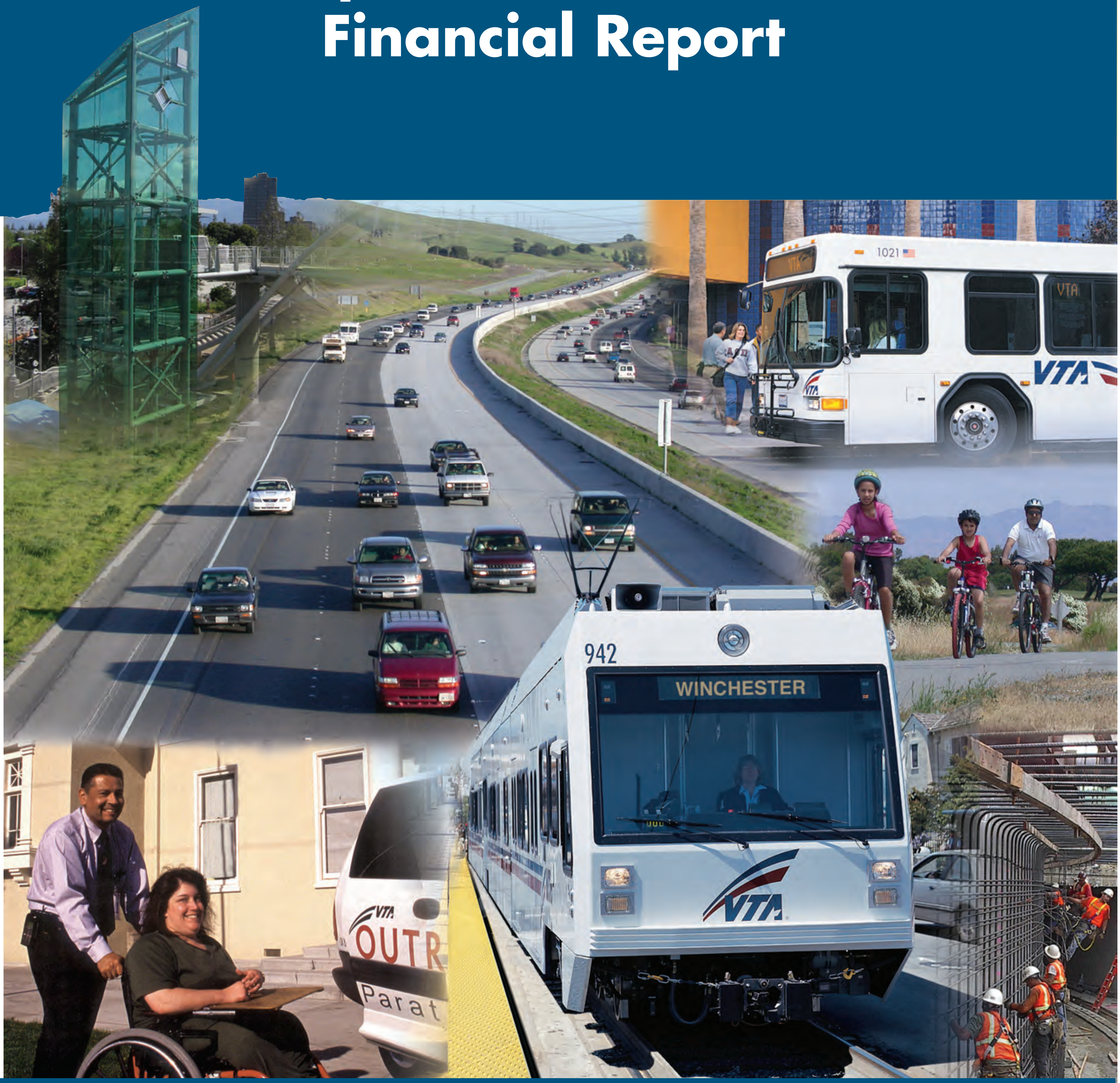
Santa Clara Valley Transportation Authority

# Comprehensive Annual Financial Report




For Fiscal Year Ended June 30, 2005, Santa Clara County, California

# Santa Clara Valley Transportation Authority

## *Comprehensive Annual Financial Report*
### *For Fiscal Year Ended June 30, 2005*

*1996 Measure B U.S. 101 Widening Highway Project*

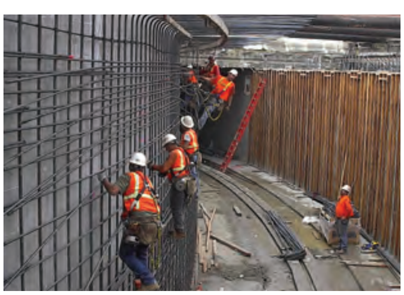
*Paratransit services offer alternatives for senior & disabled customers*


*VTA provides service to major attractions, like the Tech Museum of Innovation*

*Bicycle paths provide another transportation option*


*Low-floor light rail vehicle on the Mountain View – Winchester Line*

*Elevator at the Hamilton Light Rail Station*



*Construction workers building the new light rail tunnel at the San Jose Diridon Station*

SANTA CLARA Valley Transportation Authority

*3331 North First St., San Jose, CA 95134*

# SANTA CLARA VALLEY
# TRANSPORTATION AUTHORITY

## SAN JOSE, CALIFORNIA

Comprehensive Annual Financial Report

For Fiscal Year Ended June 30, 2005

Prepared by:
Fiscal Resources Division

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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, 2004

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.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

# SECTION 1 — INTRODUCTION

**LETTER OF TRANSMITTAL**

**BOARD OF DIRECTORS**

**ORGANIZATION CHARTS**

**PRINCIPAL OFFICIALS**

**SERVICE AREA MAP**

November 10, 2005

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, 2005 was prepared in accordance with the guidelines recommended by the Government Finance Officers Association of the United States and Canada (GFOA). Responsibility for the accuracy, completeness, and fairness of the data and the clarity of the presentation, including all disclosures, rests with VTA. To the best of our knowledge, the enclosed data is reported in a manner designed to present fairly, in all material respects, VTA's financial position, changes in financial position, and cash flows, when applicable, in accordance with the requirements of accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB).

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 Management's Discussion and Analysis (MD&A) and should be read in conjunction with it.

2. Financial Section, including the Independent Auditor's Report, MD&A, basic financial statements with accompanying footnotes, required supplementary information, and other supplementary information. Readers who desire a more detailed discussion on VTA's financial results are directed to the MD&A of the Financial Section.

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

The independent auditor for FY2005 was Macias Gini & Company LLP, which issued an unqualified opinion on VTA's June 30, 2005 basic financial statements.

It is management's intention to submit this and future CAFRs to the GFOA to determine its eligibility for another Certificate of Achievement for Excellence under the Financial Reporting Program. We believe the current CAFR satisfies the reporting requirements and continues to meet the program requirements.

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

FY2002, capital contributions (grants) that defray capital acquisition costs and were previously reflected as contributed capital on the balance sheet, are now recognized as revenue on the Statement of Revenues, Expenses and Changes in Fund Net Assets. This change is significant. The corresponding acquisition of capital assets is not recognized on this statement to match the revenue reported; instead, depreciation expense of those assets is recognized periodically over the life of the asset. This represents a significant departure from VTA's budgeting methodology where the resources or grants are recorded in the year they are received and the costs of assets are recognized as expenditures in the year the assets 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 (County). 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 is also the successor organization to the Santa Clara County Traffic Authority, which terminated in March 1997.

VTA is an independent special district responsible for bus and light rail operations, Americans with Disabilities Act (ADA) paratransit service, regional commuter and inter-city rail service, congestion management, specific highway improvement projects, and countywide transportation planning. As such, VTA is both an accessible transit provider and a multi-modal transportation planning and implementation organization involved with transit, highways, roadways, bikeways and pedestrian facilities. VTA provides transit services to the 326 square miles urbanized portion of the County that is comprised of 15 cities and the County with a population of more than 1.7 million residents.

**Bus Transit Service**

VTA has a bus fleet of 430 buses powered by clean diesel fuel, which include 237 low-floor buses. The average age of the buses in the active fleet is about 5.7 years, with buses ranging from 1 to 13 years old. New buses conform with 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 and 730 bus shelters. VTA also maintains nine Park & Ride lots - five owned by VTA and four provided under a lease, permit, or joint use agreement with other agencies. Buses are operated and maintained from three operating divisions and an Overhaul and Repair (O&R) facility: Cerone Operating Division, Don Pedro Chaboya Operating Division, North Operating Division, and Cerone O&R Division.

**Light Rail Transit (LRT) Service**

VTA operates a 42-mile LRT system connecting the Silicon Valley employment areas of Mountain View, Sunnyvale, Santa Clara, North San Jose and Milpitas to residential areas in East and South San Jose. The LRT system has a total of 54 stations and 19 park & ride lots. It operates on three alignments: service between Santa Teresa in South San Jose and Alum Rock in East San Jose, service between Mountain

View and the Baypointe Station, and shuttle service between Almaden and Ohlone-Chynoweth Stations in South San Jose. A fleet of 100 new Kinkisharyo low floor light rail vehicles operates on these three routes and on the new Vasona route. All 100 Kinkisharyo light rail vehicles are stored and maintained at the Guadalupe Operating Division near downtown San Jose. Additionally, there are four historic trolleys that VTA periodically operates from the Civic Center Station to the Convention Center Station.

## Paratransit Services

VTA contracts with Outreach and Escort, Inc. (Outreach) to serve as a broker and to provide the paratransit service through contracts with private transportation providers. Eligible riders call Outreach to schedule their trips. Outreach then assigns the trips 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. ADA compliance has and will continue to have significant operational and financial impacts on VTA. The new ADA accessibility design guidelines for all newly constructed transit facilities such as light rail stations, bus stops and transit centers continue to be met by VTA.

## Contracted, Interagency and Other Transit Services

VTA is a partner in various ventures that expand the transportation options for our customers. These relationships include commuter rail, inter-county express bus lines, and rail feeder services. They are operated either by contract or through cooperative agreements.

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

Caltrain is a commuter rail service provided by the PCJPB, which is governed by representatives from San Francisco, San Mateo, and Santa Clara counties. It operates between Gilroy and San Francisco. There are 31 stations along the line; 15 are located in Santa Clara County. Ninety-six trains operate between San Jose Diridon Station and San Francisco each weekday, with 48 continuing south to the Tamien Station in San Jose. Six peak-hour weekday trains (three northbound in the morning and three southbound in the evening) extend Caltrain from the Tamien station to Gilroy. VTA light rail transfers can be made at both the Tamien and Mountain View Caltrain Stations. The share of the operating costs apportioned to each member agency is based upon morning peak-hour boarding that occur in each county, and is currently about 40% for VTA. This is updated annually based on actual ridership counts and other operating formulae. 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 PCJPB members.

### *Altamont Commuter Express Rail Service (ACE)*

The ACE is an 85-mile weekday commuter rail service from Stockton to San Jose via the Tri-Valley area of Alameda County. Operating on the Union Pacific railroad track, ACE service consists of six daily trains (three round trips), two of which originate in Stockton and one morning train originating in Lathrop providing service to San Jose Diridon Station. Three afternoon trains provide return trip service from San Jose. Two of these trains return to Stockton and one terminates in Lathrop. ACE service began in 1998.

ACE connects to VTA bus and light rail service, the Bay Area Rapid Transit District (BART), the Alameda-Contra Costa Transit District (AC Transit), Caltrain and the Capitol Corridor Intercity Rail Service. Stations are serviced by shuttle and feeder bus service. The San Joaquin Regional Rail Commission (SJRRC) is the owner, operator, and policy making body for ACE service. The funding for ACE service is provided under the terms of a cooperative agreement between VTA, SJRRC, and the Alameda County Congestion Management Agency.

***Capitol Corridor Intercity Rail***

The Capitol Corridor Intercity Rail Service is a 170-mile train corridor from Auburn and Sacramento to San Jose, through the counties of Placer, Sacramento, Yolo, Solano, Contra Costa, Alameda and Santa Clara. 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.

The train service parallels the Interstate 80 corridor between Sacramento and Oakland, and Interstate 880 between Oakland and San Jose. Service includes stops in, Roseville, Sacramento, Davis, Suisun/Fairfield, Martinez, Richmond, Berkeley, Emeryville, Oakland, Hayward, Fremont, Santa Clara at Great America and San Jose Diridon Station. The Capitol Corridor Joint Powers Authority (CCJPA), which is comprised of representatives from the eight counties served by the corridor, is responsible for managing the service. Under contract with the CCJPA, BART manages the service and Amtrak operates it. The funding is provided by the State of California.

***Inter-County Bus Service***

VTA 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 AC Transit, 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. SamTrans and VTA are responsible for 50% of the net operating costs and AC Transit, BART and the City of Union City are responsible for the rest.

The Highway 17 Express provides direct bus service from Santa Cruz to Downtown San Jose. The service is managed and operated by Santa Cruz Metro Transit District (Metro) under a Joint Powers Authority Agreement with VTA. In 2004, Caltrans and the CCJPA joined as service partners by merging their connector bus service with the Highway 17 Express. This consolidation added new weekend and holiday service, more weekday trips and extended the route to the Downtown Santa Cruz Metro Center. These improvements are fully funded by Caltrans and CCJPA. VTA and Metro continue to share the operating subsidy for the remainder of the weekday service on a 50/50 basis.

## Shuttle Program

### *Light Rail Shuttle*

Under this program, VTA offers financial assistance to employers and entities that wish to operate shuttle bus service between light rail stations and nearby employment/activity centers. The service is operated through a private contractor provided by VTA or sponsoring agency. Funding to operate this program is provided by the sponsoring agencies, VTA, and grants from the Transportation Fund for Clean Air Act (AB434). No fares are charged on these shuttles.

### *Downtown Area Shuttle (DASH) and HP Pavilion Shuttle Programs*

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

### *San Jose Airport Flyer*

VTA, in partnership with the City of San Jose, provides free Airport Flyer bus service connecting 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

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 the County appears brighter. Studies show that consumer confidence is improving and housing prices are staying fairly constant. In comparison with the State's June 2005 preliminary average (5.4%), the County has a slightly higher unemployment rate (5.5%). Last year the County's unemployment rate was 6.2%, but there are indications that the drop in the unemployment rate may be a result of a migration of the unemployed to other areas. 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. The County is an important barometer of commercial activity. Taxable sales activities and office vacancy rate within the County give us valuable insight to the direction of the economic recovery. Despite the divergent messages sent by the economy, there are signs reflecting that the County's economy is rebounding. According to the State Board of Equalization, the County's taxable sales of all outlets increased by $1.3 billion, or 4.7%, in 2004, the first increase since 2001. According to the Silicon Valley/San Jose Business Journal, office vacancy in Silicon Valley was below 14% at the second quarter of 2005, the lowest since 2001.

**Sales Tax**

Local sales tax is derived from a one-half cent sales tax restricted for transit purposes, levied within the 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 70% of the total enterprise fund revenue (less capital contributions) for the year ended June 30, 2005. Beginning in April of 2006, the 2000 Measure A sales tax will go into effect. These funds will be used to finance transit projects and operations specified in the 2000 Measure A.

The economic downturn in the 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, the County's economy has been volatile resulting in corresponding volatile sales tax receipts. The County is slowly emerging from the low ebb of the recession as evidenced by the actual sales tax revenue VTA received in FY2004. The FY2004 receipts of $138.9 million represent the first year-to-year increase since FY2001. The FY2005 receipts of $145 million is the second consecutive increase. VTA's projected sales tax revenues reflect a continuing stable growth of 4.83% and 4.87% for FY2006 and FY2007, respectively based on budget projections. VTA also projected an increase in the TDA revenues of 6% for FY2006 and 3.5% for FY2007.

**Ridership & Farebox Revenue**

The FY2005 light rail ridership was 6.8 million which represents a 23.9% increase compared to FY2004. Bus ridership was 30.3 million, an 8% drop from FY2004. The 2.1% bus service hour reduction and the 2.3% service miles reduction contributed to this decrease.

There was a 1.9% decrease in Paratransit ridership in FY2005 compared to FY2004. Paratransit costs continue to decline due to cost saving measures enacted in FY2003. In March 2005, a revised Paratransit eligibility program was adopted to ease the paratransit application process while maintaining program cost controls through adherence to ADA regulatory specifications. All contracted and inter-agency ridership numbers increased in FY2005 except for the Dumbarton Express and Paratransit. Total VTA fare box revenue increased by 8.1% in FY2005 compared to FY2004.

## 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% 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. Currently, we treat all bus maintenance costs for revenue and non-revenue vehicles as eligible expenditures.

In FY2005, $34 million of preventive maintenance grants were received. Of this amount, $534 thousand is a carryover from FY2004.

## 1996 MEASURE B TRANSPORTATION IMPROVEMENT PROGRAM

In November 1996, voters in the County overwhelmingly 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. 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 to implement the 1996 Measure B Transportation Improvement Program (MBTIP). With this partnership in place, the County and VTA are in a position to complete a transportation program valued at over $1.4 billion. VTA is responsible for project implementation and management of the transit and highway projects and assists in the administration of the pavement and bicycle elements of the program.

To monitor the progress of the program, VTA and County staff update the Measure B Program Revenue and Expenditure Plan for each upcoming fiscal year in June. Any scope, schedule or budget changes are formally requested through this document, upon which the VTA Board of Directors and the County Board of Supervisors take action during a joint workshop. In December, VTA and County staff prepare the Measure B Program Status Report, which describes the status of each project within the program. The report is also presented to the VTA Board of Directors and the County Board of Supervisors for review and acceptance. The Measure B tax will expire on March 31, 2006. Some deferred projects may be continued with any residual funds. VTA will close-out the program during FY2006.

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.

The Transit Projects, estimated at a cost of $903 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 $505 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. Routes 85/101 interchange in Mountain View, replacement of the Routes 85/101 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 0.2 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 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 provide 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 $458 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 $320.6 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 $297.5 million. Even with net non-operating revenues of $233.6 million, there still was a $64 million decrease in net assets before capital contributions and special items. During FY2005, VTA acquired capital assets of approximately $230.8 million.

VTA started the year with $131.1 million in reserves (net working capital) and by the end of FY2005, the balance was $133.3 million. The increase in reserves of $2.2 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, 2005 (in millions).

| | |
|---|---|
| Restricted: | |
| Operating Reserves | $ 50.8 |
| Local Share of Approved Capital | 43.0 |
| Total Restricted | 93.8 |
| Unrestricted | 39.5 |
| **Total Reserves** | $133.3 |

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 to ensure that some funds are available in the event of unanticipated revenue shortfalls or unanticipated expenditures.

Local share of approved capital represents the amount of revenue that VTA must provide towards Board-approved capital projects. In FY2005, there was a decrease of $15.8 million due to deferred and cancelled capital projects. The VTA Enterprise-funded Capital Improvement Program remains constrained as the organization continues to balance the need for basic capital infrastructure investment against essential operating needs.

### 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 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 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 2003, the recommendations were adopted by the Board along with direction that the Committee reconvene to develop recommendations for a proposed new revenue source for further Board consideration and/or action. Subsequently, the Committee met frequently over a four-month period 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. The Board directed staff to revise the Committee's recommendations based on the concerns raised at the workshop and bring them back 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 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 were incorporated into the Valley Transportation Plan (VTP) 2030 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.

**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 seeking public input and data gathering in partnership with community leaders and stakeholders to help define the revenue source(s) and timing 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.
- 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.
- 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.

**SHORT RANGE TRANSIT PLAN FY 2004-2013**

The FY 2004-2013 Short Range Transit Plan (SRTP) documents VTA's ongoing transit development and planning process covering a 10-year planning horizon. Major goals and objectives included in the SRTP are as follows:

- 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 County residents and the continued health of the 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 the 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 cities 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 representatives 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 2030

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 the County.

Reduced sales tax revenues over the past few years have resulted in a substantial reduction in the projected sales tax revenues expected to be generated by 2000 Measure A. The Board is currently deliberating alternative funding/expenditure scenarios to meet this challenge.

On February 3, 2005, VTA Board of Directors adopted VTP 2030. The long-range countywide transportation plan provides a planning and policy framework for developing and delivering transportation projects and programs over the next 25 years. The plan identifies existing and future transportation-related needs, considers all travel modes, links land use and transportation funding and decision-making, examines alternative courses of action, and identifies what can be accomplished with the projected available funding for projects and programs. The 2000 Measure A Transit Improvement Program is one component of VTP 2030. Below is a list of 2000 Measure A projects:

- Fund operating and maintenance costs for increased bus, rail and paratransit service.
- Extend BART to Silicon Valley through the Silicon Valley Rapid Transit Corridor (SVCRTC).
- Provide connections from Mineta San Jose International airport to BART, Caltrain and VTA light rail.
- Extend light rail from downtown San Jose to the East Valley.
- Purchase low-floor light rail vehicles (LRVs).

- Improve Caltrain: double-track to Gilroy and electrify from Palo Alto to Gilroy.
- Increase Caltrain service.
- Construct a New Palo Alto Intermodal Transit Center.
- Improve bus service in major bus corridors.
- Upgrade Altamont Commuter Express (ACE).
- Improve Highway 17 Express bus service.
- Connect Caltrain with Dumbarton Rail corridor.
- Purchase zero-emission buses and construct service facilities.
- Develop new light rail corridors.

**TransLink® Demonstration Project**

TransLink® is a regional transit fare payment system (smart card) for the nine-county San Jose/San Francisco/Oakland Bay Area. 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 Bay Area, allowing customers to travel seamlessly throughout the region without needing to carry cash or purchase tickets. 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. Participants in the Phase I included VTA, BART, the City and County of San Francisco, acting by and through its Municipal Transportation Agency (MTA), Golden Gate Bridge Highway and Transportation District (GGBHTD), AC Transit, Caltrain and SamTrans. The second phase is now underway with the intent of establishing a full region-wide implementation of TransLink®. VTA is scheduled to go live with TransLink® in revenue-ready status in March 2007.

**<u>Cash & Investment Management Policies and Practices</u>**

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 Health Care | |

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 allocations and accompanying benchmarks as shown below. In FY2005, this investment policy received certification and a Certificate of Excellence from the Association of Public Treasurers of the United States and Canada. 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: | Target Ranges | Actual |
|---|---|---|
| Benchmark | | |
| US Government Intermediate Fixed Income | N/A | 50% |
| Institutional Money Market | N/A | 26% |
| Cash/Commingled Investments | N/A | 24% |

| Retiree Health: | Target Ranges | Target Asset Allocation | Actual |
|---|---|---|---|
| Benchmark | | | |
| Lehman Aggregate (Fixed Income) | 25-60% | 38% | 43% |
| S & P 500 Index (Equity) | 35-70% | 60% | 57% |
| Cash/Commingled Investments | 0-5% | 2% | 0% |

The VTA/ATU 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, 2005 is shown below:

| ATU Pension Plan: | Target Ranges | Target Asset Allocation | Actual |
|---|---|---|---|
| Benchmark | | | |
| Lehman Brothers Aggregate (Fixed Income) | 35-45% | 39% | 38% |
| S&P/Barra Value (Large Cap Equity) | 15-25% | 20% | 21% |
| Russell 2000 Value (Small Cap Equity) | 5-15% | 10% | 11% |
| S&P 500 (Large Cap Equity Index) | 10-20% | 15% | 14% |
| MSCI EAFE (International Equity Index) | 10-20% | 15% | 16% |
| Cash/Commingled Investments | 0-5% | 1% | 0% |

The Plan's asset allocations are 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 are 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 $5.7 million during FY2005. $24.5 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 FY2005 (in thousands).

| | |
|---|---|
| Enterprise Fund | $ 5,666 |
| Special Revenue and Capital Projects | 176 |
| Pension Trust Fund | 24,530 |
| Internal Service Fund | 5,540 |
| Total Investment Earnings | $ 35,912 |

## Risk Management

For the year ended June 30, 2005, 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.

