006	2005
Land and Right-of-way	$ 1,131,579	$ 761,818
Construction in Progress	380,776	775,711
Buildings & Improvements Equipment & Furniture	309,931	211,901
Vehicles	344,318	386,054
Caltrain-Gilroy Extension	45,580	46,082
Light Rail Tracks/Electrification	277,317	275,929
Other Operating Equipment	10,710	12,879
Total	$ 2,500,211	$ 2,470,374

Additional information on VTA's capital assets can be found in Note 6 on page 2-39 of this report.

Long-term debt. At the end of the current fiscal year, VTA had total bonded debt outstanding of $700 million. Of this amount, $390 million represents bonds secured solely by the 2000 Measure A Sales Tax revenues.

Outstanding Debt

(In thousands)	Business-type activity 2006	Business-type activity 2005
Jr. Lien Sales Tax Revenue Bonds	$ 77,720	$ 80,100
Sr. Lien Sales Tax Revenue Bonds (1976 Tax)	202,599	208,658
Sr. Lien Sales Tax Revenue Bonds (2000 Tax)	390,036	390,309
Equipment Trust Certificates	29,660	29,660
Total	$ 700,015	$ 708,727

VTA maintains uninsured ratings of "AAA" from Standard & Poor's (S&P), an "A+" rating from Fitch, and an "Aa3" rating from Moody's for its Senior Lien Sales Revenue Bonds secured by 1976 Sales Tax.

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

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

Additional information on VTA's long-term debt can be found in note 7 starting on page 2-40 of this report.

Economic Factors

The economic outlook for the County has brightened since this region saw one of the worst economic downturns in recent history. Studies show that consumer confidence has improved. The unemployment rate in the County was 5% in June 2006 compared to 5.7% a year earlier. Housing prices stabilized after double-digit gains in recent years. Commercial real estate is also recovering after years of high vacancy rates, with office vacancy rates in Silicon Valley dipping below 12.5 percent for the first quarter of 2006 compared to 14 percent during the second quarter of 2005.

Lower unemployment and higher consumer confidence are helping to improve VTA's revenue base. VTA's major revenue sources are dependent upon taxable sales activity in the County. After taking a major hit after the dot.com crash, taxable sales have improved in recent quarters. According to State Board of Equalization, County's taxable sales increased 9.1 percent in the 3rd Quarter of 2005 compared to the same period a year earlier. VTA's major revenue source, 1976 half-cent sales tax, increased $12.3 million or 8.5 percent to $157.3 million in FY 2006. However, this revenue source is still well below the $184 million VTA received in FY 2001. Fares is another improving revenue source, due in part to increasing ridership on both existing service as well as due to the opening of new light rail extensions.

VTA also started collecting 2000 Measure A sales tax revenue, approved by county voters in 2000. In June 2006, the VTA Board approved a long-term Revenue and Expenditure Plan for the 30-year 2000

Measure A Sales Tax Program. Currently, the Plan is reflecting a deficit to complete all projects included in the Plan. VTA staff is working with the Board to determine possible options to address this deficit.

FY2006 was the first year of the Biennial Budget adopted by the Board in June 2005. Since its initial adoption, the Board revised the FY 2006 Budget on April 6, 2006, increasing expenditure appropriations by $3.5 million and revenue estimations by $6.5 million.

Requests for Information

Please address all questions or requests for additional information to the Accounting and Compliance Review Department, Office of the Fiscal Resources Manager, Santa Clara Valley Transportation Authority, 3331 North First Street Building C, Second Floor, San Jose, CA 95134-1927.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Net Assets
June 30, 2006
(In thousands)

	Business-Type Activity	Governmental Activity	Total
ASSETS			
Cash and investments	$ 195,628	$ 2,749	$ 198,377
Receivables, net	3,081	-	3,081
Internal balances	862	(862)	-
Due from fiduciary funds	1,152	-	1,152
Due from other governmental agencies	68,270	915	69,185
Inventories	20,361	-	20,361
Other current assets	790	-	790
Restricted assets:			
Cash and investments	92,893	23,399	116,292
Receivables, net	76	-	76
Due from other governmental agencies	30,189	16,238	46,427
Deferred charges	16,447	-	16,447
Capital assets:			
Nondepreciable	1,512,355	-	1,512,355
Depreciable, net of accumulated depreciation	987,856	-	987,856
Total assets	2,929,960	42,439	2,972,399
LIABILITIES			
Accounts payable	12,368	170	12,538
Other accrued liabilities	14,730	156	14,886
Due to other governmental agencies	10	1,383	1,393
Liabilities payable from restricted assets:			
Accounts payable	12,849	13,691	26,540
Other accrued liabilities	4,409	-	4,409
Due to other government agencies	6,913	25,109	32,022
Long term debt payable from restricted assets	43,182	-	43,182
Long-term liabilities:			
Due within one year	33,858	-	33,858
Debt due in more than one year	703,994	-	703,994
Total liabilities	832,313	40,509	872,822
NET ASSETS			
Invested in capital assets, net of related debt	1,817,396	-	1,817,396
Restricted for capital projects	35,153	-	35,153
Unrestricted	245,098	1,930	247,028
Total net assets	$ 2,097,647	$ 1,930	$ 2,099,577

See accompanying notes to basic financial statements

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Activities
For the Year Ended June 30, 2006
(In thousands)

	Business-Type Activity	Governmental Activity	
	Transit	Congestion Management	Total
Expenses:			
Operations and operating projects	$ 339,857	$ 5,982	$ 345,839
Caltrain subsidy & capital contribution	42,200	-	42,200
Altamont Commuter Express subsidy	2,470	-	2,470
Interest expense	11,562	-	11,562
Other non-operating expenses	6,972	-	6,972
Benefit payments	11,538	-	11,538
Capital projects for the benefit of other agencies	-	80,763	80,763
Total expenses	414,599	86,745	501,344
Program revenues:			
Charges for services	36,926	2,290	39,216
Operating grants	114,764	850	115,614
Capital grants	22,522	83,207	105,729
Total program revenues	174,212	86,347	260,559
Net program revenues (expenses)	(240,387)	(398)	(240,785)
General revenues:			
Sales tax revenue	195,453	-	195,453
Investment income	10,537	207	10,744
Other income	9,158	28	9,186
Total general revenues	215,148	235	215,383
Change in net assets	(25,239)	(163)	(25,402)
Net assets beginning of year	2,122,886	2,093	2,124,979
Net assets, end of year	$ 2,097,647	$ 1,930	$ 2,099,577

Net assets before deferred revenue 6/30/2005	$ 2,184
Less deferred revenue on 6/30/2005	91
Net assets beginning of year	$ 2,093

See accompanying notes to basic financial statements

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Fund Net Assets
Proprietary Funds (Business-type Activity)
June 30, 2006
(In thousands)

	Enterprise Fund	Internal Service Fund
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,424	$ 155
Investments	17,093	175,956
Receivables, net	2,765	316
Due from other funds	2,014	-
Due from other governmental agencies	68,270	-
Inventories	20,361	-
Other current assets	790	-
Restricted assets:		
Cash and cash equivalents	6,255	-
Cash and investments with fiscal agent	51,485	-
Investments	35,153	-
Receivables	76	-
Due from other governmental agencies	30,189	-
Total current assets	236,875	176,427
Noncurrent assets:		
Deferred charges	16,447	-
Capital Assets		
Non-depreciable:		
Land and right of way	1,131,579	-
Construction in progress	380,776	-
Depreciable:		
CalTrain - Gilroy extension	52,990	-
Buildings, improvements, furniture, and fixtures	462,448	-
Vehicles	457,616	-
Light-rail tracks and electrification	384,435	-
Other	29,002	-
Less accumulated depreciation	(398,635)	-
Net capital assets	2,500,211	-
Total noncurrent assets	16,447	-
Total assets	2,753,533	176,427

See accompanying notes to basic financial statements

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Fund Net Assets (Continued)
Proprietary Funds (Business-type Activity)
June 30, 2006
(In thousands)

	Enterprise Fund	Internal Service Fund
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	10,855	-
Accounts payable	12,368	-
Other accrued liabilities	14,712	16,618
Due to other governmental agencies	10	-
Liabilities payable from restricted assets:		
Current portion of long-term debt	6,385	-
Accounts payable	12,849	-
Other accrued liabilities	4,409	-
Due to other governmental agencies	6,913	-
Long term debt, excluding current portion	43,182	-
Total current liabilities	111,683	16,618
Non-current liabilities		
Long-term debt, excluding current portion	639,593	-
Other accrued liabilities	18	64,401
Total non-current liabilities	639,611	64,401
Total liabilities	751,294	81,019
NET ASSETS		
Invested in capital assets, net of related debt	1,817,396	-
Restricted for capital projects	35,153	-
Unrestricted	149,690	95,408
Total net assets	$ 2,002,239	$ 95,408

Reconciliation of the Statement of Net Assets to the Statement of Fund Net Assets:		
Net Assets of Enterprise Fund	$	2,002,239
Net Assets of Internal Service Fund, which benefits Business-type Activity		95,408
Net Assets (page 2-16)	$	2,097,647

See accompanying notes to basic financial statements

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds (Business-type Activity)
For the Year Ended June 30, 2006
(In thousands)

	Enterprise Fund	Internal Service Fund
Operating revenues:		
Passenger fares	$ 34,335	$ -
Advertising and other	2,591	-
Charges for services	-	28,402
Total operating revenues	36,926	28,402
Operating expense:		
Labor cost	237,997	
Materials and supplies	27,777	-
Services	20,141	-
Utilities	6,186	-
Casualty and liability	6,114	-
Purchased transportation	27,395	-
Leases and rentals	205	-
Miscellaneous	2,000	2,917
Depreciation expense	63,766	-
Costs allocated to capital and other programs	(26,239)	-
Benefit payments	-	11,538
Total operating expense	365,342	14,455
Operating income/(loss)	(328,416)	13,947
Non-operating revenues (expenses):		
Sales tax revenue	195,453	-
Federal operating assistance grants	33,565	-
State and local operating assistance grants	81,199	-
CalTrain subsidy	(14,801)	-
CalTrain capital contribution	(27,399)	-
Altamont Commuter Express subsidy	(2,470)	-
Investment earnings	6,457	4,080
Interest expense	(11,562)	-
Other income	9,158	-
Other expense	(6,972)	-
Non-operating revenues, net	262,628	4,080
Change in net assets before capital contributions	(65,788)	18,027
Capital contributions	22,522	-
Change in net assets	(43,266)	18,027
Net assets, beginning of year	2,045,505	77,381
Net assets, end of year	$ 2,002,239	$ 95,408

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

Change in net assets of the Enterprise Fund	$ (43,266)
Change in net assets of the Internal Service Fund, which benefits Business-type Activity	18,027
Change in net assets of the Business-type Activity (page 2-16)	$ (25,239)

See accompanying notes to basic financial statements

Santa Clara Valley Transportation Authority
Statement of Cash Flows
Proprietary Funds (Business-type Activity)
For the Year Ended June 30, 2006
(In thousands)

	Enterprise Fund	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from passenger fares	$ 34,335	$ -
Cash received from advertising	2,591	-
Cash paid to employees	(211,758)	-
Cash paid to suppliers	(62,730)	-
Cash paid for purchased transportation	(27,395)	-
Cash received from contributions	-	28,402
Payments made to beneficiaries	-	(11,067)
Payments made to third party contractors	-	(2,917)
Net cash provided by/(used in) operating activities	(264,957)	14,418
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	114,764	-
Sales tax received	195,453	-
Caltrain subsidy and contribution	(18,836)	-
Altamont Commuter Express subsidy	(2,470)	-
Receipts for services provided to other agencies	220	-
Contributions to other agencies	(1,860)	-
	287,271	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payment of long-term debt	(10,955)	-
Proceeds from issuance of bonds	172,530	-
Payoff of 2001 Series A Bonds	(171,000)	
Interest paid on long-term debt	(11,562)	-
Cost of bond issuance	(1,527)	-
Acquisition and construction of capital assets	(121,321)	-
Capital contribution from other governments	22,522	-
Proceeds from sale of capital assets	214	-
	(121,099)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	521,436	12,623
Purchases in investments	(518,996)	(33,522)
Interest income received	3,351	6,143
	5,791	(14,756)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(92,994)	(338)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	153,158	493
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 60,164	$ 155
Reconciliation to Statement of Fund Net Assets:		
Unrestricted:		
Cash and cash equivalents	$ 2,424	$ 155
Restricted:		
Cash and cash equivalents	6,255	-
Cash and investments with fiscal agent	51,485	-
	$ 60,164	$ 155

See accompanying notes to basic financial statements

Santa Clara Valley Transportation Authority
Statement of Cash Flows (Continued)
Proprietary Funds (Business-type Activity)
For the Year Ended June 30, 2006
(In thousands)

	Enterprise Fund	Internal Service Fund
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES:		
Operating income/(loss)	$ (328,416)	$ 13,947
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Depreciation	63,766	-
Changes in operating assets and liabilities:		
Receivables	3,879	97
Due from other governmental agencies	(5,037)	-
Inventories	(1,648)	-
Accounts payable	523	-
Other accrued liabilities	2,761	374
Other Current assets	(399)	-
Due to other funds	(386)	-
Net cash provided by/(used in) operating activities	$ (264,957)	$ 14,418
NONCASH INVESTING ACTIVITIES:		
(Decrease) in fair value of investments	$ (474)	$ (1,982)

See accompanying notes to basic financial statements

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Balance Sheet
Governmental Funds
June 30, 2006
(In thousands)

	Special Revenue Fund	Capital Projects Funds		
	Congestion Management Program	Congestion Management & Highway Program	Measure B Highway Program	Total
ASSETS				
Investments	$ 2,749	$ -	$ -	$ 2,749
Due from other governmental agencies	915	-	-	915
Restricted assets:				
Cash and cash equivalents	-	10,853	-	10,853
Cash and investments with fiscal agent	-	2,187	10,359	12,546
Due from other governmental agencies	-	15,557	681	16,238
Total assets	$ 3,664	$ 28,597	$ 11,040	$ 43,301
LIABILITIES				
Accounts payable	$ 170	$ -	$ -	170
Other accrued liabilities	156	-	-	156
Due to other funds	25	-	-	25
Due to other government agencies	1,383	-	-	1,383
Liabilities payable from restricted assets:	-			
Accounts payable	-	7,785	5,906	13,691
Due to other funds	-	527	310	837
Due to other governmental agencies	-	20,285	4,824	25,109
Total liabilities	1,734	28,597	11,040	41,371
FUND BALANCES				
Unreserved, reported in special revenue fund	1,930	-	-	1,930
Unreserved deficit	-	-	-	-
Total fund balances	1,930	-	-	1,930
Total liabilities and fund balances	$ 3,664	$ 28,597	$ 11,040	$ 43,301

See accompanying notes to basic financial statements

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006
(In thousands)

	Special Revenue Fund	Capital Projects Funds		
	Congestion Management Program	Congestion Management & Highway Program	Measure B Highway Program	Total
REVENUES:				
Member agency assessment revenue	$ 2,250	$ -	$ -	$ 2,250
Federal technical studies operating assistance grants	621	-	-	621
Administrative fees	40	-	-	40
State operating assistance grants	229	-	-	229
Local grant revenue	-	41,438	41,769	83,207
Other revenues	28	-	-	28
Investment earnings	39	168	-	207
Total revenues	3,207	41,606	41,769	86,582
EXPENDITURES:				
Current:				
Congestion management:				
Salaries and benefits	2,823	2,356	-	5,179
Services	803	-	-	803
Capital outlay:				
Capital improvement projects	2	38,992	41,769	80,763
Total expenditures	3,628	41,348	41,769	86,745
CHANGE IN FUND BALANCES	(421)	258	-	(163)
FUND BALANCES, BEGINNING OF YEAR	2,351	(258)	-	2,093
FUND BALANCES, END OF YEAR	$ 1,930	$ -	$ -	$ 1,930

See accompanying notes to basic financial statements

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006
(In thousands)

	Pension Trust Funds	Agency Funds
ASSETS		
Restricted assets:		
Commingled Index	$ 109,629	$ -
Fixed Income	104,285	-
Money Market	4,617	4,066
Equity Securities	98,014	-
Cash with fiscal agent	-	4,798
Receivables	1,073	-
Due from other funds	-	25
Total assets	317,618	8,889
LIABILITIES		
Liabilities payable from restricted assets:		
Accounts payable	203	3,983
Due to other funds	1,177	-
Due to other governmental agencies	-	4,906
Other accrued liabilities - noncurrent	-	-
Total liabilities	$ 1,380	$ 8,889
NET ASSETS		
Net assets held in trust for:		
Pension benefits	304,904	
Spousal medical benefits	8,696	
Retiree dental and vision benefits	2,638	
Total net assets	$ 316,238	

See accompanying notes to basic financial statements

SANTA CLARA VALLEY TRANSPORTATION AGENCY
Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
For the Year Ended June 30, 2006
(In thousands)

ADDITIONS		
Employer Contributions	$	16,453
Investment earnings:		
Investment income		7,530
Net appreciation in the fair value of investments		19,884
Investment expense		(1,114)
Net investment income		26,300
Other revenue		220
Total additions		42,973
DEDUCTIONS		
Benefit payments		17,077
Other benefits paid to participants		59
Total deductions		17,136
Net increase		25,837
NET ASSETS HELD IN TRUST		
Beginning of year		290,401
End of year	$	316,238

See accompanying notes to financial statements

NOTE 1 – THE FINANCIAL REPORTING ENTITY

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

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

The Santa Clara Valley Transportation Authority Congestion Management Program (CMP) was created in 1990 in response to Proposition 111. The CMP is not legally separate from VTA. The CMP is responsible for development and implementation of the Valley Transportation Plan 2030 (VTP2030), 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.

Complete financial statements for the Congestion Management Program can be obtained from Fiscal Resources Division, Santa Clara Valley Transportation Authority, 3331 North First Street Building C, Second Floor, San Jose, CA 95134-1927.

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. 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.

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

  – The *Measure B Highway Program Capital Projects Fund* is used to account for acquisition of capital assets or construction of Measure B Highway projects.

VTA reports the following additional funds:

- The *Proprietary Fund (Internal Service Fund)* is used to account for activities that provide goods or services to other funds, departments or to other governments, on a cost-reimbursement basis. General Liability, Workers' Compensation, Retiree Health, and Compensated Absences are accounted for in the Internal Service Fund.

- The *Fiduciary Funds* are used to account for assets held by VTA as a trustee or as an agent for others and which assets cannot be used to support its own programs. VTA's trust and agency funds include the VTA/ATU Pension Plan, ATU Medical Trust, the Bay Area Air Quality Management District (BAAQMD) Program, and the Measure B Ancillary Program. The VTA/ATU Pension Plan and the ATU Medical Trust are reported as pension (other employees benefit) trust funds. The BAAQMD and the Measure B Ancillary Programs are reported as agency funds. The BAAQMD agency fund accounts for the activities that relate to the Transportation Fund for Clean Air (TFCA) Program. The Measure B Ancillary Program agency fund was established to administer the 1996 Measure B funds.

(b) Basis of Accounting

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

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

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Interest, certain State and federal grants, and charges for services are accrued if their receipt occurs within 180 days after the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, compensated absences are recorded only when payment is due.

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

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

(c) Cash and Investments

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

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

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

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

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

(d) Inventories

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

(e) Restricted Assets

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

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

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

(g) Capital Assets

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

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

Buildings, improvements, furniture and fixtures	5 to 50 years
Vehicles (excluding light-rail vehicles)	5 to 12 years
Light-rail tracks, electrification and light-rail vehicles	25 to 45 years
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 until the specified asset is ready for its intended use. In the current year, VTA capitalized total interest expense of $21.8 million relating to the BART and Downtown East Valley projects.

(h) Vacation and Sick Leave Benefits

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

(i) Self-Insurance

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

(j) Net Assets

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

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* – This category consists of VTA's local contribution to capital projects, debt reserve funds, bond proceeds for future capital projects, and net assets pertaining to Measure B Transit and 2000 Measure A.

- *Unrestricted Net Assets* – This category represents net assets of VTA, not restricted for any project or other purpose.

The business-type statement of net assets reports $2,097,647,000 of total net assets, of which $14,563,000 is restricted by enabling legislation for the 2000 Measure A Sales Tax Programs. The 2000 Measure A half-cent sales tax was approved by Santa Clara County voters to fund certain transportation related projects.

(k) Cost Allocated to Capital and Other Programs

On the Statement of Revenues, Expenses and Changes in Fund Net Assets, the Enterprise Fund reports $26.2 million as costs allocated to capital and other programs. This amount represents a credit for direct and indirect labor and associated fringe benefits, reproduction and mileage costs, and other costs that were capitalized as construction in progress.

(l) Estimates

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

(m) New ***GASB Pronouncements***

During FY2006, VTA implemented the Government Accounting Standard Board (GASB) Statement Number 44, "*Economical Condition Reporting: The Statistical Section*," which provides guidance on the tables and narrative explanations in the statistical section, and Statement No. 42, *"Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries."* This Statement establishes accounting and financial reporting standards for impairment of capital assets. In addition, VTA implemented Statement No. 46, *"Net Assets Restricted by Enabling Legislation,"* which requires that any constraints on the use of net assets as a result of enabling legislation be reported as restricted net assets, and Statement No. 47, "*Accounting for Termination Benefits,"* which requires an employer to establish an accounting standard of recognizing a liability and expense for voluntary termination benefits.

GASB also requires Statements No. 43, "*Financial Reporting for Postemployment Benefit Plans Other than Pension Plans,"* and No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions*." As required by GASB, VTA will implement GASB 43 and 45 statements by no later than the FY08 CAFR.

NOTE 3 - CASH AND INVESTMENTS

Total cash and investments as of June 30, 2006, are reported in the accompanying basic financial statements as follows (in thousands):

	Business-type Activity		Governmental Activity	Fiduciary Funds		
	Enterprise Fund	Internal Service Fund	Governmental Funds	Pension Trust Funds	Agency Funds	Total
Unrestricted:						
Cash and cash equivalents	$ 2,424	$ 155	$ -	$ -	$ -	$ 2,579
Investments	17,093	175,956	2,749	-	-	195,798
Total unrestricted	19,517	176,111	2,749	-	-	198,377
Restricted:						
Cash and cash equivalents	6,255	-	10,853	-	-	17,108
Cash and cash equivalents with fiscal agents	51,485	-	12,546	-	4,798	68,829
Investments	35,153	-	-	316,545	4,066	355,764
Total restricted	92,893	-	23,399	316,545	8,864	441,701
Total cash and investments	$ 112,410	$ 176,111	$ 26,148	$ 316,545	$ 8,864	$ 640,078

As of June 30, 2006, total cash and investments among all funds consisted of the following (in thousands):

Cash and equivalents	$ 19,687
Cash and cash equivalents with fiscal agents	68,829
Investments	551,562
	$ 640,078

Cash and Equivalents

VTA maintains checking accounts for unrestricted operations, the Congestion Management and Highway Programs (CM&HP) and the Measure B Transportation Improvement Program (Measure B account). These checking accounts earn interest based on the bank's monthly sweep average repurchase agreement rate. At June 30, 2006, the carrying amount of these cash balances are shown below (in thousands):

Unrestricted operations account	$ 2,580
CM&HP account	10,852
Measure B account (Enterprise Fund)	6,255
Total deposits	$ 19,687

Investments

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

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

Specific restrictions of investment are noted below:

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

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

The Local Investment Advisory Board (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 VTA's position in the pool.

VTA's portfolio includes asset-backed securities, which are invested directly by VTA and structured notes which are invested indirectly through LAIF. At June 30, 2006, investment in LAIF is $29.2 million. LAIF is part of the State of California Pooled Money Investment Account (PMIA), whose balance at June 30, 2006 is $63.3 billion. Of that amount, 2.6% is in structured notes and asset-backed securities. None of this amount was invested in derivative instruments. PMIA is not a Securities and Exchange Commission (SEC) registered pool, but it is required to invest in accordance with the guidelines established by the California Government Code. The weighted-average to maturity of the investments in PMIA at June 30, 2006 was 152 days. 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 investment earnings are paid quarterly based on the average daily balance. Withdrawals from LAIF are completed on a dollar for dollar basis.

Interest rate risk – This is the risk of loss due to the fair value of an investment falling due to interest rates rising. Of VTA's (Unrestricted/Restricted Funds and ATU Pension Plan) $552 million in investments, over 59% of the investments have a maturity of less than 1 year. Of the remainder, only 14% have a maturity of more than 10 years. Long-term securities of more than five years are limited to 40% of the portfolio.

