

REMARKETING MEMORANDUM DATED MAY 24, 2013

REMARKETED ISSUE – BOOK-ENTRY ONLY

Ratings:
S&P: AA+/A-1
Moody's: Aa2/VMIG-1
See "Ratings" herein.



\$235,875,000

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
 2000 MEASURE A SALES TAX REVENUE REFUNDING BONDS**

\$58,950,000	\$58,975,000	\$58,975,000	\$58,975,000
2008 Series A	2008 Series B	2008 Series C	2008 Series D
(CUSIP No.: 80168N DQ9)	(CUSIP No.: 80168N DR7)	(CUSIP No.: 80168N EG0)	(CUSIP No.: 80168N EJ4)
Dated: June 25, 2008	Price: 100%	Due: April 1, 2036	

The Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Refunding Bonds, 2008 Series A, 2008 Series B, 2008 Series C and 2008 Series D (hereinafter collectively referred to as the "2008 Series Bonds") were issued by the Santa Clara Valley Transportation Authority (the "Authority") on June 25, 2008 pursuant to an Indenture, dated as of August 1, 2006 (as supplemented and amended, the "Indenture"), between the Authority and Deutsche Bank National Trust Company, as trustee (the "Trustee").

The 2008 Series Bonds were issued as fully registered bonds in denominations of \$100,000 and any integral multiple of \$5,000 in excess thereof and were registered in the name of Cede & Co., as holder of the 2008 Series Bonds and nominee for The Depository Trust Company ("DTC"), New York, New York.

Pursuant to a Standby Letter of Credit and Reimbursement Agreement, dated as of June 1, 2013 (the "Liquidity Facility") between the Authority and Sumitomo Mitsui Banking Corporation, acting through its New York Branch ("Sumitomo" or the "Liquidity Facility Provider"), to be delivered on or about June 3, 2013, Sumitomo will provide funds for the purchase of the 2008 Series Bonds that are tendered for optional or mandatory purchase but are not remarketed. The Liquidity Facility will expire on June 3, 2016, unless extended or earlier terminated upon the occurrence of certain events (in accordance with its terms) including termination at the direction of the Authority. Under certain circumstances described herein, the obligation of the Liquidity Facility Provider to provide funds for the purchase of 2008 Series Bonds may be terminated immediately without notice to the Owners of the 2008 Series Bonds and without a mandatory tender of the 2008 Series Bonds. See "THE LIQUIDITY FACILITY PROVIDER AND THE LIQUIDITY FACILITY" herein.



The 2008 Series Bonds are subject to optional and mandatory tender for purchase and optional and mandatory redemption prior to maturity, as more fully described herein.

The 2008 Series Bonds are limited obligations of the Authority secured solely by a pledge of Revenues (as defined in the Indenture), which consist of the receipts from the imposition in the County of Santa Clara of a one-half of one percent retail transactions and use tax authorized in 2000 which took effect April 1, 2006 (the "2000 Measure A Sales Tax"), less certain administrative fees paid to the California State Board of Equalization, as described herein, plus amounts held by the Trustee in certain funds and accounts established under the Indenture. The 2000 Measure A Sales Tax was approved by more than two-thirds of the electorate of the County of Santa Clara voting on the ballot measure in November 2000 and is scheduled to expire March 31, 2036. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein.

The 2008 Series Bonds are secured on a parity with certain other bonds and obligations secured by the 2000 Measure A Sales Tax. The Authority may also issue additional bonds and incur other obligations secured by the 2000 Measure A Sales Tax on a parity with the 2008 Series Bonds, subject to compliance with the provisions set forth in the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COUNTY OF SANTA CLARA, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION OR PUBLIC AGENCY THEREOF, OTHER THAN THE AUTHORITY, TO THE EXTENT OF THE PLEDGE OF THE 2000 MEASURE A SALES TAX REVENUES AND OTHER AMOUNTS HELD UNDER THE INDENTURE, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE 2008 SERIES BONDS. THE PLEDGE OF 2000 MEASURE A SALES TAX REVENUES DOES NOT SECURE PAYMENT OF THE PURCHASE PRICE OF THE 2008 SERIES BONDS.

This cover page contains certain information for general reference only. It is not a summary of the security or terms of this issue. Investors must to read this entire Remarketing Memorandum to obtain information essential to making an informed investment decision with respect to the 2008 Series Bonds.

On the original issuance date of the 2008 Series Bonds, Orrick, Herrington & Sutcliffe LLP rendered its opinion that based upon an analysis of existing laws, regulations, rulings, and court decisions, interest on the 2008 Series Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. The opinion of Orrick, Herrington & Sutcliffe LLP has not been updated since its date of delivery. A copy of the approving opinion of Orrick, Herrington & Sutcliffe LLP delivered in connection with the original issuance of the 2008 Series Bonds is attached hereto as Appendix F. Fulbright & Jaworski L.L.P. is currently serving as Bond Counsel and Disclosure Counsel to the Authority. As Bond Counsel to the Authority, Fulbright & Jaworski L.L.P. is not providing any opinion to the Owners with respect to the validity and enforceability of the 2008 Series Bonds or with respect to any tax matters in connection with 2008 Series Bonds. Certain legal matters will be passed on for the Authority by its General Counsel and for the Liquidity Facility Provider by Nixon Peabody LLP and by its Japanese Counsel.

Goldman, Sachs & Co.	BofA Merrill Lynch	J.P. Morgan	Morgan Stanley
Remarketing Agent	Remarketing Agent	Remarketing Agent	Remarketing Agent
2008 Series A Bonds	2008 Series B Bonds	2008 Series C Bonds	2008 Series D Bonds

No dealer, salesman or any other person has been authorized by the Santa Clara Valley Transportation Authority (the "Authority") to give any information or to make any statements or representations, other than those contained in this Remarketing Memorandum, and, if given or made, such other information, statements or representations must not be relied upon as having been authorized. The information set forth herein has been obtained from the Authority and other sources which are believed to be reliable. This Remarketing Memorandum does not constitute an offer to sell or solicitation of an offer to buy any of the 2008 Series Bonds in any jurisdiction in which such offer or solicitation is not authorized, or in which any person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

This Remarketing Memorandum is not to be construed as a contract with the purchasers of the 2008 Series Bonds. Statements contained in this Remarketing Memorandum which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The Remarketing Agents have provided the following sentence for inclusion in the Remarketing Memorandum. The Remarketing Agents have reviewed the information in this Remarketing Memorandum in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agents do not guarantee the accuracy or completeness of such information.

CUSIP is a registered trademark of the American Bankers Association. CUSIP data on the cover hereof and herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Authority, the Remarketing Agents (as defined herein) or Ross Financial, the Financial Advisor, is responsible for the selection or correctness of the CUSIP numbers set forth herein.

FORWARD-LOOKING STATEMENTS

Certain statements included or incorporated by reference in this Remarketing Memorandum constitute forward-looking statements. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget" or other similar words. **The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. No assurance is given that actual results will meet the forecasts of the Authority in any way. The Authority does not plan to issue any updates or revisions to those forward-looking statements if or when any of its expectations, or events, conditions or circumstances on which such statements are based occurs.**

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

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Margaret Abe-Koga
Xavier Campos
Jose Esteves
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Ash Kalra, Vice-Chairperson
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SPECIAL SERVICES

Financial Advisor

Ross Financial
San Francisco, California

Bond Counsel and Disclosure Counsel

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

Trustee

Deutsche Bank National Trust Company
San Francisco, California

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\$235,875,000
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
2000 MEASURE A SALES TAX REVENUE REFUNDING BONDS

\$58,950,000 2008 Series A (CUSIP No.: 80168N DQ9)	\$58,975,000 2008 Series B (CUSIP No.: 80168N DR7)	\$58,975,000 2008 Series C (CUSIP No.: 80168N EG0)	\$58,975,000 2008 Series D (CUSIP No.: 80168N EJ4)
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INTRODUCTION

General

This Remarketing Memorandum, which includes the cover page and the appendices hereto, sets forth certain information in connection with the remarketing by the Santa Clara Valley Transportation Authority (the "Authority") of \$235,875,000 of Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Refunding Bonds, 2008 Series A, 2008 Series B, 2008 Series C and 2008 Series D (hereinafter collectively referred to as the "2008 Series Bonds"). The 2008 Series Bonds were issued pursuant to the Indenture, dated as of August 1, 2006, between the Authority and Deutsche Bank National Trust Company, as trustee (the "Trustee"), as supplemented and amended by a First Supplemental Indenture, dated as of August 1, 2006 (the "First Supplemental Indenture"), a Second Supplemental Indenture, dated as September 1, 2007 (the "Second Supplemental Indenture"), and a Third Supplemental Indenture, dated as of June 1, 2008 (the "Third Supplemental Indenture"), each between the Authority and the Trustee. The Indenture, as so supplemented and amended and as further supplemented and amended from time to time pursuant to its terms is hereinafter referred to as the "Indenture." All capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE," or, if not defined therein, shall have the meanings assigned to such terms in the Indenture.