## Compliance Review

To comply with the state and federal funding requirements, VTA has established a system of compliance reviews. The Compliance Review Department reviews the Request for Proposals (RFP) published by VTA, the consultant proposals in response to the RFP's and the consultant accounting systems; and analyzes the consultant's financial conditions in a pre-award audit setting to ensure that VTA's contract award process is in compliance with applicable state and federal rules and regulations. The Compliance Review Department also performs post contract award compliance reviews to validate that costs incurred related to consultant contract performance are in accordance with the state and federal cost principles and contract agreement provisions. Compliance Review Department reports to the Chief Financial Officer through a Fiscal Resources Manager. We believe VTA's Compliance Review Department contributes in protecting VTA's interests by reasonably assuring that consultants are not in potential financial distress which would preclude the consultants from performing in government contracts. It also helps ensure that estimated project costs are not overstated during the contract award process, and actual contract costs are limited to only those allowed by the state and federal cost principles and the contract agreement.

## 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. In addition, there are Schedules of Funding Progress for the two plans within the Required Supplementary Information.

There are three health benefits programs for employees who retire directly from VTA. 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.

**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, 2004. This was the 9th 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 CAFR required a concerted team effort throughout VTA, including team members from Financial Accounting, Disbursements, Revenue Services, Contracts and Purchasing, Risk Management, Budget, 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.

Michael T. Burns
Michael T. Burns
General Manager

Roger Contreras
Roger Contreras
Chief Financial Officer

# 2005 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**
**Cindy Chavez, Vice-Chairperson**

| | |
|---|---|
| **GROUP 1** | |
| City of San Jose | Cindy Chavez |
| | David Cortese |
| | Nora Campos |
| | Ron Gonzales |
| | Forrest Williams |
| | Ken Yeager, Alt. |
| **GROUP 2** | |
| City of Los Altos | David Casas |
| Town of Los Altos Hills | Breene Keer, Alt. |
| City of Mountain View | |
| City of Palo Alto | |
| City of Santa Clara | Jaime Matthews |
| City of Sunnyvale | Dean Chu |
| **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 | Robert Livengood |
| City of Morgan Hill | Dennis Kennedy, Alt. |
| **GROUP 5** | |
| County of Santa Clara | Liz Kniss |
| | Don Gage |
| | Pete McHugh, Alt. |
| **GROUP 6** | |
| Ex-Officio | |
| Metropolitan | Jim Beall, Jr. |
| Transportation | John McLemore |
| Commission | |

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)

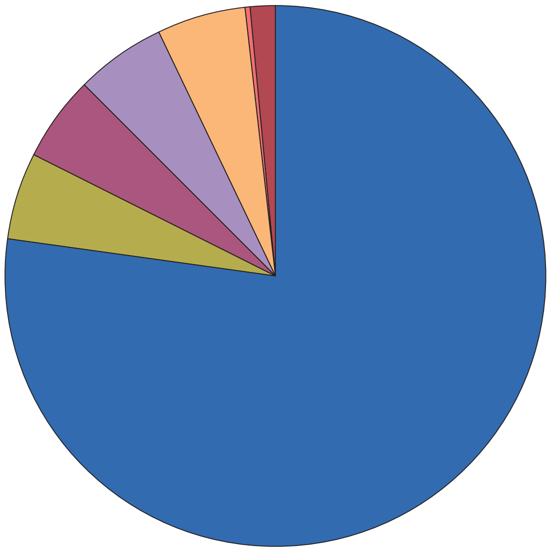
4. Technical Advisory Committee (TAC)

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 | 1665 | 77.2% |
| Development & Congestion Management | 111 | 5.1% |
| Fiscal Resources | 113 | 5.3% |
| Construction | 114 | 5.3% |
| Administrative Services | 106 | 5.2% |
| General Counsel | 9 | 0.4% |
| General Manager | 37 | 1.5% |
| Total | 2155 | 100% |

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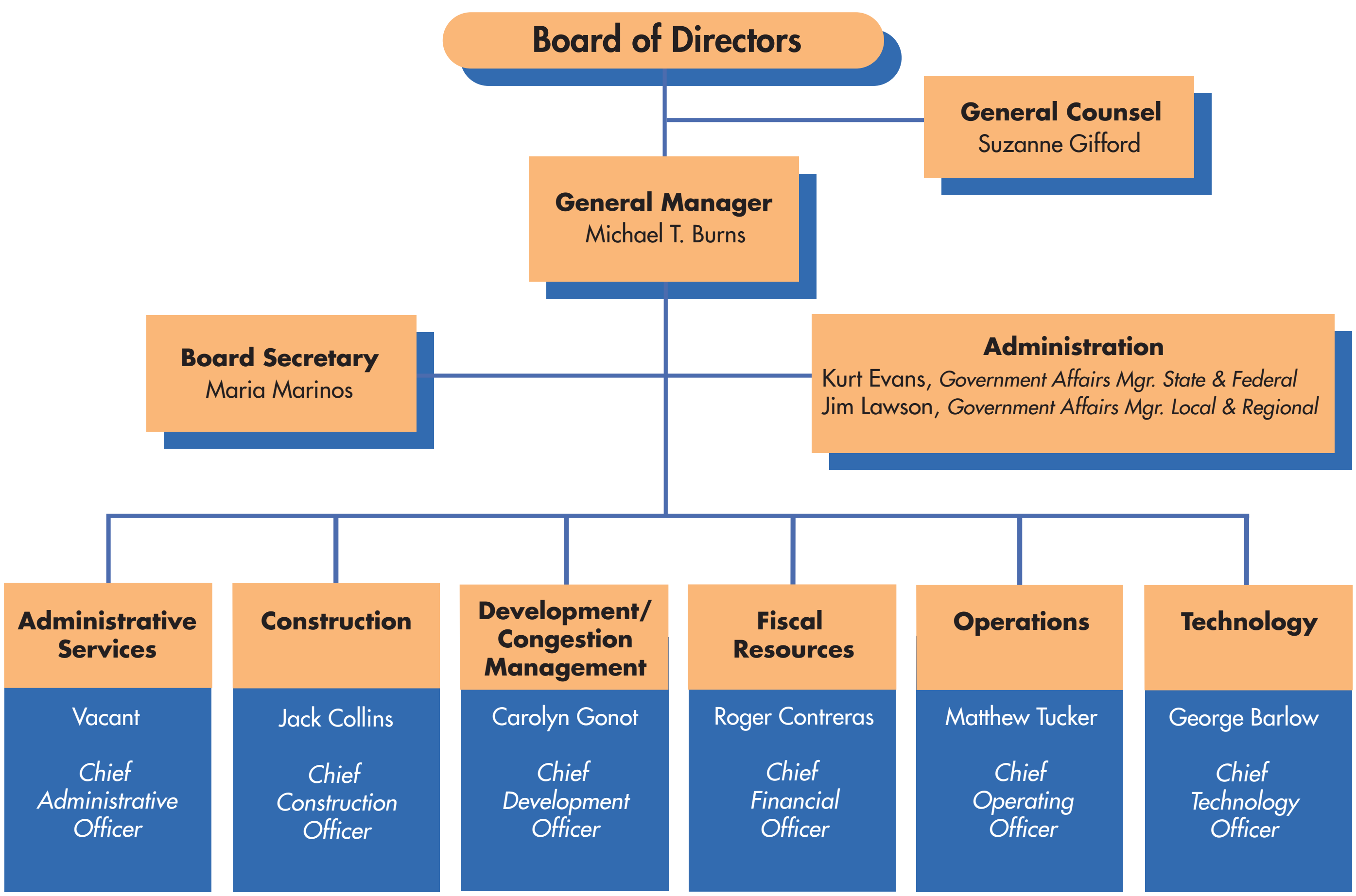
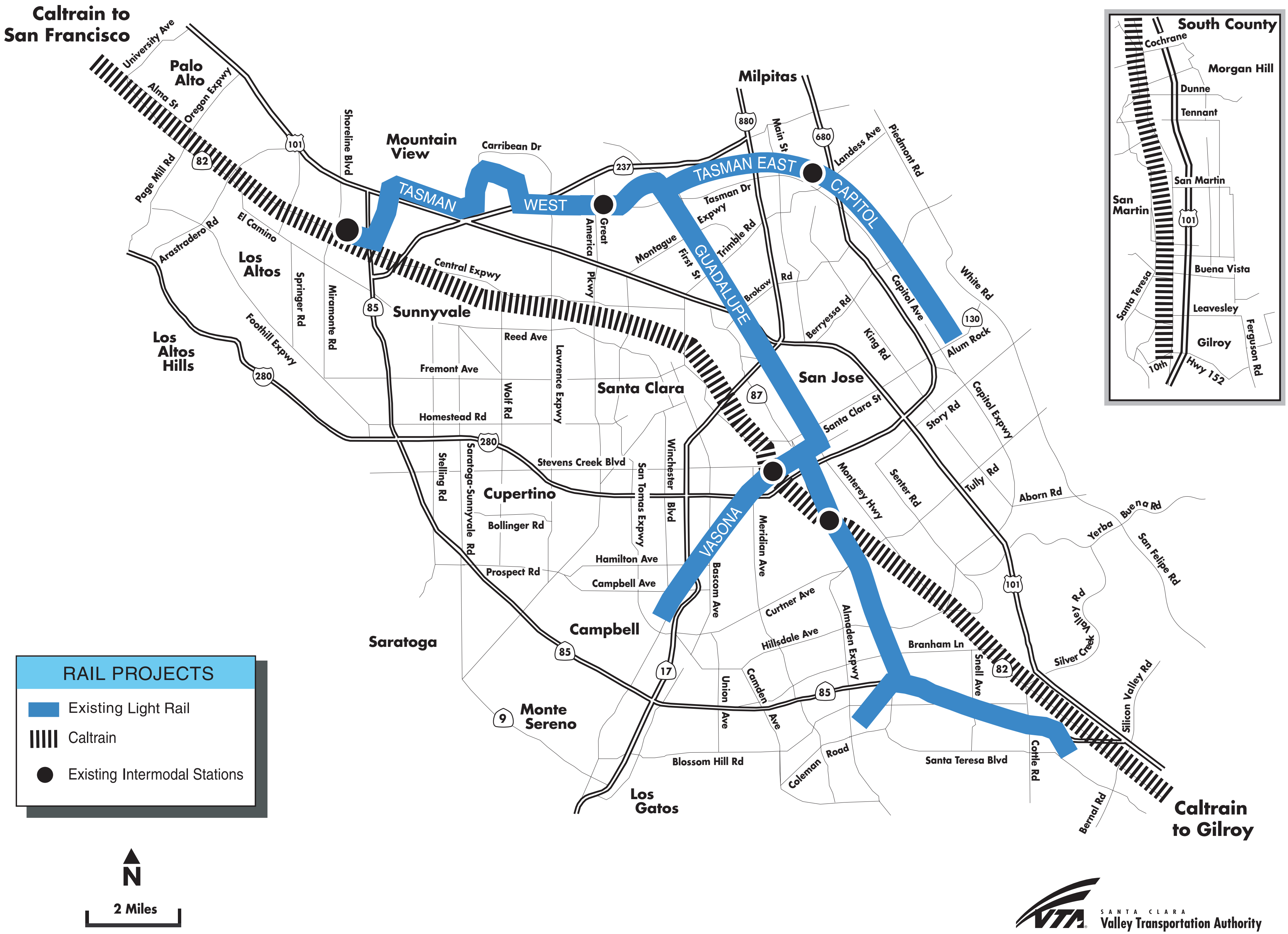
## Santa Clara Valley Transportation Authority



# Principal Officials

| | |
|---|---|
| **General Manager** | **Michael T. Burns** |
| **General Counsel** | **Suzanne Gifford** |
| **Board Secretary** | **Maria Marinos** |
| **Chief Administrative Officer** | **Kaye Evleth** |
| **Chief Construction Officer** | **Jack Collins** |
| **Chief Development Officer** | **Carolyn Gonot** |
| **Chief Financial Officer** | **Roger Contreras** |
| **Chief Operating Officer** | **Matthew Tucker** |
| **Chief Technology Officer** | **George Barlow** |
| **Controller** | **Susan Stark** |
| **Deputy Director, Operations – Bus & Rail** | **Mike Aro** |
| **Deputy Director, Construction** | **Jeff Funk** |
| **Deputy Director, CM & Planning Program** | **Ann Jamison** |
| **Deputy Director, Marketing & Public Affairs** | **Bernice Alaniz** |
| **Deputy Director, Operations Planning & Support Services** | **Samuel Lau** |
| **Deputy Director, Programming & Project Development** | **John Ristow** |
| **Government Affairs Manager – State & Federal** | **Kurt Evans** |
| **Government Affairs Manager – State & Regional** | **Jim Lawson** |

# 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, 2005, which collectively comprise VTA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of VTA's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity, the governmental activity, each major fund, and the aggregate remaining fund information of VTA as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2*(m)* to the financial statements, VTA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures - an amendment of GASB Statement No. 3*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2005, 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.

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 10, 2005

## Management's Discussion and Analysis

This Section of the Santa Clara Valley Transportation Authority's (VTA) CAFR presents a narrative overview and analysis of the financial activities of VTA for FY2005. Please read this document in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

### Financial Highlights

- As of June 30, 2005, 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 $2.2 million, respectively. Of the $2.1 billion in net assets, approximately $1.9 billion was invested in capital assets net of related debt which was associated with our capital expansion program.
- As of June 30, 2005, VTA had issued bonds in the amount of $708.7 million compared to $577.1 million the previous fiscal year. The increase was due to the issuance of 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 $287.1 million. Even with an addition of $239.1 million in non-operating revenues, there still was a $48 million decrease in net assets before capital contributions and special items of $89.1 million. Net assets increased by $41.1 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 $6.1 million (4.4%) in FY2005 compared to FY2004.
- Net assets for the Special Revenue Funds increased $646 thousand 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 are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. In addition to the basic financial statements, this report also includes required and other supplementary information.

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

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

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

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

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

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

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

***Proprietary funds.*** VTA maintains two types of proprietary funds: an enterprise fund and an internal service fund. The enterprise fund is used to report the same function presented as "business-type activity" in the government-wide financial statements. The internal service fund is used to account for activities that provide services to other funds, departments or to other governments on a cost-reimbursement basis. General Liability, Workers' Compensation, Retiree Health, and Compensated Absences are accounted in the internal service fund. VTA uses the enterprise fund to account for its transit operation and capital activities, 1996 Measure B Transit projects, and 2000 Measure A 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 2-63 of this report.

**Other information.** In addition to the basic financial statements and notes, *required supplementary information* is also being presented. The required supplementary information shows VTA's progress in funding its obligation to provide employees with pension benefits and also shows the Congestion Management Program Budgetary Schedule. These schedules can be found on pages 2-64 to 2-67.

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 $41.6 million, due primarily to the capital contributions of $192.6 million. The inclusion of $192.6 million in capital contributions (capital grants program revenue) has no corresponding expenses associated with it within the statements, which is likely to be misconstrued. During FY2005, VTA acquired capital assets of approximately $230.8 million. These capital assets were funded by the capital contributions as well as existing budgetary reserves.

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

| | Business-type activity | | Governmental activity | | Total | |
|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Current and other assets | $ 504,632 | $ 505,974 | $ 36,180 | $ 68,352 | $ 540,812 | $ 574,326 |
| Capital assets, net | 2,470,374 | 2,306,582 | - | - | 2,470,374 | 2,306,582 |
| Total assets | 2,975,006 | 2,812,556 | 36,180 | 68,352 | 3,011,186 | 2,880,909 |
| Current liabilities | 66,198 | 79,918 | 33,996 | 66,647 | 100,194 | 146,565 |
| Long-term liabilities outstanding | 785,922 | 650,839 | - | - | 785,922 | 650,839 |
| Total liabilities | 852,120 | 730,757 | 33,996 | 66,647 | 886,116 | 797,404 |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 1,867,513 | 1,846,221 | - | - | 1,867,513 | 1,846,221 |
| Restricted | 44,400 | 66,019 | - | - | 44,400 | 66,019 |
| Unrestricted | 210,973 | 169,559 | 2,184 | 1,705 | 213,157 | 171,263 |
| Total net assets | $ 2,122,886 | $ 2,081,799 | $ 2,184 | $ 1,705 | $ 2,125,070 | $ 2,083,504 |

The largest portion of VTA's net assets (approximately 88%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment), less any related outstanding debt used to acquire those assets. VTA uses these capital assets to provide services to its customers. Consequently, these assets are not available for future spending. Although VTA's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot reasonably be used to liquidate these liabilities.

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

| | Business-type activity 2005 | Business-type activity 2004 | Governmental activity 2005 | Governmental activity 2004 | Total 2005 | Total 2004 |
|---|---|---|---|---|---|---|
| Expenses: | | | | | | |
| Operations and operating projects | $ 300,430 | $ 286,098 | $ 4,735 | $ 2,857 | $ 305,165 | $ 288,955 |
| Caltrain subsidy & capital contribution | 14,112 | 16,805 | - | - | 14,112 | 16,805 |
| Altamont Commuter Express subsidy | 2,470 | 2,391 | - | - | 2,470 | 2,391 |
| Interest Expense | 13,761 | 13,691 | - | - | 13,761 | 13,691 |
| Other non-operating expenses | 3,316 | 3,022 | - | - | 3,316 | 3,022 |
| Benefit payments | 21,370 | 14,816 | - | - | 21,370 | 14,816 |
| Capital projects for the benefit of other agencies | - | - | 94,146 | 115,262 | 94,146 | 115,262 |
| Total expenses | 355,459 | 336,823 | 98,881 | 118,119 | 454,340 | 454,942 |
| Program revenues: | | | | | | |
| Charges for services | 34,692 | 33,421 | 2,231 | 1,862 | 36,923 | 35,283 |
| Operating grants | 113,925 | 111,577 | 1,190 | 517 | 115,115 | 112,094 |
| Capital grants | 96,860 | 217,053 | 95,746 | 116,012 | 192,606 | 333,065 |
| Total program revenues | 245,477 | 362,051 | 99,167 | 118,391 | 344,644 | 480,442 |
| Net program revenues | (109,982) | 25,228 | 286 | 272 | (109,696) | 25,500 |
| General revenues: | | | | | | |
| Sales tax revenue | 145,008 | 138,917 | - | - | 145,008 | 138,917 |
| Investment income | 11,206 | 6,382 | 174 | 79 | 11,380 | 6,461 |
| Other income | 2,628 | 2,102 | 19 | 18 | 2,647 | 2,120 |
| Total general revenues | 158,842 | 147,401 | 193 | 97 | 159,035 | 147,498 |
| Special items: | | | | | | |
| Revenue from Headlease | - | 29,999 | - | - | - | 29,999 |
| Loss from sublease of vehicles | (7,773) | (15,918) | - | - | (7,773) | (15,918) |
| Change in net assets | 41,087 | 186,710 | 479 | 369 | 41,566 | 187,079 |
| Net assets beginning of year, as previously reported | 2,081,799 | 1,848,957 | 1,705 | 1,336 | 2,083,504 | 1,850,293 |
| Change in accounting principle | - | 46,132 | - | - | - | 46,132 |
| Net assets beginning of year, as restated | 2,081,799 | 1,895,089 | 1,705 | 1,336 | 2,083,504 | 1,896,425 |
| Net assets, end of year | $2,122,886 | $2,081,799 | $ 2,184 | $ 1,705 | $2,125,070 | $2,083,504 |

**Business-type activity.** Despite a $41.1 million increase in net assets in FY2005, total revenues were $135.1 million or 25% less than compared to FY2004. This was due primarily to decreases in revenue from the Headlease and capital grants, which reflect a lower level of reimbursements.

**Comparison of Business-Type Activity Revenue for FY2005 and FY2004**

| (In thousands) | 2005 | 2004 | Change Amount | Change Percent |
|---|---|---|---|---|
| Charges for services | $ 34,692 | $ 33,421 | $ 1,271 | 3.8% |
| Operating grants | 113,925 | 111,577 | 2,348 | 2.1% |
| Capital grants | 96,860 | 217,053 | (120,193) | -55.4% |
| Sales tax revenue | 145,008 | 138,917 | 6,091 | 4.4% |
| Investment income | 11,206 | 6,382 | 4,824 | 75.6% |
| Other income including special items | 2,628 | 32,101 | (29,473) | -91.8% |
| TOTAL | $ 404,319 | $ 539,451 | $ (135,132) | -25.0% |

- Business-type activity (Transit Operations) net assets were $2.1 billion. Approximately $1.9 billion of the net assets was invested in capital assets net of related debt.

- Charges for services, 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, were up $1.3 million (3.8%) compared to FY2004.

- Operating grants include the one-quarter of one percent of state sales tax from the California Transportation Development Act (TDA), State Transit Assistance (STA) funding, federal grants converted to operating assistance under the Federal Transit Administration Preventative Maintenance Program, State license fees (AB434), and federal planning grants. In FY2005, they increased by $2.3 million or 2.1% to $113.9 million.

- The half-cent local sales tax and the quarter-cent state sales tax (TDA) are driven by the local economy and are the two most important income sources to VTA for funding operations. During FY2005, half-cent sales tax revenue increased by 4.4% ($6.1 million). This is the second year in the last four that VTA experienced an increase in sales tax dollars. In FY2002 and FY2003, VTA experienced large declines in sales tax revenue due to significant reductions in taxable sales within the County (primarily business-to-business transactions). TDA funds rose by $2.1 million (3.2%) to $67.1 million in FY2005. STA funds, which are allocated to VTA from the State sales tax on gasoline and diesel fuel, increased by approximately $2.9 million (64.9%) to a total of $7.3 million.

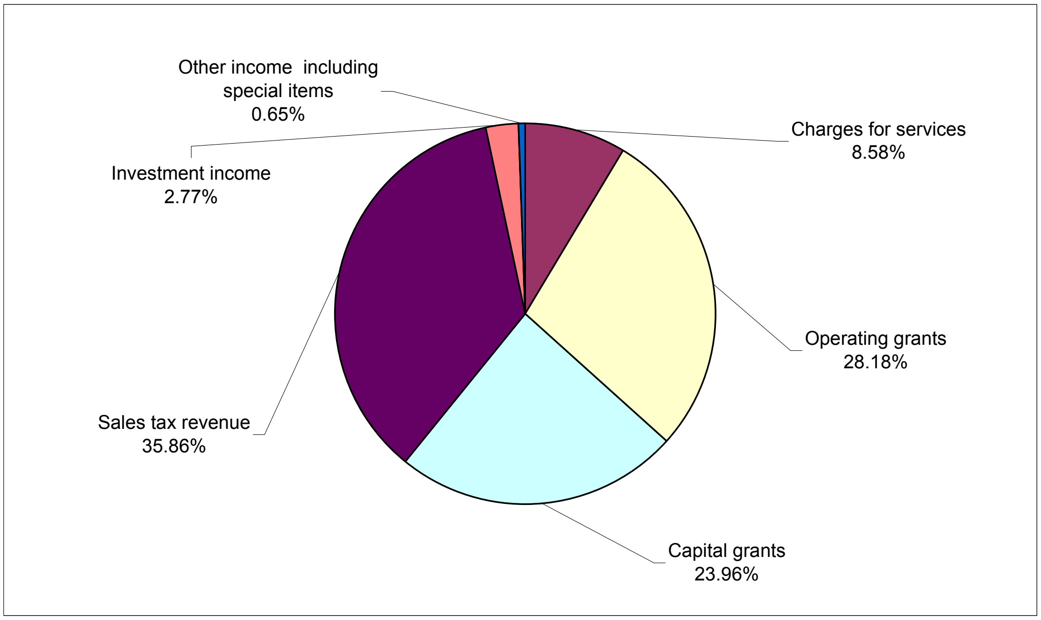
- Capital grants decreased $120.2 million or 55.4% compared to FY2004. The decrease is a result of VTA's completion of the Tasman East extension and the Capitol Corridor light rail projects. Federal grant project revenues were $16.3 million, state capital grants were $17 million, 1996 Measure B funding consisted of $45.8 million in revenue, and local contributions totaled $17.8 million.

- Investment income increased $4.8 million or 75.6% compared to FY2004 due primarily to increases in trading gains and the Measure A investment earnings.

- Other income including special items decreased by $29.5 million (91.8%) compared to FY2004 due primarily to the revenues from Headlease in FY2004 which did not occur in FY2005.

