

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Comprehensive Annual Financial Report

FISCAL YEAR 2008

Renewed
Customer
Focus



Projects
Delivered



Community
Involvement



Building
Partnerships



Increasing
Ridership

For Fiscal Year Ended June 30, 2008
Santa Clara County, California



Santa Clara Valley Transportation Authority

Comprehensive Annual Financial Report

For Fiscal Year Ended June 30, 2008



Paratransit services offer alternatives for seniors and persons with disabilities



VIA's rapid bus service has increased ridership on a heavily traveled corridor



Low-floor light rail vehicles and retrofitted platforms provide fast, level boarding for all riders



Elevator at the Hamilton Light Rail Station



Bicycle paths provide another transportation option



River Oaks Bicycle/Pedestrian Bridge



1996 Measure B U.S. 101 Widening Highway Project



Newly opened SR 152/156 flyover provides increased safety and congestion relief



**SANTA CLARA VALLEY
TRANSPORTATION AUTHORITY**

SAN JOSE, CALIFORNIA

Comprehensive Annual Financial Report (CAFR)

For Fiscal Year Ended June 30, 2008

Prepared by:
Fiscal Resources Division

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Comprehensive Annual Financial Report
For the Year Ended June 30, 2008

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

Santa Clara Valley
Transportation Authority
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

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



Charles S. Cox

President

Jeffrey R. Emery

Executive Director

SECTION 1 - INTRODUCTION

LETTER OF TRANSMITTAL

BOARD OF DIRECTORS

ORGANIZATIONAL CHARTS

PRINCIPAL OFFICIALS

SERVICE AREA MAP



LETTER OF TRANSMITTAL



November 7, 2008

Board of Directors
Santa Clara Valley Transportation Authority

Subject: Comprehensive Annual Financial Report

It is a pleasure to submit to you the Comprehensive Annual Financial Report (CAFR) of the Santa Clara Valley Transportation Authority (VTA) for the year ended June 30, 2008. The CAFR was prepared in accordance with the guidelines recommended by the Government Finance Officers Association of the United States and Canada (GFOA). Responsibility for the accuracy, completeness, and fairness of the data and the clarity of the presentation, including all disclosures, rests with VTA. To the best of our knowledge, the enclosed data is reported in a manner designed to present fairly, in all material respects, VTA's financial position, changes in financial position, and cash flows, when applicable, in accordance with the requirements of accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB).

Vavrinek, Trine, Day & Company LLP, a firm of licensed Certified Public Accountants, has audited the financial statements. The goal of the audit is to obtain a reasonable assurance that the financial statements are free of material misstatements. Vavrinek, Trine, Day & Company concluded, based on the audit, that there was a reasonable basis for rendering an unqualified opinion for the fiscal year ended June 30, 2008, and that the financial statements are fairly presented in conformity with generally accepted accounting principles (GAAP). The independent auditor's report is presented as the first component of the financial section of this report.

In addition, Vavrinek, Trine, Day & Company also conducts the federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing the Single Audit require the independent auditor to report on the fair presentation of the financial statements, agency's internal controls and compliance with legal requirements.

REPORTING ENTITY

VTA is an independent public agency responsible for bus and light rail operations in Santa Clara County (County), regional commuter and inter-city rail service, Americans with Disabilities Act (ADA) paratransit service, congestion management, specific highway improvement, and other transportation projects, as well as countywide

transportation planning and funding. A map showing VTA's bus and rail transit service area is set forth on page 1-12. VTA 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 VTA's Board of Directors. Effective January 1, 1995, pursuant to State of California (State) legislation, VTA has operated under a separate Board of Directors composed of County and city representatives. On January 1, 2000, pursuant to the State legislation, VTA's name was officially changed from the Santa Clara County Transit District.

VTA 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. The allocation of Board representation is generally based on population.

ECONOMIC ENVIRONMENT

The largest county in the San Francisco Bay Area, Santa Clara County measures approximately 1,316 square miles. According to California's Department of Finance, the County is home to more than 1.8 million persons and, by 2020, is projected to total almost 2 million residents. The County is a major employment center for the region, providing more than a quarter of all jobs in the San Francisco Bay Area region. Northwestern Santa Clara County is part of an area known as the Silicon Valley, an industry region located around the southern shores of San Francisco Bay. The name was derived from a dense concentration of electronic and computer companies located there.

The local economy started to slow down since late 2007. The unemployment rate in the County averaged 6% in June 2008, up sharply from 4.8% a year ago. During the same period, the State's unemployment rate was 6.9%. Contributing to this slowdown is a downturn in the housing industry as well as recent increases in energy, food, and raw material costs. The Santa Clara County economy has not been immune to the subprime loan crisis, issues related to credit crunch, and failure of financial institutions across the country. The loan crisis has seriously impacted the housing industry as foreclosures and inventories of unsold homes hit record highs. The consensus economic opinion now believes that the Silicon Valley economy will go through challenging periods as venture capital money to start-up companies dries up and make borrowing more difficult and expensive to meet the operating and capital needs of local high-tech firms. The global financial crisis will also have a negative impact on the State's export activities.

The State has its own financial challenges which have and will continue to negatively impact transit agencies. The long delayed but recently adopted State budget had mixed news for VTA. Whereas the State ultimately decided not to use Prop 42 funds which were fully funded for FY2009, the State redirected more than \$1.7 billion from the Public Transportation Account, resulting in a loss of over \$26 million to VTA. Although VTA did not count on this funding for its day-to-day operations, the loss of these funds will impact our facilities upgrade and equipment replacement capital program, and eliminate any options for increasing service.

At the local level, reduced home building, home sales, and auto sales contributed to a slowdown in taxable sales. As a result of the economic slow-down, VTA is experiencing flat growth in sales tax revenues – its largest source of funding for operating and capital needs. Sales tax revenues are trending below budget by roughly 8-9%, while fuel costs have been higher than projected. VTA will continue to take steps to exercise fiscal discipline and manage this revenue shortfall through diligent cost control and enhanced operating efficiencies. Nevertheless, it is likely that VTA will continue to face ongoing challenges, including flat sales tax receipts, higher fuel costs, as well as the turmoil and volatility in the financial markets.

CURRENT YEAR FINANCIAL HIGHLIGHTS

The following presents supplemental information to the MD&A, providing comparative financial data for VTA’s Enterprise Fund for FY2008 and FY2007.

Enterprise Fund	FY2008 (\$000)	FY2007 (\$000)	Change	
			Amount (\$000)	%
Operating Revenues	\$ 38,053	\$ 37,876	\$ 177	0.5%
Operating Expenses	(355,179)	(355,873)	694	-0.2%
Sales Tax- 1976 Half-Cent	163,038	163,676	(638)	-0.4%
Sales Tax- 2000 Measure A Half-Cent	160,537	161,361	(824)	-0.5%
Federal and State Operating Grants	126,505	140,431	(13,926)	-9.9%
Investment and Other Income	23,893	12,651	11,242	88.9%
Other Non-Operating Expenses	(52,862)	(42,304)	(10,558)	25.0%
Transfer from Internal Service Fund	-	50,000	(50,000)	N/A
Capital Contributions	153,443	199,999	(46,556)	-23.3%
Change in Net Assets⁽¹⁾	257,428	367,817	(110,389)	30.0%
Net assets, beginning of year	2,370,056	2,002,239	367,817	
Net assets, end of year	\$ 2,627,484	\$ 2,370,056	\$ 257,428	10.9%

⁽¹⁾ The amount consists primarily of 2000 Measure A Half-Cent Sales Tax which is designated for capital.

As reflected above, Enterprise Fund net assets increased \$257.4 million in FY2008 to \$2.6 billion. Of the total increase, \$229.2 million belonged to the 2000 Measure A Transit Improvement Program which can only be expended on projects included on the 2000 Measure A ballot approved by the voters. The change in net assets was \$110.4 million lower than FY2007 - mainly due to a one-time transfer of \$50 million in the prior

year from the Workers' Compensation Internal Service Fund based on the actuarial valuation study as of June 30, 2007, and lower capital contributions in the current year of \$46.6 million from the State related to the Silicon Valley Rapid Transit (SVRT) project. In FY2007, VTA was awarded a \$365 million grant from the State for the SVRT project and VTA billed \$200 million during that year. VTA's largest revenue sources for operating and capital funding – 1976 Half-Cent Sales Tax and 2000 Measure A Half-Cent Sales Tax, were almost flat compared to FY2007 levels reflecting a slowdown of taxable activity in the County. Operating expenses in FY2008 were also flat compared to prior year due mainly to savings generated from vacant positions, and lower premiums for the workers' compensation self-insurance program.

Total FY2008 net assets are comprised of the following (in thousands):

• Invested in capital assets, net of related debt	\$2,056,769
• Restricted for debt service	22,281
• Restricted for 1996 Measure B Projects	2,283
• Restricted for 2000 Measure A Projects	117,200
• Designated for local share of capital projects	158,479
• Designated for capital projects	553
• Designated for debt reduction	182,710
• Operating reserve	54,630
• Inventory, prepaid expenses, and issuance costs	32,579
Total Net Assets	<u>\$2,627,484</u>

FINANCIAL POLICIES

Internal Control

VTA management is responsible for establishing and maintaining an internal control system designed to ensure that its assets are protected from loss, theft or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP). The internal control system is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of control should not exceed benefits likely to be derived from its implementation. The valuation of costs and benefits requires estimates and judgments by management. VTA's management believes its internal controls are adequate.

Basis of Accounting

The VTA's accounting records are maintained on accrual and modified accrual basis of accounting. The activities are reported through the use of a fund accounting system.

Budgetary Control

The biennial operating and capital budget is proposed by VTA management and adopted by the Board of Directors after public discussion. The budget consists of five funds: the Transit Enterprise Fund, the Congestion Management Program Fund, the Congestion Management Program Highway Improvement Fund, the 2000 Measure A Transit

Improvement Fund, and the 1996 Measure B Transportation Improvement Program Fund. The General Manager may reallocate appropriations within each fund to the limit of each fund's annual appropriation. Any net increase in authorized appropriations to any fund shall require an affirmative vote of at least eight Directors.

Budgetary appropriation control is maintained at the fund level. Division Chiefs may authorize budget transfers between cost centers within that division. The Department Cost Center Managers are responsible for controlling their budgets and monitoring expenses. VTA also maintains an encumbrance accounting system for budgetary control. Unexpended operating appropriations lapse at the end of the fiscal year. The unexpended capital budget at fiscal year-end is carried forward from year to year until the capital project is completed and officially closed or is canceled.

Operating Reserve Policies

The VTA Board has established an operating reserve goal of 15% of budgeted operating expenses in the Transit Enterprise Fund. To calculate the actual reserve at the fiscal year end, total unrestricted current assets are reduced by total unrestricted current liabilities to determine current net assets. Current net assets are then reduced by the fiscal year-end inventory balance to calculate the operating reserve balance. During the last four fiscal years, VTA's operating reserve met or surpassed its targeted reserve goals. The detailed calculation and information on the operating reserve is shown on page 3-7.

Management's Discussion and Analysis (MD&A)

GASB Statement Number 34 requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis. This letter of transmittal is designed to complement the MD&A beginning on page 2-3 and should be read in conjunction with it.

Cash and Investment Management Policies and Practices

VTA's cash and investments are managed in accordance with California Government Code Section 53601 and other applicable State law. The Restricted and Unrestricted Investment Policy is periodically reviewed by staff and approved by the Board of Directors when changed or modified. The Investment Policy defines permitted investments and prescribes investment strategies. The investment strategies are expressed through asset allocation ranges and targets. Risk tolerance and performance expectations are defined by benchmark indices. VTA contracts with professional money managers to manage its investment portfolio and their performance is overseen by VTA staff.

The VTA/ATU Pension Plan (Pension Plan) Investment Policy functions like the Restricted/Unrestricted Investment Policy, with the notable exception that Pension Plan Trustees review and approve the policy (pursuant to California State Proposition 162 enacted in November 1992). The Pension Plan is a defined benefit plan and its financial position and changes in financial position are reported in separately issued stand-alone financial statements. The Plan's asset allocations are reviewed relative to the targets on a monthly basis and action is taken to rebalance within the target ranges by means of asset

transfers among categories. When necessary and/or available, cash inflows/outflows are managed in a manner consistent with the strategic asset allocation..

Risk Management

VTA is exposed to various risks of loss related to tort claims, theft, damage and destruction of VTA asset and property, errors and omissions, injuries to employees and the public and natural disasters. A combination of self-insurance and commercial coverage is used by VTA to manage its risks. Further details on the types and amounts of coverage are addressed in Note 16 in the Notes to the Basic Financial Statements.

Pension and Other Post-Employment Benefits

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

There are three health benefits programs for employees who retire directly from VTA as follows:

- ATU Medical Trust which includes a Spousal Medical Trust and Retiree Vision and Dental Trust
- ATU Retiree Health Care Program
- Non-ATU Retiree Health Care Program

MAJOR INITIATIVES

Hay Group Organizational and Financial Assessment

In 2006, VTA initiated a management assessment to evaluate its performance and identify opportunities for improvement. In March 2007, the Hay Group, a Philadelphia-based management consulting firm, released its report on the Organizational and Financial Assessment of VTA (the "Assessment"). Among other things, the Assessment concluded that VTA suffered from weaknesses in financial management processes and policies, including those relating to internal audit functions, cash management, and budgeting and expenditure controls. The Assessment also made a number of specific organizational and financial management recommendations.

In response to the Assessment, VTA's General Manager announced a transformation program that included an interim Chief Financial Officer to address the financial management recommendations and a management consultant to address

recommendations in the areas of governance and organization. The General Manager also announced changes to the VTA organizational structure that clearly defined roles and responsibilities, realigned functions and positions, and assured an appropriate segregation of duties.

In 2008, VTA recruited a new Chief Financial Officer, Mr. Joseph T. Smith, who is responsible for carrying forward the improvements in financial management policies and procedures. VTA's transformation team has addressed many of the organizational recommendations, and is moving to implement changes in the governance area. The General Manager continues to report to the Board on the transformation program.

The Assessment is not a financial audit, and the Hay Group's methodology was not intended or designed to comply with generally accepted government auditing standards. The Assessment makes no claims of material weaknesses as defined by government auditing standards. At no time have the VTA's present independent auditors, Vavrinek, Trine, Day & Co., LLP, or any of its former independent auditors advised VTA of the existence of any material weaknesses in VTA's internal controls over financial reporting or any other significant deficiencies that the auditors would be required to report to VTA's Board pursuant to generally accepted government auditing standards.

Comprehensive Operations Analysis

VTA recently conducted a comprehensive 18-month study of its entire bus system. The Comprehensive Operations Analysis (COA) evaluated VTA bus route structure and performance and analyzed the market conditions for public transit in Santa Clara County. VTA's New Bus Service Plan was developed based on this analysis with the goal of targeting market opportunities, creating service efficiencies, and increasing customer convenience. The VTA Board approved the COA proposal for New Bus Service in August 2007. VTA's New Bus Service started in January 2008. VTA's transformed bus service structure, which affects over 90 percent of bus routes, includes an increased service frequency of 15 minutes or better on core routes, enhanced Express Bus service in target markets, and 11 new Community Bus routes. These changes also include the elimination or reduction of under-utilized bus routes. VTA's implementation included an elaborate outreach campaign to provide information on the New Bus Service to its customers.

California State Audit

In 2008, the California Bureau of State Audits (BSA) conducted an audit of VTA's governance structure, fiscal management, and project planning and monitoring. The audit was requested by members of the California assembly, and built on the Hay Group report by following up on their findings and on VTA's efforts to implement those recommendations.

The BSA issued its report, titled *Santa Clara Valley Transportation Authority: It Has Made Several Improvements in Recent Years, but Changes Are Still Needed*, in July 2008. In general, the BSA report validates the recommendations of the Assessment and recognizes the progress VTA has made in implementing those recommendations. The

BSA report outlines its own set of recommendations in the areas of governance, financial management, and project planning and monitoring.

The results of the BSA audit were presented to the Board, along with VTA's action plan to address each recommendation. In September 2008, VTA submitted its 60-day report to BSA indicating the progress made to date to address the recommendations. VTA will submit its next response after six months, and again in one year, at which time the action plan should be completed.

AWARDS AND ACKNOWLEDGEMENTS

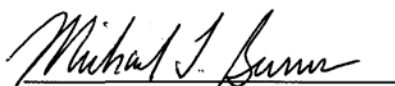
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to VTA for its FY2007 Comprehensive Annual Financial Report. This was the 12th consecutive year that VTA achieved this prestigious award.

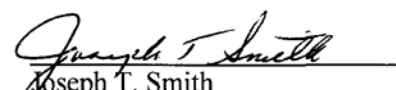
In order to receive the prestigious award, a government agency must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

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

The preparation of this CAFR required a concerted team effort throughout VTA, including staff from General Accounting, Capital and Revenue Accounting, Disbursements, Revenue Services, Contracts and Purchasing, Risk Management, Budget and Analysis, Investment Services, and Finance Department. The Copy Center and the Marketing and Customer Service Departments also made significant contributions to the form, content, and production of the report. The team members demonstrated a commendable degree of personal dedication and determination in producing this document.

In addition, special thanks to Vavrinek, Trine, Day & Company LLP, for their contribution, as well as all other VTA staff for responding positively and promptly to the request for information that occurs with each annual audit.


Michael T. Burns
General Manager


Joseph T. Smith
Chief Financial Officer

**2008 VTA
BOARD OF DIRECTORS**

VTA is an independent special district governed by its own Board of Directors. The Board consists of 12 voting members, 5 alternates, and 2 exofficio members, all of whom are elected officials appointed to serve on the Board by the jurisdictions they represent. Board membership is based on population as follows:

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

The Board of Directors meet normally on the first Thursday of each month.

Liz Kniss, Chairperson Dolly Sandoval, ViceChairperson	
GROUP 1 City of San Jose Nora Campos Sam Liccardo Nancy Pyle Chuck Reed Forrest Williams David Cortese, Alt.	GROUP 2 City of Los Altos David Casas Town of Los Altos Hills City of Mountain View City of Palo Alto Yoriko Kishimoto City of Santa Clara Dominic Caserta City of Sunnyvale Chris Moylan, Alt.
GROUP 3 City of Campbell City of Cupertino Dolly Sandoval Town of Los Gatos City of Monte Sereno City of Saratoga Chuck Page, Alt.	GROUP 4 City of Gilroy City of Milpitas Bob Livengood, Alt. City of Morgan Hill Greg Sellers
GROUP 5 County of Santa Clara Don Gage Liz Kniss Pete McHugh, Alt.	GROUP 6 ExOfficio Ken Yeager Metropolitan Dean J. Chu Transportation Commission

VTA BOARD OF DIRECTORS STANDING COMMITTEES

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

VTA BOARD OF DIRECTORS ADVISORY COMMITTEES

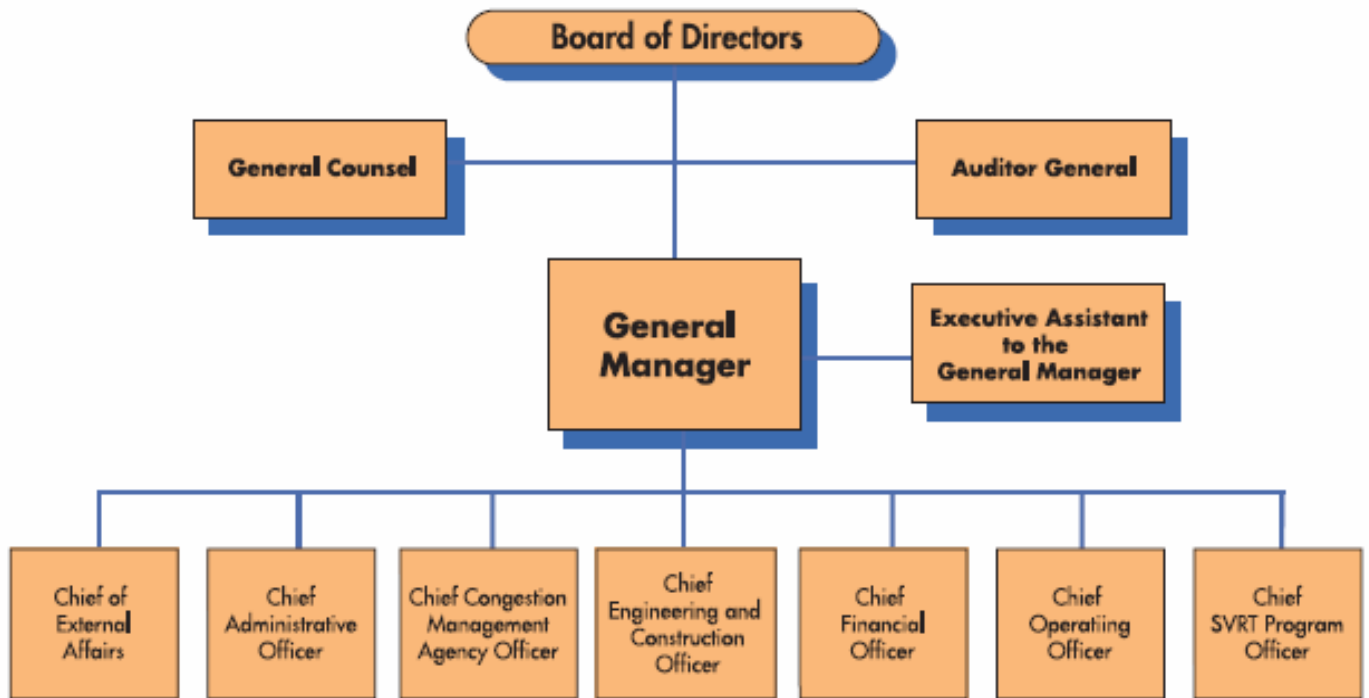
1. Committee for Transit Accessibility (CTA)
2. Citizens Advisory Committee (CAC)
3. Bicycle and Pedestrian Advisory Committee (BPAC)
4. Technical Advisory Committee (TAC)
5. Policy Advisory Committee (PAC)

VTA BOARD OF DIRECTORS POLICY ADVISORY BOARDS

1. Downtown East Valley Policy Advisory Board
2. Silicon Valley Rapid Transit Corridor and BART Warm Springs Extension Policy Advisory Board

Santa Clara Valley Transportation Authority

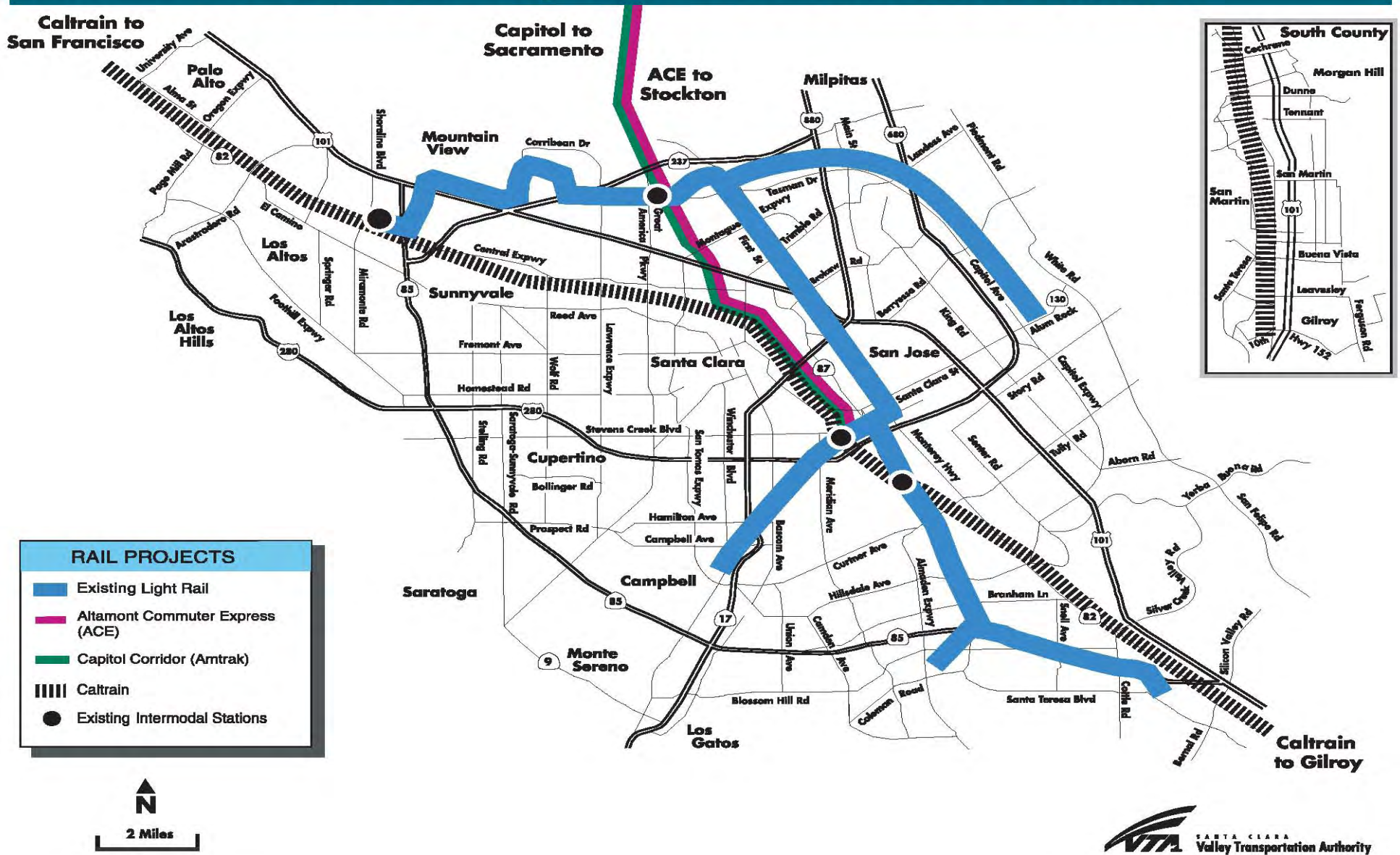
As of June 30, 2008



Principal Officials as of June 30, 2008

General Manager	Michael T. Burns
Executive Assistant to the General Manager	Ann Carey
General Counsel	Kevin D Allmand – Acting
Auditor General	Vacant
Chief of External Affairs	Greta Helm
Chief Administrative Officer	Bill Lopez
Chief Congestion Management Agency Officer	John Ristow
Chief Engineering and Construction Officer	Mark Robinson – Acting
Chief Financial Officer	Joseph T. Smith
Chief Operating Officer	Donald (Dan) Smith
Chief SVRT Program Officer	Carolyn Gonot

Santa Clara County Bus and Rail Transit Service Area



SECTION 2 – FINANCIAL SECTION

INDEPENDENT AUDITOR’S REPORT

MANAGEMENT’S DISCUSSION AND ANALYSIS (Required Supplementary Information)

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- ◆ Combining Statement of Changes in Fiduciary Assets and Liabilities – Agency Funds



INDEPENDENT AUDITOR'S REPORT



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, 2008, 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 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, 2008, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2008, 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.

As discussed in the Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 45 for the year ended June 30, 2008.

The management's discussion and analysis, the schedules of funding progress and the budgetary comparison schedules on pages 2-3 through 2-17 and pages 2-80 through 2-84 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. We have previously audited, in accordance with auditing standards generally accepted in the United States, the VTA's basic financial statements for the year ended June 30, 2007, which are not presented with the accompanying financial statements. In our report dated November 24, 2007, we expressed unqualified opinions on the respective financial statements of the business-type activities, governmental activities, each major fund and the aggregate remaining fund information. In our opinion, the 2007 supplementary information are fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2007. 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.