Authority for Issuance

The 2008 Series Bonds, were issued by the Authority under and pursuant to the Santa Clara Valley Transportation Authority Act, being Sections 100000 *et seq.* of the California Public Utilities Code and the provisions of the Revenue Bond Law of 1941, being Section 54300 *et seq.* of the California Government Code as referenced in the Santa Clara Valley Transportation Authority Act (collectively, the "Act").

Purpose and Application of Proceeds

The 2008 Series Bonds were issued to refund on a current basis \$58,950,000 aggregate principal amount of the Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds, 2006 Series A (the "2006 Series A Bonds"), \$58,975,000 aggregate principal amount of the Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds, 2006 Series B (the "2006 Series B Bonds"), \$58,975,000 aggregate principal amount of the Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds, 2006 Series C (the "2006 Series C Bonds"), and \$58,975,000 aggregate principal amount of the Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds, 2006 Series D (the "2006 Series D Bonds" and, together with the 2006 Series A Bonds, the 2006 Series B Bonds and the 2006 Series C Bonds, hereinafter collectively referred to as the "Prior Bonds"). In addition, a portion of the proceeds of the 2008 Series Bonds were used to pay the costs of issuance of the 2008 Series Bonds.

Security

The 2008 Series Bonds are limited obligations of the Authority secured by a pledge of sales tax revenues (herein called the “2000 Measure A Sales Tax Revenues”) derived from a one-half of one percent (0.5%) retail transactions and use tax (the “2000 Measure A Sales Tax”), imposed in accordance with the Act and the California Transactions and Use Tax Law (Revenue and Taxation Code Section 7251 *et seq.*), net of an administrative fee paid to the California State Board of Equalization (the “Board of Equalization”) in connection with the collection and disbursement of the 2000 Measure A Sales Tax. The 2000 Measure A Sales Tax was approved by more than two-thirds of the electorate of the County of Santa Clara (the “County”) voting on the ballot measure in November 2000 and is scheduled to expire March 31, 2036. The 2008 Series Bonds are further secured by a pledge of certain amounts held by the Trustee under the Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Pledge of 2000 Measure A Sales Tax Revenues and Certain Amounts Held by Trustee” herein.

The 2008 Series Bonds are secured on a parity under the Indenture with the Authority’s 2000 Measure A Sales Tax Revenue Bonds, 2007 Series A (the “2007 Series Bonds”), currently outstanding in the aggregate principal amount of \$112,515,000, and the Authority’s 2000 Measure A Sales Tax Revenue Bonds, 2010 Series A (Taxable Build America Bonds) (the “2010 Series A Bonds”) and 2000 Measure A Sales Tax Revenue Bonds, 2010 Series B (Tax-Exempt) (the “2010 Series B Bonds” and together with the 2010 Series A Bonds, the “2010 Series Bonds”), currently outstanding in the aggregate principal amount of \$645,890,000.

Additional Bonds and other obligations secured by a pledge of the 2000 Measure A Sales Tax Revenues on a parity with the 2008 Series Bonds, the 2007 Series Bonds and the 2010 Series Bonds may hereafter be issued or incurred. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Additional Bonds and Parity Obligations” herein. The 2007 Series Bonds, the 2008 Series Bonds, the 2010 Series Bonds and any additional bonds hereafter authorized by, and at any time Outstanding under, the Indenture are referred to collectively herein as the “Bonds.”

Limited Obligations

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COUNTY OF SANTA CLARA, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION OR PUBLIC AGENCY THEREOF, OTHER THAN THE AUTHORITY TO THE EXTENT OF THE PLEDGE OF THE 2000 MEASURE A SALES TAX REVENUES AND OTHER AMOUNTS PLEDGED UNDER THE INDENTURE, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS.

Liquidity Facility

Pursuant to a Standby Letter of Credit and Reimbursement Agreement, dated as of June 1, 2013 (the “Liquidity Facility”), between the Authority and Sumitomo Mitsui Banking Corporation, acting through its New York Branch (“Sumitomo” or the “Liquidity Facility Provider”), Sumitomo will provide funds for the purchase of the 2008 Series Bonds that are tendered for optional or mandatory purchase but are not remarketed. The Liquidity Facility will expire on June 3, 2016, unless extended or earlier terminated upon the occurrence of certain events, including termination at direction of the Authority. Under certain circumstances described herein, the obligation of the Liquidity Facility Providers to provide funds for the purchase of 2008 Series Bonds may be terminated immediately without notice to the Owners and without a mandatory tender of the 2008 Series Bonds. See “THE LIQUIDITY FACILITY PROVIDER AND THE LIQUIDITY FACILITY” herein.

On or about June 3, 2013, the Authority intends to substitute the Liquidity Facility for the standby bond purchase agreements that currently support the 2008 Series Bonds. In connection with this substitution, the 2008 Series Bonds are subject to a mandatory tender and remarketing as described in this Remarketing Memorandum. The proceeds of this remarketing will pay the purchase price of the tendered 2008 Series Bonds.

Trustee

The municipal securities trust business of the Trustee is expected to be acquired by U.S. Bank National Association in the third quarter of 2013. Upon consummation of the acquisition, U.S. Bank National Association will be the successor Trustee under the Indenture.

References

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

THE AUTHORITY

The Authority is an independent public agency responsible for bus and light rail operations in the County, regional commuter and inter-city rail service, ADA paratransit service, congestion management, specific highway improvement and other transportation projects, and countywide transportation planning and funding. A map showing the Authority's bus and rail transit service area is set forth on the page prior to the table of contents to this Remarketing Memorandum. The Authority was created in 1972 pursuant to the Santa Clara County Transit District Act. Prior to January 1, 1995, the County Board of Supervisors served as the Board of Directors of the Authority. Effective January 1, 1995, pursuant to State of California legislation, the Authority has operated under a separate Board of Directors composed of County and city representatives. On January 1, 2000, pursuant to State of California legislation, the Authority's name was officially changed from the Santa Clara County Transit District.

For a more complete description of the Authority and its operations, see APPENDIX A – "SANTA CLARA VALLEY TRANSPORTATION AUTHORITY."

THE 2008 SERIES BONDS

This Remarketing Memorandum provides information with respect to the 2008 Series Bonds while bearing interest at Weekly or Daily Rates only. Owners and prospective purchasers of the 2008 Series Bonds should not rely on this Remarketing Memorandum for information concerning 2008 Series Bonds bearing interest at rates other than the Weekly or Daily Rates.

Each Series of the 2008 Series Bonds will be remarketed independently of each other Series. The definitions and provisions described herein shall apply generally to each Series of the 2008 Series Bonds while bearing interest at Weekly or Daily Rates unless otherwise noted.

General

The 2008 Series Bonds are dated their date of delivery (June 25, 2008), and will mature on April 1, 2036, subject to prior redemption. The 2008 Series Bonds currently bear interest at Weekly Rates. During a Weekly Rate Period, interest on the 2008 Series Bonds shall be payable on first Business Day of each month and shall be computed on the basis of a 365/366-day year for the actual number of days elapsed. The 2008 Series Bonds were issued in fully registered form without coupons and are registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”) New York, New York, the initial Securities Depository for the 2008 Series Bonds. Under the Indenture, the Authority may appoint a successor Securities Depository or may choose to discontinue the use of a book-entry only system.

The 2008 Series Bonds are in book-entry only form pursuant to a book-entry system (the “Book-Entry System”). While the 2008 Series Bonds are in the Book-Entry System, the provisions described in APPENDIX E – “BOOK-ENTRY ONLY SYSTEM” shall apply and the term “Owner” as used herein shall refer to DTC or its nominee as the registered owner of the 2008 Series Bonds. Payments to beneficial owners of the 2008 Series Bonds, including payment of Purchase Price to the beneficial owners of the 2008 Series Bonds, will be made in accordance with the provisions described in APPENDIX E – “BOOK-ENTRY ONLY SYSTEM.”

Unless otherwise specified herein, all references to a particular time are to New York City Time.

Certain Defined Terms

The following terms are defined in the Indenture.