- Loss from sublease of vehicles appearing as Special Item in the Statement of Activities is the result of the capital lease of Urban Transportation Development Corporation (UTDC) vehicles to Sacramento Regional Transit (RT) and Utah. In FY2005, the $7.8 million loss was a result of the difference between the revenue received in the amount of $2.3 million and net book value of the 15 subleased vehicles in the amount of $10.1 million.

Revenues By Source – Business-type Activity




**Comparison of Business-Type Activity Expenses for FY 2005 and FY2004**

| (In thousands) | 2005 | 2004 | Change Amount | Change Percent |
|---|---|---|---|---|
| Operations and operating projects | $ 300,430 | $ 286,098 | $ 14,332 | 5.0% |
| Caltrain subsidy& capital contribution | 14,112 | 16,805 | (2,693) | -16.0% |
| Altamont Commuter Express subsidy | 2,470 | 2,391 | 79 | 3.3% |
| Interest expense | 13,761 | 13,691 | 70 | 0.5% |
| Other non-operating expenses including special items | 11,089 | 18,940 | (7,851) | -41.5% |
| Benefit payments | 21,370 | 14,816 | 6,554 | 44.2% |
| TOTALS | $ 363,232 | $ 352,741 | $ 10,491 | 3.0% |

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

Expenses in FY2005 increased by $10.5 million or 3% compared to the prior fiscal year. Although there was an increase in fringe benefits, labor costs decreased by approximately $6.6 million. This was due partly to the renegotiation of the wages and benefit packages with employee bargaining units and the more efficient use of personnel resources. 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 was 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-bidding of many service contracts.

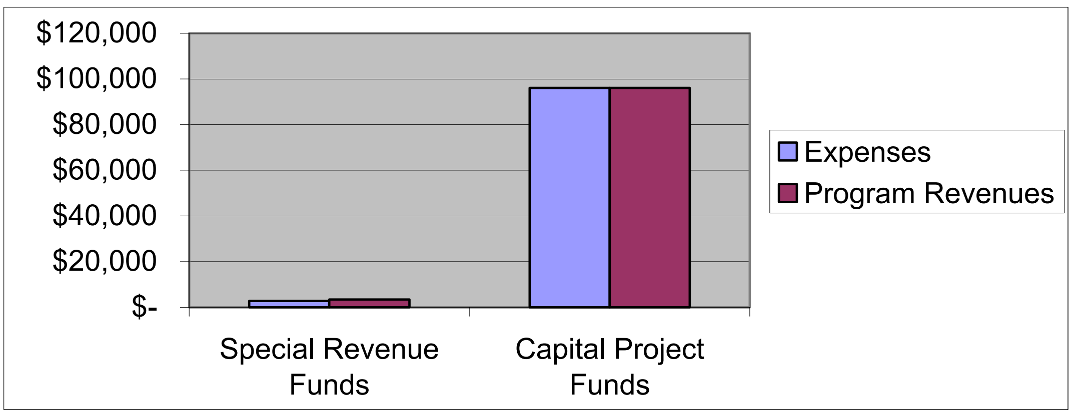
**Governmental activity.** The governmental activity net assets were increased by $479 thousand in FY2005, with an ending balance of $2.2 million. Elements of this increase are as follows:

- Although there was an increase in the Congestion Management Program's salaries and benefits expense during FY2005 of approximately $444 thousand or 25.9%, there was a decrease in capital projects for the benefit of other agencies of $21.1 million due to completion or nearing completion of certain highway projects such as the Route 880 Widening, Routes 85/101 North Interchange, and Route 85 Noise Mitigation. This contributed to the increase in governmental activity net assets.

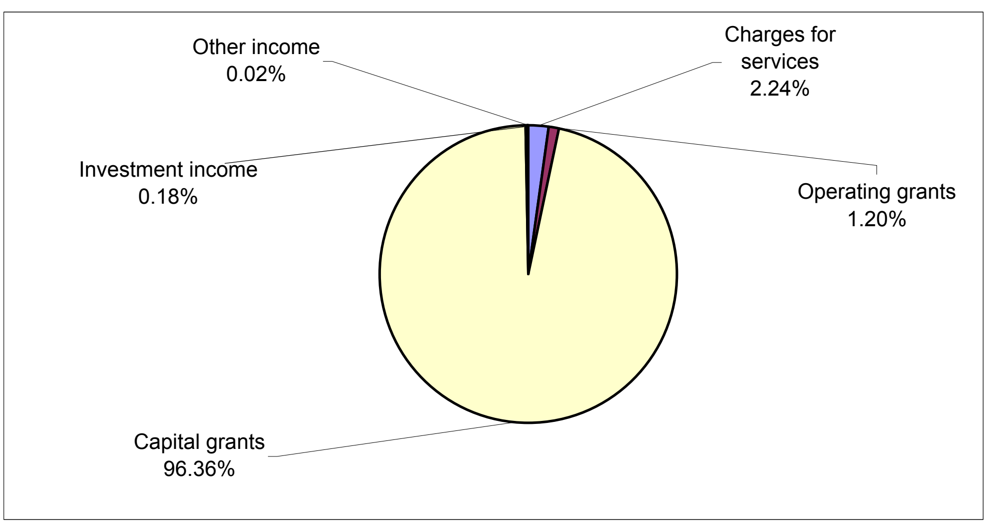
- Total grants received decreased by $19.6 million (16.8%) compared to FY2004, but coupled with the decrease in capital project related expenses for the benefit of other agencies, revenues remained higher than expenses. Total grants received in FY2005 decreased due to the completion or nearing completion of major capital projects such as the Capitol and Vasona light rail lines.

**Expenses and Program Revenues – Governmental Activity**

(In thousands)




Revenues By Source – Governmental Activity



**Financial Analysis of VTA's Funds**

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

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

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

VTA uses the Enterprise Fund to account for its transit service operation. For FY2005, operating revenues were $34.7 million, up $1.3 million or 3.8% from prior fiscal year resulting from higher ridership in its transit service. Operating expenses were $20.8 million higher than FY2004. Net non-operating revenues totaled $233.6 million during this fiscal year. Total Enterprise Fund net assets were $2.0 billion, an increase of $25.1 million compared to FY2004.

***Internal service fund.*** VTA also maintains the Internal Service Fund which has been set up to account for the activities related to Retiree Health, Workers' Compensation, General Liability, and Compensated Absences. The cost of these activities are accounted for in this fund and then charged to other VTA funds. As of June 30, 2005, total net assets for this fund were $77.4 million which reflect an increase of $15.9 million over prior fiscal year.

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

***Special revenue fund.*** This fund accounts for the activities of the Congestion Management Agency and the Traffic Authority. Total fund revenues which mainly include member assessments and federal grants were $3.4 million in FY2005, $1.1 million higher than FY2004. Total expenses were $2.8 million with ending fund balance of $2.4 million.

***Capital project fund***. This fund accounts for VTA's two major capital programs – Congestion Management Highway Program and Measure B Highway Program. As of June 30, 2005, total revenues were $95.8 million which reflect the total amount expended on the projects and billed to other governmental agencies. The fund's ending balance is $(0.3) million due to revenue deferral.

## Capital Assets and Debt Administration

**Capital assets.** VTA's investment in capital assets for its business-type activity as of June 30, 2005, amounts to $2.5 billion net of accumulated depreciation. VTA has no capital assets invested in the governmental activities. This investment in capital assets includes: Land and Right-of-Way, Buildings, Improvements, Equipment & Furniture, Vehicles, the Caltrain-Gilroy Extension, Light Rail Tracks/Electrification, and Other Operating Equipment. The total net increase in VTA's capital assets for the current fiscal year was 7.1%.

Some of the significant changes in the capital assets during FY2005 are as follows:

- Acquisition of 77 Kinkisharyo light rail vehicles
- Leasing of 15 UTDC light rail cars
- $41.3 million capital expenditures on Vasona Corridor Light Rail Projects which are expected to be placed into revenue service by the second quarter of FY2006
- $106.9 million capital expenditures on the Silicon Valley Rapid Transit Corridor Project (BART) relating to right-of-way acquisitions and conceptual/preliminary engineering and design.

### Capital Assets

| | Business-type Activity | |
|---|---|---|
| (In thousands) | 2005 | 2004 |
| Land and Right-of-way | $ 761,818 | $ 747,679 |
| Construction in Progress | 775,711 | 690,853 |
| Buildings & Improvements Equipment & Furniture | 211,901 | 221,544 |
| Vehicles | 386,054 | 282,789 |
| Caltrain-Gilroy Extension | 46,082 | 46,585 |
| Light Rail Tracks/Electrification | 275,929 | 301,925 |
| Other Operating Equipment | 12,879 | 15,208 |
| Total | $ 2,470,374 | $ 2,306,583 |

VTA has outstanding commitments of $119.2 million as of June 30, 2005, related to the capital projects below.

**Outstanding Capital Commitments**

| (In thousands) | | |
|---|---|---|
| Caltrain Service Improvements | $ | 2,497 |
| Capital Corridor Projects | | 690 |
| Coach & Vehicles Replacement | | 933 |
| Facilities Modifications | | 25,015 |
| Guadalupe Corridor | | 325 |
| New Rail Projects | | 3,510 |
| Software Development | | 71 |
| Study Projects | | 6,490 |
| Silicon Valley Rapid Transit Corridor | | 71,445 |
| Tasman Corridor Project Extensions | | 1,362 |
| Vasona Corridor Projects | | 6,897 |
| | $ | 119,235 |

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

**Long-term debt.** At the end of the current fiscal year, VTA had total bonded debt outstanding of $708.7 million. Of this amount, $390 million represents bonds secured solely by the 2000 Measure A Sales Tax, which begins April 1, 2006.

**Outstanding Debt**

| | Business-type activity | |
|---|---|---|
| (In thousands) | 2005 | 2004 |
| Jr. Lien Sales Tax Revenue Bonds | $ 80,100 | $ 82,410 |
| Sr. Lien Sales Tax Revenue Bonds (1976 Tax) | 208,658 | 215,005 |
| Sr. Lien Sales Tax Revenue Bonds (2000 Tax) | 390,309 | 250,042 |
| Equipment Trust Certificates | 29,660 | 29,660 |
| Total | $ 708,727 | $ 577,117 |

VTA maintains an "AA" rating from Standard & Poor's (S&P), an "A" rating from Fitch, and an "Aa3" rating from Moody's for its Senior Lien Sales Revenue Bonds secured by 1976 sales tax.

The ratings for the Senior Lien Sales Tax Revenue Bonds secured by the 2000 Measure A sales tax are "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 VTA's long-term debt can be found in note 7 starting on page 2-40 of this report.

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

The following factors were considered in preparing VTA's budget for FY2006:

- An increase of 1.6 million riders.
- No fare increases.
- An outlook for sales tax growth of 4.8%.
- Decrease of STA of 17%.
- Maximum use of FTA Section 5307 preventative maintenance grants.
- An investment earning rate of 3%.
- Measure A repayment of $14.5 million used to reimburse the 2001 obligation bonds debt services.
- Increases of service miles of 3.8% and hours of 2.7% due to the anticipated inauguration of service on the Vasona light rail line.
- A 2.6% inflation rate for Santa Clara County.

The recommended FY2006 Capital Budget recommends the following capital projects:

- Caltrain Capital Contribution
- SAP (Financial Software System) Upgrade
- TransLink® TVM Integration
- Rail Replacement and Rehabilitation
- Facilities and Equipment Emergency Repair Allowance
- Maintenance Equipment Replacement Program
- Bus Signal Priority
- Chaboya Bus Wash Rehabilitation and Detail Area
- Pavement Management Program
- Roofing Management Program
- Painting Management Program
- HVAC Scheduled Replacement Program
- Bus Stop Improvement Program
- Transit Enhancement Projects
- Community Buses

**Requests for Information**

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

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**
Statement of Net Assets
June 30, 2005
(In thousands)

| | Business-Type Activity | Governmental Activity | Total |
|---|---|---|---|
| ASSETS | | | |
| Cash and investments | $ 185,925 | $ 3,352 | $ 189,277 |
| Receivables, net | 7,057 | - | 7,057 |
| Internal balances | 736 | (736) | - |
| Due from ATU Pension Trust Fund | 807 | - | 807 |
| Due from other governmental agencies | 67,506 | 510 | 68,016 |
| Inventories | 18,713 | - | 18,713 |
| Other current assets | 391 | - | 391 |
| Restricted assets: | | | |
| Cash and investments | 195,630 | 7,414 | 203,044 |
| Receivables, net | 583 | - | 583 |
| Due from other governmental agencies | 11,123 | 25,640 | 36,763 |
| Deferred charges | 16,161 | - | 16,161 |
| Capital assets: | | | |
| Nondepreciable | 1,537,529 | - | 1,537,529 |
| Depreciable, net of accumulated depreciation | 932,845 | - | 932,845 |
| Total assets | 2,975,006 | 36,180 | 3,011,186 |
| LIABILITIES | | | |
| Accounts payable | 11,845 | 79 | 11,924 |
| Other accrued liabilities | 11,974 | 80 | 12,054 |
| Due to other governmental agencies | 4,283 | - | 4,283 |
| Unearned revenue | - | 1,408 | 1,408 |
| Liabilities payable from restricted assets: | | | |
| Accounts payable | 20,885 | 15,773 | 36,658 |
| Other accrued liabilities | 6,002 | 653 | 6,655 |
| Due to other government agencies | 11,209 | 16,003 | 27,212 |
| Long-term debt payable from restricted assets | 124,755 | - | 124,755 |
| Long-term liabilities: | | | |
| Due within one year | 25,927 | - | 25,927 |
| Due in more than one year | 635,240 | - | 635,240 |
| Total liabilities | 852,120 | 33,996 | 886,116 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 1,867,513 | - | 1,867,513 |
| Restricted for capital projects | 44,400 | - | 44,400 |
| Unrestricted | 210,973 | 2,184 | 213,157 |
| Total net assets | $ 2,122,886 | $ 2,184 | $ 2,125,070 |



See accompanying notes to basic financial statements

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**
Statement of Activities
For the Year Ended June 30, 2005
(In thousands)

| | Business-Type Activity: Transit | Governmental Activity: Congestion Management | Total |
|---|---|---|---|
| Expenses: | | | |
| Operations and operating projects | $ 300,430 | $ 4,735 | $ 305,165 |
| Caltrain subsidy | 14,112 | - | 14,112 |
| Altamont Commuter Express subsidy | 2,470 | - | 2,470 |
| Interest expense | 13,761 | - | 13,761 |
| Other non-operating expenses | 3,316 | - | 3,316 |
| Benefit payments | 21,370 | - | 21,370 |
| Capital projects for the benefit of other agencies | - | 94,146 | 94,146 |
| Total expenses | 355,459 | 98,881 | 454,340 |
| Program revenues: | | | |
| Charges for services | 34,692 | 2,231 | 36,923 |
| Operating grants | 113,925 | 1,190 | 115,115 |
| Capital grants | 96,860 | 95,746 | 192,606 |
| Total program revenues | 245,477 | 99,167 | 344,644 |
| Net program revenue (expense) | (109,982) | 286 | (109,696) |
| General revenues: | | | |
| Sales tax revenue | 145,008 | - | 145,008 |
| Investment income | 11,206 | 174 | 11,380 |
| Other income | 2,628 | 19 | 2,647 |
| Total general revenues | 158,842 | 193 | 159,035 |
| Special item: | | | |
| Loss from sublease of vehicles | (7,773) | - | (7,773) |
| Change in net assets | 41,087 | 479 | 41,566 |
| Net assets beginning of year | 2,081,799 | 1,705 | 2,083,504 |
| Net assets, end of year | $ 2,122,886 | $ 2,184 | $ 2,125,070 |

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**

Statement of Fund Net Assets

Proprietary Funds (Business-type Activity)

June 30, 2005

(In thousands)

| | Enterprise Fund | Internal Service Fund |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 484 | $ 393 |
| Investments | 31,278 | 153,770 |
| Receivables, net | 6,644 | 413 |
| Due from other funds | 1,628 | - |
| Due from other governmental agencies | 67,506 | - |
| Inventories | 18,713 | - |
| Other current assets | 391 | - |
| Restricted assets: | | |
| Cash and cash equivalents | 6,580 | - |
| Cash and cash equivalents with fiscal agents | 146,094 | - |
| Investments | 42,956 | - |
| Receivables | 583 | - |
| Due from other governmental agencies | 11,123 | - |
| Total current assets | 333,980 | 154,576 |
| Noncurrent assets: | | |
| Deferred charges | 16,161 | - |
| Capital Assets: | | |
| Non-depreciable: | | |
| Land and right of way | 761,818 | - |
| Construction in progress | 775,711 | - |
| Depreciable: | | |
| CalTrain - Gilroy extension | 52,990 | - |
| Buildings, improvements, furniture, and fixtures | 340,546 | - |
| Vehicles | 480,174 | - |
| Light-rail tracks and electrification | 365,505 | - |
| Other | 28,830 | - |
| Less accumulated depreciation | (335,200) | - |
| Net capital assets | 2,470,374 | - |
| Total assets | 2,820,515 | 154,576 |



See accompanying notes to basic financial statements

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**
Statement of Fund Net Assets (Continued)
Proprietary Funds (Business-type Activity)
June 30, 2005
(In thousands)

| | | |
|---|---|---|
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | $ 11,845 | $ - |
| Other accrued liabilities | 11,951 | 16,244 |
| Due to other governmental agencies | 4,283 | - |
| Current portion of long-term debt | 9,683 | - |
| Liabilities payable from restricted assets: | | |
| Accounts payable | 20,885 | - |
| Other accrued liabilities | 6,002 | - |
| Due to other funds | 85 | - |
| Due to other governmental agencies | 11,209 | - |
| Long term debt, excluding current portion | 124,755 | - |
| Total current liabilities | 200,698 | 16,244 |
| Non-current liabilities: | | |
| Long-term debt, excluding current portion | 574,289 | - |
| Other accrued liabilities | 23 | 60,951 |
| Total non-current liabilities | 574,312 | 60,951 |
| Total liabilities | 775,010 | 77,195 |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 1,867,513 | - |
| Restricted for capital projects | 44,400 | - |
| Unrestricted | 133,592 | 77,381 |
| Total net assets | $ 2,045,505 | $ 77,381 |

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

| | |
|---|---|
| Net assets of Enterprise Fund | $ 2,045,505 |
| Net assets of Internal Service Fund, which benefits Business-type Activity | 77,381 |
| Net Assets (page 2-15) | $ 2,122,886 |

**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, 2005

(In thousands)

| | Enterprise Fund | Internal Service Fund |
|---|---|---|
| Operating revenues: | | |
| Passenger fares | $ 32,061 | $ - |
| Advertising and other | 2,631 | - |
| Charges for services | - | 34,852 |
| Total operating revenues | 34,692 | 34,852 |
| Operating expense: | | |
| Labor cost | 229,323 | |
| Materials and supplies | 19,996 | - |
| Services | 18,226 | - |
| Utilities | 5,795 | - |
| Casualty and liability | 3,763 | - |
| Purchased transportation | 25,538 | - |
| Leases and rentals | 580 | - |
| Miscellaneous | 1,773 | 3,077 |
| Depreciation expense | 56,557 | - |
| Costs allocated to capital and other programs | (29,346) | - |
| Benefit payments | - | 21,370 |
| Total operating expense | 332,205 | 24,447 |
| Operating income/(loss) | (297,513) | 10,405 |
| Non-operating revenues (expenses): | | |
| Sales tax revenue | 145,008 | - |
| Federal operating assistance grants | 34,416 | - |
| State and local operating assistance grants | 79,509 | - |
| CalTrain subsidy | (14,112) | - |
| Altamont Commuter Express subsidy | (2,470) | - |
| Investment earnings | 5,666 | 5,540 |
| Interest expense | (13,761) | - |
| Other income | 2,628 | - |
| Other expense | (3,316) | - |
| Non-operating revenues, net | 233,568 | 5,540 |
| Change in net assets before capital contributions and special item | (63,945) | 15,945 |
| Capital contributions | 96,860 | - |
| Special item: | | |
| Loss from sublease of vehicles | (7,773) | - |
| Change in net assets | 25,142 | 15,945 |
| Net assets, beginning of year | 2,020,363 | 61,436 |
| Net assets, end of year | $ 2,045,505 | $ 77,381 |

| | |
|---|---|
| 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 | $ 25,142 |
| Change in net assets of the Internal Service Fund, which benefits Business-type Activity | 15,945 |
| Change in net assets of the Business-type Activity (page 2-16) | $ 41,087 |



See accompanying notes to basic financial statements

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**
Statement of Cash Flows
Proprietary Funds (Business-type Activity)
For the Year Ended June 30, 2005
(In thousands)

| | Enterprise Fund | Internal Service Fund |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from passenger fares | $ 28,318 | $ - |
| Cash received from advertising | 2,631 | - |
| Cash paid to employees | (199,980) | - |
| Cash paid to suppliers | (67,632) | - |
| Cash paid for purchased transportation | (25,538) | - |
| Cash received from contributions | - | 34,853 |
| Payments made to beneficiaries | - | (17,897) |
| Payments made to third party contractors | - | (3,077) |
| Net cash provided by/(used in) operating activities | (262,201) | 13,979 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Operating grants received | 113,925 | - |
| Sales tax received | 143,784 | - |
| Caltrain subsidy and contribution | (14,112) | - |
| Altamont Commuter Express subsidy | (2,470) | - |
| Receipts for services provided to other agencies | 2,630 | - |
| Contributions to other agencies | (12,101) | - |
| Net cash provided by noncapital financing activities | 231,656 | - |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Payment of long-term debt | (9,290) | - |
| Proceeds from issuance of bonds | 140,900 | - |
| Interest paid on long-term debt | (13,762) | - |
| Cost of bond issuance | (985) | - |
| Acquisition and construction of capital assets | (228,782) | - |
| Capital contribution from other governments | 106,674 | - |
| Proceeds from sale of capital assets | 224 | - |
| Proceeds from sublease of vehicles | 2,290 | - |
| Net cash used in capital and related financing activities | (2,731) | - |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale of investments | 667,584 | 13,530 |
| Purchases in investments | (669,989) | (33,643) |
| Interest income received | 1,091 | 4,843 |
| Net cash used in investing activities | (1,314) | (15,270) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (34,590) | (1,291) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 187,748 | 1,784 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | $ 153,158 | $ 493 |

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**
Statement of Cash Flows (Continued)
Proprietary Funds (Business-type Activity)
For the Year Ended June 30, 2005
(In thousands)

| | Enterprise Fund | Internal Service Fund |
|---|---|---|
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES: | | |
| Operating income/(loss) | $ (297,513) | $ 10,405 |
| Adjustments to reconcile operating income (loss) to net cash used in operating activities: | | |
| Depreciation | 56,557 | - |
| Changes in operating assets and liabilities: | | |
| Receivables | (3,743) | - |
| Inventories | 6,230 | - |
| Accounts payable | (12,445) | - |
| Other accrued liabilities | (3,542) | 3,474 |
| Due to other funds | (7,745) | - |
| Net cash provided by/(used in) operating activities | $ (262,201) | $ 13,879 |
| Reconciliation of cash and cash equivalents to the Statement of Fund Net Assets: | | |
| Cash and cash equivalents, end of year: | | |
| Unrestricted | $ 484 | $ 393 |
| Restricted | 152,674 | - |
| | $ 153,158 | $ 393 |
| NONCASH INVESTING ACTIVITIES: | | |
| Increase/(Decrease) in fair value of investments | $ 464 | $ (388) |
| OTHER NONCASH ACTIVITIES: | | |
| Net book value of subleased vehicles | $ 10,063 | $ - |