Vawrinek Time Day + Co. LLP

Palo Alto, California
November 7, 2008



**MANAGEMENT'S DISCUSSION AND
ANALYSIS
(Required Supplementary Information)**

Management's Discussion and Analysis

This Section of the CAFR presents a narrative overview and analysis of the financial activities of VTA for FY2008. Please read this document in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

Financial Highlights

- As of June 30, 2008, VTA's assets exceeded liabilities by approximately \$2.6 billion. Business-type activity (Transit Operations) and governmental activity (Congestion Management and Highway Capital Programs) net assets were approximately \$2.6 billion and \$1.5 million, respectively. Of the \$2.6 billion in net assets, approximately \$2.1 billion was invested in capital assets net of related debt which is associated with VTA's capital expansion program.
- Enterprise Fund operating revenues mainly from passenger fares were \$38.1 million, an increase of \$177 thousand or 0.5% percent compared to FY2007.
- As of June 30, 2008, VTA has total outstanding bonds in the amount of \$662 million compared to \$746 million the previous fiscal year. In FY2008, VTA redeemed \$54.7 million of 2006 Series E Revenue Bonds. In addition, VTA issued \$120.1 million of 2007 Measure A Sales Tax Revenue Bonds. The proceeds along with \$13 million debt service reserve funds plus bond premium amount were used to refund \$137.8 million Series F and G of VTA's 2006 Measure A Sales Tax Revenue Bonds.
- In FY2008, VTA Transit Fund net assets increased by \$15.1 million.
- In FY2008, VTA Measure A Fund net assets increased \$229.2 million to a total of \$546.2 million. Included in this amount is \$125 million of VTA share of local capital projects and \$117 million restricted for Measure A Transit Improvement Program.
- The 1976 Sales Tax revenues decreased \$0.6 million or 0.4% to \$163 million in FY2008 compared to FY2007 resulting from a small decline in taxable sales in the County.
- The 2000 Measure A Sales Tax revenues were \$160.5 million in FY2008, a decline of 0.5% or \$0.8 million compared to the prior fiscal year.
- Subsequent to June 30, 2008, VTA redeemed \$26.5 million of 1985A Equipment Trust Certificates using its debt reduction fund (see Note 22 - Subsequent Events).

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.

- 1) **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, increase or decrease in net assets may serve as a useful indicator of whether VTA's financial position is improving or deteriorating.

The *Statement of Activities* presents information showing changes in VTA's net assets 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. The business-type activity of VTA is transit, which includes bus and light rail operations and capital project activity. 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.

- 2) **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.

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 major governmental funds to account for the financial activities of VTA's Congestion Management Program, the Congestion Management Highway Capital Project programs, and the 1996 Measure B Highway Capital Project programs.

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, and Compensated Absences are accounted for in the internal service fund. VTA uses the enterprise fund to account for its transit operation and capital activities, the 1996 Measure B Transit projects, and the 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, the Retirees’ Other Post Employment Benefits (OPEB) Trust, Medical Trust, and the Retiree Vision and Dental Trust are accounted for in the retiree 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.

- 3) **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.

Other information. In addition to the basic financial statements and notes, *required supplementary information* is presented as required by GAAP. 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.

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 reports a \$162.7 million increase in net assets (page 2-18 and 19). The increase was mainly in the Business-Type activities as the Government-type activities experienced only a \$29 thousand increase in net assets. The business-type net asset increase was primarily due to Measure A sales tax receipts and capital grants related to the SVRT project as the capital expenditures were lower compared to the revenue receipts. During FY2008, VTA acquired or built total capital assets of approximately \$210.9 million (Note 6 – Capital Assets). These capital assets were funded by a variety of sources such as federal and state grants, and local funding.

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

	Proprietary Funds ⁽¹⁾		Governmental Funds ⁽²⁾		Total	
	2008	2007	2008	2007	2008	2007
Assets:						
Current and other assets	\$742,363	\$769,674	\$34,249	\$34,549	\$776,612	\$804,223
Capital assets, net	2,705,917	2,563,565	-	-	2,705,917	2,563,565
Total assets	3,448,280	3,333,239	34,249	34,549	3,482,529	3,367,788
Liabilities:						
Current liabilities	114,156	136,812	32,754	33,083	146,910	169,895
Long-term liabilities	696,743	721,736	-	-	696,743	721,736
Total liabilities	810,899	858,548	32,754	33,083	843,653	891,631
Net Assets:						
Invested in capital assets, net of related debt	2,056,769	1,888,879	-	-	2,056,769	1,888,879
Restricted	141,764	353,186	-	-	141,764	353,186
Designated	438,848	-	-	-	438,848	-
Unrestricted	-	232,626	1,495	1,466	1,495	234,092
Total Net assets	\$2,637,381	\$2,474,691	\$1,495	\$1,466	\$2,638,876	\$2,476,157

⁽¹⁾ includes Enterprise and Internal Service Funds

⁽²⁾ includes Special Revenue and Capital Project Funds

The largest portion of VTA's net assets (approximately 78%) 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. The restricted assets represent mainly the funds set-aside for the Measure A Transit Improvement Program and debt service payments with the bond trustees. The designated categories include funds set aside by Board policies and actions for such purposes as local share of capital projects, VTA transit operating reserve, and debt reduction reserve, and for workers' compensation and liability claims. The unrestricted net assets are available for appropriation with Board approval. The details of net assets categories are shown on page 2-21.

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

	Proprietary Funds		Governmental Funds		Total	
	2008	2007	2008	2007	2008	2007
Expenses:						
Operations and operating projects	344,469	321,059	6,450	6,528	350,919	327,587
Caltrain subsidy & capital contribution	34,747	22,509	-	-	34,747	22,509
Altamont Commuter Express subsidy	2,621	2,542	-	-	2,621	2,542
Interest Expense	12,214	13,672	-	-	12,214	13,672
Other non-operating expenses	3,280	4,636	-	-	3,280	4,636
Benefit payments	10,513	14,285	-	-	10,513	14,285
Capital projects for the benefit of other agencies	-	-	43,798	45,806	43,798	45,806
Total Expenses	407,844	378,703	50,248	52,334	458,092	431,037
Program Revenues:						
Charges for services	38,053	37,876	2,475	2,397	40,528	40,273
Operating grants	126,505	140,431	2,193	1,023	128,698	141,454
Capital grants	153,443	199,999	45,109	48,180	198,552	248,179
Total program revenues	318,001	378,306	49,777	51,600	367,778	429,906
Net program revenues	(89,843)	(397)	(471)	(734)	(90,314)	(1,131)
General Revenues:						
Sales tax revenue	323,575	325,037	-	-	323,575	325,037
Investment income	22,511	27,288	349	267	22,860	27,555
Other income	3,523	1,347	151	3	3,674	1,350
Total general revenues	349,609	353,672	500	270	350,109	353,942
Special items:						
Transfers	(101,738)	-	-	-	(101,738)	-
Change in provisions for workers' compensation claims	4,662	23,769	-	-	4,662	23,769
Change in net assets	162,690	377,044	29	(464)	162,719	376,580
Net assets beginning of year	2,474,691	2,097,647	1,466	1,930	2,476,157	2,099,577
Net assets, end of year	\$ 2,637,381	\$ 2,474,691	\$ 1,495	\$ 1,466	\$ 2,638,876	\$ 2,476,157

Proprietary Funds. Total net assets were \$2.6 billion in FY2008, an increase of \$162.7 million compared to FY2007. Net program revenues (total expenses minus program revenues) were \$89.8 million negative during FY2008 compared to a negative amount of \$397 thousand in FY2007. The decrease in net program revenues was mainly due to higher operating expenses and lower operating grants and capital contributions from other agencies related to the SVRT project in the current year compared to the prior year. In addition, there was a one-time transfer of \$101.7 million from Proprietary Funds to the OPEB Trust with the implementation of GASB Statement 45. In FY2008, the OPEB Trust is reported in the Retiree Trust Fund whereas it was reported as part of Internal Service Funds in FY2007.

A detailed analysis of major revenue and expenditure accounts is included in the following section.

**Comparison of
Proprietary Funds Revenue
FY 2008 and FY 2007**
(In thousands)

<u>Proprietary Funds Revenue</u>	<u>2008</u>	<u>2007</u>	<u>Amount</u>	<u>Percent</u>
Charges for services	\$ 38,053	\$ 37,876	\$ 177	0.5%
Operating grants	126,505	140,431	(13,926)	-9.9%
Capital grants	153,443	199,999	(46,556)	-23.3%
1976 half-cent sales tax	163,038	163,676	(638)	-0.4%
2000 Measure A half-cent sales tax	160,537	161,361	(824)	-0.5%
Investment earnings	22,511	27,288	(4,777)	-17.5%
Other income including special item (excluding transfers to OPEB Trust)	8,185	25,116	(16,931)	-67.4%
TOTAL	<u>\$ 672,272</u>	<u>\$ 755,747</u>	<u>\$ (83,475)</u>	<u>-11.0%</u>

Charges for Services

Charges for services, derived from bus fare box receipts, light rail ticket sales, the sale of monthly passes (including ECO Pass and tokens) and advertisement income were \$38.1 million in FY2008, \$177 thousand or 0.5% higher compared to FY2007. The FY2008 bus ridership was 33.1 million with \$27.2 million in farebox revenues. Ridership rose 4.6% from previous year but the farebox revenues did not significantly increase as VTA implemented fare reductions for their youth, seniors and disabled patrons to boost ridership. Light rail ridership was 10.5 million with farebox revenues of \$8.6 million. The ridership gains of 1.7% were mainly on the Vasona light rail extension. Shuttle revenues from contracted services of \$2.3 million decreased in FY2008 as VTA brought most of the shuttle operation in-house with the acquisition of additional community buses.

Operating Grants

Operating grants include California Transportation Development Act (TDA), State Transit Assistance (STA) funding, Federal Section 5307 Urbanized Formula Program Grants, State vehicle license fees (AB434), and federal planning grants. In FY2008, total operating grants decreased \$13.9 million or 9.9% to \$126.5 million.

TDA funds are derived from a quarter-cent sales tax levied by the State of California on taxable transactions occurring in the County. The Metropolitan Transportation Commission (MTC) retains a portion of these funds for administration and approximately 94.5% is returned to the source county (i.e., Santa Clara). After sales tax, TDA revenues are VTA's second largest source of revenue for operations. For FY2008, the actual TDA receipts were \$83.5 million, reflecting a \$2.5 million or 3.1% growth over prior fiscal year.

STA funds are derived from the State sales tax on gasoline and diesel fuel. STA apportionments are made to regional transportation planning agencies (MTC in the Bay Area Region) based on a formula that allocates 50% of the funds according to population and 50% according to the transit operator's qualified revenues in the region from the

prior fiscal year. STA funds also include spillover funds apportioned by the State to transit agencies. FY2008 STA revenues were \$19 million, \$3.3 million or 14.8% lower than FY2007 which included approximately \$12.1 million of one-time revenue representing a repayment of Proposition 42 loans diverted by the State in FY2004 and FY2005.

Federal Section 5307 allows eligible recipients to claim capital grant funds for maintenance costs and other projects such as routine bus replacements. Grant applicants may apply for FTA grants in an amount up to 80% of annual vehicle maintenance costs. The funds are reflected in the financial statements as Federal Operating Assistance. Currently, VTA treats a portion of its bus maintenance costs for revenue and non-revenue vehicles as eligible expenditures. For FY2008, total grant revenues under this program were \$22.4 million which were \$13.1 million or 36.9% below FY2007 as VTA elected to apply more grant award funds to its capital programs in FY 2008.

Capital Grants

Capital grants include Federal Section 5309 capital grants, various State transit grants, capital contribution from local agencies, and reimbursements received by VTA for capital expenses undertaken on behalf of other agencies. In FY2008, total capital grants decreased \$46.6 million or 23.3% to \$153.4 million. This was primarily due to lower grant revenues from State for Transit Congestion Relief Program (TCRP) to fund the SVRT project which will extend the BART service to the Silicon Valley. The 5309 grant receipts increased \$10.1 million in FY2008 compared to FY2007.

1976 Half-Cent Sales Tax Revenues

The 1976 Sales Tax is VTA's single largest source of revenue for operations. The State Board of Equalization (SBOE) collects the 1976 Sales Tax for VTA. The 1976 Sales Tax Revenues pay the operating expenses, and capital expenditures where state or federal capital assistance programs require that the recipient of assistance contribute locally derived revenue. Even though sales tax receipts have increased each of the last 4 years, FY2008 actual receipt of \$163 million was \$0.6 million or 0.4% less than prior year.

2000 Measure A Half-Cent Sales Tax Revenues

The 2000 Measure A Sales Tax is collected by the SBOE for VTA in the same manner as the 1976 Measure B Sales Tax. The collection of this half-cent sales tax revenue started after the expiration of 1996 Half-Cent Measure B Sales Tax on March 31, 2006. FY2008 revenues of \$160.5 million were \$0.8 million or 0.5% less than prior year. The 2000 Sales Tax revenues are restricted for projects and operational activities included on the 2000 Measure A ballot.

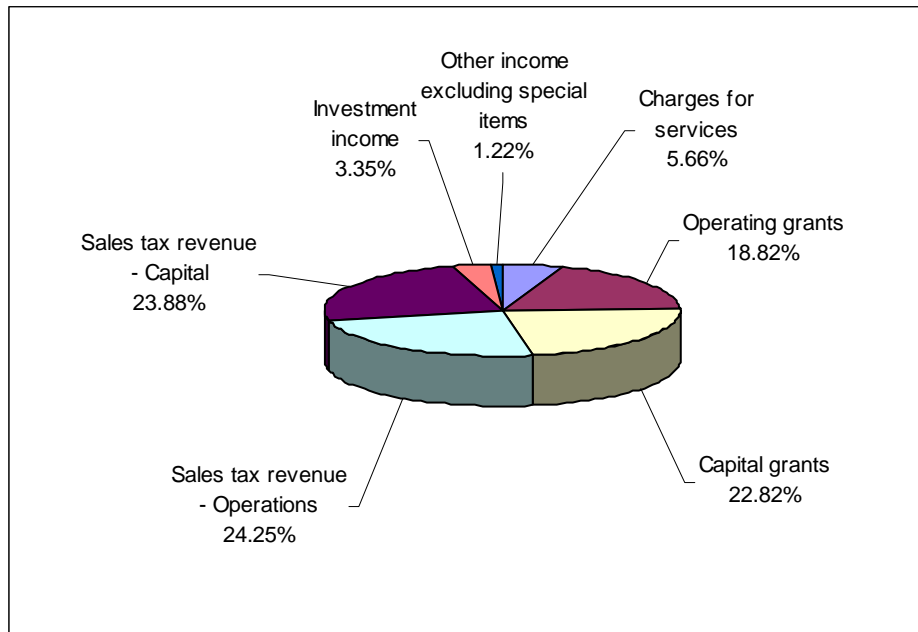
Investment Earnings

Investment earnings decreased \$4.8 million or 17.5% compared to FY2007 mainly due to change in reporting of the Retiree Medical Program as part of the OPEB Trust to comply with GASB Statement 45. In FY2007, they were reported as part of Proprietary Funds.

Other Income including Special Items

Other income of \$8.2 million excludes the one-time transfer \$101.7 million in FY2008 from Proprietary Funds to the OPEB Trust with the implementation of GASB Statement 45. However, it includes a special item of \$4.7 million related to change in estimate for provision of workers' compensation claims liability in the Internal Service Funds. The change was based on the actuarial valuation report for the VTA's workers' compensation self-insurance program as of June 30, 2008. In FY2007, the special item was \$23.8 million which is the primary reason for the lower amount of Other Income including Special Items reported in FY2008.

Revenues By Source – Proprietary Funds



**Comparison of
Proprietary Funds Expenses
for FY2008 and FY2007
(In thousands)**

Proprietary Funds Expenses	Change			
	2008	2007	Amount	Percent
Operations and Operating Projects	\$ 344,469	\$ 321,059	\$ 23,410	7.3%
Caltrain and ACE Subsidy	18,037	17,779	258	1.5%
Capital Contribution to/or Expenses, On-Behalf of Other Agencies	19,331	7,272	12,059	165.8%
Interest Expense	12,214	13,672	(1,458)	-10.7%
Other Non-Operating Expenses	3,280	4,636	(1,356)	-29.2%
Benefit Payments	10,513	14,285	(3,772)	-26.4%
TOTALS	\$ 407,844	\$ 378,703	\$ 29,141	7.7%

Total expenses for Proprietary Funds increased \$29.1 million or 7.7% in FY2008 which are discussed in detail below:

Operations and Operating Projects

Operations and operating project expenses are incurred for labor, support services, contracted services, insurance, purchased transportation and other overhead costs related to bus and light rail operations, services, and support programs. For FY2008, they were \$23.4 million or 7.3% million higher than in FY2007. Even though wages were \$5.3 million or 4.2% higher in FY2008, they were offset by lower benefit costs due to a decrease in workers' compensation self-insurance costs. The overall expenses for material and supplies (mainly due to diesel fuel), services, depreciation, and casualty insurance expenses were higher compared to FY2007.

Caltrain and ACE Subsidy

As a member agency of Peninsula Corridor Joint Powers Board (PCJPB), VTA contributes a portion of Caltrain operating and maintenance costs for commuter train service from Santa Clara County to San Francisco. Operating subsidy to Caltrain increased \$179 thousand in the current fiscal year. VTA also provides subsidy to ACE commuter rail service which totaled \$2.6 million in FY2008. The amount was \$79 thousand higher than FY2007. The increases were based on the joint-power agreements with these agencies.

Capital Expenses to/or On-Behalf of Other Agencies

As a part of its capital program, VTA makes capital contribution to or undertakes capital projects jointly with other agencies. As the ownership of these capital projects does not rest with VTA, these capital expenses are reported as non-operating expenses on its financial statements. In FY2008, total capital contributions and expenses increased \$12.1 million compared to FY2007. The increases were mainly due to \$8.4 million swap payment to CM&HP fund and joint capital projects with Santa Clara Valley Water District and Alameda County Transportation Improvement Agency related to SVRT project. VTA was partially reimbursed for these capital expenses by other agencies which are reported as capital grants.

Interest Expenses

Bond interest expense was \$1.5 million lower in FY2008 as VTA had less debt outstanding with the payoff of principal amount in FY2007.

Other Non-Operating Expenses

Other non-operating expenses were \$1.4 million lower in FY2008 compared to the prior fiscal year. Major reason for the decrease was investment expenses for the retiree medical program which were reported as Other Non-Operating Expenses in FY2007. In FY2008, the retiree medical program is reported as OPEB Trust with the implementation of GASB Statement Number 45.

Benefit Payments

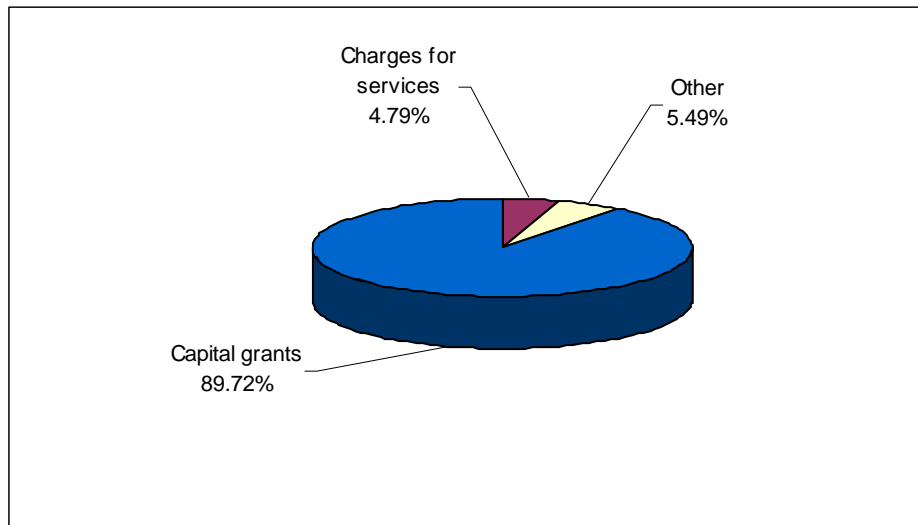
Benefit payments in FY2008 were also lower than FY2007 as the retiree medical benefit costs are now reported in OPEB Trust. With the implementation of GASB Statement 45,

VTA has created a trust fund in FY2008 to account for this program. In FY2007, this program was part of internal service fund and reported in the Proprietary funds.

Governmental Funds. Total net assets for the governmental funds increased \$29 thousand in FY2008, with an ending balance of \$1.5 million. Major changes from prior year were as follows:

- Capital grants and expenses were \$3.1 million and \$2.1 million lower, respectively with the completion of major highway projects.
- Federal, State grants and administrative fees combined increased \$1.2 million in FY2008 for the Congestion Management Program.

Revenues By Source - Governmental Funds



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 where:

- (a) 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) 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) the pricing policies of the activity establish fees and charges designated to recover its costs, including capital costs (such as depreciation or debt service).

A Comparative Statement of Revenues, Expenses, and Changes in Fund Net Assets is included on page 2-87 of this report. For FY2008, operating revenues were \$38.1 million, up \$177 thousand or 0.5% compared to FY2007. Fares from transit services increased \$0.6 million or 1.7% from prior fiscal year as a result of higher ridership. Total operating expenses in FY2008 were lower from FY2007 by \$0.7 million or 0.2%. Labor costs were \$3 million lower as a number of positions remained vacant as well along with a reduction in workers' compensation self-insurance costs. Total labor and non-labor overhead allocation to capital programs increased \$4.5 million in FY2008 thereby reducing the operating costs. The only significant increase from FY2007 was for depreciation expense which increased by \$2.3 million as more capital projects were completed and put into revenue service.

FY2008 net non-operating revenues were \$421 million, \$14.7 million or 3.4% lower compared to FY2007. Major negative changes were – \$1.5 million lower sales tax revenues and \$13.1 million decrease in federal operating assistance grants. With the continuing downturn in the local economy, the taxable sales activity is projected to remain sluggish which will result in a sales tax revenue shortfall for VTA. Offsetting the negative changes were – an increase of \$9.1 million in investment earnings mainly due to a larger investment portfolio especially for Measure A funds, a \$2.2 million increase in other income mainly as a result of one-time Swap agreement amendment payments with the re-financing of 2005 Bonds, and \$1.3 million contributed by other categories. In non-operating expenses, the capital expenses on behalf of/contribution to other agencies increased \$12.1 million. Capital contributions from other governmental agencies were \$46.6 million less in FY2008 primarily due to lower TCRP grant funding for the SVRT project.

Total FY2008 Enterprise Fund net assets were \$2.6 billion, an increase of \$257.4 million over the FY2007 net assets. Of the total net asset increase, the \$229.2 million was related to the 2000 Measure A Transit Improvement Program. VTA accounts for the 2000 Measure A Sales Tax Capital Program as part of its Enterprise Fund. Even though the 2000 Measure A program revenues and related capital expenses are reported as part of Enterprise Fund financial statements, they are restricted for capital programs and operating activities included in the 2000 Measure A Ballot. VTA reports total net assets by reserved and designated categories to comply with various legal requirements and board designations. For FY2008, the details of net assets are reported on Statement of Fund Net Assets on pages 2-20 and 2-21.

Internal service fund. VTA maintains an Internal Service Fund to account for the activities related to Workers' Compensation, General Liability, and Compensated Absences programs. The cost of these activities are accounted for in this fund and then charged to other VTA funds. As of June 30, 2008, total net assets for this fund were \$9.9 million, a decrease of \$94.7 million from prior fiscal year. In FY2008, VTA transferred net assets related to the Retiree Medical Program from internal service fund to the OPEB Trust to comply with GASB Statement 45.

Governmental funds. The focus of VTA’s governmental funds is to provide information on near-term inflows, outflows, and balances of expendable 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 fund types – *Special Revenue Fund* and *Capital Project Fund*.

Special revenue fund. This fund accounts for the activities of the Congestion Management Program. The table below shows the details of changes in net assets between the current and prior fiscal year:

**Comparison of
Special Revenue Fund
FY 2008 and FY 2007**
(In thousands)

<u>Special Revenues Fund</u>	<u>FY2008</u> <u>(\$000)</u>	<u>FY2007</u> <u>(\$000)</u>	<u>Change</u> <u>Amount</u> <u>(\$000)</u>	<u>Change</u> <u>%</u>
Member agency assessments	\$ 2,410	\$ 2,329	\$ 81	3.5%
Federal grants	1,102	794	308	38.8%
Administrative fees	65	68	(3)	-4.4%
State operating assistance	1,091	229	862	376.4%
Other revenues	151	3	148	4933.3%
Investment earnings	122	134	(12)	-9.0%
Salaries and benefits	(3,337)	(3,093)	(244)	7.9%
Services	(770)	(888)	118	-13.3%
Capital outlay	(805)	(40)	(765)	1912.5%
Change in Net Assets	<u>29</u>	<u>(464)</u>	<u>493</u>	<u>106.3%</u>
Net assets, beginning of year	<u>1,466</u>	<u>1,930</u>	<u>(464)</u>	
Net assets, end of year	<u>\$ 1,495</u>	<u>\$ 1,466</u>	<u>\$ 29</u>	<u>2.0%</u>

Total fund revenues, which mainly include member assessments and grants, were \$4.9 million in FY2008, \$1.4 million higher than prior year. The increase was due to higher federal and State grants received in FY2008 compared to FY2007. Total expenses were \$4.9 million, an increase of \$0.9 million and mainly due to higher salaries/benefit costs and capital outlays. The ending fund balance was \$1.5 million.

Capital project fund. This fund accounts for VTA’s two major capital programs – Congestion Management Highway Program and Measure B Highway Program. The table below shows the details of changes in net assets between the current and prior fiscal year:

**Comparison of
Capital Project Funds
FY 2008 and FY 2007**
(In thousands)

Capital Projects Funds	FY2008 (\$000)	FY2007 (\$000)	Change Amount (\$000)	Change %
Local grant revenues	\$ 45,109	\$ 48,180	\$ (3,071)	-6.4%
Investment earnings	227	133	94	70.7%
Salaries and benefits	(2,343)	(2,547)	204	-8.0%
Capital outlay	(42,993)	(45,766)	2,773	-6.1%
Change in Net Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

As of June 30, 2008, total revenues were \$45.3 million which represents the total amount expended on the projects during the fiscal year and billed to other governmental agencies. The investment earnings were \$94 thousand higher in FY2008 as a result of higher portfolio balances available for investment mainly in the Measure B Highway Capital Project Fund. The salaries and benefit costs were \$204 thousand less in FY2008 due to decrease in spending on capital projects. There is no fund balance in these funds.

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 \$2.7 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, Leasehold Improvements, and Other Operating Equipment. During FY2008, VTA expended \$210.9 million on capital programs. Of this amount, \$187 million was related to the Measure A Transit Improvement Program.

Capital Assets
(Net of Accumulated Depreciation)

	2008	2007
Land and Right-of-Way	\$1,118,212	\$ 1,118,577
Construction in Progress	639,708	488,192
Buildings & Improvements		
Equipment & Furniture	307,605	296,358
Vehicles	319,913	328,636
Caltrain-Gilroy Extension	43,367	44,558
Light Rail Tracks/Electrification	260,882	276,538
Other Operating Equipment	6,807	8,537
Other	9,423	2,169
Total	\$2,705,917	\$ 2,563,565

Additional information on VTA’s capital assets can be found in Note 6 – Capital Assets.

Long-term debt. At year-end, VTA had \$662 million in bonds and certificates outstanding (net of premiums and discounts) versus \$746 million in FY2007 – a decrease of \$84 million. In FY2008, VTA issued \$525.4 million of refunding revenue bonds. The refunding bond proceeds were used to payoff \$168.6 million of 2005 Series A-C Bonds (secured by 1976 Half-Cent Sales Tax revenues) and \$428.4 million 2006 Series A-G Bonds (secured by the 2000 Measure A Sales Tax revenues).

Outstanding Debt
Proprietary Funds
(In thousands)

	2008	2007
Jr. Lien Sales Tax Revenue Bonds	\$ 72,730	\$ 75,260
Sr. Lien Sales Tax Revenue Bonds (1976 Tax)	206,870	212,955
Sr. Lien Sales Tax Revenue Bonds (2000 Tax)	356,825	428,375
Equipment Trust Certificates	26,500	29,200
Total	\$ 662,925	\$ 745,790

VTA redeemed \$26.5 million of 1985 Equipment Trust Certificates in FY2009. More information on this transaction is included in Note 22 – Subsequent Events.

