Comprehensive Annual Financial Report

For Fiscal Year Ended
June 30, 2004
Santa Clara County, California

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SANTA CLARA VALLEY
TRANSPORTATION AUTHORITY

SAN JOSE, CALIFORNIA

Comprehensive Annual Financial Report

For Fiscal Year Ended June 30, 2004

Prepared by:
Fiscal Resources Division

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

Presented to

Santa Clara Valley Transportation Authority, California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

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

President

Executive Director

SECTION 1 — INTRODUCTION

LETTER OF TRANSMITTAL

BOARD OF DIRECTORS

ORGANIZATION CHARTS

PRINCIPAL OFFICIALS

SERVICE AREA MAP

SANTA CLARA
Valley Transportation Authority

November 22, 2004

Board of Directors
Santa Clara Valley Transportation Authority

Subject: Comprehensive Annual Financial Report

The Santa Clara Valley Transportation Authority (VTA) Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2004 was prepared in accordance with the guidelines recommended by the Government Finance Officers Association of the United States and Canada (GFOA). Responsibility for the accuracy, completeness, and fairness of the data and the clarity of the presentation, including all disclosures, rests with VTA. To the best of our knowledge, the enclosed data is reported in a manner designed to present fairly, in all material respects, VTA's financial position, changes in financial position, and cash flows in accordance with the requirements of accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB).

We are again pleased that the FY 2003 CAFR earned the recognition of the GFOA with a Certificate of Achievement for Excellence in Financial Reporting. This award reflects the fact that the VTA CAFR complied with the stringent GFOA standards for professional financial reporting.

This report is organized into three sections:

1. Introduction Section, including a table of contents, this letter of transmittal, a list of principal officials and organization chart. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

2. Financial Section, including the Independent Auditor's Report, Management's Discussion and Analysis (MD&A), basic financial statements with accompanying footnotes, required supplementary information, and other supplementary information.

3. Statistical Section, including additional data about VTA over the last 10 years.

The independent auditor for fiscal year 2004 was Macias, Gini & Company LLP, which issued an unqualified opinion on the VTA's June 30, 2004 basic financial statements.

It is management's intention to submit this and future CAFRs to the Government Finance Officers Association of the United States and Canada to determine its eligibility for another Certificate of Achievement for Excellence under the Financial Reporting Program. We believe the current comprehensive annual financial report satisfies the reporting requirements and continues to meet the program requirements.

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

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

PROFILE OF VTA

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

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

<u>Bus Transit Service</u>

VTA owns a bus fleet of 523 diesel-powered coaches. The average age of the buses in the active fleet is about 4 years, with an age range of one year to 11 years, 234 of these are low floor. New buses conform with Americans with Disabilities Act (ADA) accessibility requirements as well as State and Federal emissions and durability standards. The service area of approximately 326 square miles contains 69 bus routes. There are approximately 4,400 bus stops, 727 bus shelters and 11 Park & Ride lots. Buses in the active fleet operate an average of 44,000 scheduled miles annually and are operated and maintained from three operating divisions and an Overhaul and Repair (O&R) facility: Cerone Operating Division, Don Pedro Chaboya Operating Division, North Operating Division, and Cerone O&R Division.

Light Rail Transit (LRT) Service

VTA operates a 36.9-mile LRT system connecting the Silicon Valley employment areas of Mountain View, Sunnyvale, Santa Clara, North San Jose and Milpitas to residential areas in South San Jose. The LRT system has a total of 54 stations and 20 park & ride lots (one is a non-VTA lot). It operates on three routes: service between Santa Teresa and the Baypointe Station in North San Jose, service between Mountain View and the Alum Rock Station in San Jose, and shuttle service between Almaden and Ohlone-Chynoweth Stations in South San Jose. In 2002 and 2003, VTA began to commission low-floor Kinkisharyo vehicles to replace UTDC cars. Currently there are 77 active light rail vehicles (all Kinkisharyo) which are stored and maintained at the Guadalupe Operating Division near downtown San Jose. Additionally, there are three historic trolleys that VTA periodically operates from the Civic Center Station to the Convention Center Station. Construction of the Tasman East and Capitol Lines commenced in June 2004, extending light rail service from I-880 in Milpitas to Alum Rock in San Jose. The Vasona Line is estimated to begin operation in summer of 2005.

Paratransit Services

The Americans with Disabilities Act (ADA) was signed into law on July 26, 1990. VTA has implemented the ADA requirements and is in compliance with regulations issued by the U.S. Department of Transportation (DOT) and the Architectural and Transportation Barriers Compliance Board. In 1992, VTA established a paratransit system that operates throughout Santa Clara County, providing transportation for people with disabilities who cannot use conventional public transit service. VTA contracts with Outreach and Escort, Inc., to serve as a broker and to provide service through contracts with vendors. Eligible riders call Outreach to schedule their trips, which are then assigned based on the most efficient mode of transportation that can meet the riders' needs: taxi, accessible van, sedan or transfer to or from fixed-route. Since 1997, VTA has been in full compliance with the ADA provisions. In January 1999, VTA began offering Same-Day paratransit service, which allows qualified individuals to arrange and take trips on the day of the request to provide for their urgent or unplanned transportation needs.

In 2002, VTA began the development of the Paratransit Business Practices Improvement Plan. It was designed to control increasing costs through a variety of methodologies. All applicants must complete an eligibility certification process conducted by Orthopedic Hospital, under contract with VTA. ADA compliance has and will continue to have significant operational and financial impacts on VTA. VTA must meet the new ADA accessibility design guidelines for all newly constructed transit facilities such as light rail stations, bus stops and transit centers.

Contracted, Interagency and Other Transit Services

Caltrain Peninsula Corridor Joint Powers Board (PCJPB)

Caltrain is a commuter rail service provided by the Peninsula Corridor Joint Powers Board (JPB), which is governed by representatives from San Francisco, San Mateo, and Santa Clara Counties. There are 34 stations along the line; 16 are located in Santa Clara County. Eighty-six trains (including 10 Baby Bullet Express Trains) operate between San Jose Diridon Station and San Francisco each weekday, with 50 continuing south to the Tamien Station in San Jose. Eight peak-hour weekday trains extend Caltrain from the Tamien station to Gilroy. VTA LRT transfers can be made at both the Tamien and Mountain View Caltrain Stations. The share of the operating costs apportioned to each member agency is based upon a five year rolling average of morning commute boardings in each county, currently about 41% for VTA. This is updated annually based on actual ridership counts. Capital expansion funding is calculated case-by-case, but VTA contributes 100% of capital expenses for the Caltrain San Jose to Gilroy segment. Capital replacement and enhancement expenses are shared equally by all three JPB members.

Altamont Commuter Express Rail Service (ACE)

The San Joaquin Regional Rail Commission (SJRRC) provides peak hour, weekday ACE commuter rail service from Stockton to Santa Clara County. Six trains are operated daily (three round trips), two of which originate in Stockton and one in Lathrop in the morning and return from San Jose in the afternoon. The 85-mile rail line includes ten stations located in Downtown Stockton, Lathrop/Manteca, Tracy, Vasco, Livermore, Pleasanton, Fremont, Santa Clara Great America Station, the Santa Clara Caltrain Station and San Jose-Diridon Caltrain Station. ACE connects to VTA bus and light rail service, BART, AC Transit, Caltrain and the Capitol Corridor Intercity Rail Service. Stations are serviced by shuttle and feeder bus service.

Effective July 1, 2003, VTA funding of ACE was covered under a Cooperative Service Agreement with the SJRRC and the Alameda County Congestion Management Agency (ACCMA). On June 24, 2003, VTA entered into the agreement for continued VTA funding of Altamont Commuter Express (ACE) commuter rail service in the amount of $2.45 million in fiscal year 2004 and a 3% escalated figure of $2.5 million in fiscal year 2005. The cooperative agreement replaced the ACE Joint Powers Agreement (JPA), which was executed on May 15, 1997 by three ACE member agencies – VTA, SJRRC and ACCMA.

Capitol Corridor Intercity Rail

The Capitol Corridor Intercity Rail Service is a 185-mile train corridor from Auburn and Sacramento to San Jose, through the counties of Placer, Sacramento, Yolo, Solano, Contra Costa, Alameda and Santa Clara. Operating on the Union Pacific railroad tracks, Capitol Corridor service consists of four weekday round trips from Sacramento to San Jose and six weekday round trips from Sacramento to Oakland with connecting bus service to and from San Jose. One round trip per day extends beyond Sacramento to Auburn. On weekends and holidays, six daily roundtrip trains are operated to San Jose.

The train service parallels the Interstate 80 corridor between Sacramento and Oakland, and Interstate 880 between Oakland and San Jose. Service includes stops in Auburn, Rocklin, Roseville, Sacramento, Davis, Suisun/Fairfield, Martinez, Richmond, Berkeley, Emeryville, Oakland, Hayward, Fremont, Santa Clara (Great America Amtrak Station) and San Jose (Diridon Caltrain Station). On July 1, 1998, the JPB which is comprised of representatives from the eight counties served by the corridor, assumed responsibility for the service from the State. The Bay Area Rapid Transit District (BART) manages the service and Amtrak operates the service on tracks owned by Union Pacific Railroad. A Fund Transfer Agreement was executed to establish the amount of State funding to be provided to the JPB.

Inter-County Bus Service

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

The Dumbarton Express is a transbay express bus route between the Union City BART Station and the Stanford Research Park in Palo Alto. It provides the only regularly scheduled public transit service over the Dumbarton Bridge. A consortium comprised of representatives from the Alameda-Contra Costa Transit District (AC Transit), San Francisco Bay Area Rapid Transit District (BART), City of Union City, San Mateo County Transit District (SamTrans), and VTA underwrite the net operating costs of the service based on the origin and destination of the passengers as determined through a biennial survey. The service is contracted out to First Transit, a private transit provider.

Express Service over Highway 17 between Santa Cruz, Scotts Valley and Downtown San Jose is funded and operated through an agreement between the Santa Cruz Metropolitan Transit District and VTA. Santa Cruz Metro operates the service between 4:40 a.m and 11:30 p.m. The two agencies share the net operating costs equally.

Shuttle Program

Light Rail Shuttle

Under this program, VTA offers financial assistance to employers that wish to operate shuttle bus service between light rail stations and nearby employment centers. Currently, there are five light rail shuttle routes in operation. The service is provided by VTA or the employer and is operated by private contractors during the morning and evening peak commute hours (typically 6 to 9 a.m. and 3 to 6 p.m.). No fares are charged on these shuttles. Funding to operate this program is provided by the employers, VTA, and BAAQMD's Transportation Fund for Clean Air Act.

Downtown Area Shuttle (DASH) & Sharks Shuttle

VTA operates a Downtown Area Shuttle (DASH) on weekdays carrying passengers to employment, business and school locations in Downtown San Jose. VTA, the Transportation Fund for Clean Air Act, City of San Jose, and the San Jose Downtown Association provide funding for the service.

VTA, in cooperation with the San Jose Sharks, offers free shuttle bus service to and from the HP Pavilion before and after all San Jose Sharks home games. This service begins one hour before game time and runs approximately every five minutes during pre-game service. After the game, the shuttle runs until 30 minutes after the game has ended. The Sharks Shuttle runs along First, Second, and Santa Clara Streets; with stops at the Santa Clara and Paseo de San Antonio Light Rail Stations and on Santa Clara Street for patrons who utilize downtown parking facilities and restaurants.

San Jose Airport Flyer

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

Congestion Management

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

FACTORS AFFECTING FINANCIAL CONDITION

Local Economy

The financial outlook for Santa Clara County appears brighter. Studies show that consumer confidence is improving and housing prices are staying fairly constant. In comparison with the State's June 2004 preliminary average (6.3 percent), Santa Clara County has a slightly lower unemployment rate (6.2 percent). Last year the County's unemployment rate was 8.7%, but there are indications that the drop in the unemployment rate may be a result of a migration of unemployed to other areas. Although there are some signs of improvement, we are still faced with the record-breaking loss of jobs in the County since December 2000. We are also now facing the issue of mass quantities of high-tech engineering jobs being outsourced to other countries in order to lower costs.

Despite the divergent messages sent off by the economy, most economists' general opinion indicates that the current deceleration in economic expansion is only temporary. According to the Association of Bay Area Governments, the Bay Area will lag behind the nation in recovering from the 2001 recession. In 2005, for example, the projected gross regional product for the Bay Area is 1.4%, which is 150% less than the national gross domestic product projection; notwithstanding, the Bay Area is expected to have more robust growth in 2006 and the gap will be considerably narrowed.

Sales Tax

Local sales tax is derived from a one-half cent sales tax restricted for transit purposes, levied within Santa Clara County. Sales tax is the primary source of funds for VTA's operations, maintenance, and capital needs. VTA also receives State of California Transportation Development Act (TDA) funds, which are derived from a one-quarter cent sales tax levied by the

State of California and allocated on a "return to source" basis for transportation use. These two sales taxes account for approximately 64.2% of the total enterprise fund revenue (less capital contributions) for the year ended June 30, 2004.

The economic downturn in Santa Clara County over the last few years has caused a substantial reduction in sales tax revenues used to fund the operation and maintenance of VTA's existing system. Due to the heavy dependence on the high-tech industry, Santa Clara County's economy has been volatile, resulting in corresponding volatile sales tax receipts. As a result of the declining receipts, VTA has converted a large portion of the federal capital grants to operating assistance (i.e., preventative maintenance).

Taxable sales activity at businesses, personal services outlets, and other non-retail commercial establishments within the County give us valuable insight to the direction of the economic recovery. Several economic indicators are now showing that the County may be gradually moving on its way to recovery. FY04 was the first year in the last three that VTA has experienced positive sales tax growth. In FY04 VTA collected actual half-cent sales tax receipts of $138.9 million.

Ridership & Farebox Revenue

During the fourth quarter of FY04, light rail ridership was up 10.7% compared to the same quarter in FY03. However, the year ended with 9.6% less riders. Due to the opening of the new Tasman East/Capitol Light Rail extension on June 24, 2004, light rail ridership is expected to increase in the months ahead. Bus ridership was 32.9 million, a 16% drop compared to FY03. The 9% bus service hour reduction, the FY04 fare increase, and a slow rebounding economy contributed to this decrease.

There was a 10.2% decrease in Paratransit ridership in FY04 compared to FY03. Paratransit costs continue to decline due to cost saving measures enacted in FY03. All contracted and Inter-agency ridership numbers also declined. The largest changes were seen on the Highway 17 Express and the Dumbarton Express with decreases of 9.2% and 11.5% respectively.

Federal Section 5307 Urbanized Formula Program

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

In FY04, $38 million of preventive maintenance grants were received. Of this amount, $1.4 million is a carryover from FY 2003.

1996 Measure B Transportation Improvement Program

In November 1996, voters in Santa Clara County overwhelmingly approved Measure A, an advisory measure listing an ambitious program of transportation improvements for Santa Clara

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

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

The 1996 MBTIP and other sources provide funds to local jurisdictions for street repair and other transportation projects. Administration and distribution of these funds is managed by the 1996 Measure B Ancillary Program. Over the life of the 1996 Measure B sales tax, local jurisdictions will receive a combined total of $456 million countywide.

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

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

The Transit Projects, estimated at a cost of $908.6 million, include:

1. Tasman East Light Rail Project - extending the current Light Rail system from Milpitas to Northeast San Jose

2. Vasona Light Rail Extension Project - constructing the Vasona Light Rail line from downtown San Jose to Winchester, utilizing the Union Pacific Vasona rail corridor

3. Capitol Light Rail Extension Project – building the Capitol Light Rail line from northeast San Jose (connecting to the Tasman line) down Capitol Avenue through east San Jose to the Alum Rock area, with eventual service to Eastridge

4. 30 low-floor light rail vehicles (LFV's)

5. Fremont South Bay Commuter Rail – this project now involves only consultant costs (previously expended) related to the acquisition of right-of-way (ROW) from the Union Pacific Railroad (UPRR)

6. Caltrain Service Improvements – improving Caltrain commuter rail service by adding trains and improvements between Gilroy and Palo Alto

7. Community Oriented Design Enhancements (CODE)

The Highway Projects, estimated at a cost of $473.2 million include:

1. Interstate 880 widening from four to six lanes from Montague Expressway to U.S. 101, and an auxiliary lane on Southbound I-880 from U.S. 101 to the North First Street exit ramp

2. Routes 85/87 direct connector ramps for the southbound 85 to northbound 87 and southbound 87 to northbound 85, plus addition of a high occupancy vehicle (HOV) lane in each direction of Route 87

3. U.S. 101 widening from four to six lanes, plus two HOV lanes between Metcalf Road in San Jose and Burnett Road in Morgan Hill

4. Route 85/U.S.101 interchange in Mountain View, replacement of the Route 85/Route 101 connector; modification of interchange ramps at Moffett Boulevard, North Shoreline Boulevard, and Old Middlefield Way; construction of additional lanes; and, construction of HOV direct-connector ramps between northbound Route 85 to northbound Route 101 and southbound Route 101 to southbound Route 85

5. Routes 237/880 HOV direct connector ramps for southbound I-880 to westbound 237 and eastbound 237 to northbound I-880, and a southbound braided exit ramp from I-880 to Tasman Drive interchange, and a direct connector from northbound I-880 to westbound Route 237 with braid ramp for northbound Tasman Drive entrance ramp

6. Route 87 HOV Lanes (North) widens Route 87, from I-280 to .2 miles north of Julian Street, from a four- to a six-lane freeway, adds an HOV lane in each direction, installs ramp meters, widens northbound I-280 to northbound Route 87 connector ramp

7. Route 17 improvements between Lark Avenue in the Town of Los Gatos and I-280 in San Jose

8. Routes 85/101 interchange in South San Jose – complete the existing interchange by adding two direct connectors, a branch connector, and widening of U.S. 101 to eight lanes between Bernal Road and Metcalf Road

9. Route 87 HOV Lanes (South) constructs an HOV lane in each direction in the existing median between Branham Lane and I-280; includes an HOV on-ramp bypasses and

enhanced landscaping; repairs pavement, median barrier, sound wall and drainage systems; and, an auxiliary lane in the southbound direction between I-280 and Almaden Expressway

10. Route 152 improvements provides safety and operation improvements on Route 152, between U.S. 101 and Route 156

11. Route 85 Noise Mitigation between U.S. 101 and Route 87

The 1996 Measure B Ancillary Program, estimated at a cost of $455.5 million includes:

1. Pavement Management Program – provides $90 million to local jurisdictions for street maintenance and repairs

2. Bicycle Program – provides $12 million for the development of a Countywide Bicycle Plan and the implementation of a series of bicycle projects

3. Level of Service Intersection Improvement Program – provides $11.3 million for the improvement of several critical expressway intersections

4. Expressway Signal Synchronization Program – provides $24.1 million to improve expressway capacity and operations

5. Fund Swap Projects – provides $318.1 million; through a series of actions taken by VTA's Board of Directors, federal, state, and local funds were programmed to the Tasman East Light Rail, Vasona Light Rail and Capitol Light Rail Extensions, to release local 1996 Measure B funds to other transportation projects. These projects include the I-680 HOV Lanes, U.S. 101/Bailey Road Interchange, Gateway studies, Montague Expressway Project, U.S. 101/Route-85 HOV Direct Connectors, Local Program Reserve, the purchase of 70 new light rail vehicles, and the Vasona Winchester extension.

Financial Status – Enterprise Fund

The Statement of Revenues, Expenses and Changes in Fund Net Assets states that VTA had a net operating loss of approximately $278 million. Even with net non-operating revenues of $218.3 million, there still was a $59.7 million decrease in net assets before capital contributions and special items. During FY04, VTA acquired capital assets and completed construction in progress (CIP) projects of approximately $251.1 million.

VTA started the year with $114.9 million in reserves (net working capital) and by the end of FY04, the balance was $131.1 million. The increase in reserves of $16.2 million was due primarily to the increase in sales tax and operating assistance grant revenues and the application of cost containment measures.

Table 1.1 presents restricted and unrestricted reserves as of June 30, 2004.

Reserves (in millions)	
Restricted	
Operating Reserves	$ 48.9
Local Share of Approved Capital	58.8
Operating Encumbrance	.3
Total Restricted	108.0
Unrestricted	23.1
Total Reserves	$ 131.1

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

Local share of approved capital represents the amount of revenue that VTA must provide towards Board approved capital projects. Due to the completion, cancellation and deferral of selected projects in FY04, there was a decrease of $3.7 million.

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

Future Long-Term Financial Planning

To address the funding issues presented by the economic downturn, VTA has embarked on a program of ongoing financial assessments and plans for achieving a stable and reliable funding program. In November 2002, VTA provided an assessment of its financial condition given recent economic factors that indicated significant additional operating revenues were needed to continue the system as currently planned. As a part of this evaluation, VTA secured an independent forecast of near-term sales tax revenues that were then incorporated into the analysis. The analysis included a series of sensitivity tests on sales tax growth, inflation rate, wage increases, fare increases, and American with Disabilities Act (ADA) ridership growth.

VTA identified four ways to improve the long-term financial results of the operation:

- Increase existing revenues,
- Implement cost efficiency strategies and changes in service levels,
- Reduce the capital program, and
- Introduce new revenue sources.

Additionally, the Silicon Valley 2002 Business Review Team submitted its report titled *Efficiency and Effectiveness of the Santa Clara Valley Transportation Authority (VTA)* in November 2002. The Business Review Team, comprised of members of the business community and VTA management and staff, was formed to investigate the efficiency and effectiveness of VTA and help assure VTA's financial stability throughout average fare per boarding, health benefit costs, ADA paratransit program, marketing efforts, and the role of VTA in Joint Powers Authorities in approving operating and capital budgets, were provided.

VTA also formed an Ad-Hoc Financial Stability Committee to carefully consider options to address the near-term financial situation and establish a sound plan for the long-term financial stability of the organization. The Committee, consisting of VTA Board members and stakeholders, and a team of three independent consultants developed a report of nineteen recommendations resulting from the identification and analysis of actions to address VTA's short and long-term financial needs. The results were presented to the VTA Board of Directors at a workshop session in April 2003. In May, the recommendations were adopted by the Board along with direction that the Committee reconvene in order to develop recommendations for a proposed new revenue source for further Board consideration and/or action. Subsequently, the Committee met frequently over a period of four months in an effort to develop a revenue enhancement strategy.

The strategy was based upon the current economic climate and viability of obtaining a new or broadened revenue source at this particular time. The Committee's consensus recommended strategy was discussed at the November 7, 2003 Board workshop. At this workshop, the Board directed staff to revise the Committee's recommendation to reflect the concerns raised at the workshop and recommended that the revised recommendation be returned to the Board for further consideration.

A recommended strategy was developed using the Ad Hoc Financial Stability Committee revenue enhancement recommendation presented at the November 7, 2003, Board workshop and revisions that reflect the resulting discussion of the Committee's recommendation. These revisions include:

- Identification of parameters for the use of advanced Measure A funds for operation of current transit service;
- Recognition of the role of community stakeholder and public input in Measure A project implementation and prioritization, and
- Revision of the advisory ballot measure recommendations.

Subsequently, on February 19, 2004, following further review and input from VTA Board Members, the Administration and Finance Committee reviewed and recommended approval of the Financial Stability Strategy, with revisions. On March 4, 2004, the VTA Board of Directors adopted the Financial Stability Strategy (Revised Final Version, February 23, 2004) as follows:

Near-Term to Mid-Term (6 months to 1 year):

- Maximize VTA's current revenue resources including, but not limited to farebox revenue, State revenue and Federal funds that may be available to support operations.
- Request each city and the County of Santa Clara to provide a list of prioritized transportation projects and improvements within their own jurisdiction in January 2004.
- Prioritize VTA's transportation projects and improvements at a March 2004 workshop based on an evaluation of the cities' responses, comments received from the public input process, financial projections and current commitments. These projects will be incorporated into the VTP 2030 plan and submitted to the MTC for inclusion in the

2030 Regional Transportation Plan in order to continue the pursuit of funding at appropriate levels.
- Those projects not identified as VTP 2030 initial priorities will be temporarily delayed until alternative funding is identified or further Board action is taken. Any subsequent establishment or revision of the priorities would be preceded by a public involvement and community stakeholder input process.
- Utilize, only to the extent necessary, the previously authorized $80 million of advanced Measure A operations funds for maintaining current transit service as contained in the Adopted Fiscal Years 2004 and 2005 Budget. Due to efficiencies achieved during FY04, the $80 million was not utilized in FY04 and is not anticipated to be used in FY05.