See accompanying notes to basic financial statements

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**
Balance Sheet
Governmental Funds
June 30, 2005
(In thousands)

| | Special Revenue Fund | Capital Projects Funds | | |
|---|---|---|---|---|
| | Congestion Management Program | Congestion Management & Highway Program | Measure B Highway Program | Total |
| ASSETS | | | | |
| Investments | $ 3,352 | $ - | $ - | $ 3,352 |
| Due from other funds | 147 | - | - | 147 |
| Due from other governmental agencies | 510 | - | - | 510 |
| Restricted assets: | | | | |
| Cash and cash equivalents | - | 3,683 | - | 3,683 |
| Cash and investments with fiscal agent | - | - | 3,731 | 3,731 |
| Due from other governmental agencies | - | 19,463 | 6,177 | 25,640 |
| Total assets | $ 4,009 | $ 23,146 | $ 9,908 | $ 37,063 |
| LIABILITIES | | | | |
| Accounts payable | $ 79 | $ - | $ - | $ 79 |
| Other accrued liabilities | 80 | - | - | 80 |
| Deferred revenue | 1,499 | - | - | 1,499 |
| Liabilities payable from restricted assets: | | | | |
| Accounts payable | - | 6,885 | 8,888 | 15,773 |
| Other accrued liabilities-current | - | 258 | 395 | 653 |
| Due to other funds | - | 373 | 510 | 883 |
| Due to other governmental agencies | - | 15,888 | 115 | 16,003 |
| Total liabilities | 1,658 | 23,404 | 9,908 | 34,970 |
| FUND BALANCES (DEFICIT) | | | | |
| Unreserved, reported in special revenue fund | 2,351 | - | - | 2,351 |
| Unreserved deficit | - | (258) | - | (258) |
| Total fund balances (deficit) | 2,351 | (258) | - | 2,093 |
| Total liablities and fund balances (deficit) | $ 4,009 | $ 23,146 | $ 9,908 | $ 37,063 |

| | |
|---|---|
| Reconciliation of the Balance Sheet to the Statement of Net Assets: | |
| Fund balance of Governmental Funds | $ 2,093 |
| Revenues not received within the availability period are deferred. | 91 |
| Net Assets (page 2-16) | $ 2,184 |

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2005
(In thousands)

| | Special Revenue Funds | | Capital Projects Funds | | |
|---|---|---|---|---|---|
| | Congestion Management Program | Non-major Traffic Authority | Congestion Management & Highway Program | Measure B Highway Program | Total |
| REVENUES: | | | | | |
| Member agency assessment revenue | $ 2,174 | $ - | $ - | $ - | $ 2,174 |
| Federal technical studies operating assistance grants | 1,036 | - | - | - | 1,036 |
| Administrative fees | 57 | - | - | - | 57 |
| State operating assistance grants | 63 | - | - | - | 63 |
| Local grant revenue | - | - | 45,157 | 50,589 | 95,746 |
| Other revenues | 19 | - | - | - | 19 |
| Investment earnings | 95 | 2 | 77 | - | 174 |
| Total revenues | 3,444 | 2 | 45,234 | 50,589 | 99,269 |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| Congestion management: | | | | | |
| Salaries and benefits | 2,160 | - | 2,017 | - | 4,177 |
| Services | 638 | 2 | - | - | 640 |
| Capital outlay: | | | | | - |
| Capital improvement projects | - | | 43,475 | 50,589 | 94,064 |
| Total expenditures | 2,798 | 2 | 45,492 | 50,589 | 98,881 |
| Excess (deficiency) of revenues over (under) expenditures | 646 | - | (258) | - | 388 |
| OTHER FINANCING SOURCES (USES): | | | | | |
| Transfer in | 86 | - | - | - | 86 |
| Transfer out | - | (86) | - | - | (86) |
| Total other financing sources (uses) | 86 | (86) | - | - | - |
| NET CHANGE IN FUND BALANCES | 732 | - | (258) | - | 388 |
| FUND BALANCES, BEGINNING OF YEAR | 1,619 | 86 | - | - | 1,705 |
| FUND BALANCES (DEFICIT), END OF YEAR | $ 2,351 | $ - | $ (258) | $ - | $ 2,093 |

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

| | |
|---|---|
| Change in net fund balances of the Governmental Funds | $ 388 |
| Revenues that do not provide current financial resources are not reported as revenues in the funds. | 91 |
| Change in net assets of the Governmental Activity (page 2-16) | $ 479 |



See accompanying notes to basic financial statements

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005
(In thousands)

| | Pension Trust Funds | Agency Funds |
|---|---|---|
| **ASSETS** | | |
| Restricted assets: | | |
| Investments | $ 290,297 | $ 8,428 |
| Cash with fiscal agent | - | 1,008 |
| Receivables | 999 | - |
| Total assets | 291,296 | 9,436 |
| **LIABILITIES** | | |
| Liabilities payable from restricted assets: | | |
| Accounts payable | 88 | 5,779 |
| Due to other funds | 807 | - |
| Due to other governmental agencies | - | 3,657 |
| Total liabilities | 895 | 9,436 |
| **NET ASSETS** | | |
| Net assets held in trust for: | | |
| Pension benefits | 279,719 | |
| Spousal medical benefits | 8,380 | |
| Retiree dental and vision benefits | 2,302 | |
| Total net assets | $ 290,401 | |

**SANTA CLARA VALLEY TRANSPORTATION AGENCY**

Statement of Changes in Fiduciary Net Assets

Pension Trust Funds

For the Year Ended June 30, 2005

(In thousands)

| | | |
|---|---|---|
| ADDITIONS | | |
| Contributions | $ | 15,507 |
| Investment earnings: | | |
| Investment income | | 7,176 |
| Net appreciation in the fair value of investments | | 17,354 |
| Investment expense | | (1,039) |
| Net investment income | | 23,491 |
| Total additions | | 38,998 |
| DEDUCTIONS | | |
| Benefit payments | | 14,847 |
| Administrative and other payments | | 120 |
| Total deductions | | 14,967 |
| Net increase | | 24,031 |
| NET ASSETS HELD IN TRUST | | |
| Beginning of year | | 266,370 |
| End of year | $ | 290,401 |



See accompanying notes to basic financial statements

## NOTE 1 – THE FINANCIAL REPORTING ENTITY

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

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

The Santa Clara 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 were principally reserved for highway improvements in the County. The Measure A improvement projects mainly consisted 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. In FY2005, the Traffic Authority fund was closed and the remaining reserves were transferred to the Congestion Management Program.

The Santa Clara Valley Transportation Authority Congestion Management Program (CMP) was created in 1990 in response to Proposition 111. The CMP is not legally separate from VTA. The CMP is responsible for development and implementation of the Valley Transportation Plan 2030 (VTP2030), the long-range transportation and land use plan for the County, and for preparing and implementing the State-mandated Congestion Management Program. It is also responsible for the programming and oversight of discretionary federal, State and local funds, and for serving as the program manager for certain county-wide grant funds, including the Transportation Fund for Clean Air (TFCA) and the County's Measure B Transportation Improvement Program's (MBTIP) Ancillary Program. Annual contributions from each member agency are based on a formula adopted by VTA's governing board. The contribution formula considers each member agency's share of Proposition 111, State gas tax monies, as well as employment within the County. The CMP is included as a major governmental fund in the accompanying basic financial statements.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *(a) Basis of Presentation*

*Government-wide Financial Statements*

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

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

*Fund Financial Statements*

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

VTA reports the following major funds:

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

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

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

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

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

VTA reports the following additional funds:

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

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

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

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

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

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Interest, certain State and federal grants, and charges for services are accrued if their receipt occurs within 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 Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements, as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board or any Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes accounting principles generally accepted in the United States of America (GAAP) for governmental units. VTA has elected not to follow subsequent private-sector guidance of FASB after November 30, 1989.

### *(c) Cash and Investments*

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

The remaining cash balances in certain VTA funds are 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 the local agency investment fund (LAIF) which is quarterly) to the appropriate fund(s) based on their average daily balances.

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

VTA has reported its investments at fair value based on quoted market information obtained from 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 total 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 and operating, as well as debt service.

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

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

***(g) Capital Assets***

It is VTA's policy that assets with a value of $5,000 or more, and a useful life beyond one year are capitalized, included in the capital asset accounting system and depreciated accordingly. Property, facilities, and equipment are stated at historical cost. The cost of normal maintenance and repairs is charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related 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 13 years |
| Light-rail tracks, electrification and light-rail vehicles | 25 to 45 years |
| Other operating equipment | 5 to 10 years |

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

Interest is capitalized on construction in progress. Accordingly, interest capitalized is the total interest cost from the date of the borrowing until the specified asset is ready for its intended use. In the current year, VTA capitalized total interest expense of $13.3 million relating to the BART and Downtown East Valley projects.

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

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

***(i) Self-Insurance***

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

***(j) Net Assets***

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

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

### *(k) Cost Allocated to Capital and Other Programs*

On the Statement of Revenues, Expenses and Changes in Fund Net Assets, the Enterprise Fund reports $29.3 million as costs allocated to capital and other programs. This amount represents a credit for direct and indirect labor and associated fringe benefits, reproduction and mileage costs, and other costs that were capitalized as construction in progress.

### *(l) Estimates*

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

### *(m) GASB 40 and Future Pronouncements*

During FY2005, VTA implemented the Government Accounting Standard Board (GASB) Statement Number 40 – *Deposit and Investment Risk Disclosures* which modifies and expands existing disclosure requirements for deposits and investments. In addition, GASB has issued two pronouncements which will be effective in FY2006. GASB Statement No. 44, *Economical Condition Reporting: The Statistical Section*, which provides guidance on the tables and narrative explanations in the statistical section. GASB Statement No. 42, *"Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries."* This Statement establishes accounting and financial reporting standards for impairment of capital assets. As required by GASB, VTA will implement both Statement No. 42 and 44 during FY2006.

### *(n) Special Items*

Special items are significant items subject to management's control that are unusual in nature or infrequent in occurrence or not reasonably expected to occur in the foreseeable future taking into account the environment in which the entity operates. The loss from sublease of vehicles is reported as a special item in the Enterprise Fund financial statements as the sublease of the light rail vehicles are considered unusual for VTA (i.e., only incidentally related to its ordinary and typical activities), even though it would not be unreasonable to expect a similar transaction sometime in the future.

## NOTE 3 - CASH AND INVESTMENTS

Total cash and investments as of June 30, 2005, are reported in the accompanying basic financial statements as follows (in thousands):

| | Business-type Activity | | Governmental Activity | Fiduciary Funds | | |
|---|---|---|---|---|---|---|
| | Enterprise Fund | Internal Service Fund | Governmental Funds | Pension Trust Funds | Agency Funds | Total |
| Unrestricted: | | | | | | |
| Cash and cash equivalents | $ 484 | $ 393 | $ - | $ - | $ - | $ 877 |
| Investments | 31,278 | 153,770 | 3,352 | - | - | 188,400 |
| Total unrestricted | 31,762 | 154,163 | 3,352 | - | - | 189,277 |
| Restricted: | | | | | | |
| Cash and cash equivalents | 6,580 | - | 3,683 | - | - | 10,263 |
| Cash and cash equivalents with fiscal agents | 146,094 | - | 3,731 | - | 1,008 | 150,833 |
| Investments | 42,956 | - | - | 290,297 | 8,428 | 341,681 |
| Total restricted | 195,630 | - | 7,414 | 290,297 | 9,436 | 502,777 |
| Total cash and investments | $ 227,392 | $ 154,163 | $ 10,766 | $ 290,297 | $ 9,436 | $ 692,054 |

As of June 30, 2005, total cash and investments among all funds consisted of the following (in thousands):

| | |
|---|---|
| Cash and equivalents | $ 11,140 |
| Cash and cash equivalents with fiscal agents | 150,833 |
| Investments | 530,081 |
| | $ 692,054 |

***Cash and Equivalents***

VTA maintains checking accounts for unrestricted operations, the Congestion Management and Highway Programs (CM&HP) and the Measure B Transportation Improvement Program (Measure B account). These checking accounts earn interest based on the bank's monthly sweep average repurchase agreement rate. At June 30, 2005, the carrying amount of these cash balances are shown below (in thousands):

| | |
|---|---|
| Unrestricted operations account | $ 877 |
| CM&HP account | 3,683 |
| Measure B account (Enterprise Fund) | 6,580 |
| Total deposits | $ 11,140 |

***Investments***

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

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

Specific restrictions of investment are noted below:

VTA's investment policies (Unrestricted/Restricted Funds and ATU Pension Plan) conform to State statutes, and provide written investment guidance regarding the types of investments that may be made and amounts which may be invested in any one financial institution or amounts which may be invested in any one long-term instrument. VTA's permissible investments included deposits with the County Treasurer in a commingled account, obligations of the U.S. Treasury, U.S. government agencies, Local Agency Investment Funds (LAIF), certificates of deposit, bankers' acceptances, commercial paper, and repurchase and reverse repurchase agreements. The ATU pension plan's asset allocation includes investments in bonds, equity securities, and cash.

The County Treasury commingled pool is subject to the County's Investment Policy and State law and is reviewed by the County's Investment Committee 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 VTA's position in the pool.

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

VTA's portfolio includes structured notes and asset-backed securities, which are invested directly by VTA and indirectly through LAIF. At June 30, 2005, investment in LAIF is $34.2 million. LAIF is part of the State of California Pooled Money Investment Account (PMIA), whose balance at June 30, 2005 is $60.4 billion. Of that amount, 1.603% is in structured notes and asset-backed securities. None of this amount was invested in derivate instruments. PMIA is not a Securities and Exchange Commission (SEC) registered pool, but it is required to invest in accordance with the guidelines established by the California Government Code. The weighted-average to maturity of the investments in PMIA at June 30, 2005 was 165 days. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of VTA's portion of the pool. Withdrawals from LAIF are completed on a dollar for dollar basis.

Interest rate risk – This is the risk of loss due to the fair value of an investment falling due to interest rates rising. Of VTA's (Unrestricted/Restricted Funds and ATU Pension Plan) $530 million in investments, over 61% of the investments have a maturity of less than 1 year. Of the remainder, only 10% have a maturity of more than 10 years.

Credit risk – VTA is permitted to hold investments in commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record. Negotiable certificates of deposit are restricted to those rated B or better by the Thompson Bankwatch Rating, Inc. rating service. In addition, VTA is permitted to invest in the State's Local Agency Investment Fund, money market and mutual funds that are non-rated.

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

Custodial Credit Risk – Investments – For investments, custodial credit risk is the risk that in the event of a failure of the counter-party, the VTA may not be able to recover the value of its investments. At year-end, VTA did not participate in any repurchase agreements or securities lending that would result in any possible risk in this area.

Concentration of Credit Risk - Concentration of credit risk is the risk that the failure of any one issuer would place an undue financial burden on VTA. Investments issued by or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments are exempt from this requirement, as they are normally diversified themselves. About 37% of VTA's investments at year-end are in U.S. Government or Agencies issues. There is no limitation on amounts invested in these types of issues. Of the 16.6% of the portfolio invested in equities, no investment in a single issuer exceeds 5%. The investments in guaranteed investment contracts includes one agreement with FSA Capital Management Services, in the amount of $82.7 million, which is greater than 5% of the investment portfolio and represents money held by a fiscal agent to pay debt service when due, in accordance with bond indentures.

The schedules on the following pages indicate the interest rate and credit risk at June 30, 2005. Certain investments such as obligations, which are backed by full faith and credit of the United States Treasury, are not subjected to credit rating.

# SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2005

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

| Type of Investment | Maturity: Less than 1 year | 1-5 Years | 6-10 Years | Over 10 Years | Market Value |
|---|---|---|---|---|---|
| Commercial Paper Payden | $ 500 | $ - | $ - | $ - | $ 500 |
| Corporate Bonds – Operations | 5,246 | 28,889 | - | - | 34,135 |
| Corporate Bonds - Pension Plan | - | 3,504 | 9,346 | 12,132 | 24,982 |
| Corporate Bonds - Retiree Health | - | 1,218 | 2,562 | 3,452 | 7,232 |
| US Government Agency Bonds: | | | | | |
| Operations | 14,645 | 26,910 | 2,693 | - | 44,248 |
| Pension Plan | - | 2,456 | 4,645 | 28,682 | 35,783 |
| Retiree Health | 2 | 385 | 1,605 | 8,895 | 10,887 |
| U.S. Treasury: | | | | | |
| Operations | 14,440 | 30,505 | 8,324 | - | 53,269 |
| Pension Plan | 21,441 | 11,451 | 8,747 | - | 41,639 |
| Retiree Health | 2,220 | 6,778 | 1,813 | - | 10,811 |
| SUBTOTAL | 58,494 | 112,096 | 39,735 | 53,161 | 263,486 |
| Money Market Funds - Operations | 4,451 | - | - | - | 4,451 |
| Money Market Funds - Pension | 4,767 | - | - | - | 4,767 |
| Money Market Funds - Retiree | 516 | - | - | - | 516 |
| Cash with Fiscal Agents – Guaranteed Investment Contract | - | 115,059 | - | 7,163 | 122,222 |
| Cash with fiscal agents – Money Market Funds | 10,265 | - | - | - | 10,265 |
| Cash with Fiscal Agent – US Treasuries | 5,816 | - | - | - | 5,816 |
| TOTAL INVESTMENTS with Money Managers | 84,309 | 227,155 | 39,735 | 60,324 | 411,523 |
| LAIF | 34,204 | - | - | - | 34,204 |
| TOTAL INVESTMENTS | $ 118,513 | $ 227,155 | $ 39,735 | $ 60,324 | 445,727 |
| Investment commingled in County Treasury | | | | | 1,838 |
| Equity-based investments | | | | | 222,657 |
| Retention fund at escrow agents (deposits) | | | | | 10,692 |
| Cash deposits | | | | | 11,140 |
| | | | | | $ 692,054 |

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

| Ratings | Fair Value (In Thousands) | Percentage of Portfolio |
|---|---|---|
| AAA | $ 116,950 | 16.90% |
| AA | 1,313 | 0.19% |
| AA- | 3,141 | 0.45% |
| A+ | 9,899 | 1.43% |
| A | 14,721 | 2.13% |
| A-1+ | 4,696 | 0.68% |
| A- | 7,811 | 1.13% |
| BBB+ | 5,972 | 0.86% |
| BBB | 1,390 | 0.20% |
| BBB- | 6,721 | 0.97% |
| BB+ | 2,791 | 0.40% |
| BB | 2,361 | 0.34% |
| Unrated | 158,264 | 22.87% |
| Not Applicable | 356,024 | 51.45% |
| Total | $692,054 | 100.00% |

As of June 30, 2005, the Pension Trust fund's restricted investments consisted of the following (in thousands):

| | |
|---|---|
| ATU Pension Plan investments | $ 279,615 |
| ATU Medical – investment | 10,324 |
| Pooled investments with VTA | 358 |
| Total | $ 290,297 |

## NOTE 4 – INTERFUND TRANSACTIONS

The composition of interfund balances as of June 30, 2005 is as follows (in thousands):

| Due from | Due to | Amount | |
|---|---|---|---|
| VTA Transit | Congestion Management & Highway Program | $ 342 | (a) |
| VTA Transit | Measure B Highway Program | 478 | (a) |
| VTA Transit | Congestion Management & Highway Program | 1 | (a) |
| VTA Transit | ATU Pension Plan | 807 | (b) |
| Congestion Mgt. Program | Congestion Management & Highway Program | 30 | (a) |
| Congestion Mgt. Program | Measure B Highway Program | 32 | (a) |
| Congestion Mgt. Program | 2000 Measure A Program | 85 | (a) |
| | | $ 1,775 | |

(a) represents labor and internal charges for the program; (b) represents investment management fee

In FY2005, the fund balance of $87,000 for Traffic Authority was transferred to the Congestion Management Program due to the closing of the Traffic Authority fund.

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

Due from other governmental agencies as of June 30, 2005 consisted of the following (in thousands):

| | Business-Type Activity | Governmental Activity | | | |
|---|---|---|---|---|---|
| | Enterprise Fund | Congestion Management Program | Congestion Management and Highway Program | Measure B Highway Program | Total |
| Current: | | | | | |
| Federal government | $ 37,055 | $ - | $ 98 | - | $ 37,153 |
| State government | 33,038 | 342 | 15,005 | 801 | 49,186 |
| County of Santa Clara | | | | | |
| Court deposits: | | | | | |
| Measure B Highway | - | - | - | 1,939 | 1,939 |
| Measure B Transit | 1,400 | - | - | - | 1,400 |
| Total court deposits | 1,400 | - | - | 1,939 | 3,339 |
| Measure B Ancillary Program - SWAP | - | - | 3,349 | - | 3,349 |
| Others | 6,752 | 168 | 433 | 3,437 | 10,790 |
| Total County of Santa Clara | 8,152 | 168 | 3,782 | 5,376 | 17,478 |
| Others | 384 | - | 578 | - | 962 |
| Total | $ 78,629 | $ 510 | $ 19,463 | $ 6,177 | $ 104,779 |

Due from other governmental agencies as of June 30, 2005, is reported in the accompanying basic financial statements as follows (in thousands):

| | Business-Type Activity | Governmental Activity | | | |
|---|---|---|---|---|---|
| | Enterprise Fund | Congestion Management Program | Congestion Management and Highway Program | Measure B Highway Program | Total |
| Current assets (unrestricted ) | $ 67,506 | $ 510 | $ - | $ - | $ 68,016 |
| Restricted assets | 11,123 | - | 19,463 | 6,177 | 36,763 |
| Total | $ 78,629 | $ 510 | $ 19,463 | $ 6,177 | $ 104,779 |

Due to other governmental agencies as of June 30, 2005, consisted of the following (in thousands):

| | Business-Type Activity | Governmental Activity | | | |
|---|---|---|---|---|---|
| | Enterprise Fund | Congestion Management and Highway Program | Measure B Highway Program | Agency Fund | Total |
| State government | $ 1,339 | $ - | $ - | $ - | $ 1,339 |
| Peninsula Corridor Joint Powers Board | 2,944 | - | - | - | 2,944 |
| County of Santa Clara | 11,077 | 598 | 115 | 3,657 | 15,447 |
| City of San Jose | - | 1,037 | - | - | 1,037 |
| City of Campbell | 132 | - | - | - | 132 |
| Measure B Ancillary Program | - | 14,253 | - | - | 14,253 |
| Total | $ 15,492 | $ 15,888 | $ 115 | $ 3,657 | $ 35,152 |

Due to other governmental agencies as of June 30, 2005, is reported in the accompanying basic financial statements as follows (in thousands):

| | Business-type Activity | Governmental Activity | | | |
|---|---|---|---|---|---|
| | Enterprise Fund | Congestion Management and Highway Program | Measure B Highway Program | Agency Fund | Total |
| Current Liabilities | $ 4,283 | $ - | $ - | $ - | $ 4,283 |
| Liabilities payable from restricted assets | 11,209 | 15,888 | 115 | 3,657 | 30,869 |
| Total | $ 15,492 | $ 15,888 | $ 115 | $ 3,657 | $ 35,152 |

## NOTE 6 – CAPITAL ASSETS

Capital asset changes for VTA's business-type activity for the year ended June 30, 2005 were as follows (in thousands):

| | July 1, 2004 | Additions | Retirements | Transfers | June 30, 2005 |
|---|---|---|---|---|---|
| *Capital assets, not being depreciated*: | | | | | |
| Land and right of way | $ 747,679 | $ - | $ - | $ 14,139 | $ 761,818 |
| Construction in progress | 690,853 | 230,825 | - | (145,967) | 775,711 |
| Total capital assets, not being depreciated | 1,438,532 | 230,825 | - | (131,828) | 1,537,529 |
| *Capital assets, being depreciated:* | | | | | |
| Buildings, improvements, furniture and fixtures | 337,565 | - | (4,531) | 7,512 | 340,546 |
| Vehicles | 363,270 | - | (16,956) | 133,860 | 480,174 |
| Light-rail tracks and electrification | 375,049 | - | - | (9,544) | 365,505 |
| Caltrain – Gilroy extension | 52,990 | - | - | - | 52,990 |
| Other operating equipment | 28,830 | - | - | - | 28,830 |
| Total capital assets, being depreciated | 1,157,704 | - | (21,487) | 131,828 | 1,268,045 |
| *Less accumulated depreciation for:* | | | | | |
| Buildings, improvements, furniture and fixtures | (116,021) | (16,963) | 4,339 | - | (128,645) |
| Vehicles | (80,481) | (20,310) | 6,671 | - | (94,120) |
| Light-rail tracks and electrification | (73,124) | (16,452) | - | - | (89,576) |
| Caltrain – Gilroy extension | (6,405) | (503) | - | - | (6,908) |
| Other operating equipment | (13,622) | (2,329) | - | - | (15,951) |
| Total accumulated depreciation | (289,653) | (56,557) | 11,010 | - | (335,200) |
| Total capital assets, being depreciated, net | 868,051 | (56,557) | (10,477) | 131,828 | 932,845 |
| Total capital assets, net | $ 2,306,583 | $ 174,268 | $ (10,477) | $ - | $ 2,470,374 |

Construction in progress (CIP), includes capitalized costs and right-of-way acquisitions associated with the following projects as of June 30, 2005 (in thousands):

| | |
|---|---|
| Vasona Corridor Project | $ 301,761 |
| Facilities Modifications | 154,369 |
| New Rail Vehicles | 6,085 |
| Guadalupe Corridor | 15,370 |
| Software Development | 587 |
| Silicon Valley Rapid Transit Corridor | 245,600 |
| Study Projects | 15,009 |
| Coach and Vehicle Replacement | 2,339 |
| Caltrain Service Improvements | 35,991 |
| Total project costs expended to date | 777,111 |
| Less right-of-way acquisitions not yet settled [1] | (1,400) |
| CIP, as reported on the balance sheet at 6/30/05 | $ 775,711 |

[1] The projects listed above include $1.4 million 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, 2005 is as follows (in thousands):

| | |
|---|---|
| Total Board approved project budget | $ 986,621 |
| Expended to date | (777,110) |
| Remaining budget available for CIP | $ 209,511 |
| Anticipated funding sources are as follows: | |
| Federal, State, and other local assistance (Note 10) | $ 52,506 |
| Local contributions (Note 10) | 157,005* |
| Total funding sources | $ 209,511 |

*Includes approximately $114 million in 2000 Measure A Bond Proceeds

VTA has outstanding commitments of $119.2 million as of June 30, 2005, related to the above capital projects.