VTA maintains uninsured ratings of “AAA” from Standard & Poor’s (S&P), “AA-” rating from Fitch, and a “Aa3” rating from Moody’s for its Senior Lien Sales Revenue Bonds secured by 1976 sales tax revenues.

The ratings for Sales Tax Revenue Bonds secured by the 2000 Measure A sales tax are “Aa3” from Moody’s and “AA+” from S&P. The 2007 A Measure A bonds have insured ratings of AA and Aa3 from S&P and Moody’s, respectively with underlying (insured) ratings of AA+/Aa3.

The Equipment Trust Certificates have a long-term rating of AAA from S&P, and short-term rating of Aa3 from Moody's.

Additional information on VTA's long-term debt can be found in Note 7 – Long-Term Liabilities.

Economic Factors

The local economy started to slow down since late 2007. The unemployment rate in the County averaged 6% in June 2008, up sharply from 4.8% a year ago. The State's unemployment rate was 6.9% during the same period. Contributing to this slowdown is a downturn in the housing industry as well as recent increases in energy, food, and raw material costs. The Santa Clara County economy has not been immune to the subprime loan crisis, issues related to credit crunch, and failure of financial institutions across the country. The loan crisis has seriously impacted the housing industry as foreclosures and inventories of un-sold homes hit record highs. The consensus economic opinion now believes that the Silicon Valley economy will go through challenging periods as venture capital money to start-up companies dries-up and tough credit markets slow down the flow of operating and capital resources of local high-tech firms. The global financial crisis will also have negative impact on the State's export activities.

The State has its own financial challenges which have and will continue to negatively impact transit agencies. The long delayed but recently adopted State budget had mixed news for VTA. Whereas the State ultimately decided not to use Prop 42 funds which were fully funded for FY2009, the State redirected more than \$1.7 billion from the Public Transportation Account, resulting in a loss of over \$26 million to VTA. Although VTA did not count on this funding for its day-to-day operations, the loss of these funds will impact our facilities upgrade and equipment replacement capital program, and eliminate any options for increasing service.

At the local level, reduced home building, home sales, and auto sales contributed to a taxable sales growth. As a result of the economic slow-down, VTA is experiencing flat growth in sales tax revenues – its largest source of funding for operating and capital needs. Sales tax revenues are trending below budget by roughly 8-9%, while fuel costs have been higher than projected. VTA will continue to take steps to exercise fiscal discipline and manage this revenue shortfall through diligent cost control and enhanced operating efficiencies. Nevertheless, it is likely that VTA will continue to face ongoing challenges including flat sales tax receipts, higher fuel costs, as well as the turmoil and volatility in the financial markets.

Requests for Information

Please address all questions or requests for additional information to the Fiscal Resources Division, Attention: Chief Financial Officer, Santa Clara Valley Transportation Authority, 3331 North First Street Building C, Second Floor, San Jose, CA 95134-1927.



BASIC FINANCIAL STATEMENTS

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Statement of Net Assets

For the Year Ended June 30, 2008

(In thousands)

	<u>Business-Type Activity</u>	<u>Governmental Activity</u>	<u>Total</u>
ASSETS			
Cash and investments	\$84,218	\$3,100	\$87,318
Receivables, net	3,145	-	3,145
Internal balances	570	(570)	-
Due from fiduciary funds	-	52	52
Due from other governmental agencies	75,167	217	75,384
Inventories	19,944	-	19,944
Other current assets	847	10	857
<i>Restricted assets:</i>			
Cash and investments	466,595	19,471	486,066
Receivables, net	-	5	5
Due from other funds	-	-	-
Due from other governmental agencies	80,062	11,394	91,456
Other current assets	5	-	5
Deferred charges	11,788	-	11,788
<i>Capital assets:</i>			
Nondepreciable	1,757,920	-	1,757,920
Depreciable, net of accumulated depreciation	947,997	-	947,997
Total assets	<u>3,448,258</u>	<u>33,679</u>	<u>3,481,937</u>
LIABILITIES			
Accounts payable	19,859	179	20,038
Other accrued liabilities	10,389	600	10,989
Due to other governmental agencies	2,915	1,105	4,020
<i>Liabilities payable from restricted assets:</i>			
Accounts payable	21,639	6,629	28,268
Due to other funds	-	-	-
Other accrued liabilities	4,845	-	4,845
Due to other government agencies	35,929	23,671	59,600
<i>Long-term liabilities:</i>			
Due within one year	18,692	-	18,692
Due in more than one year	696,609	-	696,609
Total liabilities	<u>810,877</u>	<u>32,184</u>	<u>843,061</u>
NET ASSETS	<u>2,637,381</u>	<u>1,495</u>	<u>2,638,876</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Statement of Activities

For the Year Ended June 30, 2008

(In thousands)

	<u>Business-Type Activity</u>	<u>Governmental Activity</u>	<u>Total</u>
Expenses:			
Operations, support services, and CMP program	\$ 344,469	\$ 6,450	\$ 350,919
Caltrain subsidy & capital expenditures on behalf of, and contribution to other agencies	34,747	-	34,747
Altamont Commuter Express subsidy	2,621	-	2,621
Interest expense	12,214	-	12,214
Other non-operating expenses	3,280	-	3,280
Benefit payments	10,513	-	10,513
Capital expenditures	-	43,798	43,798
Total Expenses	<u>407,844</u>	<u>50,248</u>	<u>458,092</u>
Program Revenues:			
Charges for services	38,053	2,475	40,528
Operating grants	126,505	2,193	128,698
Capital grants	153,443	45,109	198,552
Total Program Revenues	<u>318,001</u>	<u>49,777</u>	<u>367,778</u>
Net Program Revenues (Expenses)	<u>(89,843)</u>	<u>(471)</u>	<u>(90,314)</u>
General Revenues:			
Sales tax revenue	323,575	-	323,575
Investment income	22,511	349	22,860
Other income	3,523	151	3,674
Total General Revenues	<u>349,609</u>	<u>500</u>	<u>350,109</u>
Transfers and Special Item:			
Transfers ⁽¹⁾	(101,738)	-	(101,738)
Change in provisions for workers' compensation, general liability and compensated absences claims	4,662	-	4,662
Change in net assets	<u>162,690</u>	<u>29</u>	<u>162,719</u>
Net assets beginning of year	<u>2,474,691</u>	<u>1,466</u>	<u>2,476,157</u>
Net assets, end of year	<u>\$ 2,637,381</u>	<u>\$ 1,495</u>	<u>\$ 2,638,876</u>

⁽¹⁾Transfer to OPEB Trust.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2008
(In thousands)

	Enterprise Funds				Internal Service Fund
	VTA Transit Fund	Measure B Transit Fund	Measure A Transit Fund	Total Enterprise Fund	
<u>ASSETS</u>					
<i>Current assets:</i>					
Cash and Cash Equivalents	\$ 2,831	\$ -	\$ -	\$ 2,831	\$ -
Investments	17,848	-	-	17,848	63,539
Receivables, Net	3,145	-	-	3,145	-
Due From Other Funds	592	-	-	592	-
Due From Other Governmental Agencies	75,167	-	-	75,167	-
Inventories	19,944	-	-	19,944	-
Other Current Assets	847	-	-	847	-
<i>Restricted Assets</i>					
Cash and Cash Equivalents	-	20,119	-	20,119	-
Cash and Cash Equivalents with Fiscal Agent	19,015	-	4,980	23,995	-
Investments	147,969	-	274,512	422,481	-
Due From Other Governmental Agencies	-	-	80,062	80,062	-
Other Current Assets	-	-	5	5	-
TOTAL CURRENT ASSETS	<u>287,358</u>	<u>20,119</u>	<u>359,559</u>	<u>667,036</u>	<u>63,539</u>
<i>Noncurrent Assets:</i>					
Deferred Charges	2,006	-	9,782	11,788	-
<i>Capital Assets – Non-Depreciable</i>					
Land and Right of Way	1,118,212	-	-	1,118,212	-
Construction in Progress	36,691	10,207	592,810	639,708	-
<i>Capital Assets - Depreciable:</i>					
CalTrain - Gilroy Extension	53,155	-	-	53,155	-
Buildings, Improvements, Furniture, and Fixtures	487,116	-	-	487,116	-
Vehicles	462,027	-	-	462,027	-
Light-Rail Tracks and Electrification	399,824	-	-	399,824	-
Leasehold Improvements	9,686	-	-	9,686	-
Other	30,084	-	-	30,084	-
Less Accumulated Depreciation	(493,895)	-	-	(493,895)	-
<i>Net Capital Assets</i>	<u>2,102,900</u>	<u>10,207</u>	<u>592,810</u>	<u>2,705,917</u>	<u>-</u>
TOTAL NONCURRENT ASSETS	<u>2,104,906</u>	<u>10,207</u>	<u>602,592</u>	<u>2,717,705</u>	<u>-</u>
TOTAL ASSETS	<u>2,392,264</u>	<u>30,326</u>	<u>962,151</u>	<u>3,384,741</u>	<u>63,539</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Fund Net Assets (Continued)
Proprietary Funds
For the Year Ended June 30, 2008
(In thousands)

	Enterprise Funds				Internal Service Fund
	VTA Transit Fund	Measure B Transit Fund	Measure A Transit Fund	Total Enterprise Fund	
<u>LIABILITIES</u>					
<i>Current Liabilities:</i>					
Current Portion of Long-Term Debt	11,790	-	-	11,790	-
Accounts Payable	19,859	-	-	19,859	-
Other Accrued Liabilities	10,389	-	-	10,389	6,047
Due to Other Funds	-	-	-	-	-
Due to Other Governmental Agencies	2,915	-	-	2,915	-
Liabilities Payable from Restricted Assets:					
Current Portion of Long-Term Debt	-	-	855	855	-
Accounts Payable	1,161	1,778	18,700	21,639	-
Other Accrued Liabilities	-	-	4,711	4,711	-
Due to Other Funds	-	22	-	22	-
Due to Other Governmental Agencies	-	16,036	19,893	35,929	-
TOTAL CURRENT LIABILITIES	46,114	17,836	44,159	108,109	6,047
<i>Non-Current Liabilities</i>					
Long-Term Debt, Excluding Current Portion	277,198	-	371,816	649,014	-
Other Accrued Liabilities	134	-	-	134	47,595
TOTAL NON-CURRENT LIABILITIES	277,332	-	371,816	649,148	47,595
TOTAL LIABILITIES	323,446	17,836	415,975	757,257	53,642
<u>NET ASSETS</u>					
Invested in Capital Assets, Net of Related Debt	1,825,568	10,207	220,994	2,056,769	-
<i>Restricted:</i>					
Debt Service	17,301	-	4,980	22,281	-
2000 Measure A Projects	-	-	117,200	117,200	-
1996 Measure B Projects	-	2,283	-	2,283	-
<i>Designated:</i>					
Inventory, Prepaid Expenses, and Issuance Cost	22,797	-	9,782	32,579	-
Local Share of Capital Projects	33,525	-	124,954	158,479	-
Capital Projects	553	-	-	553	-
Debt Reduction	114,444	-	68,266	182,710	-
Operating Reserve	54,630	-	-	54,630	-
Workers' Compensation Claims	-	-	-	-	9,897
TOTAL NET ASSETS	\$ 2,068,818	\$ 12,490	\$ 546,176	\$ 2,627,484	\$ 9,897

Reconciliation of the Statement of Net Assets to the Statement of Fund Net Assets:

Net Assets of Enterprise Fund	\$ 2,627,484
Net Assets of Internal Service Fund, which benefits Business-type Activity	9,897
Net Assets (page 2-18)	<u>\$ 2,637,381</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2008
(In thousands)

	VTA Transit	Measure B Transit	Measure A Transit	Total Enterprise	Internal Service Fund
<u>OPERATING REVENUES:</u>					
Passenger fares	\$ 35,830	\$ -	\$ -	\$ 35,830	\$ -
Advertising and other	2,223	-	-	2,223	-
Charges for services	-	-	-	-	13,224
Total Operating Revenues	38,053	-	-	38,053	13,224
<u>OPERATING EXPENSE:</u>					
Labor cost	240,154	-	-	240,154	-
Materials and supplies	31,395	-	118	31,513	-
Services	25,572	-	1,526	27,098	-
Utilities	6,867	-	-	6,867	-
Casualty and liability	5,278	-	-	5,278	-
Purchased transportation	28,392	-	-	28,392	-
Leases and rentals	420	-	-	420	-
Miscellaneous	1,856	-	-	1,856	2,514
Depreciation expense	53,292	-	-	53,292	-
Costs allocated to capital and other programs	(39,691)	-	-	(39,691)	-
Benefit payments	-	-	-	-	10,513
Total operating expense	353,535	-	1,644	355,179	13,027
Operating income/(loss)	(315,482)	-	(1,644)	(317,126)	197
<u>NON-OPERATING REVENUES (EXPENSES):</u>					
Sales tax revenue	163,038	-	160,537	323,575	-
Measure A operating assistance	29,630	-	(29,630)	-	-
Federal operating assistance grants	22,425	-	-	22,425	-
State and local operating assistance grants	104,080	-	-	104,080	-
CalTrain subsidy	(15,416)	-	-	(15,416)	-
Capital expenditure on behalf of, and contribution to other Agencies	(4,550)	-	(14,781)	(19,331)	-
Altamont Commuter Express subsidy	(2,621)	-	-	(2,621)	-
Investment earnings	8,628	-	11,742	20,370	2,141
Interest expense	(12,214)	-	-	(12,214)	-
Measure A repayment obligations	12,886	-	(12,886)	-	-
Other income	3,143	4	376	3,523	-
Other expense	(2,758)	(522)	-	(3,280)	-
Non-operating revenues, net	306,271	(518)	115,358	421,111	2,141
Income(loss) before capital contributions, transfers and special item	(9,211)	(518)	113,714	103,985	2,338
CAPITAL CONTRIBUTIONS	24,296	13,676	115,471	153,443	-
TRANSFERS	-	-	-	-	(101,738)
Change in estimates for provision of workers' compensation, general liability, and compensated absences claims	-	-	-	-	4,662
Change in net assets	15,085	13,158	229,185	257,428	(94,738)
Net Assets, Beginning of Year	2,053,733	(668)	316,991	2,370,056	104,635
Net Assets, End of Year	\$2,068,818	\$ 12,490	\$ 546,176	\$2,627,484	\$ 9,897

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	\$ 257,428
Change in net assets of the Internal Service Fund, which benefits Business-type Activity	(94,738)
Change in net assets of the Business-type Activity (page 2-19)	<u>\$ 162,690</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2008

(In thousands)

	VTA Transit	Measure B Transit	Measure A Transit	Total Enterprise Funds	Internal Service Fund
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>					
Cash Received from Passenger Fares	\$ 35,830	\$ -	\$ -	\$ 35,830	\$ -
Cash Received from Advertising	2,223	-	-	2,223	-
Cash Paid to Employees	(200,463)	-	-	(200,463)	-
Cash Paid to Suppliers	(64,607)	-	(1,744)	(66,351)	-
Cash Paid for Purchased Transportation	(28,392)	-	-	(28,392)	-
Cash Received from Contributions	-	-	-	-	13,224
Payments Made to Beneficiaries	-	-	-	-	(10,513)
Payments Made to Third Party Contractors	-	-	-	-	(2,514)
Net Cash Provided By/(Used In) Operating Activities	<u>(255,409)</u>	<u>-</u>	<u>(1,744)</u>	<u>(257,153)</u>	<u>197</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>					
Operating Grants Received	126,115	-	-	126,115	-
Sales Tax Received	163,724	-	157,481	321,205	-
Measure A Operating Assistance	29,630	-	(29,630)	-	-
Measure A Repayment Obligations	12,886	-	(12,886)	-	-
Caltrain Subsidy	(15,416)	-	-	(15,416)	-
Altamont Commuter Express Subsidy	(2,621)	-	-	(2,621)	-
Other Miscellaneous Receipts/(Payments)	384	(518)	-	(134)	-
Contributions to Other Agencies	(4,550)	-	-	(4,550)	-
Net Cash Provided By/(Used In) Non-Capital Financing Activities	<u>310,152</u>	<u>(518)</u>	<u>114,965</u>	<u>424,599</u>	<u>-</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>					
Payment of Long-Term Debt	(11,315)	-	-	(11,315)	-
Advance From Other Governments	-	14,186	-	14,186	-
Proceeds From Issuance of Bonds	168,585	-	362,625	531,210	-
Payoff of Old Bonds	(168,585)	-	(428,375)	(596,960)	-
Interest Paid on Long-Term Debt	(12,214)	-	-	(12,214)	-
Cost of Bond Issuance	(719)	-	(1,593)	(2,312)	-
Acquisition and Construction of Capital Assets	(44,323)	(8,258)	(158,070)	(210,651)	-
Capital Contribution From Other Governments	24,296	14,709	111,295	150,300	-
Net Cash Provided By/(Used In) Capital and Related Financing Activities	<u>(44,275)</u>	<u>20,637</u>	<u>(114,118)</u>	<u>(137,756)</u>	<u>-</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>					
Proceeds From Sale of Investments	2,070,212	-	-	2,070,212	-
Purchases in Investments	(2,087,586)	-	(81,611)	(2,169,197)	(3,135)
Interest Income Received	8,059	-	10,850	18,909	2,141
Net Cash (Used In) Investment Activities	<u>(9,315)</u>	<u>-</u>	<u>(70,761)</u>	<u>(80,076)</u>	<u>(994)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	1,153	20,119	(71,658)	(50,386)	(797)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	20,693	-	76,638	97,331	797
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>21,846</u>	<u>20,119</u>	<u>4,980</u>	<u>46,945</u>	<u>-</u>
<u>Reconciliation to Statement of Fund Net Assets:</u>					
<i>Unrestricted:</i>					
Cash And Cash Equivalents	2,831	-	-	2,831	-
<i>Restricted:</i>					
Cash And Cash Equivalents	-	20,119	-	20,119	-
Cash And Cash Equivalents with Fiscal Agent	19,015	-	4,980	23,995	-
	<u>21,846</u>	<u>20,119</u>	<u>4,980</u>	<u>46,945</u>	<u>-</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Statement of Cash Flows (Continued)

Proprietary Funds

For the Year Ended June 30, 2008

(In thousands)

	<u>VTA Transit</u>	<u>Measure B Transit</u>	<u>Measure A Transit</u>	<u>Total Enterprise Funds</u>	<u>Internal Service Fund</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES:					
Operating Income/(Loss)	(315,482)	-	-	(315,482)	197
Adjustments to Reconcile Operating Income (Loss) to Net Cash					
Net Cash Used in Operating Activities:					
Depreciation	53,292	-	-	53,292	-
Changes in Operating Assets and Liabilities:					
Receivables	592	-	214	806	-
Inventories	290	-	-	290	-
Accounts payable	6,107	-	(77)	6,030	-
Other Accrued Liabilities	(5,087)	-	(1,932)	(7,019)	-
Other Current Assets	750	-	-	750	-
Due to Other Governmental Agencies	2,159	-	-	2,159	-
Due to/From Other Funds	1,970	-	51	2,021	-
Net Cash Provided By/(Used in) Operating Activities	<u>(255,409)</u>	<u>-</u>	<u>(1,744)</u>	<u>(257,153)</u>	<u>197</u>
		-			
NONCASH ACTIVITIES:					
Increase/(Decrease) in Fair Value of Investments	635	-	892	1,527	-
Change In Estimates for Provision of Workers' Compensation, General Liability, and Compensated Absences Claims	-	-	-	-	(4,366)
Total Non-Cash Activities	<u>\$ 635</u>	<u>\$ -</u>	<u>\$ 892</u>	<u>\$ 1,527</u>	<u>\$ (4,366)</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Balance Sheet

Governmental Funds

For the Year Ended June 30, 2008

(In thousands)

	<u>Special Revenue Fund</u>	<u>Capital Projects Funds</u>		
	<u>Congestion Management Program</u>	<u>Congestion Management & Highway Program</u>	<u>Measure B Highway Program</u>	<u>Total</u>
<u>ASSETS</u>				
Investments	\$ 3,100	-	-	\$ 3,100
Due From Other Funds	52	-	-	52
Due From Other Governmental Agencies	217	-	-	217
Other Current Assets	10	-	-	10
<i>Restricted Assets:</i>				
Cash and Cash Equivalents	-	6,845	-	6,845
Cash and Investments with Fiscal Agent	-	-	12,626	12,626
Receivables	-	5	-	5
Due From Other Governmental Agencies	-	11,394	-	11,394
TOTAL ASSETS	<u>3,379</u>	<u>18,244</u>	<u>12,626</u>	<u>34,249</u>
<u>LIABILITIES</u>				
Accounts Payable	179	-	-	179
Other Accrued Liabilities	600	-	-	600
Due To Other Government Agencies	1,105	-	-	1,105
Liabilities Payable From Restricted Assets:				
Accounts Payable	-	5,947	682	6,629
Due To Other Funds	-	457	113	570
Due To Other Governmental Agencies	-	11,840	11,831	23,671
TOTAL LIABILITIES	<u>1,884</u>	<u>18,244</u>	<u>12,626</u>	<u>32,754</u>
<u>FUND BALANCES</u>				
Unreserved, Reported In Special Revenue Fund	<u>1,495</u>	-	-	<u>1,495</u>
TOTAL FUND BALANCES	<u>1,495</u>	<u>-</u>	<u>-</u>	<u>1,495</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,379</u>	<u>\$ 18,244</u>	<u>\$ 12,626</u>	<u>\$ 34,249</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2008
(In thousands)

	Special Revenue Fund	Capital Projects Funds		Total
	Congestion Management Program	Congestion Management & Highway Program	Measure B Highway Program	
<u>REVENUES:</u>				
Member Agency Assessment Revenue	\$ 2,410	\$ -	\$ -	\$ 2,410
Federal Technical Studies Operating Assistance Grants	1,102	-	-	1,102
Administrative Fees	65	-	-	65
State Operating Assistance Grants	1,091	-	-	1,091
Local Grant Revenue	-	38,153	6,956	45,109
Other Revenues	151	-	-	151
Investment Earnings	122	227	-	349
TOTAL REVENUES	<u>4,941</u>	<u>38,380</u>	<u>6,956</u>	<u>50,277</u>
<u>EXPENDITURES:</u>				
<i>Current:</i>				
Congestion management:				
Salaries and benefits	3,337	2,343	-	5,680
Services	770	-	-	770
<i>Capital outlay:</i>				
Capital improvement projects	805	36,037	6,956	43,798
TOTAL EXPENDITURES	<u>4,912</u>	<u>38,380</u>	<u>6,956</u>	<u>50,248</u>
CHANGE IN FUND BALANCES	29	-	-	29
FUND BALANCES, BEGINNING OF YEAR	<u>1,466</u>	<u>-</u>	<u>-</u>	<u>1,466</u>
FUND BALANCES, END OF YEAR	<u>\$ 1,495</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,495</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2008
(In thousands)

	Retiree Trust Funds	Agency Funds
<u>ASSETS</u>		
<i>Restricted assets:</i>		
Mutual Funds	\$ 169,444	\$ -
Fixed Income	172,050	-
Money Market	4,974	2,043
Equity Securities	88,948	-
Cash and Cash Equivalents	-	16,639
Commingled with VTA Transit	2,802	-
Receivables	1,731	-
TOTAL ASSETS	439,949	18,682
 <u>LIABILITIES</u>		
<i>Liabilities Payable From Restricted Assets:</i>		
Accounts Payable	228	6,061
Due To Other Funds	-	52
Due To Other Governmental Agencies	-	12,569
TOTAL LIABILITIES	228	\$ 18,682
 <u>NET ASSETS</u>		
<i>Net assets held in trust for:</i>		
ATU Pension benefits	323,157	
OPEB Trust	104,409	
ATU Retiree Spousal Medical Benefits	8,629	
ATU Retiree Dental and Vision Benefits	3,526	
TOTAL NET ASSETS	\$ 439,721	

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Changes in Fiduciary Net Assets
Retiree Trust Funds
For the Year Ended June 30, 2008
(In thousands)

	Retiree Trust Fund
<u>ADDITIONS</u>	
Employer Contributions	\$ 33,106
Transfers ⁽¹⁾	101,738
<i>Investment earnings:</i>	
Investment Income	12,038
Net Depreciation in the Fair Value of Investments	(40,356)
Investment Expense	(1,395)
Net Investment Income	(29,713)
TOTAL ADDITIONS	105,131
 <u>DEDUCTIONS</u>	
Benefit Payments	28,005
Administrative Expenses	190
TOTAL DEDUCTIONS	28,195
 NET INCREASE	 76,936
 <u>NET ASSETS HELD IN TRUST</u>	
Beginning of Year	362,785
End of Year	\$ 439,721

⁽¹⁾ Transfer from Proprietary Funds



NOTES TO THE BASIC FINANCIAL STATEMENTS

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2008

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 included 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 trust fund of VTA.

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 the development and implementation of the Valley Transportation Plan (VTP), 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 countywide grant funds, including the Transportation Fund for Clean Air (TFCA), 1996 Measure B Transportation Improvement Program's (MBTIP) Ancillary Program, and 2000 Measure A Transit Improvement Program. Annual contributions from 15 member agencies are based on a formula adopted by the VTA's Board of Directors. 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.

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2008

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 where:
 - (a) 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) 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;
 - (c) 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 reports the activities of its transit operations, 1996 Measure B Transit Improvement Program, and 2000 Measure A Transit Improvement Program as major funds as part of 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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2008

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, 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, Retirees' Other Post Employment Benefits Trust (OPEB Trust), ATU Medical Trust, the Bay Area Air Quality Management District (BAAQMD) Program, and the Measure B Ancillary Program. The VTA/ATU Pension Plan, OPEB Trust, and the ATU Medical Trust are reported as Retiree 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 financial statements are reported using the accrual basis of accounting and the economic resources exchange measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2008

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 and Fiduciary 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.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2008

(c) *Cash and Investments*

VTA contracts with money management firms to manage most of 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). 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 Pool and LAIF State Pool is 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.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2008**

(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, and included in the capital asset accounting system and depreciated accordingly. Property, facilities, and equipment are stated at historical cost. Normal maintenance and repairs costs are 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:

<u>Asset being Depreciated:</u>	<u>Useful Life</u>
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
Leasehold improvements	10 to 35 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 \$16.7 million relating to the Measure A Transit Improvement 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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2008

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 16).

(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), restricted, and designated.

- *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 (including deferred bond issuance costs) 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 debt service reserve funds, net assets restricted for Measure B Transit and 2000 Measure A capital programs.
- *Unrestricted Net Assets* – The remaining unrestricted net assets, although not legally restricted, have been earmarked for future capital and operating needs, as well as for other purposes in accordance with Board directives.

The Statement of Fund Net Assets on page 2-21 reports that enterprise fund net assets \$2,627,484,000 as of June 30, 2008, of which \$546,176,000 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 \$39.7 million as costs allocated to capital and other

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2008

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) *GASB Pronouncements*

VTA will implement the following GASB Statements when they are due in future fiscal years:

- GASB Statement No. 49 "*Accounting and Financial Reporting for Pollution Remediation Obligations*".
- GASB Statement No. 51, "*Accounting and Financial Reporting for Intangible Assets*".
- GASB Statement No. 52, "*Land and Other Real Estate Held as Investments by Endowment*".
- GASB Statement 53, "*Accounting and Financial Reporting for Derivative Investments*".