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

Custodial Credit Risk - Deposits - For deposits, custodial credit risk is the risk that in the event of a bank failure, VTA's deposits may not be returned to it. The California Government Code Section 53652 requires California banks and savings and loan associations to secure governmental deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of VTA's deposits. California law also allows financial institutions to secure governmental deposits by pledging first trust deed mortgage notes having a value of 150% of the VTA's total deposits. At June 30, 2006, VTA's deposits were collaterized by securities held by the financial institutions, but not in VTA's name.

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

Concentration of Credit Risk - Concentration of credit risk is the risk that the failure of any one issuer would place an undue financial burden on VTA. Investments issued by or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments are exempt from this requirement, as they are normally diversified themselves. About 36% of VTA's investments at year-end are in U.S. Government or Agencies issues. There is no limitation on amounts invested in these types of issues. At June 30, 2006, VTA had $36.8M and $57.5M, representing 6.03% and 9.41% of VTA's portfolio invested in debt securities issued by the Federal Home Loan Mortgage Corporation (FHLM) and the Federal National Mortgage Association (FNMA), respectively. Of the 17.8% of the portfolio invested in equities, no investment in a single issuer exceeds 5%. The investments in guaranteed investment contracts include one agreement with FSA Capital Management Services, in the amount of $26.4 million, which is approximately 5% of the investment portfolio and represents money held by a fiscal agent to pay debt service when due, in accordance with bond indentures.

The following schedules indicate the interest rate and credit risk at June 30, 2006. Certain investments such as obligations, which are backed by full faith and credit of the United States Treasury, are not subjected to credit rating.

Investments are categorized below in keeping with GASB 40 which disclose investment rating and maturity (in thousands):

	Maturity				
Type of Investment	Less than 1 year	1-5 Years	6-10 Years	Over 10 Years	Market Value
Commercial Paper Payden	$ 1,298	$ -	$ -	$ -	$ 1,298
Corporate Bonds – Operations	2,809	20,488	-	-	23,297
Corporate Bonds - Pension Plan	-	4,409	13,751	13,245	31,405
Corporate Bonds - Retiree Health	250	1,326	4,049	3,710	9,335
US Government Agency Bonds:					
Operations	15,008	25,217	-	-	40,225
Pension Plan	172	863	4,583	45,019	50,637
Retiree Health	45	265	1,219	13,447	14,976
U.S. Treasury:					
Operations	9,260	35,932	17,432	-	62,624
Pension Plan	5,657	12,597	3,990	-	22,244
Retiree Health	149	6,212	249	-	6,610
SUBTOTAL	34,648	107,309	45,273	75,421	262,651
Money Market Funds - Operations	1,046	-	-	-	1,046
Money Market Funds - Pension	4,088	-	-	-	4,088
Cash with Fiscal Agents - GIC	8,066	23,280	-	7,461	38,807
Cash with Fiscal Agents- Money Market Funds	9,424	-	-	-	9,424
TOTAL INVESTMENTS with Money Managers	57,292	130,589	45,273	82,882	316,016
LAIF	29,227	-	-	-	29,227
TOTAL INVESTMENTS	$ 86,499	$ 130,589	$ 45,273	$ 82,882	345,243
Investment commingled in County					1,837
Equity-based investments					254,551
Retention fund at escrow agents (deposits)					18,760
Cash deposits					19,687
					$ 640,078

The following is a summary of the credit quality distribution for investments with credit exposure as a percentage of total investments as rated by Standards and Poors:

Ratings	Fair Value (In Thousands)	Percentage of Portfolio
Unrated	$ 343,236	53.63%
Not Applicable	217,004	33.90%
BB	2,424	0.38%
BB-	2,556	0.40%
BBB-	1,320	0.21%
BBB	7,188	1.12%
BBB+	9,275	1.45%
A-	4,824	0.75%
A-1	1,298	0.20%
A	15,926	2.49%
A+	10,518	1.64%
AA-	1,250	0.20%
AA	633	0.10%
AAA	22,626	3.53%
Total	$ 640,078	100.00%

As of June 30, 2006, the Pension Trust fund's restricted investments consisted of the following (in thousands):

ATU Pension Plan investments	$ 305,211
ATU Medical – investment	10,805
Pooled investments with VTA	529
Total	$ 316,545

NOTE 4 – INTERFUND TRANSACTIONS

The composition of interfund balances as of June 30, 2006 is as follows (in thousands):

Due from	Due to	Amount	
VTA Transit	Congestion Management & Highway Program	$ 527	(a)
VTA Transit	Measure B Highway Program	310	(a)
VTA Transit	ATU Pension Program	1,177	(b)
Measure B Ancillary Program	Congestion Management Program	25	(c)
		$ 2,039	

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

NOTE 5 – DUE FROM AND DUE TO OTHER GOVERNMENTAL AGENCIES

Due from other governmental agencies as of June 30, 2006 consisted of the following (in thousands):

	Business-Type Activity	Governmental Activity			
	Enterprise Fund	Congestion Management Program	Congestion Management and Highway Program	Measure B Highway Program	Total
Current:					
Federal government	$ 34,625	$ -	$ -	-	$ 34,625
State government	61,346	915	11,469	641	74,371
County of Santa Clara					
Court deposits:					
Measure B Highway	-	-	-	-	-
Measure B Transit	-	-	-	40	40
Total court deposits	-	-	-	40	40
Measure B Ancillary Program - SWAP	302	-	1,796	-	2,098
Others	11	-	-	-	11
Total County of Santa Clara	313	-	1,796	40	2,149
Others	2,175	-	2,292	-	4,467
Total	$ 98,459	$ 915	$ 15,557	$ 681	$ 115,612

Due from other governmental agencies as of June 30, 2006, is reported in the accompanying basic financial statements as follows (in thousands):

	Business-Type Activity	Governmental Activity			
	Enterprise Fund	Congestion Management Program	Congestion Management and Highway Program	Measure B Highway Program	Total
Current assets (unrestricted)	$ 68,270	$ 915	$ -	$ -	$ 69,185
Restricted assets	30,189	-	15,557	681	46,427
Total	$ 98,459	$ 915	$ 15,557	$ 681	$ 115,612

Due to other governmental and other agencies as of June 30, 2006, consisted of the following (in thousands):

	Business-Type Activity	Governmental Activity				
	Enterprise Fund	Congestion Management Program	Congestion Management and Highway Program	Measure B Highway Program	Agency Fund	Total
State government	$ 10	$ -	$ -	$ -	$ -	$ 10
County of Santa Clara	6,913	1,383	-	4,824	4,906	18,026
City of Santa Clara	-	-	380	-	-	380
City of Sunnyvale	-	-	500	-	-	500
City of San Jose	-	-	2,005	-	-	2,005
City of Milpitas	-	-	200	-	-	200
City of Mountain View	-	-	250	-	-	250
Yerba Buena Opco, Inc.	-	-	300	-	-	300
Measure B Ancillary Program	-	-	16,650	-	-	16,650
Total	$ 6,923	$ 1,383	$ 20,285	$ 4,824	$ 4,906	$ 38,321

Due to other governmental agencies as of June 30, 2006, is reported in the accompanying basic financial statements as follows (in thousands):

	Business-type Activity	Governmental Activity				
	Enterprise Fund	Congestion Management Program	Congestion Management and Highway Program	Measure B Highway Program	Agency Fund	Total
Current Liabilities	$ 10	$ 1,383	$ -	$ -	$ -	$ 1,393
Liabilities payable from restricted assets	6,913	-	20,285	4,824	4,906	36,928
Total	$ 6,923	$ 1,383	$ 20,285	$ 4,824	$ 4,906	$ 38,321

NOTE 6 – CAPITAL ASSETS

Capital asset changes for VTA's business-type activity for the year ended June 30, 2006 were as follows (in thousands):

	July 1, 2005	Additions	Retirements	Transfers	June 30, 2006
Capital assets, not being depreciated:					
Land and right of way	$ 761,818	$ -	$ -	$ 369,761	$ 1,131,579
Construction in progress	775,711	121,321	-	(516,256)	380,776
Total capital assets, not being depreciated	1,537,529	121,321	-	(146,495)	1,512,355
Capital assets, being depreciated:					
Buildings, improvements, furniture and fixtures	340,546	-	-	121,902	462,448
Vehicles	480,174	-	(535)	(22,023)	457,616
Light-rail tracks and electrification	365,505	-	-	18,930	384,435
Caltrain – Gilroy extension	52,990	-	-	-	52,990
Other operating equipment	28,830	-	(27,514)	27,686	29,002
Total capital assets, being depreciated	1,268,045	-	(28,049)	146,495	1,386,491
Less accumulated depreciation for:					
Buildings, improvements, furniture and fixtures	(128,645)	(23,872)	-	-	(152,517)
Vehicles	(94,120)	(19,508)	330	-	(113,298)
Light-rail tracks and electrification	(89,576)	(17,542)	-	-	(107,118)
Caltrain – Gilroy extension	(6,908)	(502)	-	-	(7,410)
Other operating equipment	(15,951)	(2,341)	-	-	(18,292)
Total accumulated depreciation	(335,200)	(63,765)	330	-	(398,635)
Total capital assets, being depreciated, net	932,845	(63,765)	(27,719)	146,495	987,856
Total capital assets, net	$ 2,470,374	$ 57,556	$ (27,719)	$ -	$ 2,500,211

Construction in progress (CIP), includes capitalized costs and right-of-way acquisitions associated with the following projects as of June 30, 2006 (in thousands):

Silicon Valley Rapid Transit Corridor	$ 326,000
Facilities Modifications	17,680
Guadalupe Corridor	1,044
Capitol Corridor Projects	14,281
Study Projects	10,142
Caltrain Service Improvements	7,569
New Rail Vehicles	1,930
Coach and Vehicle Replacements	1,360
Vasona Corridor Projects	33
Software Development	19
Tasman Corridor Project Extensions	718
Total project costs expended to date	$ 380,776

Additional information regarding projects in progress as of June 30, 2006 is as follows (in thousands):

Total Board approved project budget	$ 533,794
Expended to date	(380,776)
Remaining budget available for CIP	$ 153,018
Anticipated funding sources are as follows:	
Federal, State, and other local assistance (Note 10)	$ 40,414
Local contributions (Note 10)	112,604*
Total funding sources	$ 153,018

*Includes approximately $77.5 million in 2000 Measure A Bond Proceeds

VTA has outstanding commitments of about $51 million as of June 30, 2006, related to the above capital projects.

NOTE 7 - LONG-TERM LIABILITIES

Long-term debt as of June 30, 2006, consisted of the following (in thousands):

Secured by VTA's 1976 ½ Cent Sales Tax	
Series 1985A Equipment Trust Certificates	$ 29,660
1997 Series A Refunding ($31,440, less unamortized discount of $249 and unamortized deferred amount on refunding of $2,286)	28,905
1998 Series A Junior Lien	42,780
2000 Series A Junior Lien	34,940
2001 Series A Senior Lien ($19,145 less unamortized discount of $128)	19,017
2005 Series A-C Refunding ($170,860 less unamortized discount and deferred amount on refunding of $16,183)	154,677
Secured by VTA's 2000 Measure A ½ Cent Sales Tax	
2003 Series A Senior Lien ($131,240, plus unamortized premium of $6,681)	137,921
2004 Series A Senior Lien ($104,710, plus unamortized premium of $6,795)	111,505
2004 Series B Senior Lien ($135,165, plus unamortized premium of $5,445)	140,610
Total long-term debt	700,015
Less current portion of long-term debt	(16,890)
Long-term debt, excluding current portion	683,125
Less portion of long-term debt payable from restricted assets	(43,182)
Long-term debt, excluding current & restricted portion	$ 639,943

(a) Equipment Trust Certificates

- $52.5 million 1985A Certificates (1985 ETC's) were issued to finance the retirement of the Series 1984A Equipment Trust Certificates, originally issued to finance the acquisition of light-rail vehicles. The 1985 ETC's bear interest at a weekly rate, which is determined by the Remarketing Agent to be the rate necessary to remarket the 1985 ETC's at par value. The 1985 ETC's are subject to mandatory redemption before their maturity date on each June 1 on or after June 1, 2007, in part or by lot, solely from sinking fund payments and interest earnings deposited in the 1985 ETC Sinking Fund Account. In August 1998, VTA entered into an interest rate swap agreement. Pursuant to the terms of the swap agreement, VTA owes interest at a fixed rate of 4.355% to the counterparty to the swap. In return, the counterparty owes VTA interest based on the actual variable rate of the 1985 ETC's. The outstanding 1985 ETC principal is used as the basis on which the interest payments are calculated. Under certain circumstances, the agreement is subject to termination before maturity of the 1985 ETC's. A termination of the swap agreement may result in VTA making or receiving a termination payment.

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

- In November 1997, VTA issued $40.6 million of 1997 Series A Sales Tax Revenue Refunding Bonds (1997 Bonds), at a true interest cost of 5.17%, to advance refund $33.3 million of the outstanding principal amount of its 1991 Series A Bonds, advance refund $4 million of the outstanding principal amount of its Series C Certificates, and to pay for certain capital expenditures. Their maturities extend to June 1, 2015 and are subject to mandatory and optional redemption provisions.

- In March 1998, through the California Transit Variable Rate Program of the California Transit Finance Authority (CTFA) (Note 19d), VTA issued $50 million of 1998 Series A Junior Lien Sales Tax Revenues Bonds (1998 Bonds) to finance certain capital expenditures). The 1998 Bonds bear interest at a weekly rate, which is determined by the Remarketing Agent to be the rate necessary to remarket the bonds at par value. Their maturities extend to October 1, 2027 and are subject to mandatory and optional redemption provisions.

- In November 2000, through the California Transit Variable Rate Program of the California Transit Finance Authority (CTFA) (Note 19d), VTA issued $40 million of 2000 Series A Junior Lien Sales Tax Revenue Bonds to finance certain capital expenditures. The 2000 Bonds bear interest at a weekly rate, which is determined by the Remarketing Agent to be the rate necessary to remarket the bonds at par value. Their maturities extend to October 1, 2027 and are subject to mandatory and optional redemption provisions.

- In June 2001, VTA issued $200 million of 2001 Series A Senior Lien Sales Tax Revenue Bonds (2001 Bonds), at a true interest cost of 5.08% to finance portions of the Tasman East, Vasona, and Capitol Corridor Light Rail projects. Their maturities extended through June 1, 2026. Maturities through June 1, 2011 are not subject to redemption before their maturities. However, maturities from June 1, 2012 through June 1, 2026 are subject to optional redemption and will be redeemed on June 1, 2012 from proceeds of refunding bonds.

- In July 2005, VTA issued Sales Tax Revenue Refunding Bonds, 2005 Series A, B & C, at variable rates, in an aggregate amount of $172.5 million (2005 Bonds) to advance refund $155.3 million of VTA's Sales Tax Revenue Bonds, 2001 Series A that mature on June 1, 2012 through June 1, 2026 (Defeased Bonds). Their maturities extend to June 1, 2026 and are subject to optional and mandatory redemption and optional and mandatory tender for purchase before maturity. Proceeds of the 2005 Bonds were placed in an escrow account held by a

Trustee to provide for future debt service payments on the Defeased Bonds. The advance refunding met the requirement of an in-substance debt defeasance, and the Defeased Bonds were removed from VTA's long-term debt. Accordingly, the escrow account assets and the liabilities from the Defeased Bonds are not included in VTA's financial statements. The amount outstanding on the Defeased Bonds was $155.3 million as of June 30, 2006. VTA would realize debt service savings of approximately $16.9 million in net present value by refunding the 2001 Series A Bonds. Concurrent with the issuance and sale of the 2005 Bonds, VTA entered into three separate interest rate swap agreements. Pursuant to the terms of the swap agreements, VTA owes interest at a fixed rate of 3.033% to the counterparties to the swaps. In return, the counterparties owe VTA interest based on a percentage of LIBOR[1]. The outstanding principal is used as the basis on which the interest payments are calculated. Under certain circumstances, the agreements are subject to termination before maturity of the 2005 Bonds. A termination of the swap agreement may result in VTA making or receiving a termination payment.

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

- In November 2003, VTA issued $131.2 million of 2003 Measure A Sales Tax Revenue Bonds (2003 Bonds) to: 1) finance the repayment of the 2002 Bonds and Grant Anticipation Notes that matured on December 4, 2003, 2) reimburse VTA for certain debt service payments made in connection with the 2001 Bonds, and 3) finance capitalized interest payments through October 2006. The 2003 Bonds were issued as long-term variable rate bonds, with an initial fixed rate term through October 2, 2006, at which time there is a mandatory tender for purchase of the 2003 Bonds. If the 2003 Bonds are not remarketed or refunded by the mandatory tender date, the bonds will continue to be owned by current bondholders and will commence to pay an interest rate of 150% of one year LIBOR for successive periods of one year until VTA elects to adjust the interest rate mode to weekly adjustable, auction rate security or fixed rate and there is a successful remarketing of the bonds.

- In May 2004, VTA issued $104.7 million of Measure A Sales Tax Revenue Bonds (2004A Bonds) to pay certain working capital and capital expenditures and to finance capitalized interest payment through October 2006. The 2004A Bonds were issued as long-term variable rate bonds, with an initial fixed rate term through October 2, 2006, at which time there is a mandatory tender for purchase of the 2004A Bonds. If the 2004A Bonds are not remarketed or refunded by the mandatory tender date, the bonds will continue to be owned by current bondholders and will commence to pay an interest rate of 150% of one year LIBOR for successive periods of one year until VTA elects to adjust the interest rate mode to weekly adjustable, auction rate security or fixed rate and there is a successful remarketing of the bonds.

- In December 2004, VTA issued $135.2 million of Measure A Senior Lien Sales Tax Revenue Bonds (2004B Bonds) to pay certain working capital and capital expenditures and to finance capitalized interest payment through October 2006. The 2004A Bonds were issued as long-

[1] London Interbank Offered Rate

term variable rate bonds, with an initial fixed rate term through October 2, 2006, at which time there is a mandatory tender for purchase of the 2004A Bonds. If the 2004B Bonds are not remarketed or refunded by the mandatory tender date, the bonds will continue to be owned by current bondholders and will commence to pay an interest rate of 150% of one year LIBOR for successive periods of one year until VTA elects to adjust the interest rate mode to weekly adjustable, auction rate security, or fixed rate and there is a successful remarketing of the bonds.

(d) Interest Rate Swaps

VTA has entered into four interest rate swap agreements. Of the agreements, one requires VTA pay a fixed interest rate and receive interest at the actual variable interest rate of the underlying bonds; and three require that VTA pay fixed interest rates and receive interest at a percentage of LIBOR.

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

***Summary**:* The terms, fair values, and credit ratings of the outstanding swaps as of June 30, 2006 were as follows:

(Dollars in thousands)

Associated Bonds	Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Value[2]	Swap Termination Date	Counterparty Credit Rating[3]
1985 ETC	$ 29,660	9/11/98	4.355%	1985 ETC	$(768)	6/01/15	Aa1, AAA, AA+
STRRB[4] 2005A	68,490	7/07/05	3.033%	Cal-E[5]	4,182	6/01/26	Aaa, AAA, ---
STRRB 2005B	51,185	7/07/05	3.033%	Cal-E	3,085	6/01/26	Aa1, AA, AA+
STRRB 2005C	51,185	7/07/05	3.033%	Cal-E	3,090	6/01/26	Aa3, A+, AA-
	$200,520				$9,589[6]		

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

***Fair Values**:* At June 30, 2006, the swap associated with the 1985 ETCs had a negative fair value. This is because interest rates have declined since the execution of the swap in 1998. The swaps associated with the 2005 Series A, B, and C bonds (2005 Bonds) have a positive fair value, resulting in an aggregate fair value of the swap portfolio of $9.6 million. The fair values include

[2] Includes accrued interest
[3] Moody's, Standard and Poor's and Fitch, respectively
[4] Sales Tax Revenue Refunding Bonds
[5] Lower of 1 month LIBOR (London Interbank Offered Rate) *or* a rate equal to the greater of 63.5% of 1 month LIBOR or 55.5% of 1 month LIBOR plus 0.44%
[6] Total may not add due to rounding

accrued interest. Because the coupons on VTA's variable rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases or decreases.

Credit Risks: As of June 30, 2006, VTA was not exposed to credit risk on the swap associated with the 1985 ETC's because the swap had a negative fair value. As of June 30, 2006, VTA was exposed to $10.4 million of credit risk, spread among the three counterparties to the swaps associated with the 2005 Bonds. All swap agreements, with the exception of the swap associated with the 1985 ETC's, contain specific collateral levels based on credit ratings and the fair value of the swap. Generally, the fair value threshold levels are reduced as credit ratings are reduced. The swap agreement associated with the 1985 ETC's requires the counterparty to post collateral in the event that ratings are suspended, withdrawn or falls below "Aa3" in the case of Moody's and "AA-" in the case of S&P. Collateral on all swaps must be in the form of US government securities and, in the case of the swap associated with the 1985 ETC's, must be held by a third party collateral agent; otherwise, collateral posted pursuant to all other swap agreements, may be held by the counterparty.

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

Basis Risk: VTA has no basis risk for the swap associated with the 1985 ETC's, as the interest rate received from the counterparty is equal to the interest paid to the 1985 ETC bondholders. For the other swaps, the interest rate on VTA's variable rate bonds are expected to be equivalent, but not necessarily equal to the variable rate payments received from counterparties. To the extent these variable payments differ, VTA is exposed to basis risk. As of June 30, 2006, the interest rates of the variable rate debt associated with these swap transactions were 3.90%, 3.88%, and 3.90%. However, VTA's variable rate payments received from the counterparties of these swaps was 3.41%. For the year ended June 30, 2006, basis risk represented a cost of approximately $16,420 to VTA.

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

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

(e) Swap Payments and Associated Debt

Using rates as of June 30, 2006, debt service requirements on VTA's swap-related variable rate debt and net swap payments are as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

	Variable Rate Bonds			
(Dollars in thousands)	Principal	Interest	Interest Rate Swap, Net	Total
Year Ending June 30:				
2007	$ 1,580	$ 7,816	$ 956	$ 10,352
2008	3,855	7,754	949	12,558
2009	4,095	7,604	931	12,630
2010	4,335	7,443	913	12,691
2011	4,675	7,274	893	12,842
2012-2016	45,820	32,030	3,958	81,808
2017-2021	55,520	22,313	2,773	80,606
2022-2026	80,640	9,621	1,196	91,457
	$ 200,520	$ 101,855	$ 12,569	$ 314,944

(f) Long-term Debt Obligation Summary

Interest Rates on all outstanding fixed-rate obligations range from 3.85% to 5.25%. Interest on the variable rate debt is reset weekly based upon market conditions. Future principal and interest obligations as of June 30, 2006 are as follows:

(Dollars in thousands)	Principal	Interest[7]	Total
Year ending June 30:			
2007	$ 17,240	$ 32,927	$ 50,167
2008	16,990	32,097	49,087
2009	17,760	31,324	49,084
2010	18,555	30,513	49,068
2011	19,385	29,664	49,049
2012-2016	110,545	134,243	244,788
2017-2021	135,825	107,138	242,963
2022-2026	165,910	74,088	239,998
2027-2031	91,830	41,913	133,743
2032-2036	105,900	17,307	123,207
	$ 699,940	$ 531,214	$ 1,231,154
Unamortized bond discount, premium and deferred amount on refunding, net	$ 75		
Total debt	$ 700,015		
Less current portion	$ (16,890)		
Long-term portion of debt	$ 683,125		

[7] Rates as of 6/30/06 were used to determine variable rate interest expense.

(g) Restrictions and Limitations

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

(h) Long-term Liabilities

Long-term liability activity for fiscal years ending June 30, 2006 and 2005 is shown on the following table.