## NOTE 7 - LONG-TERM LIABILITIES

Long-term debt as of June 30, 2005, consisted of the following (in thousands):

| | |
|---|---|
| Sales Tax Revenue Bonds secured by VTA's 1976 Measure A ½ cent sales tax: | |
| 2001 Series A Senior Lien ($179,990 less unamortized discount of $1,427) ***(a)*** | $ 178,563 |
| 2000 Series A Junior Lien ***(b)*** | 36,015 |
| 1998 Series A Junior Lien ***(c)*** | 44,085 |
| 1997 Series A Refunding ($32,800, less unamortized discount of $266 and unamortized deferred amount on refunding of $2,439 ***(d)*** | 30,095 |
| Series 1985A Equipment Trust Certificates ***(e)*** | 29,660 |
| Sales Tax Revenue Bonds secured by VTA's 2000 Measure A ½ cent sales tax: | |
| 2003 Series A Senior Lien ($131,240, plus unamortized premium of $6,821 ***(f)*** | 138,061 |
| 2004 Series A Senior Lien ($104,710, plus unamortized premium of $6,823 ***(g)*** | 111,533 |
| 2004 Series B Senior Lien ($135,165, plus unamortized premium of $5,550 ***(h)*** | 140,715 |
| Total long-term debt | 708,727 |
| Less current portion of long-term debt | (9,683) |
| Long-term debt, excluding current portion | 699,044 |
| Less portion of long-term debt payable from restricted assets | (124,755) |
| Long-term debt, excluding current & restricted portion | $ 574,289 |

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

In June 2001, VTA issued $200.0 million 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 $3.3 million to $17.9 million 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 (CTFA) (Note 19d), VTA issued $40.0 million 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 $1.1 million to $2.2 million and bear a variable rate of interest not to exceed 12%. CTFA's remarketing agent determines the interest rate weekly. At June 30, 2005, the variable interest rate was 2.35%.

***(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 (CTFA) (Note 19d), VTA issued $50.0 million 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 $1.3 million to $2.7 million and bear a variable rate of interest not to exceed 12%. CTFA's remarketing agent determines the interest rate weekly. At June 30, 2005, the variable interest rate was 2.35%.

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

In November 1997, VTA issued $40.6 million of 1997 Series A Sales Tax Revenue Refunding Bonds (1997 Bonds). The proceeds were used to advance refund $33.3 million of the outstanding principal amount of its 1991 Series A Bonds, advance refund $4.0 million 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 $1.4 million to $2.4 million and bear interest ranging from 4.5% to 5.0%. Additionally, there are two term bonds that will mature in 2017 and 2021, in the amounts of $4.3 million and $10.3 million, 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 $2.1 million to $2.8 million.

### *(e) Series 1985A Equipment Trust Certificates*

The 1985A Certificates were issued to finance the retirement of the Series 1984A Equipment Trust Certificates, originally 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 \$52.2 million, net of issuance costs of \$705 thousand. Issuance costs are 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 thousand to \$4.8 million. 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 \$29.7 million (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 \$2.4 million as of June 30, 2005. 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, 2005, 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 1985 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

| | Principal | Interest* | Interest Rate Swap, Net | Total |
|---|---|---|---|---|
| 2006 | $ - | $ 697 | $ 595 | $ 1,292 |
| 2007 | 460 | 697 | 595 | 1,752 |
| 2008 | 2,700 | 686 | 585 | 3,971 |
| 2009 | 2,900 | 623 | 531 | 4,054 |
| 2010 | 3,100 | 555 | 473 | 4,128 |
| 2011 | 3,400 | 482 | 411 | 4,293 |
| 2012 | 3,800 | 402 | 343 | 4,545 |
| 2013 | 4,000 | 312 | 267 | 4,579 |
| 2014 | 4,500 | 218 | 187 | 4,905 |
| 2015 | 4,800 | 113 | 96 | 5,009 |
| | $ 29,660 | $ 4,785 | $ 4,083 | $ 38,528 |

ETC's and net swap payments are shown below (in thousands):

*For the purposes of calculating the annual debt service requirements, the June 30, 2005 effective rate of 2.35% 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 $30.1 million, 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 thousand to $4.8 million will start in 2007.

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

In November 2003, VTA issued $131.2 million of 2003 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 $104.7 million of Measure A Senior Lien Sales Tax Revenue Bonds (2004A 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 2004A 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 2004A Bonds. On the mandatory tender date, VTA will either remarket or refund (or a combination of both) the 2004A Bonds. If there is a failure to remarket the 2004A 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 2004A 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 2004A 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 2004A Bonds.

***(h) 2004 Series B Measure A Senior Lien Sales Tax Revenue Bonds***

In December 2004, VTA issued $135.2 million of Measure A Senior Lien Sales Tax Revenue Bonds (2004B Bonds) to pay certain working capital and capital expenditures and to finance capitalized interest payment through October 2006. Issuance costs related to such bonds are being amortized over the term of the debt. The 2004B 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 2004B Bonds. On the mandatory tender date, VTA will either remarket or refund (or a combination of both) the 2004B Bonds. If there is a failure to remarket the 2004B 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 2004B 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 2004B 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 2004B Bonds.

### *(i) Scheduled Payments*

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

| Year ending June 30, | Principal [1] | Interest [2] |
|---|---|---|
| 2006 | $ 9,285 | $ 31,284 |
| 2007 | 16,120 | 31,060 |
| 2008 | 15,835 | 30,343 |
| 2009 | 16,565 | 29,672 |
| 2010 | 17,320 | 28,967 |
| 2011-2015 | 99,540 | 132,732 |
| 2016-2020 | 125,545 | 108,353 |
| 2021-2025 | 159,115 | 76,780 |
| 2026-2030 | 110,285 | 42,637 |
| 2031-2035 | 100,680 | 20,424 |
| 2036 | 23,375 | 1,113 |
| Total debt service requirements | $ 693,665 | $ 533,365 |

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

[2] Interest rates on the 2003 and 2004 A&B Bonds are fixed through their mandatory tender date of October 2, 2006. Thereafter, it is assumed the bonds will be remarketed with no refundings and an interest rate of 4.76% (the June 30, 2005 Bond Buyer Revenue Bond Index). A rate of 2.35%, which was the actual rate as of June 30, 2005 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 shown below (in thousands):

| | July 1, 2004 | Additions | Retirements | June 30, 2005 | 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 | $185,300 | $ - | $ (5,310) | $179,990 | $ 5,545 |
| 2000 Series A Junior Lien | 37,060 | - | (1,045) | 36,015 | 1,075 |
| 1998 Series A Junior Lien | 45,350 | - | (1,265) | 44,085 | 1,305 |
| 1997 Series A Refunding | 34,075 | - | (1,275) | 32,800 | 1,360 |
| Series 1985 A Equipment Trust Certificates | 29,660 | - | - | 29,660 | - |
| Sales Tax Revenue Bonds secured by VTA's 2000 Measure A ½ cent sales tax: | | | | | |
| 2003 Series A Senior Lien | 131,240 | - | - | 131,240 | - |
| 2004 Series A Senior Lien | 104,710 | - | - | 104,710 | - |
| 2004 Series B Senior Lien | - | 135,165 | - | 135,165 | - |
| Total outstanding debt | 567,395 | 135,165 | (8,895) | 693,665 | 9,285 |
| Plus (less) premiums, deferred amount on refundings and discounts | 9,722 | 5,735 | (395) | 15,062 | 398 |
| Outstanding debt, net | 577,117 | 140,900 | (9,290) | 708,727 | 9,683 |
| Claims liability: | | | | | |
| General liability, worker's compensation & Compensated absences | 73,721 | 25,419 | (21,945) | 77,194 | 16,244 |
| Total long-term liabilities | $650,838 | $166,319 | $(31,235) | $785,921 | $25,927 |

***Restrictions and limitations***

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

## 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 $1.6 million in FY2004/FY2005. The amount of sales tax collected during FY2005 was $145 million.

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

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

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

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

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

In fiscal year 2001, VTA and the County entered into two agreements for Fund Swap arrangements, whereby VTA agreed to secure federal and/or State grant funds and program them for certain 1996 MBTIP Projects in exchange for the County to release the corresponding 1996 MBTIP Project funds for other local projects. The Tasman East Light Rail Project was programmed for $72.8 million in grant funds with $67.9 million being available for other local projects, the Vasona Light Rail Project was programmed for $51.6 million with the same amount being available for other local projects, and the Routes 237/880 Interchange Highway Project was programmed for $22.5 million with the same amount being available for other local projects.

A third agreement provided for a simultaneous exchange of funds. VTA secured 2001 Series A Senior Lien Sales Tax Revenue Bonds to reimburse the County approximately $184.1 million of 1996 MBTIP project costs, namely the Tasman East, Vasona and Capitol Corridor Light Rail Projects. The reimbursement of 1996 MBTIP project costs made $184.1 million available for the acquisition of low floor vehicles. On February 15, 2002, amendment #1 to the agreement was executed to increase the amount of reimbursement to $198.3 million. As of June 30, 2002, full reimbursement of the $198.3 million was made to the Measure B Ancillary Program Agency Fund. As of June 30, 2005 approximately $198.4 million have been expended for the acquisition of low floor vehicles, which includes $17.3 million in current year additions.

During the year, VTA paid approximately $124.4 million for current year costs for the program. Of this amount, the County contributed approximately $92.3 million; namely $45.1 million ($45.8 million Measure B funding and ($0.7 million) Measure B swap fund) for transit projects in the Enterprise Fund; $40.2 million ($32.2 million Measure B fund & $8.0 million Measure B swap fund) for highway projects in the Measure B Highway Capital Projects Fund; and $7 million for the Ancillary Program (Measure B Projects, Pavement and Bikeways). The remaining balance was received from various Federal, State and local fund sources.

***2000 Measure A Program***

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

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, 2005 are summarized as follows (in thousands):

| | Business-type Activity | Governmental Activity |
|---|---|---|
| | Enterprise Fund | Congestion Management Program |
| Operating assistance grants: | | |
| FTA Section 9 | $ 33,999 | $ -- |
| Job Access and Reverse Commute Program | 328 | -- |
| Federal Technical Studies | 89 | 1,036 |
| Total Operating Assistance Grants | 34,416 | 1,036 |
| Capital Grants | | |
| FTA Section 3 | 7,178 | -- |
| FTA Section 9 | 9,076 | -- |
| Total Capital Grants | 16,254 | -- |
| Total Operating Assistance and Capital Grants | $ 50,670 | $ 1,076 |

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

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

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

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

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

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

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

State and local grants for the business-type activity and the Enterprise Fund for the year ended June 30, 2005, are summarized as follows (in thousands):

| | |
|---|---|
| Operating assistance grants: | |
| Transportation Development Act | $ 67,098 |
| State Transit Assistance | 7,285 |
| Measure B Assistance | 4,108 |
| AB434 | 1,018 |
| Total operating assistance grants | 79,509 |
| Capital grants: | |
| Traffic Congestion Relief Program | 11,635 |
| State of California, General Fund | 4,522 |
| AB434 | 869 |

| | | |
|---|---|---|
| State/Local Partnership | | 11 |
| Other Local Grants: | | |
| Santa Clara County (Measure B Program) – (Note 9) | | 45,800 |
| Santa Clara County (Fund Swap Program) | | |
| VTA Transit | $15,322 | |
| Measure B Transit Program | (696) | |
| 2000 Measure A | (75) | 14,551 |
| Various cities, counties and others | | 3,218 |
| Total capital grants | | 80,606 |
| Total state and local grants | | $ 160,115 |

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

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

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

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

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

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

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

### *(a) Plan Description*

All ATU employees are covered by the 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 benefits at age 65 provided the Pension Board approves of such benefits. 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 increased the pension benefit for ATU represented employees effective February 1, 2001 by 2% and it was increased again on February 1, 2003 by the same percentage.

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

The current membership of the Plan as of June 30, 2005, is comprised of the following:

| | |
|---|---:|
| Retirees and beneficiaries currently receiving benefits | 795 |
| Terminated vested members not yet receiving benefits | 183 |
| Active members | 1,469 |
| Total | 2,447 |

### *(b) Basis of Accounting*

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

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

### *(c) Actuarial Methods and Assumptions*

| *Description* | *Methods/Assumptions* | |
|---|---|---|
| Valuation date | January 1, 2005 | |
| 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 | 15% for the first three years of service, 0.75% thereafter. |
| | 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 14.4% and 15.8%, respectively, of the Plan's net assets as of June 30, 2005.

### *(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, 2005 were made in accordance with actuarially determined requirements computed as of January 1, 2004. VTA's contribution rate as a percentage of payroll was 15.74% for FY2005. 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, 2005. The three-year trend information is shown below (in thousands):

| Fiscal Year Ended | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|---|---|---|---|
| 6/30/03 | $12,362 | 100% | $- |
| 6/30/04 | 12,071 | 100% | - |
| 6/30/05 | 14,292 | 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 $52.3 million was completed by CalPERS in FY1999.

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

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

### *(b) Actuarial Methods and Assumptions*

| *Description* | *Methods/Assumptions* |
|---|---|
| Valuation date | June 30, 2002 |
| 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, 2004 through June 30, 2005, was 10.012% for the employer and 7.0% for employees. The required employee contribution was paid by VTA. The contribution requirements of the CalPERS Plan are established by State statute and the employer contribution is established and may be amended by CalPERS. The amortization period used is closed which means that amortization periods for initial unfunded liability, benefit change, and assumption change decline every year. The schedule of funding progress can be found on page 2-62.

### *(d) Net Pension Obligation*

VTA's net pension obligation to the CalPERS Plan was zero as of June 30, 2005. For FY2005, VTA's annual pension cost was approximately $5.2 million, which was fully contributed. The required contribution for FY2005 was determined as part of the June 30, 2002, actuarial valuation using the entry age normal cost method with the contributions determined as a percent of pay. Three-year trend information follows (in thousands):

| Fiscal Year Ended | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|---|---|---|---|
| 6/30/03 | $ 3,052 | 100% | $ - |
| 6/30/04 | 3,750 | 100% | - |
| 6/30/05 | 5,171 | 100% | - |

## NOTE 13 – ATU SPOUSAL MEDICAL AND VISION/DENTAL TRUST

VTA had assets and related liabilities as of June 30, 2005 of approximately $8.4 million for the ATU Spousal Medical Trust and $2.3 million for the Retiree Vision and Dental Trust.

The ATU Spousal Medical Trust is a defined contribution medical insurance benefit for eligible pensioners' spouses. Pursuant to a collective bargaining agreement, contribution to the Spousal Trust was changed from $.20 to $.25 per hour worked by all ATU employees, effective February 4, 2002. As of June 30, 2005, there were 222 participating spouses who were eligible for benefits from the ATU Spousal Medical Trust. Contributions, which were expensed by VTA, were approximately $885 thousand. Benefit payments made by the Trust for FY2005 were approximately $931 thousand.

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, 2005, there were 711 eligible participants. Contributions, which were expensed by VTA, were approximately $330 thousand for the Retiree Vision and Dental Trust.

## NOTE 14 – INTERNAL SERVICE FUND

As of June 30, 2005, the composition of assets and liabilities by individual components of the Internal Service Fund were as follows (in thousands)

| | Workers' Compensation | General Liability | Retiree Health | Compensated Absences | Total |
|---|---|---|---|---|---|
| Assets | $ 57,355 | $ 5,395 | $ 69,727 | $ 22,099 | $ 154,576 |
| Liabilities | (50,211) | (6,368) | - | (20,616) | (77,195) |
| Net assets (reserve) | $ 7,144 | $ (973) | $ 69,727 | $ 1,483 | $ 77,381 |

*Workers' Compensation and General Liability*

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

Actuarial Information

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

Changes in the balance of Workers' Compensation and General Claims Liabilities for the two years ended June 30, 2005, are as follows (in thousands):

| | Workers' Compensation | General Liability |
|---|---|---|
| Unpaid claims at June 30, 2003 | $ 49,329 | $ 5,643 |
| Provision for claims and claims adjustment expense | 8,985 | 2,046 |
| Payment for claims | (11,557) | (1,321) |
| Unpaid claims at June 30, 2004 | 46,757 | 6,368 |
| Provision for claims and claims adjustment expense | 18,948 | 2,684 |
| Payment for claims | (15,494) | (2,684) |
| Unpaid claims at June 30, 2005 | $ 50,211 | $ 6,368 |

*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, 2005, 711 retirees met the eligibility requirements. VTA pays medical premiums for its eligible retirees.

***(b) Non-ATU***

All non-ATU represented employees upon retirement with at least five years of service and attaining age 50 are also covered under a Retiree Health Care Program (Non-ATU Program). As of June 30, 2005, 207 retirees met the eligibility requirements.

***(c) Actuarial Information***

An actuarial study as of July 1, 2004 projected that the present value of future VTA paid retiree medical benefits for the current group of active employees, retirees, and terminated vested employees (excluding new employees) was approximately $123.4 million and $57.6 million, for the ATU and Non-ATU Programs, respectively. VTA's contributions are advance funded on an actuarial determined basis. For the year ended June 30, 2005, VTA made contributions to both the ATU and Non-ATU programs, which were expensed, of approximately $11.2 million. Benefits paid to participants of the program were approximately $4.5 million.

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

As of June 30, 2005, VTA had restricted assets $69.7 million to cover costs of the ATU and Non-ATU Programs.

*Compensated Absences*

This represents the amount charged each month to accrue the estimated increase in unused vacation and sick leave. This account is adjusted annually to reflect the year-end value of unused vacation and sick leave. Compensated absences are limited to leaves that are attributable to services already rendered and are not contingent on a specific event that is outside the control of the employer and employee. At June 30, 2005, the outstanding balance of compensated absence liability was $20.6 million.

## NOTE 15 –INSURANCE

VTA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors, and omissions; injuries to employees; injuries to the public; and natural disasters. For the past three fiscal years, settlement amounts have not exceeded commercial insurance coverage. For additional information on workers' compensation and general liability, see Note 14. Coverage provided by self-insurance/insurance and excess coverage as of June 30, 2005, is shown below:

| 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 liability/property damage | $3,000,000 | $23,000,000 |
| Property, boiler, and machinery | $100,000 | $70,000,000 combined blanket limit |
| National Flood Insurance (eligible locations) | $5,000 | $500,000 |
| Light rail vehicles include spare parts coverage, no earthquake coverage | $250,000 | $20,000,000 |
| Buses | $100,000 | $20,000,000 |
| Vans and mobile equipment | $25,000 | Included in the $20,000,000 with buses |
| Owner-controlled insurance programs: | | |
| Light rail construction projects | $-0- | $10,000,000 |
| Highway construction projects | $-0- | $50,000,000 |
| Builder's risk | $25,000 - Highway | $200,000,000 - Highway |
| | $10,000 - Rail | $105,827,501 - Rail |
| Public officials liability | Self-Insured $3,000,000 | $2,000,000 |

## NOTE 16 – LEASES

VTA leases various properties for use as transfer facilities, parking lots, information centers, and warehouses under lease agreements that expire at various dates through 2030. These agreements are accounted for as operating leases. Rent expense was approximately $580 thousand in FY2005. The future lease payments under noncancellable lease agreements are as follows (in thousands):

| Year ending June 30, | |
|---|---|
| 2006 | $ 265 |
| 2007 | 272 |
| 2008 | 194 |
| 2009 | 198 |
| 2010 | 203 |
| 2011-2030 | 4,446 |
| Total | $5,578 |

## NOTE 17 – LITIGATION

The projected costs which would settle by June 30, 2006 are $181 thousand. VTA's management believes its actuarially determined reserves and excess insurance coverage will adequately cover estimated potential material adverse losses as of June 30, 2005.

## 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 $4.3 million during FY2005.

## 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 FY2005, VTA, SamTrans, and CCSF are responsible for 40.23%, 41.69%, and 18.08%, respectively, of the member agencies' total reimbursement for such expenses. During the year ended June 30, 2005, VTA paid $14.1 million to the PCJPB for operating costs.

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

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

Summary financial information (not included in VTA's financial statements) for the PCJPB as of and for the year ended June 30, 2004, is shown on the next page [(a)] (in thousands):

| | |
|---|---|
| Total assets | $1,034,616 |
| Total liabilities | (157,278) |
| Total equity | $ 877,338 |
| Operating revenues | $ 59,148 |
| Operating expenses | (86,308) |
| Non-operating revenues, net | 27,160 |
| 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 42% from VTA, 28% from San Joaquin Regional Rail Commission and 30% from the Alameda County Congestion Management Agency. In June 2003, VTA entered into a Cooperative Service Agreement with the San Joaquin Regional Rail Commission (SJRRC) and the Alameda County Congestion Management Agency (ACCMA) for continued VTA funding of Altamont Commuter Express (ACE) commuter rail service. The cooperative agreement replaced the ACE Joint Powers Agreement (JPA) executed by the ACE member agencies – VTA, SJRRC and ACCMA. During the year ended June 30, 2005, VTA contributed approximately $2.5 million for operating costs.

Complete financial statements for ACE can be obtained from the San Joaquin Regional Rail Commission at 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 – OTHER FINANCING TRANSACTIONS

***(a) Lease-Leaseback***

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

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

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

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

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

***(b) Japanese Operating Lease***

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

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

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

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

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

Per the sublease agreement, VTA 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, VTA shipped 14 cars to UTA and 21 cars to Sacramento.

During the year ended June 30, 2005, the remaining 15 cars were shipped to UTA with total proceeds of approximately $2.3 million.

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

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

The basic sublease term is approximately 13 years with a sublease renewal term of 9 years thereafter. The sublease transaction was recorded as a capital lease during FY2004. The net book value of assets amounting to $10.0 million was taken out from the books and a loss in the amount of $7.8 million was immediately recognized, as a special item.

***(d) Lease to Service Contracts***

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

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

## NOTE 21 – SUBSEQUENT EVENT

On July 7, 2005, VTA issued Sales Tax Revenue Refunding Bonds, 2005 Series A, B and C aggregating to $172.5 million. The proceeds were used to advance refund $155.3 million of VTA’s Sales Tax Revenue Bonds, 2001 Series A that mature on June 1, 2012 through June 1, 2026. The 2005 Bonds are special obligations of VTA, which are payable and secured by its existing 1976 Measure A sales tax revenue.