With the exception of the adoption of GASB Statement No. 53, management believes that adoption of these Statements will result in no material impact on the financial statements. With respect to GASB No. 53, adoption of this Statement will require VTA to record the fair value of their interest rate swaps in the financial statements. It is anticipated that VTA's interest rate swaps will be determined as effective hedges, which will allow the deferral of increases or decreases to fair value. See Note 7(e) for a summary of the fair values of those swaps as of June 30, 2008. GASB 53 is required to be adopted for fiscal periods beginning June 15, 2009. VTA is unable to predict the impact, if any, on the financial statements, when this Statement is required to be adopted.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2008**

NOTE 3 - CASH AND INVESTMENTS

Total cash and investments as of June 30, 2008, are reported in the accompanying basic financial statements as follows (in thousands):

	<u>Business-type Activity</u>		<u>Governmental Activity</u>	<u>Fiduciary Funds</u>		<u>Total</u>
	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>	<u>Governmental Fund</u>	<u>Retiree Trust Funds</u>	<u>Agency Funds</u>	
Unrestricted:						
Cash and Cash Equivalents	\$ 2,831	\$ -	\$ -	\$ -	\$ -	\$ 2,831
Investments	17,848	63,539	3,100	-	-	84,487
Total unrestricted	<u>20,679</u>	<u>63,539</u>	<u>3,100</u>	<u>-</u>	<u>-</u>	<u>87,318</u>
Restricted:						
Cash and Cash Equivalents	20,119	-	6,845	-	-	26,964
Cash and Investments with Fiscal Agents	23,995	-	12,626	-	16,639	53,260
Investments	422,481	-	-	438,218	2,043	862,742
Total restricted	<u>466,595</u>	<u>-</u>	<u>19,471</u>	<u>438,218</u>	<u>18,682</u>	<u>942,966</u>
Total Cash and Investments	<u>\$ 487,274</u>	<u>\$ 63,539</u>	<u>\$ 22,571</u>	<u>\$ 438,218</u>	<u>\$18,682</u>	<u>\$1,030,284</u>

As of June 30, 2008, total cash and investments among all funds consisted of the following (in thousands):

Cash and equivalents	\$ 29,795
Cash and investments with fiscal agents	53,260
Investments	947,229
	<u>\$1,030,284</u>

Cash and Equivalents

VTA maintains checking accounts for 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, 2008, the carrying amount of these cash balances are shown below (in thousands):

Operations account	\$ 2,831
CM&HP Account	6,845
Measure B Account	20,119
Total deposits	<u>\$ 29,795</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2008

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. Interest rate risk
2. Credit risk
3. Custodial credit risk
4. Concentration of credit 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 US treasury obligations, 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 has oversight responsibility for LAIF. The Board consists of five members as designated by the State Statute. The value of the pooled shares in the LAIF that 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, 2008, investment in LAIF is \$40.2 million. LAIF is part of the State of California Pooled Money Investment Account (PMIA), whose balance at June 30, 2008 was approximately \$70 billion. 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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2008

weighted-average to maturity of the investments in PMIA at June 30, 2008 was 212 days. 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 – Interest rate risk is the risk that changes in market interest rates and may adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Of VTA's (Operation Funds and Plan Trust Funds) \$947 million in investments, over 64% of the investments have a maturity of less than 1 year. Of the remainder, only 10% have a maturity of more than 10 years. Per VTA's investment policy, long-term securities of more than five years are limited to 40% of the portfolio.

Credit risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Per its investment policy, 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. Table on page 2-41 shows the credit quality of VTA's investments as of June 30, 2008.

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. California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of VTA's cash on deposit or first trust deed mortgage notes with a value of 150 percent of the deposit as collateral for these deposits. Under California Law this collateral is held in VTA's name and places VTA ahead of general creditors of the institutions. At June 30, 2008, VTA deposits were collateralized by securities held by the financial institutions, but not in VTA's name.

Custodial Credit Risk – Investments – The custodial credit risk for investments is the risk that that, in the event of a failure of the counterparty (e.g. broker-dealer) to a transaction, VTA may not be able to recover the value of its investments or collateral securities that are in the possession of another party. VTA's Investment Policy limit its exposure to custodial credit risk by requiring that 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 delivery versus payment procedure. As of June 30, 2008, VTA did not participate in reverse securities lending that would result in any possible risk in this area.

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Notes to the Basic Financial Statements For the Year Ended June 30, 2008

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 52% 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, 2008, VTA had \$388.9 million representing 41.1% of VTA's portfolio invested in debt securities issued by the US Government Agencies. At June 30, 2008 VTA had \$117.8 million, \$157.9 million and \$86.6 million representing 12.4%, 16.7% and 9.1% of VTA's portfolio invested in debt securities issued by the Federal Home Loan Mortgage Corporation (FHLM), Federal National Mortgage Association (FNMA), and Federal Home Loan Banks (FHLB), respectively. Of the 9.4% of the portfolio invested in equities, no investment in a single issuer exceeds 5%.

Certain investments, such as obligations that are backed by the full faith and credit of the United States Treasury, are not subject to credit ratings. The following schedule indicates the interest rate and credit risk at June 30, 2008:

<u>Investment Type</u>	<u>Maturity</u>				<u>Market Value</u>
	<u>Less than 1 Year</u>	<u>2-5 Years</u>	<u>6-10 Years</u>	<u>Over 10 Years</u>	
Commercial Paper	\$ 13,795	\$ -	\$ -	\$ -	\$ 13,795
Corporate Bonds - Operations	12,197	34,193	-	-	46,390
Corporate Bonds - Pension Plan	-	10,903	24,072	16,952	51,927
Corporate Bonds - OPEB Trust	200	3,421	7,469	5,202	16,292
US Government Agency Bonds:					
Operations	237,008	54,300	8,400	-	299,708
Pension Plan	147	2,092	10,538	55,289	68,066
OPEB Trust	14	634	2,945	17,513	21,106
US Treasury					
Operations	5,940	63,091	16,411	-	85,442
Pension Plan	8,097	2,532	-	-	10,629
OPEB Trust	2,314	1,715	-	-	4,029
SUB TOTAL	279,712	172,881	69,835	94,956	617,384
Money Market Funds – Operations	26,519	-	-	-	26,519
Money Market Funds – Pension	3,927	-	-	-	3,927
Money Market Funds – OPEB Trust	1,047	-	-	-	1,047
Cash with Fiscal Agents	-	2,944	-	-	2,944
Cash with Fiscal Agents - Money Market Funds	11,768	-	-	7,569	19,337
TOTAL INVESTMENTS with Money Managers	322,973	175,825	69,835	102,525	671,158
LAIF	40,231	-	-	-	40,231
TOTAL INVESTMENTS	\$ 363,204	\$ 175,825	\$ 69,835	\$ 102,525	\$ 711,389

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2008

Investment Commingled in County	1,714
Equity-Based Investments	258,121
Retention Fund at Escrow Agents (Deposits)	29,265
Cash Deposits	<u>29,795</u>
TOTAL	<u><u>\$ 1,030,284</u></u>

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)	Percentages of Portfolios
Unrated	\$ 298,352	28.96%
Not Applicable	570,056	55.33%
B	4,062	0.39%
BB	664	0.06%
BBB	4,535	0.44%
BBB-	6,802	0.66%
BBB+	12,362	1.20%
A-1	10,598	1.03%
A-1+	5,176	0.50%
A	18,921	1.84%
A-	10,136	0.98%
A+	15,196	1.47%
AA	10,498	1.02%
AA-	16,515	1.60%
AA+	3,703	0.36%
AAA	42,708	4.16%
TOTAL	<u><u>\$ 1,030,284</u></u>	<u><u>100.00%</u></u>

As of June 30, 2008, the Retiree Trust Funds restricted investments consisted of the following (in thousands):

ATU Pension Plan	\$ 322,097
ATU Spousal Medical	12,156
OPEB Trust	<u>103,965</u>
Total	<u><u>\$ 438,218</u></u>

Subsequent to year end, the market value of the investments noted above has declined as a result of the current turmoil in financial markets. The decline was mainly noted in the ATU Pension Trust fund in the amount of approximately \$16 million and the OPEB Trust in the amount of \$6 million.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2008

NOTE 4 – INTERFUND TRANSACTIONS

The composition of interfund balances as of June 30, 2008 is as follows (in thousands):

<u>Due from</u>	<u>Due to</u>	<u>Amount</u>
VTA Transit	Congestion Management & Highway Program	\$ 457 ⁽¹⁾
VTA Transit	Measure B Transit Program	22 ⁽¹⁾
VTA Transit	Measure B Highway Program	113 ⁽²⁾
Congestion Management Program	BAAQMD Agency Fund	52 ⁽³⁾
		\$ 644

(1) represents labor and internal charges for the program

(2) represents the investment management fee

(3) 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, 2008 consisted of the following (in thousands):

	<u>Business Type Activity</u>	<u>Governmental Activity</u>		<u>Total</u>
		<u>Enterprise Funds</u>	<u>Congestion Management Program</u>	
Current:				
Federal Government	\$ 39,674	\$ -	\$ -	\$ 39,674
State Government	113,123	217	9,051	122,391
County of Santa Clara				
Measure B Ancillary Program -SWAP	28	-	-	28
Others	-	-	427	427
Total County of Santa Clara	28	-	427	455
Others	2,404	-	1,916	4,320
Total All Governmental Agencies	\$ 155,229	\$ 217	\$ 11,394	\$ 166,840

Due from other governmental agencies as of June 30, 2008, is reported in the accompanying general-purpose financial statements as follows (in thousands):

	<u>Business- Type Activity</u>	<u>Governmental Activity</u>		<u>Total</u>
		<u>Enterprise Fund</u>	<u>Congestion Management Program</u>	
ASSETS				
Current assets - unrestricted	\$ 75,167	\$ 217	\$ -	\$ 75,384
Current assets - restricted	80,062	-	11,394	91,456
Total	\$ 155,229	\$ 217	\$ 11,394	\$ 166,840

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2008**

Due to other governmental agencies as of June 30, 2008, consisted of the following (in thousands):

<u>GOVERNMENTAL AGENCY</u>	Business- Type Activity Enterprise Fund	Governmental Activity			Total
		Congestion Management Program	Congestion Management & Highway Program	Measure B Highway Program	
State government	\$ 21,589	\$ -	\$ -	\$ -	\$ 21,589
County of Santa Clara	16,423	1,105	9,799	11,831	39,158
City of Sunnyvale	-	-	112	-	112
City of San Jose	98	-	1,712	-	1,810
City of Fremont	734	-	-	-	734
City of Milpitas	-	-	217	-	217
Total	<u>\$ 38,844</u>	<u>\$ 1,105</u>	<u>\$ 11,840</u>	<u>\$ 11,831</u>	<u>\$ 63,620</u>

Due to other governmental agencies as of June 30, 2008, is reported in the accompanying basic financial statements as follows (in thousands):

<u>LIABILITIES</u>	Business- Type Activity Enterprise Fund	Governmental Activity			Total
		Congestion Management Program	Congestion Management & Highway Program	Measure B Highway Program	
Current Liabilities(unrestricted)	\$ 2,915	\$ 1,105	\$ -	\$ -	\$ 4,020
Liabilities payable from restricted assets	35,929	-	11,840	11,831	59,600
Total	<u>\$ 38,844</u>	<u>\$ 1,105</u>	<u>\$ 11,840</u>	<u>\$ 11,831</u>	<u>\$ 63,620</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2008

NOTE 6 – CAPITAL ASSETS

Capital asset changes for VTA's business-type activity for the year ended June 30, 2008 were as follows (in thousands):

	<u>July 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>June 30, 2008</u>
Land and right of way	\$ 1,118,577	\$ -	\$ (13,606)	\$ 13,241	\$ 1,118,212
Construction in progress	<u>488,192</u>	<u>186,654</u>	<u>-</u>	<u>(35,138)</u>	<u>639,708</u>
Total capital assets, not being depreciated	<u>1,606,769</u>	<u>186,654</u>	<u>(13,606)</u>	<u>(21,897)</u>	<u>1,757,920</u>
Capital Assets, Being Depreciated:					
Buildings, improvements, furniture and fixtures	460,900	23,634	(22)	2,604	487,116
Vehicles	458,001	572	(6,355)	9,809	462,027
Light-rail tracks and electrification	399,563	-	(1,038)	1,299	399,824
Caltrain – Gilroy extension	53,155	-	-	-	53,155
Other operating equipment	29,416	-	-	668	30,084
Leasehold Improvement	<u>2,169</u>	<u>-</u>	<u>-</u>	<u>7,517</u>	<u>9,686</u>
Total capital assets, being depreciated	<u>1,403,204</u>	<u>24,206</u>	<u>(7,415)</u>	<u>21,897</u>	<u>1,441,892</u>
Accumulated Depreciation:					
Buildings, improvements, furniture and fixtures	(164,542)	(14,969)	-	-	(179,511)
Vehicles	(129,365)	(18,554)	5,805	-	(142,114)
Light-rail tracks and electrification	(123,025)	(15,917)	-	-	(138,942)
Caltrain – Gilroy extension	(8,597)	(1,191)	-	-	(9,788)
Other operating equipment	(20,879)	(2,398)	-	-	(23,277)
Leasehold Improvement	<u>-</u>	<u>(263)</u>	<u>-</u>	<u>-</u>	<u>(263)</u>
Total accumulated depreciation	<u>(446,408)</u>	<u>(53,292)</u>	<u>5,805</u>	<u>-</u>	<u>(493,895)</u>
Total capital assets, being depreciated, net	<u>956,796</u>	<u>(29,086)</u>	<u>(1,610)</u>	<u>21,897</u>	<u>947,997</u>
Total capital assets, net	<u>\$ 2,563,565</u>	<u>\$ 157,568</u>	<u>\$ (15,216)</u>	<u>\$ -</u>	<u>\$ 2,705,917</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2008**

Construction in progress (CIP), includes capitalized costs and right-of-way acquisitions associated with the following projects as of June 30, 2008 (in thousands):

Silicon Valley Rapid Transit Corridor	\$ 545,449
Capitol Corridor Projects	35,795
Facilities Modifications	31,378
Project Studies	11,355
Caltrain Service Improvements	7,374
Software Development	2,640
Vasona Corridor Projects	2,503
Coach & Vehicle Replacements	2,044
Guadalupe Corridor	849
Tasman Corridor Project Extensions	321
	<hr/>
Total project costs expended to date	<u>\$ 639,708</u>

Additional information regarding projects in progress as of June 30, 2008 is as follows (in thousands):

<u>Information Regarding Projects:</u>	<u>Costs</u>
Total Board approved project budget	\$ 917,145
Expended to date	<u>(639,708)</u>
Remaining budget available for CIP	<u>\$ 277,437</u>

Anticipated funding sources are as follows:

Federal, State, and other local assistance	118,958
Local contributions	158,479
Total funding sources	<u>\$ 277,437</u>

VTA has outstanding commitments of about \$72.8 million as of June 30, 2008, related to the above capital projects.

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Notes to the Basic Financial Statements For the Year Ended June 30, 2008

NOTE 7 - LONG-TERM DEBT & LIABILITIES

Long-term debt as of June 30, 2008, consisted of the following (in thousands):

<u>Secured by VTA's 1976 Measure A 1/2 Cent Sales Tax</u>	
Series 1985A Equipment Trust Certificates	\$ 26,500
1997 Series A Refunding (\$1,630, less unamortized discount of \$101)	1,529
1998 Series A Junior Lien	40,045
2000 Series A Junior Lien	32,685
2001 Series A Senior Lien	10,380
2007 Series A Refunding (\$26,275 plus unamortized premium of \$1,233 and less unamortized deferred amount in refunding of \$2,471)	25,037
2008 Series A-C Refunding (\$168,585, less unamortized deferred amount in refunding of \$15,772)	152,813
<u>Secured by VTA's 2000 Measure A 1/2 Cent Sales Tax</u>	
2007 Series A Measure A Refunding (\$120,095 plus unamortized premium of \$5,458 and deferred amount in refunding of \$4,956)	130,509
2008 Series A-D Measure A Refunding (\$236,730 plus unamortized deferred amount in refunding of \$5,431)	242,161
Total long-term debt	661,659
Less current portion of long-term debt	(12,645)
Long-term debt, excluding current portion	<u>\$ 649,014</u>

(a) Equipment Trust Certificates

- \$52.5 million of 1985A Certificates (1985 ETC's) were issued to finance the retirement of Equipment Trust Certificates, Series 1984 A, 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, 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.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2008

(b) Sales Tax Revenue Bonds, secured by 1976 ½ cent sales tax revenues

- \$40.6 million of 1997 Series A Sales Tax Revenue Refunding Bonds (1997 Bonds) were issued (at a true interest cost of 5.17%) to advance refund \$33.3 million of the outstanding principal amount of 1991 Series A Bonds, advance refund \$4 million of outstanding principal amount of 1994 Series C Certificates, and to pay for certain capital expenditures. Their maturities extend to June 1, 2021. Maturities from June 1, 2011 through June 1, 2021, (the Defeased Bonds) were legally defeased on May 1, 2007 from proceeds of 2007 Series A Sales Tax Revenue Refunding Bonds. The proceeds were deposited to an escrow account held by a Trustee to provide for the redemption of the Defeased 1997 Bonds. The refunding met the requirement of an in-substance debt defeasance, and the Defeased 1997 Bonds were removed from VTA's long-term debt. Accordingly, the escrow account assets and liabilities from the Defeased 1997 Bonds are not included in VTA's financial statements. The Defeased 1997 Bonds were called on June 1, 2007 and there is no outstanding balance.
- \$50 million of 1998 Series A Junior Lien Sales Tax Revenues Bonds (1998 Bonds) were issued through the California Transit Variable Rate Program of the California Transit Finance Authority (CTFA) (Note 20d), 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.
- \$40 million of 2000 Series A Junior Lien Sales Tax Revenue Bonds (2000 Bonds) were issued through the California Transit Variable Rate Program of the California Transit Finance Authority (CTFA) (Note 20d), 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.
- \$200 million of 2001 Series A Senior Lien Sales Tax Revenue Bonds (2001 Bonds) were issued, 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 (the Defeased 2001 Bonds) are subject to optional redemption and will be redeemed on June 1, 2012 from proceeds of the 2005 Series A - C Sales Tax Revenue Refunding Bonds, which were placed in an escrow account held by a Trustee to provide for

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Notes to the Basic Financial Statements For the Year Ended June 30, 2008

future debt service payments on the Defeased 2001 Bonds. The 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 liabilities from the Defeased 2001 Bonds are not included in VTA's financial statements. At June 30, 2008, \$155.3 million of bonds outstanding are considered defeased with an escrow balance of \$162.9 million.

- \$172.5 million of 2005 Series A-C Sales Tax Revenue Refunding Bonds (2005 Bonds), were issued to advance refund a portion of the 2001 Bonds, maturing in series on each June 1 from 2012 - 2026 (Defeased Bonds). The Defeased 2001 Bonds were originally issued to finance portions of the Tasman East, Vasona, and Capitol Corridor Light Rail projects. The 2005 Bonds bear interest at a weekly rate, which is determined by the Remarketing Agent to be the rate necessary to remarket the 2005 Bonds at par value. 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 2001 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 liabilities from the Defeased 2001 Bonds are not included in VTA's financial statements. VTA realized debt service savings of approximately \$16.9 million in net present value by refunding the Defeased 2001 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 plus a spread. 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.
- The 2005 Bonds were redeemed on June 26, 2008 with proceeds from 2008 Series A-C Sales Tax Revenue Refunding Bonds. The associated interest rate swaps were transferred to the 2008 VTA Bonds.
- \$26.3 million of 2007 Series A Sales Tax Revenue Refunding Bonds (2007 Bonds) were issued at a true interest cost of 3.97%, to current refund a portion of the 1997 Bonds. Proceeds of the 2007 Bonds were deposited into an escrow account held by a Trustee, and were used to pay the principal and accrued interest on the 1997 Bonds on the redemption date of June 1, 2007.

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Notes to the Basic Financial Statements For the Year Ended June 30, 2008

VTA realized cash flow savings of approximately \$2.1 million. Maturities for the 2007 Bonds extend to June 1, 2021. The maturities on or before June 1, 2017 shall not be subject to redemption prior to their respective state maturities. The maturities on or after June 1, 2018 shall be subject to redemption prior to their stated maturities.

- \$168.6 million of 2008 Series A-C Sales Tax Revenue Refunding Bonds (2008 VTA Bonds) were issued to current refund the 2005 Bonds, originally issued to finance the retirement of a portion of 2001 Bonds. The 2008 VTA Bonds bear interest at a weekly rate, which is determined by the Remarketing Agent to be the rate necessary to remarket the 2008 VTA Bonds at par value. The 2005 Bonds were insured by AMBAC Assurance Corp, a municipal insurance provider, who had been downgraded by all three national rating agencies. As a result of the downgrade, VTA was paying weekly interest rates that were above market rates. The purpose of the refunding was to issue *uninsured* weekly variable rate bonds and terminate the interest rate penalties being assessed by bond investors. There was no cash flow savings or economic gain or loss associated with this refunding. The maturities of the 2008 VTA Bonds extend to June 1, 2026 and are subject to optional and mandatory redemption and optional and mandatory tender for purchase before maturity.
- Concurrent with the issuance and sale of the 2008 VTA Bonds, VTA was required to amend transferred interest rate swap agreements (originally entered into concurrent with the issuance of the 2005 Bonds) to reflect current market rates. Pursuant to the amended terms of the swap agreements, VTA owes interest at a fixed rate of 3.145% to the counterparties to the swaps. In return, the counterparties owe VTA interest based on a percentage of LIBOR plus a spread (lower of 1 Month LIBOR or a rate equal to the greater of 63.5% of 1 Month LIBOR, or 55.5% of 1 Month LIBOR plus 0.44%). The amendment changing VTA's fixed rate to an on-market rate of 3.145% was necessary due to tax code limitations related to the still existing refunding escrow, which had been funded from proceeds of the 2005 Bonds. If the fixed rate had not been amended to an on-market fixed rate, VTA would have incurred an extensive arbitrage rebate liability. The outstanding principal is used as the basis on which the interest payments are calculated. In consideration for the market rate adjustment on the fixed rate paid to the counterparties of the swaps, VTA received a one time benefit of \$1.1 million. Under certain circumstances, the agreements are subject to termination before maturity of the 2008 Bonds.

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Notes to the Basic Financial Statements For the Year Ended June 30, 2008

(c) **Sales Tax Revenue Bonds, secured by 2000 Measure A ½ cent sales tax revenues**

- \$428 million of 2006 Series A- G 2000 Measure A Sales Tax Revenue Bonds (2006 Bonds), were issued to current refund 2003 Series A 2000 Measure A Sales Tax Revenue Bonds and 2004 Series A-B 2000 Measure A Sales Tax Revenue Bonds (collectively, “Defeased 2000 Measure A Bonds”) and to finance a portion of the costs associated with capital projects. The Defeased 2000 Measure A Bonds were originally issued to: finance the repayment of a 2002 Bond and Grant Anticipation Note; reimburse VTA for certain debt service payments made in connection with the 2001 Bonds; finance capitalized interest payments through October 2006; finance certain working capital; and finance capital expenditures. The 2006 Bonds were issued as variable auction rate securities. The maturities of the 2006 Bonds extended to April 1, 2036 and were subject to optional and mandatory redemption before maturity.

Concurrent with the issuance and sale of the 2006 Bonds, VTA entered into four separate interest rate swap agreements for Series A-D of the 2006 Bonds. Pursuant to the terms of the swap agreements, VTA owes interest at a fixed rate of 3.765% to the counterparties to the swaps (see Interest Rate Swaps for detail). In return, the counterparties owe VTA interest based on 65% of three-month LIBOR. The outstanding principal for Series A-D of the 2006 Bonds is used as the basis on which the interest payments are calculated. The swap agreements are expected to terminate on the final stated maturity date of each series of the 2006 Bonds.

In August 2007, VTA redeemed Series E of the 2006 Bonds from surplus funds. Series F and G of the 2006 Bonds were currently refunded in September 2007 from proceeds of 2007 Series A 2000 Measure A Sales Tax Revenue Refunding Bonds. Series A-D of the 2006 Bonds were currently refunded with proceeds from 2008 Series A-D Measure A Sales Tax Revenue Refunding Bonds. The associated interest rate swaps were transferred to the 2008 Measure A Bonds.

- \$120.1 million of 2007 Measure A Series A Sales Tax Revenue Refunding Bonds (2007 Measure A Bonds) were issued, at a true interest cost of 4.60%, to current refund Series F and G of the 2006 Bonds. The Series F and G of 2006 were originally issued to finance the retirement of a portion of Measure A Sales Tax Revenue Bonds, Series 2003A, 2004A and 2004B. Proceeds of the 2007 Measure A Bonds were deposited into an escrow account held by a Trustee, and were used to pay the principal and accrued interest on the Series F and G 2006 Bonds on the redemption date of November 6, 2007. Maturities for the 2007 Measure A Bonds extend to April 1, 2036. The economic gain,

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Notes to the Basic Financial Statements For the Year Ended June 30, 2008

which is calculated by comparing the present value of the original issue debt service to the present value of the refunded issue debt service, is \$10.3 million. This assumes that the variable rates on the Defeased Bonds would have remained constant through maturity. The maturities on or before April 1, 2017 shall not be subject to redemption prior to their respective state maturities. The maturities on or after April 1, 2018 shall be subject to redemption prior to their stated maturities

- \$236.7 million of 2008 Series A-D Measure A Sales Tax Revenue Refunding Bonds (2008 Measure A Bonds) were issued to current refund Series A-D of the 2006 Bonds, originally issued to finance the retirement of a portion of Measure A Sales Tax Revenue Bonds, Series 2003 A, 2004A and 2004B. The 2008 Measure A Bonds bear interest at a weekly rate, which is determined by the Remarketing Agent to be the rate necessary to remarket the 2008 Measure A Bonds at par value. The 2006 Bonds were auction rate securities insured by AMBAC Assurance Corp, a municipal insurance provider, who had been downgraded by all three national rating agencies. As a result of the downgrade, VTA was paying weekly interest rates that were above market rates. The purpose of the refunding was to issue uninsured weekly variable rate bonds and terminate the interest rate penalties being assessed by bond investors. The economic loss, which is calculated by comparing the present value of the original issue debt service to the present value of the refunded issue debt service, is \$0.86 million. The maturities of the 2008 Measure A Bonds extend to April 1, 2036 and are subject to optional and mandatory redemption and optional and mandatory tender for purchase before maturity.
- Concurrent with the issuance and sale of the 2008 Measure A Bonds, the four interest rate swap agreements (originally entered into concurrent with the issuance of the Series A-D of the 2006 Bonds) were reassigned to the 2008 Measure A Bonds. Pursuant to the terms of the swap agreements, VTA owes interest at a fixed rate of 3.765% to the counterparties to the swaps. In return, the counterparties owe VTA interest based on 65% of three-month LIBOR. 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 2008 Measure A Bonds.

(d) **Interest Rate Swaps**

VTA has entered into eight interest rate swap agreements. Of the agreements, one swap agreement requires VTA pay a fixed interest rate and receive interest at the actual variable interest rate of the underlying bonds; three swap agreements require that VTA pay fixed interest rates and receive interest at the lower of 1) 1 month LIBOR or 2) a rate equal to the greater of 63.5% of 1

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2008

month LIBOR ⁽¹⁾ or 55.5% of 1 month LIBOR plus 0.44%, and four swap agreements require that VTA pay fixed interest rates and receive interest at 65% of three-month 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.

- (e) **Summary:** The terms, fair values, and credit ratings of the outstanding swaps as of June 30, 2008 were as follows:

(Dollars in thousands)

Associated Bonds	Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Value _{FV}	Swap Termination Date	Counterparty Credit Rating ^{CR}
1985 ETC	\$26,500	9/11/1998	4.355%	1985 ETC	\$ (1,614)	6/1/2015	Aa1,AAA,AA+
2008A	67,565	7/7/2005 ^{ED}	3.145%	Cal-E ^{VR}	(240)	6/1/2026	Aaa,AAA,--
2008B	50,510	7/7/2005	3.145%	Cal-E	(179)	6/1/2026	Aa1,AA,AA-
2008C	50,510	7/7/2005	3.145%	Cal-E	(179)	6/1/2026	Aa1, A+, AA-
				65% 3Mo			
MA2008A	85,875	8/10/2006	3.765%	LIBOR	(7,129)	4/1/2036	Aa1,AA,AA-
				65% 3Mo			
MA2008B	50,000	8/10/2006	3.765%	LIBOR	(4,151)	4/1/2036	Aaa,AA+,AA-
				65% 3Mo			
MA2008C	50,000	8/10/2006	3.765%	LIBOR	(4,151)	4/1/2036	Aaa,AAA,--
				65% 3Mo			
MA2008D	50,000	8/10/2006	3.765%	LIBOR	(4,151)	4/1/2036	Aa1,A+,AA-
	\$430,960				(\$ 21,794)		

^{FV} Includes accrued interest

^{CR} Moody's, Standard and Poor's, and Fitch, respectively

^{ED} Amended June 26, 2008 to reflect on-market fixed rate to be paid of 3.145%.