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

	July 1, 2005	Additions	Retirements	June 30, 2006	Amounts Due Within One Year
Equipment Trust Certificates:	$29,660	$ -	$ -	$29,660	$ 460
Sales Tax Revenue Bonds Secured by VTA's 1976 ½ Cent Sales Tax:					
1998 Series A Junior Lien	44,085	-	(1,305)	42,780	1,350
2000 Series A Junior Lien	36,015	-	(1,075)	34,940	1,110
2001 Series A	179,990	-	(160,845)	19,145	5,375
Sales Tax Revenue Refunding Bonds Secured by 1976 ½ Cent Sales Tax:					
1997 Series A	32,800	-	(1,360)	31,440	1,440
2005 Series A-C	-	172,530	(1,670)	170,860	1,120
Sales Tax Revenue Bonds Secured by VTA's 2000 Measure A ½ Cent Sales Tax:					
2003 Series A	131,240	-	-	131,240	2,705
2004 Series A	104,710	-	-	104,710	1,395
2004 Series	135,165	-	-	135,165	2,285
Total outstanding debt	693,665	172,530	(166,255)	699,940	17,240
Plus (less) premiums, deferred amount on refundings and discounts	15,062	(15,700)	713	75	(350)
Outstanding debt, net	708,727	156,830	(165,542)	700,015	16,890
Claims liability:					
General liability, worker's compensation & Compensated absences	77,194	18,280	(14,455)	81,019	16,618
Total long-term liabilities	$785,921	$175,110	$(179,997)	$781,034	$33,508

NOTE 8 –SALES TAX REVENUES

Sales tax revenue represents sales tax receipts from the California State Board of Equalization, which, under voter-approved 1976 and 2000 Sales Tax Measures, collect a half-cent for each taxable sales dollar spent in the County. These amounts are available to fund both operations and capital expenditures except that portion which is to be used to repay long-term debt as described in Note 7. Collection fees charged by the State Board of Equalization were approximately $1.5 million in FY2006. The amount of the 1976 Sales Tax and 2000 Measure A Sales Tax earned during FY2006 was $157.3 million and $38.2 million respectively, totaling $195.5 million.

NOTE 9 – VTA PROGRAMS FUNDED THROUGH LOCAL SALES TAX MEASURES

Measure B Transportation Improvement Program (MBTIP)

In November 1996, the voters of the County approved Measure A - an advisory measure listing an ambitious program of transportation improvements for the County. Also approved on the same ballot, Measure B authorized the County Board of Supervisors to collect a nine-year half-cent sales tax for general County purposes. The tax was identified as a funding source for Measure A projects. Collection of the tax began in April 1997; however, use of the revenue was delayed pending the outcome of litigation challenging the legality of the sales tax. In August 1998, the California courts upheld the tax allowing the 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 local projects, 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, the Vasona Light Rail Project was programmed for $51.6 million with the same amount being available for other local projects, and the Routes 237/880 Interchange Highway Project was programmed for $22.5 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, 2006 approximately $198.3 million have been expended for the acquisition of low floor vehicles, which includes $17.3 million in current year additions.

During the year, VTA paid approximately $66.8 million for current year costs for the program. Of this amount, the County contributed approximately $59.5 million; namely $8 million ($8.8 million Measure B funding and ($0.8 million) Measure B swap fund) for transit projects in the Enterprise Fund; $38.1 million ($33 million Measure B fund & $5.1 million Measure B swap fund) for highway projects in the Measure B Highway Capital Projects Fund; and $13.4 million for the Ancillary Program (Measure B Projects, 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 partially 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. During FY06, VTA received $38.2 million in sales tax for 2000 Measure A Program.

NOTE 10 – FEDERAL, STATE, AND LOCAL ASSISTANCE

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

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, 2006 are summarized as follows (in thousands):

	Business-type Activity	Governmental Activity
	Enterprise Fund	Congestion Management Program
Operating assistance grants:		
FTA Section 9	$ 33,021	$ -
Job Access and Reverse Commute Program	488	-
Federal Technical Studies	56	621
Total Operating Assistance Grants	33,565	621
Capital Grants		
FTA Section 3	2,552	-
FTA Section 9	4,491	-
Total Capital Grants	7,043	-
Total Operating Assistance and Capital Grants	$ 40,608	$ 621

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

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

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

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

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

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

- MTC-TLC represents funds received from the Metropolitan Transportation Commission – Transportation for Livable Communities program capital grants for the San Fernando Station Plaza/Los Gatos Creek Trail Improvement Project. Funds for this program come from the federal transportation funds pursuant to TEA-21 Restoration Act.

- TransLink® fees are funds received from the Metropolitan Transportation Commission in accordance with the TransLink® Phase II site preparation fund agreement whereby VTA is to perform site preparation on its premises for the implementation of TransLink® Phase II project. The agreement is funded in whole or in part from the proceeds of a grant from the United States Department of Transportation.

- Intelligent Transportation System (ITS) fees are received from the California Department of Transportation pursuant to TEA-21, Section 5208 Funding for California ITS Integration Projects with VTA being the implementing agency for ITS integration activities in Santa Clara County and the Silicon Valley.

(b) State and Local Grants and Assistance

State and local grants for the year ended June 30, 2006, are summarized as follows (in thousands):

		Business-type Activity	Governmental Activity
		Enterprise Fund	Congestion Management Program
Operating assistance grants:			
Transportation Development Act		$ 71,044	$ -
State Operating Assistance Grants		8,814	229
AB434		1,341	-
Total operating assistance grants		$ 81,199	$ 229
Capital grants:			
Traffic Congestion Relief Program		3,213	-
State of California, General Fund		652	-
AB434		117	-
Other Local Grants:			
Santa Clara County (Measure B Program) – (Note 9)		8,844	-
Santa Clara County (Fund Swap Program)			
VTA Transit	$2,806		
Measure B Transit Program	(785)	2,021	-
Various cities, counties and others		632	-
Total capital grants		15,479	-
Total state and local grants		$ 96,678	$ 229

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

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

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

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

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.

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

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

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

(a) Plan Description

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

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

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

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

The current membership of the Plan as of June 30, 2006, is comprised of the following:

Retirees and beneficiaries currently receiving benefits	852
Terminated vested members not yet receiving benefits	181
Active members	1,394
Total	2,427

(b) *Basis of Accounting*

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

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

(c) *Actuarial Methods and Assumptions*

Description	*Methods/Assumptions*	
Valuation date	January 1, 2006	
Actuarial cost method	Aggregate entry age normal	
Amortization method	Level dollar open method	
Remaining amortization period	20 years (Level dollar open method)	
Actuarial asset valuation method	Market value less unrecognized investment gain or losses during the prior four years, phased in at 20% per year, subject to a minimum of 80% and a maximum of 110% of market value.	
Actuarial assumptions	Investment rate of return	8.00%
	Projected salary increases	19.03% for the first three years of service, 4.28% thereafter.
	Inflation rate	3.50%
	Cost of living adjustments	NONE

(d) Concentration

Investments in the commingled State Street Bank and Trust Company, S&P 500 Conservative Index Fund and commingled Fidelity Fund represented 14.37% and 18.1%, respectively, of the Plan's net assets as of June 30, 2006.

(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, 2006 were made in accordance with actuarially determined requirements computed as of January 1, 2005. VTA's contribution rate as a percentage of payroll was 16.51% for fiscal year FY2006. The schedule of funding progress can be found on page 2-65.

(f) Net Pension Obligation

VTA's net pension obligation to the Plan was zero as of June 30, 2006. The three-year trend information is shown below (in thousands):

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/04	$12,071	100%	$ -
6/30/05	14,292	100%	-
6/30/06	15,278	100%	-

NOTE 12 – PUBLIC EMPLOYEES' RETIREMENT PLAN

(a) Plan Description

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

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

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

(b) Actuarial Methods and Assumptions

Description	*Methods/Assumptions*
Valuation date	June 30, 2003
Actuarial cost method	Entry Age Actuarial Cost Method
Amortization method	Level percent of Payroll
Average Remaining Period	17 years as of the Valuation Date
Asset Valuation Method	3 Year Smoothed Market
Actuarial Assumptions	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.25% to 14.45% depending on Age, Service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.00% and an annual production growth of 0.25%

(c) Funding Policy

Active members in VTA's CalPERS Plan are not required to contribute to the CalPERS Plan. VTA elected to contribute the actuarially determined amount necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required contribution rate from July 1, 2005 through August 14, 2005, was 11.925% and for August 15, 2005 through June 30, 2006 was 13.029% 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 amortization period used is closed which means that amortization periods for initial unfunded liability, benefit change, and assumption change decline every year. The schedule of funding progress can be found on page 2-66.

(d) Net Pension Obligation

VTA's net pension obligation to the CalPERS Plan was zero as of June 30, 2006. For FY2006, VTA's annual pension cost was approximately $6.5 million, which was fully contributed. The required contribution for FY2006 was determined as part of the June 30, 2003, actuarial valuation using the entry age normal cost method with the contributions determined as a percent of pay. Three-year trend information follows (in thousands):

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

NOTE 13 – ATU SPOUSAL MEDICAL AND VISION/DENTAL TRUST

VTA had assets and related liabilities as of June 30, 2006 of approximately $8.7 million for the ATU Spousal Medical Trust and $2.6 million for the Retiree Vision and Dental Trust.

The Spousal Medical Trust is a medical insurance benefit for eligible pensioners' spouses. Pursuant to a collective bargaining agreement, contribution to the Spousal Trust was changed from $.20 to $.25 per hour worked by all ATU employees, effective February 4, 2002. As of June 30, 2006, there were 215 participating spouses who were eligible for benefits from the Spousal Medical Trust. Contributions, which were expensed by VTA, were approximately $840 thousand. Benefit payments made by the Trust for FY2006 were approximately $1 million.

The Retiree Vision and Dental Trust is a vision and dental benefit for eligible pensioners. Effective February 8, 1999 and pursuant to a collective bargaining agreement, VTA is required to contribute $0.10 per hour worked by ATU employees. As of June 30, 2006, there were 730 eligible participants. Contributions, which were expensed by VTA, were approximately $336 thousand for the Retiree Vision and Dental Trust.

NOTE 14 – INTERNAL SERVICE FUND

As of June 30, 2006, the composition of assets and liabilities by individual components of the Internal Service Fund were as follows (in thousands)

	Workers' Compensation	General Liability	Retiree Health	Compensated Absences	Total
Assets	$ 66,334	$ 8,967	$ 79,285	$ 21,841	$ 176,427
Liabilities	(50,211)	(8,967)	-	(21,841)	(81,019)
Net assets (reserve)	$ 16,123	$ -	$ 79,285	$ -	$ 95,408

Workers' Compensation and General Liability

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

Actuarial Information

An actuarial analysis as of December 31, 2004 disclosed that the present values of estimated outstanding losses, at 5% average discount rate using a 75% confidence level, are $47.7 million and $6.5 million for Workers' Compensation and General Liability, respectively. Based on individual claims for the period January 1 through June 30, 2005, there is an increase in claim amount percentages of 5.35% for Workers' Compensation and a decrease of 65.60% for General Liability. The accrued liabilities for Workers' Compensation and General Liability claims were based on the actuarial estimates. It is VTA's practice to obtain full actuarial studies annually.

Changes in the balance of Workers' Compensation and General Claims Liabilities for the two years ended June 30, 2006, are as follows (in thousands):

	Workers' Compensation	General Liability
Unpaid claims at June 30, 2004	$ 46,757	$ 6,368
Provision for claims and claims adjustment expense	18,948	2,684
Payment for claims	(15,494)	(2,684)
Unpaid claims at June 30, 2005	50,211	6,368
Provision for claims and claims adjustment expense	19,751	5,164
Payment for claims	(19,751)	(2,565)
Unpaid claims at June 30, 2006	$ 50,211	$ 8,967

Retiree Health

(a) ATU

VTA provides an ATU Retiree Health Care Program (the ATU Program), a post-employment benefit, in accordance with the agreement between VTA and the ATU, to all ATU represented employees who retire from VTA on or after attaining the age of 55 with at least 15 years of service, or if an employee becomes disabled and has completed at least 10 years of service. As of June 30, 2006, 771 retirees met the eligibility requirements. VTA pays medical premiums for its eligible retirees.

(b) Non-ATU

All non-ATU represented employees upon retirement with at least five years of service and attaining age 50 are also covered under a Retiree Health Care Program (the Non-ATU Program). As of June 30, 2006, 254 retirees met the eligibility requirements.

(c) Actuarial Information

An actuarial study as of July 1, 2006 projected that the present value of future VTA paid retiree medical benefits for the current group of active employees, retirees, and terminated vested employees (excluding new employees) was approximately $172.3 million and $69 million, for the ATU and Non-ATU Programs, respectively. VTA's contributions are advance funded on an actuarial determined basis. For the year ended June 30, 2006, VTA made contributions to both the ATU and Non-ATU programs, which were expensed, of approximately $11.3 million. Benefits paid to participants of the program were approximately $5.3 million.

The actuarial cost method used for determining the benefit obligations is the projected unit benefit cost method. The significant economic assumptions used were as follows: 1) a discount rate of 7.0%, 2) a projected salary increase of 5.0%, and 3) a health cost inflation assumption of 8.0% pre-65 and 11.0% post-65 in the first year (increase from 2006 to 2007), 10.0% from 2007-2008 and then graded down 1.0% per year for the next 5 years, and 5.0% thereafter.

As of June 30, 2006, VTA had assets of $79.3 million to cover costs of the ATU and Non-ATU Programs.

Compensated Absences

This represents the amount charged each month to accrue the estimated increase in unused vacation and sick leave. This account is adjusted annually to reflect the year-end value of unused vacation and sick leave. Compensated absences are limited to leaves that are attributable to services already rendered and are not contingent on a specific event that is outside the control of the employer and employee. At June 30, 2006, the outstanding balance of compensated absence liability was $21.8 million.

NOTE 15 –INSURANCE

VTA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors, and omissions; injuries to employees; injuries to the public; and natural disasters. For the past three fiscal years, settlement amounts have not exceeded commercial insurance coverage. For additional information on workers' compensation and general liability, see Note 14. Coverage provided by self-insurance/insurance and excess coverage as of June 30, 2006, is shown below:

Type of Coverage	Self-Insurance/Deductible	Excess Coverage (in aggregate)
Workers' compensation	Self-Insured	None
Employer's liability	$3,000,000	$23,000,000 per accident
Excess public liability/property damage	$3,000,000	$22,000,000
Property, boiler, and machinery	$100,000	$70,000,000 combined blanket limit
National Flood Insurance (eligible locations)	$5,000	$500,000
Light rail vehicles include spare parts coverage, no earthquake coverage	$250,000	$20,000,000
Buses	$100,000	$20,000,000
Vans and mobile equipment	$25,000	Included in the $20,000,000 with buses
Owner-controlled insurance programs:		
Highway construction projects	$-0-	$52,000,000
Builder's risk	$25,000 - Highway	$200,000,000 - Highway
Public officials liability	Self-Insured $3,000,000	$22,000,000

NOTE 16 – LEASES

VTA leases various properties for use as transfer facilities, parking lots, information centers, and warehouses under lease agreements that expire at various dates through 2030. These agreements are accounted for as operating leases. Rent expense was approximately $560 thousand in FY2006. The future lease payments under noncancellable lease agreements are as follows (in thousands):

Year ending June 30,	
2007	$ 268
2008	194
2009	198
2010	203
2011	207
2012-2016	989
2017-2021	1,051
2022-2026	1,129
2027-2030	1,070
Total	$5,309

NOTE 17 – LITIGATION

The projected costs which would settle by June 30, 2007 are approximately $687 thousand. VTA's management believes its actuarially determined reserves and excess insurance coverage will adequately cover estimated potential material adverse losses as of June 30, 2006.

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

The County provides support services to VTA for protection (Office of the Sheriff), fuel for vehicles and vehicle maintenance and repairs. Amounts paid to the County for such services were approximately $4.7 million during FY2006.

NOTE 19 – JOINT VENTURES

(a) Peninsula Corridor Joint Powers Board

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

The net operating costs and administrative expenses of the PCJPB, for services provided between San Francisco and San Jose are reimbursed by the member agencies. In FY2006, VTA, SamTrans, and CCSF are responsible for 40.24%, 41.70%, and 18.06%, respectively, of the member agencies' total reimbursement for such expenses. During the year ended June 30, 2006, VTA paid $14.8 million to the PCJPB for operating costs.

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

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

Summary financial information (not included in VTA's financial statements) for the PCJPB as of and for the year ended June 30, 2005, is as follows [(a)]:

	(in thousands)
Total assets	$982,021
Total liabilities	(62,364)
Total net assets	$ 919,657
Operating revenues	$ 26,092
Operating expenses	(70,098)
Non-operating revenues, net	14,030
Capital contributions	69,828
Change in net assets	$ 39,852

[(a)] Latest audited information available.

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

(b) Altamont Commuter Express

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

ACE commenced operations in October 1998, and now provides 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 42% from VTA, 28% from San Joaquin Regional Rail Commission and 30% from the Alameda County Congestion Management Agency. In June 2003, VTA entered into a Cooperative Service Agreement with the San Joaquin Regional Rail Commission (SJRRC) and the Alameda County Congestion Management Agency (ACCMA) for continued VTA funding of Altamont Commuter Express (ACE) commuter rail service. The cooperative agreement replaced the ACE Joint Powers Agreement (JPA) executed by the ACE member agencies – VTA, SJRRC and ACCMA. During the year ended June 30, 2006, VTA contributed approximately $2.5 million for operating costs.

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

(c) Capitol Corridor Intercity Rail Service

VTA is a member agency of the Capitol Corridor Joint Powers Authority, which provides intercity rail service between Sacramento and San Jose. The Capitol Corridor intercity rail service is provided by the Capitol Corridor Joint Powers Board, which is comprised of members of the governing bodies of VTA, the Sacramento Regional Transit District, the Placer County Transportation Planning Agency, the congestion management agencies of Solano and Yolo counties, and the Bay Area Rapid Transit District. BART is the managing agency for the Capitol Corridor Service. VTA offers no funds to the operation of this service.

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

(d) California Transit Finance Authority

VTA is a participant of the California Transit Finance Authority (CTFA), which was formed in 1998 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 1998 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 – OTHER FINANCING TRANSACTIONS

(a) Lease-Leaseback

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

VTA received a prepayment of approximately $92,286,000, which represented certain rental obligations owed by the investors under the Headlease. Investors made equity contributions of approximately 20% and a financial institution made loans to the trust for the balance of the Headlease rental prepayment amount. VTA is required to make annual rental payments pursuant to the sublease.

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

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

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

(b) Japanese Operating Lease

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

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

(c) Sublease Agreement with Utah Transit Authority (UTA) and Sacramento Regional Transit District (RT)

In May 2003, the VTA Board approved the execution of the sublease agreements with the Utah Transit Authority (UTA) and Sacramento Regional Transit District (RT) for the sublease of 50 UTDC Light Rail Vehicles (LRVs) with aggregate prepaid rent in the amount of $9.3 million. In 1998, VTA entered into a US leveraged lease (1998 LILO) with respect to VTA's UTDC light rail vehicles. VTA implemented this transaction by entering into two transactions:

1) lease out the UTDC LRVs to investors, documented in a head lease for a period of approximately 33 years, and
2) to lease back the same UTDC LRVs from the investors (documented in a sublease).

Per the sublease agreement, VTA would ship 29 LRV cars to UTA and 21 LRV cars to Sacramento. The UTA/RT Agreements provide that UTA and RT would pay the prorated portion of the prepaid rent for the UTDC LRVs upon the delivery of each vehicle to UTA or RT. The aggregate amount of rental payments for UTA and RT are $5.2 million and $4.1 million, respectively. During FY06, VTA shipped 14 cars to UTA, 21 cars to Sacramento, and the remaining 15 cars were shipped to UTA with total proceeds of approximately $2.3 million.

Because the sublease agreement contains a bargain purchase option, the transaction is considered a capital lease. VTA maintains ownership of the LRVs and is obligated to operate, maintain and insure the LRVs throughout the term of the Sublease. During any event of loss, the following alternatives are available:

1) UTA or RT shall pay to VTA on the first Stipulated Loss Value Determination Date occurring after UTA/RT delivers the Election Notice.
2) Provided no event of default, UTA/RT shall substitute or replace within 170 days of giving of the Election Notice.

The basic sublease term is approximately 13 years with a sublease renewal term of 9 years thereafter. The sublease transaction was recorded as a capital lease during FY2004. The net book value of assets amounting to $23 million was taken out from the books and a loss in the amount of $16 million was immediately recognized as a special item in FY2004 and FY2005 respectively.

(d) Lease to Service Contracts

In August and December 2003, VTA entered into four "lease to service" agreements covering 66 Kinkisharyo low floor light rail vehicles. These agreements included four head leases to lease the vehicles to trusts created by equity and simultaneously lease them back under separate leases. Under certain conditions there could be 12-19 year service periods following the lease periods, which range from 24-30 years. VTA received prepayments of the head lease rents from the investors of approximately $291.2 million, of which $221.5 million was invested with a debt payment undertaker, who will make the scheduled lease rent payments and $33.5 million was invested in fixed rate securities or payment undertakers to fund purchase options at the end of the lease terms, should VTA decide to exercise its purchase options. Approximately $30 million represents considerations for tax benefits net of $6.2 million in expenses, and is reported as revenue from head lease in the enterprise fund.

VTA is obligated to insure and maintain the light rail vehicles. The lease agreements provide for VTA's right to continue to use and control the light rail vehicles. VTA has also agreed to indemnify the lessor from any taxes imposed by United States taxing authorities and from any other increased costs.

(e) Excise Tax on Lease/Leaseback Transactions

On May 17, 2006, President Bush signed into law the Tax Increase Prevention and Reconciliation Act of 2005 (the "2005 Tax Act"). Pursuant to the 2005 Tax Act, a new Section 4965 was added to the Internal Revenue Code of 1986, as amended (the "Code"). Section 4965 imposes a federal excise tax (the "New Excise Tax") on the net income or proceeds of certain types of leasing transactions entered into by tax-exempt entities, including states and their political subdivisions, such as the VTA. Some of the VTA's leasing transactions described in Note 20 could be subject to the New Excise Tax.

The U.S. Treasury Department and the IRS are in the process of drafting regulations that will further clarify which transactions are subject to the New Excise Tax and the calculation of the New Excise Tax. The VTA is evaluating the New Excise Tax and is awaiting these regulations. At this time, the magnitude of the VTA's liability, if any, under the New Excise Tax is unclear. Accordingly, the VTA is unable to determine at this time whether the imposition of the New Excise Tax will have a material adverse effect on its financial results or condition.

NOTE 21 – SUBSEQUENT EVENT

On August 10, 2006, VTA issued the 2006 Measure A Sales Tax Revenue Bonds, Series A-G, aggregating to $428,375,000 (2006 Bonds). The proceeds were used to refund on a current basis $131,240,000 of Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds, Series 2003, $104,710,000 of Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds, Series 2004 A and $135,165,000 Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds, Series 2004 B. In addition, a portion of the proceeds of the 2006 Bonds will be applied to finance a portion of the costs associated with the 2000 Measure A Program, debt service reserve funds for Series F and G, and to pay the costs of issuance of the 2006 Bonds.

The 2006 Bonds are limited obligations of the VTA secured by a pledge of 2000 Measure A sales tax revenues. The 2006 Bonds were structured as auction rate securities (ARS) insured by Ambac Assurance Corporation. Series A-E were structured as 7 day ARS with initial auction dates of September 8-11, 2006; Series F&G were structured as three month ARS, with an initial auction date of August 3 and 6, 2007.

The 2006 Bonds were rated Aaa by Moody's and AAA by Standard & Poor's, with underlying ratings of "Aa3" and "AA", respectively.

On August 1, 2006, VTA entered into variable to fixed interest rate swaps on Series A-D of the 2006 Bonds, to effectively change VTA's variable interest rate for these series to a synthetic fixed rate of 3.765%. For a discussion regarding associated risks on VTA swaps, see Note 7. On August 1, 2006, VTA entered into an interest rate cap agreement on Series E of the 2006 Bonds. Pursuant to the terms of the interest rate cap agreement, which will expire August 10, 2011, the variable interest rate on Series E of the 2006 Bonds is capped at 8%. Series F and G will remain unhedged.

Basis Risk. VTA bears the risk that the variable rate payment received from the counterparties may be less than the variable rate VTA pays to the bondholder. VTA will mitigate this risk in two ways. First, VTA's swap payments are based on a swap formula that closely matches the historical trading value of VTA's variable rate bonds in all markets. Second, VTA has created a "basis" stabilization fund -- which allows VTA to offset any shortfalls in swap receipts with any positive payments received.

Credit Risk. VTA bears the risk that the swap providers will not be able to make its offsetting payments to VTA. VTA has mitigated this potential risk in three ways. First, VTA has diversified credit exposure by entering into interest rate swaps with four counterparties. Second, each counterparty carries credit ratings at or above "Aa3" and/or "AA-" by at least two nationally recognized rating agencies (i.e. Moody's, Standard & Poor's or Fitch). Third, in the event of ratings downgrade, each counterparty is required to post collateral in an amount at least equal to the loss in market value between the par value of the swap (or its "notional value") and current valuation.

Termination Risk. VTA bears the risk that one of its swap counterparties will terminate the interest rate swap prior to maturity at a time when there would be a cost to VTA – i.e., rates have declined from the time the swap was executed. VTA has mitigated this risk through bond insurance from Ambac Assurance Corporation. The counterparties are not given the right to terminate the swap absent (a) an event of VTA default or (b) downgrade of VTA below investment grade <u>and</u> the bond insurer below "A3" from Moody's Investors Service, Inc. (or an equivalent rating determined by a nationally-recognized ratings service acceptable to VTA).