The 2005 Bonds were structured as variable rate demand bonds. Simultaneously with the closing of the Bonds, VTA entered into floating to fixed interest rate swap agreements to effectively change VTA’s variable interest rate on the 2005 Bonds to a synthetic fixed rate of 3.033%.

The 2005 Bonds will be redeemed by mandatory sinking fund redemption, without premium, on each June 1. Sinking fund payments are due in 2006 through 2026 and range from $1.1 to $17.2 million.

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

*Credit Risk*. VTA bears the risk that the swap provider will not be able to make its offsetting payments to VTA. VTA has mitigated this potential risk in three ways. First, VTA is diversifying its credit exposure by entering into interest rate swaps with three counterparties. Second, each counterparty carries ratings in the "Aa" or "AA" category from at least two national rating agencies. Third, each counterparty is required to post collateral in an amount at least equal to the loss in market value between the par value of the swap (or its "notional value") and current valuation. The level of collateral will increase if a counterparty is downgraded.

*Termination Risk*. VTA bears the risk that one of its swap counterparties will terminate the interest rate swap prior to maturity at a time when there would be a cost to VTA – i.e., rates have declined from the time the swap was executed. VTA has mitigated this risk through bond insurance from Ambac Assurance Corporation. The counterparties are not given the right to terminate the swap absent (a) an event of VTA default or (b) downgrade of VTA below investment grade and the bond insurer below an A3/A- level by Moody's Investors Service, Inc. and Standard & Poor's Rating Group. VTA has the ability to terminate the interest rate swap agreements at any time.

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**

Required Supplementary Information
Schedule of Funding Progress

Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan

(Unaudited)

(In thousands)

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded AAL | Funded Ratio | Covered Payroll | Unfunded AAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|
| 1/1/2003 | $224,004 | $278,114 | $54,110 | 80.5% | $93,952 | 57.6% |
| 1/1/2004 | 247,694 | 325,530 | 77,836 | 76.1% | 91,255 | 85.3% |
| 1/1/2005 | 268,429 | 350,895 | 82,466 | 76.5% | 88,449 | 93.0% |

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

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**

Required Supplementary Information
Schedule of Funding Progress

Santa Clara Valley Transportation Authority CalPERS Plan

(Unaudited)
(In thousands)

| | Entry Age Normal Accrued Liability | Actuarial Value of Assets | Unfunded (Overfunded) Actuarial Accrued Liability (AAL) | Funded Ratio | Annual Covered Payroll | Unfunded (Overfunded) AAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|
| 6/30/2001 | $ 87,012 | $ 97,222 | $(10,209) | 111.7% | $48,235 | (21.2%) |
| 6/30/2002 | 103,253 | 98,352 | 4,901 | 95.3% | 56,796 | 8.6% |
| 6/30/2003 | 126,069 | 107,061 | 19,009 | 84.9% | 56,006 | 33.9% |

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY**
Required Supplementary Information
Budgetary Comparison Schedule
Congestion Management Program Special Revenue Fund
For the Year Ended June 30, 2005

(In thousands)

| | Original Budget | Final Budget | Actual | Positive (Negative) Variance |
|---|---|---|---|---|
| Revenues: | | | | |
| Assessments to member agencies | $ 2,174 | $ 2,174 | $ 2,174 | $ - |
| Federal grant revenues | 679 | 679 | 1,036 | 357 |
| Administrative fees | 115 | 115 | 57 | (58) |
| State operating assistance grants | 80 | - | 63 | 63 |
| Measure B other | 250 | 250 | - | (250) |
| Other non-operating revenue | 25 | 25 | 19 | (6) |
| Total revenues | 3,323 | 3,243 | 3,349 | 106 |
| Expenditures: | | | | |
| Salaries and benefits | 3,590 | 3,590 | 2,961 | 629 |
| Reimbursements | (2,290) | (2,290) | (801) | (1,489) |
| Services and other: | | | | |
| Materials and supplies | 2 | 2 | 7 | (5) |
| Professional services | 1,130 | 1,130 | 360 | 770 |
| Other services | 60 | 60 | 14 | 46 |
| Data processing | 25 | 25 | 7 | 18 |
| Office expense | 20 | 20 | 14 | 6 |
| Communication and telephone services | 5 | 5 | 1 | 4 |
| Employee related expense | 47 | 47 | 23 | 24 |
| Lease and rentals | 86 | 86 | 78 | 8 |
| Miscellaneous | 122 | 122 | 133 | (11) |
| Other expenses | 14 | 14 | 3 | 11 |
| Total expenditures | 2,811 | 2,811 | 2,800 | 11 |
| Change in fund balance, on a budgetary basis | $ 512 | $ 432 | 549 | $ 95 |
| Revenues not budgeted: | | | | |
| Investment earnings | | | 97 | |
| Contribution from the Traffic Authority | | | 86 | |
| Change in fund balance, on a GAAP basis | | | 732 | |
| Fund balance, beginning of year | | | 1,619 | |
| Fund balance, end of year | | | $ 2,351 | |

**Note to Required Supplementary Information**
For the Year Ended June 30, 2005

***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, 2005 and 2004

(In thousands)

| | 2005 | 2004 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 484 | $ 4,087 |
| Investments | 31,278 | 8,632 |
| Receivables, net | 6,644 | 2,653 |
| Due from other funds | 1,628 | 680 |
| Due from other governmental agencies | 67,506 | 69,846 |
| Inventories | 18,713 | 24,336 |
| Other current assets | 391 | 998 |
| Total current assets | 126,644 | 111,232 |
| Restricted assets: | | |
| Cash and cash equivalents | 6,580 | 16,498 |
| Cash and cash equivalents with fiscal agents | 146,094 | 167,163 |
| Investments | 42,956 | 59,126 |
| Receivables, net | 583 | 325 |
| Due from other governmental agencies | 11,123 | 11,063 |
| Total restricted current assets | 207,336 | 254,175 |
| Other non-current assets: | | |
| Deferred charges | 16,161 | 5,980 |
| Capital Assets | | |
| Nondepreciable: | | |
| Land and right-of-way | 761,818 | 747,679 |
| Construction in progress | 775,709 | 690,853 |
| Depreciable | | |
| Buildings, improvements, furniture, and fixtures | 340,546 | 337,565 |
| Vehicles | 480,174 | 363,270 |
| Light-rail tracks and electrification | 365,506 | 375,049 |
| CalTrain - Gilroy extension | 52,990 | 52,990 |
| Other | 28,830 | 28,830 |
| Less: Accumulated depreciation | (335,199) | (289,654) |
| Net capital assets | 2,470,374 | 2,306,582 |
| Total assets | $ 2,820,515 | $ 2,677,969 |

(Continued)

# Santa Clara Valley Transportation Authority
# Comparative Statement of Fund Net Assets
# Enterprise Fund
# June 30, 2005 and 2004

(In thousands)

| | 2005 | 2004 |
|---|---|---|
| **LIABILITIES** | | |
| Current liabilities: | | |
| Accounts payable | $ 11,845 | $ 21,241 |
| Other accrued liabilities | 11,951 | 11,678 |
| Due to other governmental agencies | 4,283 | 4,289 |
| Current portion of long-term debt | 9,683 | 8,657 |
| Total current liabilities | 37,762 | 45,865 |
| Liabilities payable from restricted assets: | | |
| Accounts payable | 20,885 | 23,935 |
| Other accrued liabilities-current | 6,002 | 9,815 |
| Due to other funds | 85 | 570 |
| Due to other governmental agencies | 11,209 | 8,932 |
| Restricted portion of long-term debt | 124,755 | 145,142 |
| Total liabilities payable from restricted assets | 162,936 | 188,394 |
| Non-current liabilities | | |
| Long-term debt, excluding current portion | 574,289 | 423,320 |
| Other accrued liabilities | 23 | 27 |
| Total non-current liabilities | 574,312 | 423,347 |
| Total liabilities | 775,010 | 657,606 |
| **NET ASSETS** | | |
| Investment in capital assets, net of related debt | 1,867,513 | 1,846,221 |
| Restricted for bond proceeds | 44,400 | 65,780 |
| Unrestricted | 133,592 | 108,362 |
| Total net assets | $ 2,045,505 | $ 2,020,363 |

Santa Clara Valley Transportation Authority
Statement of Revenues, Expenses and Changes in Fund Net Assets
Enterprise Fund
June 30, 2005 and 2004

(In thousands)

| | 2005 | 2004 |
|---|---|---|
| OPERATING REVENUES | | |
| Passenger fares | $ 32,061 | $ 30,625 |
| Advertising and other | 2,631 | 2,796 |
| Total operating revenues | 34,692 | 33,421 |
| OPERATING EXPENSES | | |
| Labor cost | 229,323 | 222,394 |
| Materials and supplies | 19,996 | 16,169 |
| Services | 18,226 | 17,114 |
| Utilities | 5,795 | 5,064 |
| Casualty and Liability | 3,763 | 3,413 |
| Purchased transportation | 25,538 | 27,242 |
| Leases and rentals | 580 | 569 |
| Miscellaneous | 1,773 | 2,609 |
| Depreciation expense | 56,557 | 46,552 |
| Costs allocated to capital and other programs | (29,346) | (29,698) |
| Total operating expense | 332,205 | 311,428 |
| Operating loss | (297,513) | (278,007) |
| NON-OPERATING REVENUES (EXPENSES) | | |
| Sales tax revenue | 145,008 | 138,917 |
| Federal operating assistance grants | 34,416 | 38,143 |
| State and local operating assistance grants | 79,509 | 73,433 |
| Caltrain subsidy | (14,112) | (14,000) |
| Caltrain capital contribution | - | (2,804) |
| Altamont Commuter Express subsidy | (2,470) | (2,392) |
| Investment earnings | 5,666 | 1,592 |
| Interest expense | (13,761) | (13,691) |
| Other income | 2,628 | 2,102 |
| Other expense | (3,316) | (3,021) |
| Non-operating revenue, net | 233,568 | 218,279 |
| Change in net assets before capital contributions and special items | (63,945) | (59,728) |
| Capital contributions | 96,860 | 217,053 |
| Special items | (7,773) | 14,081 |
| Change in net assets | 25,142 | 171,406 |
| Net assets, beginning of year | 2,020,363 | 1,848,957 |
| Net assets, end of year | $ 2,045,505 | $ 2,020,363 |

# Santa Clara Valley Transportation Authority
## Comparative Statement of Cash Flows
## Proprietary Funds (Business-type Activity)
## For the Years Ended June 30, 2005 and 2004
(In thousands)

| | 2005 | 2004 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from passenger fares | $ 28,318 | $ 30,059 |
| Cash received from advertising | 2,631 | 2,796 |
| Cash paid to employees | (199,980) | (192,701) |
| Cash paid to suppliers | (67,632) | (57,082) |
| Cash paid for purchased transportation | (25,538) | (27,242) |
| Net cash used in operating activities | (262,201) | (244,170) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Operating grants received | 113,925 | 114,521 |
| Sales tax received | 143,784 | 138,180 |
| Caltrain subsidy | (14,112) | (16,805) |
| Altamont Commuter Express subsidy | (2,470) | (2,392) |
| Refund of excess deferred member contributions | - | 8,926 |
| Receipts for services provided to other agencies | 2,630 | 1,820 |
| Contributions to other agencies | (12,101) | (2,910) |
| Net cash provided by noncapital financing activities | 231,656 | 241,340 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Payment of long-term debt | (9,290) | (90,394) |
| Proceeds from Issuance of Bonds | 140,900 | 250,042 |
| Interest paid on long-term debt | (13,762) | (13,691) |
| Cost of bond issuance | (985) | (4,138) |
| Acquisition and construction of capital assets | (228,782) | (291,091) |
| Capital contribution from other governments | 106,674 | 199,151 |
| Proceeds from sale of capital assets | 224 | 598 |
| Proceeds from lease to service contract | - | 29,999 |
| Proceeds from sublease of vehicles | 2,290 | 7,011 |
| Net cash provided by/(used in) capital and related financing activities | (2,731) | 87,487 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale of investments | 667,584 | 940,059 |
| Purchases in investments | (669,989) | (918,196) |
| Interest income received | 1,091 | 2,715 |
| Net cash provided by/(used in) investing activities | (1,314) | 24,578 |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | (34,590) | 109,235 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 187,748 | 78,513 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | $ 153,158 | $ 187,748 |

Santa Clara Valley Transportation Authority
Comparative Statement of Cash flows (Continued)
Proprietary Funds (Business-type Activity)
For the Years Ended June 30, 2005 and 2004

(In thousands)

| | 2005 | 2004 |
|---|---|---|
| RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES: | | |
| Operating loss | $ (297,513) | $ (278,007) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Depreciation | 56,557 | 46,552 |
| Changes in operating assets and liabilities: | | |
| Receivables | (3,743) | (566) |
| Inventories | 6,230 | (2,385) |
| Accounts payable | (12,445) | (12,289) |
| Other accrued liabilities | (3,542) | 2,525 |
| Due to other funds | (7,745) | - |
| Net cash used in operating activities | $ (262,201) | $ (244,170) |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash and cash equivalents, end of year: | | |
| Unrestricted | $ 484 | $ 4,087 |
| Restricted | 152,674 | 183,661 |
| | $ 153,158 | $ 187,748 |
| NONCASH INVESTING ACTIVITIES: | | |
| Increase/(Decrease) in fair value of investments | $ 464 | $ (1,123) |
| OTHER NONCASH ACTIVITIES: | | |
| Net book value of subleased vehicles | $ 10,063 | $ 22,928 |

# Santa Clara Valley Transportation Authority
# Budgetary Comparison Schedule
# Enterprise Fund
# For the year ended June 30, 2005
# (In thousands)

| | FY05 Adopted Budget | Final Budget | Actual | Favorable (Unfavorable) |
|---|---|---|---|---|
| REVENUES | | | | |
| Fares | $ 34,524 | $ 32,374 | $ 32,061 | $ (313) |
| 1976 1/2 Cent Sales Tax | 139,000 | 142,005 | 145,008 | 3,003 |
| Transportation Development Act funds | 67,098 | 67,098 | 67,098 | - |
| State Transit Assistance funds | 7,537 | 7,537 | 7,285 | (252) |
| Federal operating grants | 37,134 | 34,429 | 34,416 | (13) |
| State operating grants | 1,104 | 1,104 | 1,018 | (86) |
| Local operating assistance | 221 | 500 | 4,108 | 3,608 |
| Investment earnings | 1,500 | 2,500 | 2,985 | 485 |
| Advertising income | 1,838 | 1,838 | 1,925 | 87 |
| Other income | 64,875 | 46,588 | 43,830 | (2,758) |
| Total revenues | 354,831 | 335,973 | 339,734 | 3,761 |
| OPERATING EXPENSES | | | | |
| Labor costs | 240,183 | 229,257 | 229,323 | (66) |
| Materials and supplies | 14,978 | 10,975 | 8,058 | 2,917 |
| Security | 8,499 | 7,993 | 7,953 | 40 |
| Professional and special services | 5,575 | 5,126 | 3,523 | 1,603 |
| Other services | 6,705 | 6,418 | 6,631 | (213) |
| Fuel | 8,634 | 8,638 | 8,249 | 389 |
| Traction power | 3,949 | 3,074 | 2,486 | 588 |
| Tires | 1,038 | 1,004 | 1,054 | (50) |
| Utilities | 2,538 | 2,383 | 2,274 | 109 |
| Insurance | 3,821 | 3,821 | 3,763 | 58 |
| Data processing | 2,726 | 2,600 | 2,753 | (153) |
| Office expense | 630 | 471 | 351 | 120 |
| Communications | 1,611 | 1,363 | 1,035 | 328 |
| Employee related expense | 1,150 | 967 | 661 | 306 |
| Leases and rents | 653 | 632 | 580 | 52 |
| Miscellaneous | 1,441 | 1,308 | 1,122 | 186 |
| Reimbursements | (31,210) | (30,651) | (29,346) | (1,305) |
| Total operating expenses | 272,921 | 255,379 | 250,470 | 4,909 |
| OTHER EXPENSES | | | | |
| Americans with Disability Act programs | 29,533 | 25,837 | 23,774 | 2,063 |
| Caltrain subsidy | 15,025 | 15,025 | 14,112 | 913 |
| Light rail shuttles | 955 | 955 | 732 | 223 |
| Altamont Commuter Express subsidy | 3,912 | 3,712 | 3,503 | 209 |
| Highway 17 Express | 415 | 415 | 321 | 94 |
| Dumbarton Express | 390 | 390 | 364 | 26 |
| Contribution to other agencies | 470 | 510 | 475 | 35 |
| Debt service | 23,579 | 23,465 | 23,125 | 340 |
| Miscellaneous expenses | 374 | 18 | 556 | (538) |
| Contingencies | 2,000 | 1,710 | 5 | 1,705 |
| Total other expenses | 76,653 | 72,037 | 66,967 | 5,070 |
| Total operating and other expenses | 349,574 | 327,416 | 317,437 | 9,979 |
| Net income, on a budgetary basis | $ 5,257 | $ 8,557 | $ 22,297 | $ 13,740 |

| Reconciliation of net income on a budgetary basis to net income on a GAAP Basis: | |
|---|---|
| Project Revenue - VTA Enterprise | 16,717 |
| Bond Principal Payment | 8,895 |
| Measure A Repayment Obligation | (38,464) |
| Unrealized Gain in investment | 464 |
| Loss from sale of asset | (413) |
| Loss from sublease agreement | (10,063) |
| Depreciation | (56,557) |
| Surplus of Measure B Transit | 66,798 |
| Surplus of Measure A Program | 15,468 |
| Net income, on a GAAP basis | $ 25,142 |

# Santa Clara Valley Transportation Authority
# Schedule of Restricted Assets and Related Liabilities
# Enterprise Fund
# June 30, 2005

(In thousands)

| | Capital & Operating | Debt Service | Total Enterprise |
|---|---|---|---|
| Restricted assets: | | | |
| Cash and cash equivalents | $ 6,580 | $ - | $ 6,580 |
| Cash and cash equivalents with fiscal agents | 21,339 | 124,755 | 146,094 |
| Investments | 42,956 | - | 42,956 |
| Receivable | 583 | - | 583 |
| Due from other governmental agencies | 11,123 | - | 11,123 |
| Total restricted assets | $ 82,581 | $ 124,755 | $ 207,336 |
| Liabilities payable from restricted assets: | | | |
| Accounts payable | $ 20,885 | $ - | $ 20,885 |
| Other accrued liability - current | 6,002 | - | 6,002 |
| Due to other fund | 85 | - | 85 |
| Due to other governmental agencies | 11,209 | - | 11,209 |
| Long-term debt | - | 124,755 | 124,755 |
| Total liabilities payable from restricted assets | $ 38,181 | $ 124,755 | $ 162,936 |

# Santa Clara Valley Transportation Authority
# Combining Statement of Plan Net Assets
# Pension Trust Funds
# June 30, 2005

(In thousands)

| | ATU Pension | ATU Medical: Spousal Medical | ATU Medical: Retiree Vision/Dental | ATU Medical: Total ATU Medical | Total |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Restricted assets: | | | | | |
| Investments | $ 279,615 | $ 8,380 | $ 2,302 | $ 10,682 | $ 290,297 |
| Receivables | 999 | - | - | - | 999 |
| Total assets | 280,614 | 8,380 | 2,302 | 10,682 | 291,296 |
| **LIABILITIES** | | | | | |
| Restricted liabilities: | | | | | |
| Accounts payable | 88 | - | - | - | 88 |
| Due to Enterprise Fund | 807 | - | - | - | 807 |
| Total liabilities payable from restricted assets | 895 | - | - | - | 895 |
| **NET ASSETS** | | | | | |
| Net assets held in trust for: | | | | | |
| Pension benefits | 279,719 | - | - | - | 279,719 |
| Retiree medical benefits | - | 8,380 | - | 8,380 | 8,380 |
| Retiree dental and vision benefits | - | - | 2,302 | 2,302 | 2,302 |
| Total net assets | $ 279,719 | $ 8,380 | $ 2,302 | $ 10,682 | $ 290,401 |

# Santa Clara Valley Transportation Authority
# Combining Statement of Changes in Fiduciary Net Assets
# Pension Trust Funds
# For the Year Ended June 30, 2005

(In thousands)

| | ATU Pension Trust | ATU Medical Trust: Spousal Medical | ATU Medical Trust: Vision/ Dental | ATU Medical Trust: Total Medical Trust | Total |
|---|---|---|---|---|---|
| ADDITIONS | | | | | |
| Contributions | $ 14,292 | $ 885 | $ 330 | $ 1,215 | $ 15,507 |
| Investment earnings: | | | | | |
| Investment income | 6,509 | 484 | 183 | 667 | 7,176 |
| Net appreciaton on investments | 17,340 | 13 | 1 | 14 | 17,354 |
| Investment expense | (1,039) | - | - | - | (1,039) |
| Net investment income | 22,810 | 497 | 184 | 681 | 23,491 |
| Total additions | 37,102 | 1,382 | 514 | 1,896 | 38,998 |
| DEDUCTIONS | | | | | |
| Benefit payments | 13,916 | 932 | - | 932 | 14,848 |
| Administrative and other payments | 119 | - | - | - | 119 |
| Total deductions | 14,035 | 932 | - | 932 | 14,967 |
| Net increase | 23,067 | 450 | 514 | 964 | 24,031 |
| NET ASSETS HELD IN TRUST | | | | | |
| Beginning of year | 256,652 | 7,930 | 1,788 | 9,718 | 266,370 |
| End of year | $ 279,719 | $ 8,380 | $ 2,302 | $ 10,682 | $ 290,401 |

# Santa Clara Valley Transportation Authority
## Combining Statement of Fiduciary Assets and Liabilities
## Agency Funds
## June 30, 2005

(In thousands)

| | BAAQMD Program | | Measure B Ancillary Program | | Total | |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Restricted assets: | | | | | | |
| Cash and cash equivalents with fiscal agents | $ | - | $ | 1,008 | $ | 1,008 |
| Investments | | 5,779 | | 2,649 | | 8,428 |
| Total restricted assets | | 5,779 | | 3,657 | | 9,436 |
| **Liabilities** | | | | | | |
| Liabilities payable from restricted assets: | | | | | | |
| Accounts payable | | 5,779 | | - | | 5,779 |
| Other accrued liabilities-current: | | | | | | |
| Due to other governmental agencies | | - | | 3,657 | | 3,657 |
| Total liabilities payable from restricted assets | $ | 5,779 | $ | 3,657 | $ | 9,436 |

# Santa Clara Valley Transportation Authority
# Combining Statement of Changes in Fiduciary Assets and Liabilities
# Agency Funds
# For the Year Ended June 30, 2005

(In thousands)

| | Balance 30-Jun-04 | Increase | Decrease | Balance 30-Jun-05 |
|---|---|---|---|---|
| **BAAQMD Program** | | | | |
| Restricted assets: | | | | |
| Investments | $ 4,702 | $ 1,077 | $ - | $ 5,779 |
| Liabilities payable from restricted assets: | | | | |
| Accounts payable | $ 4,588 | $ 1,191 | $ - | $ 5,779 |
| Due to other governmental agencies | 114 | - | 114 | - |
| Total liabilities payable from restricted assets | $ 4,702 | $ 1,191 | $ 114 | $ 5,779 |
| **Measure B Ancillary Program** | | | | |
| Restricted assets: | | | | |
| Cash and cash equivalents | $ 4,324 | $ - | $ 3,316 | $ 1,008 |
| Investments | 17,971 | - | 15,322 | 2,649 |
| Total restricted assets | $ 22,295 | $ - | $ 18,638 | $ 3,657 |
| Liabilities payable from restricted assets: | | | | |
| Due to other governmental agencies | $ 22,295 | $ - | $ 18,638 | $ 3,657 |
| Total liabilities payable from restricted assets | $ 22,295 | $ - | $ 18,638 | $ 3,657 |
| **Total - All Agency Funds** | | | | |
| Restricted assets: | | | | |
| Cash and cash equivalents | $ 4,324 | $ - | $ 3,316 | $ 1,008 |
| Investments | 22,673 | 1,077 | 15,322 | 8,428 |
| Total restricted assets | $ 26,997 | $ 1,077 | $ 18,638 | $ 9,436 |
| Liabilities payable from restricted assets: | | | | |
| Accounts payable | $ 4,588 | $ 1,191 | $ - | $ 5,779 |
| Due to other governmental agencies | 22,409 | - | 18,752 | 3,657 |
| Total liabilities payable from restricted assets | $ 26,997 | $ 1,191 | $ 18,752 | $ 9,436 |