Alternate Rate means, on any Rate Determination Date, for any 2008 Series Bond in a Daily Mode, a Weekly Mode, a Flexible Rate Mode or a Term Rate Mode, a rate per annum equal to (a) the SIFMA Swap Index (such rate being hereinafter referred to as the “SIFMA Rate”) most recently available as of the date of determination; (b) if such index is no longer available, or if the SIFMA Rate is no longer published, the Kenny Index (as such term is defined in the 1992 ISDA U.S. Municipal Counterparty Definitions) ; or (c) if neither the SIFMA Rate nor the Kenny Index is published, the index determined to equal the prevailing rate determined by the applicable Remarketing Agent for tax-exempt state and local government bonds meeting criteria determined in good faith by such Remarketing Agent to be comparable under the circumstances to the criteria used by Securities Industry & Financial Markets Association (“SIFMA”) to determine the SIFMA Rate just prior to when SIFMA stopped publishing the SIFMA Rate. If there is no Remarketing Agent for the affected Series of 2008 Series Bonds, if such Remarketing Agent fails to make any such determination or if such Remarketing Agent has suspended its remarketing efforts in accordance with the Remarketing Agreement entered into by such Remarketing Agent, then the Trustee shall make the determinations required by this definition, or if the Trustee shall decline to make such determination, a financial advisor, investment banker or other qualified party shall make such determination at the expense of the Authority.

Authorized Denominations means, with respect to 2008 Series Bonds in a Daily Mode or Weekly Mode, \$100,000 and any integral multiple of \$5,000 in excess thereof.

Beneficial Owner means, so long as the 2008 Series Bonds are held in the Book-Entry System, any Person who acquires a beneficial ownership interest in a 2008 Series Bond held by the Securities Depository. If at any time the 2008 Series Bonds are not held in the Book-Entry System, Beneficial Owner shall mean the registered owner.

Business Day means for any Series of 2008 Series Bonds any day other than (i) a Saturday or Sunday; (ii) a day on which the Trustee or applicable Remarketing Agent are required or authorized to be closed; or (iii) a day on which the office of the Insurer, if any, or applicable Liquidity Facility Provider at which draws or advances will be paid is required or authorized to be closed or (iv) a day on which The New York Stock Exchange is closed.

Daily Rate means the per annum interest rate on any 2008 Series Bond in the Daily Mode determined pursuant to the provisions of the Indenture described below.

Daily Rate Period means the period during which a 2008 Series Bond in the Daily Mode shall bear a Daily Rate, which shall be from the Business Day upon which a Daily Rate is set to but not including the next succeeding Business Day.

Electronic means telecopy, facsimile transmission, e-mail transmission or other similar electronic means of communication providing evidence of transmission, including a telephonic communication confirmed by any other method set forth in this definition.

Expiration Date means the stated expiration date of a Liquidity Facility, as it may be extended from time to time as provided in such Liquidity Facility, or any earlier date on which the Liquidity Facility shall terminate at the direction of the Authority, expire or be cancelled (other than the date on which a Liquidity Facility shall terminate as a result of an Automatic Termination Event or an event of default under the Reimbursement Agreement entered into in connection with such Liquidity Facility). See "THE LIQUIDITY FACILITY PROVIDER AND THE LIQUIDITY FACILITY" herein.

Interest Accrual Period means the period during which a 2008 Series Bond accrues interest payable on the next Interest Payment Date applicable thereto. Each Interest Accrual Period shall commence on (and include) the last Interest Payment Date to which interest has been paid (or, if no interest has been paid, from the date of original authentication and delivery of the 2008 Series Bonds) to, but not including, the Interest Payment Date on which interest is to be paid. If, at the time of authentication of any 2008 Series Bond, interest is in default or overdue on the 2008 Series Bonds, such 2008 Series Bond shall bear interest from the date to which interest has previously been paid in full or made available for payment in full on Outstanding 2008 Series Bonds.

Mandatory Purchase Date means (i) any Mode Change Date (except a change in Mode between the Daily Mode and the Weekly Mode if the then-existing Liquidity Facility provides for the payment of the Purchase Price of the affected Series of 2008 Series Bonds in both the Daily Mode and the Weekly Mode); (ii) any Substitution Date; (iii) the fifth Business Day prior to the Expiration Date; (iv) with respect to the affected Series of 2008 Series Bonds, the date specified by the Trustee following the occurrence of an event of default (other than an event of default which constitutes an Automatic Termination Event) under the applicable Reimbursement Agreement, which date shall be a Business Day not less than 20 days after the Trustee's receipt of notice of such event of default from the applicable Liquidity Facility Provider and in no event later than the Business Day preceding the termination date specified in the notice of event of default delivered to the Trustee by such Liquidity Facility Provider; and (v) for 2008 Series Bonds in the Daily Mode or Weekly Mode, any Business Day specified by the Authority not less than 20 days after the Trustee's receipt of such notice from the Authority.

Maximum Rate means, with respect to all 2008 Series Bonds, other than Liquidity Facility Bonds, a rate of interest of 12% per annum, and, with respect to Liquidity Facility Bonds, such rate as is specified in the applicable Liquidity Facility, which rate shall not exceed the highest rate then permitted by law.

Mode Change Date means, with respect to all of any Series of the 2008 Series Bonds in a particular Mode, the day on which another Mode for all of such Series of the 2008 Series Bonds begins.

Notice Parties means the Authority, the Trustee, the Liquidity Facility Provider, if any, the Remarketing Agent, if any, and the Credit Enhancement Provider, if any.

Purchase Date means (i) for a 2008 Series Bond in the Daily Mode or the Weekly Mode, any Business Day selected by the Beneficial Owner for which a Tender Notice is given prior to the Tender Notice Deadline in accordance with the provisions of the Indenture; and (ii) any Mandatory Purchase Date.

Rate Determination Date means any date on which the interest rate on 2008 Series Bonds shall be determined, which (i) in the case of the Daily Mode, shall be each Business Day commencing with the first day (which must be a Business Day) any of the 2008 Series Bonds become subject to the Daily Mode; and (ii) in the case of a Weekly Mode, shall be each Wednesday (or if Wednesday is not a Business Day, then the next succeeding Business Day), provided that upon the issuance of the 2008 Series Bonds, the Weekly Rate for the first Weekly Rate Period shall be determined no later than the Business Day prior to issuance of the 2008 Series Bonds and in the case of a subsequent conversion to the Weekly Mode, the Weekly Rate shall be determined no later than the Business Day prior to the Mode Change Date for the Series of 2008 Series Bonds being converted.

SIFMA means the Securities Industry and Financial Markets Association (formerly the Bond Market Association).

SIFMA Swap Index means, on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data and published or made available by SIFMA or any Person acting in cooperation with or under the sponsorship of SIFMA and acceptable to the Trustee and effective from such date.

Substitution Date means, with respect to any Series of 2008 Series Bonds, the date upon which an Alternate Liquidity Facility is substituted for the Liquidity Facility then in effect.

Tender Notice means a notice delivered by Electronic Means or in writing that states (i) the principal amount of the 2008 Series Bond to be purchased pursuant to provisions of the Indenture relating to optional tender of 2008 Series Bonds; (ii) the Purchase Date on which such 2008 Series Bond is to be purchased; (iii) applicable payment instructions with respect to such 2008 Series Bonds being tendered for purchase; and (iv) an irrevocable demand for such purchase.

Tender Notice Deadline means (i) during the Daily Mode, 11:00 a.m. on any Business Day; and (ii) during the Weekly Mode, 5:00 p.m. on the Business Day seven days prior to the applicable Purchase Date.

Weekly Rate means the per annum interest rate on any 2008 Series Bonds in the Weekly Mode determined pursuant to the provisions of the Indenture described below.

Weekly Rate Period means the period during which a Series of 2008 Series Bonds bears interest at a Weekly Rate, which shall be the period commencing on Thursday of each week to and including Wednesday of the following week, except (i) the first Weekly Rate Period which shall be from the date of issuance of the 2008 Series Bonds to and including the Wednesday of the following week; (ii) the first Weekly Rate Period following a subsequent change in Mode for a Series of 2008 Series Bonds which shall be from the Mode Change Date for such Series of 2008 Series Bonds to and including the Wednesday of the following week; and (iii) the last Weekly Rate Period which shall be from and including the Thursday of the week prior to the Mode Change Date to and including the day next preceding the Mode Change Date.

Determination of Interest Rate on 2008 Series Bonds

Interest on the 2008 Series Bonds is currently calculated based on a Weekly Rate. From time to time, the Authority may convert 2008 Series Bonds from one interest rate mode (each, a “Mode”) to a different Mode, which may be a Daily Mode, a Flexible Mode, a Term Rate Mode, a Fixed Rate Mode or an ARS Mode. As set forth below under “Conversion to Other Interest Rate Modes,” the Authority may effect a change in Mode with respect to all of any 2008 Series Bonds by following the procedures set forth in the Indenture and described under this caption. The interest rate during any particular period (an “Interest Period”) will be determined by the applicable Remarketing Agent as described below and will be in effect for, and adjust at the expiration of, the applicable Interest Period.

Determination of Interest Rates During the Daily Mode and the Weekly Mode

The interest rate for 2008 Series Bonds in the Daily Mode or Weekly Mode shall be the rate of interest per annum determined by the applicable Remarketing Agent on and as of the applicable Rate Determination Date as the minimum rate of interest which, in the opinion of the applicable Remarketing Agent under then-existing market conditions, would result in the sale of such 2008 Series Bonds in the Daily Rate Period or Weekly Rate Period, as applicable, at a price equal to 100% of the principal amount thereof. The interest rate shall not exceed the Maximum Rate.