^{VR} Lower of 1 month LIBOR or a rate equal to the greatest of 63.5% of 1 month LIBOR plus 0.44%

Terms: The notional amounts of swaps associated with the 1985 ETC's and 2008 A-C Bonds match the principal amounts of the associated debt. The notional amount of swaps associated with the MA 2008 A-D Bonds is \$855,000 less than the outstanding principal on the bonds, until April 1, 2009, at which time the notional amount of the swaps will match the aggregate of the amount of bonds outstanding. VTA's swap agreements contain scheduled reductions to outstanding notional amounts that follow scheduled reductions in the associated long-term debt.

⁽¹⁾ LIBOR: London Inter Bank Offering Rate is a daily reference rate based on the interest rate at which banks offer to lend unsecured funds to other banks in the London wholesale (interbank) money market.

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Notes to the Basic Financial Statements For the Year Ended June 30, 2008

Fair Values: At June 30, 2008, the swaps had a negative fair value, \$21.8 million. This is because interest rates have declined since the execution of the swaps. The fair values include 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. See Note 2 (m).

Credit Risks: As of June 30, 2008, VTA was not exposed to credit risk on the swaps because the swaps had negative fair values. 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. On June 30, 2008, the weighted average interest rates of the variable rate debt associated with the 2008 Bonds was 1.35%. However, the interest rate for variable rate payments received from the counterparties pursuant to the swaps was 1.82%. On June 30, 2008, the weighted average interest rates of the variable rate debt associated with the 2008 Measure A Bonds was 1.33%, and the interest rate for variable rate payments received from the counterparties pursuant to the swaps was 1.83%.

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 A3 by Moody's Investors Service, its claims paying

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2008

ability rating falls below A- by Standard and Poor's or it fails to maintain an equivalent rating determined by a nationally-recognized ratings service acceptable to both parties, *and*, if VTA's long-term debt obligations fall below "Baa3" by Moody's Investors Service or "BBB-" by Standard and Poor's. 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.

(f) Swap Payments and Associated Debt

Using rates as of June 30, 2008, 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.

(Dollars in thousands)	Variable Rate Bonds		Interest Rate	Total
	Principal	Interest	Swap, Net	
Year Ending June 30:				
2009	\$ 4,095	\$ 6,481	\$ (1,817)	\$ 8,759
2010	4,335	6,340	(1,823)	8,852
2011	4,675	6,202	(1,842)	9,035
2012	8,470	6,051	(1,850)	12,671
2013	8,760	5,839	(1,859)	12,740
2014-2018	49,830	67,489	(9,090)	108,229
2019-2023	65,000	58,786	(7,948)	115,838
2024-2028	49,920	47,577	(6,280)	91,217
2029-2033	55,750	44,403	(5,808)	94,345
2034-2036	180,125	13,731	(1,796)	192,060
	\$ 430,960	\$ 262,899	\$ (40,113)	\$ 653,746

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Notes to the Basic Financial Statements For the Year Ended June 30, 2008

(g) Long-term Debt Obligation Summary

Interest Rates on all outstanding fixed-rate obligations range from 4.00% - 5.25%. Interest on the variable rate debt is reset weekly based upon market conditions. Projected principal and interest obligations as of June 30, 2008 are as follows:

<u>(Dollars in thousands)</u>	<u>Principal</u>	<u>Interest⁽¹⁾</u>	<u>Total</u>
Year ending June 30:			
2009	\$ 12,645	\$ 24,028	\$ 36,673
2010	12,280	23,564	35,844
2011	15,200	23,128	38,328
2012	15,845	22,532	38,377
2013	16,465	21,982	38,447
2014-2018	92,465	100,747	193,212
2019-2023	111,170	84,326	195,496
2024-2028	97,155	65,737	162,892
2029-2033	86,895	54,897	141,792
2034-2036	202,805	16,036	218,841
	<u>\$ 662,925</u>	<u>\$ 436,977</u>	<u>\$ 1,099,902</u>
Unamortized bond discount, premium and deferred amount on refunding, net	\$ (1,266)		
Total debt	661,659		
Less current portion	(12,645)		
Long-term portion of debt	<u>\$ 649,014</u>		

⁽¹⁾Rates as of 6/30/08 were used to determine variable rate interest expense. Synthetic fixed rates were used for variable rate debt with associated variable to fixed interest rate swaps.

(h) 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.

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Notes to the Basic Financial Statements For the Year Ended June 30, 2008

(i) Long Term Liabilities

(Dollars in thousands)	<u>July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2008</u>	<u>Amounts Due Within One Year</u>
Equipment Trust Certificates :	\$ 29,200	\$ -	\$ (2,700)	\$ 26,500	\$ 2,900
Sales Tax Revenue Bonds Secured by 1976 ½ Cent Sales Tax					
1997 Series A	3,170	-	(1,540)	1,630	1,630
1998 Series A	41,430	-	(1,385)	40,045	1,440
2000 Series A	33,830	-	(1,145)	32,685	1,185
2001 Series A	13,770	-	(3,390)	10,380	3,440
2005 Series A-C	169,740	-	(169,740)	-	-
2007 Series A	26,275	-	-	26,275	-
2008 Series A	-	168,585	-	168,585	1,195
Sales Tax Revenue Bonds Secured by 2000 Measure A ½ Cent Sales Tax					
2006 Series A-G	428,375	-	(428,375)	-	-
2007 Series A	-	120,095	-	120,095	-
2008 Series A	-	236,730	-	236,730	855
Total Outstanding Debt	<u>745,790</u>	<u>525,410</u>	<u>(608,275)</u>	<u>662,925</u>	<u>12,645</u>
Plus (less) premiums, deferred amount on refundings and discounts	338	5,395	(6,999)	(1,266)	-
Outstanding Debt, Net	746,128	530,805	(615,274)	661,659	12,645
Claims Liability:					
General Liability	26,442	-	(4,326)	22,116	-
Workers' Compensation	10,124	-	(169)	9,955	-
Compensated Absences	21,739	-	(168)	21,571	6,047
Total Long-Term Liabilities	<u>\$ 804,433</u>	<u>\$ 530,805</u>	<u>\$ (619,937)</u>	<u>\$ 715,301</u>	<u>\$ 18,692</u>

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. The amount of the 1976 Sales Tax and 2000 Measure A Sales Tax recognized during FY2008 was \$163 million and \$160.5 million respectively, totaling \$323.5 million.

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Notes to the Basic Financial Statements For the Year Ended June 30, 2008

NOTE 9 – VTA PROGRAMS FUNDED THROUGH LOCAL SALES TAX MEASURES

Measure B Transportation Improvement Program (MBTIP)

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

In March 1999, the VTA Board of Directors and the County Board of Supervisors approved a Memorandum of Understanding (MOU) formalizing the partnership to implement Measure A. With this partnership in place, the County and VTA are in a position to complete a transportation program valued at \$2.1 billion. The County will administer the funding, and VTA will be responsible for the 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 governmental activity and the Measure B Ancillary Program, which includes pavement and bicycle elements, in an agency fund. The Ancillary Program was created to administer the Measure B Pavement & Bikeways Program and Measure B Ancillary Fund, also known as the Local Program Reserves.

In fiscal year 2001, VTA and the County entered into two agreements for Fund Swap arrangements, whereby VTA agreed to secure Federal and/or State grant funds and program them for certain 1996 MBTIP Projects in exchange for the County to release the corresponding 1996 MBTIP Project funds for other local projects. The Tasman East Light Rail Project was programmed for \$72.8 million 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 Route 237/880 Interchange Hwy Project was programmed for \$22.5 million with the same amount being available for other local projects.

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Notes to the Basic Financial Statements For the Year Ended June 30, 2008

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 Number 1 to the Master Agreement was executed to increase the amount of reimbursement to \$198.3 million. As of FY2002, full reimbursement of the \$198.3 million was made to the Measure B Ancillary Program Agency Fund. As of June 30, 2008, the full amount of \$198.3 million has been expended out of the agency fund for the acquisition of low floor vehicles.

During the year, VTA paid approximately \$31million for current year costs for the program. Of this amount, the Santa Clara County contributed approximately \$29.2 million; namely, \$11.8 million (\$11.3 million Measure B fund & \$0.5 million Measure B swap fund) for transit projects in the Enterprise Fund; \$7 million (\$5.3 million Measure B fund and \$1.7 million Measure B Swap fund) for highway projects in the Measure B Highway Capital Projects Fund; and \$10.4 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 (the Measure A Program) was created in response to the Measure A ballot approved by the voters of Santa Clara County on November 7, 2000. The Measure A Program is responsible for a number of key capital transit projects, including the connection of rapid transit to San Jose, increased bus and light rail service and providing for related operating expenses. The Measure A Program 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 on March 31, 2006.

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.

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**Notes to the Basic Financial Statements
For the Year Ended June 30, 2008**

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, 2008 are summarized as follows (in thousands):

<u>Federal Grants</u>	<u>Enterprise Fund</u>	<u>Special Revenue Funds</u>
Operating Assistance Grants:		
FTA Section 9	\$ 22,316	\$ -
Job Access and Reverse Commute Program	50	-
Federal Technical Studies	59	1,102
Total Operating Assistance Grants	<u>22,425</u>	<u>1,102</u>
Capital Grants:		
FTA Section 3	18,879	-
FTA Section 9	12,089	-
Total Capital Grants	<u>30,968</u>	<u>-</u>
Total Operating Assistance and Capital Grants	<u>\$ 53,393</u>	<u>\$ 1,102</u>

FTA and FHWA reserve the right to audit expenditures financed by their grants to determine if such expenditures comply with the conditions of the grant agreements. VTA's management believes the results of such audits would not have a material adverse effect on 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.

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Notes to the Basic Financial Statements For the Year Ended June 30, 2008

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.
- The FY2005 Transit Security Grant Program (TSGP) award comes from the State Governor's Office of Homeland Security for costs related to addressing security and preparedness enhancements for transit systems. The program includes a requirement that transit systems selected for funding participate in a Regional Transit Security Working Group for the purpose of developing the Regional Transit Security Strategy as well as a regional consensus on the expenditure of FY05 TSGP funds.

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Notes to the Basic Financial Statements For the Year Ended June 30, 2008

(b) State and Local Grants and Assistance

State and local grants for the year ended June 30, 2008, are summarized as follows (in thousands):

	Business- type Activity	Congestion Management Program	Capital Projects Fund
	Enterprise Fund		
Operating Assistance Grants:			
Transportation Development Act	\$ 83,547	\$ -	\$ -
State Operating Assistance Grants	19,177	-	-
Measure B Assistance AB434	-	1,091	-
	1,356	-	-
Total Operating Assistance Grants	104,080	1,091	-
Capital grants:			
Traffic Congestion Relief Program AB434	102,377	-	-
Regional Measure 2	501	-	-
Public Transportation Modernization Improvement and Service Enhancement Act	867	-	-
Congestion Management Highway Program	130	-	-
Measure B Highway	-	-	38,153
Santa Clara County (Measure B Program) – (Note 9)	-	-	6,956
Santa Clara County (Fund Swap Program) – (Note 9)	11,262	-	-
Various cities, counties and others	2,758	-	-
	4,579	-	-
Total Capital Grants	122,474	-	-
Total State and Local Grants	\$ 226,554	\$ 1,091	\$45,109

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2008

and efficient movement of goods, and provide system connectivity. The California Transportation Commission (CTC), in consultation with State Department of Transportation, implements TCRP. On February 1, 2007, the CTC approved/allocated \$364.5 million for the preliminary engineering phase of the Silicon Valley Rapid Transit 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 and Silicon Valley Rapid Transit Corridor for project enhancements and to procurement of zero emission buses and the corresponding facility improvements.

Capital Projects fund consists of local grant revenues pertaining to Congestion Management and Highway Program of \$38.1 million and Measure B Highway Program of \$7 million.

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

(a) *Plan Description*

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

Employees with 10 or more years of service are entitled to full annual pension benefits beginning at normal retirement age of 65. Employees with less than 10 years of service are entitled to a reduced annual benefit at age 65 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.

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Notes to the Basic Financial Statements For the Year Ended June 30, 2008

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

The current membership of the Plan as of June 30, 2008, is comprised of the following:

<u>Membership Status</u>	<u>No. of Members</u>
Retirees and beneficiaries currently receiving benefits	960
Terminated vested members not yet receiving benefits	181
Active Members	<u>1,437</u>
Total	<u>2,578</u>

(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.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2008

(c) *Actuarial Methods and Assumptions*

<u>Description</u>	<u>Methods/Assumptions</u>
Valuation date	January 1, 2008
Actuarial cost method	Aggregate entry age normal
Amortization method	Level dollar open method
Remaining amortization period	20 years (Level dollar open)
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 8.0%
	Projected salary increases 22.13% for the first three years of service, 3.76% thereafter.
	Inflation rate 3.5%
	Cost of living adjustments None

(d) *Concentration*

Investments in State Global Advisers /S&P 500 Conservative Index Fund and MFS Investment Management represented 14.36% and 15.92%, respectively, of the Plan's investments as of June 30, 2008.

(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, 2008 were made in accordance with actuarially determined requirements computed as of January 1, 2006. VTA's contribution rate as a percentage of payroll was 15.62% for fiscal year 2008. The schedule of funding progress can be found on page 2-80.

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**Notes to the Basic Financial Statements
For the Year Ended June 30, 2008**

(f) Net Pension Obligation

VTA’s net pension obligation to the Plan was zero as of June 30, 2008. The three-year trend information is shown below (in thousands):

<i>Net Pension Obligation</i>			
<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/06	\$15,278	100%	\$ -
6/30/07	14,859	100%	-
6/30/08	16,137	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.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2008

(b) *Actuarial Methods and Assumptions*

<u>Description</u>	<u>Methods/Assumptions</u>
Valuation date	June 30, 2007
Actuarial cost method	Entry Age Actuarial Cost Method
Amortization method	Level Percent of Payroll
Average Remaining Period	26 years as of the Valuation Date
Asset Valuation Method	15 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, 2007 through June 30, 2008, was 12.014% for the employer and 7% 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 2-81.

(d) *Net Pension Obligation*

VTA's net pension obligation to the CalPERS Plan was zero as of June 30, 2008. For FY2008, VTA's annual pension cost was approximately \$6.3 million, which was fully contributed. The required contribution for FY2008 was determined as part of the June 30, 2006, 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):

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2008**

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/06	\$ 6,501	100%	\$ -
6/30/07	5,929	100%	-
6/30/08	6,278	100%	-

NOTE 13 – ATU SPOUSAL MEDICAL AND VISION/DENTAL TRUST

VTA had assets and related liabilities as of June 30, 2008 of approximately \$8.6 million for the ATU Spousal Medical Trust and \$3.5 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, 2008, there were 244 participating spouses who were eligible for benefits from the Spousal Medical Trust. Contributions, which were expensed by VTA, were approximately \$917 thousand. Benefit payments made by the Trust for FY2008 were approximately \$1.3 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, 2008, there were 858 eligible participants. Contributions, which were expensed by VTA, were approximately \$367 thousand for the Retiree Vision and Dental Trust.

NOTE 14 – INTERNAL SERVICE FUND

As of June 30, 2008, the composition of assets and liabilities by individual components of the Internal Service Fund are as follows (in thousands):

	Workers' Compensation	General Liability	Compensated Absences	Total
Assets	\$ 32,013	\$ 9,955	\$ 21,571	\$ 63,539
Liabilities	(22,116)	(9,955)	(21,571)	(53,642)
Net Assets (Reserve)	<u>\$ 9,897</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,897</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2008

Workers' Compensation and General Liability

VTA contracts with third-party administrators to process claims for both programs. 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 June 30, 2008 disclosed that the present values of estimated outstanding losses, at 4% average discount rate using a 90% confidence level, are \$22.1 million and \$7.3 million for Workers' Compensation and General Liability, respectively. However, VTA has decided to maintain the provision of estimated outstanding losses for the General Liability program at \$10 million at June 30, 2008. For Workers' Compensation, the decrease in reserves is predominantly due to paid and incurred development that was far less than anticipated. This favorable emergence is particularly pronounced in the claim experience after January 1, 2004, the date of the first statutory benefit reform. The decrease in reserves for General Liability program was based on similar trends for all policy periods. The accrued liabilities for both 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, 2008, are as follows (in thousands):

	<u>Workers' Compensation</u>	<u>General Liability</u>
Unpaid claims at June 30, 2006	\$ 50,211	\$ 8,967
Provision for claims and claims adjustment expense	19,868	2,747
Payment for claims and other adjustments	(6,864)	(1,590)
Change in estimates for provision for future claims	<u>(36,773)</u>	<u>-</u>
Unpaid claims at June 30, 2007	26,442	10,124
Provision for claims and claims adjustment expense	1,389	4,275
Payment for claims and other adjustments	<u>(5,715)</u>	<u>(4,444)</u>
Unpaid claims at June 30, 2008	<u>\$ 22,116</u>	<u>\$ 9,955</u>

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2008

employee. At June 30, 2008, the outstanding balance of compensated absence liability was \$21.6 million.

NOTE 15 – SANTA CLARA VALLEY TRANSPORTATION AUTHORITY RETIREES’ OTHER POST EMPLOYMENT BENEFITS TRUST

(a) OPEB Trust Description

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

All Non-ATU employees upon retirement with at least five years of service and attaining age 50 are also covered under a Retiree Health Care Program (the Non-ATU Program). Non-ATU represented employees, hired on or after the following dates must have 8 years of service (2,088 days) with VTA to qualify for retiree medical coverage and must retire directly from VTA with age at least 50 years:

- Service Employees International Union (SEIU) represented employees on or after May 15, 2006.
- Transportation Authority Engineers and Architects Association (TAEA) represented employees on or after December 5, 2006.

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2008

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

(b) *Funding Policy*

Benefit allowance provisions are established through agreements and memorandums of understanding (MOU) between VTA and unions representing its employees. VTA's contributions to the plans are based on Annual Required Contribution (ARC) as determined by an actuarial valuation study. In FY2008, VTA established an irrevocable trust to fund the ARC in accordance with the parameters of GASB Statement 45.

As of June 30, 2008, VTA had assets of \$104.4 million to cover costs of the ATU and Non-ATU Programs. The Plan is presented in these financial statements as the OPEB Trust. Separate financial statements are also prepared for the trust. The schedule of funding progress can be found on page 2-82.

(c) *Annual OPEB Cost and Net OPEB Obligations*

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

Plan cost, the percentage of annual cost contributed to the Plan, and the net Plan obligation for the year ended June 30, 2008 is as follows:

Annual Required Contributions	\$ 14,762
Interest on Net Plan Asset	-
Annual Plan Cost (Expense)	14,762
Contributions Made	(15,685)
Net Plan Obligation, Beginning of Year	-
Net Plan Asset, End of Year	<u>\$ 923</u>

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Notes to the Basic Financial Statements For the Year Ended June 30, 2008

Plan cost, the percentage of annual cost contributed to the Plan, and the net Plan obligation for the year ended June 30, 2008 is as follows:

<u>Annual Required Contribution</u>	<u>Amount Contributed</u>	<u>Percentage Contributed</u>	<u>Net Plan Asset</u>
\$ 14,762	\$ 15,685	106%	\$ 923

(d) Funding Status and Funding Progress

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

Actuarial Information

An actuarial study as of July 1, 2007 projected that the present value of future VTA paid OPEB Trust benefits for the current group of active employees, retirees, and terminated vested employees (excluding new employees) was approximately \$209 million. VTA's contributions are advance funded to OPEB Trust on an actuarially determined basis. For the year ended June 30, 2008, VTA made contributions to both the ATU and Non-ATU programs, which were expensed, of approximately \$15.7 million. Benefits paid to participants of the program were approximately \$6.8 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%,
- 2) a projected salary increase of 5%, and
- 3) a health cost inflation assumption of 10% from 2007 to 2008, then graded down 1% per year for the next 5 years, to an ultimate rate of 5% each year thereafter.

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**Notes to the Basic Financial Statements
For the Year Ended June 30, 2008**

NOTE 16 – 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 additional information on workers’ compensation and general liability, see Note 14. Coverage provided by self-insurance/insurance and excess coverage as of June 30, 2008, is shown below:

Type of Coverage	Self- Insurance/ Deductible	Excess Coverage (in aggregate)
Workers’ compensation	Self-Insured	None
Employer’s liability	\$3,000,000	\$222,000,000 (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 (includes spare parts coverage, no earthquake coverage)	\$250,000	\$20,000,000
Buses	\$100,000	\$20,000,000
Vans and mobile equipment	\$25,000	Included with \$20,000,000 in buses
Public officials liability	Self-Insured \$3,000,000	\$22,000,000

NOTE 17 – 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 \$295 thousand in FY2008. The future lease payments under noncancellable lease agreements are as follows (in thousands):

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Notes to the Basic Financial Statements For the Year Ended June 30, 2008

<u>Year ending June 30,</u>	<u>Future Lease Payments</u>
2009	\$ 198
2010	203
2011	207
2012	198
2013	198
2014-2018	1,130
2019-2023	1,130
2024-2028	1,130
2029-2030	453
Total	<u>\$ 4,847</u>

NOTE 18 – LITIGATION

The projected costs which would settle by June 30, 2009 are approximately \$9.6 million. VTA's management believes its actuarially determined reserves and excess insurance coverage will adequately cover estimated potential material adverse losses as of June 30, 2008.

NOTE 19 – CONTRACTED SERVICES PROVIDED BY THE COUNTY OF SANTA CLARA

The County provides support services to VTA for protection (Office of the Sheriff), vehicle maintenance and fuel, and contributions for retiree medical for County public safety staff assigned to VTA. Amounts paid to the County for such services were approximately \$5.2 million during FY2008.

NOTE 20 – 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.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2008

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 FY2008, VTA, SamTrans, and CCSF are responsible for 41%, 38%, and 21%, respectively, of the member agencies' total reimbursement for such expenses. During the year ended June 30, 2008, VTA paid \$15.4 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 for the years ended June 30, 2007 and 2006 (in thousands), are as follows ⁽¹⁾:

<u>PCJPB Financial Information</u>	<u>2007</u>	<u>2006</u>
Total assets	\$ 1,123,303	\$ 1,074,617
Total liabilities	(48,252)	(59,368)
Total net assets	<u>\$ 1,075,051</u>	<u>\$ 1,015,249</u>
Operating revenues	37,961	33,123
Operating expenses	(77,531)	(72,577)
Non-operating revenues, net	8,150	12,526
Capital contributions	91,222	122,520
Change in net assets	<u>\$ 59,802</u>	<u>\$ 95,592</u>

⁽¹⁾ 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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2008

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 four daily round trips 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, 2008, VTA contributed approximately \$2.6 million for operating costs.

Summary financial information (not included in VTA's financial statements) for the Altamont Commuter Express for the years ended June 30, 2007 and 2006 (in thousands), are as follows ⁽¹⁾:

<u>ACE Financial Information</u>	<u>2007</u>	<u>2006</u>
Total assets	\$ 120,642	\$ 106,649
Total liabilities	(11,909)	(5803)
Total net assets	<u>\$ 108,733</u>	<u>\$ 100,846</u>
Operating revenues	4,289	3,642
Operating expenses	(18,407)	(16,134)
Non-operating revenues, net	10,755	8,570
Capital contributions	11,250	6,616
Change in net assets	<u>\$ 7,887</u>	<u>\$ 2,694</u>

⁽¹⁾ Latest audited information available.

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2008

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). 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 1997 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. In December 1997, the CTFA issued \$200,000,000 of variable rate demand bonds (the "CTFA Bonds") to fund the Program. In March 1998, VTA borrowed \$50,000,000 under the Program and evidenced its borrowing through the issuance of \$50,000,000 Junior Lien Sales Tax Revenue Bonds, 1998 Series A held by the CTFA Bond trustee. In November 2000, VTA borrowed an additional \$40,000,000 under the Program and evidenced its borrowing through the issuance of \$40,000,000 Junior Lien Sales Tax Revenue Bonds, 2000 Series A held by the CTFA Bond trustee. (Note 7 – Long-Term Liabilities).

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

NOTE 21 – OTHER FINANCING TRANSACTIONS

(a) Lease/Leaseback

In September 1998, VTA simultaneously entered into two transactions to lease 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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2008

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 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.

In June 2006, VTA terminated the lease on 88 buses. In May and June 2008, VTA terminated the lease on the remaining 197 buses.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2008

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

Per the sublease agreement, VTA shipped 29 LRV cars to UTA and 21 LRV cars to Sacramento. The UTA/RT Agreements provide that UTA and RT 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. In 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; provided no event of default, or 2) 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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements For the Year Ended June 30, 2008

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.

NOTE 22 - SUBSEQUENT EVENTS

- In September 2008, VTA redeemed \$26.5 million of 1985 Equipment Trust Certificates, Series A and terminated the associated 1998 Interest Rate Swap Agreement using funds held in the Debt Reduction Fund, a designated reserve and pledged funds in a debt service reserve fund held by the Trustee, U.S. Bank, N.A.
- In September 2008, the federal grant award for the Guadalupe Platform Retrofit project was received in the amounts of \$6.8 million for the Downtown Platform Retrofit and \$8 million for South Line Platform Retrofit.
- On September 19, 2008, VTA became aware of a downgrade of guarantor American International Group, Inc. (AIG), which has impacted three of the four Leases to Service Contracts described in Note 21(d). Pursuant to the terms of the agreements, VTA is required to replace AIG as guarantor and payment undertaker. VTA is currently negotiating with the appropriate equity investors in order to comply with the requirements and anticipates that it will be successful.



**REQUIRED SUPPLEMENTARY
INFORMATION**
(other than MD&A)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Required Supplementary Information

Schedule of Funding Progress ⁽¹⁾

As of June 30, 2008

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
1/1/2006	\$ 288,829	\$ 363,114	\$ 74,285	80%	\$ 92,663	80%
1/1/2007	314,816	397,854	83,037	79%	93,985	88%
1/1/2008	344,522	423,739	79,218	81%	98,722	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.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Required Supplementary Information

Schedule of Funding Progress

As of June 30, 2008

CalPERS Plan
(Unaudited)
(In thousands)

Actuarial Valuation Date	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
6/30/2005	\$ 160,104	\$ 135,508	\$ 24,596	84.6%	\$ 50,194	49.0%
6/30/2006	177,983	152,536	25,447	85.7%	50,302	50.6%
6/30/2007	195,099	170,837	24,262	87.6%	49,682	48.8%

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Required Supplementary Information

Schedule of Funding Progress

As of June 30, 2008

Santa Clara Valley Transportation Authority
Retirees' Other Post Employment Benefits (OPEB) Trust
(Unaudited)
(In thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-Entry Age Normal (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
<u>7/01/2007</u>	<u>\$101,738</u>	<u>\$ 208,775</u>	<u>\$ 107,037</u>	<u>49.7%</u>	<u>\$ 153,176</u>	<u>69.9%</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Required Supplementary Information
 Budgetary Comparison Schedule
 Congestion Management Program Special Revenue Fund
 For the year ended June 30, 2008
 (In thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Positive (Negative) Variance
<u>REVENUES:</u>				
Assessments to Member Agencies	\$ 2,410	\$ 2,410	\$ 2,410	\$ -
Federal Grant Revenues	905	905	1,102	197
Administrative Fees	52	52	65	13
State Operating Assistance Grants	1,000	1,000	1,091	91
Local Program Reserve	250	250	-	(250)
Other Non-Operating Revenue	265	265	151	(114)
TOTAL REVENUE	<u>4,882</u>	<u>4,882</u>	<u>4,819</u>	<u>(63)</u>
<u>EXPENDITURES:</u>				
VTA Labor and Overhead Costs	3,938	3,938	3,337	601
<i>Services and Other:</i>				
Professional Services	1,415	1,415	557	858
Other Services	6	6	14	(8)
Data Processing	30	30	34	(4)
Office Expense	19	19	16	3
Project Expenditures	850	850	805	45
TOTAL EXPENDITURES	<u>6,258</u>	<u>6,258</u>	<u>4,763</u>	<u>1,495</u>
Change in Fund Balance, on a Budgetary Basis	<u>\$ (1,376)</u>	<u>\$ (1,376)</u>	<u>56</u>	<u>\$ 1,432</u>
<u>REVENUES AND EXPENDITURE NOT BUDGETED:</u>				
Investment Earnings			122	
Employee Related Expense			(3)	
Miscellaneous Expenses			(146)	
Change in Fund Balance, on a GAAP Basis			29	
Fund Balance, Beginning of Year			1,466	
Fund Balance, End of Year			<u>\$ 1,495</u>	

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Note to Required Supplementary Information
For the year ended June 30, 2008

Budgetary Basis of Accounting

State law requires the adoption of an annual budget, which must be approved by the VTA's 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. The Division Chief must authorize line item reclassification amendments to the budget. Managers are assigned the responsibility for controlling their budgets and monitoring operating expenses. 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.