Mid-Term to Long-Term (1 year and beyond):

- Work in partnership with community leaders to identify the most viable new or expanded revenue source(s) for VTA. Continue public input and data gathering in partnership with community leaders and stakeholders to help define the revenue source(s) and timing most acceptable to the community.
- Over the next several years, lay the foundation to pursue limited expansion of the sales tax base to help make up for the continuing erosion of this financial resource.
- Utilize Budgetary Operating Reserves, Measure A funds authorized for maintaining current service and other options to fund the near-term shortfall in service operations until replacement revenue from new funding sources becomes available.
- Borrowing of Measure A funds for maintaining current service should initially be limited to no more than the $80 million included for current operations contained in the previously authorized $550 million bond program. Again, please note that VTA does not anticipate using these resources in FY05.
- Borrowing beyond $80 million of Measure A funds for maintaining service should be done only to the extent that it would not result in exceeding the previously authorized $550 million bond program. The biennial Budget process shall determine any borrowing needed beyond this amount (please see above).
- Return the non-project related advance funds to the Measure A Program and restore Budgetary Operating Reserves as soon as practical after funds are received from a new revenue source.
- The total projected amount of operating funds in Measure A for bus and light rail services, as determined by the Board through the current VTP review process and further VTP adjustments, would be the total amount of Measure A operating funding available to maintain current bus and light rail services.
- Although there is no absolute requirement to do so, the repayment of Measure A operating funds advanced to maintain current bus or light rail services should be effected provided that it would not require reductions in existing bus or light rail service levels. Repayment should occur as soon as practical over the life of the Measure A program.
- If any Measure A capital funding is needed to maintain bus or light rail services the Board would need to make a specific determination that Measure A capital funding should instead be used to maintain existing service levels. Projected capital funding for zero emission buses could be accessed for this purpose but funding for bus rapid transit would not be available since it will be used to upgrade existing bus service.
- Any capital funding advanced for operating purposes would be considered a loan and must be 100% repaid over the life of the Measure A program.

- The total projected funding in Measure A for operating and capital costs for buses and light rail shall be determined through the VTP 2030 process by the Board, and will be the maximum amount of funding available for current and future bus and light rail operations and capital purchases through the Measure A program. Should VTP 2030 be amended to account for a change in revenue projections, the maximum amount available for bus and light rail operations should be adjusted accordingly.
- Operating or capital funding for other Measure A service or projects would not be available to maintain or expand bus and light rail operations.
- Continue to aggressively pursue joint development opportunities that will provide VTA a diverse revenue stream. As appropriate, in partnership with applicable surrounding communities, identify appropriate benefit assessment district sites that will benefit both the surrounding community and VTA. Seek other revenue opportunities as may be appropriate.
- Consider submitting an advisory ballot measure for setting project priorities if no new revenue sources are approved prior to December 1, 2006, and projected revenue shortfalls prevent implementation of all Measure A projects prior to 2036. The ballot measure should be preceded by a public involvement and community stakeholder input process.

FY2004/2005 Goals and Objectives

- Enhance customer focus through increasing ridership at least one to three percent annually; maintaining transit reliability; better communication of service information to customers; maintaining a proactive media relations presence; continuing to enhance transit service; and ensuring that public participation programs are key in developing transportation plans and projects.
- Improve mobility and access by providing facilities and services that support and enhance the quality of life for Santa Clara County residents and the continued health of Santa Clara County's economy; managing congestion by focusing investments to address the transportation system's greatest roadway, transit bicycle, and pedestrian needs; increasing the use of commute alternatives; continually evaluating services through the Service Management Plan, using revised service standards; developing plans, securing environmental clearances and beginning implementation of priority 2000 Measure A transit projects as funds become available; and completing the 1996 Measure A transit and highway projects as local, state and federal funding allows.
- Integrate transportation and land use through continued work with the cities and County; developing and enhancing partnerships with the cities and the County to ensure adoption of Transit-Oriented Development plans and policies along existing and future transit corridors; partnering with the private sector and the cities to develop projects at VTA station areas to intensify residential, commercial, and retail uses; and striving to provide certainty to cites and private developers that priority transit projects upon which cities base land use decisions will be implemented in a timely manner through the VTP 2030 Plan.
- Maintain financial stability by securing adequate levels of funding to sustain the existing transportation system and securing new fund sources for system expansion; increasing the transit system's operating recovery ratio, with a target of 20-25%, by adding new riders, increasing the average fare per passenger through a multi-year Fare Policy and annual or biennial fare reviews, and improving cost efficiencies; ensuring timely maintenance, replacement and /or rehabilitation of essential capital assets; implementing new capital programs only when operations and maintenance costs have been identified

and revenue sources determined; ensuring the Reserve Fund policy will sustain sufficient future cash flow through changing economic cycles; maintaining a proactive state and federal legislative program to ensure policies and funding allocations serve the needs of VTA's mission and diverse communities; pursuing joint development opportunities that result in both ridership development revenues for VTA; and ensuring that expenditures of 2000 Measure A funds are consistent with priority projects and services as identified by the Board of Directors.

- Increase employee ownership by continuing to involve employees in the refinement of VTA business practices, such as transit routes and schedule planning; continuing to respond to key areas of organization improvement identified by employees; continuing to work with employee labor representative to develop strategies and implement additional operation efficiencies; and foster an environment that demonstrates VTA is an employer of choice.

2000 Measure A Transportation Improvement Program and VTP 2020

In August 2000, the VTA Board of Directors approved placing a measure on the November 7, 2000 General Election ballot which would approve a 30 year half-cent sales tax to take effect in the county after the 1996 Measure B Sales Tax expires (March 31, 2006). More than 70% of voters approved the 2000 Measure A. The tax cannot be extended past March 31, 2036 without the vote and approval of the residents of Santa Clara County.

In December 2000, the VTA Board of Directors approved the Valley Transportation Plan 2020 (VTP 2020), which included a comprehensive list countywide transit improvement projects and programs. It also included a "Base Plus VTA Sales Tax Scenario", which listed the projects that could be funded through 2036 from this tax and state and federal funding programmed for transit. VTP 2020 did not specifically prioritize these projects.

Reduced sales tax revenues over the past two years have resulted in a substantial reduction in the projected sales tax revenues expected to be generated by 2000 Measure A. The 2000 Measure A revenue is currently projected to generate $5.1 billion in FY04. This underscores the need for VTA to establish transit project priorities in order to provide clear direction for VTA in the near term and ensure that VTA is positioned to respond quickly to future changes in its financial situation as the economy recovers.

VTA is currently in the process of establishing priorities as part of VTP 2030, the update of the countywide transportation plan. Below is a list of 2000 Measure A projects:

- Silicon Valley Rapid Transit Corridor;

- Low Floor Light Rail Vehicles (LRVs);

- Downtown East Valley Transit Improvement Plan;

- Zero Emission Vehicles and Facilities;

- Bus Rapid Transit;
- Expand and electrify Caltrain;
- ACE Capital Improvements;
- Build a rail connection from the Norman Y. Mineta San Jose International Airport to BART, Caltrain, and light rail;
- Provide operating funds to support bus, rail and paratransit service expansion;
- New Rail Corridors;
- Expand Palo Alto Caltrain Station and Bus Transit Center;
- Highway 17 Bus Service Improvements to increase bus service between Santa Clara County and Santa Cruz.

TransLink Demonstration Project

In 1998, VTA agreed to participate in a demonstration of "TransLink,"® an innovative regional fare collection program sponsored by MTC. This demonstration commenced in early 2002 and includes BART, Caltrain, AC Transit, San Francisco MUNI, and Golden Gate Transit in addition to VTA. When the system is fully implemented, the TransLink® card will be accepted for fare payment on every participating transit vehicle and at every participating transit station in the region, allowing customers to travel seamlessly throughout the region without needing to carry cash or purchase tickets. TransLink® will utilize "smart cards" for fare collection. The card will allow riders to store value on the card after money was loaded electronically at sales outlets, vending machines, or by other sales channels. Once the card has a balance, the value would be deducted from the card each time it is used for travel. It offers several potential advantages to VTA and customers, including convenience, security, simplified transfers, and reduced handling of coins and bills. A regional clearinghouse was established to track all card loading and fare payment transactions, and to "settle" funds among all the participating transit operators.

An evaluation of the first six months of the Demonstration (Phase I) concluded that the system worked and that customers wanted to see it extended region wide. During 2003, MTC and the transit operators have been working to resolve governance, financial, and design issues. A Notice to Proceed for Phase II was given on November 10, 2003 with the intent to establish a full region-wide implementation of TransLink® over the next two to three years.

Cash & Investment Management Policies and Practices

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

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

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

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

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

Operating/Non-Retirement: Benchmark	Target Ranges	Actual
US Government Intermediate Fixed Income	N/A	69%
Institutional Money Market	N/A	28%
Cash/Commingled Investments	N/A	3%

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

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

The VTA/ATU Pension Plan benchmark and asset allocation range as of June 30, 2004 is shown below:

ATU Pension Plan: Benchmark	Target Ranges	Target Asset Allocation	Actual
Lehman Brother Aggregate (Fixed Income)	35-45%	39%	36%
S&P/Barra Value (Large Cap Equity)	15-25%	20%	20%
Russell 2000 Value (Small Cap Equity)	5-15%	10%	13%
S&P 500 (Large Cap Equity Index)	10-20%	15%	15%
MSCI EAFE (International Equity Index)	10-20%	15%	16%
Cash/Commingled Investments	0-5%	1%	0%

An addition to the management of this investment fund is the rebalancing of the allocations. The Plan's asset allocation will be reviewed relative to the targets on a monthly basis and action will be taken to rebalance to within the target ranges by means of asset transfers among categories. When necessary and/or available, cash inflows/outflows will be deployed in a manner consistent with the strategic asset allocation on the system.

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

Investment earnings, recognized on the Statement of Revenues, Expenses and Changes in Fund Net Assets – Enterprise Fund (Business-Type Activity), amounted to $1.6 million during FY04. $33.5 million in investment earnings is reported on the Statement of Changes in Plan Net Assets – Pension Trust Funds.

Funds invested for restricted assets include workers' compensation, general liability, and retiree medical activities. The expense for these activities is recognized in the Internal Service Fund for contribution payments that is net of expected earnings. The contribution amounts are based on actuarial studies.

Table 1.2 summarizes the investment earnings for FY 2004 (in thousands).

Enterprise Fund	$ 1,592
Special Revenue and Capital Projects	79
Pension Trust Fund	33,498
Internal Service Fund	4,791
Total Investment Earnings	$ 39,960

Risk Management

For the year ended June 30, 2004, VTA self-insured the first $3 million of all public liability claims and all worker's compensation claims. Based on annual independent actuarial studies, the claims program funds are adjusted annually to maintain a projected financial position at an estimated 75% confidence level. Risk Management Department Claims Staff oversee third party administrators for the adjustment and payment of claims from both self-insurance funds.

The Risk Manager obtains excess casualty and property insurance coverage for operations and also manages the Owner-Controlled Insurance Programs (OCIP) for major transit and highway construction projects. The OCIP is a fully insured program providing general liability coverage, and statutory worker's compensation coverage for construction contractors, at a reduced premium cost to VTA.

Internal Controls

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

Major subjects reported on during FY04 by the Internal Audit Department are:

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

Pension and Other Post-employment Benefits

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

Progress for the two plans within the Required Supplementary Information on pages 2-61 through 2-62.

There are three health benefits programs for employees who retire directly from VTA. First, for ATU employees, there is an ATU Medical Trust which includes a Spousal Medical Trust and Retiree Vision and Dental Trust. Secondly, there is the ATU Retiree Health Care Program. Finally, there is the non-ATU Retiree Health Care Program. Additional information can be found in footnotes 13 and 14, pages 2-52 through 2-54.

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 Santa Clara Valley Transportation Authority (VTA) for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2003. This was the 8th consecutive year that VTA has achieved this prestigious award.

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

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

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

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

Peter M. Cipolla
General Manager

Roger Contreras
Chief Financial Officer

2004 VTA BOARD OF DIRECTORS

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

1. Five city council members from the City of San Jose.

2. Three city council members from among the Cities of Los Altos, Los Altos Hills, Mountain View, Palo Alto, Santa Clara and Sunnyvale.

3. One city council member from among the Cities of Campbell, Cupertino, Los Gatos, Monte Sereno, and Saratoga.

4. One city council member from among the Cities of Gilroy, Milpitas and Morgan Hill.

5. Two members from the Santa Clara County Board of Supervisors.

6. Ex-Officio, Santa Clara County's two representatives to the Metropolitan Transportation Commission (MTC).

Each of these groupings has one alternate.
The Board of Directors meets at 6 p.m. on the first Thursday of each month.

Joe Pirzynski, Chairperson
Don Gage, Vice-Chairperson

GROUP 1	
City of San Jose	Cindy Chavez
	David Cortese
	Pat Dando
	Ron Gonzales
	Forrest Williams
	Ken Yeager, Alt.
GROUP 2	
City of Los Altos	David Casas
Town of Los Altos Hills	Breene Kerr, Alt.
City of Mountain View	
City of Palo Alto	
City of Santa Clara	John McLemore
City of Sunnyvale	Fred Fowler
GROUP 3	
City of Campbell	
City of Cupertino	Dolly Sandoval, Alt.
Town of Los Gatos	Joe Pirzynski
City of Monte Sereno	
City of Saratoga	
GROUP 4	
City of Gilroy	
City of Milpitas	Patricia Dixon
City of Morgan Hill	Dennis Kennedy, Alt.
GROUP 5	
County of Santa Clara	Blanca Alvarado, Alt.
	Don Gage
	Pete McHugh
GROUP 6	
Ex-Officio	
Metropolitan Transportation Commission	Jim Beall, Jr.

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

1. Administrative and Finance Committee (A & F)

2. Congestion Management Program and Planning Committee (CMPP)

3. Transit Planning and Operations Committee (TP & O)

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

1. Committee for Transit Accessibility (CTA)

2. Citizens Advisory Committee (CAC)

3. Bicycle and Pedestrian Advisory Committee (BPAC)

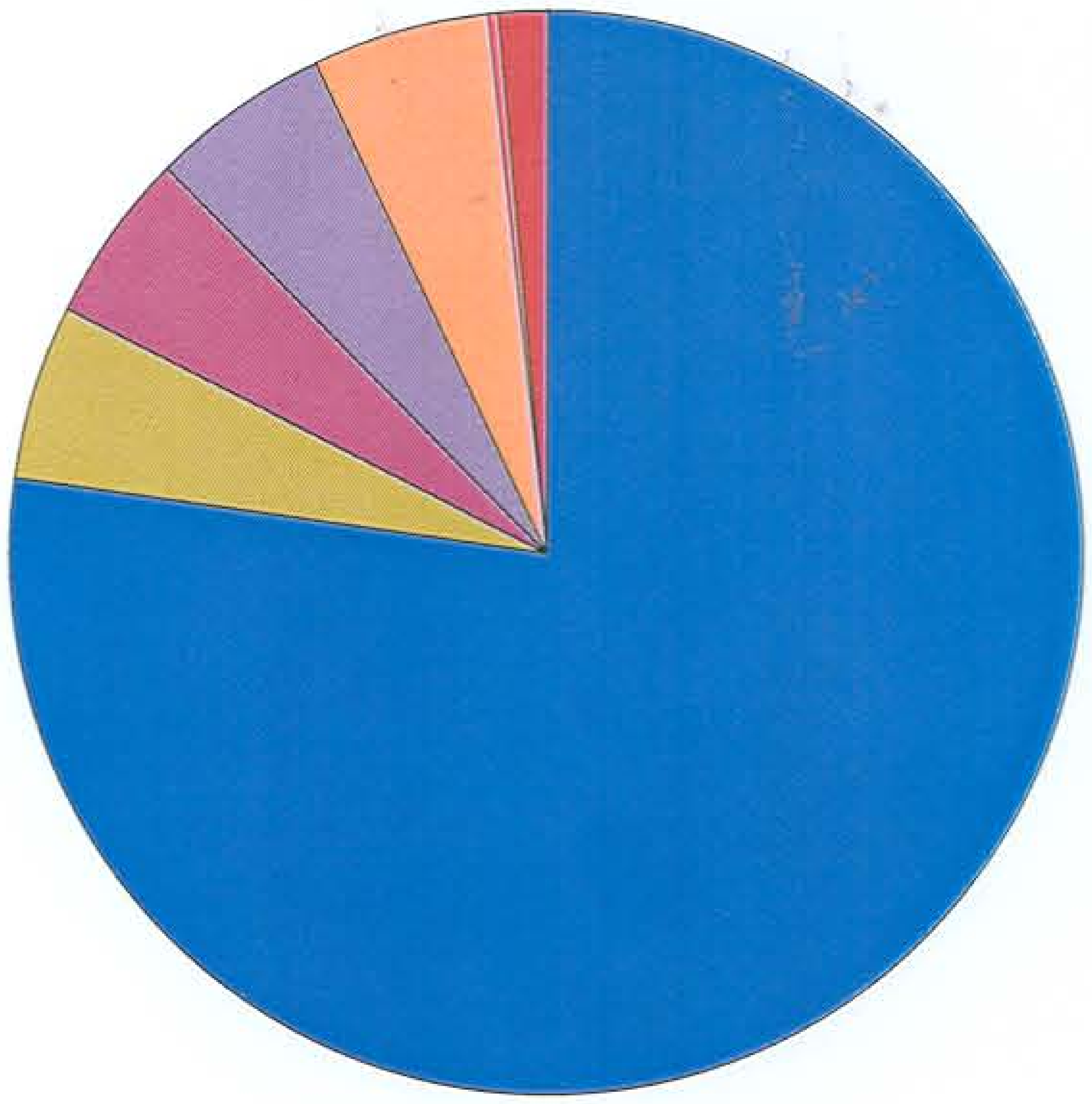
4. Technical Advisory Committee (TAC)

5. Policy Advisory Committee (PAC)

6. Transportation Corridor Policy Advisory Boards (PABS)

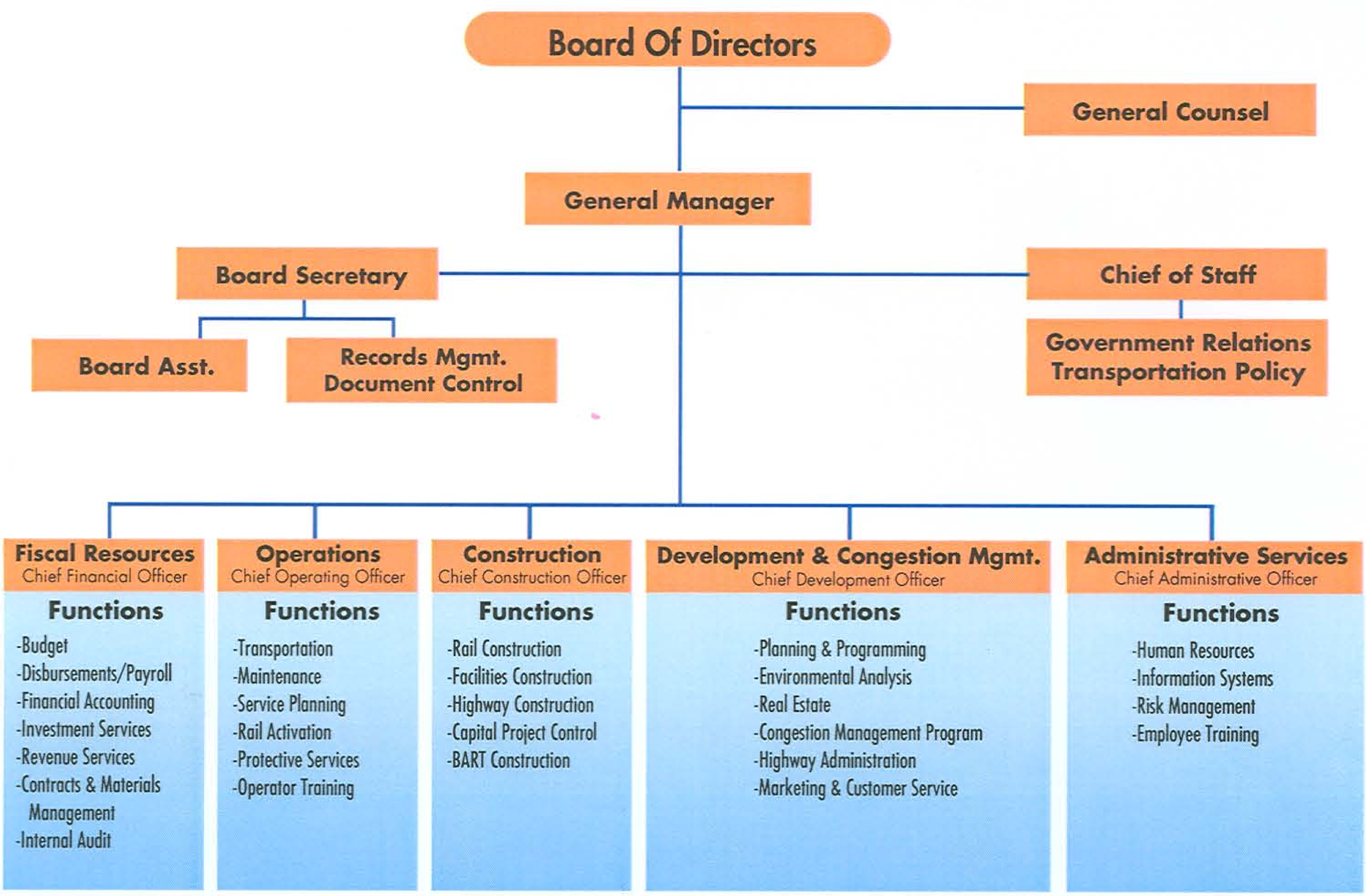
7. Community Oriented Design Enhancements (CODE)

Number of Employee Positions in Organizational Units



Operations	1720	77.2%
Development & Congestion Management	114	5.1%
Fiscal Resources	118	5.3%
Construction	119	5.3%
Administrative Services	116	5.2%
General Counsel	9	0.4%
General Manager	34	1.5%
Total	2230	100%

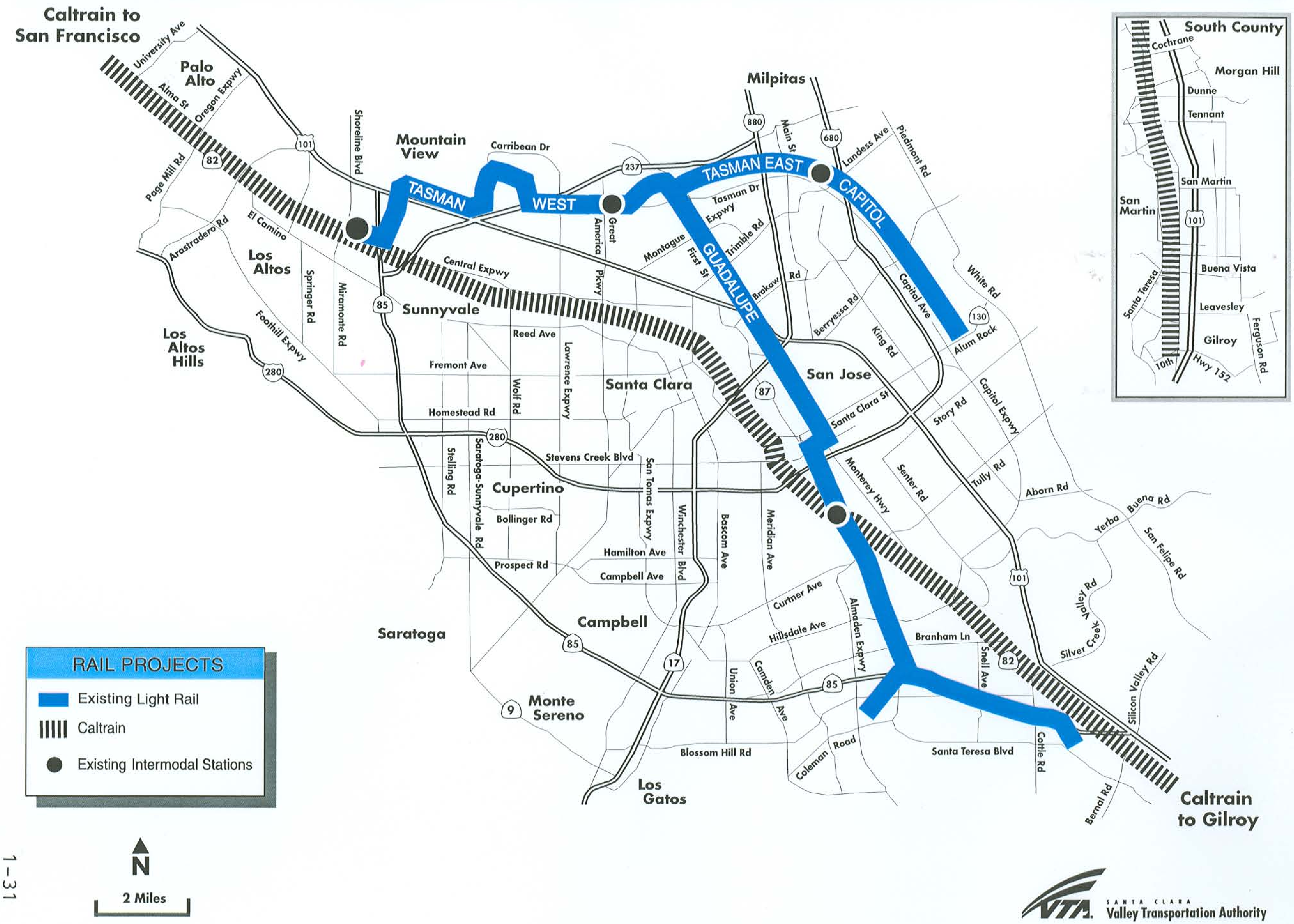
Santa Clara Valley Transportation Authority



Principal Officials

General Manager	**Peter M. Cipolla**
General Counsel	**Suzanne Gifford**
Board Secretary	**Sandra Weymouth**
Chief of Staff	**Denise Daly**
Chief Administrative Officer	**Kaye Evleth**
Chief Construction Officer	**Jack Collins**
Chief Development Officer	**Carolyn Gonot**
Chief Financial Officer	**Roger Contreras**
Chief Technology Officer	**George Barlow**
Chief Operating Officer	**Matthew Tucker**
Director of Marketing and Customer Service	**Anne-Catherine Vinickas**
Controller	**Susan Stark**
Deputy Director of Highways	**Jeff Funk**
Deputy Director, Development and Congestion Management - Administration	**Julie Render**
Deputy Director, Development & Congestion Management - Transit Planning & Development	**Ann Jamison**
Deputy Director, Program & Highway Administration	**John Ristow**
Deputy Director, Service & Operations Planning	**Mike Aro**
Government Affairs Manager	**Kurt Evans**
Transportation Policy & Program Manager	**Frank Sharpless**

Santa Clara County Bus and Rail Transit Service Area



Independent Auditor's Report

Management's Discussion and Analysis (Required Supplementary Information)

Basic Financial Statements:

Government-wide Financial Statements:

- Statement of Net Assets
- Statement of Activities

Fund Financial Statements:

Enterprise Fund:

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

Governmental Funds:

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

Fiduciary Funds:

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

Notes to the Basic Financial Statements

Required Supplementary Information (other than MD&A):

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

Supplementary Information – Combining and Individual Fund Statements:

Enterprise Fund:

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

Fiduciary Funds:

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

MACIAS GINI & COMPANY LLP

Mt. Diablo Plaza
2175 N. California Boulevard, Ste. 645
Walnut Creek, California 94596

925.274.0190 PHONE
925.274.3819 FAX

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

Independent Auditor's Report

We have audited the accompanying financial statements of the business-type activity, the governmental activity, each major fund, and the aggregate remaining fund information of the Santa Clara Valley Transportation Authority (VTA), as of and for the year ended June 30, 2004, which collectively comprise VTA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of VTA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 activity, each major fund, and the aggregate remaining fund information of VTA as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 22 to the basic financial statements, VTA changed how it accounts for general liability claims, workers' compensation claims, retiree health benefits, and compensated absences benefits.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2004, on our consideration of VTA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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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 individual fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Macias, Gini & Company LLP

Certified Public Accountants

Walnut Creek, California
November 22, 2004

Management's Discussion and Analysis

The purpose of the information presented in the discussion and analysis portion of this report is to provide an overview of the Santa Clara Valley Transportation Authority's (VTA) financial condition as of June 30, 2004. This discussion and analysis should be read in conjunction with the transmittal letter starting on page 1-7, and VTA's financial statements, which begin on page 2-15.