# 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

**Sales Tax Revenues**

- Historical sales tax revenues
- Projected sales tax revenues and debit service coverage

**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 |
| 2003 | $ 379,853 | 3,428 | 141,425 | 524,706 |
| 2004 | 352,741 | 2,022 | 116,097 | 470,860 |
| 2005 | 355,459 | 2,800 | 96,081 | 454,340 |

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)

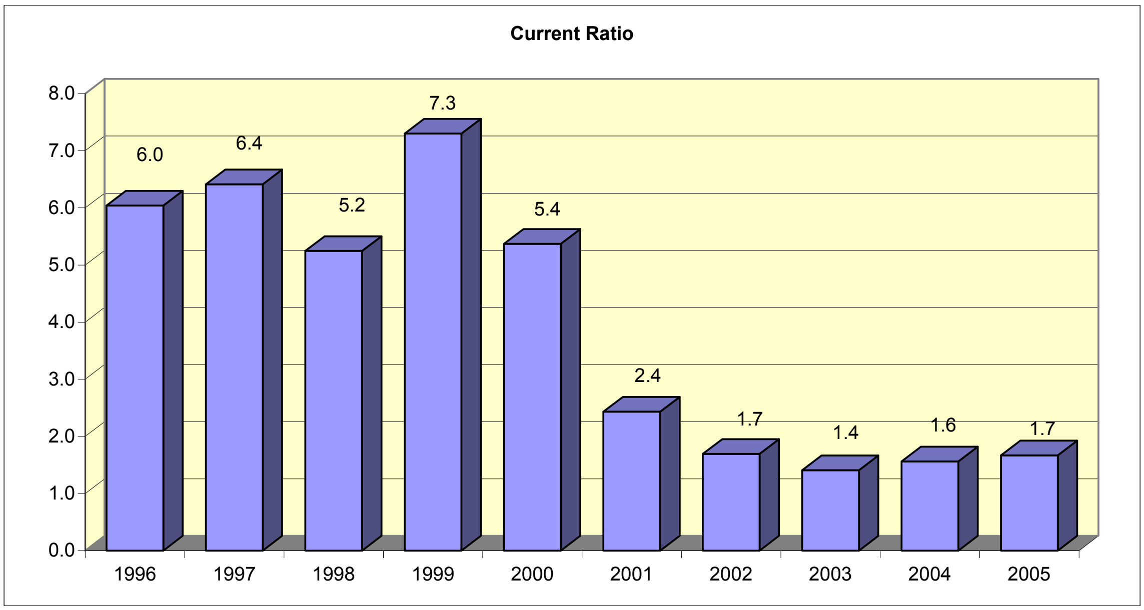
| | Program Revenues | | | General Revenues | | | |
|---|---|---|---|---|---|---|---|
| Fiscal Year | Charges for Services | Operating Grants | Capital Grants | Sales Tax Revenue | Investment Income | Other Income & Special Items | Total |
| 2003 | $ 36,553 | 104,985 | 458,360 | 132,693 | 14,344 | 16,340 | 763,275 |
| 2004 | 35,284 | 112,093 | 333,066 | 138,917 | 6,462 | 32,118 | 657,940 |
| 2005 | 36,923 | 115,115 | 192,606 | 145,008 | 11,380 | 2,647 | 503,679 |

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 1996 - 2005

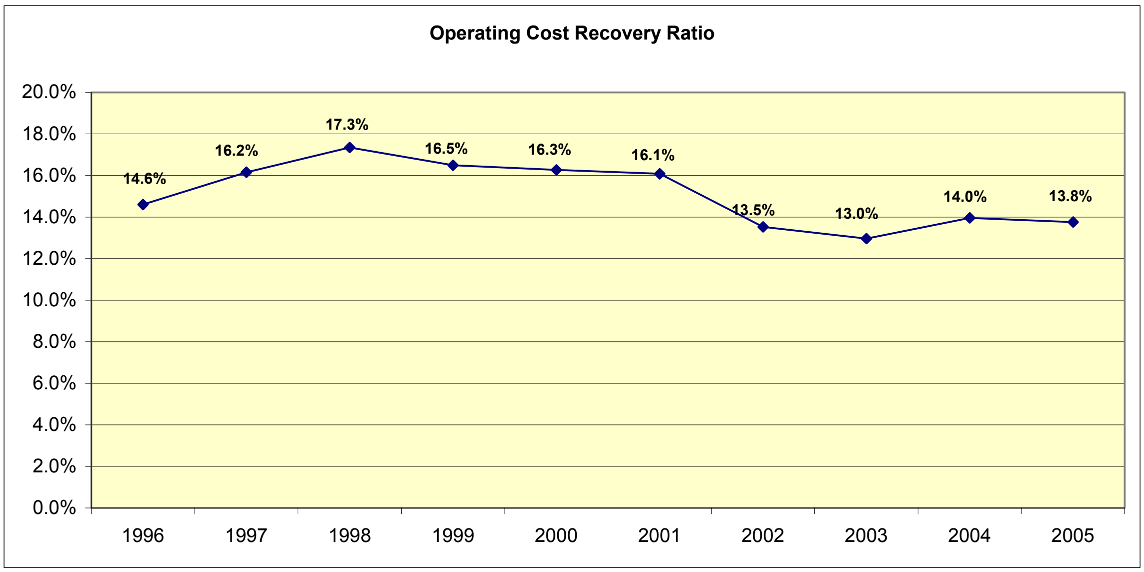
## Current Ratios

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 FY2005, VTA's current ratio is 1.7. This is the second increase in five years.



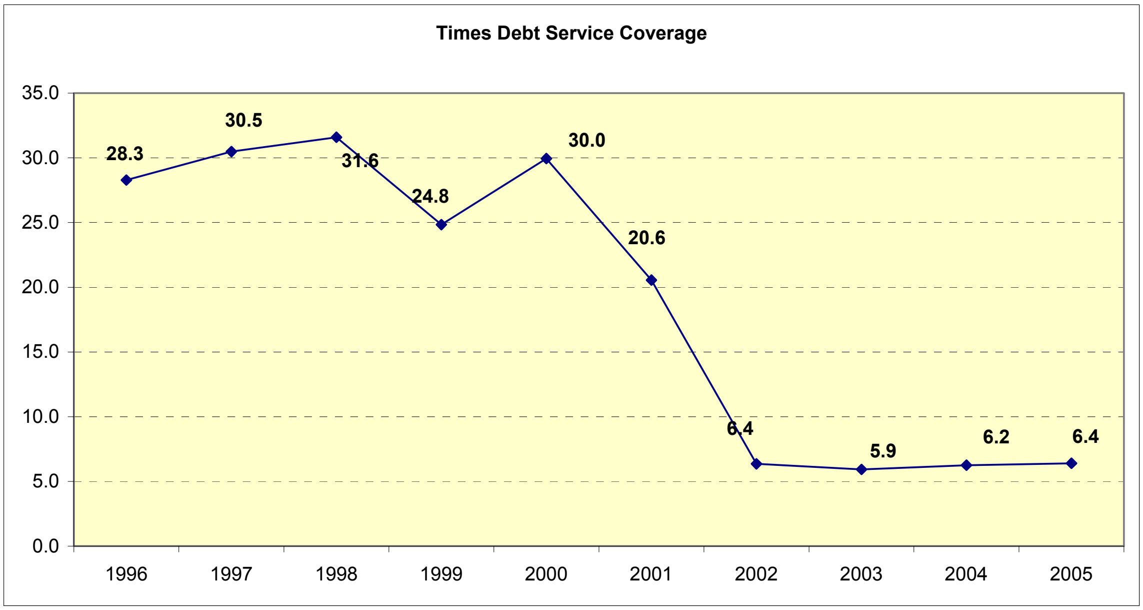
## Operating Recovery Ratios

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 FY2005, both operating income and operating expenses increased, causing a decrease in this ratio. The proportion of the increase in operating expenses was slightly more; therefore, the Operating Recovery Ratio decreased by 0.2 percent compared to the prior year.



## Times Debt Service Coverage

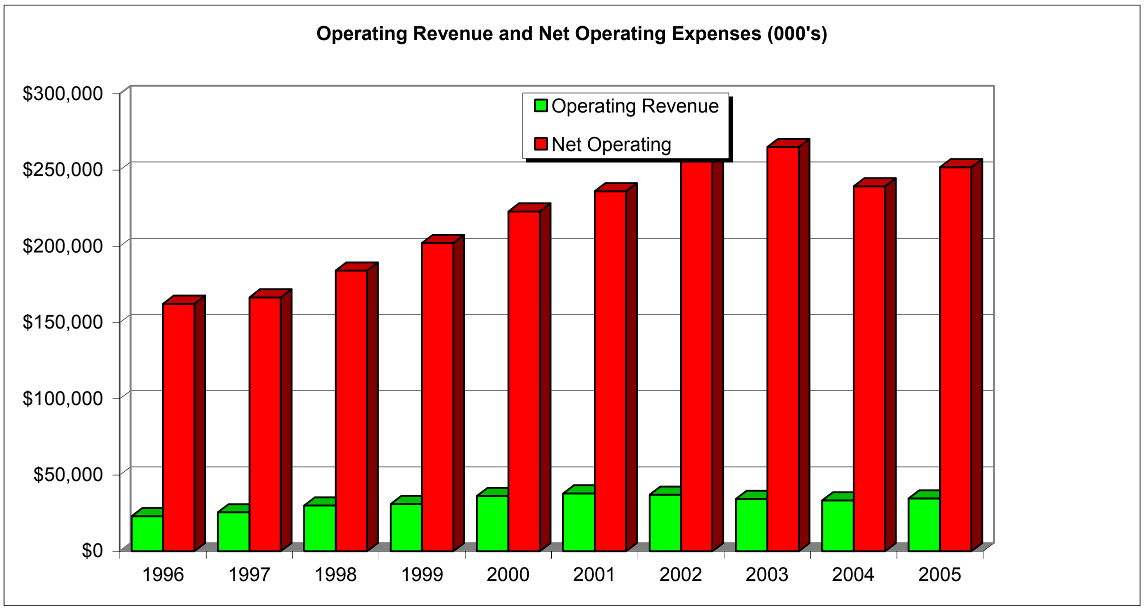
The Times-Debt-Service-Coverage Ratio indicates VTA's financial position to cover its debt service with sales tax revenue and is determined by dividing sales tax revenue by debt service. Debt service is defined as interest expense during the year plus the current portion of long-term debt. This ratio does not include Measure A debt. For FY2005, the ratio increased by 0.2 due to a 4.4% increase in sales tax revenue.



# TEN - YEAR COMPARISONS (1996 - 2005)

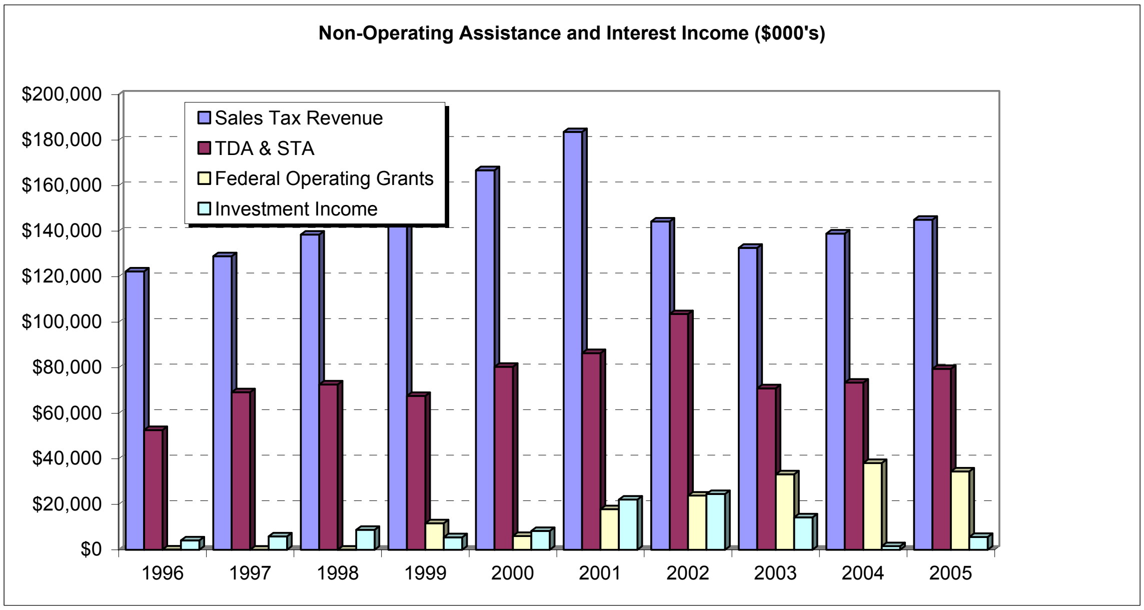
## Operating Revenues and Net Operating Expenses

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.



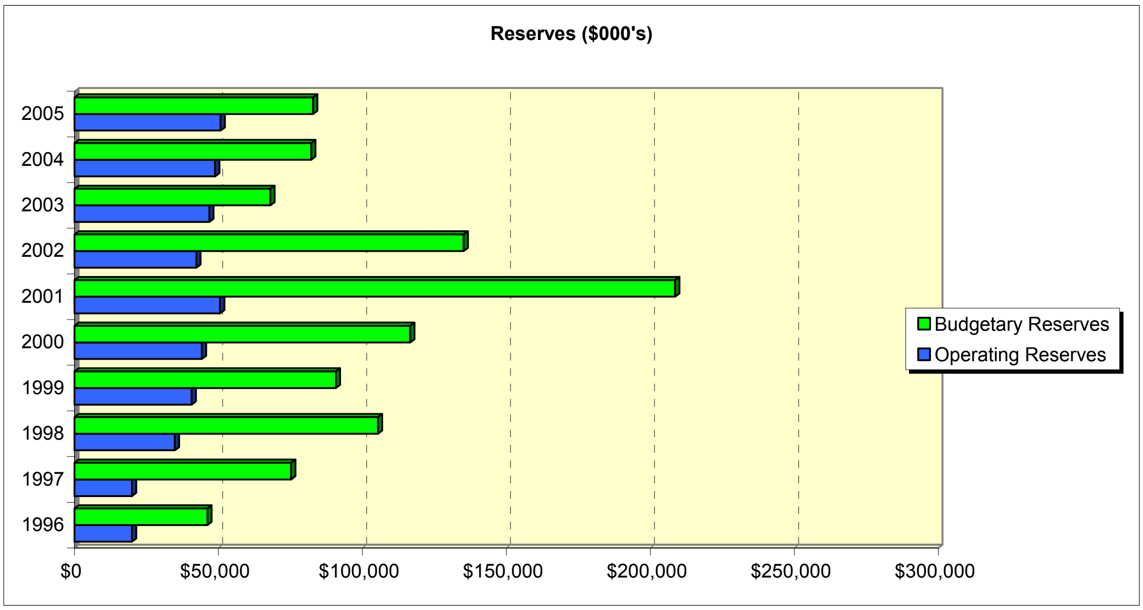
## Non-operating Assistance and Interest Income

The following chart illustrates trends in selected 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. FY2005 marks the second year in the last four that sales tax income has increased. TDA and STA also showed positive growth.



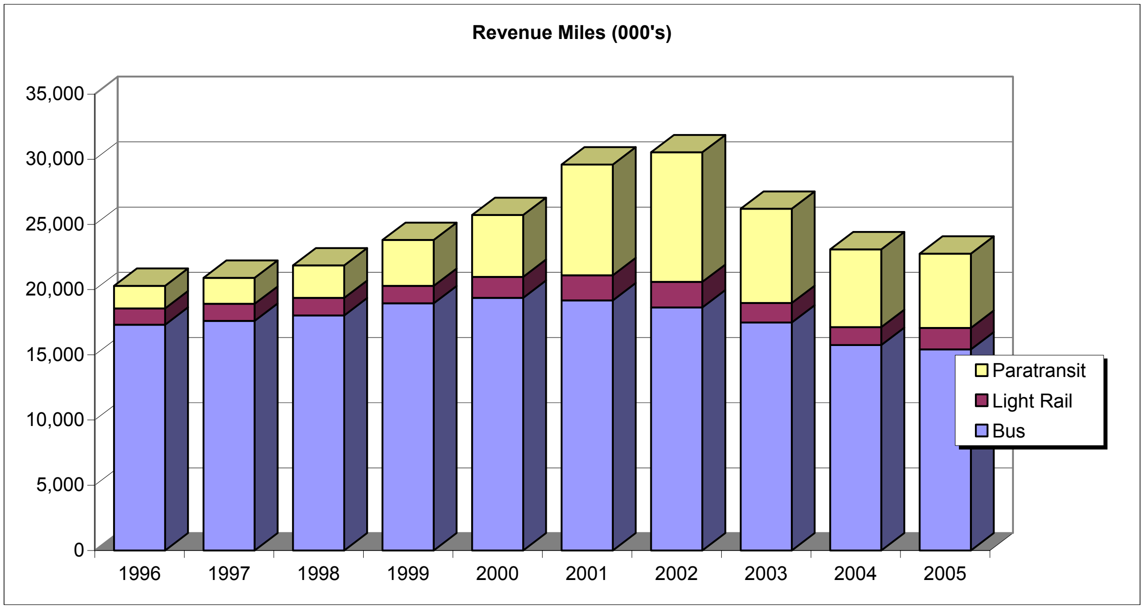
**Budgetary Reserves to Operating Reserves**

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 FY2005 VTA met its target reserve goal and surpassed FY2004's actual reserve level, resulting in an increase of $2.2 million in budgetary reserves.



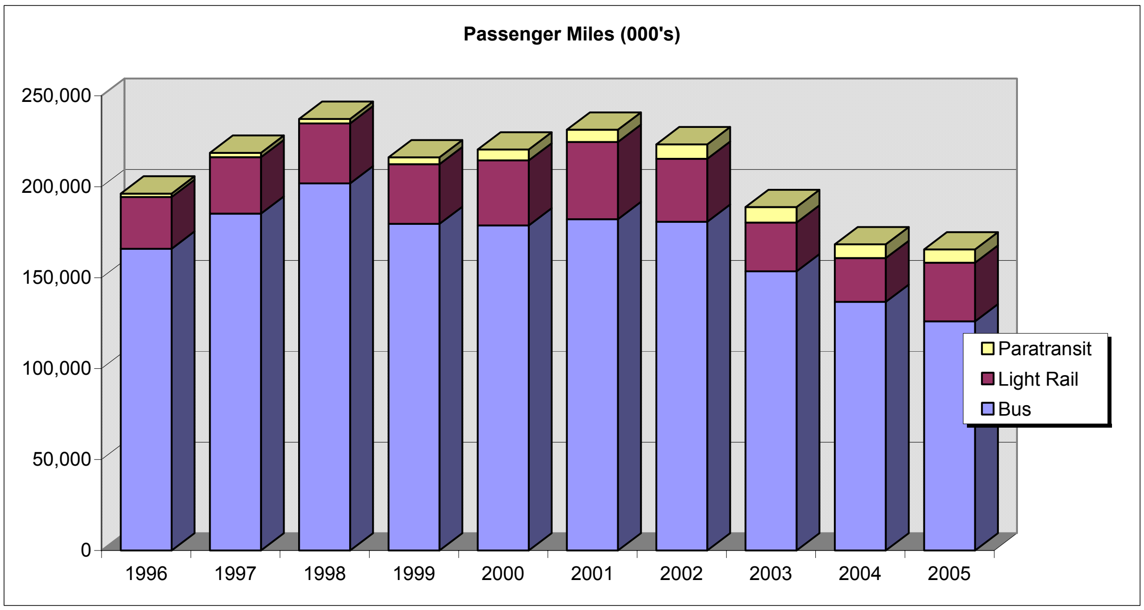
### Vehicle Revenue Miles

The following chart depicts vehicle miles in revenue service. During FY2005 total revenue miles decreased due to service cuts.



**Passenger Miles**

Passenger mile statistics are presented in the chart below. Despite that total passenger miles declined in FY2005 from previous years due to continued drop in employment and service cuts, the passenger miles for light rails have increased in the year primarily due to the opening of the Tasman East and Capitol light rail lines.



The following table shows 1976 Sales Tax Revenues reported by VTA during the ten fiscal years ended June 30, 2005.

Santa Clara Valley Transportation Authority
Historical 1976 Sales Tax Revenues
Fiscal Years ended June 30, 1996 - 2005
($000's)

| Fiscal Year Ended June 30 | Sales Tax Revenues | Increase (Decrease) (%) |
|---|---|---|
| 1996 | $122,274 | -------- |
| 1997 | 128,969 | 5.5% |
| 1998 | 138,429 | 7.3% |
| 1999 | 143,712 | 3.8% |
| 2000 | 166,764 | 16.0% |
| 2001 | 183,540 | 10.1% |
| 2002 | 144,218 | -21.4% |
| 2003 | 132,632 | -8.0% |
| 2004 | 138,917 | 4.7% |
| 2005 | 145,008 | 4.4% |

**Projected Sales Tax Revenues and Debt Service Coverage**

The table below represents a five-year projection of forecasted debt service coverage for the Bonds and the Equipment Trust Certificates, based on the Authority estimates of Sales Tax Revenues for the five years ending June 30, 2006 through 2010.