During the Daily Mode, the applicable Remarketing Agent shall establish the Daily Rate by 10:00 a.m. on each Rate Determination Date. The Daily Rate for any day during the Daily Mode which is not a Business Day shall be the Daily Rate established on the immediately preceding Rate Determination Date. The applicable Remarketing Agent shall make the Daily Rate available no less frequently than once each week by telephone or Electronic Means to the Authority, each other Notice Party and to any Beneficial Owner requesting such rate.

During the Weekly Mode, the applicable Remarketing Agent shall establish the Weekly Rate by 5:00 p.m. on each Rate Determination Date. The Weekly Rate shall be in effect during the applicable Weekly Rate Period. The Remarketing Agent shall make the Weekly Rate available no later than 5:00 p.m. on the Business Day following the Rate Determination Date by telephone or Electronic Means to the Authority, each other Notice Party and to any Beneficial Owner requesting such rate.

In the event (i) the applicable Remarketing Agent fails or is unable to determine the interest rate for any 2008 Series Bond; (ii) the method by which the applicable Remarketing Agent determines the interest rate with respect to any 2008 Series Bond shall be held to be unenforceable by a court of law of competent jurisdiction; or (iii) the applicable Remarketing Agent suspends its remarketing effort in accordance with the applicable Remarketing Agreement, then the affected 2008 Series Bonds shall bear interest during each subsequent Interest Period at the Alternate Rate in effect on the first day of such Interest Period. The provisions of the Indenture described in the immediately preceding sentence shall continue to apply to the affected 2008 Series Bonds until such time as the events described in clauses (i),

(ii) or (iii) above are no longer applicable to such 2008 Series Bonds and the applicable Remarketing Agent again determines the interest rate. In the case of clause (ii) above, the applicable Remarketing Agent shall again make such determination at such time as there is delivered to the applicable Remarketing Agent and the Authority an opinion of Bond Counsel to the effect that there are no longer any legal prohibitions against such determination.

Conversion to Other Interest Rate Modes

General. The 2008 Series Bonds were issued initially bearing interest at a Weekly Rate. The Indenture provides that the Authority may elect to adjust the interest rate on any 2008 Series Bonds to a Daily Rate, a Flexible Rate, a Term Rate, a Fixed Rate or an ARS Rate, in each case in accordance with the provisions set forth in the Indenture.

Notice to Owners. Notice of the proposed change in Mode, unless otherwise specified in the Indenture, shall be given by the Trustee to the Owners of the affected 2008 Series Bonds not less than the tenth day next preceding the applicable Mode Change Date; provided that no notice need be given for a Mode Change Date occurring on the first Business Day following the last day of a Flexible Rate Period or a Term Rate Mode or on a Substitution Date. Such notice shall state the Mode to which the conversion will be made (hereinafter referred to as the “New Mode”) and the proposed Mode Change Date and, if applicable, shall be combined with the notice of mandatory purchase required to be delivered by the Trustee pursuant to the provisions of the Indenture. If the Book-Entry System is no longer in effect, such notice shall also provide information with respect to required delivery of 2008 Series Bond certificates and procedures for payment of Purchase Price.

Determination of Interest Rates. The New Mode shall commence on the Mode Change Date and the interest rate(s) (together, in the case of a change to the Flexible Mode, with the Interest Period(s)) shall be determined by the applicable Remarketing Agent (or the Authority in the case of the Interest Period for 2008 Series Bonds being converted to the Term Rate Mode) in the manner provided in the Indenture.

Conditions Precedent. In the case of a change from the Daily or Weekly Mode, the Mode Change Date shall be any Business Day.

The following items shall have been delivered to the Authority, the Trustee and the applicable Remarketing Agent on or prior to the Mode Change Date:

- (1) in the case of a change from any Mode other than a change from a Daily Mode to a Weekly Mode or a change from a Weekly Mode to a Daily Mode, a Favorable Opinion of Bond Counsel, dated the Mode Change Date; and
- (2) if there is to be a Liquidity Facility delivered in connection with such change, evidence that such Alternate Liquidity Facility is in an amount equal to the Required Stated Amount and meets such other requirements as are specified in the Indenture.

The Liquidity Facility does not support the 2008 Series Bonds while they bear interest at Daily Rates without the consent of the Liquidity Facility Provider.

Failure to Satisfy Conditions Precedent to a Mode Change. In the event the conditions described above have not been satisfied by the applicable Mode Change Date, then the New Mode shall not take effect (although any mandatory purchase shall be made on such date if notice has been sent to the Owners stating that such 2008 Series Bonds would be subject to mandatory purchase on such date). If the

failed change in Mode was from the Daily Mode, the affected 2008 Series Bonds shall remain in the Daily Mode, and if the failed change in Mode was from the Weekly Mode, the affected 2008 Series Bonds shall remain in the Weekly Mode, in each case with interest rates established in accordance with the applicable provisions of the Indenture on and as of the failed Mode Change Date.

Rescission of Election. Notwithstanding anything in the Indenture to the contrary, the Authority may rescind any election made by the Authority to change a Mode as described above prior to the Mode Change Date by giving written notice thereof to the Notice Parties prior to such Mode Change Date. If the Trustee receives notice of such rescission prior to the time the Trustee has given notice to the Owners of the Converted Portion, then such notice of change in Mode shall be of no force and effect. If the Trustee receives notice from the Authority of rescission of a Mode change after the Trustee has given notice thereof to the Owners of the affected 2008 Series Bonds, then if the proposed Mode Change Date would have been a Mandatory Purchase Date, such date shall continue to be a Mandatory Purchase Date. If the proposed change in Mode was from the Daily Mode, the affected 2008 Series Bonds shall remain in the Daily Mode, and if the proposed change in Mode was from the Weekly Mode, the affected 2008 Series Bonds shall remain in the Weekly Mode, in each case with interest rates established in accordance with the applicable provisions of the Indenture on and as of the proposed Mode Change Date. If the applicable Remarketing Agent is unable to determine the interest rate on the proposed Mode Change Date, the provisions, of the Indenture describing the determination of interest rates in the event of the failure of the applicable Remarketing Agent to set the interest rate shall apply. See “Determination of Interest Rate on 2008 Series Bonds” above.

Optional Tender and Mandatory Purchase Provisions

Book-Entry Tenders. All tenders for purchase during any period in which the 2008 Series Bonds are registered in the name of Cede & Co. (or the nominee of any successor Securities Depository) shall be subject to the terms and conditions set forth in the Representations Letter delivered by the Authority to DTC and to any regulations promulgated by DTC (or any successor Securities Depository). Beneficial Owners will not have any rights to tender 2008 Series Bonds directly to the Trustee.

Optional Tender. Subject to the provisions of the Indenture relating to Book-Entry Tenders described above, Beneficial Owners of 2008 Series Bonds in a Daily Mode or a Weekly Mode may elect to have their 2008 Series Bonds (or portions of those 2008 Series Bonds in amounts equal to Authorized Denominations) purchased on any Business Day at a price equal to the Purchase Price, upon delivery of a Tender Notice to the Trustee by the Tender Notice Deadline. Immediately upon receipt of a Tender Notice, the Trustee shall notify the applicable Remarketing Agent and provide the applicable Remarketing Agent with a copy of such Tender Notice.

Upon immediate termination without notice of a Liquidity Facility provided in connection with any 2008 Series Bonds due to the reduction in the long-term rating assigned to such 2008 Series Bonds below “Baa3” by Moody’s and “BBB-” by Standard & Poor’s or the withdrawal or suspension of such long-term ratings for credit-related reasons relating to the credit of the Authority, notwithstanding any other provision of the Indenture to the contrary, no 2008 Series Bond of the affected Series shall be purchased as described above until such time as a Liquidity Facility meeting the requirements of the Indenture is provided by the Authority with respect to such 2008 Series Bonds.

Mandatory Purchase on Mandatory Purchase Date. Subject to the provisions of the Indenture relating to Book-Entry Tenders described above, the 2008 Series Bonds shall be subject to mandatory purchase on each Mandatory Purchase Date. The Trustee shall give notice of such mandatory purchase by mail to the Owners of the 2008 Series Bonds subject to mandatory purchase no less than 15 days prior to the applicable Mandatory Purchase Date.

Any notice shall state the Mandatory Purchase Date, the Purchase Price, and shall identify which Series of the 2008 Series Bonds are to be purchased. Such notice shall also state that interest on 2008 Series Bonds subject to mandatory purchase shall cease to accrue from and after the Mandatory Purchase Date. The failure to mail such notice with respect to any 2008 Series Bond shall not affect the validity of the mandatory purchase of any other 2008 Series Bond with respect to which notice was so mailed. Any notice mailed will be conclusively presumed to have been given, whether or not actually received by any Owner.