Financial Highlights

- As of June 30, 2004, VTA's assets exceeded liabilities by $2.1 billion. Business-type activity (Transit Operations) and Governmental activity (Congestion Management) net assets were approximately $2.1 billion and $1.7 million, respectively. Of the $2.1 billion in net assets, over $1.8 billion was invested in capital assets net of related debt which was associated with our capital expansion program.
- As of June 30, 2004, VTA had issued bonds in the amount of $577.1 million compared to the $417.5 million the previous fiscal year. The increase was due to the issuance of 2003 and 2004 bonds for 2000 Measure A projects and expenses.
- The Statement of Revenues, Expenses and Changes in Fund Net Assets reports that VTA's Business-type activity had a net operating loss of $267.5 million. Even with an addition of $223.1 million in non-operating revenues, there still was a $44.4 million decrease in net assets before Capital contributions and special items of $231.1 million. Net Assets increased by $186.7 million. This can be seen on the Statement of Revenues, Expenses and Changes in Fund Net Assets, page 2-19.
- Sales tax revenue increased by $6.3 million (4.7%) in FY04, compared to the last fiscal year.
- There was an approximately $369 thousand increase in net assets for the Special Revenue Funds due primarily to a decrease in capital projects expenses for the benefit of other agencies.

Overview of the Financial Statements

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

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

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

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

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

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. VTA, like local and state governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of VTA can be divided into three categories: governmental funds, proprietary funds (i.e. the enterprise fund and internal service fund), and fiduciary funds. The fund financial statements can be found on pages 2-17 to 2-25 of this report.

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

VTA maintains four individual governmental funds and uses the governmental funds to account for the Congestion Management Program, the Traffic Authority, the Congestion Management Highway and the1996 Measure B Highway Capital Project programs. Information, on miscellaneous funds, is presented in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances.

Proprietary Funds. VTA maintains two types of proprietary funds: an enterprise fund and an internal service fund. The enterprise fund is used to report the same function presented as "business-type activity" in the government-wide financial statements. The internal service fund is used to account for activities that provide services to other funds, departments or to other governments on a cost-reimbursement basis. General Liability, Worker's Compensation, Retiree Health and Compensated Absences are accounted in the internal service fund. VTA uses the enterprise fund to account for its transit operation and capital activities, 1996 Measure B Transit projects and 2000 Measure A transit and operating activities.

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

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

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

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 2-26 to 2-60 of this report.

Other information. In addition to the basic financial statements and notes, *required supplementary information* is also being presented. The required supplementary information shows VTA's progress in funding its obligation to provide employees with pension benefits and it also shows the Congestion Management Program Budgetary Schedule. These schedules can be found on pages 2-61 to 2-64.

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

Government-wide Financial Analysis

The Statement of Net Assets and the Statement of Activities report a total increase in net assets of $187.1 million, due primarily to the capital contributions of $333.1 million. The inclusion of $333.1 million in capital contributions (revenue) has no corresponding expenses associated with it within the statements which is likely to be misconstrued. During FY04, VTA acquired capital assets and completed construction in progress (CIP) projects of approximately $251.1 million. These capital assets were funded by the capital contributions as well as existing budgetary reserves. The operating loss was covered by budgetary reserves as well.

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

	Business-type activity		Governmental activity		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	$ 505,974	$ 389,726	$ 68,352	$ 82,819	$ 574,326	$ 472,545
Capital assets, net	2,306,582	2,126,091	-	-	2,306,582	2,126,091
Total assets	2,812,556	2,515,817	68,352	82,819	2,880,908	2,598,636
Current liabilities	79,918	249,390	66,647	81,217	146,565	330,607
Long-term liabilities outstanding	650,839	417,470	-	266	650,839	417,736
Total liabilities	730,757	666,860	66,647	81,483	797,404	748,343
Net assets:						
Invested in capital assets, net of related debt	1,846,221	1,686,313	-	-	1,846,221	1,686,313
Restricted	66,019	-	-	-	66,019	-
Unrestricted	169,559	162,644	1,705	1,336	171,264	163,980
Total net assets	$ 2,081,799	$ 1,848,957	$ 1,705	$ 1,336	$ 2,083,504	$ 1,850,293

By far the largest portion of the VTA's net assets (approximately 88.7%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment), less any related outstanding debt used to acquire those assets. VTA uses these capital assets to provide services to customers. Consequently, these assets are not available for future spending. Although VTA's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot reasonably be used to liquidate these liabilities.

The increase in total net assets resulted from an increase in both unrestricted net assets and in restricted capital assets.

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

	Business-type activity 2004	Business-type activity 2003	Governmental activity 2004	Governmental activity 2003	Total 2004	Total 2003
Expenses:						
Operations and operating projects	$ 286,098	$ 335,760	$ 2,857	$ 3,582	$ 288,955	$ 339,342
Caltrain subsidy & capital contribution	16,805	22,298	-	-	16,805	22,298
Altamont commuter express subsidy	2,391	2,715	-	-	2,391	2,715
Interest Expense	13,691	14,222	-	-	13,691	14,222
Other non-operating expenses	3,022	4,858	-	-	3,022	4,858
Benefit payments	14,816	-	-	-	14,816	-
Capital projects for the benefit of other agencies	-	-	115,262	141,271	115,262	141,271
Total expenses	336,823	379,853	118,119	144,853	454,942	524,706
Program revenues:						
Charges for services	33,421	34,376	1,862	2,177	35,283	36,553
Operating grants	111,577	104,132	517	852	112,094	104,984
Capital grants	217,053	316,997	116,012	141,364	333,065	458,361
Total program revenues	362,051	455,505	118,391	144,393	480,442	599,898
Net program revenues	25,228	75,652	272	(460)	25,500	75,192
General revenues:						
Sales tax revenue	138,917	132,632	-	61	138,917	132,693
Investment income	6,382	14,245	79	99	6,461	14,344
Other income	2,102	4,104	18	12	2,120	4,116
Total general revenues	147,401	150,981	97	172	147,498	151,153
Special items:					-	
Gain on sale of land	-	12,224	-	-	-	12,224
Revenue from Headlease	29,999	-	-	-	29,999	-
Loss from sublease of vehicles	(15,918)	-	-	-	(15,918)	-
Change in net assets	186,710	238,857	369	(288)	187,079	238,569
Net assets beginning of year, as previously reported	1,848,957	1,610,100	1,336	1,624	1,850,293	1,611,724
Change in accounting principle	46,132	-	-	-	46,132	-
Net assets beginning of year, as restated	1,895,089	1,610,100	1,336	1,624	1,896,425	1,611,724
Net assets, end of year	$ 2,081,799	$ 1,848,957	$ 1,705	$ 1,336	$ 2,083,504	$ 1,850,293

Business-type activity. Despite VTA's net assets having increased by $186.7 million, there was a 12.8% decrease in revenues compared to FY03. This was due primarily to decreases in both capital grants revenue and investment income.

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

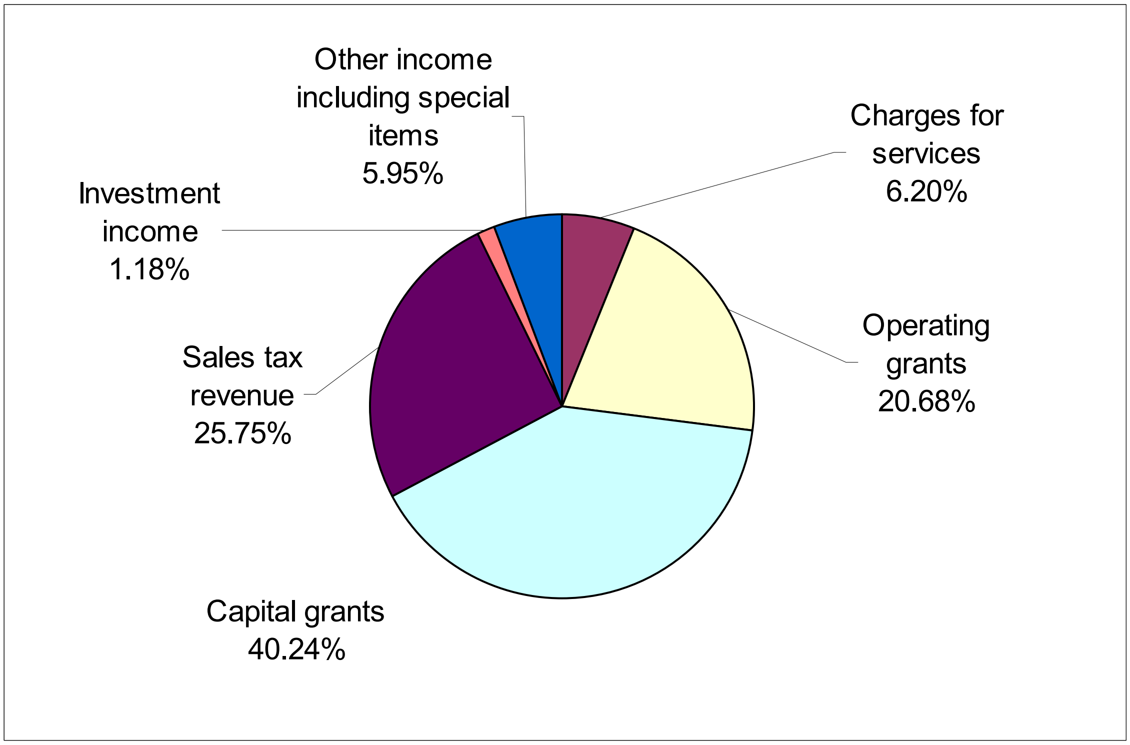
- Capital grants decreased by $99.9 million (31.5%) compared to FY03. This decrease is a result of VTA's completion of the Tasman East extension and the Capitol Corridor light rail projects. Federal grant project revenue was $38.4 million, State capital grants were $27.2 million, 1996 Measure B funding consisted of $82.5 million in revenue, and Local contributions totaled $69 million.

- Sales tax revenue increased by $6.3 million or (4.7%) in FY04. This is the first year in the last three that VTA experienced an increase in sales tax dollars. In FY02 and FY03 VTA experienced large declines in sales tax revenue due to significant reductions in taxable sales within the County (primarily business-to-business transactions).

- Investment income decreased by approximately $7.9 million, or (55.2%), due to a net decrease in investments during the latter part of the year of approximately $40 million. However, cash and investments increased by $100 million as a result of the issuance of bonds in 2004.

- Other income including special items increased by $15.8 million, or (96.6%) due to the receipt of funds from VTA's Lease to Service transaction (please see Note 21, starting on page 2-58, for further information on the Lease to Service contracts).

Revenues By Source – Business-type Activity



Comparison of Business-Type Activity Revenue for Fiscal Years 2003 and 2004

(Dollars in $000's)	2004	2003	Change Amount	Change Percent
Charges for services	$ 33,421	$ 34,376	$ (955)	-2.8%
Operating grants	111,577	104,132	7,445	7.1%
Capital grants	217,053	316,997	(99,944)	-31.5%
Sales tax revenue	138,917	132,632	6,285	4.7%
Investment income	6,382	14,245	(7,863)	-55.2%
Other income including special items	32,102	16,328	15,774	96.6%
TOTAL	**$ 539,452**	**$ 618,710**	**$ (79,258)**	**-12.8%**

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

The half-cent local sales tax and the quarter-cent state sales tax (TDA) are driven by the local economy and are the two most important income sources to VTA for funding operations. During FY04, half-cent sales tax revenue increased by 4.7%, primarily due to a slow-growing rebound in the economy which has had a positive impact on business-to-business sales transactions. The negative trend in sales tax declines was broken in FY04 and is expected to grow in the coming years. TDA funds rose by $6.1 million (10.4%) to $65 million in FY04. Due to the fact that TDA funds are derived from the same tax base as the half-cent sales tax, it is logical that both sources of funds had an increase in FY04. STA funds decreased by approximately $2 million, or (31.3%), bringing the amount received to $4.4 million. This was slightly higher than MTC's prediction of $4.3 million. Additionally, the change in capital grants was due to the decrease in the construction activities of projects having both Federal and Measure B funding.

Comparison of Business-Type Activity Expenses for Fiscal Years 2003 and 2004

(Dollars in $000's)	2004	2003	Change Amount	Change Percent
Operations and operating projects	$ 286,098	$ 335,760	$ (49,662)	-14.8%
Caltrain subsidy& capital contribution	16,805	22,298	(5,493)	-24.6%
Altamont Commuter Express subsidy	2,391	2,715	(324)	-11.9%
Interest expense	13,691	14,222	(531)	-3.7%
Other non-operating expenses including special items	18,940	4,858	14,082	289.9%
Benefit payments	14,816	-	14,816	n/a*
TOTALS	**$ 352,741**	**$ 379,853**	**$ (27,112)**	**-7.1%**

*Benefit payments were presented as a decrease in liability during FY03, and not shown as a separate internal service fund.

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

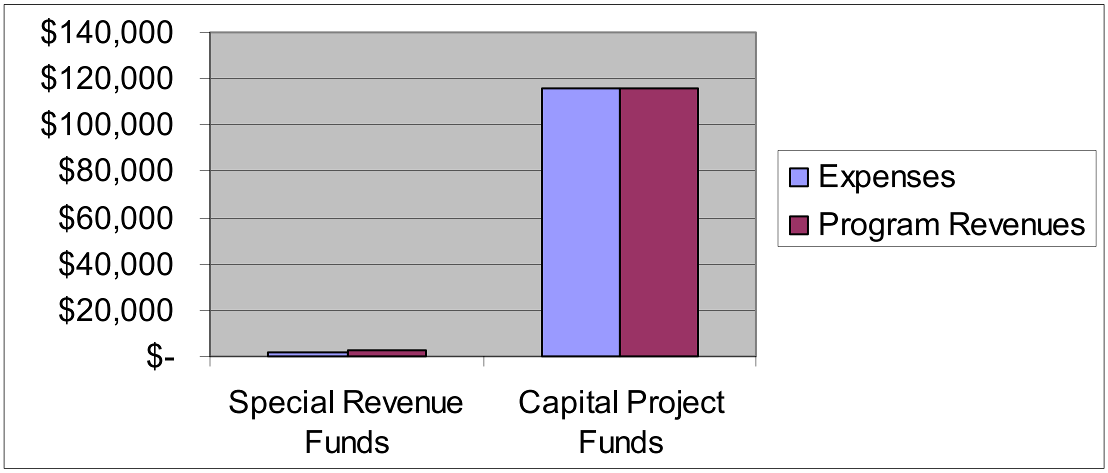
Expenses decreased by 7.1%. Although there was an increase in fringe benefits due to a rise in workers compensation expenses, labor costs decreased by approximately $7.5 million. This was due partly to the renegotiation of the wage and benefit packages with employee bargaining units and the restructuring of the Operations and Administrative Divisions. There was a reduction in operating costs due to labor, indirect costs, and internal charges which were allocated to capital and other programs. This change is due to our improved procedures for capturing capital project costs to increase reimbursement. VTA also benefited from savings in professional and special services which resulted from the re-bid of many service contracts.

Governmental activity. The governmental activity net assets were increased by approximately $369 thousand in FY04, leaving it with a net asset balance of $1.7 million. Elements of this increase are as follows:

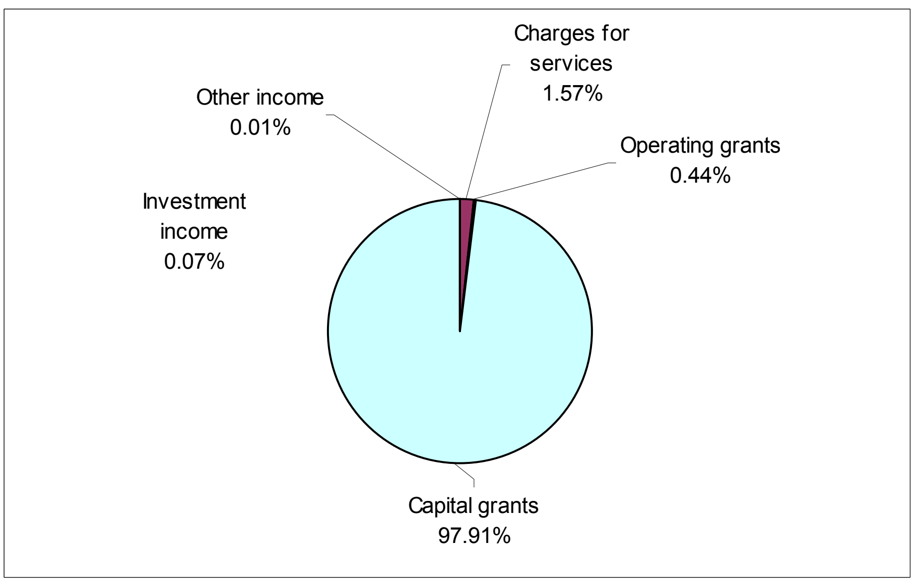
- There was a decrease in the Congestion Management Program's salaries and benefits expense during FY04 of approximately $817 thousand or 36%. This contributed to the increase in governmental activity net assets.

- Total grants received decreased by 18.1% compared to FY03, but coupled with a decrease in capital project related expenses for the benefit of other agencies, revenues remained higher than expenses.

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



Revenues By Source – Governmental Activity



Financial Analysis of VTA's Funds

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

Proprietary Fund. VTA's Proprietary Fund (Enterprise Fund) is used to account for activities for which a fee is charged to external users for goods or services (a) where the activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (b) where laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (c) where the pricing policies of the activity establish fees and charges designated to recover its costs, including capital costs (such as depreciation or debt service). Another of VTA's Proprietary Funds is the Internal Service Fund, which has been set up to account for the activities related to Retiree Health, Worker's Compensation, General Liability, and Compensated Absences.

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

At the end of the current fiscal year, VTA's governmental funds reported an increase of approximately $369 thousand.

Capital Assets and Debt Administration

Capital assets. VTA's investment in capital assets for its business-type activity as of June 30, 2004, amounts to $2.3 billion net of accumulated depreciation. VTA has no capital assets invested in the governmental activities. This investment in capital assets includes: Land and Right-of-way, Buildings, Improvements, Equipment & Furniture, Vehicles, the Caltrain-Gilroy Extension, Light Rail Tracks/Electrification, and Other Operating Equipment. The total net increase in VTA's capital assets for the current fiscal year was 8.5%.

Some of the significant changes in the capital assets during FY04 are as follows:

- Acquisition of 23 Kinkisharyo light rail vehicles
- Acquisition of 87 ticket vending machines for the Light Rail System
- Construction of two new transit centers
- Replacement of several computer servers
- Leasing of 35 UTDC light rail cars

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

	Business-type activity	
	2004	2003
Land and Right-of-way	$ 747,679	$ 570,715
Construction in Progress	690,853	923,872
Buildings & Improvements Equipment & Furniture	221,544	132,931
Vehicles	282,790	218,239
Caltrain-Gilroy Extension	46,585	43,284
Light Rail Tracks/Electrification	301,925	219,609
Other Operating Equipment	15,207	17,441
Total	$ 2,306,582	$ 2,126,091

VTA has outstanding commitments of $192,394,000 as of June 30, 2004, related to the capital projects below.

Outstanding Capital Commitments
(000's)

Caltrain Service Improvements	$ 3,091
Capitol Corridor Projects	4,022
Coach & Vehicles Replacement	4,735
Facilities Modifications	20,089
Guadalupe Corridor	1,565
New Rail Projects	24,673
Software Development	71
Study Projects	1,897
Silicon Valley Rapid Transit Corridor	96,700
Tasman Corridor Project -East	3,864
Tasman Corridor Project -West	177
Vasona Corridor Projects	31,510
	$ 192,394

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

Long-term debt. At the end of the current fiscal year, VTA had total bonded debt outstanding of $577,117,375. Of this amount, $250,041,526 represents bonds secured solely by the 2000 Measure A Sales Tax, which begins April 1, 2006.

Outstanding Debt
(000's)

	Business-type activity	
	2004	2003
Jr. Lien Sales Tax Revenue Bonds	$ 82,410	$ 84,635
Sr. Lien Sales Tax Revenue Bonds (1976 Tax)	215,005	221,048
Sr. Lien Sales Tax Revenue Bonds (2000 Tax)	250,042	-
Grant & Bond Anticipation Note	-	82,090
Equipment Trust Certificates	29,660	29,660
Special Assessment with Governmental Commitment	-	37
Total	$ 577,117	$ 417,470

The Santa Clara Valley Transportation Authority maintains an "AA" rating from Standard & Poor's (S&P), an "A" rating from Fitch and an "AA3" rating from Moody's for its Sr. Lien Sales Revenue Bonds secured by 1976 sales tax.

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

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

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

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing VTA's budget for the 2005 fiscal year:

- Proposed fare increase in January 2005
- An increase in ridership demand of 2%
- A 2% inflation rate
- An optimistic yet conservative outlook for sales tax growth
- An added cost of $1.3 million for an additional 13 FTE Operator and Maintenance Worker positions in anticipation of the Vasona Light Rail Extension in July 2005
- An increase in workers' compensation and health insurance rates of $6.4 million
- Increased fuel expense of $2 million
- Tasman East and Capitol light rail lines began service in July 2004

The recommended FY04-05 Capital Budget proposes to augment four projects and create 15 new projects for an additional net cost of $8.2 million.