VTA has the ability to terminate, at market value, any of the interest rate swaps at any time.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Required Supplementary Information
Schedule of Funding Progress [(a)]

Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan

(Unaudited)

(In thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
1/1/2004	247,694	325,530	77,836	76%	91,255	85%
1/1/2005	268,429	350,895	82,466	76%	88,449	93%
1/1/2006	288,829	363,114	74,285	80%	92,663	80%

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Required Supplementary Information
Schedule of Funding Progress

Santa Clara Valley Transportation Authority CalPERS Plan

(Unaudited)

	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Actuarial Accrued Liability (AAL)	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) AAL as a Percentage of Covered Payroll
6/30/2002	$ 103,253	$ 98,352	$ 4,901	95.3%	$56,796	8.6%
6/30/2003	126,069	107,061	19,009	84.9%	56,006	33.9%
6/30/2004	142,663	119,709	22,954	83.9%	50,877	45.1%

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Required Supplementary Information
Budgetary Comparison Schedule
Congestion Management Program Special Revenue Fund
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Positive (Negative) Variance
Revenues:				
Assessments to member agencies	$ 2,250	$ 2,250	$ 2,250	$ -
Federal grant revenues	686	686	621	(65)
Administrative fees	115	115	40	(75)
State operating assistance grants	229	229	229	-
Other revenues	15	15	28	13
Total revenues	3,295	3,295	3,168	(127)
Expenditures:				
VTA labor and overhead costs	2,680	2,680	2,823	(143)
Services and other:				
Materials and supplies	2	2	-	2
Professional services	875	875	525	350
Other services	215	215	61	154
Data processing	45	45	84	(39)
Office expense	15	15	67	(52)
Communication and telephone services	3	3	2	1
Employee related expense	40	40	22	18
Lease and rentals	8	8	5	3
Miscellaneous	133	133	37	96
Other expenses	12	12	2	10
Total expenditures	4,028	4,028	3,628	400
Change in fund balance, on a budgetary basis	$ (733)	$ (733)	(460)	$ 273
Revenues not budgeted:				
Investment earnings			39	
Change in fund balance, on a GAAP basis			(421)	
Fund balance, beginning of year			2,351	
Fund balance, end of year			$ 1,930	

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Note to Required Supplementary Information
For the Year Ended June 30, 2006

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.

Santa Clara Valley Transportation Authority
Comparative Statement of Fund Net Assets
Enterprise Fund
June 30, 2006 and 2005

	2006	2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,424	$ 484
Investments	17,093	31,278
Receivables, net	2,765	6,644
Due from other funds	2,014	1,628
Due from other governmental agencies	68,270	67,506
Inventories	20,361	18,713
Other current assets	790	391
Total current assets	113,717	126,644
Restricted assets:		
Cash and cash equivalents	6,255	6,580
Cash and equity with fiscal agent	51,485	146,094
Investments	35,153	42,956
Receivables, net	76	583
Due from other governmental agencies	30,189	11,123
Total other non-current assets	123,158	207,336
Other non-current assets:		
Deferred charges	16,447	16,161
Capital Assets		
Nondepreciable:		
Land and right-of-way	1,131,579	761,818
Construction in progress	380,776	775,709
Depreciable		
Buildings, improvements, furniture, and fixtures	462,448	340,546
Vehicles	457,616	480,174
Light-rail tracks and electrification	384,435	365,506
CalTrain - Gilroy extension	52,990	52,990
Other	29,002	28,830
Less: Accumulated depreciation	(398,635)	(335,199)
Net capital assets	2,500,211	2,470,374
Total assets	$ 2,753,533	$ 2,820,515

Santa Clara Valley Transportation Authority
Comparative Statement of Fund Net Assets (Continued)
Enterprise Fund
June 30, 2006 and 2005

	2006	2005
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	$ 10,855	$ 9,683
Accounts payable	12,368	11,845
Other accrued liabilities	14,712	11,951
Due to other governmental agencies	10	4,283
Total current liabilities	37,945	37,762
Liabilities payable from restricted assets:		
Current portion of long-term debt	6,385	-
Accounts payable	12,849	20,885
Other accrued liabilities-current	4,409	6,002
Due to other funds	-	85
Due to other governmental agencies	6,913	11,209
Restricted portion of long-term debt	43,182	124,755
Total liabilities payable from restricted assets	73,738	162,936
Non-current liabilities		
Long-term debt, excluding current portion	639,593	574,289
Other accrued liabilities	18	23
Total non-current liabilities	639,611	574,312
Total liabilities	751,294	775,010
NET ASSETS		
Investment in capital assets, net of related debt	1,817,396	1,867,513
Restricted capital projects	35,153	44,400
Unrestricted	149,690	133,592
Total net assets	$ 2,002,239	$ 2,045,505

Santa Clara Valley Transportation Authority
Statement of Revenues, Expenses and Changes in Fund Net Assets
Enterprise Fund
June 30, 2006 and 2005

	2006	2005
OPERATING REVENUES:		
Passenger fares	$ 34,335	$ 32,061
Advertising and other	2,591	2,631
Total operating revenues	36,926	34,692
OPERATING EXPENSES:		
Labor cost	237,997	229,323
Materials and supplies	27,777	19,996
Services	20,141	18,226
Utilities	6,186	5,795
Casualty and Liability	6,114	3,763
Purchased transportation	27,395	25,538
Leases and rentals	205	580
Miscellaneous	2,000	1,773
Depreciation expense	63,766	56,557
Costs Allocated to Capital and Other Programs	(26,239)	(29,346)
Total operating expense	365,342	332,205
Operating loss	(328,416)	(297,513)
NON-OPERATING REVENUES (EXPENSES)		
Sales tax revenue	195,453	145,008
Federal operating assistance grants	33,565	34,416
State and local operating assistance grants	81,199	79,509
Caltrain subsidy	(14,801)	(14,112)
Caltrain capital contribution	(27,399)	-
Altamont Commuter Express subsidy	(2,470)	(2,470)
Investment earnings	6,457	5,666
Interest expense	(11,562)	(13,761)
Other income	9,158	2,628
Other expense	(6,972)	(3,316)
Non-operating revenue, net	262,628	233,568
Change in net assets before capital contributions and special items	(65,788)	(63,945)
Capital contributions	22,522	96,860
Special items	-	(7,773)
Change in net assets	(43,266)	25,142
Net assets, beginning of year	2,045,505	2,020,363
Net assets, end of year	$ 2,002,239	$ 2,045,505

Santa Clara Valley Transportation Authority
Comparative Statement of Cash Flows
Proprietary Funds (Business-type Activity)
For the Years Ended June 30, 2006 and 2005
(In thousands)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from passenger fares	$ 34,335	$ 28,318
Cash received from advertising	2,591	2,631
Cash paid to employees	(211,758)	(199,980)
Cash paid to suppliers	(62,730)	(67,632)
Cash paid for purchased transportation	(27,395)	(25,538)
Net cash provided by/(used in) operating activities	(264,957)	(262,201)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	114,764	113,925
Sales tax received	195,453	143,784
Caltrain subsidy and contribution	(18,836)	(14,112)
Altamont Commuter Express subsidy	(2,470)	(2,470)
Receipts for services provided to other agencies	220	2,630
Contributions to other agencies	(1,860)	(12,101)
	287,271	231,656
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payment of long-term debt	(10,955)	(9,290)
Proceeds from issuance of bonds	172,530	140,900
Payoff of 2001 Series A Bonds	(171,000)	(13,762)
Interest paid on long-term debt	(11,562)	-
Cost of bond issuance	(1,527)	(985)
Acquisition and construction of capital assets	(121,321)	(228,782)
Capital contribution from other governments	22,522	106,674
Proceeds from sale of capital assets	214	224
Proceeds from sublease of vehicles	-	2,290
	(121,099)	(2,731)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	521,436	667,584
Purchases in investments	(518,996)	(669,989)
Interest income received	3,351	1,091
	5,791	(1,314)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(92,994)	(34,590)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	153,158	187,748
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 60,164	$ 153,158

Santa Clara Valley Transportation Authority
Comparative Statement of Cash flows (Continued)
Proprietary Funds (Business-type Activity)
For the Years Ended June 30, 2006 and 2005
(In thousands)

		2006		2005
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES:				
Operating income/(loss)	$	(328,416)	$	(297,513)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:				
Depreciation		63,766		56,557
Changes in operating assets and liabilities:				
Receivables		3,879		(3,743)
Due from other governmental agencies		(5,037)		-
Inventories		(1,648)		6,230
Accounts payable		523		(12,445)
Other accrued liabilities		2,761		(3,542)
Other Current assets		(399)		(7,745)
Due to other funds		(386)		-
Net cash provided by/(used in) operating activities	$	(264,957)	$	(262,201)
Reconciliation of cash and cash equivalents to the Statement of Fund Net Assets:				
Cash and cash equivalents, end of year:				
Unrestricted	$	2,424	$	484
Restricted		57,740		152,674
	$	60,164	$	153,158
NONCASH INVESTING ACTIVITIES:				
Increase/(Decrease) in fair value of investments	$	(474)	$	454
OTHER NONCASH ACTIVITIES:				
Net book value of subleased vehicles	$	-	$	-

Santa Clara Valley Transportation Authority
Budgetary Comparison Schedule
Enterprise Fund
For the year ended June 30, 2006
(In thousands)

	FY06 Adopted Budget	Final Budget	Actual	Favorable (Unfavorable)
REVENUES				
Fares	$ 36,732	$ 35,120	34,335	(785)
1976 1/2 Cent Sales Tax	148,865	150,765	157,283	6,518
Transportation Development Act funds	71,044	71,044	71,044	-
2000 Measure A Sales Tax	6,869	6,869	7,045	176
State Transit Assistance funds	6,331	8,909	7,737	(1,172)
Federal Operating Grants	33,381	33,381	33,565	184
State Operating Grants	1,100	1,100	1,518	418
Local Operating Assistance	474	500	900	400
Investment Earnings	2,425	2,920	3,351	431
Advertising Income	1,921	1,921	1,899	(22)
Other Income	16,345	19,496	23,058	3,562
Total revenues	**325,487**	**332,025**	**341,735**	**9,710**
OPERATING EXPENSES				
Labor Costs	238,612	238,854	237,997	857
Materials & Supplies	12,783	11,947	12,615	(668)
Security	7,880	7,360	6,730	630
Professional & Special Services	5,807	5,676	3,745	1,931
Other Services	7,567	7,408	7,787	(379)
Fuel	9,976	11,476	10,907	569
Traction Power	3,441	3,441	2,802	639
Tires	1,050	1,292	1,172	120
Utilities	2,321	2,321	2,387	(66)
Insurance	3,899	3,813	6,114	(2,301)
Data Processing	2,708	2,708	2,493	215
Office Expense	422	404	392	12
Communications	1,138	1,033	997	36
Employee Related Expense	1,017	990	777	213
Leases & Rents	638	638	482	156
Miscellaneous	1,258	1,152	1,322	(170)
Reimbursements	(35,710)	(34,717)	(33,180)	(1,537)
Total operating expenses	**264,807**	**265,796**	**265,539**	**257**
OTHER EXPENSES				
Americans with Disability Act programs	26,661	26,527	26,309	218
Caltrain Subsidy	15,461	15,461	15,485	(24)
Light Rail Shuttles	906	1,551	1,732	(181)
Altamont Commuter Express subsidy	3,842	3,842	3,785	57
Highway 17 Express	427	427	353	74
Dumbarton Express	449	449	411	38
Contribution to Other Agencies	567	567	508	59
Debt Service	23,336	24,566	23,449	1,117
Miscellaneous expenses	219	219	14	205
Contingencies	2,000	2,000	-	2,000
Total other expenses	**73,868**	**75,609**	**72,046**	**3,563**
Total operating and other expenses	**338,675**	**341,405**	**337,585**	**3,820**
Net income, on a budgetary basis	**$ (13,188)**	**(9,380)**	**4,150**	**$ 13,530**
Reconciliation of net income on a budgetary basis to net income on a GAAP Basis:				
Project Revenue - VTA Enterprise			7,008	
Capital Contributions to Caltrain			(26,258)	
Project Expenditures			(7,611)	
Bond Principal Payment			10,955	
Measure A Repayment Obligation			(13,410)	
Unrealized Loss in investment			(474)	
Cost of Parts Sold			(240)	
Depreciation			(63,766)	
Surplus of Measure B Transit			10,469	
Surplus of Measure A Program			35,911	
Net Income, on a GAAP Basis			**$ (43,266)**	

Santa Clara Valley Transportation Authority
Schedule of Restricted Assets and Related Liabilities
Enterprise Fund
June 30, 2006
(In thousands)

	Capital & Operating	Debt Service	Total Enterprise
Restricted assets:			
Cash and cash equivalents	$ 6,255	$ -	$ 6,255
Cash and equity with fiscal agent	1,918	49,567	51,485
Investments	35,153	-	35,153
Receivable	76	-	76
Due from other gov agencies	30,189	-	30,189
Total assets	$ 73,591	$ 49,567	$ 123,158
Liabilities payable from restricted assets:			
Accounts payable	$ 12,849	$ -	$ 12,849
Other accr liab - current	4,409	-	4,409
Due to other fund	-	-	-
Due to other gov agencies	6,913	-	6,913
Long-term debt	-	49,567	49,567
Total liabilities	$ 24,171	$ 49,567	$ 73,738

Santa Clara Valley Transportation Authority
Combining Statement of Fiduciary Net Assets
Pension Trust Funds
June 30, 2006
(In thousands)

	ATU Pension	ATU Medical: Spousal Medical	ATU Medical: Retiree Vision/Dental	ATU Medical: Total ATU Medical	Total
ASSETS					
Restricted assets:					
Investments	$ 305,211	$ 8,696	$ 2,638	$ 11,334	$ 316,545
Receivables	1,073	-	-	-	1,073
Total assets	306,284	8,696	2,638	11,334	317,618
LIABILITIES					
Restricted liabilities:					
Accounts payable	203	-	-	-	203
Due to other funds	1,177	-	-	-	1,177
Total liabilities payable from restricted assets	1,380	-	-	-	1,380
Total liabilities	1,380	-	-	-	1,380
NET ASSETS					
Net assets held in trust for:					
Pension benefits	304,904	-	-	-	304,904
Spousal medical benefits	-	8,696	-	8,696	8,696
Retiree dental and vision benefits	-	-	2,638	2,638	2,638
Total net assets	$ 304,904	$ 8,696	$ 2,638	$ 11,334	$ 316,238

Santa Clara Valley Transportation Authority
Combining Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
For the Year Ended June 30, 2006
(In thousands)

	ATU Pension Trust	ATU Medical Trust: Spousal Medical	ATU Medical Trust: Vision/ Dental	ATU Medical Trust: Total Medical Trust	Total
ADDITIONS					
Contributions	$ 15,278	$ 839	$ 336	$ 1,175	$ 16,453
Investment earnings:					
Investment income	7,513	15	2	17	7,530
Net appreciation in the fair value of investments	19,416	470	(2)	468	19,884
Investment expense	(1,114)	-	-	-	(1,114)
Net investment income	25,815	485	-	485	26,300
Other revenue	220	-	-	-	220
Total additions	41,313	1,324	336	1,660	42,973
DEDUCTIONS					
Benefit payments	16,069	1,008	-	1,008	17,077
Other benefits paid to participants	59	-	-	-	59
Total deductions	16,128	1,008	-	1,008	17,136
Net increase	25,185	316	336	652	25,837
NET ASSETS HELD IN TRUST					
Beginning of year	279,719	8,380	2,302	10,682	290,401
End of year	$ 304,904	$ 8,696	$ 2,638	$ 11,334	$ 316,238

Santa Clara Valley Transportation Authority
Combining Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2006

(In thousands)

	BAAQMD Program	Measure B Ancillary Program	Total
Assets			
Restricted assets:			
Cash and equity with fiscal agent	$ -	$ 4,798	$ 4,798
Investments	3,983	83	4,066
Due from other funds	-	25	25
Total assets	3,983	4,906	8,889
Liabilities			
Liabilities payable from restricted assets:			
Accounts payable	3,983	-	3,983
Due to other governmental agencies	-	4,906	4,906
Total liabilities payable from restricted assets	$ 3,983	$ 4,906	$ 8,889

Santa Clara Valley Transportation Authority
Combining Statement of Changes in Fiduciary Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2006

(In thousands)

	Balance 30-Jun-05	Increase	Decrease	Balance 30-Jun-06
BAAQMD Program				
Restricted assets:				
Investments	$ 5,779	$ -	$ 1,796	$ 3,983
Liabilities payable from restricted assets:				
Accounts payable	5,779		1,796	3,983
Due to other governmental agencies	-	-	-	-
Total liabilities payable from restricted assets	5,779	-	1,796	3,983
Measure B Ancillary Program				
Restricted assets:				
Cash with fiscal agent	1,008	3,790	-	4,798
Investments	2,649	-	2,566	83
Due from other funds	-	25	-	25
Total restricted assets	3,657	3,815	2,566	4,906
Liabilities payable from restricted assets:				
Due to other funds	-	-	-	-
Due to other governmental agencies	3,657	1,249	-	4,906
Other accrued liabilities-noncurrent	-	-	-	-
Total liabilities payable from restricted assets	$ 3,657	$ 1,249	-	4,906
Total - All Agency Funds				
Restricted assets:				
Cash with fiscal agent	$ 1,008	$ 3,790	$ -	$ 4,798
Investments	8,428	-	4,362	4,066
Due from other funds	-	25	-	25
Total restricted assets	9,436	3,815	4,362	8,889
Liabilities payable from restricted assets:				
Accounts payable	5,779		1,796	3,983
Due to other funds	-	-	-	-
Due to other governmental agencies	3,657	1,249	-	4,906
Other accrued liabilities	-	-	-	-
Total liabilities payable from restricted assets	$ 9,436	$ 1,249	$ 1,796	$ 8,889

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APPENDIX C

COUNTY DEMOGRAPHIC AND ECONOMIC INFORMATION

General Information

The County of Santa Clara (the "County") lies immediately south of San Francisco Bay and is the sixth most populous county in the State of California (the "State"). It encompasses an area of approximately 1,300 square miles. The County was incorporated in 1850 as one of the original 27 counties of the State and operates under a home rule charter adopted by County voters in 1950 and amended in 1976.

The southern portion of the County has retained the agricultural base which once existed throughout the area and has two cities, separated by roughly 10 miles. The northern portion of the County is densely populated, extensively urbanized and heavily industrialized. The County contains 15 cities, the largest of which is the City of San Jose, the third largest city in the State and the County seat. The uppermost northwestern portion of the County, with its concentration of high-technology, electronics-oriented industry, is popularly referred to as the "Silicon Valley." Large employers include Hewlett-Packard, Intel Corp., National Semiconductor Corp., Lockheed Martin Space Systems Co., and IBM Corp.

Neighboring counties include San Mateo in the northwest, Santa Cruz in the southwest, San Benito in the south, Merced and Stanislaus in the east, and Alameda in the northeast. The City of San Jose is approximately 50 miles south of San Francisco and 42 miles south of the City of Oakland. These are the three largest cities of the nine-county San Francisco Bay Area, with the City of San Jose being the largest.

As required under the County Charter and under County ordinances, or by State and federal mandate, the County is responsible at the local level for activities involving public welfare, health and justice (courts and jails) and for the maintenance of public records. The County also operates recreational and cultural facilities serving the unincorporated areas of the County and on a regional basis.

Population

Historical Population Growth. Over the past 60 years, the County's population growth pattern has exhibited three decades of rapid growth followed by three decades of more sustainable growth rates.

According to U.S. Census figures, the number of County residents grew by 66 percent between 1940 and 1950, with most of the increase concentrated in the unincorporated areas and in the largest cities of San Jose, Palo Alto and Santa Clara. In the next decade, from 1950 to 1960, population grew by 121 percent with every major city as well as the unincorporated areas experiencing huge increases. The County also recorded the incorporation of four new cities during the 1950s, raising the total number of cities to its current level of fifteen.

The County's population growth subsided somewhat during the 1960s, although the 66 percent growth rate was over four times the 15.4 percent statewide increase. The population of

San Jose doubled for the second decade in a row, while the cities of Mountain View, Santa Clara, and Sunnyvale added at least 23,000 residents each. As a result of the incorporation of four cities, the unincorporated area of the County posted its first decline in the 1960s, setting the stage for further drops in each of the subsequent three decades.

The County population growth rate fell to 21.5 percent during the 1970s. San Jose continued to add more residents (183,621) than any other city, while two of the larger cities (Palo Alto and Santa Clara) recorded small population declines and residents in the unincorporated area fell by 25,160. The slower growth of the 1970's reflected a slowing urbanization, due in part to policies adopted by the County to preserve agricultural areas.

The data from the 2000 U.S. Census indicate that the County's population reached 1,682,585, representing a 12.4% increase from the population base in 1980. Over the same period, statewide population grew more rapidly at a rate of 13.8%. San Jose surpassed San Francisco as the largest city in the Bay Area, with a population of 894,943. According to the 2000 census data, over one-half of the County's residents live in San Jose.

The proportion of residents living in cities is currently 94.4%, in contrast to the County's makeup in 1940 when urban residents made up only 6.5% of the County's population. Since the 1940s, the increasing maturation of the County's employment and economic sectors has resulted in the incorporation of new cities as well as the expansion of city boundaries, resulting in a shrinking fraction (currently 5.6%) of residents living in unincorporated areas.

Recent Annual Population Performances. Between 2000 and 2006 the County of Santa Clara experienced a population growth of 5.4%. All of the cities in the County, except the City of Los Altos, experienced growth. The City of Gilroy posted the fastest growth (17.0%) during that period. From 2005 to 2006, Gilroy and Morgan Hill were the fastest growing cities in the County, growing at a rate of 2.2%. The number of residents living in the unincorporated areas of the County actually increased slightly, by 0.5% from 2000 to 2006. Currently, approximately 5.6% of the County residents live in unincorporated areas, but the number has steadily decreased over time as the population continues to migrate toward the cities.

By the year 2020, the State Department of Finance predicts that the County's population will grow to approximately 2.0 million residents, a 13.2% increase from 2006.(1) The following table provides a historical summary of population in the County and its incorporated cities.

(1) State of California, Department of Finance, Demographic Research Unit (Report P-1).

County of Santa Clara
Population

	1970	1980	1990	2000	2004[1]	2005[1]	2006[1]
Campbell	24,731	26,843	36,088	38,138	38,386	38,262	38,408
Cupertino	18,216	34,297	39,967	50,602	52,912	53,238	53,840
Gilroy	12,665	21,641	31,487	41,464	46,444	47,482	48,527
Los Altos	24,872	25,769	26,599	27,693	27,661	27,505	27,608
Los Altos Hills	6,862	7,421	7,514	8,025	8,400	8,417	8,482
Los Gatos	23,466	26,906	27,357	28,592	28,901	28,863	28,989
Milpitas	27,149	37,820	50,690	62,698	64,964	64,751	65,276
Monte Sereno	3,074	3,434	3,287	3,483	3,520	3,491	3,512
Morgan Hill	6,485	17,060	23,928	33,586	35,678	36,279	37,091
Mountain View	54,206	58,655	67,365	70,708	72,030	71,747	71,995
Palo Alto	55,999	55,225	55,900	58,598	60,569	61,431	62,148
San Jose	445,779	629,400	782,224	895,131	931,232	941,116	953,679
Santa Clara	87,717	87,700	93,613	102,361	107,773	108,680	110,771
Saratoga	27,199	29,261	28,061	29,849	30,473	30,729	30,835
Sunnyvale	95,408	106,618	117,324	131,844	132,422	132,555	133,544
Unincorporated	152,181	127,021	106,173	99,813	99,361	98,107	98,553
County Total[2]	1,066,009	1,295,071	1,497,577	1,682,585	1,731,422	1,752,653	1,773,258
California	18,136,045	23,668,145	29,760,021	33,873,086	36,271,091	36,728,196	37,172,015

(1) As of January 1.
(2) Totals may not be precise due to independent rounding.
Source: U.S. Census; State of California, Department of Finance, Demographic Research Unit (E-5 City/County Population).