Automatic Termination of Liquidity Facility Prior to Expiration Date

The obligation of the Liquidity Facility Provider to provide funds for the purchase of tendered 2008 Series Bonds pursuant to the Liquidity Facility will terminate or be suspended automatically and without prior notice upon the occurrence of certain defaults as is set forth in the Liquidity Facility. See “THE LIQUIDITY FACILITY PROVIDER AND THE LIQUIDITY FACILITY” herein. The Trustee will provide notice to the Owners of the affected 2008 Series Bonds as soon as practicable after receipt of notice of such termination or suspension from the Liquidity Facility Provider.

Source of Funds for Purchase of 2008 Series Bonds

The Trustee shall purchase tendered 2008 Series Bonds from the tendering Owners at the applicable Purchase Price by wire transfer in immediately available funds. Funds for the payment of such Purchase Price shall be derived solely from the following sources in the order of priority indicated and neither the Trustee nor the applicable Remarketing Agent shall be obligated to provide funds from any other source:

- (a) immediately available funds on deposit in the Remarketing Proceeds Account;
- (b) immediately available funds on deposit in the Liquidity Facility Account; and
- (c) in the Authority’s sole discretion, moneys of the Authority that may lawfully be used for such purpose.

Insufficient Funds for Tenders

If sufficient funds are not available to pay the Purchase Price of all tendered 2008 Series Bonds to be purchased on any Purchase Date (such 2008 Series Bonds being hereinafter referred to as the “Tendered Variable Rate Bonds”), then (i) no purchase shall be consummated on such Purchase Date; (ii) all such Tendered Variable Rate Bonds shall be returned to the Owners thereof; (iii) all remarketing proceeds shall be returned to the applicable Remarketing Agent for return to the Persons providing such moneys; and (iv) such insufficiency shall not constitute an Event of Default under the Indenture.

All such Tendered Variable Rate Bonds of the applicable Series shall bear interest at the Maximum Rate during the period of time (such period being hereinafter referred to as a “Delayed Remarketing Period”) from and including the applicable Purchase Date to (but not including) the date that all such Tendered Variable Rate Bonds are successfully remarketed.

The Authority may direct the conversion of such Tendered Variable Rate Bonds to a different Mode during the Delayed Remarketing Period in accordance with the provisions of the Indenture described above under the caption “Conversion to Other Interest Rate Modes;” provided that the Authority shall not be required to comply with the notice requirements set forth in the Indenture and described herein under such caption.

During a Delayed Remarketing Period, the applicable Remarketing Agent shall continue to use its best efforts to remarket such Tendered Variable Rate Bonds. Once the applicable Remarketing Agent has advised the Trustee that the Remarketing Agent has a good faith belief that it is able to remarket all of the Tendered Variable Rate Bonds, the Trustee will give notice by mail to the Owners of such Tendered Variable Rate Bonds not later than 5 Business Days prior to the Purchase Date, which notice will state: (i) that such Tendered Variable Rate Bonds will be subject to mandatory tender for purchase on the proposed Purchase Date; (ii) the proposed Purchase Date; (iii) the Mode to be applicable to such Tendered Variable Rate Bonds from and after the proposed Purchase Date; (iv) the procedures for such mandatory tender for purchase; (v) the Purchase Price applicable to such Tendered Variable Rate Bonds; and (vi) the consequences of a failed remarketing.

During the Delayed Remarketing Period, the Trustee may, upon direction of the Authority, apply amounts on deposit in the Redemption Fund to the redemption of such Tendered Variable Rate Bonds, as a whole or in part on any Business Day during the Delayed Remarketing Period, at a redemption price equal to the principal amount thereof, together with interest accrued thereon to the date fixed for redemption, without premium. Notwithstanding any provisions of the Indenture to the contrary, the Trustee shall give five Business Days' notice of such redemption to the Owners of the 2008 Series Bonds to be redeemed.

During the Delayed Remarketing Period, interest on such Tendered Variable Rate Bonds shall be paid to the Owners thereof (i) on the first Business Day of each calendar month occurring during such Delayed Remarketing Period and (ii) on the day after the last day of such Delayed Remarketing Period.

Redemption

Optional Redemption of 2008 Series Bonds in the Daily Mode or the Weekly Mode. While in the Daily Mode or the Weekly Mode, 2008 Series Bonds are subject to optional redemption by the Authority, in whole or in part, in Authorized Denominations on any Business Day, at a redemption price equal to the principal amount thereof, plus, accrued interest, if any, to the date fixed for redemption of such 2008 Series Bonds.

Mandatory Sinking Fund Redemption. The 2008 Series A Bonds shall be redeemed by mandatory sinking fund redemption, without premium, on April 1 in each of the years and in the principal amounts set forth below:

<u>Year</u>	<u>Principal Amount</u>
2033	\$13,925,000
2034	14,450,000
2035	15,025,000
2036*	15,550,000

*Maturity.

The 2008 Series B Bonds shall be redeemed by mandatory sinking fund redemption, without premium, on April 1 in each of the years and in the principal amounts set forth below:

<u>Year</u>	<u>Principal Amount</u>
2033	\$13,925,000
2034	14,475,000
2035	15,000,000
2036*	15,575,000

*Maturity.

The 2008 Series C Bonds shall be redeemed by mandatory sinking fund redemption, without premium, on April 1 in each of the years and in the principal amounts set forth below:

<u>Year</u>	<u>Principal Amount</u>
2033	\$13,950,000
2034	14,450,000
2035	15,000,000
2036*	15,575,000

*Maturity.

The 2008 Series D Bonds shall be redeemed by mandatory sinking fund redemption, without premium, on April 1 in each of the years and in the principal amounts set forth below:

<u>Year</u>	<u>Principal Amount</u>
2033	\$13,950,000
2034	14,450,000
2035	15,000,000
2036*	15,575,000

*Maturity.

No notice of redemption is required to be given with respect to any redemption occurring on a Mandatory Purchase Date.

Notice of Redemption; Conditional Notice. Notice of redemption shall be mailed by the Trustee, not less than 15 nor more than 30 days prior to the redemption date, to each Owner and each of the Repositories. A copy of such notice shall also be provided to each of the Notice Parties. Notice of redemption to the Owners, the Repositories and the applicable Notice Parties shall be given by first class mail. Failure by the Trustee to give notice to any Notice Party or anyone or more of the Repositories or failure of any Owner, any Notice Party or any Repository to receive notice or any defect in any such notice shall not affect the sufficiency or validity of the proceedings for redemption.

With respect to any notice of optional redemption of 2008 Series Bonds, unless, upon the giving of such notice, such 2008 Series Bonds shall be deemed to have been paid in accordance with the provisions of the Indenture, such notice shall state that such redemption shall be conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of amounts sufficient to pay the principal of, and premium, if any, and interest on, such 2008 Series Bonds to be redeemed, and that if

such amounts shall not have been so received said notice shall be of no force and effect and the Authority shall not be required to redeem such 2008 Series Bonds. In the event that such notice of redemption contains such a condition and such amounts are not so received, the redemption shall not be made and the Trustee shall within a reasonable time thereafter give notice to the Owners to the effect that such amounts were not so received and such redemption was not made, such notice to be given by the Trustee in the manner in which the notice of redemption was given.

Any notice of redemption may be rescinded by written notice given to the Trustee by the Authority and the Trustee shall give notice of such rescission as soon thereafter as practicable in the same manner, and to the same parties, as notice of such redemption was given.

Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, the 2008 Series Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the 2008 Series Bonds (or portions thereof) so called for redemption shall become due and payable at the Redemption Price specified in such notice together with interest accrued thereon to the date fixed for redemption, interest on the 2008 Series Bonds so called for redemption shall cease to accrue, said 2008 Series Bonds (or portions thereof) shall cease to be entitled to any benefit or security under the Indenture, and the Owners of said 2008 Series Bonds shall have no rights in respect thereof except to receive payment of said Redemption Price and accrued interest to the redemption date.

All 2008 Series Bonds redeemed pursuant to the provisions of the Indenture shall be cancelled upon surrender thereof.

Mandatory Purchase in Lieu of Redemption. Each Owner, by purchase and acceptance of any 2008 Series Bond irrevocably grants to the Authority the option to purchase such 2008 Series Bond, on any date such 2008 Series Bond is subject to optional redemption provided in the Indenture at a purchase price equal to the Redemption Price then applicable to such 2008 Series Bond plus accrued interest thereon to the date of purchase. In order to exercise such option, the Authority shall deliver to the Trustee a Favorable Opinion of Bond Counsel and shall direct the Trustee to provide notice of mandatory purchase in lieu of redemption, such notice to be provided, as and to the extent applicable, in accordance with the provisions of the Indenture relating to the mandatory purchase of 2008 Series Bonds on Mandatory Purchase Dates. On the date fixed for purchase of any 2008 Series Bond pursuant to the provisions of the Indenture described herein, the Authority shall pay the Purchase Price of such 2008 Series Bond to the Trustee in immediately available funds and the Trustee shall pay the same to the Owners of 2008 Series Bonds being purchased against delivery thereof. Following such purchase, the Trustee shall register such 2008 Series Bonds in accordance with the written instructions of the Authority. No Owner may elect to retain a 2008 Series Bond subject to mandatory purchase pursuant to the provisions of the Indenture described herein.