Santa Clara Valley Transportation Authority
Projection of Sales Tax Revenues and Debt Service Coverage
Fiscal Years Ending June 30, 2006 – 2010
(000's)

| Fiscal Year Ending June 30 | Forecast Sales Tax Revenue | Percent Increase | Aggregate Debt Service [1] | Forecast Coverage [2] |
|---|---|---|---|---|
| 2006 | $148,865 | 2.7% | $18,840 | 7.90 |
| 2007 | $156,120 | 4.9% | 18,844 | 8.28 |
| 2008 | $164,969 | 5.7% | 18,844 | 8.75 |
| 2009 | $174,393 | 5.7% | 18,842 | 9.26 |
| 2010 | $184,431 | 5.8% | 18,843 | 9.79 |

(1) Includes debt service on the 1985 Equipment Trust Certificates at the swap rate of 4.335% and actual debt service on the 1997 Bonds and the 2001 Bonds.
(2) Does not include any additional Parity Debt.

| (Dollars in $000's) | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|
| OPERATING REVENUES | $ 22,964 | $ 25,577 | $ 30,003 | $ 30,956 | $ 36,253 | $ 37,982 | $ 37,122 | $ 34,376 | $ 33,421 | $ 34,692 |
| OPERATING EXPENSES | | | | | | | | | | |
| LABOR | 71,810 | 77,297 | 82,030 | 88,779 | 98,372 | 106,878 | 136,386 | 134,524 | 127,045 | 120,402 |
| FRINGE BENEFITS | 46,457 | 43,054 | 48,661 | 53,575 | 75,354 | 61,845 | 82,958 | 92,001 | 95,349 | 108,921 |
| MATERIALS AND SUPPLIES | 16,649 | 16,911 | 17,044 | 19,646 | 15,540 | 27,428 | 20,470 | 20,698 | 16,169 | 19,996 |
| SERVICES | 12,310 | 12,583 | 14,709 | 15,200 | 21,379 | 27,428 | 28,619 | 22,055 | 17,114 | 18,226 |
| UTILITIES | 3,277 | 3,409 | 3,603 | 4,071 | 5,167 | 5,071 | 7,212 | 5,735 | 5,064 | 5,795 |
| CASUALTY AND LIABILITY | 4,120 | 2,413 | 3,923 | 3,895 | 2,403 | 1,473 | 3,199 | 4,119 | 3,413 | 3,763 |
| PURCHASED TRANSPORTATION | 5,746 | 8,916 | 11,821 | 15,487 | 17,456 | 23,489 | 35,780 | 31,553 | 27,242 | 25,538 |
| LEASES & RENTALS | 773 | 299 | 394 | 467 | 637 | 669 | 792 | 605 | 569 | 580 |
| MISCELLANEOUS | 1,184 | 1,628 | 1,915 | 1,107 | 3,011 | 3,415 | 4,471 | 3,154 | 2,609 | 1,773 |
| COSTS ALLOCATED TO CAPITAL & OTHER PROGRAMS | | | | | | | (12,357) | (20,201) | (29,698) | (29,346) |
| TOTAL OPERATING EXPENSES | 162,326 | 166,510 | 184,100 | 202,227 | 239,318 | 257,695 | 307,529 | 294,244 | 264,876 | 275,648 |
| DEPRECIATION EXPENSE | 23,266 | 24,418 | 24,322 | 24,263 | 25,910 | 31,428 | 33,356 | 41,516 | 46,552 | 56,557 |
| NON-OPERATING REVENUES/(EXPENSES) | | | | | | | | | | |
| SALES TAX REVENUE | 122,274 | 128,969 | 138,429 | 143,712 | 166,764 | 183,540 | 144,218 | 132,632 | 138,917 | 145,008 |
| FEDERAL OPERATING ASSISTANCE GRANT | 110 | 49 | 59 | 11,656 | 6,051 | 17,867 | 23,811 | 33,176 | 38,144 | 34,416 |
| TDA & STA | 52,597 | 69,243 | 72,624 | 67,589 | 80,436 | 86,388 | 103,561 | 70,956 | 73,433 | 79,509 |
| CALTRAIN SUBSIDY AND CAPITAL CONTRIBUTIONS | (11,973) | (11,689) | (12,254) | (11,291) | (7,850) | (14,821) | (25,315) | (22,298) | (16,805) | (14,112) |
| ACE SUBSIDY | 2,086 | 2,584 | - | (837) | (3,821) | (657) | (1,740) | (2,715) | (2,392) | (2,470) |
| INTEREST INCOME | 4,148 | 5,943 | 8,785 | 5,535 | 8,286 | 22,078 | 24,513 | 14,245 | 1,592 | 5,666 |
| INTEREST EXPENSE | (3,863) | (3,731) | (4,014) | (4,763) | (4,616) | (6,806) | (14,717) | (14,222) | (13,691) | (13,761) |
| OTHER REVENUES/(EXPENSES) | (231) | (550) | 234 | 8,896 | 3,399 | 936 | (280) | (754) | (919) | (688) |
| CONTRIBUTION TO FUND UNFUNDED LIABILITY | - | - | (22,889) | - | - | - | - | - | - | - |
| TOTAL NON OPERATING REVENUES - NET | 165,148 | 190,818 | 180,974 | 220,497 | 248,649 | 288,524 | 254,052 | 211,021 | 218,279 | 233,568 |
| CHANGE IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS & SPECIAL ITEMS | 2,520 | 25,467 | 2,555 | 24,963 | 19,674 | 37,383 | (49,711) | (90,364) | (59,728) | (63,945) |
| CAPITAL CONTRIBUTIONS (1) | | | | | | 154,648 | 226,125 | 316,997 | 217,053 | 96,860 |
| SPECIAL ITEMS: | | | | | | | | | | |
| GAIN ON SALE OF LAND | | | | | | | | 12,224 | 29,999 | |
| REVENUE FROM HEADLEASE | | | | | | | | | (15,918) | |
| LOSS FROM SUBLEASE OF VEHICLES | | | | | | | | | | (7,773) |
| CHANGE IN NET ASSETS | $ 2,520 | $ 25,467 | $ 2,555 | $ 24,963 | $ 19,674 | $ 192,031 | $ 176,415 | $ 238,857 | $ 171,406 | $ 25,142 |

(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.

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|
| (Dollars in 000's) | | | | | | | | | | |
| Current and Restricted Assets | $ 219,762 | $ 245,843 | $ 334,148 | $ 328,355 | $ 364,166 | $ 563,189 | $ 433,294 | $ 396,064 | $ 365,406 | $ 333,980 |
| Current and Restricted Liabilities | 36,375 | 38,328 | 63,682 | 44,974 | 67,816 | 231,450 | 255,719 | 281,159 | 234,259 | 200,698 |
| Net Working Capital | $ 183,387 | $ 207,515 | $ 270,466 | $ 286,381 | $ 296,350 | $ 331,739 | $ 177,575 | $ 114,905 | $ 131,147 | $ 133,282 |
| Current Ratio | 6.0 | 6.4 | 5.2 | 7.3 | 5.4 | 2.4 | 1.7 | 1.4 | 1.6 | 1.7 |
| Total Assets [1] | $ 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 | $ 2,820,515 |
| Contributed Capital | 501,599 | 540,365 | 634,828 | 746,779 | 851,494 | 744,766 | N/A | N/A | N/A | N/A |
| Retained Earnings Restricted | 29,165 | 33,159 | 122,914 | 90,828 | 116,361 | 208,638 | 177,575 | 114,905 | 66,019 | 44,400 |
| Retained Earnings Unrestricted | 326,650 | 358,089 | 286,849 | 355,661 | 366,309 | 480,281 | 1,432,525 | 1,734,052 | 1,954,344 | 2,001,105 |
| Total Retained Earnings/Net Assets | 355,815 | 391,248 | 409,763 | 446,490 | 479,670 | 688,919 | 1,610,100 | 1,848,957 | 2,020,363 | 2,045,505 |
| Liabilities | 189,101 | 173,455 | 253,392 | 234,393 | 264,884 | 560,505 | 575,692 | 675,040 | 657,606 | 775,010 |
| Actual Reserve (including minimum target level) | $ 66,195 | $ 95,310 | $ 125,410 | $ 136,400 | $ 160,910 | $ 259,245 | $ 177,575 | $ 114,905 | $ 131,147 | $ 133,282 |
| DEBT SERVICE | $ 4,323 | $ 4,231 | $ 4,382 | $ 5,786 | $ 5,568 | $ 8,930 | $ 22,668 | $ 22,381 | $ 22,233 | $ 22,656 |
| Times Debt Service Coverage | 28.3 | 30.5 | 31.6 | 24.8 | 30.0 | 20.6 | 6.4 | 5.9 | 6.2 | 6.4 |
| OPERATING REVENUE | $ 22,964 | $ 25,577 | $ 30,003 | $ 30,956 | $ 36,253 | $ 37,982 | $ 37,122 | $ 34,376 | $ 33,421 | $ 34,692 |
| OPERATING EXPENSES (excluding depreciation) | 162,326 | 166,510 | 184,100 | 202,227 | 239,318 | 257,695 | 307,529 | 294,244 | 264,876 | 275,648 |
| EXCLUSIONS (ADA) | (5,074) | (8,172) | (11,150) | (14,510) | (16,443) | (21,558) | (33,122) | (29,064) | (25,465) | (23,774) |
| NET OPERATING EXPENSES | $ 157,252 | $ 158,338 | $ 172,950 | $ 187,717 | $ 222,875 | $ 236,137 | $ 274,407 | $ 265,180 | $ 239,411 | $ 251,874 |
| OPERATING COST RECOVERY RATIO | 14.6% | 16.2% | 17.3% | 16.5% | 16.3% | 16.1% | 13.5% | 13.0% | 14.0% | 13.8% |

(1) Please note that the internal service fund has not been presented in the total assets for 2005.

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|
| **FAREBOX REVENUE ($000's)** | $ 21,523 | $23,633 | $27,201 | $27,070 | $32,326 | $33,837 | $31,282 | $30,959 | $30,625 | 32,061 |
| **VEHICLE REVENUE MILES (000's)** | | | | | | | | | | |
| BUS | 17,310 | 17,605 | 18,026 | 18,950 | 19,373 | 19,177 | 18,714 | 17,471 | 15,755 | 15,315 |
| LIGHT RAIL | 1,255 | 1,305 | 1,336 | 1,334 | 1,608 | 1,926 | 1,962 | 1,499 | 1,372 | 2,460 |
| PARATRANSIT | 1,729 | 1,994 | 2,494 | 3,523 | 4,748 | 8,495 | 9,937 | 7,233 | 5,967 | 5,702 |
| **PASSENGER MILES (000's)** | | | | | | | | | | |
| BUS | 165,913 | 185,226 | 201,818 | 179,561 | 178,688 | 182,187 | 177,883 | 152,036 | 136,693 | 125,953 |
| LIGHT RAIL | 28,428 | 31,037 | 32,993 | 32,820 | 35,758 | 42,462 | 34,656 | 26,815 | 24,166 | 32,290 |
| PARATRANSIT | 1,881 | 2,420 | 2,494 | 3,798 | 6,013 | 6,711 | 7,947 | 8,497 | 7,546 | 7,314 |
| **FLEET** | | | | | | | | | | |
| ACTIVE BUS | 460 | 470 | 508 | 520 | 512 | 502 | 491 | 524 | 523 | 525 |
| LIGHT RAIL | 55 | 55 | 55 | 55 | 55 | 54 | 68 | 98 | 80 | 100 |
| **CASH FARE SINGLE RIDE** | | | | | | | | | | |
| ADULT | $1.10 | $1.10 | $1.10 | $1.10 | $1.25 | $1.25 | $1.25 | $1.40 | $1.50 | $1.75 |
| YOUTH | $0.55 | $0.60 | $0.60 | $0.60 | $0.70 | $0.70 | $0.70 | $0.85 | $1.25 | $1.50 |
| SENIOR | $0.35 | $0.35 | $0.35 | $0.35 | $0.40 | $0.40 | $0.40 | $0.45 | $0.75 | $0.75 |

**Population**

In comparison with the beginning of the decade, Santa Clara County's population has risen by 4.6%. Approximately 5.6% 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 5 years, with a 15.0% gain. Morgan Hill was second at 8.5%. By the year 2050, it is predicted that the County's population will grow 32.2% 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 | 2005 |
|---|---|---|---|---|---|---|
| Campbell | 11,863 | 24,731 | 26,843 | 36,048 | 38,138 | 38,415 |
| Cupertino | 3,664 | 18,216 | 34,297 | 40,263 | 50,546 | 53,452 |
| Gilroy | 7,348 | 12,665 | 21,641 | 31,487 | 41,464 | 47,671 |
| Los Altos | 19,696 | 24,872 | 25,769 | 26,303 | 27,693 | 27,614 |
| Los Altos Hills | 3,412 | 6,862 | 7,421 | 7,514 | 7,902 | 8,452 |
| Los Gatos | 9,036 | 23,466 | 26,906 | 27,357 | 28,592 | 28,976 |
| Milpitas | 6,572 | 27,149 | 37,820 | 50,686 | 62,698 | 64,998 |
| Monte Sereno | 1,506 | 3,074 | 3,434 | 3,287 | 3,483 | 3,505 |
| Morgan Hill | 3,151 | 6,485 | 17,060 | 23,928 | 33,556 | 36,423 |
| Mountain View | 30,889 | 54,206 | 58,655 | 67,460 | 70,708 | 72,033 |
| Palo Alto | 52,475 | 55,999 | 55,225 | 55,900 | 58,598 | 61,674 |
| San Jose | 204,196 | 445,779 | 629,400 | 782,248 | 894,943 | 944,857 |
| Santa Clara | 58,880 | 87,717 | 87,700 | 93,613 | 102,361 | 109,106 |
| Saratoga | 14,861 | 27,199 | 29,261 | 28,061 | 29,843 | 30,850 |
| Sunnyvale | 51,898 | 95,408 | 106,618 | 117,229 | 131,760 | 133,086 |
| Unincorporated | 162,056 | 152,181 | 127,021 | 106,193 | 100,300 | 98,473 |
| County Total* | 641,503 | 1,066,009 | 1,295,071 | 1,497,577 | 1,682,585 | 1,759,585 |
| California | 15,717,204 | 18,136,045 | 23,668,145 | 29,760,021 | 33,871,648 | 36,810,358 |

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 it experienced before the economic downturn at the beginning of the decade, but a slight recovery is on the horizon. In June 2005, Santa Clara County's unemployment rate was reported at 5.5%, which is .14% higher than that of the State. Although there has been a slight growth in employment over the year, high-tech engineering jobs are now being outsourced to other countries to lower costs. This will be another hurdle in the road to economic recovery.

In 2004 the County had 851,000 wage and salary jobs. This was the fourth consecutive decrease from the previous fiscal year. Three of the major industry sectors comprise 74.3% of the County's employment: manufacturing (19.7%), services (45.2%) 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 | 2004 |
|---|---|---|---|---|---|---|---|---|---|---|
| Civilian Labor Force * | 867.0 | 895.0 | 937.5 | 958.8 | 965.5 | 1,001.8 | 1,005.8 | 958.2 | 895.1 | 828.8 |
| Civilian Employment | 824.2 | 862.8 | 909.2 | 927.9 | 936.3 | 982.0 | 960.0 | 877.6 | 821.6 | 774.2 |
| Civilian Unemployment | 42.8 | 32.2 | 28.3 | 30.9 | 29.2 | 19.8 | 45.8 | 80.6 | 73.5 | 54.6 |
| Civilian Unemployment Rate | | | | | | | | | | |
| County | 4.9% | 3.6% | 3.0% | 3.2% | 3.0% | 2.0% | 4.6% | 8.5% | 8.2% | 6.6% |
| State of California | 7.8% | 7.2% | 6.3% | 5.9% | 5.2% | 4.9% | 5.3% | 6.7% | 6.5% | 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 | 4.1 |
| Construction and Mining | 28.8 | 32.7 | 36.5 | 41.3 | 44.8 | 47.6 | 48.0 | 42.5 | 39.0 | 40.1 |
| Manufacturing | 223.0 | 237.7 | 247.2 | 246.1 | 234.9 | 251.7 | 240.5 | 201.2 | 177.0 | 167.9 |
| Transportation & Public Utilities | 14.9 | 16.1 | 16.7 | 17.0 | 17.3 | 17.6 | 16.3 | 15.0 | 14.2 | 13.3 |
| Wholesale Trade | 36.4 | 39.2 | 41.9 | 42.4 | 42.3 | 42.2 | 40.7 | 35.7 | 33.5 | 34.0 |
| Retail Trade | 75.8 | 79.9 | 82.5 | 83.8 | 86.6 | 90.6 | 88.2 | 83.6 | 81.0 | 80.2 |
| Finance, Insurance & Real Estate | 30.4 | 31.4 | 32.4 | 33.8 | 34.2 | 34.0 | 35.2 | 35.0 | 34.8 | 34.7 |
| Services | 334.8 | 355.2 | 380.9 | 403.0 | 419.8 | 451.8 | 440.0 | 391.7 | 379.9 | 385.0 |
| Government | 87.8 | 87.7 | 88.5 | 88.9 | 91.4 | 94.5 | 94.6 | 98.1 | 94.8 | 91.7 |
| Total *** | 836.4 | 885.0 | 931.7 | 961.5 | 976.6 | 1,035.0 | 1,008.1 | 907.3 | 858.4 | 851.0 |

* 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 2004.

** Wage and salary employment is reported by place of work. Data are benchmarked to 2004.

*** 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 15,316 workers. The City of San Jose alone has over 7,000 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 29, 2005)

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 | 15,316 | County Government |
| Cisco Systems, Inc. | 13,000 | Academic research institution, hospital, medical research |
| Stanford University | 12,000 | Computer network equipment manufacturer |
| Hewlett-Packard Co. | 8,000 | Technology solutions provider |
| Lockheed Martin Space Systems Co. | 7,400 | Aerospace systems |
| City of San Jose | 7,325 | Municipal government |
| IBM Corp. | 7,000 | Computer hardware, software and business solutions |
| Intel Corp. | 6,136 | Microprocessors manufacturer |
| Applied Materials, Inc. | 4,130 | Semiconductor manufacturing equipment and services |
| State of California | 3,163 | State government |
| San Jose Unified School District | 3,027 | Public education |
| Google Inc. | 3,021 | Web search engine and advertising |
| Agilent Technologies, Inc. | 2,632 | Measurement equipment for electronics, communications and life sciences |
| SBC California | 2,508 | Voice, data, networking, e-business, directory publishing and advertising, and related services |

Source: San Jose and Silicon Valley Business Journal (Book of Lists July 29, 2005)

## Commercial Activity

Taxable sales activity at retail and non-retail business establishments are a significant component of the County's commercial activity. During 2004, there was a $1.3 billion increase in taxable transactions reported within Santa Clara County in comparison to 2003. The following table shows taxable sales activity from 1995 through 2004 (latest data available).

County of Santa Clara
Total Taxable Transactions
1995 to 2004
(in thousands)

| | |
|---|---|
| 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 |
| 2004 | 27,906,947 |

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

## Construction Activity

Commercial real estate vacancy rates have not only stabilized, but have also decreased. Silicon Valley office vacancy is below 14% at the end of the second quarter of 2005, which is the lowest since 2001. Research and Development vacancy, although above 20%, is as low as it has been in two-and-a-half years. As a result of growth rate in employment, it is expected that we will see a corresponding positive effect in leasing transactions for commercial space.

Non-residential construction has decreased while new single-family homes have increased countywide. According to the Construction Industry Research Board, calendar year 2004 total permit valuations for new residential and non-residential construction decreased by approximately 4.8%. The number of single-family units increased to 2,689, but the number of multiple family units decreased to 2,816.

Source: Silicon Valley/San Jose Business Journal, July 22, 2005

The following table provides a summary of building permit valuations and the number of new dwelling units authorized in the County since 1995.

County of Santa Clara
Building Permit Valuations
1995 to 2004

| Year | Valuation ($ millions) | | | New Dwelling Units | | |
|---|---|---|---|---|---|---|
| | New Residential | Non-Residential | Total | Single Family | Multiple Family | Total |
| 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 |
| 2004 | 1,406.2 | 915.8 | 2,322.0 | 2,689 | 2,816 | 5,505 |
| Source: Construction Industry Research Board | | | | | | |

VTA FACTS

# CURRENT BUS SYSTEM DATA
## July 2005

| Demographic Information | |
|---|---|
| Santa Clara County Population | **1,759,585 *** |
| Urbanized Area (UZA) | **326 sq. miles** |
| Route Mileage (round trip) | **2,201** |

| Facilities | |
|---|---|
| Number of Bus Stops | **4,344** |
| Number of Shelters | **732** |
| Number of Benches | **2,219** |
| Number of Trash Receptacles | **913** |
| Number of Transit Centers | **16** |

**Routes by Service Type**

| Primary Grid | Secondary Grid | Feeder | Limited Stop | Express | Total |
|---|---|---|---|---|---|
| 14 | 13 | 25 | 6 | 11 | **69** |

**Bus Deployment** Base to Peak ratio **65.5%** Total Buses **526**

| Weekday | | | | Saturday | Sunday |
|---|---|---|---|---|---|
| AM Peak | Midday | PM Peak | Evenings | | |
| **334** | **226** | **345** | **193** | **194** | **151** |

**Park and Ride Lots**

| | Bus | Light Rail | Caltrain | Total |
|---|---|---|---|---|
| Number of Lots | **8** | **21** | **16** | **45** |
| Parking Spaces | **560** | **6,528** | **5,008** | **12,096** |

* 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 | 1,359,608 | 18,681,967 | 32,902,350 | 105,588 |
| 2005 | 441 | 344 | 1,330,707 | 18,259,119 | 30,296,718 | 97,117 |

VTA FACTS

# CURRENT LIGHT RAIL SYSTEM DATA

## July 2005

| Demographic Information | |
|---|---|
| Santa Clara County Population | **1,759,585** [a] |
| Urbanized Area (UZA) | **326 sq. miles** |
| Hours of Operation per day | **21** |

| Park and Ride Lots | No. of Lots | Parking Spaces |
|---|---|---|
| Light Rail | **21** | **6,303** |
| Caltrain | **2** [d] | **465** |
| total | **23** | **6,768** |

| Facilities and Transit Way Mileages | Guadalupe [b] | Tasman | Total |
|---|---|---|---|
| Total Number of Stations | 38 | 16 | **54** |
| % of Platform Lifts equipped | 100% | 100% | **100%** |
| Length of Line | 26.6 miles | 10.3 miles | **36.9 miles** |
| Track Miles [c] | 52.0 miles | 19.5 miles | **71.5 miles** |

| Headways | Weekday | Saturday | Sunday |
|---|---|---|---|
| Minutes | **15** | **15** | **15** |

| Total Cars | |
|---|---|
| Light Rail **100** | Historic Trolley **4** |

[a] Source: Employment Development Department (EDD)

[b] Includes the Almaden line

[c] 2.3 miles of the rail track is a single track

[d] Mtn. View Caltrain Station & Tied House Overflow (both non-VTA lots)

### System Line Openings

| Segment Name | Opening Date |
|---|---|
| **Old Ironsides to Younger St.** | **Dec. 11, 1987** |
| **Younger St. to Downtown San Jose** | **Jun. 17, 1988** |
| **Downtown San Jose to Tamien** | **Aug. 17, 1990** |
| **Tamien to Santa Teresa & Almaden line** | **Apr. 25, 1991** |
| **Mtn. View to Old Ironsides & Baypointe** | **Dec. 20, 1999** |
| **Baypointe to I-880 Milpitas** | **May. 17, 2001** |
| **I-880 Milpitas to Alum Rock** | **Jun. 24, 2004** |

### Distances between Key Segments

| Guadalupe | Distance | Cumulative | Almaden | Distance | Cumulative |
|---|---|---|---|---|---|
| **Sta. Teresa-Ohlone** | 4.5 | 4.5 | **Almaden-Ohlone** | 1.1 | 1.1 |
| **Ohlone-Tamien** | 4.2 | 8.7 | | | |
| **Tamien-Sta. Clara** | 2.2 | 10.9 | Tasman | | |
| **Sta. Clara-Civic** | 1.4 | 12.3 | **Mt. View-Lockheed** | 4.5 | 4.5 |
| **Civic-Metro** | 1.5 | 13.8 | **Lockheed-Baypointe** | 5.8 | 10.3 |
| **Metro-Baypointe** | 3.6 | 17.4 | | | |
| **Baypointe-G. Mall** | 2.8 | 20.2 | | | |
| **G. Mall-A. Rock** | 5.3 | 25.5 | | | |

### Historical Data

| Fiscal Year | Peak Cars | Scheduled Hours | Scheduled Miles | Ridership | Ave. Weekday Ridership |
|---|---|---|---|---|---|
| 1988 | 6 | 16,622 | 222,329 | 359,965 | 1,101 |
| 1989 | 8 | 42,665 | 538,799 | 2,118,710 | 7,630 |
| 1990 | 8 | 45,378 | 557,449 | 2,498,985 | 8,083 |
| 1991 | 16 | 67,424 | 890,617 | 4,001,142 | 12,569 |
| 1992 | 34 | 94,191 | 1,394,480 | 6,135,561 | 19,756 |
| 1993 | 36 | 85,419 | 1,283,621 | 6,245,699 | 20,339 |
| 1994 | 32 | 79,280 | 1,203,823 | 6,133,001 | 19,735 |
| 1995 | 32 | 78,630 | 1,198,107 | 5,659,319 | 18,138 |
| 1996 | 31 | 82,006 | 1,274,202 | 6,168,085 | 20,008 |
| 1997 | 32 | 84,909 | 1,339,564 | 6,728,392 | 22,006 |
| 1998 | 33 | 87,285 | 1,368,229 | 6,910,100 | 22,727 |
| 1999 | 33 | 88,800 | 1,359,589 | 6,862,705 | 22,579 |
| 2000 | 43 | 112,202 | 1,648,334 | 7,913,730 | 25,673 |
| 2001 | 41 | 136,483 | 1,986,763 | 9,237,074 | 30,383 |
| 2002 | 41 | 137,087 | 2,032,588 | 7,789,570 | 25,573 |
| 2003 | 29 | 106,416 | 1,567,594 | 6,052,519 | 19,772 |
| 2004 | 26 | 98,930 | 1,464,325 | 5,473,024 | 17,636 |
| 2005 | 34 | 114,663 | 1,774,543 | 6,780,431 | 21,436 |