Employment and Industry

The County is home to a highly skilled and diverse work force, a situation that has traditionally translated into lower unemployment rates in the County when compared to State and national average unemployment rates. From 1997 through 2000, job growth in Silicon Valley was extraordinary with the addition of more than 103,300 jobs. However, the County's unemployment rate rose sharply between 2000 and 2003 as a result of the retraction in the communications and high technology industries that dominate the County's employment base. From December 2000 to January 2004, over 200,000 jobs were lost in Santa Clara County. However, since 2003, as economic recovery started to take hold, the county unemployment rate has steadily declined, and averaged 4.5% for 2006 compared to 8.1% in 2003. Current forecasts indicate that Santa Clara County will recover all the jobs lost by 2013.

At the end of 2006 the County had 898,000 wage and salary jobs. Three major industry sectors comprise about 70 percent of the County's employment: Manufacturing (18.7%), Professional & Business Activities (18.5%) and Trade, Transportation & Utilities (15.5%).

Development of high technology has been enhanced by the presence of Stanford University, Santa Clara University, San Jose State University, other institutions of higher education, research and development facilities such as SRI International, the Stanford Linear Accelerator Center, and Ames Research Center (NASA) within the County. In addition, the Rincon de los Esteros Redevelopment Area in northern San Jose has been the site of industrial/research and development submarkets in Silicon Valley.

The following table lists wage and salary employment in the County by Industry.

County of Santa Clara
Average Annual Employment by Industry[1]
(thousands)

	2001	2002	2003	2004	2005
Civilian Labor Force[2]	939.7	891.5	851.4	829.0	823.7
Employment	891.5	815.8	779.1	774.1	778.7
County Unemployment	48.2	75.7	72.3	54.9	45.0
Unemployment Rate:					
County	5.1%	8.5%	8.5%	6.6%	5.5%
State of California	5.4%	6.7%	6.8%	6.2%	5.4%
Industry Employment[3]					
Total, All Industries	1009.5	908.7	861.4	853.0	858.6
Total Farm	4.6	4.5	4.2	4.1	3.8
Total Nonfarm	1004.9	904.2	857.2	848.9	854.9
Goods Producing	294.0	249.5	220.9	213.4	211.5
Natural Resources and Mining	0.2	0.2	0.2	0.1	0.2
Construction	48.6	43.1	40.1	41.5	42.7
Manufacturing	245.1	206.1	180.5	171.8	168.6
Service Providing	710.9	654.7	636.3	635.5	643.4
Trade, Transportation & Utilities	145.7	134.8	129.4	128.3	129.7
Information	41.9	34.2	31.3	32.5	34.6
Financial Activities	35.3	35.2	34.8	35.1	35.9
Professional & Business Activities	204.0	166.7	159.5	158.0	159.0
Education & Health Services	89.8	91.1	92.9	94.4	95.7
Leisure & Hospitality	72.0	67.4	67.5	69.4	71.0
Other Services	26.3	25.9	24.8	24.6	24.6
Government	96.0	99.5	96.1	93.2	93.0

(1) As of February, 2003, the State of California began using the North American Industry Classification System.
(2) Labor force data are based upon place of residence. Employment includes self-employed, unpaid family workers, domestics, and workers involved in labor-management disputes. Data are benchmarked to March 2005.
(3) Industry employment is reported by place of work. Data are benchmarked to March 2005.
Source: Employment Development Department (http://www.calmis.ca.gov/file/indhist/santchaw.xls).

Major Employers

The County, which is centered in the heart of Silicon Valley, is home to numerous high technology and computer software and hardware manufacturing companies. Public-sector employers continue to top the list of the largest employers in Silicon Valley. The County ranks as number one, employing over 15,000 workers. In addition, the City of San Jose has over 6,500 full-time employees. Although there have been hiring freezes and cut-backs that have impacted public-sector organizations, such organizations typically tend to remain more stable in a volatile job market.

The tables below list the 15 largest private-sector and public-sector employers in the Silicon Valley, which encompasses the County and surrounding areas.

15 Largest Private-Sector Employers
Silicon Valley

Employer Name	Employees	Nature of Operations
Cisco Systems	13,860	Computer networking for the internet
Stanford University	12,000	Academic research institution, hospital, medical research
Hewlett-Packard	9,000	Technology solutions provider
Lockheed Martin Space Systems Co.	7,780	Aerospace systems
Oracle Corp.	7,400	Software
IBM Corp.	7,000	Computer hardware, software and business solutions
Intel Corp.	6,878	Microprocessors manufacturer
AT&T Inc. (formerly SBC California)	6,400	Voice, data, networking, e-business, directory publishing and advertising services
New United Motor Manufacturing, Inc.	5,440	Automotive manufacturing
Applied Materials Inc.	4,230	Semi-conductor manufacturing equipment and services
Yahoo Inc.	4,000	Internet Services
Ebay Inc.	3,200	Online Global Trading Platform
Fujitsu America Inc.	3,000	Software/services, computing/communications platforms, electronic devices
Google, Inc.	2,882	Web search engine and advertising
Adobe Systems Inc.	2,400	Software

Source: Silicon Valley/San Jose Business Journal, *Book of Lists 2006* (Vol. 24, No. 13), July 28, 2006.

15 Largest Public-Sector Employers
Silicon Valley

Employer Name	Employees	Nature of Operations
Santa Clara County	15,279	County government
State of California	7,536[1]	State government
City of San Jose	6,672	Municipal government
San Jose Unified School District	2,793	School district
San Jose State University	2,533	Higher education
Valley Transportation Authority	2,092	Public transportation and congestion management
Santa Clara Unified School District	1,477	School district
Santa Clara County Office of Education	1,200	Resource for school districts, children and community
City of Palo Alto	1,091	Municipal government
Oak Grove Elementary School District	1,034	School district
City of Santa Clara	953	Municipal government
West Valley-Mission Community College District	890	Community college district
Gilroy Unified School District	853	School district
City of Sunnyvale	853	Municipal government
City of Fremont	845	Municipal government

(1) Full-time employees in Santa Clara, San Mateo, Santa Cruz, San Benito and Monterey Counties.
Source: Silicon Valley/San Jose Business Journal, *Book of Lists 2006* (Vol. 24, No. 13), July 28, 2006.

Income

Owing to the presence of relatively high-wage skilled jobs and wealthy residents, the County historically achieves high rankings relative to the rest of the state on a variety of income measurements. The U.S. Census Bureau reported Santa Clara County as having the 10th highest median household income in the United States, and the highest among California counties, at $76,810 (2005 inflation adjusted).[2]

Commercial Activity

Ranking first among San Francisco Bay Area counties and fourth among all California counties in terms of retail activity through 2004, the County is an important center of commercial activity. Taxable sales activity at business and personal service outlets, as well as at other non-retail commercial establishments, are a significant component of the County's commercial activity. The following table sets forth the amount of taxable transactions from 2001 through 2005.

(2) U.S. Census Bureau, Factsheet, Santa Clara County, California.

County of Santa Clara
Taxable Transactions by Sector
2001 through 2005
(in millions)

	2001	2002	2003	2004	2005
Apparel Stores	$ 883.4	$ 881.9	$ 929.5	$ 1,051.0	$1,169.1
General Merchandise Stores	2,720.4	2,569.6	2,589.3	2,718.4	2,839.9
Specialty Stores	3,489.3	2,952.5	2,908.6	3,059.4	3,377.9
Food Stores	860.8	833.9	819.9	819.6	830.5
Eating and Drinking Places	2,239.0	2,136.9	2,139.3	2,283.2	2,440.4
Home Furnishings and Appliances	968.2	851.5	798.6	830.5	850.6
Building Materials	1,316.6	1,278.0	1,314.7	1,539.7	1,577.2
Automotive	4,948.9	4,440.3	4,556.4	4,936.5	5,289.9
Other Retail Stores	510.1	480.6	458.7	485.8	528.1
Total Retail Stores	$17,936.7	$16,425.2	$16,515.1	$17,724.1	$18,903.5
Business and Personal Services	1,897.5	1,577.2	1,335.6	1,190.6	1,214.6
All Other Outlets	12,299.1	9,451.5	9,211.9	9,576.9	10,075.7
Total All Outlets(1)	$32,133.2	$27,453.9	$27,062.7	$28,491.6	$30,193.8

(1) Totals may not add due to independent rounding.
Source: State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

Construction Activity

Construction data for the County indicates that the value of new residential permits in 2006 is above the 2000 level, but the value of non-residential permits in 2006 is still significantly below the 2000 level. The number of new single family dwelling units in the County for 2006 is also below the 2000 level, but has increased by 37.6% from 2001. New multiple-family dwelling units in 2006 have decreased from the 2000 level by 6.9%. The valuations of new residential building permit activity have increased from the 2000 level by 22.4%. The total valuation of new residential and non-residential construction permits issued in the County was approximately $3.19 billion in 2006, representing a decrease of $1.029 billion (24.4%) from the 2000 total valuation.

The following tables provide a summary of building permit valuations and the number of new dwelling units authorized in the County since 1997.

County of Santa Clara
Building Permit Valuations
1997 to 2006
(in millions of dollars)

Year	New Residential	New Non-Residential	Total
1997	$1,329.6	$1,914.7	$3,244.4
1998	1,294.6	1,882.0	3,176.5
1999	1,306.0	1,855.9	3,162.0
2000	1,348.8	2,865.9	4,214.6
2001	1,051.5	2,254.8	3,306.3
2002	1,087.3	1,330.6	2,417.9
2003	1,466.4	972.9	2,439.3
2004	1,406.2	915.8	2,322.0
2005	1,557.0	1,285.7	2,842.7
2006	1,651.5	1,534.3	3,185.8

Source: Construction Industry Research Board.

County of Santa Clara
Number of New Dwelling Units
1997 to 2006

Year	Single Family	Multiple Family	Total
1997	4,367	4,443	8,810
1998	3,911	3,615	7,526
1999	3,333	3,677	7,010
2000	2,834	4,220	7,054
2001	1,641	4,319	5,960
2002	2,057	2,456	4,513
2003	2,320	5,170	7,490
2004	2,688	2,816	5,504
2005	2,577	3,295	5,872
2006	2,258	3,928	6,186

Source: Construction Industry Research Board.

Home sales in the County continued the decrease that began at the start of 2005. Sales of single-family homes fell 22.8% for the calendar year 2006 compared to calendar year 2005, but the median price for a single-family home in the County was up 4.9% for the calendar year 2006 compared to calendar year 2005.[3]

[3] Source: 2006 RE Report, The Real Estate Report for Santa Clara County, California (www.rereport.com).

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APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The Indenture contains various provisions and covenants, certain of which are summarized below. Wherever particular provisions of the Indenture are referred to, such provisions, together with related provisions, are incorporated by reference as part of the statements made and are qualified in their entirety by such references. Reference is made to the Indenture for a full and complete statement of its provisions. In addition, the Fourth Supplemental Indenture between the Authority and the Trustee entered into as of July 1, 2005 includes various definitions and provisions applicable to the Authority's 2005 Variable Rate Bonds (as defined therein) which provisions are not summarized below. For ease of reference, the Santa Clara Valley Transportation Authority (formerly the Santa Clara County Transit District) is referred to in this Summary as the "Authority," rather than the "District" or the "Issuer," as used in the Indenture.

Definitions

"Accreted Value" means, with respect to any Capital Appreciation Bond, the principal amount thereof plus the interest accrued thereon, compounded at the approximate interest rate thereon on each date specified therein. The Accreted Value at any date shall be the amounts set forth in the Accreted Value Table as of such date, if such date is a compounding date, and if not, as of the immediately preceding compounding date.

"Accreted Value Table" means the table denominated as such which appears as an exhibit to a Supplemental Indenture providing for a Series of Capital Appreciation Bonds issued pursuant to such Supplemental Indenture.

"Act" means the Santa Clara County Transit District Act, Part 12 of Division 10 (Section 100000 *et seq*.) of the California Public Utilities Code and Chapter 5 of Part 1 of Division 2 of Title 5 (Section 54300 *et seq*.) of the California Government Code as referenced in said Santa Clara County Transit District Act.

"Annual Debt Service" means for any Fiscal Year the aggregated amount of principal and interest on all Bonds and Parity Debt becoming due and payable during such Fiscal Year calculated using the principles and assumptions set forth under the definition of Debt Service.

"Beneficial Owner" means the actual beneficial Owner of any Bond, notwithstanding the registration thereof under any other name for book-entry purposes.

"Board" means the Board of Directors of the Authority.

"Bond Obligation" means, as of any given date of calculation, (1) with respect to any Outstanding Current Interest Bond, the Principal amount of such Bond, and (2) with respect to any Outstanding Capital Appreciation Bond, the Accreted Value thereof.

"Bond Reserve Fund" means the fund by that name established pursuant to the Indentures.

"Bond Reserve Requirement" means, as of any date of calculation, zero dollars ($0), except that if Sales Tax Revenues during the Fiscal Year immediately preceding the date of calculation do not equal at least three (3) times Maximum Annual Debt Service, (a) the Bond Reserve Requirement with respect to any Series of Bonds bearing only a fixed rate of interest shall be an amount not less than the lesser of (i) 10% of the aggregate original principal amount of such Series (less any original issue discount), or (ii) 125% of average Annual Debt Service for such Series or (iii) 100% of Maximum Annual Debt Service for such Series, and (b) the Bond Reserve Requirement with respect to any Series of Bonds which may bear a variable rate of interest shall be the amount set forth in the Supplemental Indenture authorizing such Series.

"Bonds" means the Santa Clara County Transit District Sales Tax Revenue Bonds authorized by, and at any time Outstanding pursuant to, the Indenture.

"Business Day" means any day other than (1) a Saturday, Sunday, or a day on which banking institutions in the State or the State of New York are authorized or obligated by law or executive order go be closed, and (2) for purposes of payments and other actions relating to Bonds secured by a letter of credit, a day upon which commercial banks in the city in which is located the office of the issuing bank at which demands for payment under the letter of credit are to be presented are authorized or obligated by law or executive order to be closed and (3) a day on which the New York Stock Exchange is closed.

"Capital Appreciation Bonds" means the Bonds of any Series designated as Capital Appreciation Bonds in the Supplemental Indenture providing for the issuance of such Series and on which interest is compounded and paid at maturity or on prior redemption.

"Certificate," "Statement," "Request," "Requisition" and "Order" of the Authority mean, respectively, a written certificate, statement, request, requisition or order signed in the name of the Authority by the Chairperson of its Board, its General Manager, its Chief Financial Officer, its Deputy Director, Fiscal Resources or any other person authorized by the General Manager to execute such instruments. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by the Indenture, each such instrument shall include the statements provided for in the Indenture.

"Code" means the Internal Revenue Code of 1986, and the regulations applicable thereto or issued thereunder.

"Continuing Disclosure Certificate" means any certificate or agreement executed by the Authority in connection with any Series of Bonds in order to assist the underwriter or underwriters of such Series of Bonds in complying with the continuing disclosure requirements of Rule 15c2-12(b)(5) of the Securities and Exchange Commission. When used in connection with any particular Series of Bonds, "Continuing Disclosure Certificate" shall mean that certain continuing disclosure certificate or agreement executed in connection therewith.

"Corporate Trust Office" or "corporate trust office" means the corporate trust office of the Trustee at 1 California Street, Suite 400, San Francisco, California 94111 Attention: Corporate Trust Department, but for purposes of transfer, exchange or payment of Bonds, means the principal corporate trust office of the Trustee at 180 East Fifth Street, St. Paul, Minnesota, or, in each case, such other or additional offices as may be designated by the Trustee from time to time.

"Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the Authority and related to the authorization, execution, sale and delivery of the Bonds, including but not limited to advertising and printing costs, costs of preparation and reproduction of documents, filing and recording fees, travel expenses and costs relating to rating agency meetings and other meetings concerning the Bonds, initial fees and charges of the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, financial advisor fees and expenses, rating agency fees, fees and charges for preparation, execution, transportation and safekeeping of Bonds, surety, insurance and credit enhancement costs, and any other cost, charge or fee in connection with the delivery of Bonds.

"Current Interest Bonds" means the Bonds of any Series designated as Current Interest Bonds in the Supplemental Indenture providing for the issuance of such Series of Bonds and which pay interest at least semiannually to the Owners thereof excluding the first payment of interest thereon.

"Debt Service," when used with respect to any Sales Tax Debt, means, as of any date of calculation and with respect to any fiscal period, the sum of (1) the interest falling due on such Sales Tax Debt during such fiscal period (except to the extent that such interest is payable from the proceeds of such Sales Tax Debt set aside for such purpose), and (2) the principal or mandatory sinking account or installment purchase price or lease rental or similar payments or deposits required with respect to such Sales Tax Debt during such fiscal period, computed on the assumption that no portion of such Sales Tax Debt shall cease to be outstanding during such fiscal period except by reason of the application of such scheduled payments; provided, however, that for purposes of such computation:

> (a) if Sales Tax Debt as (i) secured by an irrevocable letter of credit or irrevocable line of credit issued by a financial institution having a combined capital and surplus of at least $100,000,000 and whose unsecured securities are rated in one of the two highest Rating Categories by Rating Agency, or (ii) insured by an insurance policy issued by an insurance company rated at least "A" by Alfred M. Best Company in Best's Insurance Reports and in one of the two highest Rating Categories by Rating Agency, then principal or mandatory sinking fund or installment purchase price or lease rental or similar payments or deposits with respect to such Sales Tax Debt nominally due in the last Fiscal Year in which such Sales Tax Debt matures may, at the option of the Authority, be treated as if they were due as specified in any loan agreement issued in connection

with such letter of credit, line of credit or insurance policy or pursuant to the repayment provisions of such letter of credit, line of credit or insurance policy (or, if such loan agreement or repayment Provisions provide for repayment over less than 10 years and the Authority certifies that it intends to refinance such Sales Tax Debt prior to maturity, as if they were amortized over a ten-year period with substantially level debt service) and interest on such Sales Tax Debt after such period shall be assumed to be payable pursuant to the terms of such loan agreement or repayment provisions;

(b) if interest on Sales Tax Debt is payable pursuant to a variable interest rate, the interest rate on such Sales Tax Debt for fiscal periods when the actual interest rate cannot yet be determined shall be assumed to be equal to the lesser of (i) the maximum interest rate permitted by the agreement under which such Sales Tax Debt was issued or incurred, or (ii) the greater of (A) the current interest rate calculated pursuant to the provisions of such agreement, or (B) the prime interest rate of the Trustee (or the principal banking affiliate of the Trustee) as of the date of calculation (or 65% of the prime interest rate of the Trustee (or the principal banking affiliate of the Trustee) if in the opinion of nationally recognized bond counsel interest on such Sales Tax Debt is not includable in gross income for purposes of federal income taxation); and

(c) if interest is capitalized with respect to Sales Tax Debt, Debt Service on such Sales Tax Debt shall be included in computations of Maximum Annual Debt Service only in proportion to the amount of interest payable in such fiscal period from sources other than amounts capitalized to pay such interest.

"Equipment Trust Certificates" means the Santa Clara County Transit District Daily Adjustable Rate Refunding Equipment Trust Certificates, Series 1985A together with any other equipment trust certificates issued and outstanding pursuant to the Equipment Trust Indenture.

"Equipment Trust Indenture" means the Equipment Trust Indenture, dated as of June 1, 1984, between the Trustee and the Authority, as from time to time supplemented and amended in accordance with the terms thereof.

"Event of Default" means any of the events specified in the Indenture, certain of which are discussed herein under "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Events of Default and Remedies of Bondholders."

"Fiscal Year" means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other 12-month period selected and designated as the official Fiscal Year period of the Authority which designation shall be provided to the Trustee in a certificate of the Authority.

"Fitch" means Fitch Investors Service, L.P., a limited partnership duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns.

"Indenture" means the Indenture, dated as of November 1, 1997, by and between the Trustee and the Authority, as originally executed or as it may from time to time be supplemented or amended by any Supplemental Indenture delivered pursuant to the provisions thereof.

"Information Services" means Financial Information, Inc.'s "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services' "Called Bond Service," 65 Broadway, 16th Floor, New York, New York 10004, Moody's "FIS," 5250-77 Center Drive, Charlotte, NC 28217, Attention: Municipal News Reports; and S&P's "Called Bond Record," 25 Broadway, 3rd Floor, New York, New York 10004; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds, or no such services, as the Authority may designate in a Request of the Authority delivered to the Trustee.

"Installment Sale Agreement" means the Installment Sale Agreement, dated as of December 1, 1994, by and between the ABAG Finance Corporation, as seller, and the Authority.

"Installment Payment" shall have the meaning assigned to such term in the Installment Sale Agreement.

"Interest Fund" means the Fund by that name established pursuant to the Indenture.

"Investment Policy" means the investment policy of the Authority adopted by the Board on April 4, 1996, as such investment policy may be modified, amended or supplemented from time to time.

"Investment Securities" means any of the following, to the extent the same are permitted investments of the Authority under the Investment Policy:

(i) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, including obligations of any of the federal agencies and federally sponsored entities set forth in clause (iii) below to the extent unconditionally guaranteed by the United States of America;

(ii) any certificates, receipts, securities or other obligations evidencing ownership of, or the right to receive, a specified portion of one or more interest payments or principal payments, or any combination thereof to be made on any bond, note or other obligation described above in clause (i);

(iii) obligations of the Federal National Mortgage Association, the Government National Mortgage Association, Federal Home Loan Banks, Farmers Home Administration and Federal Home Loan Mortgage Corporation;

(iv) housing authority bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; or project notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;

(v) obligations of any state, territory or commonwealth of the United States of America or any political subdivision thereof or any agency or department of the foregoing, provided that at the time of their purchase such obligations are rated in either of the two highest Rating Categories by the Rating Agency;

(vi) any bonds or other obligations of any state of the United States of America or any political subdivision thereof (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the Trustee of such bonds or other obligations by the obligor who gave due notice of redemption and to call such Bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described above in clause (i) or (ii) which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the Interest payment dates and the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, (c) as to which the principal of and interest on the bonds and obligations of the character described above in clause (i) or (ii) which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay the principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (vi) on the interest payment dates and the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (vi), as appropriate, and (d) which have been rated in one of the two highest long-term Rating Categories by the Rating Agency;

(vii) bonds, notes, debentures or other evidences of indebtedness issued or guaranteed by any corporation which are, at the time of purchase, rated by the Rating Agency in their respective highest short-term Rating category, or, if the term of such indebtedness is longer than three (3) years, rated by the Rating Agency in one of their respective two highest long-term Rating Categories, or comparable types of debt obligations;

(viii) demand or time deposits or certificates of deposit, whether negotiable or non-negotiable, issued by any bank or trust company organized under the laws of any state of the United States of America or any national banking association (including the Trustee) or by a state-licensed branch of any foreign bank, provided that such certificates of deposit shall be purchased directly from such a bank, trust company or national banking association and shall be either (1) continuously and fully insured by the Federal Deposit Insurance Corporation, or (2) continuously and fully secured by such securities and obligations as are described above in clauses (i) through (v), inclusive, which shall have a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such certificates of deposit and shall be lodged with the Trustee, as custodian, by the bank, trust company or national banking association issuing such certificates of deposit, and the bank, trust company or national banking association issuing each such certificate of deposit required to be so secured shall furnish the Trustee with an undertaking satisfactory to it that the aggregate market value of all such obligations securing each such certificate of deposit will at all times be an amount equal to the principal amount of each such certificate of deposit and the Trustee shall be entitled to rely on each such undertaking;

(ix) taxable commercial paper, other than that issued by bank holding companies, or tax-exempt commercial paper in each case rated in the highest Rating Category by the Rating Agency;

(x) variable rate obligations required to be redeemed or purchased by the obligor or its agent or designee upon demand of the holder thereof secured as to such redemption or purchase requirement by a liquidity agreement with a corporation and as to the payment or interest and principal either upon maturity or redemption (other than upon demand by the holder thereof) thereof by an unconditional credit facility of a corporation, provided that the variable rate obligations themselves are rated in the highest Rating Category for its short-term rating, if any, and in either of the two highest Rating Categories for its long-term rating, if any, by the Rating Agency, and that the corporations providing the liquidity agreement and credit facility have, at the date of acquisition of the variable rate obligation by the Trustee, an outstanding issue of unsecured, uninsured and unguaranteed debt obligations rated in either of the two highest long-term Rating Categories by the Rating Agency;

(xi) any repurchase agreement with any bank or trust company organized under the laws of any state of the United States or any national banking association (including the Trustee) having a minimum permanent capital of one hundred million dollars ($100,000,000) or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement is secured by any one or more of the securities and obligations described in clauses (i), (ii), (iii) or (iv) above, which shall have a market value (exclusive of accrued interest and valued at least monthly) at least equal to the Principal amount of such investment and shall be lodged with the Trustee or other fiduciary, as custodian for the Trustee, by the bank, trust company, national banking association or bond dealer executing such repurchase agreements and the entity executing each such repurchase agreement required to be so secured shall furnish the Trustee with an undertaking satisfactory to it that the aggregate market value of all such obligations securing each such repurchase agreement (as valued at least monthly) will be an amount equal to the principal amount of each such repurchase agreement and the Trustee shall be entitled to rely on each such undertaking;

(xii) any cash sweep or similar account arrangement of or available to the trustee, the investments of which are limited to investments described in clauses (i), (ii), (iii), (iv), (v) and (xi) of this definition of Investment Securities and any money market fund, the entire investments of which are limited to investments described in clauses (i), (ii), (iii), (iv), (v) and (xi) of this definition or Investment Securities; provided that as used in this clause (xii) and clause (xiii) investments will be deemed to satisfy the requirements of clause (vi) if they meet the requirements set forth in clause (xi) ending with the words "clauses (i), (ii), (iii) or (iv) above" and without regard to the remainder of such clause (xi);

(xiii) any investment agreement with a financial institution or insurance company which has at the date of execution thereof an outstanding issue of unsecured, uninsured and unguaranteed debt obligations or a claim paying ability rated in either of the two highest long-term Rating Categories by the Rating Agency;

(xiv) shares of beneficial interest in diversified management companies investing exclusively in securities and obligations described in clauses (i) through (iii) of this definition of Investment Securities and which companies have the highest rating by the Rating Agency; and

(xv) shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California which invests exclusively in investments permitted by Section 53635 of Title 5, Division 2, Chapter 4 of the Government Code of the State of California, as it may be amended;

(xvi) Bankers' Acceptances issued by domestic or foreign banks, which are eligible for purchase by the Federal Reserve System, the short-term paper of which is rated in the highest Rating Category by the Rating Agency, which purchases may not exceed 270 days maturity or 40 percent of the Authority's surplus money;

(xvii) the commingled investment fund of the County of Santa Clara, California, which is administered in accordance with the Investment policy of said County as established by the Director of Finance thereof, as permitted by Section 53601 of the Government Code of the State, copies of which policy are available upon written request to said Director of Finance;

(xviii) any investments approved by the Board for which confirmation is received from each rating agency then rating any of the Bonds that such investment will not adversely affect such agency's rating of such Bonds; and

(xix) the Local Agency investment Fund of the State of California.