New and augmented capital programs:

- Information Technology Infrastructure Replacement
- Management Reporting and Budget Reengineering
- Non-Revenue Vehicle Procurement
- TransLink
- Chaboya Fuel Island Vacuum System
- Cerone Fuel Island Vacuum System and Security/Fire Improvements
- Facilities and Equipment Emergency Repair Allowance
- Maintenance Equipment Replacement Program
- Light Rail Vehicle Overhaul Equipment
- Pavement Management Program
- Painting Management Program
- Roofing Management Program
- HVAC Scheduled Replacement Program
- Bus Stop Improvement Program
- Tamien Safety Improvements
- Line 22 Bus Rapid Transit Project
- Downtown East Valley Light Rail Project
- Light Rail T-Signal Retrofit
- Measure B Rail Projects Overhead

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Net Assets
June 30, 2004

	Business-Type Activity	Governmental Activity	Total
ASSETS			
Cash and investments	$ 147,623,557	$ 2,854,813	$ 150,478,370
Receivables, net	2,905,873	-	2,905,873
Internal balances	109,654	(109,654)	-
Due from other governmental agencies	69,845,969	673,160	70,519,129
Inventories	24,335,569	-	24,335,569
Other current assets	998,483	-	998,483
Restricted assets:			
Cash and investments	242,786,698	44,334,466	287,121,164
Receivables, net	325,343	-	325,343
Due from other governmental agencies	11,062,759	20,598,606	31,661,365
Deferred bond issuance costs	5,980,112	-	5,980,112
Capital Assets:			
Nondepreciable	1,438,531,698	-	1,438,531,698
Depreciable, net of accumulated depreciation	868,050,523	-	868,050,523
Total assets	2,812,556,238	68,351,391	2,880,907,629
LIABILITIES			
Accounts payable	21,240,860	38,221	21,279,081
Other accrued liabilities	11,705,462	90,240	11,795,702
Due to other governmental agencies	4,289,255	-	4,289,255
Deferred revenue	-	1,855,620	1,855,620
Liabilities payable from restricted assets:			
Accounts payable	23,935,423	13,765,818	37,701,241
Other accrued liabilities	9,815,116	-	9,815,116
Due to other government agencies	8,932,233	50,896,919	59,829,152
Long term debt payable from restricted assets	145,141,653	-	145,141,653
Long-term liabilities:			
Due within one year	16,170,769	-	16,170,769
Debt due in more than one year	489,526,250	-	489,526,250
Total liabilities	730,757,021	66,646,818	797,403,839
NET ASSETS			
Invested in capital assets, net of related debt	1,846,221,135	-	1,846,221,135
Restricted	65,780,396	-	65,780,396
Unrestricted	169,797,686	1,704,573	171,502,259
Total net assets	$ 2,081,799,217	$ 1,704,573	$ 2,083,503,790

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Activities
For the Year Ended June 30, 2004

	Business-Type Activity	Governmental Activity	
	Transit	Congestion Management	Total
Expenses:			
Operations and operating projects	$ 286,098,549	$ 2,857,566	$ 288,956,115
Caltrain subsidy & capital contribution	16,805,022	-	16,805,022
Altamont Commuter Express subsidy	2,391,662	-	2,391,662
Interest expense	13,690,621	-	13,690,621
Other non-operating expenses	3,021,645	-	3,021,645
Benefit payments	14,815,948	-	14,815,948
Capital projects for the benefit of other agencies	-	115,261,962	115,261,962
Total expenses	336,823,447	118,119,528	454,942,975
Program revenues:			
Charges for services	33,421,425	1,862,274	35,283,699
Operating grants	111,576,764	516,540	112,093,304
Capital grants	217,053,237	116,012,492	333,065,729
Total program revenues	362,051,426	118,391,306	480,442,732
Net program revenues (expenses)	25,227,979	271,778	25,499,757
General revenues:			
Sales tax revenue	138,917,173	-	138,917,173
Investment income	6,382,414	79,155	6,461,569
Other income	2,102,262	17,486	2,119,748
Total general revenues	147,401,849	96,641	147,498,490
Special items:			
Revenue from headlease	29,998,838	-	29,998,838
Loss from sublease of vehicles	(15,918,063)	-	(15,918,063)
Change in net assets	186,710,603	368,419	187,079,022
Net assets beginning of year	1,848,957,003	1,336,154	1,850,293,157
Add: Net assets of ISF which benefit Business-Type Activity	46,131,611	-	-
Net assets, end of year	$ 2,081,799,217	$ 1,704,573	$ 2,083,503,790

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Fund Net Assets
Proprietary Funds (Business-type Activity)
June 30, 2004

	Enterprise Fund	Internal Service Fund
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,087,104	$ 1,783,874
Investments	8,631,675	133,120,904
Receivables, net	2,653,009	252,864
Due from other funds	679,633	-
Due from other governmental agencies	69,845,969	-
Inventories	24,335,569	-
Other current assets	998,483	-
Total current assets	111,231,442	135,157,642
Restricted assets:		
Cash and cash equivalents	16,497,604	-
Cash and investments with fiscal agent	167,163,082	-
Investments	59,126,012	-
Receivables	325,343	-
Due from other governmental agencies	11,062,759	-
Total restricted assets	254,174,800	-
Noncurrent assets:		
Deferred bond issuance costs	5,980,112	-
Capital Assets		
Non-depreciable:		
Land and right of way	747,678,612	-
Construction in progress	690,853,086	-
Depreciable:		
CalTrain - Gilroy extension	52,989,868	-
Buildings, improvements, furniture, and fixtures	337,565,260	-
Vehicles	363,270,245	-
Light-rail tracks and electrification	375,049,010	-
Other	28,829,705	-
Less accumulated depreciation	(289,653,565)	-
Net capital assets	2,306,582,221	-
Total assets	2,677,968,575	135,157,642

(Continued)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Fund Net Assets
Proprietary Funds (Business-type Activity)
June 30, 2004

	Enterprise Fund	Internal Service Fund
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	8,656,882	-
Accounts payable	21,240,860	-
Other accrued liabilities	11,677,926	7,513,887
Due to other governmental agencies	4,289,255	-
Total current liabilities	45,864,923	7,513,887
Liabilities payable from restricted assets:		
Accounts payable	23,935,423	-
Other accrued liabilities	9,815,116	-
Due to other funds	569,979	-
Due to other governmental agencies	8,932,233	-
Long term debt, excluding current portion	145,141,653	-
Total liab. payable from restricted assets	188,394,404	-
Non-current liabilities		
Long-term debt, excluding current portion	423,318,840	-
Other accrued liabilities	27,536	66,207,410
Total non-current liabilities	423,346,376	66,207,410
Total liabilities	657,605,703	73,721,297
NET ASSETS		
Invested in capital assets, net of related debt	1,846,221,135	-
Restricted	65,780,396	-
Unrestricted	108,361,341	61,436,345
Total net assets	$ 2,020,362,872	$ 61,436,345

Reconciliation of the Statement of Net Assets to the Statement of Fund Net Assets:		
Net Assets of Enterprise Fund	$	2,020,362,872
Net Assets of Internal Service Fund, which benefits Business-type Activity		61,436,345
Net Assets (page 2-15)	$	2,081,799,217

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds (Business-type Activity)
For the Year Ended June 30, 2004

	Enterprise Fund	Internal Service Fund
Operating revenues:		
Passenger fares	$ 30,625,336	$ -
Advertising and other	2,796,089	-
Charges for services	-	29,988,470
Total operating revenues	33,421,425	29,988,470
Operating expense:		
Labor	127,044,833	-
Fringe benefits	95,348,982	-
Materials and supplies	16,169,303	-
Services	17,114,258	-
Utilities	5,063,892	-
Casualty and Liability	3,412,937	898,583
Purchased transportation	27,242,354	-
Leases and rentals	569,003	-
Miscellaneous	2,609,410	3,759,800
Depreciation expense	46,551,863	-
Costs Allocated to Capital and Other Programs	(29,698,199)	-
Benefit Payments	-	14,815,948
Total operating expense	311,428,636	19,474,331
Operating income/(loss)	(278,007,211)	10,514,139
Non-operating revenues (expenses):		
Sales tax revenue	138,917,173	-
Federal operating assistance grants	38,143,415	-
State and local operating assistance grants	73,433,349	-
CalTrain subsidy	(14,000,452)	-
CalTrain capital contribution	(2,804,570)	-
Altamont Commuter Express subsidy	(2,391,662)	-
Investment earnings	1,591,819	4,790,595
Interest expense	(13,690,621)	-
Other income	2,102,262	-
Other expense	(3,021,645)	-
Non-operating revenues, net	218,279,068	4,790,595
Change in net assets before capital contributions and special items	(59,728,143)	15,304,734
Capital contributions	217,053,237	-
Special items:		
Revenue from headlease	29,998,838	-
Loss from sublease of vehicles	(15,918,063)	-
Change in net assets	171,405,869	15,304,734
Net assets, beginning of year, as previously reported	1,848,957,003	-
Change in accounting principle	-	46,131,611
Net assets, beginning of year, as restated	1,848,957,003	46,131,611
Net assets, end of year	$ 2,020,362,872	$ 61,436,345

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	$ 171,405,869
Change in net assets of the Internal Service Fund, which benefits Business-type Activity	15,304,734
Change in net assets of the Business-type Activity (page 2-16)	$ 186,710,603

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Cash Flows
Proprietary Funds (Business-type Activity)
For the Year Ended June 30, 2004

	Enterprise Fund	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from passenger fares	$ 30,059,498	$ -
Cash received from advertising	2,796,089	-
Cash paid to employees	(192,700,916)	-
Cash paid to suppliers	(57,082,265)	-
Cash paid for purchased transportation	(27,242,354)	-
Cash received from contributions	-	29,988,470
Payments made to beneficiaries	-	(18,020,797)
Payments made to third party contractors	-	(3,759,800)
Net cash provided by/(used in) operating activities	(244,169,948)	8,207,873
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	114,521,151	-
Sales tax received	138,180,151	-
Caltrain subsidy and contribution	(16,805,022)	-
Altamont Commuter Express subsidy	(2,391,662)	-
Refund of excess deferred member contributions	8,925,539	-
Receipts for services provided to other agencies	1,820,066	-
Contributions to other agencies	(2,910,491)	-
Net cash provided by noncapital financing activities	241,339,732	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payment of long-term debt	(90,394,112)	-
Proceeds from Issuance of Bonds	250,041,526	-
Interest paid on long-term debt	(13,690,621)	-
Cost of bond issuance	(4,138,227)	-
Acquisition and construction of capital assets	(291,090,910)	-
Capital contribution from other governments	199,151,443	-
Proceeds from sale of capital assets	598,343	-
Proceeds from lease to service contract	29,998,838	-
Proceeds from sublease of vehicles	7,010,417	-
Net cash provided by capital and related financing activities	87,486,697	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	940,059,750	15,564,472
Purchases in investments	(918,196,156)	(38,969,245)
Interest income received	2,714,770	6,923,881
Net cash provided/(used) by investing activities	24,578,364	(16,480,892)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	109,234,845	(8,273,019)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	78,512,945	10,056,893
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 187,747,790	$ 1,783,874

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Cash Flows (Continued)
Proprietary Funds (Business-type Activity)
For the Year Ended June 30, 2004

	Enterprise Fund	Internal Service Fund
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES:		
Operating income/(loss)	$ (278,007,211)	$ 10,514,139
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	46,551,863	-
Changes in operating assets and liabilities:		
Receivables	(565,838)	-
Inventories	(2,384,606)	-
Accounts payable	(12,288,880)	-
Other accrued liabilities	2,524,724	(2,306,266)
Net cash provided by/(used in) operating activities	$ (244,169,948)	$ 8,207,873
Reconciliation of cash and cash equivalents to the Statement of Fund Net Assets:		
Cash and cash equivalents, end of year:		
Unrestricted	$ 4,087,104	$ 1,783,874
Restricted	183,660,686	-
	$ 187,747,790	$ 1,783,874
NONCASH INVESTING ACTIVITIES:		
Decrease in fair value of investments	$ 1,122,951	$ 1,983,368
OTHER NONCASH ACTIVITIES:		
Net book value of subleased vehicles	$ 22,928,480	$ -

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Balance Sheet
Governmental Funds
June 30, 2004

	Special Revenue Funds		Capital Projects Funds		
	Congestion Management Program	Non-major Traffic Authority	Congestion Management & Highway Program	Measure B Highway Program	Total
ASSETS					
Investments	$ 2,768,823	$ 85,990	$ -	$ -	$ 2,854,813
Due from other funds	160,681	-	-	-	160,681
Due from other governmental agencies	673,160	-	-	-	673,160
Restricted assets:					
Cash and cash equivalents	-	-	15,812,698	-	15,812,698
Cash and investments with fiscal agent	-	-	-	28,521,768	28,521,768
Due from other funds	-	-	457,591	-	457,591
Due from other governmental agencies	-	-	16,399,068	4,199,538	20,598,606
Total assets	$ 3,602,664	$ 85,990	$ 32,669,357	$ 32,721,306	$ 69,079,317
LIABILITIES					
Accounts payable	$ 38,221	$ -	$ -	$ -	$ 38,221
Other accrued liabilities	90,240	-	-	-	90,240
Deferred revenue	1,855,620	-	-	-	1,855,620
Liabilities payable from restricted assets:					
Accounts payable	-	-	6,621,758	7,144,060	13,765,818
Other accrued liabilities-current					
Due to other funds	-	-	319,375	408,551	727,926
Due to other governmental agencies	-	-	25,728,224	25,168,695	50,896,919
Total liabilities	1,984,081	-	32,669,357	32,721,306	67,374,744
FUND BALANCES					
Unreserved	1,618,583	85,990	-	-	1,704,573
Total liablities and fund balances	$ 3,602,664	$ 85,990	$ 32,669,357	$ 32,721,306	$ 69,079,317

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2004

	Special Revenue Funds		Capital Projects Funds		
	Congestion Management	Traffic Authority	Congestion Management & Highway Program	Measure B Highway Program	Total
REVENUES:					
Member agency assessment revenue	$ 1,782,534	$ -	$ -	$ -	$ 1,782,534
Federal technical studies operating assistance grants	223,380	-	-	-	223,380
Administrative fees	79,740	-	-	-	79,740
State operating assistance grants	293,160	-	-	-	293,160
Local grant revenue	-	-	28,103,183	87,909,309	116,012,492
Other revenues	17,487	-	-	-	17,487
Investment earnings	(5,626)	492	84,289	-	79,155
Total revenues	2,390,675	492	28,187,472	87,909,309	118,487,948
EXPENDITURES:					
Current:					
Congestion management:					
Salaries and benefits	1,714,425	-	1,018,396	-	2,732,821
Services	388,766	1,623	27	125	390,541
Capital Outlay:					
Capital improvement projects	183,729	-	27,169,049	87,909,184	115,261,962
Total expenditures	2,286,920	1,623	28,187,472	87,909,309	118,385,324
CHANGE IN FUND BALANCES	103,755	(1,131)	-	-	102,624
FUND BALANCES, BEGINNING OF YEAR	1,514,828	87,121	-	-	1,601,949
FUND BALANCES, END OF YEAR	$ 1,618,583	$ 85,990	$ -	$ -	$ 1,704,573

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

Change in fund balance	$ 102,624
Payment of compensated absences is an expenditure in the fund statement, but a reduction of liability in the government-wide statement	265,795
Change in net assets of the governmental activity (page 2-16	$ 368,419

See accompanying notes to basic financial statements

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2004

	Pension Trust Funds	Agency Funds
ASSETS		
Restricted assets:		
Investments	$ 265,459,582	$ 22,673,363
Cash with fiscal agent	-	4,324,289
Receivables	915,232	-
Total assets	266,374,814	26,997,652
LIABILITIES		
Liabilities payable from restricted assets:		
Accounts payable	4,871	4,588,269
Due to other governmental agencies	-	22,409,383
Total liabilities	4,871	$ 26,997,652
NET ASSETS		
Net assets held in trust for:		
Pension benefits	256,652,317	
Spousal medical benefits	7,929,890	
Retiree dental and vision benefits	1,787,736	
Total net assets	$ 266,369,943	

SANTA CLARA VALLEY TRANSPORTATION AGENCY
Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
For the Year Ended June 30, 2004

ADDITIONS		
Contributions	$	13,261,739
Investment earnings:		
Investment income		26,936,236
Net appreciation in the fair value of investments		6,561,954
Investment expense		(937,296)
Net investment income		32,560,894
Total additions		45,822,633
DEDUCTIONS		
Benefit payments		10,905,302
Other benefits paid to participants		84,987
Total deductions		10,990,289
Net increase		34,832,344
NET ASSETS HELD IN TRUST		
Beginning of year		231,537,599
End of year	$	266,369,943

NOTE 1 – THE FINANCIAL REPORTING ENTITY

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

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

The Santa Clara County Traffic Authority (Traffic Authority) was created in November 1984, upon the approval of a one-half cent sales and use tax in the County by the County's voters. The tax, known as Measure A, commenced April 1, 1985, and expired on March 31, 1995. The proceeds of the tax are principally reserved for highway improvements in the County. The Measure A improvement projects mainly consist of improvements on Routes 85, 101, and 237. All improvements funded by Measure A become the property of the State. As of March 31, 1997, the Traffic Authority ceased operations as a separate entity, and effective April 1, 1997, VTA assumed responsibility as successor organization for the purpose of winding up the affairs of the Traffic Authority. The Traffic Authority is included as a nonmajor governmental fund in the accompanying basic financial statements, thus it has no legally adopted annual budget.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

Government-wide Financial Statements

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

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

Fund Financial Statements

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

VTA reports the following major funds:

- The *Proprietary Fund (Enterprise Fund)* is used to account for activities for which a fee is charged to external users for goods or services (a) where the activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (b) where laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (c) where the pricing policies of the activity establish fees and charges designated to recover its costs, including capital costs (such as depreciation or debt service). VTA's transit operations, the activities of the Measure B Transit Projects and 2000 Measure A operations and transit projects are accounted for in the Enterprise Fund.

- The *Governmental Funds* are used to account for VTA's general governmental activities where the proceeds of specific revenue sources are legally restricted to expenditures for specific purposes and for the acquisition of capital assets or construction of major capital projects (other than those financed by the Enterprise Fund).

- The *Congestion Management Program Special Revenue Fund* is used to account for the congestion management planning, programming, and development services for Santa Clara County.

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

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

VTA reports the following additional funds:

- The *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, Worker's Compensation, Retiree Health and Compensated Absences are accounted for in the Internal Service Fund. This is the first year that the Internal Service Fund came into existence. In previous years, activities for all four were part of the Enterprise Fund. Please refer to Note 14 for additional details.

- The *Non-major Traffic Authority Special Revenue Fund* is used to account for activities to wind up the affairs of the 1985 Measure A improvement projects, which become the property of the State. Traffic Authority Special Revenue Fund has no legally adopted annual budget.

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

(b) Basis of Accounting

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

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

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

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

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

(c) Cash and Investments

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

The remaining cash balances in certain VTA funds are pooled and invested by the State of California and the County Treasury (cash and investments with fiscal agents). Unless there are specific legal or contractual requirements for specific allocations, income earned or losses arising from investments are allocated on a monthly basis (except for 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 a pricing service provided by the investment management firms and from its fiscal agents. The corresponding change in fair value of investments is recognized in the year in which the change occurs.

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

(d) Inventories

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

(e) Restricted Assets

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

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

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

(g) Capital Assets

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

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

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

Interest is capitalized on construction in progress. Accordingly, interest capitalized is the total interest cost from the date of the borrowing until the specified asset is ready for its intended use. In the current year, VTA capitalized a total interest expense of $4.9 million relating to the following projects: BART Right-of-Way, Tasman East, Vasona, Capitol and Downtown East Valley.

(h) Vacation and Sick Leave Benefits

It is the policy of VTA to permit employees to accumulate unused vacation and sick leave benefits up to the limit designated in the various collective bargaining agreements. As vacation and sick leave are used during the year, they are reported as an expense. 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 on the Internal Service Fund based on an actuarial determination of the present value of estimated future cash payments (see Notes 14 and 15).

(j) Net Assets

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

- *Invested in Capital Assets, Net of Related Debt* - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* – This category consists of VTA's local contribution to capital projects and net assets pertaining to Measure B Transit and 2000 Measure A.
- *Unrestricted Net Assets* – This category represents net assets of VTA, not restricted for any project or other purpose.

(k) 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.

(l) Costs Allocated to Capital and Other Programs

On the Statement of Revenues, Expenses and Changes in Fund Net Assets, the Enterprise Fund reports $29,698,199 as costs allocated to capital and other programs. This amount represents a credit for direct and indirect labor and associated fringe benefits, reproduction and mileage costs, and other costs that were capitalized as construction in progress.

NOTE 3 - CASH AND INVESTMENTS

Total cash and investments as of June 30, 2004, are reported in the accompanying basic financial statements as follows:

	Business-type Activity		Governmental Activity	Fiduciary Funds		
	Enterprise Fund	Internal Service Fund	Governmental Funds	Pension Trust Funds	Agency Funds	Total
Unrestricted:						
Cash and cash equiv.	$ 4,087,104	$ 1,783,874	$ -	$ -	$ -	$ 5,870,978
Investments	8,631,675	133,120,904	2,854,813	-	-	144,607,392
Total unrestricted	12,718,779	134,904,778	2,854,813	-	-	150,478,370
Restricted:						
Cash and cash equiv.	16,497,604	-	15,812,698	-	-	32,310,302
Cash & investments with fiscal agents	167,163,082	-	28,521,768	-	4,324,289	200,009,139
Investments	59,126,012	-	-	265,459,582	22,673,363	347,258,957
Total restricted	242,786,698	-	44,334,466	265,459,582	26,997,652	579,578,398
Total cash & investments	$255,505,477	$ 134,904,778	$ 47,189,279	$ 265,459,582	$ 26,997,652	$ 730,056,768

As of June 30, 2004, total cash and investments among all funds consisted of the following:

Cash and deposits	$ 65,808,444
Cash with fiscal agent & investments	664,248,324
	$ 730,056,768

Cash and Deposits

As of June 30, 2004, the carrying amount of VTA's deposit balance, which includes restricted deposits, was $65,808,444 and the bank balance was $71,955,230. The difference between the carrying amount and the bank balance is due to outstanding checks and deposits in transit. $100,000 of the bank balance was covered by federal depository insurance, and $71,855,230 was collateralized in accordance with Section 53652 of the California Government Code.

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

VTA maintains checking accounts for unrestricted operations, the Congestion Management and Highway Programs (CM&HP) and the Measure B Transportation Improvement Program (Measure B account). These checking accounts earn interest based on the bank's monthly sweep average repurchase agreement rate. At June 30, 2004, the carrying amount of these cash balances were as follows:

Unrestricted operations account	$ 4,087,104
CM&HP account	15,812,698
Measure B account:	
Business-type Activity (Enterprise Fund)	45,908,642
Total deposits	$ 65,808,444

Investments

VTA's investment policies (Unrestricted/Restricted Funds and ATU Pension Plan) conform to State statutes, and provide written investment guidance regarding the types of investments that may be made and amounts which may be invested in any one financial institution or amounts which may be invested in long-term instruments. Permissible investments included deposits with the County Treasurer in a commingled account, obligations of the U.S. Treasury, U.S. government agencies, the State of California Local Agency Investment Fund (LAIF), mutual funds, certain time deposits, certificates of deposit, bankers' acceptances, commercial paper, and repurchase and reverse repurchase agreements. Investments in commercial paper must be rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record. Negotiable certificates of deposit are restricted to those rated B or better by the Thompson Bankwatch, Inc. rating service.

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

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

VTA's portfolio includes structured notes and asset-backed securities, which are invested directly by VTA and indirectly through LAIF. At June 30, 2004, VTA's investment in LAIF is $35,096,074. The total amount invested by all public agencies in LAIF at June 30, 2004, is $57,536,996,461. Of that amount, 1.603% is in structured notes and asset-backed securities. Information is not available on whether the various mutual funds in which the VTA has invested used or held derivative financial products during the year ended June 30, 2004.

Investments are categorized below to give an indication of the custodial credit risk assumed by VTA as of June 30, 2004. Category 1 includes investments that are insured or registered or for which the securities are held by VTA or its agent in VTA's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in VTA's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in VTA's name.

A summary of the VTA's total investments at June 30, 2004 is shown below.

	Category 1	Uncategorized	Fair Value
Pooled investments:			
Investments subject to categorization:			
Corporate notes (commercial paper)	$ 549,012	-	549,012
Corporate bonds	32,554,621	-	32,554,621
U.S. Treasury and government agency notes	135,289,003	-	135,289,003
Subtotal	168,392,636	-	168,392,636
Uncategorized investments:			
Investments commingled in County Treasury		1,837,274	1,837,274
State of California Local Agency Investment Fund		35,096,074	35,096,074
Mutual funds (retention escrow fund)		12,439,251	12,439,251
Mutual funds		191,170,677	191,170,677
Total pooled investments		240,543,276	408,935,912
Pension Plan investments:			
Investments subject to categorization:			
Equity securities	82,179,937	-	82,179,937
Corporate bonds	29,522,629	-	29,522,629
U.S. Treasury and government agency notes	59,770,402	-	59,770,402
Subtotal investments	171,472,968	-	171,472,968
Uncategorized investments:			
Mutual funds		83,839,444	83,839,444
Total Pension Plan investments		83,839,444	255,312,412
Total investments	$339,865,604	324,382,720	664,248,324

As of June 30, 2004, the Pension Trust Fund's restricted investments consisted of the following:

ATU Pension:	
Pension plan investments	$ 255,312,412
Pooled Investments	429,544
ATU Medical:	
Pooled investments	9,717,626
	$ 265,459,582

NOTE 4 – INTERFUND TRANSACTIONS

The composition of interfund balances as of June 30, 2004 is as follows:

Receiving Fund	Paying Fund	Amount	
Special Revenue Fund	Enterprise Fund	$ 112,388	(a)
Special Revenue Fund	Capital Projects Fund	48,293	(b)
Enterprise Fund	Capital Projects Fund	271,082	(c)
Enterprise Fund	Capital Projects Fund	408,551	(d)
Capital Projects Fund	Enterprise Fund	457,591	(e)
		$ 1,297,905	

(a) The $112,388 represents the amount the 2000 Measure A Program owes the Congestion Management Program for labor charges to its projects.

(b) The $48,293 represents the amount the Congestion Management & Highway Program owes the Congestion Management Program for labor charges to its projects.