In the event that the Authority lacks sufficient funds to pay the purchase price of any 2008 Series Bond subject to mandatory purchase in lieu of redemption on the date fixed for such purchase, the Authority shall cancel such mandatory purchase in lieu of redemption and shall return each such 2008 Series Bond to the Owner who shall have tendered such 2008 Series Bond for mandatory purchase in lieu of redemption. The Trustee shall give notice that such mandatory purchase was not effected promptly following the date fixed for such purchase. Any failure to pay the Purchase Price of any 2008 Series Bond subject to mandatory purchase in lieu of redemption shall not constitute an Event of Default under the Indenture.

Special Considerations Relating to the 2008 Series Bonds

General. The Remarketing Agents and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Certain of the Remarketing Agents and their respective affiliates have provided, and may in the future provide, a variety of these services to the Authority and to persons and entities with relationships with the Authority, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Remarketing Agents and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the Authority (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the Authority. The Remarketing Agents and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

The Remarketing Agents Are Paid by the Authority. The responsibilities of each Remarketing Agent include determining the interest rate from time to time and remarketing 2008 Series Bonds of the applicable Series that are tendered by the owners thereof for optional or mandatory purchase (subject, in each case, to the terms of the Remarketing Agreement entered into by such Remarketing Agent), all as further described in this Remarketing Memorandum. Each Remarketing Agent is appointed by the Authority and is paid by the Authority for its services. As a result, the interests of the Remarketing Agents may differ from those of existing Owners and potential purchasers of 2008 Series Bonds.

The Remarketing Agents Routinely Purchase 2008 Series Bonds for their Own Accounts. Each Remarketing Agent acts as a remarketing agent for a variety of variable rate demand obligations in addition to the 2008 Series Bonds for which it serves as Remarketing Agent and, in its sole discretion, routinely purchases such obligations for its own account. Each Remarketing Agent is permitted, but not obligated, to purchase tendered 2008 Series Bonds for its own account and, in its sole discretion, routinely acquires such tendered 2008 Series Bonds in order to achieve a successful remarketing of the 2008 Series Bonds (*i.e.*, because there otherwise are not enough buyers to purchase the 2008 Series Bonds) or for other reasons. However, no Remarketing Agent is obligated to purchase 2008 Series Bonds, and may cease doing so at any time without notice. If a Remarketing Agent ceases to purchase 2008 Series Bonds, it may be necessary for the Trustee to draw on the Liquidity Facility. Each Remarketing Agent may also make a market in the 2008 Series Bonds by routinely purchasing and selling 2008 Series Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales must be at fair market value, which may be at or below par. However, no Remarketing Agent is required to make a market in any 2008 Series Bonds. Each Remarketing Agent may also sell any 2008 Series Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the 2008 Series Bonds. The purchase of 2008 Series Bonds by the Remarketing Agents may create the appearance that there is greater third party demand for the 2008 Series Bonds in the market than is actually the case. The practices described above also may result in fewer 2008 Series Bonds being tendered in a remarketing.

2008 Series Bonds May Be Offered at Different Prices on Any Date Including a Rate Determination Date. Pursuant to each Remarketing Agreement, each Remarketing Agent is required to determine the minimum rate of interest which, in its opinion, under then-existing market conditions, would result in the sale of the applicable 2008 Series Bonds at a price equal to 100% of the principal amount thereof on the applicable Rate Determination Date. At the time a new interest rate becomes effective, the applicable Remarketing Agent is required to use its best efforts to remarket the applicable 2008 Series Bonds at par. Each interest rate will reflect, among other factors, the level of market demand for the applicable 2008 Series Bonds (including whether the applicable Remarketing Agent is willing to purchase 2008 Series Bonds for its own account). There may or may not be 2008 Series Bonds tendered and remarketed on a Rate Determination Date, the applicable Remarketing Agent may or may not be able to remarket any 2008 Series Bonds tendered for purchase on such date at par and each Remarketing Agent may sell 2008 Series Bonds at varying prices to different investors on such date or any other date. No Remarketing Agent is obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the 2008 Series Bonds at the remarketing price. In the event a Remarketing Agent owns any 2008 Series Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such 2008 Series Bonds on any date, including the Rate Determination Date, at a discount to par to some investors.

The Ability to Sell 2008 Series Bonds other than through Tender Process May Be Limited. Each Remarketing Agent may buy and sell 2008 Series Bonds other than through the tender process. However, no Remarketing Agent is obligated to do so and may cease doing so at any time without notice and may require Owners that wish to sell their 2008 Series Bonds to instead tender their 2008 Series Bonds through the Trustee with appropriate notice. Thus, investors who purchase the 2008 Series Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their 2008 Series Bonds other than by tendering the 2008 Series Bonds in accordance with the tender process.

Under Certain Circumstances, a Remarketing Agent May Be Removed, Resign or Cease Remarketing the 2008 Series Bonds, without a Successor Being Named. Under certain circumstances, a Remarketing Agent may be removed, may resign or may cease its remarketing efforts, without a successor having been named, subject to the terms of the applicable Remarketing Agreement. In the event there is no Remarketing Agent for a 2008 Series Bonds, the Trustee may assume certain duties as described in the Indenture.

Dealing in 2008 Series Bonds by the Authority. To the extent permitted by law, the Authority may in good faith buy, sell, own, hold and deal in any Bonds offered and sold by a Remarketing Agent pursuant to a Remarketing Agreement, and such Remarketing Agent may in good faith remarket and sell to the Authority any 2008 Series Bonds offered and sold by a Remarketing Agent pursuant to a Remarketing Agreement on the same basis as and without preference or priority over any other purchaser or prospective purchaser of 2008 Series Bonds.

DEBT SERVICE SCHEDULE

The following table shows the annual debt service requirements on the 2008 Series Bonds (with principal and interest shown separately), the 2007 Series Bonds and the 2010 Series Bonds.

Fiscal Year Ending June 30	2008 Series Bonds Principal ⁽¹⁾	2008 Series Bonds Interest ⁽¹⁾⁽²⁾	2007 Series Bonds Debt Service ⁽¹⁾	2010 Series Bonds Debt Service ⁽¹⁾⁽³⁾	Combined Debt Service
2013	—	\$8,880,693.78	\$ 8,327,500.00	\$ 35,299,951.10	\$52,508,144.88
2014	—	8,880,693.78	8,331,250.00	57,134,951.10	74,346,894.88
2015	—	8,880,693.78	8,328,250.00	57,138,201.10	74,347,144.88
2016	—	8,880,693.78	8,328,500.00	57,139,201.10	74,348,394.88
2017	—	8,880,693.78	8,329,300.00	57,138,201.10	74,348,194.88
2018	—	8,880,693.78	8,327,500.00	57,138,701.10	74,346,894.88
2019	—	8,880,693.78	8,327,750.00	57,139,501.10	74,347,944.88
2020	—	8,880,693.78	8,329,750.00	57,141,151.10	74,351,594.88
2021	—	8,880,693.78	8,328,000.00	57,138,901.10	74,347,594.88
2022	—	8,880,693.78	8,327,250.00	56,895,951.46	74,103,895.24
2023	—	8,880,693.78	8,327,000.00	56,625,215.96	73,832,909.74
2024	—	8,880,693.78	8,326,750.00	56,301,159.00	73,508,602.78
2025	—	8,880,693.78	8,331,000.00	55,943,629.00	73,155,322.78
2026	—	8,880,693.78	8,329,000.00	55,578,851.20	72,788,544.98
2027	—	8,880,693.78	8,330,500.00	55,191,537.20	72,402,730.98
2028	—	8,880,693.78	8,329,750.00	54,781,986.20	71,992,429.98
2029	—	8,880,693.78	8,326,250.00	54,360,203.60	71,567,147.38
2030	—	8,880,693.78	8,329,500.00	53,910,313.40	71,120,507.18
2031	—	8,880,693.78	8,328,500.00	53,447,027.20	70,656,220.98
2032	—	8,880,693.78	8,327,750.00	52,953,861.40	70,162,305.18
2033	\$55,750,000	8,880,693.78	8,326,500.00	—	72,957,193.78
2034	57,825,000	6,781,706.28	8,329,000.00	—	72,935,706.28
2035	60,025,000	4,604,595.04	8,329,250.00	—	72,958,845.04
2036	62,275,000	2,344,653.78	8,326,500.00	—	72,946,153.78
Total	<u>\$235,875,000</u>	<u>\$200,225,524.48</u>	<u>\$199,882,300.00</u>	<u>\$1,098,398,495.52</u>	<u>\$1,734,381,320.00</u>

(1) Includes mandatory sinking fund payments.