SUPPLEMENTARY INFORMATION
(Combining and Individual Fund Statements)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
 Comparative Statement of Fund Net Assets
 Enterprise Fund
 For the Year Ended June 30,
 (In thousands)

	2008	2007
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 2,831	\$ 2,239
Investments	17,848	102,462
Receivables, Net	3,145	3,737
Due From Other Funds	592	2,539
Due From Other Governmental Agencies	75,167	75,483
Inventories	19,944	20,234
Other Current Assets	847	1,597
Total Current Assets	120,374	208,291
Restricted assets:		
Cash and Cash Equivalents	20,119	-
Cash and Investments With Fiscal Agent	23,995	95,092
Investments	422,481	212,476
Receivables, Net	-	219
Due From Other Funds	-	51
Due From Other Governmental Agencies	80,062	73,863
Other Current Assets	5	-
Total Restricted Current Assets	546,662	381,701
Non-Current Assets:		
Deferred Charges	11,788	16,742
Capital Assets		
<i>Nondepreciable:</i>		
Land and Right-of-Way	1,118,212	1,118,577
Construction in Progress	639,708	488,192
<i>Depreciable</i>		
Buildings, Improvements, Furniture, and Fixtures	487,116	460,900
Vehicles	462,027	458,001
Light-Rail Tracks and Electrification	399,824	399,563
Caltrain - Gilroy Extension	53,155	53,155
Other	39,770	31,585
Less: Accumulated Depreciation	(493,895)	(446,408)
Net Capital Assets	2,705,917	2,563,565
TOTAL ASSETS	\$ 3,384,741	\$ 3,170,299

(Continued)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
 Comparative Statement of Fund Net Assets (Continued)
 Enterprise Fund
 For the Year Ended June 30,
 (In thousands)

	2008	2007
<u>LIABILITIES</u>		
<i>Current Liabilities:</i>		
Current Portion of Long-Term Debt	\$ 11,790	\$ 11,315
Accounts Payable	19,859	14,055
Other Accrued Liabilities	10,389	15,476
Due To Other Governmental Agencies	2,915	756
Total Current Liabilities	44,953	41,602
<i>Liabilities Payable From Restricted Assets:</i>		
Current Portion of Long-Term Debt	855	54,700
Accounts Payable	21,639	17,706
Other Accrued Liabilities-Current	4,711	6,109
Due To Other Funds	22	-
Due To Other Governmental Agencies	35,929	-
Total Current Liabilities Payable From Restricted Assets	63,156	78,515
<i>Non-Current Liabilities</i>		
Long-Term Debt, Excluding Current Portion	649,014	680,113
Other Accrued Liabilities	134	13
Total Non-Current Liabilities	649,148	680,126
 TOTAL LIABILITIES	 757,257	 800,243
 NET ASSETS	 \$2,627,484	 \$2,370,056

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Comparative Statement of Revenues, Expenses and Changes in Fund Net Assets
Enterprise Fund
For the Years Ended June 30,
(In thousands)

	2008	2007
OPERATING REVENUES:		
Passenger Fares	\$ 35,830	\$ 35,242
Advertising and Other	2,223	2,634
TOTAL OPERATING REVENUES	38,053	37,876
OPERATING EXPENSES:		
Labor Cost	240,154	243,110
Materials and Supplies	31,513	28,398
Services	27,098	27,943
Utilities	6,867	6,638
Casualty and Liability	5,278	3,856
Purchased Transportation	28,392	28,132
Leases and Rentals	420	112
Miscellaneous	1,856	1,821
Depreciation Expense	53,292	51,022
Costs Allocated to Capital and Other Programs	(39,691)	(35,159)
TOTAL OPERATING EXPENSE	355,179	355,873
OPERATING LOSS	(317,126)	(317,997)
NON-OPERATING REVENUES (EXPENSES)		
Sales Tax Revenue	323,575	325,037
Federal Operating Assistance Grants	22,425	35,514
State and Local Operating Assistance Grants	104,080	104,917
Caltrain Subsidy	(15,416)	(15,237)
Capital Expenses on Behalf of, and Contribution To, Other Agencies	(19,331)	(7,272)
Altamont Commuter Express Subsidy	(2,621)	(2,542)
Investment Earnings	20,370	11,304
Interest Expense	(12,214)	(13,672)
Other Income	3,523	1,347
Other Expense	(3,280)	(3,581)
NON-OPERATING REVENUE, NET	421,111	435,815
INCOME(LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	103,985	117,818
TRANSFERS	-	50,000
CAPITAL CONTRIBUTIONS	153,443	199,999
CHANGE IN NET ASSETS	257,428	367,817
NET ASSETS, BEGINNING OF YEAR	2,370,056	2,002,239
NET ASSETS, END OF YEAR	\$ 2,627,484	\$ 2,370,056

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Comparative Statement of Cash Flows
Enterprise Fund
For the Years Ended June 30,
(In thousands)

	<u>2008</u>	<u>2007</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash Received from Passenger Fares	35,830	35,242
Cash Received from Advertising	2,223	2,634
Cash Paid to Employees	(200,463)	(207,951)
Cash Paid to Suppliers	(66,351)	(68,492)
Cash Paid for Purchased Transportation	<u>(28,392)</u>	<u>(28,132)</u>
Net Cash Provided By/(Used In) Operating Activities	<u>(257,153)</u>	<u>(266,699)</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>		
Operating Grants Received	126,115	134,265
Sales Tax Received	321,205	320,031
Caltrain Subsidy	(15,416)	(15,237)
Altamont Commuter Express Subsidy	(2,621)	(2,542)
Other Miscellaneous Receipts/(Payments)	(134)	1,347
Contributions to Other Agencies	<u>(4,550)</u>	<u>(1,229)</u>
	<u>424,599</u>	<u>436,635</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Payment of Long-Term Debt	(11,315)	(10,855)
Advance from Other Governments	14,186	-
Proceeds from Issuance of Bonds	531,210	456,084
Payoff of Old Bonds	(596,960)	(397,945)
Interest Paid on Long-Term Debt	(12,214)	(11,972)
Cost of Bond Issuance	(2,312)	(2,526)
Acquisition and Construction of Capital Assets	(210,651)	(127,781)
Capital Contribution from Other Governments	<u>150,300</u>	<u>160,770</u>
	<u>(137,756)</u>	<u>65,775</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Proceeds from Sale of Investments	2,070,212	514,967
Purchases in Investments	(2,169,197)	(724,481)
Interest Income Received	<u>18,909</u>	<u>10,970</u>
	<u>(80,076)</u>	<u>(198,544)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(50,386)	37,167
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>97,331</u>	<u>60,164</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>46,945</u>	<u>97,331</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Comparative Statement of Cash Flows (Continued)
Enterprise Fund
For the Years Ended June 30,
(In thousands)

	2008	2007
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET		
CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES:		
Operating income/(loss)	(315,482)	(317,997)
<i>Adjustments to reconcile operating income (loss) to net cash used in operating activities:</i>		
Depreciation	53,292	51,022
<i>Changes in Operating Assets and Liabilities:</i>		
Receivables	806	(972)
Inventories	290	127
Accounts Payable	6,030	1,689
Other Accrued Liabilities	(7,019)	764
Non-Current - Other Accrued Liabilities	750	(807)
Due to Other Governmental Agencies	2,159	-
Due to/From Other Funds	2,021	(525)
Net Cash Provided By/(Used In) Operating Activities	(257,153)	(266,699)
 RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF FUND NET ASSETS:		
<i>Cash and cash equivalents, end of year:</i>		
Unrestricted	2,831	2,424
Restricted	44,114	57,740
	46,945	60,164
 NONCASH ACTIVITIES:		
Increase/(Decrease) in Fair Value of Investments	1,527	(474)
Change in Estimates for Provision of Workers' Compensation, General Liability, and Compensated Absences Claims	(4,366)	-
Net Cash Provided By/(Used In) Operating Activities	(2,839)	(474)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
 Budgetary Comparison Schedule - Enterprise Fund
 VTA Transit Fund
 For the year ended June 30, 2008
 (In thousands)

	Adopted Budget	Final Budget	Actual	Favorable (Unfavorable)
<u>REVENUES</u>				
Fares	\$ 34,062	\$ 34,062	\$ 35,830	\$ 1,768
1976 1/2 Cent Sales Tax	171,308	171,308	163,038	(8,270)
Transportation Development Act Funds	83,546	83,546	83,547	1
Measure A Sales Tax Oper Assistance	31,618	31,618	29,630	(1,988)
State Transit Assistance funds	7,223	7,223	19,022	11,799
Federal Operating Grants	16,618	16,618	22,425	5,807
State Operating Grants	1,333	1,333	1,512	179
Investment Earnings	5,001	5,001	5,688	687
Advertising Income	1,837	1,837	2,044	207
Other Income	13,174	13,174	15,351	2,177
TOTAL REVENUES	<u>365,720</u>	<u>365,720</u>	<u>378,086</u>	<u>12,367</u>
<u>OPERATING EXPENSES</u>				
Labor Costs	259,120	259,031	240,155	18,876
Materials & Supplies	16,627	16,895	16,380	515
Security	7,355	7,491	7,497	(6)
Professional & Special Services	6,291	6,851	4,303	2,548
Other Services	10,181	9,459	8,309	1,150
Fuel	13,894	14,494	14,506	(12)
Traction Power	3,617	3,551	3,290	261
Tires	1,766	1,438	1,387	51
Utilities	2,454	2,454	2,504	(50)
Insurance	5,532	5,322	5,278	44
Data Processing	3,110	2,893	2,910	(17)
Office Expense	427	430	377	53
Communications	1,439	1,390	1,073	317
Employee Related Expense	1,723	1,757	775	982
Leases & Rents	471	471	420	51
Miscellaneous	1,659	(2,395)	969	(3,364)
Reimbursements	(51,951)	(51,951)	(47,583)	(4,368)
TOTAL OPERATING EXPENSES	<u>283,715</u>	<u>279,581</u>	<u>262,550</u>	<u>17,031</u>
<u>OTHER EXPENSES</u>				
Paratransit	31,720	31,720	30,707	1,013
Caltrain	16,116	16,116	16,089	27
Light Rail Shuttles	193	193	97	96
Altamont Commuter Express	3,973	3,973	3,912	61
Highway 17 Express	462	462	383	79
Dumbarton Express	488	371	344	27
Monterey-San Jose Express Service	105	105	60	45
Contribution to Other Agencies	540	628	611	17
Debt Service	24,879	24,080	22,958	1,122
Other Expenses	-	-	2	(2)
Contingencies	2,000	-	-	-
TOTAL OTHER EXPENSES	<u>80,476</u>	<u>77,648</u>	<u>75,163</u>	<u>2,485</u>
TOTAL OPERATING AND OTHER EXPENSES	<u>364,191</u>	<u>357,229</u>	<u>337,713</u>	<u>19,516</u>
NET INCOME, ON A BUDGETARY BASIS	<u>1,529</u>	<u>8,491</u>	<u>40,374</u>	<u>31,883</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
 Budgetary Comparison Schedule - Enterprise Fund (Continued)
 VTA Transit Fund
 For the year ended June 30, 2008
 (In thousands)

	<u>FY 08 Adopted Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
NET INCOME, ON A BUDGETARY BASIS	\$ 1,529	\$ 1,529	\$ 40,374	\$ 38,863
Reconciliation of Net Income on a Budgetary Basis				
To Net Income on a GAAP Basis:				
Project Revenues - VTA Enterprise			24,296	
Project Expenditure			(5,149)	
Capital Contributions to Other Agencies			(4,550)	
Bond Principal Payment			11,315	
Amortization of Bond Discounts			(1,369)	
Unrealized Gain on investment			635	
Debt Reduction Fund Interest Earnings			2,330	
Other non-budgetary revenues/(expenses)			495	
Depreciation			(53,292)	
Net Income, on a GAAP Basis			<u>\$ 15,085</u>	

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Supplemental Schedule of Restricted Assets and Related Current Liabilities

Enterprise Fund

For the Year Ended June 30, 2008

(In thousands)

	<u>Capital & Operating</u>	<u>Debt Service</u>	<u>Total Enterprise</u>
RESTRICTED ASSETS:			
Cash and Cash Equivalents	\$ 20,119	\$ -	\$ 20,119
Cash and Equity with Fiscal Agent	1,714	22,281	23,995
Investments	238,957	185,670	424,627
Due from Other Governmental Agencies	82,179	-	82,179
Other Current Assets	5	-	5
TOTAL ASSETS	\$ 342,974	\$ 207,951	\$ 550,925
LIABILITIES PAYABLE FROM RESTRICTED ASSETS:			
Accounts Payable	\$ 21,639	\$ -	\$ 21,639
Other Accrued Liabilities – Current	4,711	-	4,711
Due to Other Funds	22	-	22
Current Portion of Long-Term Debt	-	855	855
Due to Other Governmental Agencies	35,929	-	35,929
TOTAL LIABILITIES	\$ 62,301	\$ 855	\$ 63,156

SANTA CLARA VALLEY TRANSPORTATION AGENCY
Combining Statement of Fiduciary Net Assets
Retiree Trust Funds
For the Year Ended June 30, 2008
(In thousands)

	ATU Pension	OPEB Trust	ATU Medical			Total
			Spousal Medical	Retiree Vision/ Dental	Total ATU Medical	
<u>ASSETS</u>						
<i>Restricted Assets:</i>						
Investments	\$ 322,097	\$ 103,965	\$ 8,630	\$ 3,526	\$ 12,156	\$ 438,218
Receivables	1,287	444	-	-	-	1,731
TOTAL ASSETS	<u>323,384</u>	<u>104,409</u>	<u>8,630</u>	<u>3,526</u>	<u>12,156</u>	<u>439,949</u>
<u>LIABILITIES</u>						
<i>Restricted Liabilities:</i>						
Accounts Payable	227	-	1	-	1	228
<u>NET ASSETS</u>						
<i>Net Assets Held in Trust for:</i>						
Pension Benefits	323,157	-	-	-	-	323,157
OPEB Trust	-	104,409	-	-	-	104,409
Spousal Medical Benefits	-	-	8,629	-	8,629	8,629
Retiree Dental and Vision Benefits	-	-	-	3,526	3,526	3,526
TOTAL NET ASSETS	<u>\$ 323,157</u>	<u>\$ 104,409</u>	<u>\$ 8,629</u>	<u>\$ 3,526</u>	<u>\$ 12,155</u>	<u>\$ 439,721</u>

SANTA CLARA VALLEY TRANSPORTATION AGENCY
Combining Statement of Changes in Fiduciary Net Assets
Retiree Trust Funds
For the Year Ended June 30, 2008
(In thousands)

	ATU		ATU Medical Trust			Total
	Pension Trust	OPEB Trust	Spousal Medical	Vision/Dental	Total Medical Trust	
ADDITIONS						
Contributions	\$ 16,137	\$ 15,685	\$ 917	\$ 367	\$ 1,284	\$ 33,106
Transfers	-	101,738	-	-	-	101,738
<i>Investment Earnings:</i>						
Investment Income	9,659	2,358	16	5	21	12,038
Net Depreciation in the Fair Value of Investments	(31,152)	(8,472)	(643)	(89)	(732)	(40,356)
Investment Expense	(1,293)	(102)	-	-	-	(1,395)
Net Investment Income	<u>(22,786)</u>	<u>(6,216)</u>	<u>(627)</u>	<u>(84)</u>	<u>(711)</u>	<u>(29,713)</u>
TOTAL ADDITIONS	<u>(6,649)</u>	<u>111,207</u>	<u>290</u>	<u>283</u>	<u>573</u>	<u>105,131</u>
DEDUCTIONS						
Benefit Payments	19,934	6,774	1,297	-	1,297	28,005
Administrative Expenses	163	24	3	-	3	190
TOTAL DEDUCTIONS	<u>20,097</u>	<u>6,798</u>	<u>1,300</u>	<u>-</u>	<u>1,300</u>	<u>28,195</u>
NET INCREASE	(26,746)	104,409	(1,010)	283	(727)	76,936
NET ASSETS HELD IN TRUST						
BEGINNING OF YEAR	349,903	-	9,639	3,243	12,882	362,785
END OF YEAR	<u>\$ 323,157</u>	<u>\$ 104,409</u>	<u>\$ 8,629</u>	<u>\$ 3,526</u>	<u>\$ 12,155</u>	<u>\$439,721</u>

SANTA CLARA VALLEY TRANSPORTATION AGENCY
 Combining Statement of Fiduciary Assets and Liabilities
 Agency Funds
 For the Year Ended June 30, 2008
 (In thousands)

	BAAQMD Program	Measure B Ancillary Program	Total
<u>ASSETS</u>			
<i>Restricted Assets:</i>			
Cash and Cash Equivalents	\$ -	\$ 16,639	\$ 16,639
Investments	2,043	-	2,043
TOTAL ASSETS	2,043	16,639	18,682
<u>LIABILITIES</u>			
<i>Liabilities payable from restricted assets:</i>			
Accounts Payable	1,991	4,070	6,061
Due To Other Funds	52	-	52
Due To Other Governmental Agencies	-	12,569	12,569
Total Liabilities Payable from Restricted Assets	\$ 2,043	\$ 16,639	\$ 18,682

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Combining Statement of Changes in Fiduciary Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2008
(In thousands)

	Balance 30-Jun-07	Increase	Decrease	Balance 30-Jun-08
<u>BAAQMD PROGRAM</u>				
<i>Restricted assets:</i>				
Investments	\$ 2,481	\$ -	\$ 438	\$ 2,043
<i>Liabilities payable from restricted assets:</i>				
Accounts payable	2,420	-	429	1,991
Due to other funds	61	-	9	52
TOTAL LIABILITIES PAYABLE FROM RESTRICTED ASSETS	2,481	-	438	2,043
<u>MEASURE B ANCILLARY PROGRAM</u>				
<i>Restricted Assets:</i>				
Cash and Cash Equivalents	15,769	870	-	16,639
<i>Liabilities payable from restricted assets:</i>				
Accounts payable	1,452	2,618	-	4,070
Due to other governmental agencies	14,317	-	1,748	12,569
TOTAL LIABILITIES PAYABLE FROM RESTRICTED ASSETS	15,769	2,618	1,748	16,639
<u>TOTAL - ALL AGENCY FUNDS</u>				
<i>Restricted assets:</i>				
Cash and cash equivalents	15,769	870	-	16,639
Investments	2,481	-	438	2,043
TOTAL RESTRICTED ASSETS	18,250	870	438	18,682
<i>Liabilities payable from restricted assets:</i>				
Accounts payable	3,872	2,618	429	6,061
Due to other funds	61	-	9	52
Due to other governmental agencies	14,317	-	1,748	12,569
TOTAL LIABILITIES PAYABLE FROM RESTRICTED ASSETS	\$ 18,250	\$ 2,618	\$ 2,186	\$ 18,682

SECTION 3 – STATISTICAL SECTION

FINANCIAL TRENDS:

These schedules contain trend information to help the reader understand how VTA's financial performance and financial condition have changed over time:

- ♦ Table 1 – Changes in Net Assets
- ♦ Table 2 – Net Assets by Components
- ♦ Table 3 – Fund Balances and Changes in Fund Balances, Governmental Funds
- ♦ Table 4 – Current Ratio
- ♦ Table 5 – Operating Revenues and Operating Expenses
- ♦ Table 6 – Non Operating Assistance and Interest Income
- ♦ Table 7 – Targeted Operating Reserves

REVENUE CAPACITY:

These schedules contain information to help the reader assess VTA's most significant local revenue source, the sales tax:

- ♦ Table 8 – Revenue Base and Revenue Rates
- ♦ Table 9 – Overlapping Revenue
- ♦ Table 10 – Principal Sales Tax Payers by Segments

DEBT CAPACITY:

These schedules present information to help the reader assess the affordability of VTA's current levels of outstanding debt and VTA's ability to issue additional debt in the future:

- ♦ Table 11 – Total Outstanding Debt by Type
- ♦ Table 12 – Ratios of Outstanding Debt
- ♦ Table 13 – Direct and Overlapping Debt and Debt Limitation
- ♦ Table 14 – Pledged Revenue Coverage - 1976 Half-Cent Sales Tax Revenue Bonds
- ♦ Table 15 – Pledged Revenue Coverage – 2000 Measure A Half-Cent Sales Tax Revenue Bonds
- ♦ Table 16 – Projected Pledged Revenue Coverage

DEMOGRAPHIC AND ECONOMIC INFORMATION:

These schedules offer demographic and economic indicators to help the reader understand the environment within which VTA's financial activities take place:

- ♦ Table 17 – Population Trends
- ♦ Table 18 – Income and Unemployment Rates
- ♦ Table 19 – Wage and Salary Employment by Industry (Annual Average)
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OPERATING INFORMATION:

- ♦ Table 21 – Operating Indicators
- ♦ Table 22 – Farebox Recovery Ratio
- ♦ Table 23 – Revenue Miles
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- ♦ Table 26 – System Data
- ♦ Table 27 – Employees
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FINANCIAL TRENDS

TABLE 1
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Financial Trends - Changes in Net Assets
Seven Years Ended June 30, 2008
(Accrual Basis of Accounting)
(In thousands)

	Fiscal Year						
	2002 ⁽¹⁾	2003	2004	2005	2006	2007	2008
EXPENSES							
<i>Business-type activities:</i>							
Operations and Operating Projects	\$ 341,209	\$ 335,760	\$ 286,098	\$ 300,430	\$ 339,857	\$ 321,059	\$ 344,469
Caltrain Subsidy & Capital Contributions	25,315	22,298	16,805	14,112	42,200	22,509	34,747
Altamont Commuter Express Subsidy	1,740	2,715	2,392	2,470	2,470	2,542	2,621
Interest Expense	14,717	14,222	13,690	13,761	11,562	13,672	12,214
Other Expenses	2,838	4,858	3,022	3,316	6,972	4,636	3,280
Benefit Payments	-	-	14,816	21,370	11,538	14,285	10,513
Total Business-Type Activities Expenses	<u>385,819</u>	<u>379,853</u>	<u>336,823</u>	<u>355,459</u>	<u>414,599</u>	<u>378,703</u>	<u>407,844</u>
<i>Governmental activities:</i>							
Operations and operating projects	2,740	3,582	2,858	4,735	5,982	6,528	6,450
Capital projects for the benefit of other agencies	112,697	141,271	115,262	94,146	80,763	45,806	43,798
Total governmental activities expenses	<u>115,437</u>	<u>144,853</u>	<u>118,120</u>	<u>98,881</u>	<u>86,745</u>	<u>52,334</u>	<u>50,248</u>
Total primary government expenses	<u>\$ 501,256</u>	<u>\$ 524,706</u>	<u>\$ 454,943</u>	<u>\$ 454,340</u>	<u>\$ 501,344</u>	<u>\$ 431,037</u>	<u>\$ 458,092</u>
PROGRAM REVENUES							
<i>Business-type activities:</i>							
Charges for services	\$ 37,122	\$ 34,376	\$ 33,422	\$ 34,692	\$ 36,926	\$ 37,876	38,053
Operating grants	127,373	104,132	111,577	113,925	114,764	140,431	126,505
Capital grants	226,125	316,997	217,053	96,860	22,522	199,999	153,443
Total business-type activities program revenues	<u>390,620</u>	<u>455,505</u>	<u>362,052</u>	<u>245,477</u>	<u>174,212</u>	<u>378,306</u>	<u>318,001</u>
<i>Governmental activities:</i>							
Charges for services	1,686	2,177	1,862	2,231	2,290	2,397	2,475
Operating grants	2,405	852	517	1,190	850	1,023	2,193
Capital grants	112,668	141,364	116,012	95,746	83,207	48,180	45,109
Total governmental activities program revenues	<u>116,759</u>	<u>144,393</u>	<u>118,391</u>	<u>99,167</u>	<u>86,347</u>	<u>51,600</u>	<u>49,777</u>
Total primary government revenues	<u>\$ 507,379</u>	<u>\$ 599,898</u>	<u>\$ 480,443</u>	<u>\$ 344,644</u>	<u>\$ 260,559</u>	<u>\$ 429,906</u>	<u>\$ 367,778</u>
NET (EXPENSE)/REVENUE							
Business-type activities	\$ 4,801	\$ 75,652	\$ 25,229	\$(109,982)	\$ (240,387)	\$ (397)	\$ (89,843)
Governmental activities	1,322	(460)	271	286	(398)	(734)	(471)
Total primary government net expense	<u>\$ 6,123</u>	<u>\$ 75,192</u>	<u>\$ 25,500</u>	<u>\$(109,696)</u>	<u>\$ (240,785)</u>	<u>\$ (1,131)</u>	<u>\$ (90,314)</u>
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS							
<i>Business-type activities:</i>							
Sales tax revenue	\$ 144,218	\$ 132,632	\$ 138,917	\$ 145,008	\$ 195,453	\$ 325,037	\$ 323,575
Investment income	24,512	14,245	6,382	11,206	10,537	27,288	22,511
Other income	2,883	4,104	2,102	2,628	9,158	1,347	3,523
<i>Special items:</i>							
Loss from sublease of vehicles	-	-	(15,918)	(7,773)	-	-	-
Revenue from headlease	-	-	29,999	-	-	-	-
Gain on sale of land	-	12,224	-	-	-	-	-
Transfer to OPEB Trust	-	-	-	-	-	-	(101,738)
Change in provisions for workers' compensation claims	-	-	-	-	-	23,769	4,662
Total business-type activities	<u>171,613</u>	<u>163,205</u>	<u>161,482</u>	<u>151,069</u>	<u>215,148</u>	<u>377,441</u>	<u>252,533</u>
<i>Governmental activities:</i>							
Sales tax revenue	-	61	-	-	-	-	-
Investment income	30	99	79	174	207	267	349
Other income	8	12	18	19	28	3	151
Total governmental activities	<u>38</u>	<u>172</u>	<u>97</u>	<u>193</u>	<u>235</u>	<u>270</u>	<u>500</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 171,651</u>	<u>\$ 163,377</u>	<u>\$ 161,579</u>	<u>\$ 151,262</u>	<u>\$ 215,383</u>	<u>\$ 377,711</u>	<u>\$ 253,033</u>
CHANGE IN NET ASSETS							
Business-type activities	176,414	238,857	186,711	41,087	(25,239)	377,044	162,690
Governmental activities	1,360	(288)	368	479	(163)	(464)	29
Total primary government	<u>\$ 177,774</u>	<u>\$ 238,569</u>	<u>\$ 187,079</u>	<u>\$ 41,566</u>	<u>\$ (25,402)</u>	<u>\$ 376,580</u>	<u>\$ 162,719</u>

Notes:

⁽¹⁾ The data is shown retroactively to fiscal years when VTA implemented GASB Statement No. 34.