(c) The $271,082 represents the amount the Congestion Management & Highway Program owes VTA Transit for labor and internal charges to its projects.

(d) The $408,551 represents the amount the Measure B Highway Program owes VTA Transit for labor and internal charges to its projects.

(e) The $457,591 represents a receivable of the Congestion Management & Highway Program for project costs incurred, which will be funded by Measure B Transit on behalf of the Measure B Ancillary Program.

NOTE 5 – DUE FROM AND DUE TO OTHER GOVERNMENTAL AGENCIES

Due from other governmental agencies as of June 30, 2004 consisted of the following:

	Business-type Activity	Governmental Activity	
	Enterprise Fund	Special Revenue	Capital Projects
Current:			
Federal government	$ 41,947,430	$ 673,160	$ -
State government	29,490,753	-	14,871,045
County of Santa Clara:			
Court deposits:			
VTA account	71,100	-	-
Measure B Highway	-	-	1,907,700
Measure B Transit	7,293,000	-	-
Total court deposits	7,364,100	-	1,907,700
Others	2,106,445	-	3,819,861
Total County of Santa Clara	9,470,545	-	5,727,561
Total	$ 80,908,728	$ 673,160	$ 20,598,606

Due from other governmental agencies as of June 30, 2004, is reported in the accompanying basic financial statements as follows:

	Business-type Activity	Governmental Activity	
	Enterprise Fund	Special Revenue	Capital Projects
Current	$ 69,845,969	$ 673,160	$ -
Restricted	11,062,759	-	20,598,606
Total	$ 80,908,728	$ 673,160	$ 20,598,606

Due to other governmental agencies as of June 30, 2004, consisted of the following:

	Business-type Activity	Governmental Activity	
	Enterprise Fund	Capital Projects	Agency
State government	$ 1,345,074	$ -	$ -
Peninsula Corridor Joint Powers Board	2,944,387	-	-
County of Santa Clara	8,322,027	46,202,072	22,409,383
City of Campbell	610,000	-	-
City of San Jose	-	4,694,847	-
Total	$ 13,221,488	$ 50,896,919	$ 22,409,383

Due to other governmental agencies as of June 30, 2004, is reported in the accompanying basic financial statements as follows:

	Business-type Activity	Governmental Activity	
	Enterprise Fund	Capital Projects	Agency
Current liabilities	$ 4,289,255	$ -	$ -
Liabilities payable from restricted assets	8,932,233	50,896,919	22,409,383
Total	$ 13,221,488	$ 50,896,919	$ 22,409,383

NOTE 6 – CAPITAL ASSETS

Capital asset changes for VTA's business-type activity for the year ended June 30, 2004 were as follows:

	July 1, 2003	Additions	Retirements	Transfers	June 30, 2004
Capital assets, not being depreciated:					
Land and right of way	$ 570,714,935	4,657,117	-	172,306,560	747,678,612
Construction in progress	923,872,041	202,620,727	-	(435,639,682)	690,853,086
Total capital assets, not being depreciated	1,494,586,976	207,277,844	-	(263,333,122)	1,438,531,698
Capital assets, being depreciated:					
Buildings, improvements, furniture and fixtures	237,238,946	35,053,314	(5,383,158)	70,656,158	337,565,260
Vehicles	306,338,319	1,395,170	(46,426,096)	101,962,852	363,270,245
Light-rail tracks and electrification	281,182,310	3,152,588	-	90,714,112	375,049,010
Caltrain – Gilroy extension	48,962,184	4,098,536	(70,852)	-	52,989,868
Other operating equipment	28,706,147	123,558	-	-	28,829,705
Total capital assets, being depreciated	902,427,906	43,823,166	(51,880,106)	263,333,122	1,157,704,088
Less accumulated depreciation for:					
Buildings, improvements, furniture and fixtures	(104,307,595)	(16,561,823)	4,847,960	-	(116,021,458)
Vehicles	(88,098,994)	(15,355,734)	22,974,074	-	(80,480,654)
Light-rail tracks and electrification	(61,573,395)	(11,550,776)	-	-	(73,124,171)
Caltrain – Gilroy extension	(5,678,238)	(726,793)	-	-	(6,405,031)
Other operating equipment	(11,265,514)	(2,356,737)	-	-	(13,622,251)
Total accumulated depreciation	(270,923,736)	(46,551,863)	27,822,034	-	(289,653,565)
Total capital assets, being depreciated, net	631,504,170	(2,728,697)	(24,058,072)	263,333,122	868,050,523
Total capital assets, net	$ 2,126,091,146	204,549,147	(24,058,072)	-	2,306,582,221

Construction in progress (CIP), includes capitalized costs and right-of-way acquisitions associated with the following projects as of June 30, 2004:

Vasona Corridor Project	$ 261,209,545
Facilities Modifications	144,759,013
New Rail Vehicles	106,170,900
Guadalupe Corridor	14,127,680
Software Development	645,866
Silicon Valley Rapid Transit Corridor	123,099,134
Study Projects	8,600,808
Coach and Vehicle Replacement	7,420,407
Caltrain Service Improvements	28,883,273
Fremont Rail Connection	3,229,460
Total project costs expended to date	698,146,086
Less right-of-way acquisitions not yet settled [(1)]	(7,293,000)
CIP, as reported on the balance sheet at 6/30/04	$ 690,853,086

[(1)] The projects listed above include $7,293,000 paid for right-of-way acquisitions that have not yet settled. During the process of acquiring right-of-way, VTA makes deposits with the County of Santa Clara, which are reported as due from other governments. Upon settlement of the purchase and transfer of title to VTA, these acquisitions will be reported as construction in progress.

Additional information regarding projects in progress as of June 30, 2004 is as follows:

Total Board approved project budget	$	1,075,978,708
Expended to date		(698,146,086)
Remaining budget available for CIP	$	377,832,622
Anticipated funding sources are as follows:		
Federal, State, and other local assistance (Note 10)	$	143,515,158
Local contributions (Note 10)		234,317,464*
Total funding sources	$	377,832,622

VTA has outstanding commitments of $192,394,000 as of June 30, 2004, related to the above capital projects.

*Includes $175.6 million in 2000 Measure A Bond Proceeds

NOTE 7 - LONG-TERM LIABILITIES

Long-term debt as of June 30, 2004, consisted of the following:

Sales Tax Revenue Bonds secured by VTA's 1976 Measure A ½ cent sales tax:	
2001 Series A Senior Lien ($185,300,000 less unamortized discount of $1,494,638) **(a)**	$ 183,805,362
2000 Series A Junior Lien **(b)**	37,060,000
1998 Series A Junior Lien **(c)**	45,350,000
1997 Series A Refunding ($34,075,000, less unamortized discount of $282,636 and unamortized deferred amount on refunding of $2,591,877 **(d)**	31,200,487
Series 1985A Equipment Trust Certificates **(e)**	29,660,000
Sales Tax Revenue Bonds secured by VTA's 2000 Measure A ½ cent sales tax:	
2003 Series A Senior Lien ($131,240,000, plus unamortized premium of $7,040,799 **(f)**	138,280,799
2004 Series A Senior Lien ($104,710,000, plus unamortized premium of $7,050,727 **(g)**	111,760,727
Total long-term debt	577,117,375
Less current portion of long-term debt	(8,656,882)
Long-term debt, excluding current portion	568,460,493
Less portion of long-term debt payable from restricted assets	(145,141,653)
Long-term debt, excluding current & restricted portion	$ 423,318,840

(a) 2001 Series A Senior Lien Sales Tax Revenue Bonds

In June 2001, VTA issued $200,000,000 of 2001 Series A Senior Lien Sales Tax Revenue Bonds (2001 Bonds) to finance portions of the Tasman East, Vasona, and Capitol Corridor Light Rail projects. Issuance costs are being amortized over the term of the debt. The 2001 Bonds are special obligations of VTA, which are payable and secured by its existing 1976 Measure A sales tax revenue.

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

(b) 2000 Series A Junior Lien Sales Tax Revenue Bonds

In November 2000, through the California Transit Variable Rate Program of the California Transit Finance Authority (Note 19d), VTA issued $40,000,000 of 2000 Series A Junior Lien Sales Tax Revenue Bonds (2000 Bonds) to finance certain capital expenditures. Issuance costs related to such bonds are being amortized over the term of the debt. The 2000 Bonds are special obligations of VTA, which are payable and secured by its existing 1976 sales tax revenue.

The 2000 Bonds mature serially, through October 1, 2027. Future annual principal payments range from $1,045,000 to $2,175,000 and bear a variable rate of interest not to exceed 12%. At June 30, 2004, the variable interest rate was 1.04%, which is determined weekly based on the Bond Buyers Revenue Bond Index plus 50 basis points.

(c) 1998 Series A Junior Lien Sales Tax Revenue Bonds

In March 1998, through the California Transit Variable Rate Program of the California Transit Finance Authority (Note 19d), VTA issued $50,000,000 of 1998 Series A Junior Lien Sales Tax Revenues Bonds (1998 Bonds) to finance certain capital expenditures. Issuance costs related to such bonds are being amortized over the term of the debt. The 1998 Bonds are special obligations of VTA, which are payable and secured by its existing 1976 sales tax revenue.

The 1998 Bonds mature serially, through October 1, 2027. Future annual principal payments range from $1,265,000 to $2,690,000 and bear a variable rate of interest not to exceed 12%. At June 30, 2004, the variable interest rate was 1.04%, which is determined weekly based on the Bond Buyers Revenue Bond Index plus 50 basis points.

(d) 1997 Series A Sales Tax Revenue Refunding Bonds

In November 1997, VTA issued $40,570,000 of 1997 Series A Sales Tax Revenue Refunding Bonds (1997 Bonds). The proceeds were used to advance refund $33,270,000 of the outstanding principal amount of its 1991 Series A Bonds, advance refund $4,040,000 of the outstanding principal amount of its Series C Certificates, and to pay for certain capital expenditures. The 1997 bonds are special obligations of VTA, which are payable and secured by its existing 1976 sales tax revenue.

The bonds mature serially, through June 1, 2015. Future annual principal payments on the 1997 Bonds range from $1,275,000 to $2,375,000 and bear interest ranging from 4.4% to 5.0%. Additionally, there are two term bonds that will mature in 2017 and 2021, in the amounts of $4,250,000 and $10,300,000, respectively. Interest on these two term bonds is 5.250%. Sinking fund payments for the term bonds will be made annually, beginning 2016 in the amounts ranging from $2,055,000 to $2,825,000.

(e) Series 1985A Equipment Trust Certificates

The 1985A Certificates were issued to finance the retirement of the Series 1984A Equipment Trust Certificates, which had been issued to finance the acquisition of light-rail vehicles for the Guadalupe Corridor light-rail project. Proceeds from the sale of the 1985A Certificates were $52,155,000, which was net of issuance costs of $705,000. Issuance costs are being amortized over the term of the debt. In August 1998, VTA executed a Fixed Rate Swap (Swap) for the variable rate 1985A Certificates.

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

Significant Terms. The 1985 ETC's are subject to mandatory redemption prior to their maturity date on each June 1 on or after June 1, 2007, in part by lot, solely from sinking fund payments and interest earnings deposited in the 1985 ETC Sinking Fund Account. Sinking fund payments are due in 2007 through 2015 and range from $460,000 to $4,800,000. The 1985 ETC's bear interest at a weekly rate, which is determined by the Remarketing Agent to be the rate necessary to remarket the 1985 ETC's at par value. The notional amount of the swap, which was effective September 11, 1998 and terminates June 1, 2015, is $29,660,000 (the amount outstanding on the 1985 ETC's as of the effective date) and, starting with fiscal year 2007, declines concurrently with payments made to the 1985 ETC Sinking Fund Account. Under the swap VTA pays the counterparty an interest payment based on a fixed interest rate of 4.355% every six months and receives a monthly payment equal to the actual variable rate of interest on the 1985 ETC's.

Fair Value. Because interest rates have declined since the execution of the swap, the swap had a negative fair value of $2,075,034 as of June 30, 2004. Since the coupons on the 1985 ETC's adjust to changing interest rates, they do not have a corresponding fair value increase. The fair value is the net present value of the swap using market data and the terms of the swap, which include the expectations of the probability of occurrence of certain underlying tax events as defined in the swap documentation.

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

Credit Risk. VTA bears the risk that the counterparty will not be able to make its offsetting payments on the 1985 ETC's. To mitigate the potential credit risk, the counterparty is required to post collateral, in the form of government securities, within 10 business days if its credit ratings for long-term unsecured debt obligations fall below "Aa3" by Moody's Investors Service or "AA" by Standard and Poor's. As of June 30, 2004, there were no changes in the Counterparty ratings, which are "AA1" by Moody's Investor Service and "AAA" by Standard and Poor's.

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

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

	Principal	Interest*	Interest Rate Swap, Net	Total
2005	-	308,464	983,229	1,291,693
2006	-	308,464	983,229	1,291,693
2007	460,000	308,464	983,229	1,751,693
2008	2,700,000	303,680	967,980	3,971,660
2009	2,900,000	275,600	878,475	4,054,075
2010	3,100,000	245,440	782,340	4,127,780
2011	3,400,000	213,200	679,575	4,292,775
2012	3,800,000	177,840	566,865	4,544,705
2013	4,000,000	138,320	440,895	4,579,215
2014	4,500,000	96,720	308,295	4,905,015
2015	4,800,000	49,920	159,120	5,009,040
	$ 29,660,000	$ 2,426,112	$ 7,733,232	$39,819,344

*For the purposes of calculating the annual debt service requirements, the June 30, 2004 effective rate of 1.04% was used for the variable rate debt.

The 1985A Certificates are limited general obligations of VTA and are secured by sales tax revenue and an irrevocable letter of credit in the amount of $30,074,000, which expires on June 1, 2015. The 1985A Certificates mature beginning in 2007 and are subject to redemption prior to their maturity date on each June 1 through deposit on such date in a separate sinking fund account, of the principal amount due together with accrued interest to the date of redemption. Future sinking fund payments ranging from $460,000 to $4,800,000 will start in 2007.

(f) 2003 Series A Measure A Senior Lien Sales Tax Bonds

In November 2003, VTA issued $131,240,000 of 2000 Measure A Senior Lien Sales Tax Revenue Bonds (2003 Bonds) to 1) finance the repayment of the 2002 Bond and Grant Anticipation Note, that matured December 4, 2003, 2) reimburse VTA for certain debt service payments made in connection with the 2001 Bonds, and 3) finance capitalized interest payment through October 2006. Issuance costs related to such bonds are being amortized over the term of the debt. The 2003 Bonds are special obligations of VTA, which are payable and secured by 2000 Measure A sales tax revenue.

On October 2, 2006, there will be a mandatory tender for purchase of the 2003 Bonds. On the mandatory tender date, VTA will either remarket or refund (or a combination of both) the 2003 Bonds. If there is a failure to remarket the 2003 Bonds on the mandatory tender date, such bonds will continue to be owned by the then current holders and will commence to bear interest at a rate which is determined by the remarketing agent to be the rate necessary to remarket the 2003 Bonds at par value for successive periods of one year until such time as VTA elects to adjust the interest rate to be borne on the 2003 Bonds to rates applicable to weekly adjustable, commercial paper, auction rate securities, or a fixed interest rate and there is a successful remarketing of the 2003 Bonds.

(g) 2004 Series A Measure A Senior Lien Sales Tax Revenue Bonds

In May 2004, VTA issued $104,710,000 of Measure A Senior Lien Sales Tax Revenue Bonds (2004 Bonds) to pay certain working capital and capital expenditures and to finance capitalized interest payment through October 2006. Issuance costs related to such bonds are being amortized over the term of the debt. The 2004 Bonds are special obligations of VTA, which are payable and secured by 2000 Measure A sales tax revenue.

On October 2, 2006, there will be a mandatory tender for purchase of the 2004 Bonds. On the mandatory tender date, VTA will either remarket or refund (or a combination of both) the 2004 Bonds. If there is a failure to remarket the 2004 Bonds on the mandatory tender date, such bonds will continue to be owned by the then current holders and will commence to bear interest at rate which is determined by the remarketing agent to be the rate necessary to remarket the 2004 Bonds at par value for successive periods of one year until such time as VTA elects to adjust the interest rate to be borne on the 2004 Bonds to rates applicable to weekly adjustable, commercial paper, auction rate securities, or a fixed interest rate and there is a successful remarketing of the 2004 Bonds.

(h) Scheduled Payments

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

Year ending June 30,	Principal [1]	Interest [2]
2005	$ 8,895,000	$ 23,142,262
2006	9,285,000	23,676,493
2007	13,835,000	24,023,389
2008	13,730,000	24,173,722
2009	14,350,000	23,618,546
2010-2014	82,195,000	108,577,222
2015-2019	103,300,000	89,225,079
2020-2024	130,630,000	63,940,700
2025-2029	100,905,000	34,555,698
2030-2034	61,100,000	17,616,589
2035-2036	29,170,000	2,317,859
Total debt service requirements	$ 567,395,000	$ 434,867,559

[1] Assumes 2003 and 2004 Bonds are remarketed at mandatory tender date with no refundings.

[2] Interest rates on the 2003 and 2004 Bonds are fixed through their mandatory tender date of 10/2/06. Thereafter, we have assumed the bonds will be remarketed with no refundings and interest rates of 5.23% for the 2003 Bonds, 5.28% for the 2004 Bonds. A rate of 1.04%, which was the actual rate as of June 30, 2004 was used for the purposes of calculating the annual debt service requirements for the 1998 and 2000 Bonds.

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

	July 1, 2003	Additions	Retirements	June 30, 2004	Amounts Due Within One Year
Sales Tax Revenue Bonds secured by VTA's 1976 Measure A ½ cent sales tax:					
2001 Series A Senior Lien	$190,385,000	$ -	$ (5,085,000)	$185,300,000	$ 5,310,000
2000 Series A Junior Lien	38,070,000	-	(1,010,000)	37,060,000	1,045,000
1998 Series A Junior Lien	46,565,000	-	(1,215,000)	45,350,000	1,265,000
1997 Series A Refunding	35,270,000	-	(1,195,000)	34,075,000	1,275,000
Series 1985 A Equipment Trust Certificates	29,660,000	-	-	29,660,000	-
Improvement Bond, Series 22R	36,884	-	(36,884)	-	-
Bond & Grant Anticipation Note	81,500,000	-	(81,500,000)	-	-
Sales Tax Revenue Bonds secured by VTA's 2000 Measure A ½ cent sales tax:					
2004 Series A Senior Lien	-	131,240,000	-	131,240,000	-
2003 Series A Senior Lien Plus Premium	-	104,710,000	-	104,710,000	-
Total outstanding debt	421,486,884	235,950,000	(90,041,884)	567,395,000	8,895,000
Plus (less) premiums, deferred amount on refundings and discounts	(4,016,923)	14,091,528	(352,230)	9,722,375	(238,118)
Outstanding debt, net	417,469,961	250,041,528	(90,394,114)	577,117,375	8,656,882
Claims liability:					
General liability, Worker's compensation & Compensated absences	76,027,562	15,489,157	(17,795,422)	73,721,297	7,513,887
Total long-term liabilities	$493,497,523	$ 265,530,685	$(108,189,536)	$650,838,672	$ 16,170,769

(i) Limitations and Restrictions

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

NOTE 8 – 1976 MEASURE A SALES TAX REVENUE

Sales tax revenue represents sales tax revenue from the California State Board of Equalization, which, under a sales tax measure, collects for VTA 0.5% for each taxable sales dollar spent in the County. These amounts are available to fund both operations and capital expenditures except that portion which is to be used to repay long-term debt as described in Note 7. Collection fees charged by the State Board of Equalization were approximately $1,366,000 in fiscal year 2003/04. The amount of sales tax collected during fiscal year 2004 was $138,917,173.

NOTE 9 – VTA PROGRAMS FUNDED THROUGH LOCAL SALES TAX MEASURES

Measure B Transportation Improvement Program (MBTIP)

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

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

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

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

A third agreement provided for a simultaneous exchange of funds. VTA secured 2001 Series A Senior Lien Sales Tax Revenue Bonds to reimburse the County approximately $184.1 million of 1996 MBTIP project costs, namely the Tasman East, Vasona and Capitol Corridor Light Rail Projects. The reimbursement of 1996 MBTIP project costs made $184.1 million available for the acquisition of low floor vehicles. On February 15, 2002, amendment #1 to the agreement was executed to increase the amount of reimbursement to $198.3 million. As of June 30, 2002, full reimbursement of the $198.3 million was made to the Measure B Ancillary Program Agency Fund. As of June 30, 2004 approximately $181.1 million have been expended for the acquisition of low floor vehicles, which includes $65.0 million in current year additions.

During the year, VTA paid approximately $254 million for current year costs for the program. Of this amount, the County of Santa Clara contributed approximately $195.5 million; namely $85.3 million ($82.5 million Measure B funding and $2.8 million Measure B swap fund) for transit projects in the Enterprise Fund; $77.5 million ($67.2 million Measure B fund & $10.3 million Measure B swap fund) for highway projects in the Measure B Highway Capital Projects Fund; and $34.9 million for the

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

2000 Measure A Program

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

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

NOTE 10 – FEDERAL, STATE, AND LOCAL ASSISTANCE

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

A summary of the various governmental funding sources is as follows:

(a) Federal Grants

Federal grants are approved principally by the Federal Transportation Administration (FTA) and the Federal Highway Administration (FHWA). Federal grants for the year ended June 30, 2004, are summarized as follows:

	Business-type Activity	Governmental Activity
	Enterprise Fund	Special Revenue Funds
Operating assistance grants:		
FTA Section 9	$ 37,631,902	-
Job Access and Reverse Commute Program	511,093	-
Federal Technical Studies	420	223,380
Total operating assistance grants	38,143,415	223,380
Capital grants:		
FTA Section 3	7,735,741	-
FTA Section 9	30,706,213	-
Total capital grants	38,441,954	-
Total operating assistance and capital grants	$ 76,585,369	223,380

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

(b) State and Local Grants and Assistance

State and local grants for the business-type activity and the Enterprise Fund for the year ended June 30, 2004, are summarized as follows:

Operating assistance grants:	
Transportation Development Act	$ 64,993,308
State Transit Assistance	4,417,128
Measure B Assistance	3,271,795
AB434	751,118
Total operating assistance grants	73,433,349
Capital grants:	
Traffic Congestion Relief Program	20,797,088
State Flexible Congestion Relief	644,826
California Energy Commission	300,000
General Fund	5,361,598
State/Local Partnership	55,507
Other Local Grants:	
Santa Clara County (Measure B Program) – (Note 9)	82,535,416
Santa Clara County (Fund Swap Program) – (Note 9)	67,763,290
Various cities and counties	1,153,558
Total capital grants	178,611,283
Total state and local grants	$ 252,044,632

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

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

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

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

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

California Energy Commission provides funds for the purchase of a hydrogen fueling station and to operate hydrogen bus fuel cell demonstration program for a minimum of one year.

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

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

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

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

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

(a) Plan Description

All ATU employees are covered by the Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan (Plan). The Plan is a noncontributory single-employer defined benefit pension plan. The Plan provides retirement, disability, and death benefits based on the employees' years of service, age, and final compensation.

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

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

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

The current membership of the Plan as of June 30, 2004, is comprised of the following:

Retirees and beneficiaries currently receiving benefits	689
Terminated vested members not yet receiving benefits	174
Active members	1,487
Total	2,350

(b) *Basis of Accounting*

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

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

(c) *Actuarial Methods and Assumptions*

Description	Methods/Assumptions	
Valuation date	January 1, 2004	
Actuarial cost method	Aggregate entry age normal	
Amortization method	Level dollar open method	
Remaining amortization period	20 years (Level dollar open method)	
Actuarial asset valuation method	Market value of assets less unrecognized investment gain or losses during the prior four years, phased in at 20% per year, subject to a minimum of 80% and a maximum of 110% of market value	
Actuarial assumptions	Investment rate of return	8.00%
	Projected salary increases	19.03% for the first three years of service, 4.28% thereafter
	Inflation rate	3.50%
	Cost of living adjustments	NONE

(d) Concentrations

Investments in the commingled State Street Bank and Trust Company, S&P 500 Conservative Index Fund and commingled Fidelity Fund represented 14.82% and 14.87%, respectively, of the Plan's net assets as of June 30, 2004.

(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, 2004, were made in accordance with actuarially determined requirements computed as of January 1, 2003. VTA's contribution rate as a percentage of payroll was 13.35% for fiscal year 2003/04. The schedule of funding progress can be found on page 2-61.

(f) Net Pension Obligation

VTA's net pension obligation to the Plan was zero as of June 30, 2004. The three-year trend information is as follows:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/02	$ 10,302,000	100%	$ -
6/30/03	12,362,000	100%	-
6/30/04	12,071,000	100%	-

NOTE 12 – PUBLIC EMPLOYEES' RETIREMENT PLAN

(a) Plan Description

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

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

Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

(b) Actuarial Methods and Assumptions

Description	Methods/Assumptions
Valuation date	June 30, 2001
Actuarial cost method	Entry Age Actuarial Cost Method
Amortization method	Level percent of Payroll
Average Remaining Period	16 years as of the Valuation Date
Asset Valuation Method	3 Year Smoothed Market
Actuarial Assumptions	
Investment Rate of Return	8.25% (net of administrative expenses)
Projected Salary Increases	3.75 to 14.20% depending on Age, Service, and type of employment
Inflation	3.50%
Payroll Growth	3.75%
Individual Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.50% and an annual production growth of 0.25%

(c) Funding Policy

Active members in VTA's CalPERS Plan 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, 2003 through June 30, 2004, was 7.093% for the employer and 7.0% for employees. The required employee contribution was paid by VTA. The contribution requirements of the CalPERS Plan are established by State statute and the employer contribution is established and may be amended by CalPERS. The schedule of funding progress can be found on page 2-62.