(2) Debt Service on the 2008 Series Bonds is calculated based on the per annum rate established pursuant to the Swap Agreements, 3.765%. See “OUTSTANDING 2000 MEASURE A SALES TAX OBLIGATIONS – Swap Agreements.”

(3) Does not reflect the Authority’s receipt of any Subsidy Payments with respect to the 2010 Series A Bonds, which are Build America Bonds.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Limited Obligations

The Bonds are limited obligations of the Authority secured by a pledge of 2000 Measure A Sales Tax Revenues and certain amounts held by the Trustee in the funds and accounts established under the Indenture. The Authority shall not be required to advance any moneys derived from any source other than Revenues, which include all 2000 Measure A Sales Tax Revenues, and amounts held by the Trustee in the funds and accounts established under the Indenture, excluding amounts in the Rebate Fund and any Purchase Fund for Bonds subject to purchase, and pledged under the Indenture, including interest earnings on such amounts, whether for the payment of the principal or Redemption Price of or interest on the Bonds or for any other purpose of the Indenture.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COUNTY OF SANTA CLARA, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION OR PUBLIC AGENCY THEREOF, OTHER THAN THE AUTHORITY, TO THE EXTENT OF THE 2000 MEASURE A SALES TAX REVENUES AND OTHER AMOUNTS HELD UNDER THE INDENTURE, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON, THE 2008 SERIES BONDS. THE PLEDGE OF 2000 MEASURE A SALES TAX REVENUES DOES NOT SECURE PAYMENT OF THE PURCHASE PRICE OF THE 2008 SERIES BONDS.

Pledge of 2000 Measure A Sales Tax Revenues and Certain Amounts Held by Trustee

All 2000 Measure A Sales Tax Revenues are irrevocably pledged by the Authority to secure the punctual payment of the principal of, premium, if any, and interest on the Bonds and Parity Obligations, each in accordance with their terms, and the 2000 Measure A Sales Tax Revenues shall not be used for any other purpose while any of the Bonds or Parity Obligations remain Outstanding, except as permitted by the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, as described below. Pursuant to the Indenture, the pledge of 2000 Measure A Sales Tax Revenues constitutes a first lien to secure the Bonds and Parity Obligations. The pledge of 2000 Measure A Sales Tax Revenues is irrevocable until all Bonds issued under the Indenture, including the 2008 Series Bonds, and all Parity Obligations are no longer Outstanding.

The 2000 Measure A Sales Tax Revenues pledged to the payment of the Bonds and Parity Obligations shall be applied without priority or distinction of one over the other and the 2000 Measure A Sales Tax Revenues shall constitute a trust fund for the security and payment of the Bonds and Parity Obligations; but nevertheless, out of 2000 Measure A Sales Tax Revenues certain amounts may be applied for other purposes as provided in the Indenture.

For a more detailed description of the 2000 Measure A Sales Tax and projected receipts of 2000 Measure A Sales Tax Revenues, see "THE 2000 MEASURE A SALES TAX" herein.

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

Revenue Fund; Allocation of 2000 Measure A Sales Tax Revenues

As long as any Bonds are Outstanding or any Parity Obligations remain unpaid, the Authority has assigned the 2000 Measure A Sales Tax Revenues to the Trustee and shall cause the Board of Equalization to transmit the same directly to the Trustee each month, less the Board of Equalization administrative fee which is deducted quarterly. The 2000 Measure A Sales Tax Revenues shall be received and held in trust by the Trustee for the benefit of the Owners of the Bonds and Parity Obligations. The Trustee shall forthwith deposit all 2000 Measure A Sales Tax Revenues in the Revenue Fund, maintained and held in trust by the Trustee, when and as such 2000 Measure A Sales Tax Revenues are received by the Trustee. See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Allocation of 2000 Measure A Sales Tax Revenues.” Investment income on amounts held by the Trustee (other than amounts held in the Rebate Fund or any Purchase Fund or for which particular instructions are provided) shall also be deposited in the Revenue Fund.

So long as any Bonds remain Outstanding, following receipt and deposit of the 2000 Measure A Sales Tax Revenues in the Revenue Fund in each month, the Trustee is required to set aside such Measure A Sales Tax Revenues in the following respective funds, amounts and order of priority (provided that deficiencies in any previously required deposit may be made up prior to the deposit to a fund subsequent in priority and further provided that set asides or transfers required with respect to outstanding Parity Obligations shall be made on a parity basis each month, as provided in the Indenture):

1. Interest Fund. The Indenture requires the Trustee to make monthly deposits in the Interest Fund in an amount equal to (a) one-sixth of the aggregate half-yearly amount of interest becoming due and payable on Outstanding fixed interest rate bonds during the ensuing six-month period, plus (b) the aggregate amount of interest to accrue during that month on Outstanding variable rate bonds calculated, if the actual rate of interest is not known, at the interest rate specified by the Authority, or if the Authority has not specified an interest rate, at the maximum interest rate borne by such variable rate bonds during the month prior to the date of deposit plus one hundred (100) basis points; subject to such adjustments as are provided pursuant to the provisions of the Indenture. See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Allocation of 2000 Measure A Sales Tax Revenues.”

2. Principal Fund; Sinking Accounts. The Indenture also requires the Trustee to make monthly deposits in the Principal Fund in an amount equal to at least (a) one-sixth of the aggregate semiannual amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds of all Series having semiannual maturity dates within the next six (6) months, plus (b) one-twelfth of the aggregate yearly amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds of all Series having annual maturity dates within the next twelve (12) months, plus (c) one-sixth of the aggregate of the Mandatory Sinking Account Payments to be paid during the next six-month period into the respective Sinking Accounts for the Term Bonds of all Series for which Sinking Accounts have been created and for which semiannual mandatory redemption is required from said Sinking Accounts, plus (d) one-twelfth of the aggregate of the Mandatory Sinking Account Payments to be paid during the next 12-month period into the respective Sinking Accounts for the Term Bonds of all Series for which Sinking Accounts shall have been created and for which annual mandatory redemption is required from such Sinking Accounts; provided that if the Authority certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from amounts on deposit in a Bond Reserve Fund that would be in excess of the Bond Reserve Requirement applicable to such Bond Reserve Fund upon such payment, no amounts need be set aside towards such principal to be so refunded or paid.

No deposit need be made into the Principal Fund so long as there shall be in such fund (i) moneys sufficient to pay the Bond Obligations of all Serial Bonds then Outstanding and maturing by their terms within the next twelve (12) months, plus (ii) the aggregate of all Mandatory Sinking Account Payments required to be made in such 12-month period, but less any amounts deposited into the Principal Fund during such 12-month period and theretofore paid from the Principal Fund to redeem or purchase Term Bonds during such 12-month period; provided that if the Authority certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from amounts on deposit in a Bond Reserve Fund that would be in excess of the Bond Reserve Requirement applicable to such Bond Reserve Fund upon such payment, no amounts need be on deposit with respect to such principal payments. See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Allocation of 2000 Measure A Sales Tax Revenues.”

3. Bond Reserve Funds. The Indenture also requires the Trustee to make deposits to any of the Bond Reserve Funds established pursuant to the provisions of the Indenture. See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Allocation of 2000 Measure A Sales Tax Revenues.”

4. Subordinate Obligations Fund. In the event the Authority issues subordinate obligations, the Authority may direct the Trustee to establish a Subordinate Obligations Fund. The Trustee shall deposit in the Subordinate Obligations Fund in each month such amount as the Authority shall specify in writing is necessary to pay principal of and interest due and payable during the following month with respect to Subordinate Obligations then outstanding.

5. Fees and Expenses Fund. After the transfers described above have been made, the Trustee shall deposit as soon as practicable in each month in the Fees and Expenses Fund amounts necessary for payment of fees, expenses and similar charges owing in such month or the following month by the Authority in connection with the Bonds or any Parity Obligation (excluding termination payments on Interest Rate Swap Agreements).

See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Allocation of 2000 Measure A Sales Tax Revenues” for a more complete discussion.

After making the foregoing allocations, all remaining 2000 Measure A Sales Tax Revenues shall be transferred to the Authority and may be applied by the Authority for all lawful Authority purposes.