Source: Comprehensive Annual Financial Reports

TABLE 2
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Financial Trends - Net Assets by Component
Seven Years Ended June 30, 2008
(Accrual Basis of Accounting)
(In thousands)

	Fiscal Year						
	2002 ⁽¹⁾	2003	2004	2005	2006	2007	2008
BUSINESS-TYPE ACTIVITIES							
Invested in Capital Assets, Net of Related Debt	\$ 1,367,401	\$ 1,686,313	\$ 1,846,221	\$ 1,867,513	\$ 1,817,396	\$ 1,888,879	\$ 2,056,769
Restricted	-	-	65,780	44,400	35,153	353,186	141,764
Designated	-	-	-	-	-	-	438,848
Unrestricted	242,699	162,644	169,798	210,973	245,098	232,626	-
Total Business-Type Activities Net Assets	1,610,100	1,848,957	2,081,799	2,122,886	2,097,647	2,474,691	2,637,381
GOVERNMENTAL ACTIVITIES							
Invested in Capital Assets, Net of Related Debt	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	-	-
Designated	-	-	-	-	-	-	-
Unrestricted	1,624	1,336	1,705	2,184	1,930	1,466	1,495
Total Governmental Activities Net Assets	1,624	1,336	1,705	2,184	1,930	1,466	1,495
PRIMARY GOVERNMENT							
Invested in Capital Assets, Net of Related Debt	1,367,401	1,686,313	1,846,221	1,867,513	1,817,396	1,888,879	2,056,769
Restricted	-	-	65,780	44,400	35,153	353,186	141,764
Designated	-	-	-	-	-	-	438,848
Unrestricted	244,323	163,980	171,503	213,157	247,028	234,092	1,495
Total Primary Government Net Assets	<u>\$ 1,611,724</u>	<u>\$ 1,850,293</u>	<u>\$ 2,083,504</u>	<u>\$ 2,125,070</u>	<u>\$ 2,099,577</u>	<u>\$ 2,476,157</u>	<u>\$ 2,638,876</u>

Notes:

⁽¹⁾ The data is shown retroactively to fiscal years when VTA implemented GASB Statement No. 34.

Source: Comprehensive Annual Financial Reports

TABLE 3
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Financial Trends - Fund Balances and Changes in Fund Balances, Governmental Funds
Ten Years Ended June 30, 2008
(Modified Accrual Basis of Accounting)
(In thousands)

	Fiscal Year									
	1999	2000	2001 ⁽¹⁾	2002	2003	2004	2005	2006	2007	2008 ⁽²⁾
REVENUES										
Member Agency Assessment Revenue	\$ 1,240	\$ 1,240	\$ 1,240	\$ 1,587	\$ 2,032	\$ 1,783	\$ 2,174	\$ 2,250	\$ 2,329	\$ 2,410
Federal Technical Studies Operating Assistance Grants	1,089	1,042	453	452	453	223	1,036	621	794	1,102
Federal Grants	3,310	27	-	-	-	-	-	-	-	-
Other Contributions	-	390	-	-	-	-	-	-	-	-
Sales Tax	1,262	-	71	-	60	-	-	-	-	-
Administrative Fees	-	85	53	99	145	80	57	40	68	65
State Operating Assistance Grants	62	31	118	1,953	400	293	63	229	229	1,091
Local Grant Revenue	767	15,888	41,107	112,668	141,364	116,013	95,746	83,207	48,180	45,109
Other Revenues	-	2	35	8	12	17	19	28	3	151
Investment Earnings	106	15	37	30	99	79	174	207	267	349
Total Revenues	<u>7,836</u>	<u>18,720</u>	<u>43,114</u>	<u>116,797</u>	<u>144,565</u>	<u>118,488</u>	<u>99,269</u>	<u>86,582</u>	<u>51,870</u>	<u>50,277</u>
EXPENDITURES										
Current:										
Congestion Management:										
Salaries And Benefits	1,711	1,296	1,551	1,388	2,604	2,733	4,177	5,179	5,640	5,680
Services	1,626	1,786	1,469	1,283	919	390	640	803	888	770
Program Expenditures	7,226	70	-	-	-	-	-	-	-	-
Capital Outlay:										
Capital Improvement Projects	-	15,888	40,963	112,697	141,271	115,262	94,064	80,763	45,806	43,798
Total Expenditures	<u>10,563</u>	<u>19,040</u>	<u>43,983</u>	<u>115,368</u>	<u>144,794</u>	<u>118,385</u>	<u>98,881</u>	<u>86,745</u>	<u>52,334</u>	<u>50,248</u>
Excess (Deficiency) Of Revenues Over Expenditures	(2,727)	(320)	(869)	1,429	(229)	103	388	(163)	(464)	29
OTHER FINANCING SOURCES (USES):										
Transfer In	-	-	-	-	-	-	86	-	-	-
Transfer Out	-	-	-	-	-	-	(86)	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>\$ (2,727)</u>	<u>\$ (320)</u>	<u>\$ (869)</u>	<u>\$ 1,429</u>	<u>\$ (229)</u>	<u>\$ 103</u>	<u>\$ 388</u>	<u>\$ (163)</u>	<u>\$ (464)</u>	<u>\$ 29</u>
TOTAL GOVERNMENTAL FUNDS										
Reserved	-	-	-	-	-	-	-	-	-	-
Unreserved	1,453	1,133	402	1,831	1,602	1,705	2,093	1,930	1,466	1,495
Total Governmental Funds	<u>\$ 1,453</u>	<u>\$ 1,133</u>	<u>\$ 402</u>	<u>\$ 1,831</u>	<u>\$ 1,602</u>	<u>\$ 1,705</u>	<u>\$ 2,093</u>	<u>\$ 1,930</u>	<u>\$ 1,466</u>	<u>\$ 1,495</u>

Notes:

⁽¹⁾ FY2001 restated for changes in accounting principles.

⁽²⁾ The major changes to prior fiscal years are explained in Management Discussion & Analysis.

Source: Comprehensive Annual Financial Reports

TABLE 4
Santa Clara Valley Transportation Authority
Financial Trends – Current Ratio
Enterprise Fund
Ten Years Ended June 30, 2008

The Current Ratio indicates VTA’s ability to meet all of its short-term liabilities with liquid assets and is determined by dividing total current assets and restricted assets, by all current liabilities and liabilities payable from restricted assets. A Current Ratio of 1 or higher is an indication of financial strength.

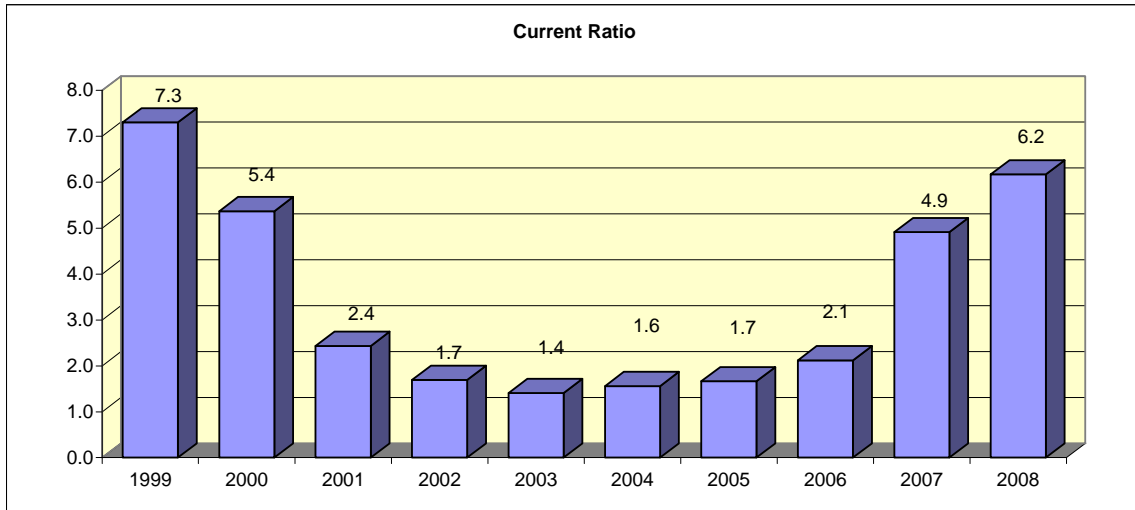
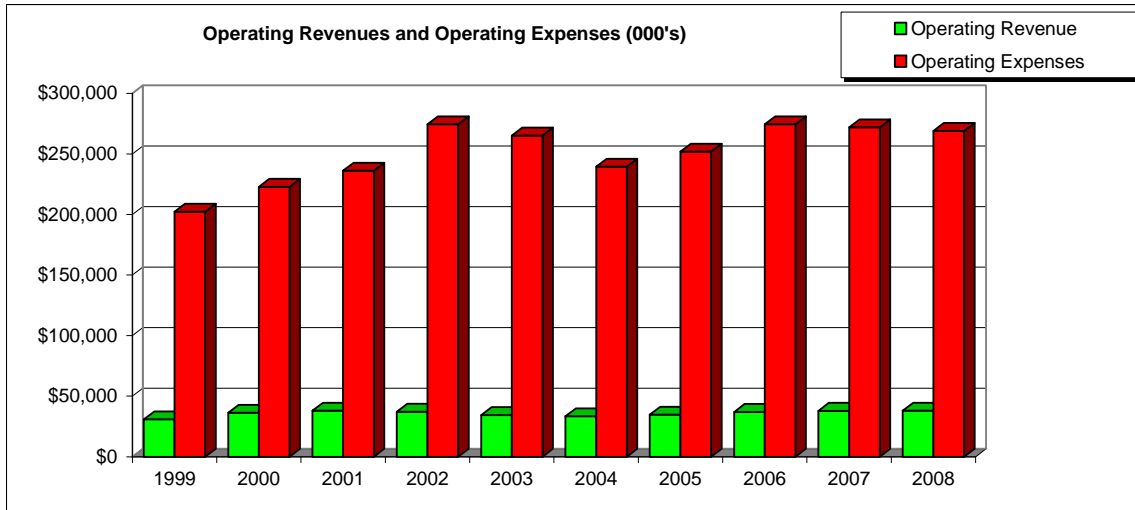


TABLE 5
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
 Financial Trends - Operating Revenues and Operating Expenses
 Enterprise Fund
 Ten Years Ended June 30, 2008

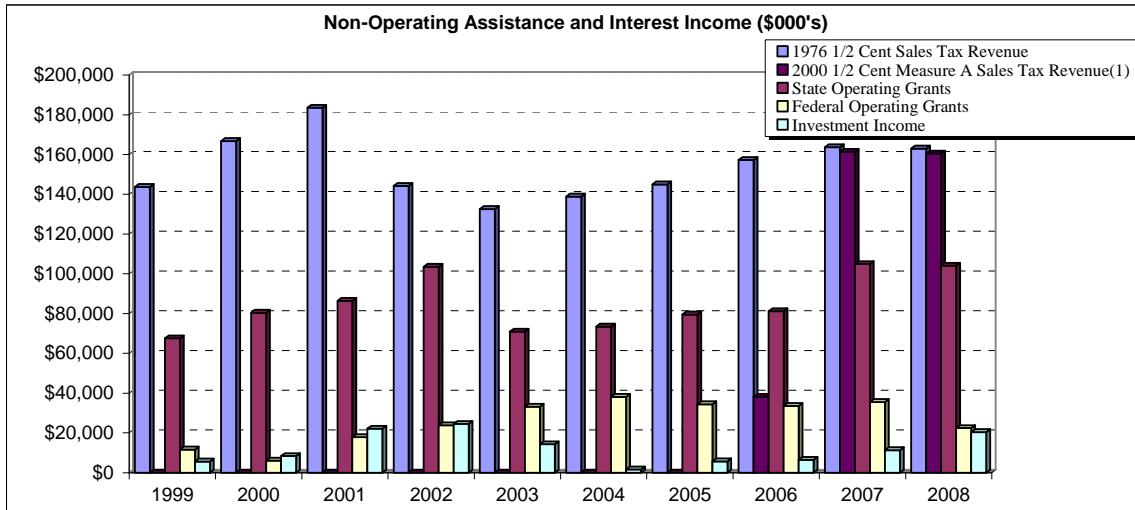
The chart below shows a comparison of operating revenue to expenses. Operating expenses are exclusive of purchased transportation and depreciation to more accurately reflect operating expenses related to direct operating service.



	Operating Revenues and Operating Expenses									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Operating Revenue	\$30,956	\$36,253	\$37,982	\$37,122	\$34,376	\$33,421	\$34,692	\$36,926	\$37,876	\$38,053
Operating Expenses	202,227	222,875	236,137	274,407	265,180	239,411	251,874	274,426	271,975	273,495

TABLE 6
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
 Financial Trends - Non-Operating Assistance and Interest Income
 Enterprise Fund
 Ten Years Ended June 30, 2008

The following chart illustrates trends in selected non-operating revenue sources. Sales tax revenue is the largest non-operating revenue source shown in the following graph. This is the third year 2000 Measure A Half-Cent Sales Tax revenue has been collected.

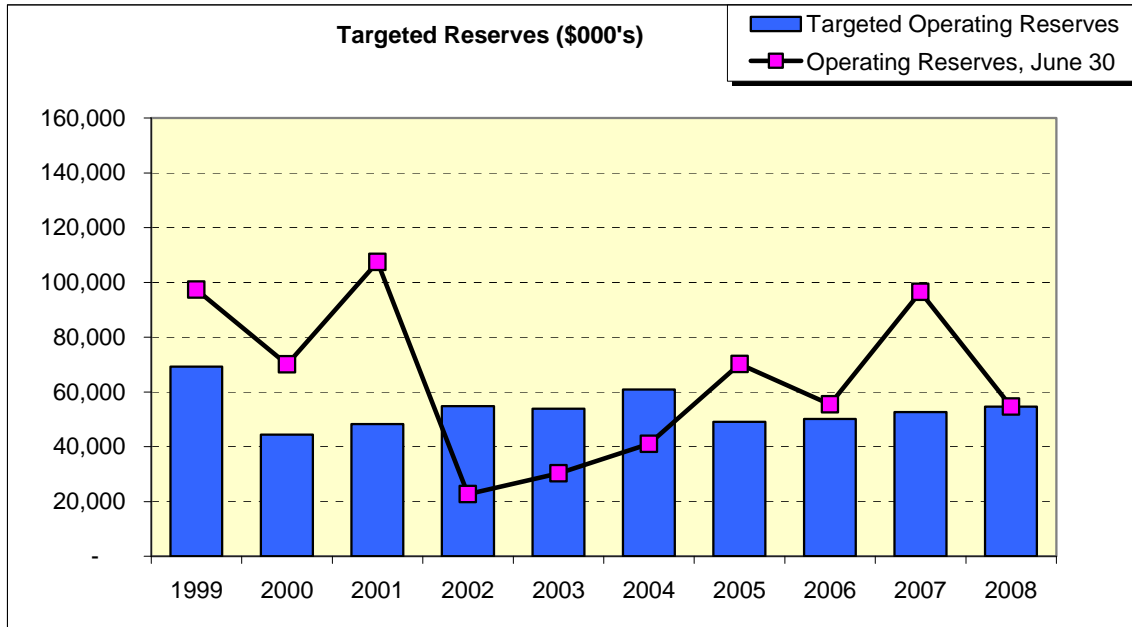


⁽¹⁾The collection of VTA's 2000 Measure A Sales Tax started on April 1, 2006.

	Non-Operating Assistance and Interest Income										
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	
1976 1/2 Cent Sales Tax Revenue	\$ 143,712	\$ 166,764	\$ 183,540	\$ 144,218	\$ 132,632	\$ 138,917	\$ 145,008	\$ 157,283	\$ 163,676	\$ 163,038	
2000 1/2 Cent Measure A Sales Tax Revenue ⁽¹⁾	-	-	-	-	-	-	-	38,170	161,361	160,537	
State Operating Grants	67,589	80,436	86,388	103,561	70,956	73,433	79,509	81,199	104,917	104,080	
Federal Operating Grants	11,656	6,051	17,867	23,811	33,176	38,144	34,416	33,565	35,514	22,425	
Investment Income	5,535	8,286	22,078	24,513	14,245	1,592	5,666	6,457	11,304	20,370	

TABLE 7
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
 Financial Trends – Targeted Operating Reserves
 Enterprise Fund
 Ten Years Ended June 30, 2008

The policy adopted by the VTA Board established an operating reserve goal of 15% of budgeted expenses. To calculate the actual reserve at fiscal year end, total current assets are reduced by total current liabilities to determine current net assets. Current Net Assets are then reduced by inventory and transfers to reach a current operating reserve total. During the last four fiscal years, VTA’s operating reserves has either met or exceeded its targeted reserve goal.



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total Current Assets	\$120,689	\$113,002	\$169,905	\$ 84,793	\$ 96,026	\$111,232	\$126,644	\$113,717	\$208,291	\$120,374
Total Current Liabilities	(11,085)	(25,941)	(46,804)	(41,876)	(43,785)	(45,865)	(37,762)	(37,945)	(41,602)	(44,953)
Net Current Assets	109,604	87,061	123,101	42,917	52,241	65,367	88,882	75,772	166,689	75,421
Less: Inventory & Other Current Assets⁽¹⁾	(12,229)	(17,006)	(15,634)	(20,239)	(21,951)	(24,335)	(18,713)	(20,361)	(20,234)	(20,791)
Operating Reserves, June 30	\$ 97,375	\$ 70,055	\$107,467	\$ 22,678	\$ 30,290	\$ 41,032	\$ 70,169	\$ 55,411	\$ 96,455	\$ 54,630
Operating Reserves Target (15% of Budgeted Expenses)	\$ 69,257	\$ 44,366	\$ 48,221	\$ 54,784	\$ 53,843	\$ 60,899	\$ 49,112	\$ 50,081	\$ 52,599	\$ 54,630

⁽¹⁾ Starting FY08, it includes inventory and other current assets; prior years included inventory only



REVENUE CAPACITY

TABLE 8
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Revenue Capacity - Revenue Base and Revenue Rates
Ten Years Ended June 30, 2008

<u>Revenue Rates (In thousands)</u>	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Passenger Fares ⁽¹⁾	\$ 27,070	\$ 32,325	\$ 33,838	\$ 31,282	\$ 30,960	\$ 30,625	\$ 32,061	\$ 34,335	\$ 35,242	\$ 35,830
Percentage Increase/(Decrease) from Prior Year	-0.1%	19.4%	4.7%	-7.6%	-1.0%	-1.1%	4.7%	7.1%	2.6%	1.7%
<u>Revenue Base</u>										
Number of Passengers ⁽²⁾	54,349,470	54,921,324	56,474,822	52,690,092	45,221,844	38,375,374	37,077,149	39,217,851	41,990,098	43,555,049
Percentage Increase/(Decrease) from Prior Year	2.5%	1.1%	2.8%	-6.7%	-14.2%	-15.1%	-3.4%	5.8%	7.1%	3.7%
<u>Fare Structure</u>										
Adult Local Fare	\$ 1.10	\$ 1.25	\$ 1.25	\$ 1.25	\$ 1.40	\$ 1.50	\$ 1.75	\$ 1.75	\$ 1.75	\$ 1.75
Youth Local Fare	\$ 0.60	\$ 0.70	\$ 0.70	\$ 0.70	\$ 0.85	\$ 1.25	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50
Senior/Disabled Local Fare	\$ 0.35	\$ 0.40	\$ 0.40	\$ 0.40	\$ 0.45	\$ 0.75	\$ 0.75	\$ 0.75	\$ 0.75	\$ 0.75
<u>Half-Cent Sales Tax Revenues (In thousands)</u>										
1976 1/2 Cent Sales Tax ⁽³⁾	\$ 143,712	\$ 166,764	\$ 183,540	\$ 144,218	\$ 132,632	\$ 138,917	\$ 145,008	\$ 157,283	\$ 163,676	\$ 163,038
2000 Measure A 1/2 Cent Sales Tax ⁽⁴⁾	-	-	-	-	-	-	-	38,170	161,361	160,537
Total Sales Tax Revenue Receipts ⁽⁵⁾	<u>\$ 143,712</u>	<u>\$ 166,764</u>	<u>\$ 183,540</u>	<u>\$ 144,218</u>	<u>\$ 132,632</u>	<u>\$ 138,917</u>	<u>\$ 145,008</u>	<u>\$ 195,453</u>	<u>\$ 325,037</u>	<u>\$ 323,575</u>
<u>Percentage Increase/(Decrease) from Prior Year</u>										
1976 1/2 Cent Sales Tax	3.8%	16.0%	10.1%	-21.4%	-8.0%	4.7%	4.4%	8.5%	4.1%	-0.4%
2000 Measure A 1/2 Cent Sales Tax ⁽⁴⁾	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	322.7%	-0.5%

Total Sales Tax Revenue Receipts

Notes:

⁽¹⁾ Includes fares for directly operated transit services such as bus, light rail, and shuttle services.

⁽²⁾ Source: VTA Operations Division.

⁽³⁾ The 1976 half-cent Sales Tax was approved by County voters in 1976 to fund VTA's transit operations and transportation improvements.

⁽⁴⁾ The 2000 Measure A half-cent Sales Tax was approved by County voters in 2000 to fund specific transportation improvement projects. The collection of this half-cent tax measure started in April 2006.

⁽⁵⁾ VTA receives the sales tax based on the total taxable sales activity in the County.

TABLE 9
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Revenue Capacity - Overlapping Revenue
Sales Tax Rates
Ten Years Ended June 30, 2008

<u>Fiscal Year</u>	<u>State</u>	<u>City</u>	<u>County⁽¹⁾</u>	<u>VTA⁽²⁾</u>	<u>Total</u>
1999	6.25%	1.00%	0.5%	0.5%	8.25%
2000	6.25%	1.00%	0.5%	0.5%	8.25%
2001	6.25%	1.00%	0.5%	0.5%	8.25%
2002	6.25%	1.00%	0.5%	0.5%	8.25%
2003	6.25%	1.00%	0.5%	0.5%	8.25%
2004	6.25%	1.00%	0.5%	0.5%	8.25%
2005	6.25%	1.00%	0.5%	0.5%	8.25%
2006 ⁽¹⁾	6.25%	1.00%	0.0% ⁽³⁾	1.00%	8.25%
2007	6.25%	1.00%	0.0%	1.00%	8.25%
2008	6.25%	1.00%	0.0%	1.00%	8.25%

Notes:

(1) Measure B, approved by Santa Clara County voters in the November 1996 General Election, authorized the Santa Clara County Board of Supervisors to collect a half-cent sales tax for nine years. The 1996 sales tax funded specific countywide transportation projects approved by voters under Measure A during the same election. The 1996 sales tax expired on March 31, 2006.

(2) VTA has two specific sales tax measures approved by the voters. The 1976 half-cent sales tax measure was approved by voters in 1976 and does not have a sunset clause. The 2000 Measure A half-cent sales tax was approved in the 2000 General Election and became effective on April 1, 2006. The 30-year sales tax measure will sunset on March 31, 2036.

(3) There was a partial year collection of 1996 Measure B Sales Tax it expired on March 31, 2006. The collection of VTA's 2000 Measure A Sales Tax started on April 1, 2006.

Source: California Board of Equalization

TABLE 10
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Revenue Capacity - Principal Sales Tax Payers by Segments
(In millions)

Principal Revenue Payers	Fiscal Year 2007 ⁽¹⁾			Fiscal Year 1998		
	Rank	Percentage of Taxable Sales	Amount	Rank	Percentage of Taxable Sales	Amount
Total all Other Outlets	1	34.1%	\$ 11,286	1	40.2%	\$ 11,058
Automotive	2	17.2%	5,690	2	13.7%	3,773
General Merchandise	3	9.2%	3,059	4	9.0%	2,464
Eating and Drinking	4	8.3%	2,737	5	6.9%	1,899
Other Retail Stores	5	7.2%	2,394	11	1.5%	406
Specialty Stores	6	5.8%	1,934	3	11.1%	3,041
Building Material	7	5.1%	1,678	7	4.0%	1,110
Apparel Stores	8	4.0%	1,312	9	2.7%	755
Business and Personal Services	9	3.9%	1,280	6	5.2%	1,430
Household Group	10	2.7%	897	8	2.9%	805
Food Stores	11	2.6%	864	10	2.7%	748
Total		<u>100.0%</u>	<u>\$ 33,131</u>		<u>100.0%</u>	<u>\$ 27,489</u>

Notes:

⁽¹⁾ 2008 data not available at printing

Source: State Board of Equalization, Taxable Sales in California (Sales and Use Tax)



DEBT CAPACITY

TABLE 11
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
 Debt Capacity – Total Outstanding Debt by Type
 Ten Years Ended June 30, 2008
 (In thousands)

Fiscal Year	Series 1985 A Equipment Trust Certificates ⁽¹⁾	1976 Sales Tax Revenue Bonds	2000 Sales Tax Revenue Bonds	Total Outstanding Debt
1999	\$ 29,660	\$ 85,790	\$ -	\$ 115,450
2000	29,660	85,008	-	114,668
2001	29,660	321,354	-	351,014
2002	29,660	313,641	-	343,301
2003	29,660	387,810	-	417,470
2004	29,660	297,415	250,042	577,117
2005	29,660	288,758	390,309	708,727
2006	29,660	280,319	390,036	700,015
2007	29,200	271,277	445,651	746,128
2008	26,500	279,600	356,825	662,925

Notes:

⁽¹⁾ \$26.5 million redeemed in FY2009.

TABLE 12
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
 Debt Capacity - Ratios of Outstanding Debt
 Ten Years Ended June 30, 2008
 (In thousands)

Fiscal Year	Total Outstanding Debt	Total County Taxable Sales⁽¹⁾	Total Debt as a % of Taxable Sales	Personal Income⁽¹⁾	Total Debt as a % of Personal Income
1999	\$ 115,450	\$ 31,623,873	0.37%	\$ 73,045,821	0.16%
2000	114,668	30,194,000	0.38%	91,386,181	0.13%
2001	351,014	28,491,600	1.23%	83,838,707	0.42%
2002	343,301	27,062,700	1.27%	77,548,912	0.44%
2003	417,470	27,453,900	1.52%	77,680,349	0.54%
2004	577,118	27,906,967	2.07%	82,638,917	0.70%
2005	708,727	28,878,355	2.45%	89,926,000	0.79%
2006	700,015	31,623,873	2.21%	97,685,000	0.73%
2007	746,128	33,131,466	2.25%	105,902,000	0.71%
2008	662,925	34,125,410	1.94%	109,079,060	0.61%

Notes:

The total VTA outstanding debt is pledged by its sales tax revenues. VTA has two sales tax revenue measures approved by the voters. The 1976 1/2 cent Sales Tax measure was approved in 1976 and the 2000 Measure A 1/2 cent Sales Tax was passed by County voters in the 2000 general election. The collection of this tax measure started in April 2006.

⁽¹⁾ Actual data is available through 2007. 2008 assumes a 3% growth rate over 2007 data.

This table shows the relationship between the revenue bonds and both the total taxable sales in the County and total personal income of the residents of the County.

TABLE 13
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Debt Capacity – Direct and Overlapping Debt and Debt Limitation

PLEASE NOTE:

Santa Clara Valley Transportation Authority does not have overlapping debt with other governments.

Santa Clara Valley Transportation Authority does not have a legal debt limit.

TABLE 14
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Debt Capacity – Pledged Revenue Coverage – 1976 Half-Cent Sales Tax Revenue Bonds
Ten Years Ended June 30, 2008
(In thousands)

<u>Fiscal Year</u>	<u>Available Revenue</u>	<u>Annual Debt Service</u>		<u>Total</u>	<u>Coverage ⁽²⁾</u>
	<u>Sales Tax Revenue</u>	<u>Principal</u>	<u>Interest ⁽¹⁾</u>		
1999	\$ 143,712	\$ 725	\$ 4,763	\$ 5,488	26.2
2000	166,764	782	4,616	5,398	30.9
2001	183,540	2,124	6,806	8,930	20.6
2002	144,218	7,952	14,717	22,669	6.4
2003	132,632	8,159	14,222	22,381	5.9
2004	138,917	8,894	13,691	22,585	6.2
2005	145,008	9,290	13,761	23,051	6.3
2006	157,283	10,955	11,562	22,517	7.0
2007	163,676	10,855	13,672	24,527	6.7
2008	163,038	11,315	12,214	23,529	6.9

Notes:

⁽¹⁾ Interest does not include interest paid from bond proceeds.