(d) Net Pension Obligation

VTA's net pension obligation to the CalPERS Plan was zero as of June 30, 2004. For fiscal year 2004, VTA's annual pension cost was approximately $7,424,000, which was fully contributed. The required contribution for fiscal year 2004 was determined as part of the June 30, 2001, actuarial valuation using the entry age normal cost method with the contributions determined as a percent of pay. Three-year trend information follows:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/02	$ 6,361,000	100%	$ -
6/30/03	6,995,000	100%	-
6/30/04	7,424,000	100%	-

NOTE 13 - ATU MEDICAL TRUST

VTA had total assets as of June 30, 2004 of $7,930,000 for the ATU Spousal Medical Trust and $1,788,000 for the Retiree Vision and Dental Trust.

The ATU Spousal Medical Trust is a medical insurance benefit for eligible pensioners' spouses. Pursuant to a collective bargaining agreement, VTA's required contribution to the Trust was increased from $.20 to $.25 per hour worked by all ATU employees, effective February 4, 2002. As of June 30, 2004, there were 229 participating spouses who were eligible for benefits from the ATU Spousal Medical Trust. Contributions by VTA were approximately $851,000. Benefit payments made by the Trust for fiscal year 2004 were approximately $619,000.

The Retiree Vision and Dental Trust is a vision and dental benefit for eligible pensioners. Effective February 8, 1999 and pursuant to a collective bargaining agreement, VTA is required to contribute $0.10 per hour worked by ATU employees. As of June 30, 2004, there were 641 eligible participants. Contributions which were expensed by VTA, were approximately $339,000 for the Retiree Vision and Dental Trust.

NOTE 14 – INTERNAL SERVICE FUND

Workers' Compensation and General Liability

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

Actuarial Information

An actuarial analysis as of December 31, 2003 disclosed that the present values of estimated outstanding losses, at 5% average discount rate using a 75% confidence level, are $50,178,000 and $4,900,000 for Workers' Compensation and General Liability, respectively. Based on individual claims for the period January 1 through June 30, 2004, the decrease in claim amount percentages is 6.82% for Worker's Compensation and 16.78% for General Liability. The accrued liabilities for Worker's Compensation and General Liability claims were based on the actuarial estimates. It is VTA's practice to obtain full actuarial studies annually. VTA used third-party administrators to perform its claims processing function. As of June 30, 2004, Worker's Compensation and General Liability had net asset balances of $1,950,589 and $147,041, respectively.

Changes in the balance of Worker's Compensation and General Claims Liabilities for the two years ended June 30, 2004, are as follows:

	Workers' Compensation	General Liability
Unpaid claims at June 30, 2002	$ 39,243,905	$ 13,113,698
Provision for claims and claims adjustment expense	19,646,352	(3,912,550)
Payment for claims	(9,561,155)	(3,557,237)
Unpaid claims at June 30, 2003	49,329,102	5,643,911
Provision for claims and claims adjustment expense	8,984,449	2,045,020
Payment for claims	(11,556,574)	(1,321,159)
Unpaid claims at June 30, 2004	$ 46,756,977	$ 6,367,772

Retiree Health

(a) ATU

VTA provides an ATU Retiree Health Care Program (ATU Program), a post-employment benefit, in accordance with the agreement between VTA and the ATU, to all ATU represented employees who retire from VTA on or after attaining the age of 55 with at least 15 years of service, or if an employee becomes disabled and has completed at least 10 years of service. As of June 30, 2004, 641 retirees met the eligibility requirements. VTA pays medical premiums for its eligible retirees.

(b) Non-ATU

All non-ATU employees upon retirement with at least five years of service and attaining age 50 are also covered under a Retiree Health Care Program (Non-ATU Program). As of June 30, 2004, 174 retirees met the eligibility requirements.

(c) Actuarial Information

An actuarial analysis of Retiree Health Benefits as of July 1, 2004 disclosed that the actuarial liability, which is the present value of benefits attributed to past service, is $154, 254, 913. VTA's contributions are advance funded on an actuarial basis. For the year ended June 30, 2004, VTA made contributions to both the ATU and Non-ATU programs, which were expensed, of approximately $12,259,000. Benefits paid to participants of the program were approximately $3,493,000.

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

As of June 30, 2004, Retiree Health's assets of $59,384,000 have been accumulated to cover future payments of the ATU and Non-ATU Programs.

Compensated Absences

This represents the amount charged each month to accrue the estimated increase in unused vacation and sick leave. This account is adjusted annually to reflect the year-end value of unused vacation and sick leave. Compensated absences are limited to leaves that are attributable to services already rendered and are not contingent on a specific event that is outside the control of the employer and employee. At June 30, 2004, the outstanding balance of compensated absences was $20,596,000.

NOTE 15 – SELF-INSURANCE

VTA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors, and omissions; injuries to employees; injuries to the public; and natural disasters. For the past three fiscal years, settlement amounts have not exceeded commercial insurance coverage. For additional information on worker's compensation and general liability, see Note 14. Coverage provided by self-insurance and excess coverage as of June 30, 2004, is as follows:

Type of Coverage	Self-Insurance/Deductible	Excess Coverage (in aggregate)
Workers' compensation	Self-Insured	None
Employer's liability	$1,000,000	$3,000,000 per accident
Excess public entity liability	$2,000,000	$23,000,000
Property, boiler, and machinery	$100,000	$168,432,000 combined blanket limit
National Flood Insurance (eligible locations)	$5,000	$500,000
Light rail vehicles include spare parts coverage, no earthquake coverage	$250,000	$20,000,000
Buses	$100,000	$20,000,000
Vans and mobile equipment	$25,000	$20,000,000
Crime	$25,000	$5,000,000
Owner-controlled insurance programs:		
Light rail construction projects	$-0-	$10,000,000
Highway construction projects	$-0-	$50,000,000
Builder's risk	$25,000-Highway	$200,000- Highway
	$10,000- Rail	$105,827,501-Rail

NOTE 16 – LEASES

VTA leases various properties for use as transfer facilities, parking lots, information centers, and warehouses under lease agreements that expire at various dates through 2013. These agreements are accounted for as operating leases. Rent expense was approximately $569,000 in fiscal year 2003/04. The future lease payments under noncancellable lease agreements are as follows:

Year ending June 30,	
2005	$ 241,828
2006	212,386
2007	221,273
2008	137,141
2009	143,538
2010-2013	644,661
Total	$ 1,600,827

NOTE 17 – LITIGATION

Total claims and litigation awards due in the next 12 months are anticipated to amount to $2,699,489. VTA's management believes its actuarially determined reserves and excess insurance coverage will adequately cover estimated potential material adverse losses as of June 30, 2004.

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

The County provides support services to VTA for protection (Office of the Sheriff), fuel for vehicles and vehicle maintenance and repairs. Amounts paid to the County for such services were approximately $4,125,278 during fiscal year 2003/04.

NOTE 19 – JOINT VENTURES

(a) Peninsula Corridor Joint Powers Board

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

The net operating costs and administrative expenses of the PCJPB, for services provided between San Francisco and San Jose are reimbursed by the member agencies. In FY2004, VTA, SamTrans, and CCSF are responsible for 40.22%, 41.69%, and 18.08%, respectively, of the member agencies' total reimbursement for such expenses. During the year ended June 30, 2004, VTA paid $14,000,452 to the PCJPB for operating costs, and received a $6,580,442 refund from the PCJPB for its excess deferred member contribution.

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

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

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

		(In thousands)
Total assets	$	922,531
Total liabilities		(140,636)
Total equity	$	781,895
Operating revenues	$	62,356
Operating expenses		(76,115)
Non-operating revenues, net		13,759
Net loss	$	-

[a] Latest audited information available.

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

(b) Altamont Commuter Express

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

ACE commenced operations in October 1998, and now provides three daily round trip commuter rail service from San Joaquin County through the Tri-Valley Area of Alameda County to Santa Clara County. The operating maintenance and management costs of the service is reimbursed by the members at a rate of approximately 43% from VTA, 23% from San Joaquin Regional Rail Commission and 34% 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 in the amount of $3,960,000 in fiscal year 2004 and $4,034,000 in fiscal year 2005. The cooperative agreement replaced the ACE Joint Powers Agreement (JPA) executed by the ACE member agencies – VTA, SJRRC and ACCMA. During the year ended June 30, 2004, VTA contributed approximately $2,378,787 for operating costs.

As of June 30, 2003, VTA's deferred member contribution based on ACE's audited financial statements was $2,450,911. In July 2003, an amount of $2,345,097 was received as partial settlement of VTA's deferred member contribution and in February 2004 VTA received $92,939.

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

(c) Capitol Corridor Intercity Rail Service

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

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

(d) California Transit Finance Authority

VTA is a participant of the California Transit Finance Authority (CTFA), which was formed in 1998 through a joint powers agreement for the purpose of establishing the California Transit Variable Rate Finance Program (Program). The Program makes low-cost, variable rate financing available to the members of the California Transit Association for the acquisition of transit equipment and facilities. Through the Program, VTA issued $50,000,000 of Junior Lien Sales Tax Revenues Bonds in March 1998 and $40,000,000 in November 2000 (Note 7).

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

NOTE 20 – SANTA CLARA VALLEY TRAFFIC AUTHORITY

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

Agreement with Caltrans

Caltrans was contracted to act as the technical director for the 1985 Measure A programs, and to plan, review, and approve all plans and specifications for development, as well as to supervise construction. The Traffic Authority's contract with Caltrans required a final determination of costs from the close out process of construction projects. On April 19, 2002, VTA and Caltrans executed a Closeout and Settlement Agreement (Agreement) to finalize all remaining obligations incurred as a result of projects funded under the Santa Clara County Commuter Relief Act of 1984 (1985 Measure A). The Agreement resulted in a net settlement amount of $3,811 in favor of VTA.

NOTE 21 – OTHER FINANCING TRANSACTIONS

(a) Lease-Leaseback

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

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

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

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

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

(b) Japanese Operating Lease

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

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

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

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

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

Per the sublease agreement, VTA will ship 29 LRV cars to UTA and 21 LRV cars to Sacramento. The UTA/RT Agreements provide that UTA and RT will 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.

As of June 30, 2004, 14 cars have been shipped to UTA with total proceeds of approximately $2.9 million; 21 cars have been shipped to Sacramento with total proceeds of $4.1 million.

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

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

The basic sublease term is approximately 13 years with a sublease renewal term of 9 years thereafter. The sublease transaction was recorded as 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.

(d) Lease to Service Contracts

In August and December 2003, VTA entered into four "lease to service" agreements covering 66 Kinkisharyo low floor light rail vehicles. These agreements included four head leases to lease the vehicles to trusts created by equity and simultaneously lease them back under separate leases. Under certain conditions there could be 12-19 year service periods following the lease periods, which range from 24-30 years. VTA received prepayments of the head lease rents from the investors 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 – CHANGE IN ACCOUNTING PRINCIPLE

During the current year, management evaluated certain activities in the Enterprise Fund, which consisted of the general liability claims, the workers' compensation claims, the retiree health benefits and the compensated absences benefits. Management determined that these activities would be better presented within an internal service fund, as they are charged to departments on a cost-reimbursement basis. As a result, these activities have been restated into an internal service fund. Upon restating the retiree health benefits program, it was determined that the liability related to the assets accumulated to pay retiree health benefits should be removed, as VTA is contributing to this program by advancing funds on an actuarial basis. The effect of this change in accounting principle is to restate the beginning net assets by $46,131,611.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Required Supplementary Information
Schedule of Funding Progress [a]

Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan

(Unaudited)

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
1/1/2002[b]	$220,426,090	$273,436,635	$53,010,545	81.0%	$100,320,190	53.0%
1/1/2003	224,004,253	278,113,814	54,109,561	81.0%	93,951,901	58.0%
1/1/2004	247,693,872	325,530,324	77,836,452	76.1%	91,255,094	85.3%

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Required Supplementary Information
Schedule of Funding Progress

Santa Clara Valley Transportation Authority CalPERS Plan

(Unaudited)

Actuarial Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Overfunded Actuarial Accrued Liability (AAL)	Funded Ratio	Annual Covered Payroll	Overfunded ALL as a Percentage of Covered Payroll
6/30/2000	$ 74,228,216	$ 88,459,322	$(14,231,106)	119.2%	$ 40,000,651	(35.6%)
6/30/2001	87,012,005	97,221,500	(10,209,495)	111.7%	48,235,128	(21.2%)
6/30/2002	103,253,419	98,352,244	4,901,175	95.3%	56,796,212	8.6%

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Required Supplementary Information
Budgetary Comparison Schedule
Congestion Management Program Special Revenue Fund
For the Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES:				
Member agency assessment revenue	$ 1,783,000	$ 1,783,000	$ 1,782,534	$ (466)
Federal Technical Studies				
operating assistance grants	452,000	452,000	223,380	(228,620)
Administrative fees	125,000	125,000	79,740	(45,260)
State operating assistance grants	3,211,000	3,211,000	293,160	(2,917,840)
Other revenue	15,000	15,000	17,487	2,487
Investment earnings	-	-	(5,626)	(5,626)
Total revenues	5,586,000	5,586,000	2,390,675	(3,195,325)
EXPENDITURES:				
Salaries and benefits	2,589,544	2,589,544	1,714,425	875,119
Services and other	3,997,170	3,997,170	572,495	3,424,675
Total expenditures	6,586,714	6,586,714	2,286,920	4,299,794
CHANGE IN FUND BALANCE	$ (1,000,714)	$ (1,000,714)	103,755	$ 1,104,469
FUND BALANCE, BEGINNING OF YEAR			1,514,828	
FUND BALANCE, END OF YEAR			$ 1,618,583	

See accompanying note to required supplementary information

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Note to Required Supplementary Information
For the Fiscal Year Ended June 30, 2004

Budgetary Basis of Accounting

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

Budgetary control is maintained at the fund level. Line item reclassification amendments to the budget must be authorized by the responsible director. Operating expenses are monitored by managers who are assigned responsibility for controlling their budgets. Emphasis is placed on the total budget for the division, however, capital items must be within budgeted amounts. Annual appropriations for the operating budget lapse at the end of the fiscal year to the extent that they have not been expended. The unexpended capital budget at fiscal year end is carried forward from year to year until the project is completed.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Comparative Statement of Fund Net Assets
Enterprise Fund
June 30, 2004 and 2003

	2004	2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,087,104	$ 1,168,034
Investments	8,631,675	25,154,169
Receivables, net	2,653,009	2,388,261
Due from other funds	679,633	-
Due from other governmental agencies	69,845,969	35,124,025
Inventories	24,335,569	21,950,963
Other current assets	998,483	10,240,169
Total current assets	111,231,442	96,025,621
Restricted assets:		
Cash and cash equivalents	16,497,604	45,938,808
Cash and equity with fiscal agent	167,163,082	31,406,103
Investments	59,126,012	64,909,387
Receivables, net	325,343	704,929
Due from other funds	-	117,082
Due from other governmental agencies	11,062,759	35,068,354
Total other non-current assets	254,174,800	178,144,663
Other non-current assets:		
Deferred bond issuance costs	5,980,112	1,841,885
Capital Assets		
Nondepreciable:		
Land and right-of-way	747,678,612	570,714,935
Construction in progress	690,853,086	923,872,041
Depreciable		
Buildings, improvements, furniture, and fixtures	337,565,260	237,238,946
Vehicles	363,270,245	306,338,319
Light-rail tracks and electrification	375,049,010	281,182,310
CalTrain - Gilroy extension	52,989,868	48,962,184
Other	28,829,705	28,706,147
Less: Accumulated depreciation	(289,653,565)	(270,923,736)
Net capital assets	2,306,582,221	2,126,091,146
Total assets	$ 2,677,968,575	$ 2,402,103,315

(Continued)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Comparative Statement of Fund Net Assets (Continued)
Enterprise Fund
June 30, 2004 and 2003

	2004	2003
LIABILITIES		
Liabilities:		
Current portion of long-term debt	$ 8,656,882	$ 8,541,884
Accounts payable	21,240,860	21,787,661
Other accrued liabilities	11,677,926	9,147,902
Due to other governmental agencies	4,289,255	4,307,280
Total current liabilities	45,864,923	43,784,727
Liabilities payable from restricted assets:		
Accounts payable	23,935,423	35,677,503
Other accrued liabilities-current	9,815,116	1,528,986
Due to other funds	569,979	8,180,097
Due to other governmental agencies	8,932,233	41,488,686
Restricted portion of long-term debt	145,141,653	15,079,901
Other accrued liabilities - non-current	-	13,525,400
Total liabilities payable from restricted assets	188,394,404	115,480,573
Non-current liabilities		
Long-term debt, excluding current portion	423,318,840	393,848,176
Other accrued liabilities	27,536	32,836
Total non-current liabilities	423,346,376	393,881,012
Total liabilities	657,605,703	553,146,312
NET ASSETS		
Investment in capital assets, net of related debt	1,846,221,135	1,686,312,966
Restricted	65,780,396	62,664,090
Unrestricted	108,361,341	99,979,947
Total net assets	$ 2,020,362,872	$ 1,848,957,003

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Comparative Statement of Revenues, Expenses and Changes in Fund Net Assets
Enterprise Fund
June 30, 2004 and 2003

	2004	2003
OPERATING REVENUES:		
Passenger fares	$ 30,625,336	$ 30,959,394
Advertising and other	2,796,089	3,416,350
Total operating revenues	33,421,425	34,375,744
OPERATING EXPENSES:		
Labor	127,044,833	134,524,401
Fringe benefits	95,348,982	92,001,274
Materials and supplies	16,169,303	20,698,044
Services	17,114,258	22,055,307
Utilities	5,063,892	5,734,599
Casualty and Liability	3,412,937	4,118,733
Purchased transportation	27,242,354	31,553,403
Leases and rentals	569,003	605,447
Miscellaneous	2,609,410	3,154,396
Depreciation expense	46,551,863	41,516,009
Costs Allocated to Capital and Other Programs	(29,698,199)	(20,201,407)
Total operating expense	311,428,636	335,760,206
Operating loss	(278,007,211)	(301,384,462)
NON-OPERATING REVENUES (EXPENSES)		
Sales tax revenue	138,917,173	132,632,377
Federal operating assistance grants	38,143,415	33,176,056
State and local operating assistance grants	73,433,349	70,956,183
Caltrain subsidy	(14,000,452)	(14,104,840)
Caltrain capital contribution	(2,804,570)	(8,193,097)
Altamont Commuter Express subsidy	(2,391,662)	(2,715,183)
Investment earnings	1,591,819	14,244,891
Interest expense	(13,690,621)	(14,222,072)
Other income	2,102,262	4,103,722
Other expense	(3,021,645)	(4,857,574)
Non-operating revenue, net	218,279,068	211,020,463
Change in net assets before capital contributions and special items	(59,728,143)	(90,363,999)
Capital contributions	217,053,237	316,996,725
Special items	14,080,775	12,224,277
Change in net assets	171,405,869	238,857,003
Net assets, beginning of year	1,848,957,003	1,610,100,000
Net assets, end of year	$ 2,020,362,872	$ 1,848,957,003

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Cash Flows
Business-type Activity
For the Years Ended June 30, 2004 and 2003

	2004	2003[a]
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from passenger fares	$ 30,059,498	$ 30,856,421
Cash received from advertising	2,796,089	3,416,350
Cash paid to employees	(192,700,916)	(212,677,421)
Cash paid to suppliers	(57,082,265)	(61,877,582)
Cash paid for purchased transportation	(27,242,354)	(31,553,403)
Net cash used in operating activities	(244,169,948)	(271,835,635)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	114,521,151	125,088,506
Sales tax received	138,180,151	132,596,836
Caltrain subsidy	(16,805,022)	(14,104,840)
Altamont Commuter Express subsidy	(2,391,662)	(2,715,183)
Refund of excess deferred member contributions	8,925,539	-
Receipts for services provided to other agencies	1,820,066	15,956,496
Contributions to other agencies	(2,910,491)	(1,168,192)
Net cash provided by noncapital financing activities	241,339,732	255,653,623
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payment of long-term debt	(90,394,112)	(8,159,007)
Proceeds from Issuance of Bonds	250,041,526	82,090,346
Interest paid on long-term debt	(13,690,621)	(13,866,495)
Cost of bond issuance	(4,138,227)	(206,117)
Acquisition and construction of capital assets	(291,090,910)	(441,043,930)
Capital contribution from other governments	199,151,443	316,996,725
Proceeds from sale of capital assets	598,343	14,847,163
Proceeds from lease to service contract	29,998,838	-
Proceeds from sublease of vehicles	7,010,417	-
Net cash provided by/(used in) capital and related financing activities	87,486,697	(49,341,315)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	940,059,750	1,640,730,779
Purchases in investments	(918,196,156)	(1,601,169,600)
Interest income received	2,714,770	16,150,943
Net cash provided by investing activities	24,578,364	55,712,122
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	109,234,845	(9,811,205)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	78,512,945	88,324,151
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 187,747,790	$ 78,512,946

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Cash Flows (Continued)
Business-type Activity
For the Year Ended June 30, 2004 and 2003

	2004	2003[a]
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (278,007,211)	$ (301,384,462)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	46,551,863	41,516,009
Changes in operating assets and liabilities:		
Receivables	(565,838)	(168,807)
Due from other governmental agencies	-	65,834
Inventories	(2,384,606)	(1,712,024)
Accounts payable	(12,288,880)	(11,774,761)
Other accrued liabilities	2,524,724	1,622,576
Net cash used in operating activities	$ (244,169,948)	$ (271,835,635)
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash and cash equivalents, end of year:		
Unrestricted	$ 4,087,104	$ 1,168,034
Restricted	183,660,686	77,344,911
	$ 187,747,790	$ 78,512,945
NONCASH INVESTING ACTIVITIES:		
Decrease in fair value of investments	$ 1,122,951	$ 1,236,100
OTHER NONCASH ACTIVITIES:		
Net book value of subleased vehicles	$ 22,928,480	$ -

[a] 2003 was restated due to establishment of Internal Service Fund

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Budgetary Comparison Schedule
Enterprise Fund
For the year ended June 30, 2004

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES:				
Passenger fares	$ 30,471,861	$ 30,858,554	$ 30,625,336	$ (233,218)
Advertising and other	2,841,758	2,119,440	2,796,089	676,649
Total operating revenues	33,313,619	32,977,994	33,421,425	443,431
OPERATING EXPENSES:				
Labor and fringe benefits	222,273,000	228,413,658	222,393,815	6,019,843
Services and supplies	56,996,088	55,787,473	44,938,803	10,848,670
Purchased transportation	34,307,000	29,050,000	27,242,354	1,807,646
Costs Allocated to Capital and Other Programs	(21,432,447)	(31,901,661)	(29,698,199)	(2,203,462)
Total operating expenses	292,143,641	281,349,470	264,876,773	16,472,697
Operating loss	(258,830,022)	(248,371,476)	(231,455,348)	16,916,128
NON-OPERATING REVENUES (EXPENSES)				
Sales tax revenue	135,000,000	135,000,000	138,917,173	3,917,173
Federal operating assistance grants	30,284,000	38,232,709	38,143,415	(89,294)
State and local operating assistance grants	68,901,653	69,212,468	73,433,349	4,220,881
CalTrain subsidy	(14,105,000)	(14,105,000)	(16,805,022)	(2,700,022)
Altamont Commuter Express subsidy	(2,450,000)	(2,350,000)	(2,391,662)	(41,662)
Investment income	2,000,000	2,390,000	2,714,770	324,770
Interest expense	(14,880,495)	(13,692,156)	(13,690,621)	1,535
Proceeds from bond issuance	81,945,000	81,945,000	81,500,000	(445,000)
Measure A Repayment Obligation Revenue	14,595,000	14,595,000	19,958,253	5,363,253
Other income	3,418,598	10,475,993	2,102,262	(8,373,731)
Principal payment of debt service	(90,486,884)	(90,486,884)	(90,005,000)	481,884
Measure A Repayment Obligation Expense	(2,000,000)	(2,000,000)	-	2,000,000
Other expense	(2,176,850)	(2,012,069)	(2,910,491)	(898,422)
Special item:				
Benefit derived from lease to service contract	8,300,000	35,840,000	29,998,837	(5,841,163)
Non-operating revenues, net	218,345,022	263,045,061	260,965,263	(2,079,798)
Net income (loss) - budget basis, before capital contributions	(40,485,000)	14,673,585	29,509,915	14,836,330
Capital contributions	-	-	217,053,237	217,053,237
Net income - budget basis	(40,485,000)	14,673,585	246,563,152	231,889,567
Proceeds from bond issuance			(81,500,000)	(81,500,000)
Principal payment of debt service			90,005,000	90,005,000
Measure A Repayment Obligation revenue			(19,958,253)	(19,958,253)
Unrealized Loss in investments			(1,122,951)	(1,122,951)
Loss from sale of asset			(111,154)	(111,154)
Loss from sublease agreement			(15,918,062)	(15,918,062)
Depreciation			(46,551,863)	(46,551,863)
Net income - GAAP basis			$ 171,405,869	$ 156,732,284