"Mandatory Sinking Account Payments" means, with respect to Bonds of any Series and maturity, the amount required by the Indenture to be deposited by the Authority in a Sinking Account for the payment of Term Bonds of such Series and maturity.

"Maximum Annual Debt Service" shall mean the greatest amount or Debt Service becoming due and payable on all Bonds and Parity Debt in the Fiscal Year in which the calculation is made or any subsequent Fiscal Year; provided, however, that for the purposes of computing Maximum Annual Debt Services:

(a) principal and interest payments on Bonds and Parity Debt shall be excluded to the extent such payments are to be paid from amounts on deposit with the Trustee or other fiduciary in escrow specifically therefor and to the extent that such interest payments are to be paid from the proceeds of Bonds or Parity Debt held by the Trustee or other fiduciary as capitalized interest specifically to pay such interest by the Trustee or other fiduciary;

(b) if the Bonds or Parity Debt are Variable Rate Indebtedness and an interest rate swap agreement with a Qualified Counterparty (as defined below) is in effect with respect to such Bonds or Parity Debt pursuant to which the Authority has agreed to pay a fixed rate, then at the option of the Authority set forth in a written direction to the Trustee, the interest rate on such Variable Rate Indebtedness shall be the fixed rate payable under such interest rate swap agreement for the period that such agreement is in effect, and thereafter the variable rate on such Bonds or Parity Debt shall be calculated as provided in the definition of ‘Debt Service’. Qualified Counterparties’ mean any financial institution, including an insurance company or company related to a financial institution, which is a party to an interest rate swap agreement (“Counterparty”) if (i) the unsecured long-term debt obligations of such Counterpart)’ (or of the parent or a subsidiary of such Counterparty, if such parent or subsidiary guarantees the performance of such Counterparty under such agreement), or (ii) obligations secured or supported by a letter of credit, contract, guarantee, agreement, insurance policy or surety bond issued by such Counterparty (or such guarantor parent or subsidiary), are rated at the time of initial execution and delivery of such agreement in one of the two highest rating categories by the Rating Agency;

(c) if interest on the Bonds or Parity Debt is payable at a fixed interest rate and an interest rate swap agreement with a Qualified Counterpart)’ is in effect with respect to such Bonds or Parity Debt pursuant to which the Authority has agreed to pay a variable rate, then at the option of the Authority set forth in a written direction to the Trustee, the interest rate on such fixed rate Bonds or Parity Debt shall be the variable rate payable under such interest rate swap agreement (which shall be calculated as provided in (b) of definition of Debt Service) for the period that such agreement is in effect, and thereafter at the fixed rate on such Bonds or Parity Debt; and

(d) with respect to Optional Tender Bonds (as defined below), the Maximum Annual Debt Service thereon shall not include amounts payable upon mandatory or optional tender for purchase, and shall not be based upon the terms of any reimbursement obligation to the provider of any liquidity facility or credit facility for such Optional Tender Bonds except to the extent and for the periods during which Debt Service is required to be made pursuant to such reimbursement obligation due to such provider advancing funds for such purchase. 'Optional Tender Bonds' mean any Bonds or Parity Debt: (i) by its terms may be tendered by and at the option of, or required to be tendered by, the Owners thereof for payment or purchase by the Authority or another party prior to stated maturity thereof; (ii) by its terms requires such purchase if properly presented; and (iii) is rated at time of original issuance in one of the two highest rating categories by the Rating Agency."

"Moody's" means Moody's Investors Service, a corporation duly organized and existing under the laws of the State of Delaware, and its successors and assigns.

"1991 Indenture" means, collectively, the 1991 Master Indenture and the 1991 Supplemental Indenture.

"1991 Master Indenture" means the Indenture, dated as of August 1, 1991, between the Authority and the 1991 Trustee.

"1991 Series A Bonds" means the Authority's Sales Tax Revenue Bonds, 1991 Series A.

"1991 Supplemental Indenture" means the First Supplemental Indenture, dated as of August 1, 1991, between the Authority and the 1991 Trustee.

"1991 Trustee" means Security Pacific National Bank, as succeeded by First Trust of California, National Association.

"Opinion of Bond Counsel" means a written opinion of a law firm of national standing in the field of public finance selected by the Authority and not objected to by the Trustee.

"Outstanding," when used as of any particular time with inference to Bonds, means (subject to the provisions of the Indenture relating to the disqualification of certain Bonds in determining the aggregate principal amount of Bonds Outstanding) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except (1) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (2) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with the defeasance provisions of the Indenture; and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the trustee pursuant to the Indenture.

"Owner" or "Bondholders or "Bondowner," whenever used with respect to a Bond, means the person in whose name such Bond is registered.

"Parity Debt" means the Equipment Trust Certificates and any indebtedness, installment sale obligation, lease obligation or other obligation of the Authority for borrowed money or interest rate swap agreement having an equal lien and charge upon the Revenues and therefore payable on a parity with the Bonds (whether or not any Bonds are Outstanding).

"Person" means a corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

"Principal Fund" means the Fund by that name established pursuant to the Indenture.

"Project" means the acquisition, construction, improvement or equipping of any or all real and personal property, equipment, rights or interests to be owned, held or used for transit purposes, including, but not limited to, rights-of-way, rail lines, bus lines, stations, platforms, switches, barns, terminals, parking lots and any and all facilities necessary or convenient for transit service within or partly without the Authority, and the payment of all costs incidental to or connected with the accomplishment of such purpose including, without limitation, engineering, inspection, legal, fiscal agents, financial consultant and other fees, bond and other reserve funds, working capital, bond interest estimated to accrue during construction and for a period not to exceed one year thereafter, and expenses for all proceedings for the authorization, issuance and sale of Bonds.

"Project Fund" means the fund of that name established by the Indenture to hold the proceeds of a Series of Bonds or a portion thereof prior to expenditure on the Project.

"Proportionate Basis," when used with respect to the redemption of Bonds, means that the amount of Bonds of each maturity to be redeemed shall be determined as nearly as practicable by multiplying the total amount of funds available for redemption by the ratio which the amount of Bond Obligation of Bonds of such maturity bears to the amount of all Bond Obligation of Bonds to be redeemed, provided that if the amount available for redemption of Bonds of any maturity is insufficient to redeem a multiple of $5,000 principal amount or Accreted Value payable at maturity, such amount shall be applied to the redemption of the highest possible integral multiple (if any) of $5,000 principal amount or Accreted Value payable at maturity. For purposes of the foregoing, Term Bonds shall be deemed to mature in the years and in the amounts of the Mandatory Sinking Account Payments, and Capital Appreciation Bonds and Current Interest Bonds maturing or subject to Mandatory Sinking Account Payments in the same year shall be treated as separate maturities. When used with respect to the payment or purchase of Bonds, "Proportionate Basis" shall have the same meaning set forth above except that "pay" or "purchase" shall be substituted for "redeem" or "redemption" and "paid" or "purchased" shall be substituted for "redeemed."

"Rating Agency" means each of Fitch, Moody's and Standard & Poor's maintaining a rating on Bonds or Parity Debt at the request of the Authority.

"Rating Category" means (i) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier and (ii) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination or letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

"Rebate Fund" means that fund established under the Indenture.

"Redemption Fund" means the fund by that name established pursuant to the Indenture.

"Redemption Price" means, with respect to any Bond (or portion thereof) the principal amount of such Bond (or portion thereof) plus the applicable premium, if any, payable upon redemption thereon pursuant to the provisions of such Bond and the Indenture.

"Revenue Fund" means the Sales Tax Revenue Fund established pursuant to the Indenture.

"Revenues" means during any fiscal period the sum of the following amounts for such fiscal period:

(1) all Sales Tax Revenues; and

(2) all other funds legally available to the Authority for payment of debt service on the Bonds and Parity Debt.

"Sales Tax Debt" means all outstanding bonds, notes and other obligations secured in whole or in part by Sales Tax Revenues.

"Sales Tax Revenues" means amounts collected by the state Board of Equalization and distributed to the Authority pursuant to Section 135250 *et seq*. and Ordinance No. NS-2 adopted by the Authority on March 29, 1976 and as approved by the voters on March 2, 1976.

"Securities Depositories" means the following: The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 21530, Fax-(216) 227-4039 or 4190, Midwest Securities Trust Company, Capital Structures-Call Notification, 440 South LaSalle Street, Chicago, Illinois 60605, Fax-(312) 663-2343; Philadelphia Depository Trust Company, Reorganization Division, 1900 Market Street, Philadelphia, Pennsylvania 13103, Attention: Bond Department, Dex-(215) 496-5058, or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories, or no such depositories, as the Authority may designate in a Request of the Authority delivered to the Trustee.

"Serial Bonds" means Bonds, maturing in specified years, for which no Mandatory Sinking Account Pavements are provided.

"Series," whenever used with respect to Bonds, means all of the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction, regardless of variations in maturity, interest rate, redemption and other provisions, and any Bonds authenticated and delivered upon transfer or exchange or in lieu of or in substitution for (but not to refund) such Bonds as provided in the Indenture.

"Sinking Accounts" means the accounts in the Principal Fund so designated and established pursuant to the Indenture for the payment of Term Bonds.

"Standard & Poor's" means Standard & Poor's Ratings Group, a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Standard & Poor's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the Authority.

"State" means the State of California.

"Supplemental Indentures" means any indenture duly executed and delivered, supplementing, modifying or amending the Indenture, but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

"Tax Certificate" means the tax certificate delivered by the Authority at the time of the issuance and delivery of any Series of Bonds, as the same may be amended or supplemented in accordance with its terms.

"Term Bonds" means Bonds payable at or before their specified maturity date or dates from Mandatory Sinking Account Payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

"Trustee" means First Trust of California, National Association, a national banking association, organized and existing under the laws of the United States, or its successor, as Trustee as provided in the Indenture.

"Variable Rate Indebtedness" means any indebtedness the interest rate on which is not fixed at the time of incurrence of such indebtedness, and has not at some subsequent date been fixed, at a single numerical rate for the entire term of the indebtedness.

Funds and Accounts; Allocation of Revenues

So long as any Bonds are Outstanding, the Trustee shall set aside in each month following receipt of the Sales Tax Revenues the moneys in the Revenue Fund in the following respective funds (each of which the Trustee shall establish, maintain and hold in trust for the benefit of the Owners of the Bonds in accordance with the provisions of the Indenture) in the following amounts, in the following order of priority, the requirements of each such fund (including the making up of any deficiencies in any such fund resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any fund subsequent in priority; provided that on a parity with such deposits the Trustee may set aside or transfer amounts with respect to the outstanding Equipment Trust

Certificates and other outstanding Parity Debt as provided in the Equipment Trust Indenture and the proceedings of such Parity Debt delivered to the Trustee (which shall be proportional in the event such amounts are insufficient to provide for all deposits equaled as of any date to be made with respect to the Bonds and such Parity Debt).

Interest Fund. Commencing in December, 1997, the Trustee shall set aside in the Interest Fund as soon as practicable in each month an amount equal to (a) one-sixth of the aggregate half-yearly amount of interest becoming due and payable on the Outstanding Current Interest Bonds (except for Bonds constituting Variable Rate Indebtedness) during the next ensuing six months (excluding any interest or for which there are moneys deposited in the Interest Fund from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay such interest during said next ensuing six months), until the requisite half-yearly amount of interest on all such Outstanding Current Interest Bonds (except for Bonds constituting Variable Rate Indebtedness) is on deposit in such Fund; provided that from the date of delivery of a Series of current Interest Bonds until the first interest payment date with respect to such Series the amounts so paid with respect to such Series shall be sufficient on a monthly pro rata basis to pay the aggregate amount of interest becoming due and payable on said interest payment date with respect to such Series, plus (b) the aggregate amount of interest, calculated at a rate of twelve percent (12%) per annum of the actual rate of interest is not known, to accrue during that month on the Outstanding Variable Rate Indebtedness (provided, however, that the amount of such deposit into the Interest Fund for any month may be reduced by the amount by which the deposit in the prior month exceeded the actual amount of interest accrued during that month on said Outstanding Variable Rate Indebtedness and further provided that the amount of such deposit into the interest and for any month shall be increased by the amount by which the deposit in the prior month was less than the actual amount of interest accruing during that month on said Outstanding Variable Rate Indebtedness). No deposit need be made into the Interest Fund if the amount contained therein is at least equal to the interest to become due and payable on the interest payment dates falling within the next six months upon all of the Bonds issued then Outstanding, and on June 1 of each year any excess amount in the Interest Fund not needed to pay interest on such date (and not held to pay interest on Bonds having interest payment dates other than June 1 and December 1) shall be transferred to the Authority (but excluding, in each case, any moneys on deposit in the Interest Band from the proceeds of any Series of bonds or other source and reserved as capitalized interest to pay interest on any future interest payment dates following such interest payment dates).

Principal Fund; Sinking Accounts. Commencing in December 1997, the Trustee shall deposit in the Principal Fund as soon as practicable in each month an amount equal to at least (a) one-sixth of the aggregate semiannual amount of Bond obligation becoming due and payable on the Outstanding Serial Bonds of all Series having semiannual maturity dates within the next six months, including any Bonds maturing on June 1, 1998, plus (b) one-twelfth of the aggregate yearly amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds of all Series having annual maturity dates within the next 12 months, plus (c) one-sixth of the aggregate of the Mandatory Sinking Account Payments to be made during the next six-month period into the respective Sinking Accounts for the Term Bonds of all Series for which Sinking Accounts have been created and for which semiannual mandatory redemption is required from said Sinking Accounts, plus (d) one-twelfth of the aggregate of the Mandatory Sinking Account

Payments to be paid during the next 12-month period into the respective Sinking Accounts for the Term Bonds of all Series for which Sinking Accounts shall have been created and for which mandatory redemption is required from such Sinking Accounts; provided that if the Authority certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from amounts on deposit in the Bond Reserve Fund that would be in excess of the Bond Reserve Requirement upon such payment, no amounts need to be set aside toward such principal to be so refunded or paid. All of the aforesaid Mandatory Sinking Account Payments shall be made without priority of any payment into any one such Sinking Account over any other such payment. In the event that the Revenues shall not be sufficient to make the required deposits so that moneys in the Principal Fund on any principal or mandatory redemption date are equal to the amount of Bond Obligation to become due and payable on the Outstanding Serial Bonds of all Series plus the Bond Obligation amount of and redemption premium on the outstanding term Bonds required to be redeemed or paid at maturity on such date, then such moneys shall be applied on a proportionate basis and in such proportion as said Serial Bonds and such Term Bonds shall bear to each other, after first deducting for such purposes from said Term Bonds any of said Term Bonds required to be redeemed annually as shall have been redeemed or purchased during the preceding 12-month period and any of said Term Bonds required to be redeemed semiannually as shall have been redeemed or purchased during the six-month period ending on such date or the immediately preceding six-month period. In the event that the Revenues shall not be sufficient to pay in full all Mandatory Sinking Account payments required to be paid at any one time into all such Sinking Accounts, then payments into all such Sinking Accounts shall be made, on a proportionate basis, in such proportion that the respective Mandatory Sinking account payments required to be made into each Sinking Account during the then current 12-month period bear to the aggregate of all of the Mandatory Sinking Account Payments required to be made into all such Sinking Accounts during such 12-month period.

No deposit need be made into the Principal Fund so long as there shall be in such fund (i) moneys sufficient to pay the Bond Obligation of all Serial Bonds then Outstanding and maturing by their terms within the next twelve months plus (ii) the aggregate of all Mandatory Sinking Account Payments required to be made in such 12-month period, but less any amounts deposited into the Principal Fund during such 12-month period and theretofore paid from the Principal Fund to redeem or purchase Term Bonds during such 12-month period; provided that if the Authority certifies to the Trustee that any principal payments are expected to be demanded on or prior to their respective due dates or paid from amounts on deposit in the Bond Reserve Fund that would be in excess of the Bond Reserve Requirement upon such payment, no amounts need be on deposit with respect to such principal payments. At the beginning of each Fiscal Year and in any event not later than August 1 of each year, the Trustee shall request from the Authority a certificate of the Authority setting forth the principal payments for which deposits will not be necessary pursuant to the preceding sentence and the reason therefor. On June 1 of each year any excess amounts in the Principal Fund not needed to pay principal on such date (and not held to pay principal on Bonds having principal payment dates other than June 1) shall be transferred to the Authority.

Bond Reserve Fund. Except as otherwise permitted by the Indenture, at such time as the Bond Reserve Requirement is required to be funded due to a decrease in the coverage of Sales Tax Revenues over Maximum Annual Debt Service below 3.00 times, the Authority shall make or cause to be made, within one year, a deposit or deposits into the Bond Reserve Fund equal to the Bond Reserve Requirement. Additionally, except as otherwise provided in the Indenture, upon the occurrence of any deficiency in the Bond Reserve Fund, the Trustee shall deposit in the Bond Reserve Fund, as soon as possible in each month, until the balance therein is at least equal to the Bond Reserve Requirement, (i) one-twelfth (1/12th) of the aggregate amount of each unreplenished prior withdrawal from the Bond Reserve Fund and (ii) the full amount of any deficiency due to any required valuation of the investments in the Bond Reserve Fund.

Any Revenues remaining in the Revenue Fund after the foregoing transfers described above under "Interest Fund," "Principal Fund; Sinking Accounts" and "Bond Reserve Fund," except as otherwise provided in a Supplemental Indenture, shall be transferred on the same Business Day to the Authority. The Authority may use and apply the Revenues when received by it for any lawful purpose of the Authority, including the redemption of Bonds upon the terms and conditions set forth in the Supplemental Indenture relating to such Bonds and the purchase of Bonds as and when and at such prices as it may determine.

If five days prior to any principal payment date, interest payment date or mandatory redemption date the amounts on deposit in the Interest Fund and Principal Fund, including the Sinking Accounts therein, with respect to the payments to be made on such upcoming date after any transfers from the Bond Reserve Fund are insufficient to make such payments, the Trustee shall immediately notify the Authority, in writing, of such deficiency and direct that the Authority transfer the amount of such deficiency to the Trustee on or prior to such Payment date. The Authority covenants and agrees in the Indenture to transfer to the Trustee from any Revenues in its possession the amount of such deficiency on or prior to the principal, interest or mandatory redemption date referenced in such notice.

Application of Interest Fund

All amounts in the Interest Fund shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture) and making payments on interest rate swap agreements, as provided in the Indenture.

Application of Principal Fund

All amounts in the Principal Fund shall be used and withdrawn by the Trustee solely for the purposes of paying the Bond Obligation of the Bonds when due and payable, except that any amounts in the Sinking Accounts shall be used and withdrawn by the Trustee solely to purchase or redeem or pay at maturity Term Bonds, as provided in the Indenture.

The Trustee shall establish and maintain within the Principal Fund a separate account for the Term Bonds of each Series and maturity. On or before the Business Day prior to any date upon which a Mandatory Sinking Account Payment is due, the Trustee shall transfer the amount of such Mandatory Sinking Account Payment (being the principal thereof, in the case of Current Interest Bonds, and the Accreted Value, in the case of Capital Appreciation Bonds) from the Principal Fund to the applicable Sinking Account. With respect to each Sinking Account, on each Mandatory Sinking Account Payment date established for such Sinking Account, the Trustee shall apply the Mandatory Sinking Account payment required on that date to the redemption of Term Bonds of such Series and maturity for which such Sinking Account was established, in the manner provided in the Supplemental Indenture pursuant to which such Series of Bonds was created, provided that, at any time prior to giving such notice of such redemption, the Trustee shall, upon receipt of a Request of the Authority, apply moneys in such Sinking Account to the purchase or Term Bonds of such Series and maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Fund) as is directed by the Authority, except that purchase price (excluding accrued interest, in the case of Current Interest Bonds) shall not exceed the principal Amount or Accreted Value thereof. Assuming the 12-month period (or six-month period with respect to Bonds having semi-annual Mandatory Sinking Account Payments) immediately preceding said Mandatory Sinking Account Payment Date, the Trustee has purchased Term Bonds of such Series and maturity with moneys in such Sinking Account, or, during said period and prior to giving said notice of redemption, the Authority has deposited Term Bonds of such Series and maturity with the Trustee, or Term Bonds of such Series and maturity were at any time purchased or redeemed by the Trustee from the Redemption Fund and allocable to said Mandatory Sinking Account Payment, such Term Bonds so purchased or deposited or redeemed shall be applied, to the extent of the full principal amount thereof, to reduce said Mandatory Sinking Account Payment. All Term Bonds purchased or deposited pursuant to this provision shall be canceled by the Trustee and destroyed by the Trustee and a certificate of destruction shall be delivered to the Authority by the Trustee. Any amounts remaining in a Sinking Account when all of the Term Bonds for which such account was established are no longer Outstanding shall be withdrawn by the Trustee and transferred to the Authority to be used for any lawful purpose. All Term Bonds purchased from a Sinking Account or deposited by the Authority with the Trustee in a 12-month period ending May 31 (or in a six-month period ending May 1 or November 30 with respect to Bonds having semi-annual Mandatory Sinking Account Payments) and prior to the giving of notice by the Trustee for redemption from Mandatory Sinking Account Payments for such period shall be allocated first to the next succeeding Mandatory Sinking Account Payment for such Series and maturity of Term Bonds, if any, occurring on the next June 1 or December 1, then as a Credit against such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request to the Authority. All Term Bonds redeemed by the Trustee from the Redemption Fund shall be credited to such future Mandatory Sinking Account Payments for such Series and Maturity of Term Bonds as may be specified in a Request of the Authority.