⁽²⁾ Bond indenture requires VTA to maintain coverage ratio of at least 2.0 times on its outstanding bonds.

TABLE 15
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Debt Capacity - Pledged Revenue Coverage - 2000 Measure A Half-Cent Sales Tax Revenue Bonds
Five Years Ended June 30, 2008
(In thousands)

<u>Fiscal Year</u>	<u>Available Revenue</u>	<u>Annual Debt Service</u>		<u>Total</u>	<u>Coverage</u> ⁽²⁾
	<u>Sales Tax Revenue</u>	<u>Principal</u>	<u>Interest</u> ⁽¹⁾		
2004	\$ -	\$ -	\$ 1,874	\$ 1,874	-
2005	-	-	11,996	11,996	-
2006	38,170	-	17,467	17,467	n/a ⁽³⁾
2007	161,361	-	15,202	15,202	10.6
2008	160,537	-	14,943	14,943	10.7

Notes:

⁽¹⁾ Interest does not include interest paid from bond proceeds.

⁽²⁾ Bond indenture requires VTA to maintain coverage ratio of at least 1.25 times on its outstanding bonds.

⁽³⁾ Collection of the 2000 Measure A Sales Tax started in the fourth quarter for FY2006.

TABLE 16
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
 Debt Capacity – Projected Pledged Revenue Coverage
 (Proforma and Unaudited)

The table below presents a five-year projection of forecasted debt service coverage based on estimates of the 1976 Sales Tax Revenues for the five years ending June 30, 2009 through 2013.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
 1976 Sales Tax Revenues and Senior Lien Debt Service Coverage
 Fiscal Years Ending June 30, 2009 – 2013 (Proforma and Unaudited)
 (In thousands)

Fiscal Year Ending June 30	Projected Sales Tax Revenue	Percent Increase ^{(1)*}	Aggregate Debt Service ⁽²⁾	Projected Coverage ⁽³⁾
2009	\$163,038	-----	\$13,365	12.19
2010	172,054	5.50%	13,300	12.93
2011	181,672	5.50%	13,134	13.83
2011	191,882	5.60%	12,880	14.89
2013	202,742	5.60%	12,851	15.77

⁽¹⁾Source: Growth rates provided by outside economist.

⁽²⁾Includes actual debt service on the 1997, 2001, 2007 and 2008 Bonds. Debt Service on the 2008 Bonds is calculated based on the rate established pursuant to the 2008 Swap Agreement, 3.145%.

⁽³⁾Does not include any additional parity debt.

The table below presents a five-year projection of forecasted debt service coverage for the Measure A Bonds, based on estimates of the 2000 Measure A Sales Tax Revenues for the five years ending June 30, 2009 through 2013.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
 2000 Measure A Sales Tax Revenues and Debt Service Coverage
 Fiscal Years Ending June 30, 2009 – 2013 (Proforma and Unaudited)
 (In thousands)

Fiscal Year Ending June 30	Projected Sales Tax Revenue	Percent Increase ^{(1)*}	Aggregate Debt Service ⁽²⁾	Projected Coverage ⁽³⁾
2009	\$163,038	-----	\$15,669	10.40
2010	172,054	5.50%	14,781	11.64
2011	181,672	5.50%	17,211	10.55
2012	191,882	5.60%	17,209	11.15
2013	202,742	5.60%	17,208	12.07

⁽¹⁾Source: Growth rates provided by outside economist.

⁽²⁾Includes debt service on the 2007 Series A Measure A Bonds, which is calculated based on true interest rate of 4.60%, and 2008 Series A-D bonds interest cost is calculated at 3.765%

⁽³⁾Does not include any additional parity debt.

* No assurance is given that actual results will meet the forecasts of VTA in any way, regardless of the level of optimism communicated in the information.

TABLE 17
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Demographic and Economic Data – Population Trends

The number of Santa Clara county residents is gradually increasing on a yearly basis according to population estimates provided by the State of California. In 2008, the County’s population increased by approximately 9.2% in comparison to the 2000 Census. Revised estimates show a 1.7% gain in the population of Santa Clara County from 2007 to 2008.

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

County of Santa Clara Population

	1960	1970	1980	1990	2000	2008
Campbell	11,863	24,731	26,843	36,048	38,138	40,161
Cupertino	3,664	18,216	34,297	40,263	50,546	55,551
Gilroy	7,348	12,665	21,641	31,487	41,464	51,173
Los Altos	19,696	24,872	25,769	26,303	27,693	28,291
Los Altos Hills	3,412	6,862	7,421	7,514	7,902	8,837
Los Gatos	9,036	23,466	26,906	27,357	28,592	30,296
Milpitas	6,572	27,149	37,820	50,686	62,698	69,419
Monte Sereno	1,506	3,074	3,434	3,287	3,483	3,579
Morgan Hill	3,151	6,485	17,060	23,928	33,556	39,218
Mountain View	30,889	54,206	58,655	67,460	70,708	73,932
Palo Alto	52,475	55,999	55,225	55,900	58,598	63,367
San Jose	204,196	445,779	629,400	782,248	894,943	989,496
Santa Clara	58,880	87,717	87,700	93,613	102,361	115,503
Saratoga	14,861	27,199	29,261	28,061	29,843	31,592
Sunnyvale	51,898	95,408	106,618	117,229	131,760	137,538
Unincorporated	162,056	152,181	127,021	106,193	100,300	99,122
County Total ⁽¹⁾	641,503	1,066,009	1,295,071	1,497,577	1,682,585	1,837,075
California	15,717,204	18,136,045	23,668,145	29,760,021	33,871,648	38,049,462

⁽¹⁾Totals may not be precise due to independent rounding.
Source: U.S. Census; State of California, Department of Finance,
Demographic Research Unit

TABLE 18
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Demographic and Economic Data - Income and Unemployment Rates

Year	Santa Clara County Personal Income (In millions) ⁽¹⁾⁽²⁾	Santa Clara County Per Capita Personal Income ⁽¹⁾⁽²⁾	Unemployment Rate ⁽³⁾
1999	\$ 73,045,821	\$ 43,701	3.1%
2000	91,386,181	54,195	3.1%
2001	83,838,707	49,615	5.1%
2002	77,548,912	46,305	8.5%
2003	77,680,349	46,363	8.5%
2004	82,638,917	49,132	6.6%
2005	89,926,000	51,277	5.5%
2006	97,685,000	55,020	5.0%
2007	105,902,000	58,716	4.7%
2008	109,079,060	60,476	5.1%

Sources:

California Employment Development Department - Santa Clara County Profile

⁽¹⁾ Bureau of Economic Analysis U.S. Department of Commerce.

⁽²⁾ Actual data is available through 2007. 2008 data is preliminary in personal income 3% over prior year.

⁽³⁾ Not seasonally adjusted.

TABLE 19
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Demographic and Economic Data – Wage and Salary Employment by Industry (Annual Average)
(In thousands)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Civilian Labor Force ⁽¹⁾	958.8	965.5	1,001.8	1,005.8	958.2	895.1	828.8	823.7	834.4	855.2
Civilian Employment	927.9	936.3	982.0	960.0	877.6	821.6	774.2	778.7	797.1	814.7
Civilian Unemployment	30.9	29.2	19.8	45.8	80.6	73.5	54.6	45.0	37.3	40.5
Civilian Unemployment Rate										
County	3.2%	3.0%	2.0%	4.6%	8.5%	8.2%	6.6%	5.5%	4.5%	4.7%
State of California	5.9%	5.2%	4.9%	5.3%	6.7%	6.5%	6.5%	5.4%	4.9%	5.4%
Wage and Salary Employment ⁽²⁾										
Total Farm Agriculture	5.2	5.3	5.0	4.6	4.5	4.2	4.1	3.8	3.8	3.7
Construction and Mining	41.3	44.8	47.6	48.0	42.5	39.0	40.1	42.7	45.5	49.5
Manufacturing	246.1	234.9	251.7	240.5	201.2	177.0	167.9	168.6	167.4	163.7
Transportation & Public Utilities	17.0	17.3	17.6	16.3	15.0	14.2	13.3	13.0	12.6	13.1
Wholesale Trade	42.4	42.3	42.2	40.7	35.7	33.5	34.0	35.1	37.6	39.1
Retail Trade	83.8	86.6	90.6	88.2	83.6	81.0	80.2	81.7	83.1	86.2
Finance, Insurance & Real Estate	33.8	34.2	34.0	35.2	35.0	34.8	34.7	35.9	36.8	38.2
Services	403.0	419.8	451.8	440.0	391.7	379.9	385.0	384.8	401.3	416.7
Government	88.9	91.4	94.5	94.6	98.1	94.8	91.7	93.0	93.5	90.2
Total ⁽³⁾	961.5	976.6	1,035.0	1,008.1	907.3	858.4	851.0	858.6	881.6	900.4

⁽¹⁾ 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 2007.

⁽²⁾ Wage and salary employment is reported by place of work. Data are benchmarked to 2007.

⁽³⁾ Totals may not be precise due to independent rounding.

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

In 2007, the County had 900,400 wage and salary jobs. This marked the third consecutive time since the year 2000 that there had been an increase in that figure when compared to the previous year. Manufacturing jobs make up approximately one out of every five workers (18%) of the labor force in Santa Clara County. San Jose in particular is ranked high in manufacturing strength and productivity among other large metropolitan areas.

Unemployment figures are steadily increasing. In June 2007, Santa Clara County's unemployment rate was 4.7%. One factor is that Silicon Valley's high-tech industry is benefiting from globalization and is attracting a greater stream of investment funds, ranking first in venture capital per capita.

Sources: State of California, Employment Development Department
www.dice.com, April 2007 - Technology Job Market – Silicon Valley, CA Q1 2007

TABLE 20
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Demographic and Economic Data – Silicon Valley Major Employees
Fiscal Year Ended June 30, 2008⁽¹⁾

Company Name	Number of Employees	Nature of Operations
Cisco Systems, Inc.	17,200	Computer network equipment manufacturer
Stanford University, Hospital & clinics, Linear Accelerator	16,600	Academic research, hospital, medical research, electron accelerators
Santa Clara County	15,000	County government
Lockheed Martin Space Systems Co.	8,000	Aerospace systems
State of California	7,708	State government
Hewlett-Packard Co.	7,000	Technology solutions provider
Intel Corp.	6,720	Microprocessor manufacturer
IBM Corp.	6,650	Creates, develops and manufactures information technologies
Oracle Corp.	6,532	Software developer
Sun Microsystems Inc.	6,456	Network computing servers, storage, software and services
City of San Jose	6,187	Local government
San Jose State University	5,727	Higher education
New United Motor Manufacturing, Inc.	5,500	Automotive manufacturing
Safeway Inc.	5,000	Food and drug retail
Santa Clara Valley Medical Center	4,063	Hospital
Applied Materials Inc.	4,000	Semiconductor equipment manufacturer
EBay Inc.	3,010	Online global trading platform
University of California, Santa Cruz	2,879	Higher education
Hitachi America Ltd.	2,800	Supplies North America with a wide range of high-tech products
San Jose Unified School District	2,670	Public education
Symantec Corp.	2,542	Security and availability software provider
AT&T	2,488	Communications holding company
Xilinx Inc.	2,440	Supplies field-programmable gate arrays & complex program logic devices
County of Santa Cruz	2,335	County government
Nvidia Corp	2,330	Graphics and digital media processors

Source: Silicon Valley/San Jose Business Journal, (Book of Lists 2008).

⁽¹⁾Data from prior years not available

The concentration of Santa Clara County's productivity is derived primarily from numerous high-technology and bioscience companies. Public-sector employers continue to rank high among the largest employers in Silicon Valley. As depicted in the chart above, as an employer, Santa Clara County itself, continues to have the largest public-sector employee base with 15,000 workers. The City of San Jose alone has 6,187 full-time employees.

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

TABLE 21
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
 Operating Information - Operating Indicators
 Ten Years Ended June 30, 2008

BUS

Fiscal Year	Total Ridership	Average Weekday Ridership	Scheduled Miles	Scheduled Hours	Vehicle Revenue Miles	Passenger Miles	Peak Buses	Active Buses	Bus Fleet
1999	47,486,765	154,082	22,399,973	1,565,500	18,950,490	179,560,801	415	522	541
2000	47,007,594	151,480	22,923,518	1,623,603	19,373,302	178,688,295	427	512	548
2001	47,237,748	152,708	22,640,485	1,616,941	19,176,759	182,186,543	418	502	562
2002	44,900,522	144,823	22,043,527	1,589,200	18,714,024	177,882,517	402	491	690
2003	39,169,325	126,030	20,556,769	1,497,846	17,471,291	152,035,735	375	454	524
2004	32,902,350	105,588	18,681,967	1,359,608	15,754,661	136,692,813	345	457	523
2005	30,296,718	97,117	18,259,119	1,330,707	15,416,363	125,952,546	344	441	525
2006	30,938,044	99,966	18,499,971	1,346,841	15,678,367	120,582,641	345	440	524
2007	31,646,555	102,123	18,705,711	1,364,903	15,882,356	128,289,594	345	453	524
2008	33,103,495	106,673	18,784,524	1,389,344	16,013,930	143,101,576	343	456	535

LIGHT RAIL

Fiscal Year	Total Ridership ⁽¹⁾	Average Weekday Ridership	Scheduled Miles	Scheduled Hours	Vehicle Revenue Miles	Passenger Miles	Peak Cars	Light Rail Fleet
1999	6,862,705	22,579	1,359,589	88,800	1,334,080	32,820	33	55
2000	7,913,730	25,673	1,648,334	112,202	1,608,254	35,758	43	54
2001	9,237,074	30,383	1,986,763	136,483	1,925,908	42,462	41	54
2002	7,789,570	25,573	2,032,588	137,087	1,961,941	34,656	41	66
2003	6,052,519	19,772	1,567,594	106,416	1,498,685	26,815	29	98
2004	5,473,024	17,636	1,464,325	98,930	1,372,375	24,166	26	80
2005	6,780,431	21,436	1,774,543	114,663	1,647,376	32,290	34	100
2006	8,279,807	26,137	2,129,189	138,348	1,993,940	41,913	39	100
2007	10,278,460	32,567	2,220,230	143,816	2,105,819	54,528	53	100
2008	10,451,136	33,043	2,223,823	143,576	2,112,080	54,475	53	100

Note:

Source: VTA Operations Division.

⁽¹⁾ Light rail ridership increased in FY2006 with the opening of the Vasona Light Rail Extension.

TABLE 22
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Operating Information - Farebox Recovery Ratio
Ten Years Ended June 30, 2008

The farebox recovery ratio is a measure capturing the percentage of system operated expenses recovered by fare revenue. This ratio is calculated by fare revenue generated from directly operated service (motor bus and light rail) divided by expenses for these same services. Operating expenses consist of bus and light rail modal operating expenses reported annually in the National Transit Database.

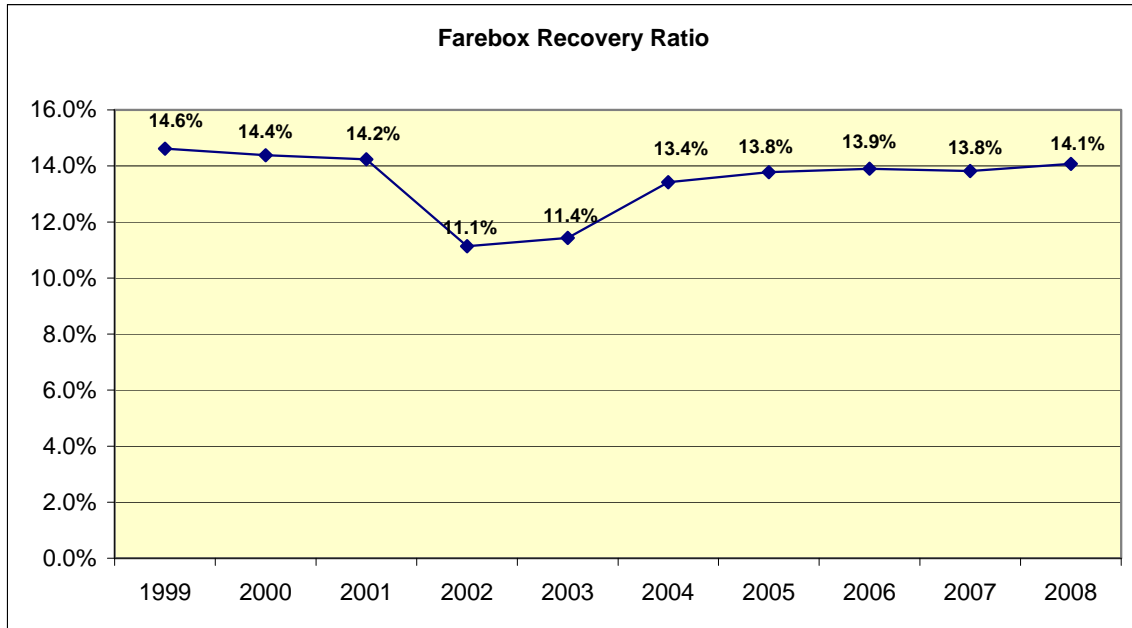


TABLE 23
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
 Operating Information - Revenue Miles
 Ten Years Ended June 30, 2008

The following chart shows total vehicle miles in revenue service. FY2008 marked the third consecutive year since FY2002 that there was an increase in total revenue miles. This is attributable to the opening of the Vasona light rail extension between the San Fernando and Winchester stations in FY2006 and adding service on existing segments.

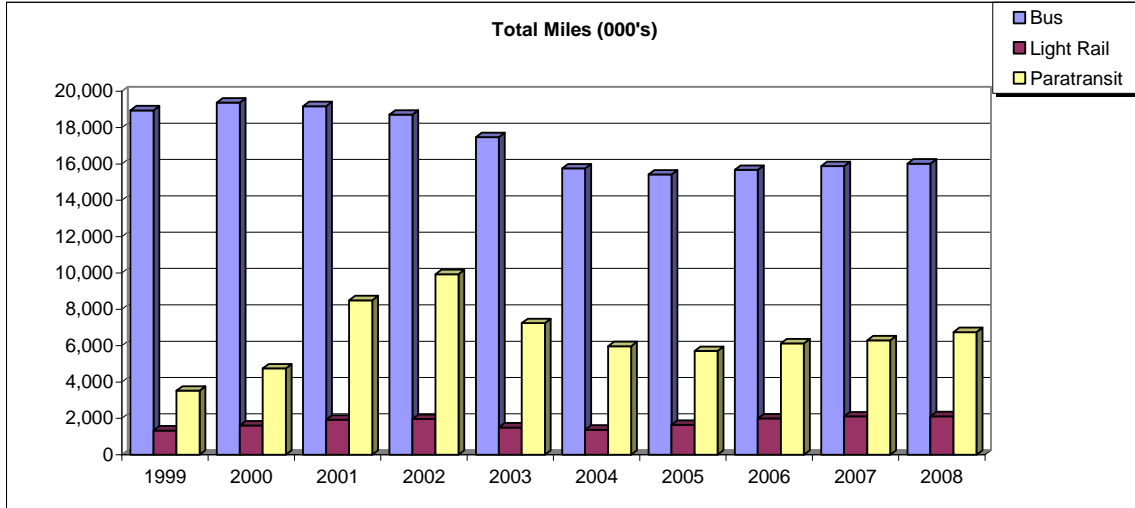


TABLE 24
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
 Operating Information - Passenger Miles
 Ten Years Ended June 30, 2008

Passenger mile statistics are presented in the chart below. During the last three fiscal years, passenger miles have increased with the extension of the light rail system as well as gains in ridership on bus segments. The increase in total passenger miles during FY2008 is due to the increase in ridership with the implementation of the COA and a sharp increase in gasoline prices.

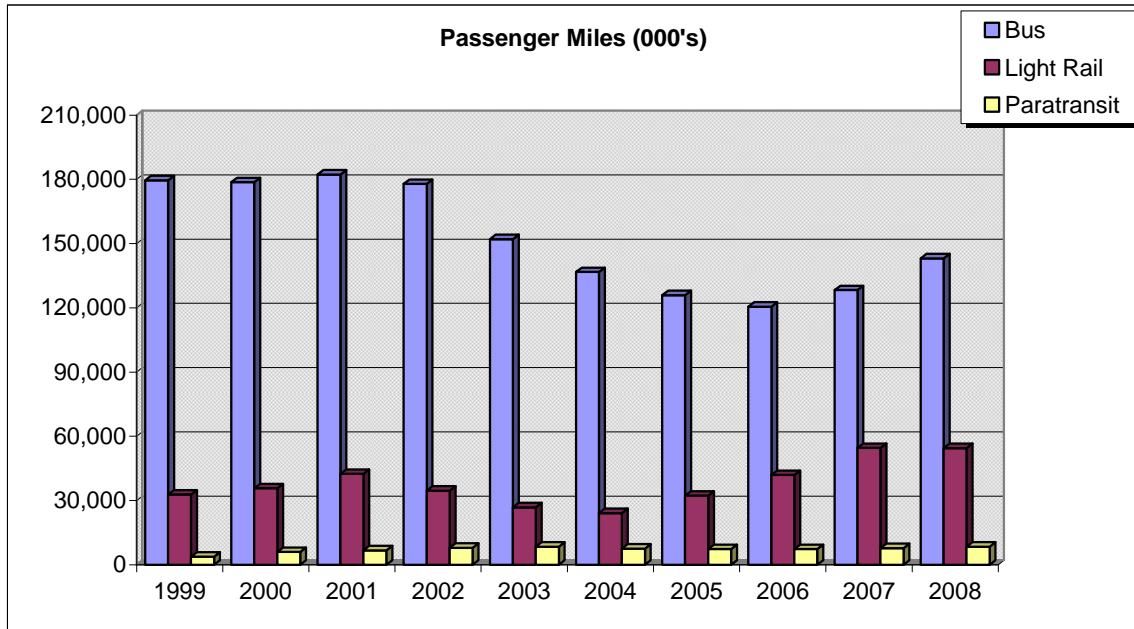


TABLE 25
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
 Operating Information – Selected Statistical Data
 Ten Years Ended June 30, 2008

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
FAREBOX REVENUE (\$000's)⁽¹⁾	\$ 27,070	\$ 32,326	\$ 33,837	\$ 31,282	\$ 30,959	\$ 30,625	\$32,061	\$ 34,335	\$ 35,242	\$ 35,830
VEHICLE REVENUE MILES (000's)										
BUS	18,950	19,373	19,177	18,714	17,471	15,755	15,315	15,573	15,851	15,951
LIGHT RAIL	1,334	1,608	1,926	1,962	1,499	1,372	2,460	2,810	3,354	3,354
PARATRANSIT	3,523	4,748	8,495	9,937	7,233	5,967	5,702	6,126	6,296	6,746
PASSENGER MILES (000's)										
BUS	179,561	178,688	182,187	177,883	152,036	136,693	125,953	120,581	128,290	143,102
LIGHT RAIL	32,820	35,758	42,462	34,656	26,815	24,166	32,290	41,913	54,528	54,475
PARATRANSIT	3,798	6,013	6,711	7,947	8,497	7,546	7,314	7,896	7,835	8,486
FLEET SIZE										
BUS	520	512	502	491	524	523	525	524	539	480
LIGHT RAIL	55	55	54	68	98	80	100	100	100	100
CASH FARE SINGLE RIDE										
ADULT	\$1.10	\$1.25	\$1.25	\$1.25	\$1.40	\$1.50	\$1.75	\$1.75	\$1.75	\$1.75
YOUTH	\$0.60	\$0.70	\$0.70	\$0.70	\$0.85	\$1.25	\$1.50	\$1.50	\$1.50	\$1.50
SENIOR	\$0.35	\$0.40	\$0.40	\$0.40	\$0.45	\$0.75	\$0.75	\$0.75	\$0.75	\$0.75

⁽¹⁾ Note: Includes fare revenue from motor bus, light rail and shuttle services.

TABLE 26
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
 Operating Information - System Data
 Fiscal Year Ended June 30, 2008

URBANIZED AREA (UZA):

326 Square Miles

ROUTES

Type of Route	Number of Routes
Local	59
Limited Stop	4
Express	11
Rapid	1
Light Rail	2
Total	<u>77</u>

HOURS OF OPERATION

Monday-Sunday	24 hours
---------------	----------

PARK AND RIDE LOTS:

	Number of Lots	Number of Parking Spaces
Bus	8	560
Light Rail	21	6,471
Caltrain	16	5,029
Total	<u>45</u>	<u>12,060</u>

FACILITIES

Type of Facility	Number of Facilities
Bus Stops	3,789
Shelters	818
Benches	1,938
Trash Receptacles	824
Transit Centers	15

TABLE 27
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
 Operating Information - Employees
 Five Years Ended June 30, 2008⁽¹⁾

Full-time Equivalent Employees⁽²⁾

Fiscal Year	Operations	Congestion Management Agency	Fiscal Resources	Engineering and Construction	External Affairs ⁽³⁾	Administrative Services	General Counsel	General Manager	SVRT Program ⁽³⁾	Total
2004	1,720	114	118	119	NA	116	9	34	NA	2,230
2005	1,665	111	113	114	NA	106	9	37	NA	2,155
2006	1,597	104	105	107	NA	101	9	30	NA	2,053
2007	1,584	101	100	98	NA	102	8	27	NA	2,020
2008	1,628	48	103	98	70	92	10	4	4	2,057

Note:

⁽¹⁾ Data from prior years not available in this organizational format.

⁽²⁾ A full-time employee is scheduled to work 2,088 hours per year (including vacation and sick leave). Full-time equivalent employment is calculated by dividing total labor hours by 2,088. The table shows the total full-time equivalent by division.

⁽³⁾ New divisions created as part of the reorganization in FY2008.

TABLE 28
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Operating Information - Capital Assets
Ten Years Ended June 30, 2008
(In thousands)

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<i>Capital assets, not being depreciated:</i>										
Land and right of way	\$ 442,330	\$ 515,329	\$ 571,682	\$ 572,665	\$ 570,715	\$ 747,679	\$ 761,818	\$ 1,131,579	\$ 1,118,577	\$ 1,118,212
Construction in Progress	376,556	217,897	332,370	608,403	923,872	690,853	775,711	380,776	488,192	639,708
Total capital assets, not being depreciated	818,886	733,226	904,052	1,181,068	1,494,587	1,438,532	1,537,529	1,512,355	1,606,769	1,757,920
<i>Capital assets, being depreciated:</i>										
Buildings, improvements, furniture and fixtures	164,480	204,247	229,820	227,826	237,239	337,565	340,546	462,448	460,900	487,116
Vehicles	177,720	178,103	185,851	220,504	306,328	363,270	480,174	457,616	458,001	462,027
Light-rail tracks and electrification	64,438	245,809	272,750	276,398	281,182	375,049	365,505	384,435	399,563	399,824
Caltrain – Gilroy extension	48,763	48,763	48,775	48,775	48,962	52,990	52,990	52,990	53,155	53,155
Other operating equipment	7,957	29,010	27,452	28,366	28,706	28,830	28,830	29,002	29,416	39,770
Leasehold Improvement	-	-	-	-	-	-	-	-	2,169	9,686
Total capital assets, being depreciated	463,358	705,932	764,648	801,869	902,417	1,157,704	1,268,045	1,386,491	1,403,204	1,451,578
<i>Less accumulated depreciation</i>										
Total accumulated depreciation	(184,339)	(208,592)	(239,635)	(242,026)	(270,924)	(289,653)	(335,200)	(398,635)	(446,408)	(493,895)
Total capital assets, being depreciated, net	279,019	497,340	525,013	559,843	631,493	868,051	932,845	987,856	956,796	957,683
Total capital assets, net	\$ 1,097,905	\$ 1,230,566	\$ 1,429,065	\$ 1,740,911	\$ 2,126,080	\$ 2,306,583	\$ 2,470,374	\$ 2,500,211	\$ 2,563,565	\$ 2,715,603

Source: Comprehensive Annual Financial Reports