Santa Clara Valley Transportation Authority
Schedule of Restricted Assets and Related Liabilities
Enterprise Fund
June 30, 2004

Restricted assets:	Capital & Operating	Debt Service	Total
Cash and cash equivalents	$ 16,497,604	$ -	$ 16,497,604
Cash and investments with fiscal agent	22,021,429	145,141,653	167,163,082
Investments	59,126,012	-	59,126,012
Receivable	325,343	-	325,343
Due from other gov agencies	11,062,759	-	11,062,759
Total assets	109,033,147	145,141,653	254,174,800
Liabilities payable from restricted assets:			
Accounts payable	23,935,423	-	23,935,423
Other accrued liab - current	9,815,116	-	9,815,116
Due to other fund	569,979	-	569,979
Due to other gov agencies	8,932,233	-	8,932,233
Long-term debt	-	145,141,653	145,141,653
Total liabilities	$ 43,252,751	$ 145,141,653	$ 188,394,404

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Combining Statement of Plan Net Assets
Pension Trust Funds
June 30, 2004

	ATU Pension	ATU Medical: Spousal Medical	ATU Medical: Retiree Vision/Dental	ATU Medical: Total ATU Medical	Total
ASSETS					
Restricted assets:					
Investments	$ 255,741,956	$ 7,929,890	$ 1,787,736	$ 9,717,626	$ 265,459,582
Receivables	915,232	-	-	-	915,232
Total assets	256,657,188	7,929,890	1,787,736	9,717,626	266,374,814
LIABILITIES					
Restricted liabilities:					
Accounts payable	4,871	-	-	-	4,871
NET ASSETS					
Net assets held in trust for:					
Pension benefits	256,652,317	-	-	-	256,652,317
Retiree medical benefits	-	7,929,890		7,929,890	7,929,890
Retiree dental and vision benefits	-		1,787,736	1,787,736	1,787,736
Total net assets	$ 256,652,317	$ 7,929,890	$ 1,787,736	$ 9,717,626	$ 266,369,943

SANTA CLARA VALLEY TRANSPORTATION AGENCY
Combining Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
For the Year Ended June 30, 2004

	ATU Pension Trust	ATU Medical Trust: Spousal Medical	ATU Medical Trust: Vision/ Dental	ATU Medical Trust: Total Medical Trust	Total
ADDITIONS					
Contributions	$ 12,070,987	$ 851,331	$ 339,421	$ 1,190,752	$ 13,261,739
Investment earnings:					
Investment income	26,711,882	194,786	29,568	224,354	26,936,236
Net increase/(decrease) in the fair value of investments	6,739,702	(158,196)	(19,552)	(177,748)	6,561,954
Investment expense	(937,296)	-	-	-	(937,296)
Net investment income	32,514,288	36,590	10,016	46,606	32,560,894
Total additions	44,585,275	887,921	349,437	1,237,358	45,822,633
DEDUCTIONS					
Benefit payments	10,285,890	619,412	-	619,412	10,905,302
Other benefits paid to participants	84,987	-	-	-	84,987
Total deductions	10,370,877	619,412	-	619,412	10,990,289
Net increase	34,214,398	268,509	349,437	617,946	34,832,344
NET ASSETS HELD IN TRUST					
Beginning of year	222,437,919	7,661,381	1,438,299	9,099,680	231,537,599
End of year	$ 256,652,317	$ 7,929,890	$ 1,787,736	$ 9,717,626	$ 266,369,943

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Combining Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2004

	BAAQMD Program	Measure B Ancillary Program	Total
Assets			
Restricted assets:			
Cash and equity with fiscal agent	$ -	$ 4,324,289	$ 4,324,289
Investments	4,702,174	17,971,189	22,673,363
Total assets	4,702,174	22,295,478	26,997,652
Liabilities			
Liabilities payable from restricted assets:			
Accounts payable	4,588,269	-	4,588,269
Due to other governmental agencies	113,905	22,295,478	22,409,383
Total liabilities payable from restricted assets	$ 4,702,174	$ 22,295,478	$ 26,997,652

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Combining Statement of Changes in Fiduciary Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2004

	Balance as of July1,2003	Increase	Decrease	Balance As of June 30, 2004
BAAQMD Program				
Restricted assets:				
Investments	$ 4,864,368	$ -	$ 162,194	$ 4,702,174
Liabilities payable from restricted assets:				
Accounts payable	$ 4,156,909	$ 431,360	$ -	$ 4,588,269
Due to other governmental agencies	707,459	-	593,554	113,905
Total liabilities payable from restricted assets	$ 4,864,368	$ 431,360	$ 593,554	$ 4,702,174
Measure B Ancillary Program				
Restricted assets:				
Cash and cash equivalents	$ 5,776,140	$ -	$ 1,451,851	$ 4,324,289
Investments	78,296,992	-	60,325,803	17,971,189
Total restricted assets	$ 84,073,132	$ -	$ 61,777,654	$ 22,295,478
Liabilities payable from restricted assets:				
Due to other funds	$ 84,413	$ -	$ 84,413	$ -
Due to other governmental agencies	83,988,719	-	61,693,241	22,295,478
Total Liabilities payable from restricted assets	$ 84,073,132	$ -	$ 61,777,654	$ 22,295,478
Totals - All Agency Funds				
Restricted assets:				
Cash and cash equivalents	$ 5,776,140	$ -	$ 1,451,851	$ 4,324,289
Investments	83,161,360	-	60,487,997	22,673,363
Total restricted assets	$ 88,937,500	$ -	$ 61,939,848	$ 26,997,652
Liabilities payable from restricted assets:				
Accounts payable	$ 4,156,909	$ 431,360	$ -	$ 4,588,269
Due to other funds	84,413	-	84,413	-
Due to other governmental agencies	84,696,178	-	62,286,795	22,409,383
Total liabilities payable from restricted assets	$ 88,937,500	$ 431,360	$ 62,371,208	$ 26,997,652

SECTION 3 — STATISTICAL SECTION

GOVERNMENT-WIDE INFORMATION:

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

FUND INFORMATION:

FINANCIAL RATIOS

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

TEN YEAR COMPARISONS

- OPERATING REVENUES AND NET OPERATING EXPENSES
- NON-OPERATING ASSISTANCE AND INTEREST INCOME
- BUDGETARY RESERVES TO OPERATING RESERVES
- VEHICLE REVENUE MILES
- PASSENGER MILES
- SELECTED FINANCIAL DATA
- SELECTED STATISTICAL AND DEMOGRAPHIC DATA

BUS AND RAIL SYSTEM FACTS

- CURRENT BUS SYSTEM DATA
- CURRENT RAIL SYSTEM DATA

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

		Governmental Activity		
Fiscal Year	Transit	Congestion Management	Capital Improvement Projects	Total
2002	$ 385,819	2,740	112,697	501,256
2003	379,853	3,428	141,425	524,706
2004	352,741	2,022	116,097	470,860

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

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

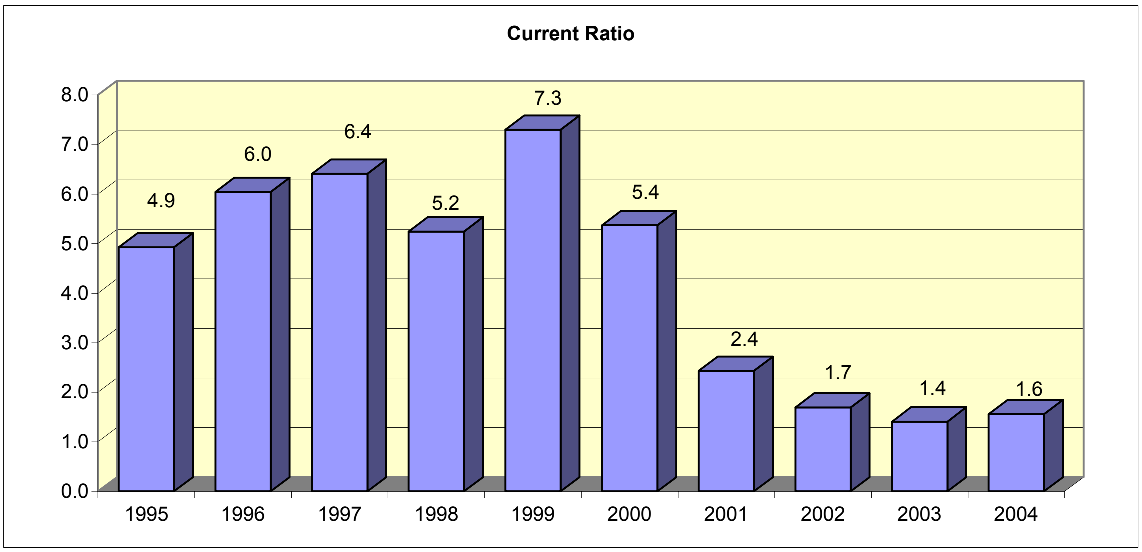
	Program Revenues			General Revenues			
Fiscal Year	Charges for Services	Operating Grants	Capital Grants	Sales Tax Revenue	Investment Income	Other Income & Special Items	Total
2002	$ 38,809	129,778	338,793	144,218	24,542	2,891	679,031
2003	36,553	104,985	458,360	132,693	14,344	16,340	763,275
2004	35,284	112,093	333,066	138,917	6,462	32,118	657,940

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

ENTERPRISE FUND FINANCIAL RATIOS 1995 - 2004

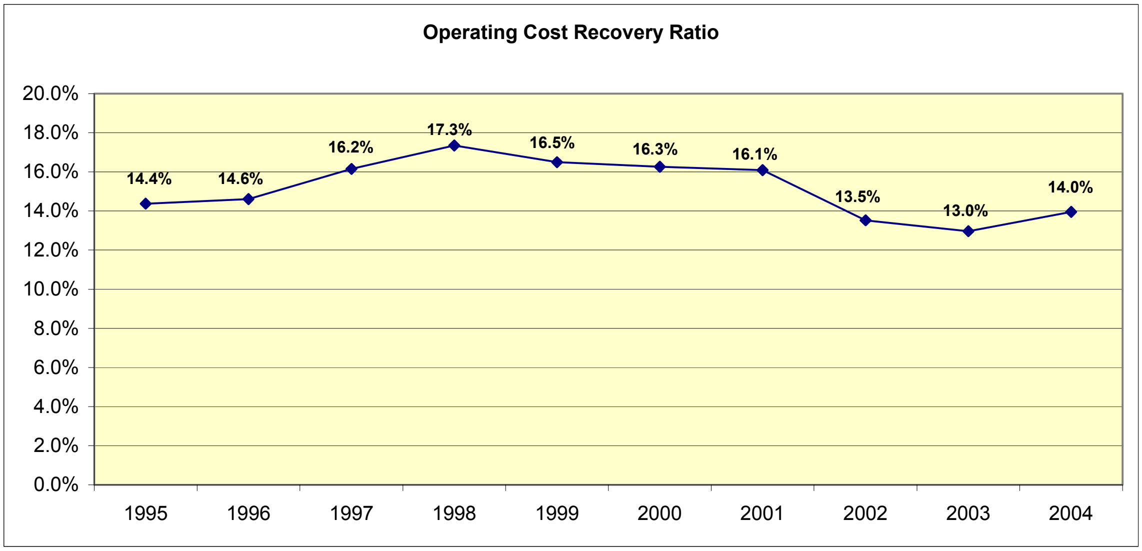
Current Ratios

The Current Ratio indicates VTA's ability to meet all of its short-term liabilities with liquid assets and is determined by dividing total current assets and restricted assets, by all current liabilities and liabilities payable from restricted assets. A Current Ratio of 1 or higher is an indication of financial strength. In FY04, VTA's current ratio is 1.6. This is the first increase in four years.



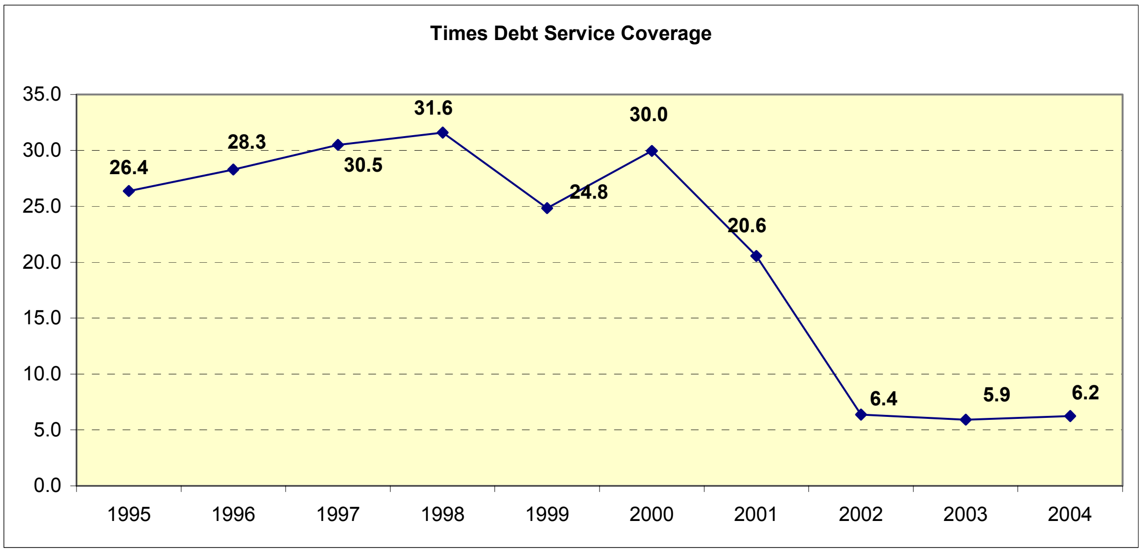
Operating Recovery Ratios

The operating recovery ratio is the operating revenue divided by the net operating expenses. Operating expenses are exclusive of paratransit costs and depreciation, to more accurately depict expenses related to directly operated service. In FY04, both operating income and operating expenses decreased, causing an increase in this ratio. The proportion of the decrease in operating expenses was slightly more; therefore, the Operating Recovery Ratio increased by one percent compared to the prior year.



Times Debt Service Coverage

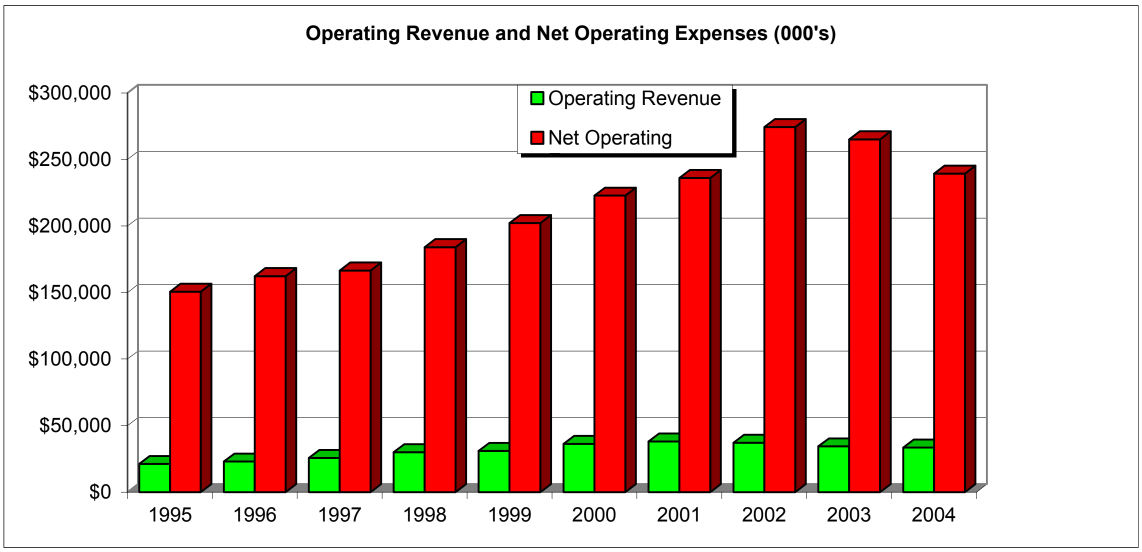
The Times-Debt-Service-Coverage Ratio indicates VTA's financial position to cover its debt service with sales tax revenue and is determined by dividing sales tax revenue by debt service. Debt service is defined as interest expense during the year plus the current portion of long-term debt. This ratio does not include Measure A debt. For FY04, the ratio increased slightly by .3 due to a 4.7% increase in sales tax revenue.



TEN - YEAR COMPARISONS (1995 - 2004)

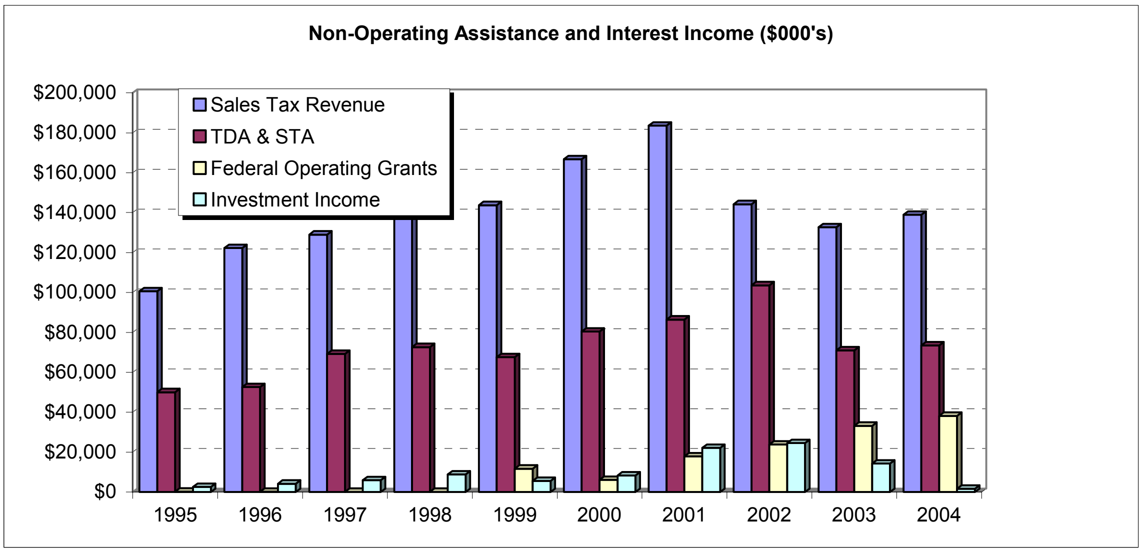
Operating Revenues and Net Operating Expenses

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



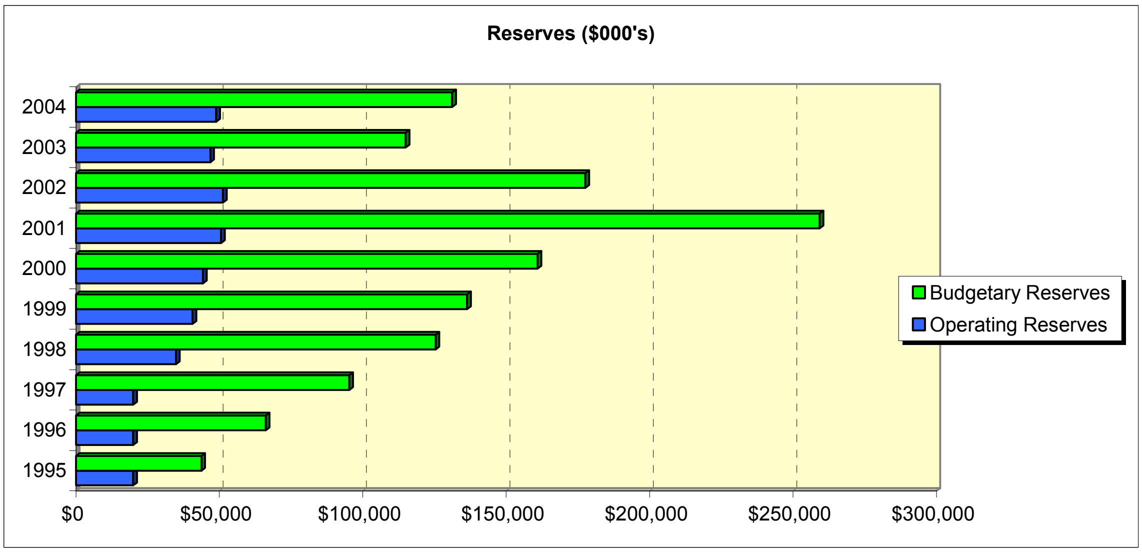
Non-operating Assistance and Interest Income

The following chart illustrates trends in selected material non-operating revenue sources. Sales tax revenue in Santa Clara County is the greatest contributing factor to the non-operating revenue sources shown in the following graph. FY04 marks the first year in the last three that sales tax income has increased. TDA, STA, and Federal Operating grants also showed positive growth.



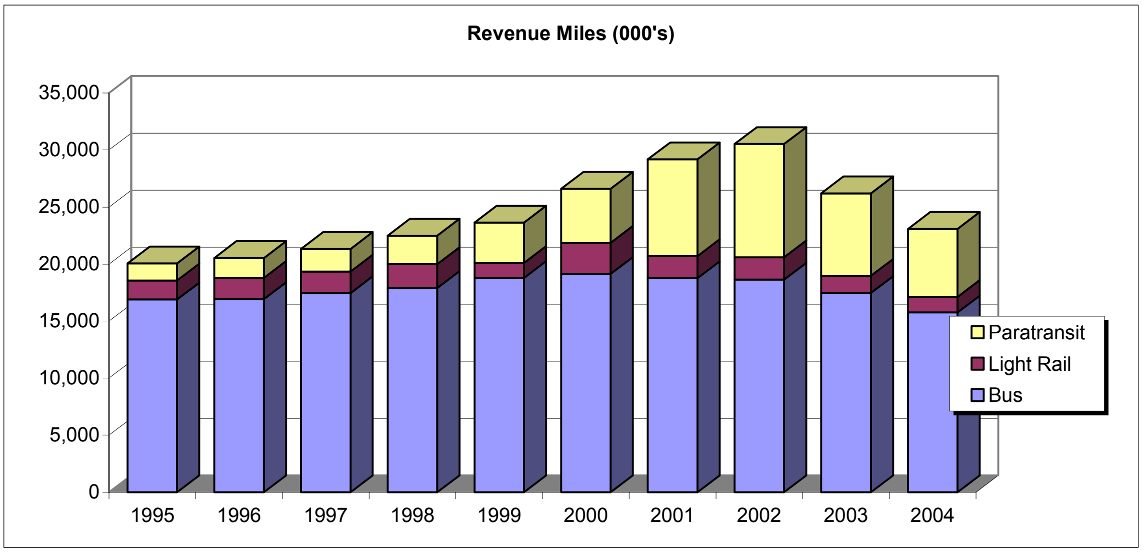
Budgetary Reserves to Operating Reserves

This table presents the actual reserve and the minimum target level reserve. Total budgetary reserves (actual reserve) result from the difference between current and restricted assets, and current and restricted liabilities. The target operating reserve indicates the minimum amount (15%) of subsequent year operating budget VTA is required to set aside in order to cover unanticipated revenue shortfalls or unavoidable expenditures that may be required. In FY04 VTA met its target reserve goal and surpassed FY03's actual reserve level, resulting in an increase of $16.2 million in budgetary reserves.



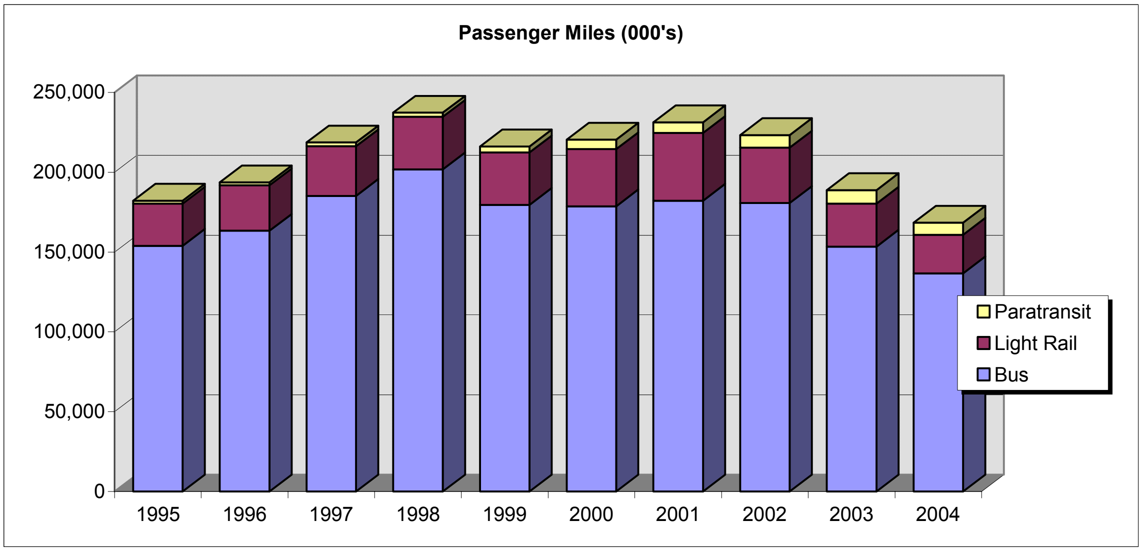
Vehicle Revenue Miles

The following chart depicts vehicle miles in revenue service. During FY04 total revenue miles decreased due to service cuts.