Funding and Application of Bond Reserve Fund

In lieu of making the Bond Reserve Requirement deposit in compliance with the provisions of the Indenture described above under "Additional Indebtedness" and "Funds and Accounts; Allocation of Revenues," or in replacement of moneys then on deposit in the Bond Reserve Fund (which shall be transferred by the Trustee to the Authority), the Authority may deliver to the Trustee an irrevocable letter of credit issued by a financial institution having unsecured debt obligations rated in one of the two highest Rating Categories of the Rating Agency and rated not less than the rating on the Bonds (excluding any rating attributable to a letter of credit, insurance policy or other credit enhancement securing the Bonds), in an amount, together with moneys, Investment Securities or letters of credit on deposit in the Bond Reserve Fund, equal to the Bond Reserve Requirement. Such letter of credit shall have an original term of no less than three (3) years or, if less, the maturity of the Series of Bonds in connection with which such letter of credit was obtained and such letter of credit shall provide by its terms that it may be drawn upon as provided in the provisions of the Indenture regarding the funding and application of the Bond Reserve Fund. At least one year prior to the stated expiration of such letter of credit, the Authority shall either (i) deliver a replacement letter of credit, (ii) deliver an extension of the letter of credit for at least an additional year or, if less, the maturity of the Series of Bonds in connection with which such letter of credit was obtained, or (iii) deliver to the Trustee a surety bond or an insurance policy satisfying the requirements of the Indenture provisions relating thereto. Upon delivery of such replacement letter of credit, extended letter of credit, or surety bond or insurance policy, the Trustee shall deliver the then-effective letter of credit to or upon the order of the Authority. If the Authority shall fail to deposit a replacement letter of credit, extended letter of credit or surety bond or insurance policy with the Trustee, the Authority shall immediately commence to make monthly deposits with the Trustee so that an amount equal to the Bond Reserve Requirement will be on deposit in the Bond Reserve Fund no later than the stated expiration date of the letter of credit. If an amount equal to the Bond Reserve Requirement as of the date following the expiration of the letter of credit is not on deposit in the Bond Reserve Fund one week prior to the stated expiration date of the letter of credit (excluding from such determination the letter of credit), the Trustee shall draw on the letter of credit to fund the deficiency resulting therefrom in the Bond Reserve Fund.

In lieu of making the Bond Reserve Requirement deposit or in replacement of moneys then on deposit in the Bond Reserve Fund (which shall be transferred by the Trustee to the Authority), the Authority may deliver to the Trustee a surety bond or an insurance policy securing an amount, together with moneys, investment securities or letters of credit on deposit in the Bond Reserve Fund, equal to the Bond Reserve Requirement. Such surety bond or insurance policy shall be issued by an insurance company whose unsecured debt obligations (or for which obligations secured by such insurance bonds or insurance policies) are rated in one of the two highest Rating Categories of the Rating Agency and rated not less than the rating on the Bonds (excluding any rating attributable to a letter of credit, insurance policy or other credit enhancement securing the Bonds). Such surety bond or insurance policy shall have a term of no less than the maturity of the Series of Bonds in connection with which such surety bond or insurance policy was obtained. In the event that such surety bond or insurance policy for any reason lapses or expires, the Authority shall immediately implement (i) or (iii) of the preceding paragraph or make the required deposits to the Bond Reserve Fund.

All amounts in the Bond Reserve Fund (including all amounts which may be obtained from letters of credit and surety bonds and insurance policies on deposit in the Bond Reserve Fund) shall be used and withdrawn by the Trustee, as described in the Indenture, solely for the purpose of making up any deficiency in the Interest Fund or the Principal Fund, or (together with any other moneys available therefor) for the payment or redemption of all Bonds then Outstanding, or for the payment of the final Principal and Interest Payment to a Series of Bonds if, following such payment, the amounts in the Bond Reserve Fund (including the amounts which may be obtained from letters of credit and surety bonds and insurance policies on deposit therein) will equal the Bond Reserve Requirement. The Trustee shall, on a pro rata basis with respect to the portion of the Bond Reserve Fund held in cash or Investment Securities and amounts held in the form of letters of credit and amounts held in the form of surety bonds and insurance policies (calculated by reference to the maximum amounts of such letters or credit and surety bonds and insurance policies and the amount of the initial deposit of such cash and Investment Securities), draw under each letter of credit or surety bond or insurance policy issued with respect to the Bond Reserve Fund, in a timely manner and pursuant to the terms of such letter of credit or surety bond or insurance policy to the extent necessary in order to obtain sufficient funds on the date such funds are needed to pay the Bond Obligation of, Mandatory Sinking Account payments with respect to, and interest on the Bonds when due. To the extent provided in a letter of credit, insurance policy or surety bond or in the Supplemental Indenture pursuant to which a Series of Bonds is issued, such installment or portion of the Bond Reserve Fund may be available to pay only the Series of Bonds for which it has obtained or to which it relates. In such event, all other amounts or instruments on deposit in the Bond Reserve Fund shall not be available for payments with respect to such Series of Bonds, but shall be applied by the Trustee to payments with respect to all or such other Series of Bonds not so secured. The Bond Reserve Fund, in such an instance, shall be composed of segregated accounts which shall separately secure a Series or Series of Bonds. In the event that the Trustee has notice that any payment of principal of or interest on a Bond has been recovered from a Bondowner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee, pursuant to and provided that the terms of the letter of credit or surety bond or bond insurance policy, if any, securing the Bonds so provide, shall so notify the Authority thereof and draw on such letter of credit or surety bond or policy to the lesser of the extent required or the maximum amount of such letter of credit or surety bond or policy in order to pay to such Bondowners the principal of and interest so recovered. Any amounts in the Bond Reserve and in excess of the Bond Reserve Requirement shall be transferred to the Trustee or the Authority on June 1 and December 1 of each rear; provided that such amounts shall be transferred only from the portion of the Bond Reserve Fund held in the form of cash or Investment Securities.

Application of Redemption Fund

The Trustee shall establish, maintain and hold in trust a special fund designated as the "Redemption Fund." All moneys deposited by the Authority with the Trustee for the purpose of optionally redeeming Bonds of any Series shall, unless otherwise directed by the Authority, be deposited in the Redemption Fund. All amounts deposited in the Redemption Fund shall be used and withdrawn by the Trustee solely for the purpose of redeeming Bonds of such Series, in the manner, at the times and upon the terms and conditions specified in the Supplemental Indenture pursuant to which such Series of Bonds was created; provided that, at any time prior to giving such notice of redemption, the Trustee shall, upon receipt of a Request of the Authority, apply such amounts to the purchase of Bonds of such Series at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding, in the case of Current Interest Bonds, accrued interest, which is payable from the Interest Account) as is directed by the Authority, except that the purchase price (exclusive of such earned interest) may not exceed the

Redemption Price or Accreted Value then applicable to such Bonds. All Term Bonds purchased or redeemed from the Redemption Fund shall be allocated to Mandatory Sinking Account payments applicable to such Series and maturity of Term Bonds as may be specified in a Request of the Authority.

Establishment and Application of Costs of Issuance Fund

The Authority shall establish, maintain and hold in trust a separate fund designated as the "Costs of Issuance Fund." The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Authority to pay the costs of issuance of the Bonds.

Investment of Moneys in Funds and Accounts

All moneys in any of the funds and accounts held by the trustee and established pursuant to the Indenture shall be invested, as directed by the Authority, solely in Investment Securities. The Investment Securities shall be, as directed by the Authority in writing or by telephone, promptly confirmed in writing, be acquired subject to the limitations described below under "Covenants of the Authority - Tax Covenants," the limitations as to maturities hereinafter in this provision described and such additional limitations or requirements consistent with the foregoing as may be established by Request of the Authority. If and to the extent the Trustee does not receive investment instructions from the Authority with respect to the moneys in the funds and accounts held by the Trustee pursuant to the Indenture, such moneys shall be invested in Investment Securities described in clause (xii) of the definition thereon and the Trustee shall thereupon request investment instructions from the Authority for such moneys.

Moneys in the Bond Reserve Fund shall be invested in Investment Securities available on demand or maturing within five years of the date of such investment. Moneys in the remaining Funds and accounts shall be invested in Investment Securities maturing or available on demand not earlier than the date on which it is estimated that such moneys will be required by the Trustee.

Unless otherwise provided in a Supplemental indenture, all interest, profits and other income received from the investment of moneys in any Fund or account, other than the Rebate Fund and the Project Fund, shall be transferred to the Revenue Fund when received. All interest, profits and other income received from the investment of moneys in the Rebate Fund shall be deposited in the Rebate Fund, except as described below Under "Covenants of the Authority - Tax Covenants." All interest, profits and other income received from the investment of moneys in the Project Fund shall be deposited in the Project Fund. Notwithstanding anything to the contrary contained in this provision, an amount of interest received with respect to any Investment Security equal to the amount of accrued interest, if any, paid as part of the purchase price of such Investment Security shall be credited to the fund or account from which such acceded interest was paid.

All Investment Securities credited to the Bond Reserve Fund shall be valued as of May 31 and November 30 of each year (or the next succeeding Business Day if such day is not a Business Day) at their fair market value determined to the extent practical by reference to the closing bid price thereof published in The Wall Street Journal or any other financial publication or quotation service selected by the Trustee in its sole discretion.

The Trustee may commingle any of the funds or accounts established pursuant to the Indenture into a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Trustee shall be accounted for separately as required by the Indenture and, provided further, that such commingling shall not be allowed to the extent the Authority so instructs the Trustee, to accommodate rebate calculations. The Trustee may act as principal or agent in the rating or disposing of any investment and, with the prior written consent of the Authority, may impose its customary charge therefor. The Trustee may sell at the best price obtainable, or present for redemption, any Investment Securities so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Investment Security is credited, and the Trustee shall not be liable or responsible for any loss resulting from such investment.

The Authority may and the Trustee shall, upon the Request of the Authority, enter into a financial futures or financial option contract with an entity the debt securities of which are rated in the highest short-term or one of the two highest long-term Rating Categories by the Rating Agency.

The Authority may and the Trustee shall upon the Request of the Authority, and provided that the Trustee is supplied with an Opinion of Bond Counsel to the effect that such action is permitted under the laws of the State of California, enter into an interest rate swap agreement corresponding to the interest rate or rates payable on a Series of Bonds or any portion thereof and the amounts received by the Authority or the Trustee, if any, pursuant to such a swap agreement may be applied to the deposits required under the Indenture; in which case, the entity with which the Authority or the Trustee may contract for an interest rate swap is limited to entities the debt securities of which are rated at the highest short-term or one of the two highest long-term Debt Rating Categories by the Rating Agency. If the Authority so designates, amounts payable under the interest swap agreement shall be secured by Revenues and other assets pledged under the Indenture to the Bonds on a parity basis therewith and, in such event, the Authority shall pay to the Trustee for deposit in the Interest Fund, at the times and in the manner provided by the Indenture, as described above under "Funds and Accounts; Allocation of Revenues," the amounts to be paid under such interest rate swap agreement, as if such amounts were additional interest due on the Bonds to which such interest rate swap agreement relates, and the Trustee shall pay to the other party to the interest rate swap agreements to the extent required thereunder, amounts deposited in the Interest Fund for the payment or interest on the Bonds with respect to which such agreement was entered into.

The Trustee shall keep proper books of record and accounts containing complete and correct entries of all transactions made by it relating to the receipt, investment, disbursement, allocation and application of the moneys related to the Bonds, including moneys derived from, pledged to, or to be used to make payments on the Bonds. Such records shall specify the account or fund to which each investment (or portion thereof) held by the Trustee as to be allocated and shall set forth, in the case of each investment security, (a) its purchase price, (b) identifying information, including par amount, coupon rate, and payment dates, (c) the amount received at maturity or its sale price, as the case may be, including accrued interest, (d) the amounts and dates of any payments made with respect thereto, and (e) the dates of acquisition and disposition or maturity.

The Trustee shall also provide to the Authority, in accordance with a request of the Authority, with respect to each Investment Security such documentation as is reasonably available to the Trustee and is required by the Code or other applicable law to be obtained by the Authority as evidence to establish that each investment had been acquired and disposed of on an established market in an arm's-length transaction at a price equal to its fair market value and with no amounts having been paid to reduce the yield on the investments, or shall be United States Treasury Obligations - State and Local Government Series as set forth in the Tax Certificate.

Covenants of the Authority

The Authority covenants in the Indenture, among other things, that:

(i) Punctual Payment. The Authority will punctually pay or cause to be paid the principal or Redemption Price of and interest on all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, and shall punctually pay or cause to be paid all Mandatory Sinking Account payments, but in each case only out of Revenues as provided in the Indenture.

(ii) Extension of Payment of Bonds. The Authority will not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any Bonds or claims for interest by the purchase or funding of such Bonds or claims for interest or by any other arrangement and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims or interest thereon which shall not have been so extended. Nothing described in the Indenture shall be deemed to limit the right of the Authority to issue bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be seemed to constitute an extension of maturity of Bonds.

(iii) Waiver of Acts. The Authority will not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension of law in force that may affect the covenants and agreements contained in the Indenture or in the Funds, and all benefit or advantage of any such law or laws as expressly waived by the Authority to the extent permitted by law.

(iv) Further Assurances. The Authority will make, execute and deliver any and all such instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in the Indenture.

(v) Against Encumbrances. The Authority will not create any pledge, lien or charge upon any of the Sales Tax Revenues having priority over or having parity with the lien of the Bonds except only as permitted in the Indenture.

(vi) Accounting Records and Financial Statements. The Authority will at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with generally accepted accounting principles, in which complete and accurate entries shall be made of all transactions relating to the Revenues. Such books of record and account shall be available for inspection by the Trustee at reasonable hours and under reasonable circumstances.

The Authority will furnish the Trustee, within two hundred ten (210) days after the end of each Fiscal Year, the financial statements of the Authority relating to the Revenues for such Fiscal Year, together with the report and opinion of an independent certified public accountant stating that the financial statements have been prepared in accordance with generally accepted accounting principles and that such accountants' examination of the financial statements was performed in accordance with generally accepted auditing standards and a Certificate of the chief financial officer of the Authority stating that no event which constitutes an Event of Default or which with the giving of notice or the passage of time or both would constitute an Event of Default has occurred and is continuing as of the end of such Fiscal Year, or specifying the nature of such event and the actions taken and proposed to be taken by the Authority to cure such default. Thereafter, a copy of such financial statements will be furnished to any owner of Bonds upon written request to the Authority.

(vii) Collection of Sales Tax Revenues. The Authority covenants and agrees that it has duly levied a transactions and use tax in accordance with the Act, pursuant to and in accordance with the Ordinance, duly passed and adopted by the Authority. Said Ordinance has not and will not be amended, modified or altered so long as any of the Bonds are Outstanding in any manner which would reduce the amount of or timing of receipt of Sales Tax Revenues, and the Authority will continue to levy and collect such transactions and use taxes to the full amount permitted by law. The Authority further covenants that it has entered into an agreement with the State Board of Equalization under and pursuant to which the State Board of Equalization will process and supervise collection of said transactions and use taxes and will transmit Sales Tax Revenues directly to the Trustee. Said agreement will be continued in effect so long as any of the Bonds are outstanding and shall not be amended, modified or altered without the written consent of the Trustee so long as any of the Bonds are Outstanding. The Authority will receive and hold in trust for (and remit immediately to) the Trustee any Sales Tax Revenues paid to the Authority by the State Board of Equalization.

Sales Tax Revenues received by the Trustee shall be transmitted to the Authority as described above under "Funds and Accounts; Allocation of Revenues;" provided that, during the continuance of an Event of Default, any Sales Tax Revenues received by the Trustee shall be applied first to the payment of the costs and expenses of the Trustee in declaring such Event of Default and pursuing remedies, including reasonable compensation of its agents, attorneys and counsel, which costs and expenses shall be paid from the Revenue Fund, and second, to deposit into the Interest Fund and Principal Fund and to the payment of Parity Debt as more fully set forth in the Indenture and as described under "Events of Default."

The Authority covenants and agrees to separately account for all Revenues and to provide to the Trustee access to such accounting records at reasonable hours and under reasonable circumstances.

The Authority covenants that so long as the Bonds are Outstanding, it will not, to the best of its ability, suffer or permit any change, modification or alteration to be made to the Act which would materially and adversely affect the rights of Bondholders.

Rebate Fund. The Trustee shall establish and maintain a fund separate from any other fund established and maintained under the Indenture designated as the Rebate Fund. Within the Rebate Fund, the Trustee shall maintain such accounts as shall be necessary in order to comply with the terms and requirements of the Tax Certificates subject to the transfer provisions described below, all money at any time deposited in the Rebate Fund shall be held by the Trustee for the account of the Authority in trust, to the extent required to satisfy the Rebate Requirement (as defined in the Tax Certificate), for payment to the federal government of the United States of America, and neither the Trustee nor the Owner of any Bonds shall have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by the Indenture and by the Tax Certificate. The Authority covenants to comply with the directions contained in the Tax Certificate and the Trustee covenants to comply with all written instructions of the Authority delivered to the Trustee pursuant to the Tax Certificate (which instructions shall state the actual amounts to be deposited in or withdrawn from the Rebate Fund and shall not require the Trustee to make any calculations with respect thereto). The Trustee shall be deemed conclusively to have complied with the provisions of the Indenture described in this provision if it follows such instructions of the Authority, and the Trustee shall have no liability or responsibility to enforce compliance by the Authority with the terms of the Tax Certificate nor to make computations in connection therewith.

The Trustee shall invest all amounts held in the Rebate Fund, pursuant to written instructions of the Authority, in Investment Securities, subject to those restrictions set forth in the Tax Certificate.

Upon receipt of the instructions of the Authority, the Trustee shall remit part or all of the balances in the Rebate Fund to the Federal Government of the United States or America, as directed. In addition, if such instructions so direct, the Trustee shall deposit moneys into or transfer moneys out of the Rebate Fund from or into such accounts or funds as directed. Any funds remaining in the Rebate Fund after redemption and payment of all of the Bonds and payment and satisfaction of any Rebate Requirement, shall be withdrawn and remitted to the Authority in accordance with a Request of the Authority.

Notwithstanding any other provision of the Indenture, including in particular the defeasance provisions thereof, the obligation to remit the Rebate Requirement to the Federal Government of the United States of America and to comply with all other requirements of this provision and the Tax Certificate shall survive the defeasance or payment in full of the Bonds.

The Authority shall retain all records with respect to the calculations and instructions described in the Indenture for at least six years after the date on which the last of the principal of and interest on the Bonds has been paid, whether upon maturity or prior redemption thereof.

Tax Covenants. The Authority covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on the Bonds under Section 103 of the Code; provided that, prior to the issuance of any Series of Bonds, the Authority may exclude the application of these covenants and the covenants described above under "Rebate Fund" to such Series of Bonds. Without limiting the foregoing, the Authority shall comply with all requirements and covenants contained in the Tax Certificate. In the event that at any time the Authority is of the opinion that it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture, the Authority shall so instruct the Trustee in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

Notwithstanding any provision of the Indenture described in this provision and above under "Rebate Fund," if the Authority shall receive an Opinion of Bond Counsel to the effect that any action required as described in the Indenture and therein is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on the Bonds pursuant to Section 103 of the Code, the Authority and the Trustee may rely conclusively on such opinion in complying with the provisions of the Indenture, and the covenants thereunder shall be deemed to be modified to that extent.

Modification or Amendment of the Indenture

Amendments Requiring the Consent of Bondowners. The Indenture and the rights and obligations of the Authority, the Owners of the Bonds and the Trustee may be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority and the Trustee may enter into with the written consent of the Owners of a majority in aggregate amount of Bond Obligation of the Bonds (or, if such Supplemental Indenture is only applicable to a Series of Bonds, such Series of Bonds) then Outstanding shall have been filed with the Trustee; provided that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any particular maturity remain Outstanding, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding for purposes of this provision.

The Indenture and the rights and obligations of the Authority and of the Owners of the Bonds and of the Trustee may also be modified or amended at any time by a Supplemental Indenture entered into by the Authority and the Trustee which shall become binding when the written consents of each provider of a letter of credit or a policy of bond insurance for the Bonds shall have been filed with the Trustee, provided that at such time the payment of all the principal of and interest on all Outstanding Bonds shall be insured by a policy or policies of municipal bond insurance or payable under a letter of credit the provider of which shall be a financial institution or association having unsecured debt obligations rated, or insuring or securing other debt obligations rated on the basis of such insurance or letters of credit, in one of the two highest Rating Categories of the Rating Agency.

No such modification or amendment shall (a) extend the mixed maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment provided for the payment of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Owner of each Bond so affected, or (b) reduce the aforesaid percentage of Bond Obligation the consent of the Owners of which is required to effect any such modification or amendment or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture, or deprive the owners of the Bonds of the lien created by the Indenture on such Revenues and other assets (in each case, except as expressly provided in the Indenture), without the consent of the Owners of all of the Bonds then Outstanding. It shall not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution and delivery by the Trustee and the Authority of any Supplemental Indenture as described in the Indenture, the Trustee shall mail a notice, setting forth in general terms the substance of such Supplemental Indenture to the Owners of the Bonds at the addresses shown on the registration books of the Trustee. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

Amendments Not Requiring the Consent of Bondowners. The Indenture and the rights and obligations of the Authority, of the Trustee and of the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority may adopt without the consent of any Bondholders due only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the Authority in the Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power therein reserved to or conferred upon the Authority;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture;

(3) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute thereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially and adversely affect the interests of the Owners of the Bonds;

(4) to make modifications or adjustments necessary, appropriate or desirable to provide for the issuance of Variable Rate Indebtedness, Capital Appreciation Bonds or Parity Debt with such interest rate, payment, maturity and

other terms as the Authority may deem desirable, subject to the provisions of the Indenture described above under "Additional Indebtedness;"

(5) to provide for the issuance of Bonds in book-entry form or bearer form, provided that no such provision shall materially and adversely affect the interests of the Owners of the Bonds;

(6) to make modifications or adjustments necessary, appropriate or desirable to accommodate credit enhancements including letters of credit and surety bonds and insurance policies delivered with respect to the Bond Reserve Fund;

(7) if the Authority agrees in a Supplemental Indenture to maintain the exclusion of interest on a Series of Bonds from gross income for purposes of federal income taxation, to make such provisions as are necessary or appropriate to ensure such exclusion;

(8) to provide for the issuance of an additional Series of Bonds pursuant to provisions of the Indenture described above under "Additional Indebtedness;" and

(9) for any other purpose that does not materially and adversely affect the interests of the Owners of the Bonds.

Effect of Supplemental Indenture. From and after the time any Supplemental Indenture becomes effective, the Indenture shall be deemed to be modified and amended an accordance therewith, and the respective rights, duties and obligations under the Indenture of the Authority, the Trustee and all Owners of Bonds Outstanding shall thereafter be determined, exercised and enforced subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Defeasance of Bonds

Discharge of Indenture. Bonds of any Series or a portion thereof, including the Bonds, may be paid by the Authority in any of the following ways:

(a) by paying or causing to be paid the Bond Obligation of and interest on such Outstanding Bonds, as and when the same become due and Payable;

(b) by depositing with the Trustee, an escrow agent or other fiduciary, in trust, at or before maturity, money or securities in the necessary amount (as discussed below under "Deposit of Money or Securities") to pay or redeem such Outstanding Bonds; or

(c) by delivering to the Trustee, for cancellation by it, such Outstanding Bonds.

If the Authority shall pay all Series for which any Bonds are Outstanding and also pay or cause to be paid all other sums payable under the Indenture by the Authority, then and in that case, at the election of the Authority (evidenced by a Certificate of the Authority, filed with the Trustee, signifying the intention of the Authority to discharge all such indebtedness and the Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the Authority under the Indenture shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon request of the Authority, the Trustee shall cause an accounting of such period or periods as may be requested by the Authority to be prepared and filed with the Authority and shall execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver to the Authority all moneys or securities or other property held by it pursuant to the Indenture which, as evidenced by a verification report, upon which the Trustee may conclusively rely, from a firm of certified public accountants, or other independent consulting firm, are not required for the payment or redemption of Bonds not surrendered for such payment or redemption.

Discharge of Liability on Bonds. Upon the deposit with the Trustee, escrow agent or other fiduciary, in trust, at or before maturity, of money or securities in the necessary amount (as discussed below under "Deposit of Money or Securities") to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the Authority in respect of such Bond shall cease, terminate and be completely discharged, provided that the Owner thereof shall thereafter be entitled to the payment of the principal of and premium, if any, and interest on the Bonds, and the Authority shall remain liable for such payment, but only out of such money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of the indenture regarding any principal, Redemption Price of or interest on the Bonds that remain unclaimed for a period of two years after the principal of all the Bonds has become due and payable, and the continuing duties of the Trustee under the Indenture.

The Authority may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the Authority may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

Deposit of Moneys or Securities. Whenever in the Indenture it is provided or permitted there be deposited with or held in trust money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include moneys or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and shall be:

(a) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or

(b) Investment Securities described in clauses (i), (ii) or (vi) of the definition thereof the principal of and interest on which when due will, in the opinion of an independent certified public accountant delivered to the Trustee (upon which opinion the Trustee may conclusively rely), provide money sufficient to pay the principal or redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or redemption price and interest become due, provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice; provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of the Indenture or by Request of the Authority) to apply such money to the payment of such Principal or Redemption Price and interest with respect to such Bonds.

Transfer and Exchange of Bonds

Use of Depository. So long as the Bonds are registered in book-entry form, Beneficial Owners will not receive certificates representing their ownership interests in the Bonds. Transfers of ownership interests in, and exchanges of, the Bonds will be accomplished by book entries made by DTC and, in turn, by the DTC Participants acting on behalf of the Beneficial Owners. In the event that DTC determines to discontinue providing its services as depository or is removed as depository by the Authority (and there is no successor depository), the Authority shall issue, and the Trustee shall authenticate and deliver, Bonds to the DTC Participants for further delivery to the Beneficial Owners. Thereafter, the Trustee shall maintain a register of the Owners of the Bonds, and transfers and exchanges of Bonds shall be effected as described in this provision.

Transfer of Bonds. Any Bond may, in accordance with its terms, be transferred, upon the register required to be kept by the Trustee, by the person in whose name it is registered, in person or by its duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Trustee.

Whenever any Bond or Bonds shall be surrendered for transfer, the Authority shall execute and the Trustee shall authenticate and deliver a new Bond or Bonds, of the same tenor, maturity and interest rate and for a like aggregate principal amount; provided that no registration or transfer may occur during the period established by the Trustee for selection of Bonds for redemption, or of any Bond or portion of a Bond so selected for redemption. The Trustee shall require the Bondholder requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

Exchange of Bonds. Bonds may be exchanged at the Corporate Trust Office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations or the same series, maturity and interest rate, provided that no exchange may occur during the period established by the Trustee for selection of Bonds for redemption, or of any Bond or portion of a Bond so selected for redemption. The Trustee shall require the Bondholder requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange.

Events of Default and Remedies of Bondholders

Events of Default. Each of the following events constitutes an Event of Default under the Indenture:

(a) default in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise, or default in the redemption from any Sinking Account of any Bonds in the amounts and at the times provided therefor;

(b) default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(c) if the Authority shall fail to observe or perform any covenant, condition, agreement or provision in the Indenture on its part to be observed or performed, other than as referred to in subsection (a) or (b) above, for a period of sixty (60) days after written notice, specifying such failure and requesting that it be remedied, has been given to the District by the Trustee; except that, if such failure can be remedied but not within such sixty (60) day period and if the District has taken all action reasonably possible to remedy such failure within such sixty (60) day period, such failure shall not become an Event of Default for so long as the District shall diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time established by the Trustee;

(d) if any default shall exist under any agreement governing any Parity Debt and such default shall continue beyond the grace period, if any, provided for with respect to such default;

(e) if the Authority files a petition in voluntary bankruptcy, for the composition of its affairs or for its corporate reorganization under any state or federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or admits in writing to its insolvency or inability to pay debts as they mature, or consents in writing to the appointment of a trustee or receiver for itself;

(f) if a court of competent jurisdiction shall enter an order, judgment or decree declaring the Authority insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of the Authority, or approving a petition filed against the Authority seeking reorganization of the Authority under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within 60 days from the date of the entry thereof;

(g) if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Authority or of the Revenues, and such custody or control shall not be terminated within sixty (60) days from the date of assumption of such custody or control; or

(h) if the Legislature of the State shall repeal or amend all or any portion of the provisions of the Act relating to the retail transactions and use tax, being Sections 100250 to 100256, inclusive, of the Public Utilities Code unless the Authority has determined that said repeal or amendment does not materially and adversely affect the rights of Bondholders.

Remedies; Acceleration; Rights of Bondholders. Except as discussed below in this provision, in each and every case during the continuance of an Event of Default, the Trustee or the holders of not less than a majority in aggregate principal amount of the Bonds at the time outstanding shall be entitled, upon notice in writing to the Authority, to declare the principal of all of the Bonds then outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture other than as discussed in this provision or in the Bonds contained to the contrary notwithstanding.

These provisions, however, are subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable because of an Event of Default, the Authority shall pay to or shall deposit with the Trustee a sum sufficient to pay all principal on such Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, and the reasonable expenses of the Trustee, and any and all other defaults known to the Trustee shall have been cured to the satisfaction of the Trustee, or provision deemed by the Trustee to be adequate shall have been made therefor, then, the holders of not less than a majority in aggregate principal amount of the Bonds at the time outstanding, by written notice to the Authority and to the Trustee, may, on behalf of the holders of all the Bonds, rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

These provisions are subject to the further condition that they are only effective, and the remedy of acceleration of the Bonds is only available, during a period when Parity Debt is outstanding, which Parity Debt, pursuant to the terms thereof, is subject to acceleration and payment prior to maturity.

Application of Revenues and Other Funds After Default. If an Event of Default shall occur and be continuing, the Authority shall immediately transfer to the Trustee all Revenues held by it and the Trustee shall apply all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture (except as otherwise provided in the Indenture) as follows and in the following order:

(1) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the Bonds and Parity Debt, including the costs and expenses of the Trustee and the Bondholders in declaring such Event of Default, and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements to its counsel and other agents) incurred in and about the performance of its powers and duties under the Indenture;

(2) To the payment of the whole amount of Bond Obligation then due on the Bonds and Parity Debt (upon presentation of the Bonds and Parity Debt to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture with interest on such Bond Obligation, at the rate or rates of interest borne by the respective Bonds and Parity Debt, to the payment to the persons entitled thereto of all installments of interest then due and the unpaid principal or Redemption Price of any Bonds and Parity Debt which shall have become due, whether at maturity by acceleration or by call for redemption, in the order of their due dates, with interest on the overdue Bond Obligation and Parity Debt at the rate borne by the respective Bonds and Parity Debt, and, if the amount available shall not be sufficient to pay in full all the Bonds and Parity Debt due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or Accreted Value due on such date to the persons entitled thereto, without any discrimination or preference.

Trustee to Represent Bondholders. The Trustee is irrevocably appointed (and the successive respective Owners of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Bonds, the Indenture, the Act and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bondholders, the Trustee in its discretion may, and upon the written request of the Owners of not less than twenty-five percent (25%) in aggregate amount of Bond Obligation of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it shall deem most effective to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power granted in the Indenture, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the Indenture, the Act or any other law, and upon instituting such proceedings the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the revenues and other assets pledged under the Indenture, pending such proceedings. All rights or action under the indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Owners of such Bonds, subject to the provisions of the Indenture.

Bondholders Direction of Proceedings. Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee and upon furnishing the Trustee with indemnification satisfactory to it, to direct the method of conducting all remedial proceedings taken by the Trustee under the Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, that the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee should be unjustly prejudicial to Bondholders or holders of Parity Debt not parties to such direction.

Limitation on Bondholders Right to Sue. No Owner of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Act or any other applicable law with respect to such Bond, unless (1) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default, (2) the Owners of not less than twenty-five percent (25%) in aggregate amount of Bond Obligation or the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted under the Indenture or to institute such suit, action or proceeding in its own name; (3) such Owner or said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (4) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; and (5) the Trustee shall not have received contrary directions from the Owners of an aggregate amount of Bond Obligation of the Bonds then Outstanding in excess of the aggregate amount of Bond Obligation or Bonds owned by the owners making such request.

Such notification, requests, tender of indemnity and refusal or omission are conditions precedent to the exercise by any Owner of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Indenture, the Act or other applicable law with respect to the Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner therein provided and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

Termination of Proceedings. In case any proceedings taken by the Trustee or any one or more Bondholders on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Bondholders, then in every such case the Authority, the Trustee and the Bondholders, subject to any determination in such proceedings, shall be restored to their former positions and rights under the Indenture, severally and respectively, and all rights, remedies, powers and duties of the Authority, the Trustee and the Bondholders shall continue as though no such proceedings had been taken.

Remedies Not Exclusive. No remedy conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given under the Indenture existing at law or in equity or otherwise.

No Waiver of Default. No delay or omission of the Trustee or of any Owner or the Bonds to exercise any right or power arising upon the occurrence of any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by the Indenture to the Trustee or to the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient. No waiver of any Event of Default under the indenture by the Trustee or the Bondholders shall extend to or affect any subsequent Event of Default or impair any rights or remedies consequent thereto.

No waiver of any Event of Default under the Indenture, whether by the Trustee or by the Bondholders, shall extend to or shall affect any subsequent Event of Default or shall impair any rights or remedies consequent thereon.

Insurance Provisions Relating to the 2007 Series A Bonds Added by the Sixth Supplemental Indenture

"Insurance Policy" means the Financial Guaranty Insurance Policy issued by Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company (the "Insurer") insuring the payment when due of the principal of and interest on the 2007 Series A Bonds.

Unless otherwise expressly provided in the Indenture, the Insurer shall be deemed to be the Owner of the 2007 Series A Bonds for the purposes of giving all notices, consents, requests, approvals and directions of the Owners of the 2007 Series A Bonds under the Indenture, including, but not limited to, relating to: (i) execution and delivery of any Supplemental Indenture (excluding certain amendments described in the Indenture); (ii) removal of the Trustee or Paying Agent and selection and appointment of any successor trustee or paying agent; (iii) accelerating the 2007 Series A Bonds, annulling any acceleration, directing and controlling Trustee with respect to the exercise of remedies for 2007 Series A Bondholders and waiving an

Event of Default; and (iv) waiving compliance with any provision of the Indenture granting a right or power to the Insurer.

Notwithstanding anything in the Indenture to the contrary, in the event that the principal and/or interest due on the 2007 Series A Bonds shall be paid by the Insurer pursuant to the Insurance Policy, the 2007 Series A Bonds shall remain Outstanding for all purposes under the Indenture, shall not be considered defeased or otherwise satisfied and not be considered paid by the Issuer, and the pledge of Sales Tax Revenues and all covenants, agreements and other obligations of the Issuer to the registered Owners under the Indenture shall continue to exist and shall run to the benefit of the Insurer, and the Insurer shall be subrogated to the rights of such registered Owners.

To the extent that the Indenture confers upon or gives or grants to the Insurer any right, remedy or claim under or by reason of the Indenture, the Insurer is hereby explicitly recognized as being a third-party beneficiary under the Indenture and may enforce any such right, remedy or claim conferred, given or granted thereunder.

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APPENDIX E

BOOK-ENTRY SYSTEM

THE INFORMATION HEREIN CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE AUTHORITY, THE TRUSTEE AND THE UNDERWRITER BELIEVE TO BE RELIABLE, BUT THE AUTHORITY, THE TRUSTEE AND THE UNDERWRITER TAKE NO RESPONSIBILITY FOR THE ACCURACY THEREOF. THE BENEFICIAL OWNERS SHOULD CONFIRM THE FOLLOWING INFORMATION WITH DTC OR THE DTC PARTICIPANTS (AS DEFINED HEREIN).

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the 2007 Series A Bonds. The 2007 Series A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the 2007 Series A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to die provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation, (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org. The foregoing internet addresses are included for reference only, and the information on these internet sites is not incorporated by reference herein.

Purchases of 2007 Series A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2007 Series A Bonds on DTC's records. The ownership interest of each actual purchaser of each 2007 Series A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2007 Series A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2007 Series A Bonds, except in the event that use of the book-entry system for the 2007 Series A Bonds is discontinued.

To facilitate subsequent transfers, all 2007 Series A Bonds deposited by Direct Participants with DTC are registered in the name of DTCs partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2007 Series A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2007 Series A Bonds: DTC's records reflect only the identity of the Direct Participants to whose accounts such 2007 Series A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners well be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2007 Series A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2007 Series A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the bond documents for the 2007 Series A Bonds. For example, Beneficial Owners of 2007 Series A Bonds may wish to ascertain that the nominee holding the 2007 Series A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners.

Redemption notices shall be sent to DTC. If less than all of the 2007 Series A Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2007 Series A Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2007 Series A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2007 Series A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Trustee, or Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2007 Series A Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered.

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APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this "Disclosure Certificate") is executed and delivered by the Santa Clara Valley Transportation Authority (formerly known as the Santa Clara County Transit District) (the "Authority"), in connection with the issuance of the Authority's $26,275,000 Sales Tax Revenue Refunding Bonds, 2007 Series A (the "Bonds"). The Bonds are being issued pursuant to a resolution adopted by the Board of Directors of the Authority on April 5, 2007, an Indenture, dated as of November 1, 1997 (the "Master Indenture"), between the Authority and U.S. Bank National Association, as successor to First Trust of California, National Association, as trustee (the "Trustee") (the "Trustee") and a Sixth Supplemental Indenture, dated as of May 1, 2007, between the Authority and the Trustee (the "Sixth Supplemental Indenture and, together with the Master Indenture and all other supplements thereto, the "Indenture"). The Bonds are special limited obligations of the Authority payable solely from and secured solely by the Revenues (as defined in the Indenture), consisting primarily of revenues from a sales tax imposed pursuant to the California Transactions and Use Tax Law, being Sections 7251 *et seq.* of the California Revenue and Taxation Code. The Authority covenants and agrees as follows:

SECTION 1. Purpose of this Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Authority for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule (as defined herein).

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Authority pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Disclosure Representative" shall mean the designee of the Authority to act as the Disclosure Representative.

"Dissemination Agent" shall mean an entity selected and retained by the Authority, or any successor thereto selected by the Authority. The initial Dissemination Agent shall be Digital Assurance Certification LLC.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate and any other event legally required to be reported pursuant to the Rule.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth in the SEC website located at *http://www/sec.gov*.

"Participating Underwriter" shall mean any of the original underwriter or underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"Repository" shall mean each National Repository and each State Repository, if any.

"Rule" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of California.

"State Repository" shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission, if any. As of the date of this Disclosure Certificate, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The Authority shall provide to each Repository, or shall cause the Dissemination Agent to provide to each Repository, not later than 210 days after the end of the Authority's fiscal year, commencing with the fiscal year ending June 30, 2007, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to such date, the Authority shall provide the Annual Report to the Dissemination Agent. The Authority shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the Authority hereunder. The Dissemination Agent may conclusively rely upon such certification of the Authority.

(b) If by 15 Business Days prior to the date specified in subsection (a) for providing the Annual Report to the Repositories, the Dissemination Agent has not received a copy of the Annual Report the Dissemination Agent shall contact the Authority to determine if the Authority is in compliance with subsection (a).

(c) If the Authority is unable to provide an Annual Report by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

(ii) (if the Dissemination Agent is other than the Authority), to the extent appropriate information is available to it, file a report with the Authority certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The Authority's Annual Report shall contain or include by reference the following:

(a) The audited financial statements of the Authority for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Authority's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement relating to the Bonds (the "Official Statement"), and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) An update (as of the most recently ended fiscal year of the Authority) for the table entitled "Historical Sales Tax Revenues" set forth in the Official Statement under the caption "THE 1976 SALES TAX - Historical Sales Tax Revenues" and an update of the table entitled "Combined Annual Debt Service Schedule," set forth in the Official Statement under the caption "DEBT SERVICE SCHEDULE," reflecting the debt service requirements of any new Parity Debt (as defined in the Indenture).

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the Authority is an "obligated person" (as defined by the Rule), which have been filed with each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Authority shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Authority shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. modifications to rights of Bondholders;
4. optional, contingent or unscheduled Bond calls;
5. defeasances;
6. rating changes;
7. adverse tax opinions or events affecting the tax-exempt status of the Bonds;
8. unscheduled draws on the debt service reserves, if any, reflecting financial difficulties;
9. unscheduled draws on credit enhancements, if any, reflecting financial difficulties;
10. substitution of credit or liquidity providers, if any, or their failure to perform; and
11. release, substitution, or sale of property, if any, securing repayment of the Bonds.

(b) Whenever the Authority obtains knowledge of the occurrence of a Listed Event, the Authority shall as soon as possible determine if such event would constitute material information for Holders of Bonds.

(c) If the Authority has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Authority shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (d).

(d) If the Dissemination Agent has been instructed by the Authority to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Repository. Notwithstanding the foregoing:

(i) notice of the occurrence of a Listed Event described in subsections (a)(1), (4) or (5) shall be given by the Dissemination Agent unless the Authority gives the Dissemination Agent affirmative instructions not to disclose such occurrence; and

(ii) notice of Listed Events described in subsections (a)(4) and (5) shall not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the Holders of affected Bonds pursuant to the Indenture.

SECTION 6. Termination of Reporting Obligation. The obligations of the Authority and the Dissemination Agent under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Authority shall give notice of such termination in the same manner as for a Listed Event under Section 5(f) hereof.

SECTION 7. Dissemination Agent. The Authority may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign at any time by providing at least 30 days' notice in writing to the Authority. Notwithstanding any other provision to this Disclosure Certificate to the contrary, the Authority may provide any Annual Report to Beneficial Owners by means of posting such Annual Report on an internet site that provides open access to Beneficial Owners.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Authority may amend this Disclosure Certificate, provided no amendment increasing or affecting the obligations or duties of the Dissemination Agent shall be made without the consent of such party, and any provision of this Disclosure Certificate may be waived if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to the Authority and the Dissemination Agent to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Authority from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Authority chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Certificate, the Authority shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the Authority to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions, as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Authority to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the Authority to comply with this Disclosure Certificate shall be an action to compel performance. The Authority hereby represents and warrants that it is currently not in default under any other continuing disclosure arrangement entered into in connection with the Rule.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Authority agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their respective powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Authority for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the Authority, the Bondholders, or any other party. The obligations of the Authority under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Authority, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 13. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Dated: __________, 2007

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

By: ____________________________________

Its: ____________________________________

DIGITAL ASSURANCE CERTIFICATION LLC, as Dissemination Agent

By: ____________________________________
Digital Assurance Certification LLC

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Santa Clara Valley Transportation Authority

Name of Bond Issue: $26,275,000 Sales Tax Revenue Refunding Bonds, 2007 Series A

Date of Issuance: May 1, 2007

NOTICE IS HEREBY GIVEN that the Santa Clara Valley Transportation Authority (the "Authority") has not provided an Annual Report with respect to the above-named Bonds as required by that certain Indenture, dated as of November 1, 1997, by and between the Authority and U.S. Bank National Association, as supplemented. The Authority anticipates that the Annual Report will be filed by ______________.

Dated: ______________________

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

By: ____

Its: _______________________________________

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APPENDIX G

FORM OF BOND COUNSEL OPINION

[Date of Delivery]

Santa Clara Valley Transportation Authority
3331 North First Street, Building C
San Jose, California 95134

$26,275,000
Santa Clara Valley Transportation Authority
Sales Tax Revenue Refunding Bonds
2007 Series A

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance of $26,275,000 aggregate principal amount of Sales Tax Revenue Refunding Bonds, 2007 Series A (the "2007 Series A Bonds") issued by the Santa Clara Valley Transportation Authority (the "Authority"), the successor to the Santa Clara County Transit District (the "District"), duly organized and existing under the Santa Clara County Transportation Authority Act, being Part 12 of Division 10 of the Public Utilities Code of the State of California (Sections 100000 *et seq.*) (the "Act").

The 2007 Series A Bonds are being issued pursuant to the Act (and the provisions of the Revenue Bond Law of 1941, being Section 54300 *et seq.* of the California Government Code as referenced in the Act), an Indenture, dated as of November 1, 1997 (the "Original Indenture"), by and between the Authority, as successor to the District, and U.S. Bank National Association, as successor to First Trust of California, National Association, as trustee (the "Trustee") and a Sixth Supplemental Indenture, dated as of May 1, 2007 (the "Sixth Supplemental Indenture"), by and between the Authority and the Trustee. The Original Indenture is also amended and supplemented by the First Supplemental Indenture, dated November 1, 1997, the Second Supplemental Indenture, dated as of May 1, 2001, the Third Supplemental Indenture, dated as of November 1, 2003, the Fourth Supplemental Indenture, dated as of July 1, 2005, and the Fifth Supplemental Indenture, dated as of June 1, 2005, each between the Authority and the Trustee and, together with the Sixth Supplemental Indenture, collectively referred to herein the "Indenture." The 2007 Series A Bonds are being issued to refund certain maturities of the Santa Clara County Transit District Sales Tax Revenue Refunding Bonds, 1997 Series A.

The 2007 Series A Bonds are limited obligations of the Authority secured under the Indenture by a pledge of sales tax revenues (the "Sales Tax Revenues") derived from a one-half of one percent retail transactions and use tax (the "1976 Sales Tax"), imposed in accordance with the Act and the California Transactions and Use Tax Law (Revenue and Taxation Code Section 7251 *et seq.*), less certain administrative fees paid to the California State Board of Equalization in connection with the collection and disbursement of the 1976 Sales Tax, approved by the electorate of the County of Santa Clara in October 1976. The 2007 Series A Bonds are further secured by a pledge of certain amounts held by the Trustee under the Indenture.

As Bond Counsel, we have examined copies certified to us as being true and complete copies of the proceedings of the Authority in connection with the issuance of the 2007 Series A Bonds. We have also examined such certificates of officers of the Authority and others as we have considered necessary for the purposes of this opinion.

Based upon the foregoing, we are of the opinion that:

1. The 2007 Series A Bonds constitute valid and binding limited obligations of the Authority as provided in the Indenture, and are entitled to the benefits of the Indenture. The 2007 Series A Bonds are payable from Sales Tax Revenues and the pledge of certain amounts held by the Trustee under the Indenture.

2. The Indenture has been duly and validly authorized, executed and delivered by the Authority and, assuming the enforceability thereof against the Trustee, constitutes the legally valid and binding obligation of the Authority, enforceable against the Authority in accordance with its terms. The Indenture creates a valid pledge, to secure the payment of principal of and interest on the 2007 Series A Bonds, of the Sales Tax Revenues and other amounts held by the Trustee in certain funds and accounts established pursuant to the Indenture, subject to the provisions of the Indenture permitting the application thereof for other purposes and on the terms and conditions set forth therein.

3. The Internal Revenue Code of 1986 (the "Code") imposes certain requirements that must be met subsequent to the issuance and delivery of the 2007 Series A Bonds for interest thereon to be and remain excluded from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause the interest on the 2007 Series A Bonds to be included in gross income retroactive to the date of issue of the 2007 Series A Bonds. The Authority has covenanted in the Indenture to maintain the exclusion of interest on the 2007 Series A Bonds from the gross income of the owners thereof for federal income tax purposes.

In our opinion, under existing law, interest on 2007 Series A Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the aforementioned covenant, interest on the 2007 Series A Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes.

We are further of the opinion that under existing statutes, regulations, rulings and court decisions, the Bonds are not "specified private activity bonds" within the meaning of section 57(a)(5) of the Code and, therefore, interest on the 2007 Series A Bonds will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. The receipt or accrual of interest on 2007 Series A Bonds owned by a corporation may affect the computation of the alternative minimum taxable income, upon which the alternative minimum tax is imposed, to the extent that such interest is taken into account in determining the adjusted current earnings of that corporation (75 percent of the excess, if any, of such adjusted current earnings over the alternative minimum taxable income being an adjustment to alternative minimum taxable income (determined without regard to such adjustment or to the alternative tax net operating loss deduction)).

Except as stated in the preceding three paragraphs, we express no opinion as to any federal or state tax consequences of the ownership or disposition of the 2007 Series A Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the 2007 Series A Bonds, or the interest thereon, if any action is taken with respect to the 2007 Series A Bonds or the proceeds thereof predicated or permitted upon the advice or approval of other bond counsel.

The opinions expressed in paragraphs 1 and 2 above are qualified to the extent the enforceability of the 2007 Series A Bonds and the Indenture may be limited by applicable bankruptcy, insolvency, debt adjustment, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally or as to the availability of any particular remedy. The enforceability of the 2007 Series A Bonds and the Indenture is subject to the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing, to the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law, and to the limitations on legal remedies against governmental entities in California.

No opinion is expressed herein on the accuracy, completeness or fairness of the Official Statement or other offering material relating to the 2007 Series A Bonds.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Respectfully submitted,

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APPENDIX H

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

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Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor: Policy Number:

Obligations: Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Robert J. Genader
President

AMBAC ASSURANCE CORPORATION
CORPORATE
SEAL
WISCONSIN

Anne G. Gill
Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed
to perform the duties of Insurance Trustee under this Policy.

Authorized Officer of Insurance Trustee

Form No.: 2B-0012 (1/01)

Ambac

Ambac Assurance Corporation
One State Street Plaza,
New York, New York 10004
Telephone: (212) 668-0340

Endorsement

Policy for:

Attached to and forming part of Policy No.:

Effective Date of Endorsement:

In the event that Ambac Assurance Corporation were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Ambac Assurance Corporation

President

AMBAC ASSURANCE CORPORATION CORPORATE SEAL WISCONSIN

Secretary

Authorized Representative

Form No.: 2B-0004 (7/97)

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SANTA CLARA VALLEY TRANSPORTATION AUTHORITY • SALES TAX REVENUE REFUNDING BONDS 2007 SERIES A

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