Passenger Miles

Passenger mile statistics are presented in the chart below. FY04 is the third consecutive year that VTA's passenger miles have dropped down below prior year levels. All three modes of service have declined due to the continued drop in employment and service cuts, as well as increased eligibility requirements for Paratransit customers.



(Dollars in $000's)	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
OPERATING REVENUES	$ 21,096	$ 22,964	$ 25,577	$ 30,003	$ 30,956	$ 36,253	$ 37,982	$ 37,122	$ 34,376	$ 33,421
OPERATING EXPENSES										
LABOR	68,533	71,810	77,297	82,030	88,779	98,372	106,878	136,386	134,524	127,045
FRINGE BENEFITS	39,146	46,457	43,054	48,661	53,575	75,354	61,845	82,958	92,001	95,349
MATERIALS AND SUPPLIES	14,582	16,649	16,911	17,044	19,646	15,540	27,428	20,470	20,698	16,169
SERVICES	10,400	12,310	12,583	14,709	15,200	21,379	27,428	28,619	22,055	17,114
UTILITIES	3,337	3,277	3,409	3,603	4,071	5,167	5,071	7,212	5,735	5,064
CASUALTY AND LIABILITY	7,200	4,120	2,413	3,923	3,895	2,403	1,473	3,199	4,119	3,413
PURCHASED TRANSPORTATION	4,714	5,746	8,916	11,821	15,487	17,456	23,489	35,780	31,553	27,242
LEASES & RENTALS	1,079	773	299	394	467	637	669	792	605	569
MISCELLANEOUS	1,576	1,184	1,628	1,915	1,107	3,011	3,415	4,471	3,154	2,609
COSTS ALLOCATED TO CAPITAL & OTHER PROGRAMS								(12,357)	(20,201)	(29,698)
TOTAL OPERATING EXPENSES	150,567	162,326	166,510	184,100	202,227	239,318	257,695	307,529	294,244	264,876
DEPRECIATION EXPENSE	17,263	23,266	24,418	24,322	24,263	25,910	31,428	33,356	41,516	46,552
NON-OPERATING REVENUES/(EXPENSES)										
SALES TAX REVENUE	100,638	122,274	128,969	138,429	143,712	166,764	183,540	144,218	132,632	138,917
FEDERAL OPERATING ASSISTANCE GRANT	146	110	49	59	11,656	6,051	17,867	23,811	33,176	38,144
TDA & STA	50,007	52,597	69,243	72,624	67,589	80,436	86,388	103,561	70,956	73,433
CALTRAIN SUBSIDY AND CAPITAL CONTRIBUTIONS	(11,900)	(11,973)	(11,689)	(12,254)	(11,291)	(7,850)	(14,821)	(25,315)	(22,298)	(16,805)
ACE SUBSIDY	4,972	2,086	2,584	-	(837)	(3,821)	(657)	(1,740)	(2,715)	(2,392)
INTEREST INCOME	2,554	4,148	5,943	8,785	5,535	8,286	22,078	24,513	14,245	1,592
INTEREST EXPENSE	(3,640)	(3,863)	(3,731)	(4,014)	(4,763)	(4,616)	(6,806)	(14,717)	(14,222)	(13,691)
OTHER REVENUES/(EXPENSES)	(1,355)	(231)	(550)	234	8,896	3,399	936	(280)	(754)	(919)
CONTRIBUTION TO FUND UNFUNDED LIABILITY	-	-	-	(22,889)	-	-	-	-	-	-
TOTAL NON OPERATING REVENUES - NET	141,422	165,148	190,818	180,974	220,497	248,649	288,524	254,052	211,021	218,279
CHANGE IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS & SPECIAL ITEMS	(5,312)	2,520	25,467	2,555	24,963	19,674	37,383	(49,711)	(90,364)	(59,728)
CAPITAL CONTRIBUTIONS (1)							154,648	226,125	316,997	217,053
SPECIAL ITEMS:										
GAIN ON SALE OF LAND									12,224	29,999
REVENUE FROM HEADLEASE										(15,918)
LOSS FROM SUBLEASE OF VEHICLES										
CHANGE IN NET ASSETS	$ (5,312)	$ 2,520	$ 25,467	$ 2,555	$ 24,963	$ 19,674	$ 192,031	$ 176,415	$ 238,857	$ 171,406

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

Selected Financial Data (continued)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Current and Restricted Assets ($000's)	$ 164,755	$ 219,762	$ 245,843	$ 334,148	$ 328,355	$ 364,166	$ 563,189	$ 433,294	$ 396,064	$ 365,406
Current and Restricted Liabilities	33,443	36,375	38,328	63,682	44,974	67,816	231,450	255,719	281,159	234,259
Net Working Capital	$ 131,312	$ 183,387	$ 207,515	$ 270,466	$ 286,381	$ 296,350	$ 331,739	$ 177,575	$ 114,905	$ 131,147
Current Ratio	4.9	6.0	6.4	5.2	7.3	5.4	2.4	1.7	1.4	1.6
Total Assets ($000's) (1)	$ 1,007,266	$ 1,046,516	$ 1,105,068	$ 1,297,983	$ 1,427,642	$ 1,596,048	$ 1,994,191	$ 2,185,792	$ 2,523,997	$ 2,677,969
Contributed Capital	505,388	501,599	540,365	634,828	746,779	851,494	744,766	N/A	N/A	N/A
Retained Earnings Restricted	31,693	29,165	33,159	122,914	90,828	116,361	208,638	177,575	114,905	66,019
Retained Earnings Unrestricted	311,910	326,650	358,089	286,849	355,661	366,309	480,281	1,432,525	1,734,052	1,954,344
Total Retained Earnings/Net Assets	343,603	355,815	391,248	409,763	446,490	479,670	688,919	1,610,100	1,848,957	2,020,363
Liabilities	158,275	189,101	173,455	253,392	234,393	264,884	560,505	575,692	675,040	657,606
Actual Reserve (including minimum target level)	$ 43,744	$ 66,195	$ 95,310	$ 125,410	$ 136,400	$ 160,910	$ 259,245	$ 177,575	$ 114,905	$ 131,147
DEBT SERVICE ($000's)	$ 3,817	$ 4,323	$ 4,231	$ 4,382	$ 5,786	$ 5,568	$ 8,930	$ 22,668	$ 22,381	$ 22,233
Times Debt Service Coverage	26.4	28.3	30.5	31.6	24.8	30.0	20.6	6.4	5.9	6.2
OPERATING REVENUE	$ 21,096	$ 22,964	$ 25,577	$ 30,003	$ 30,956	$ 36,253	$ 37,982	$ 37,122	$ 34,376	$ 33,421
OPERATING EXPENSES (excluding depreciation)	150,567	162,326	166,510	184,100	202,227	239,318	257,695	307,529	294,244	264,876
EXCLUSIONS (ADA)	(3,836)	(5,074)	(8,172)	(11,150)	(14,510)	(16,443)	(21,558)	(33,122)	(29,064)	(25,465)
NET OPERATING EXPENSES	$ 146,731	$ 157,252	$ 158,338	$ 172,950	$ 187,717	$ 222,875	$ 236,137	$ 274,407	$ 265,180	$ 239,411
OPERATING COST RECOVERY RATIO	14.4%	14.6%	16.2%	17.3%	16.5%	16.3%	16.1%	13.5%	13.0%	14.0%

(1) Please note that the internal service fund has not been presented in the total assets for 2004.

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
FAREBOX REVENUE ($000's)	$ 19,884	$ 21,523	$ 23,633	$ 27,201	$ 27,070	$ 32,326	$ 33,837	$ 31,282	$ 30,959	$ 30,625
VEHICLE REVENUE MILES (000's)										
BUS	16,896	16,931	17,451	17,904	18,784	19,140	18,770	18,633	17,471	15,753
LIGHT RAIL	1,662	1,868	1,888	2,092	1,328	2,722	1,924	1,962	1,499	1,372
PARATRANSIT	1,511	1,729	1,994	2,494	3,523	4,748	8,495	9,937	7,233	5,967
PASSENGER MILES (000's)										
BUS	153,902	163,348	185,226	201,818	179,561	178,688	182,187	180,720	153,481	136,693
LIGHT RAIL	26,413	28,428	31,037	32,992	32,820	35,758	42,462	34,656	26,815	24,127
PARATRANSIT	1,795	1,881	2,420	2,494	3,798	6,013	6,711	7,947	8,497	7,546
FLEET										
ACTIVE BUS	460	460	470	508	520	512	502	491	524	523
LIGHT RAIL	55	55	55	55	55	55	54	68	98	80
CASH FARE SINGLE RIDE										
ADULT	$1.10	$1.10	$1.10	$1.10	$1.10	$1.25	$1.25	$1.25	$1.40	$1.50
YOUTH	$0.55	$0.55	$0.60	$0.60	$0.60	$0.70	$0.70	$0.70	$0.85	$1.25
SENIOR	$0.35	$0.35	$0.35	$0.35	$0.35	$0.40	$0.40	$0.40	$0.45	$0.75

Santa Clara County Demographic Data

Population

In comparison with the beginning of the decade, Santa Clara County's population has risen by 2.9%. Approximately 5.7% of County residents live in unincorporated areas, but the number has steadily decreased over time as the population continues to migrate toward the cities. Gilroy had the largest percentage increase over the past 4 years, with an 11.4% gain. Morgan Hill was second at 5.8%. By the year 2050, it is predicted that the County's population will grow 34.3% to approximately 2.3 million residents.

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

County of Santa Clara Population

	1960	1970	1980	1990	2000	2004
Campbell	11,863	24,731	26,843	36,048	38,138	38,200
Cupertino	3,664	18,216	34,297	40,263	50,546	52,600
Gilroy	7,348	12,665	21,641	31,487	41,464	46,200
Los Altos	19,696	24,872	25,769	26,303	27,693	27,500
Los Altos Hills	3,412	6,862	7,421	7,514	7,902	8,350
Los Gatos	9,036	23,466	26,906	27,357	28,592	28,750
Milpitas	6,572	27,149	37,820	50,686	62,698	64,600
Monte Sereno	1,506	3,074	3,434	3,287	3,483	3,500
Morgan Hill	3,151	6,485	17,060	23,928	33,556	35,500
Mountain View	30,889	54,206	58,655	67,460	70,708	71,600
Palo Alto	52,475	55,999	55,225	55,900	58,598	60,200
San Jose	204,196	445,779	629,400	782,248	894,943	926,200
Santa Clara	58,880	87,717	87,700	93,613	102,361	107,200
Saratoga	14,861	27,199	29,261	28,061	29,843	30,300
Sunnyvale	51,898	95,408	106,618	117,229	131,760	131,700
Unincorporated	162,056	152,181	127,021	106,193	100,300	98,900
County Total*	641,503	1,066,009	1,295,071	1,497,577	1,682,585	1,731,400
California	15,717,204	18,136,045	23,668,145	29,760,021	33,871,648	36,144,000

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

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

Employment and Industry

Silicon Valley is far from reaching the level of employment we experienced before the downturn at the beginning of the decade, but a slight recovery is on the horizon. In June 2004, Santa Clara County's unemployment rate was reported to have reached 6.2%, which is .1% lower than that of the State's. Typically Santa Clara County has a lower unemployment rate compared to both the State and national levels due primarily to the varied workforce. Although there has been a slight growth in employment over the year, we are now faced with high-tech engineering jobs being outsourced to other countries in order to lower costs. This will be another hurdle in the road to economic recovery.

In 2003 the County had over 858,000 wage and salary jobs. This was the third consecutive decrease from the previous fiscal year. Three of the major industry sectors comprise 74.3 percent of the County's employment: manufacturing (20.6%), services (44.3%) and retail trade (9.4%).

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

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

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Civilian Labor Force *	867.0	895.0	937.5	958.8	965.5	1,001.8	1,005.8	958.2	895.1
Civilian Employment	824.2	862.8	909.2	927.9	936.3	982.0	960.0	877.6	821.6
Civilian Unemployment	42.8	32.2	28.3	30.9	29.2	19.8	45.8	80.6	73.5
Civilian Unemployment Rate									
County	4.9%	3.6%	3.0%	3.2%	3.0%	2.0%	4.6%	8.5%	8.2%
State of California	7.8%	7.2%	6.3%	5.9%	5.2%	4.9%	5.3%	6.7%	6.5%
Wage and Salary Employment **									
Total Farm Agriculture	4.5	5.1	5.1	5.2	5.3	5.0	4.6	4.5	4.2
Construction and Mining	28.8	32.7	36.5	41.3	44.8	47.6	48.0	42.5	39.0
Manufacturing	223.0	237.7	247.2	246.1	234.9	251.7	240.5	201.2	177.0
Transportation & Public Utilities	14.9	16.1	16.7	17.0	17.3	17.6	16.3	15.0	14.2
Wholesale Trade	36.4	39.2	41.9	42.4	42.3	42.2	40.7	35.7	33.5
Retail Trade	75.8	79.9	82.5	83.8	86.6	90.6	88.2	83.6	81.0
Finance, Insurance & Real Estate	30.4	31.4	32.4	33.8	34.2	34.0	35.2	35.0	34.8
Services	334.8	355.2	380.9	403.0	419.8	451.8	440.0	391.7	379.9
Government	87.8	87.7	88.5	88.9	91.4	94.5	94.6	98.1	94.8
Total ***	836.4	885.0	931.7	961.5	976.6	1,035.0	1,008.1	907.3	858.4

* 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 2003.

** Wage and salary employment is reported by place of work. Data are benchmarked to 2003.

*** Totals may not be precise due to independent rounding.

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

Major Employers

Although public-sector employers continue to top the list of the largest employers in the Valley, the concentration of Santa Clara County's productivity is derived primarily from numerous high-technology and bioscience companies. As depicted in the following chart, Santa Clara County continues to have the largest employee base, employing 15,353 workers. The City of San Jose alone has over 6,500 full-time employees. The public-sector employers continue to remain more stable in this slowly rebounding job market.

Source: San Jose and Silicon Valley Business Journal (Book of Lists July 30, 2004)

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

Largest Employers
Santa Clara County

Company Name	Number of Employees	Nature of Operations
Santa Clara County	15,363	County Government
Stanford University	13,400	Academic research institution, hospital, medical research
Cisco Systems, Inc.	13,000	Computer network equipment manufacturer
Hewlett-Packard Co.	9,400	Technology solutions provider
City of San Jose	7,325	Municipal government
Lockheed Martin Space Systems Co. -Space & Strategic Missiles	7,050	Aerospace systems
IBM	7,000	Computer hardware, software and business solutions
Intel Corp.	6,564	Microprocessors manufacturer
San Jose Unified School District	3,000	Public education
Agilent Technologies, Inc.	2,700	Communications, electronics, life sciences and chemical analysis technologies, solutions and services
SBC Communications Inc. West	2,603	Provides a full range of voice, data, networking, e-business, directory publishing and advertising, and related services
Santa Clara Valley Transportation Authority	2,225	Public transportation and congestion management
Maxtor Corp.	2,139	Computer hardware manufacturer
eBay	2,100	Online global trading platform
National Semiconductor Corp.	2,000	Design, manufacture, and market semiconductors

Source: San Jose and Silicon Valley Business Journal (Book of Lists July 30, 2004)

Commercial Activity

Taxable sales activity at business and personal service outlets, as well as at other non-retail commercial establishments, are a significant component of the County's commercial activity. During 2003 there was a $2.3 million decrease in taxable transactions reported within Santa Clara County in comparison with 2002. The following table sets forth the amount of taxable transactions from 1994 through 2003.

County of Santa Clara
Taxable Transactions by Sector
1994 to 2003
(in thousands)

1994	19,778,000
1995	22,512,100
1996	25,740,500
1997	26,967,000
1998	27,488,815
1999	30,348,644
2000	33,843,217
2001	36,597,963
2002	28,974,350
2003	26,654,555

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

Construction Activity

Commercial real estate vacancy rates have not only stabilized, but are decreasing as well. The second quarter of 2004 marked the first time in over a year that both office and R&D space experienced simultaneous gains. As a result of signs of growth in employment, it is expected that we will see a corresponding positive effect in leasing transactions for commercial space.

Non-residential construction has deceased by almost $3.5 million, while new single-family homes and retail store construction is up countywide. According to the Construction Industry Research Board, calendar year 2003 total permit valuations for new residential and non-residential construction increased by approximately 1%. The number of single-family units increased to 2,320, and the number of multiple family units increased to 5,170. Overall construction activity has increased within California during 2004.

Source: Silicon Valley/San Jose Business Journal, July 9, 2004
www.bizjounals.com/losangeles/stories/2004/10/04/daily10.html

The following table provides a summary of building permit valuations and the number of new dwelling units authorized in the County since 1994.

County of Santa Clara
Building Permit Valuations
1994 to 2003

Year	Valuation ($ millions)			New Dwelling Units		
	New Residential	Non-Residential	Total	Single Family	Multiple Family	Total
1994	637.5	596.0	1,233.5	2,128	1,817	3,945
1995	657.1	859.4	1,516.5	2,213	1,232	3,445
1996	911.5	1,290.0	2,201.5	4,032	3,542	7,574
1997	1,329.6	1,914.7	3,244.3	4,367	4,443	8,810
1998	1,294.6	1,882.0	3,176.6	3,911	3,615	7,526
1999	1,306.0	1,856.0	3,162.0	3,333	3,677	7,010
2000	1,348.8	2,865.9	4,214.7	2,834	4,220	7,054
2001	1,051.5	2,254.8	3,306.3	1,642	4,318	5,960
2002	1,087.3	1,330.6	2,417.9	2,057	2,456	4,513
2003	1,466.4	972.9	2,439.3	2,320	5,170	7,490
Sources: Construction Industry Research Board						

VTA FACTS

CURRENT BUS SYSTEM DATA
July 2004

Demographic Information of Service Area		Routes by Service Type		Bus Deployment		
Santa Clara County Population	**1,731,400**		No. of Routes	Weekday		Base to Peak ratio **63.7%**
Urbanized Area (UZA)	**326 sq. miles**			AM Peak	**333**	
Route Mileage (round trip)	**2,766**	Primary Grid	**14**	Midday	**219**	Active Buses **523**
Facilities		Secondary Grid	**13**	PM Peak	**344**	
Number of Bus Stops	**4,340**	Neighborhood/Feeder	**25**	Evenings	**189**	
Number of Shelters	**727**	Limited Stop	**6**			
Number of Benches	**2,222**	Express	**11**	Saturday	**185**	
Number of Trash Receptacles	**909**	total	**69**	Sunday	**153**	
Number of Transit Centers	**19**					

Park and Ride Lots	Bus	Light Rail	Caltrain	Total
Number of Lots	**11**	**19**	**15**	**45**
Parking Spaces	**695**	**6,299**	**4,934**	**11,928**

* Source: Employment Development Department (EDD)

Historical Data

Fiscal Year	Active Buses	Peak Buses	Scheduled Hours	Scheduled Miles	Ridership	Ave. Weekday Ridership
1978	250	175	680,351	9,874,025	15,740,000	54,200
1979	330	214	744,403	10,974,722	21,000,000	71,320
1980	410	245	866,922	13,208,223	27,220,000	93,690
1981	494	283	1,071,450	16,121,241	31,660,000	106,435
1982	654	340	1,289,275	19,315,699	34,310,000	114,614
1983	654	377	1,375,751	20,486,007	34,870,000	117,921
1984	587	398	1,393,663	20,709,523	35,745,658	120,025
1985	542	408	1,423,306	21,054,147	35,827,506	121,031
1986	542	412	1,478,363	21,828,651	34,970,518	117,218
1987	542	421	1,523,996	22,743,434	34,157,000	114,845
1988	526	420	1,534,980	23,054,441	35,220,000	118,432
1989	518	417	1,524,689	22,904,636	37,024,000	124,958
1990	508	412	1,539,093	22,983,312	38,700,000	132,000
1991	512	422	1,586,495	23,683,679	41,652,000	141,000
1992	512	413	1,563,141	23,313,885	40,104,000	135,375
1993	474	392	1,437,719	21,544,840	38,943,000	131,368
1994	461	380	1,367,725	20,577,474	38,737,136	128,392
1995	460	378	1,367,258	20,401,172	39,183,337	130,432
1996	457	377	1,371,163	20,452,092	42,625,173	139,787
1997	468	386	1,407,689	20,721,892	45,887,950	150,224
1998	506	398	1,464,964	21,184,990	46,118,198	150,437
1999	522	415	1,565,500	22,399,973	47,486,765	154,082
2000	512	427	1,623,603	22,923,518	47,007,594	151,480
2001	502	418	1,616,941	22,640,485	47,237,748	152,708
2002	491	402	1,589,200	22,043,527	44,900,522	144,823
2003	454	375	1,497,846	20,556,769	39,169,325	126,030
2004	457	345	1,359,609	18,681,967	32,902,350	105,588

VTA FACTS

CURRENT LIGHT RAIL SYSTEM DATA
July 2004

Demographic Information of Service Area	
Santa Clara County Population	**1,731,400** [a]
Urbanized Area (UZA)	**326 sq. miles**
Hours of Operation per day	**21** [b]

Park and Ride Lots

	No. of Lots	Parking Spaces
Light Rail	**19**	**6,299**
Caltrain	**1** [d]	**338**
total	**20**	**6,637**

Facilities and Transit Way Mileages

	Guadalupe	Tasman	Total
Total Number of Stations	38	16	**54**
% of Platform Lifts equipped	100%	100%	**100%**
Length of Line [c]	26.6 miles	10.3 miles	**36.9 miles**
Track Miles	52.0 miles	19.5 miles	**71.5 miles**

Headways

	Weekday	Saturday	Sunday
Minutes	**15**	**15**	**15**

Active Cars

Light Rail [e] **82** Historic Trolley **4**

[a] Source: Employment Development Department (EDD).
[b] Tasman Line operates 19 hrs. Almaden line operates 17.5 hrs. on weekdays and 16 hrs. on weekends.
[c] 2.3 miles of the rail track is a single track.
[d] Downtown Mountain View - Caltrain Station (non-VTA lot).
[e] All Kinkisharyo cars.

System Line Openings

Segment Name	Opening Date	Length	Cumulative Length
Younger St. to Old Ironsides	**December 11, 1987**	**7.4**	**7.4**
Downtown San Jose to Younger St.	**June 17, 1988**	**2.3**	**9.7**
Tamien to Downtown San Jose	**August 17, 1990**	**1.5**	**11.2**
Almaden to Ohlone/Chynoweth	**April 25, 1991**	**1.1**	**12.3**
Santa Teresa to Tamien	**April 25, 1991**	**8.6**	**20.9**
Downtown Mountain View to Old Ironsides	**December 20, 1999**	**8.0**	**28.9**
Tasman to Baypointe	**December 20, 1999**	**0.2**	**29.1**
Baypointe to I-880 Milpitas	**May 17, 2001**	**1.5**	**30.6**
I-880 Milpitas to Hostetter	**June 24, 2004**	**3.0**	**33.6**
Hostetter to Alum Rock	**June 24, 2004**	**3.3**	**36.9**

Historical Data

Fiscal Year	Scheduled Hours	Scheduled Miles	Peak Cars	Light Rail Ridership	Historic Trolley Ridership	Total Ridership	Ave. Weekday Ridership
1988	16,622	222,329	6	359,965	0	359,965	1,101
1989	42,665	538,799	8	2,078,725	39,985	2,118,710	7,630
1990	45,378	557,449	8	2,431,520	67,465	2,498,985	8,083
1991	67,424	890,617	16	3,890,482	110,660	4,001,142	12,569
1992	94,191	1,394,480	34	6,018,280	117,281	6,135,561	19,756
1993	85,419	1,283,621	36	6,206,903	38,796	6,245,699	20,339
1994	79,280	1,203,823	32	6,108,755	24,246	6,133,001	19,735
1995	78,630	1,198,107	32	5,635,697	23,622	5,659,319	18,138
1996	82,006	1,274,202	31	6,144,587	23,498	6,168,085	20,008
1997	84,909	1,339,564	32	6,704,027	24,365	6,728,392	22,006
1998	87,285	1,368,229	33	6,865,223	44,877	6,910,100	22,727
1999	88,800	1,359,589	33	6,819,307	43,398	6,862,705	22,579
2000	112,202	1,648,334	43	7,874,710	39,020	7,913,730	25,673
2001	136,483	1,986,763	41	9,200,445	36,629	9,237,074	30,383
2002	137,087	2,032,588	41	7,769,121	20,449	7,789,570	25,573
2003	106,416	1,567,594	29	6,047,947	4,572	6,052,519	19,772
2004	98,935	1,464,326	26	5,472,204	820	5,473,024	17,637