Establishment and Application of 2008 Series Bond Reserve Fund

Under the Indenture, the Authority initially was not required to fund a reserve for the 2008 Series Bonds. On October 15, 2009, the Authority notified the Trustee that a Bond Reserve Funding Event had occurred with respect to the 2008 Series Bonds and the Trustee established the 2008 Series Bond Reserve Fund pursuant to the Indenture to secure the payment of principal and interest with respect to the 2008 Series Bonds, which the Authority funded in the amount of the Bond Reserve Requirement. “Bond Reserve Funding Event,” as defined under the Indenture, occurs when the amount of 2000 Measure A Sales Tax Revenues received during the Fiscal Year immediately preceding a Bond Reserve Fund Calculation Date does not at least equal two (2) times Maximum Annual Debt Service. “Bond Reserve Requirement” means, with respect to the 2008 Series Bonds, as of any Bond Reserve Fund Calculation Date, an amount equal to fifty percent (50%) of Maximum Annual Debt Service on the 2008 Series Bonds. “Bond Reserve Fund Calculation Date” means October 15 of each year, or if October 15 is not a Business Day, the first Business Day following October 15.

If for a period of two consecutive fiscal years subsequent to funding the 2008 Series Bond Reserve Fund, the amount of 2000 Measure A Sales Tax Revenues during the Fiscal Year immediately preceding a Bond Reserve Fund Calculation Date equals at least two (2) times Maximum Annual Debt Service, then the Trustee shall transfer the amount then on deposit to the Authority upon receipt of a Request of the Authority (the “Bond Reserve Fund Release Request”), a copy of which Bond Reserve Fund Release Request shall be accompanied by the calculations of the Authority demonstrating compliance with the requirements for release of the 2008 Series Bond Reserve Fund established in the Indenture.

In October 2012 the Authority submitted a Bond Reserve Fund Release Request to the Trustee, and currently there are no amounts on deposit in the 2008 Series Bond Reserve Fund.

To the extent not released pursuant to a Bond Reserve Fund Release Request, all amounts in the 2008 Series Bond Reserve Fund (including all amounts which may be obtained from any Reserve Facility deposited therein, see APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE”) shall be used and withdrawn by the Trustee solely for the purpose of making up any deficiency in the Interest Fund or the Principal Fund related to the 2008 Series Bonds or (together with any other moneys available therefor) for the payment or redemption of all 2008 Series Bonds then Outstanding or, for the payment of the final principal and interest payment of the 2008 Series Bonds. No amounts on deposit in the 2008 Series Bond Reserve Fund (including any amounts which may be obtained from any Reserve Facility deposited therein) may be applied for any other purpose nor shall any such amounts secure any other Bonds.

Additional Bonds and Parity Obligations

The Authority may issue additional Bonds and may issue or incur other obligations secured in whole or in part by a pledge of 2000 Measure A Sales Tax Revenues on a parity with the 2008 Series Bonds and the regularly scheduled payments on the Swap Agreements, subject to compliance with the terms and provisions set forth in the Indenture. See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Issuance of Additional Bonds and Other Obligations.”

Issuance of Additional Series of Bonds. Subsequent to the issuance of the 2008 Series Bonds, the Authority may by Supplemental Indenture establish one or more Series of Bonds payable from 2000 Measure A Sales Tax Revenues and secured by the pledge made under the Indenture equally and ratably with Bonds previously issued, but only upon compliance by the Authority with the provisions of the Indenture. Certain of the applicable provisions of the Indenture are described below:

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

(b) If a Bond Reserve Fund is required in connection with the issuance of an additional Series of Bonds, the Supplemental Indenture providing for the issuance of such Series of additional Bonds may require either (i) the establishment of a Bond Reserve Fund for such Series of Bonds or (ii) that the balance in an existing Bond Reserve Fund, forthwith upon the receipt of the proceeds of the sale of Bonds of such Series, be increased to an amount at least equal to the Bond Reserve Requirement with respect to such Series of Bonds and all other Bonds secured by such Bond Reserve Fund to be considered Outstanding upon the issuance of such additional Series of Bonds. Said deposit may be made from the proceeds of the sale of Bonds of such Series or from other funds of the Authority or from both such sources or in the form of a letter of credit or surety bond or insurance policy as described under APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Establishment and Application of Funds and Accounts – Funding and Application of Bond Reserve Funds.”

(c) The Authority shall have placed on file with the Trustee a certificate of the Authority, certifying that the lesser of (i) the amounts of 2000 Measure A Sales Tax Revenues for a period of twelve (12) consecutive months (selected by the Authority) during the eighteen (18) months immediately preceding the date on which such Bonds will become Outstanding; or (ii) the estimated 2000 Measure A Sales Tax Revenues for the Fiscal Year in which the Bonds are to be issued, shall have, or will, as applicable, equal at least one and three-tenths (1.3) times Maximum Annual Debt Service on all Series of Bonds and Parity Obligations then Outstanding and the additional Series of Bonds then proposed to be issued.

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

Issuance of Refunding Bonds. Refunding Bonds may be authorized and issued by the Authority without compliance with the provisions of the Indenture summarized above under the caption “Issuance of Additional Series of Bonds”; provided that Maximum Annual Debt Service on all Bonds and Parity Obligations Outstanding following the issuance of such Refunding Bonds is less than or equal to Maximum Annual Debt Service on all Bonds and Parity Obligations Outstanding prior to the issuance of such Refunding Bonds. The 2008 Series Bonds are Refunding Bonds.

Parity Obligations. As defined in the Indenture, “Parity Obligations” means any indebtedness, installment sale obligation, lease obligation or other obligation of the Authority for borrowed money or any Interest Rate Swap Agreement (excluding fees and expenses and termination payments on Interest Rate Swap Agreements which fees and expenses and termination payments shall be secured by a lien and charge on the 2000 Measure A Sales Tax Revenues subordinate to the lien and charge upon the 2000 Measure A Sales Tax Revenues which secures the Bonds, Parity Obligations and payment of principal and interest on Subordinate Obligations) entered into in connection with a Series of Bonds, in each case incurred in accordance with the provisions of the Indenture described herein and having an equal lien and charge upon the 2000 Measure A Sales Tax Revenues and therefore payable on a parity with the Bonds (whether or not any Bonds are Outstanding). See “OUTSTANDING 2000 MEASURE A SALES TAX OBLIGATIONS” herein. The Authority may issue or incur additional Parity Obligations which will have, when issued, an equal lien and charge upon the 2000 Measure A Sales Tax Revenues; provided, that the conditions to the issuance of such Parity Obligations set forth in the Indenture are satisfied, including satisfaction of the coverage test described in subsection (c) above under the caption “Issuance of Additional Series of Bonds,” unless such Parity Obligations are being issued for refunding purposes, in which case the coverage test shall not apply.

Subordinate Obligations

The Authority may also issue obligations which are payable as to principal, premium, interest and reserve fund requirements, if any, only out of 2000 Measure A Sales Tax Revenues after the prior payment of all amounts then required to be paid from 2000 Measure A Sales Tax Revenues for principal, premium, interest and reserve fund requirements for the Bonds and all Parity Obligations, as the same become due and payable. Currently, there are no Subordinate Obligations outstanding.

OUTSTANDING 2000 MEASURE A SALES TAX OBLIGATIONS

Parity Bonds

As of May 1, 2013, the aggregate principal amount of 2000 Measure A Bonds outstanding was \$994,280,000, consisting of \$112,515,000 aggregate principal amount of fixed rate 2007 Series Bonds, \$235,875,000 aggregate principal amount of 2008 Series Bonds and \$645,890,000 aggregate principal amount of fixed rate 2010 Series Bonds (which includes \$469,730,000 aggregate principal amount of 2010 Series A Build America Bonds). See “DEBT SERVICE SCHEDULE” herein.

Ambac Assurance Corporation (“Ambac”) issued a financial guaranty insurance policy (the “2007 Series Insurance Policy”) in connection with the 2007 Series Bonds, which are secured on a parity basis with the 2008 Series Bonds and the 2010 Series Bonds. Ambac also provided a surety bond (the “2007 Series Surety Bond”) in the amount of \$8,331,250 to fund the Bond Reserve Requirement with respect to the 2007 Series Bonds. On November 8, 2010, Ambac Financial Group Inc. (“Ambac Financial”), the holding company of Ambac, filed for protection under Chapter 11 of Title 11 of the United States Code. Pending litigation challenges and other actions could prevent Ambac Financial’s bankruptcy reorganization and could potentially adversely affect the solvency of Ambac, which could in turn diminish or eliminate the security provided by the 2007 Series Insurance Policy to the holders of the 2007 Series Bonds and/or could result in a decrease in the value of the 2007 Series Surety Bond. In the event of a decrease in the amount available to be drawn by the Trustee under the 2007 Series Surety Bond, pursuant to the Indenture, the Authority would be required to replenish the amount on deposit in the Bond Reserve Fund established in connection with the 2007 Series Bonds from 2000 Measure A Sales Tax Revenues, setting aside each month an amount equal to one-twelfth (1/12th) of the aggregate amount required until the amount on deposit is equal to the Bond Reserve Requirement with respect to the 2007 Series Bonds.

Swap Agreements

There are currently four separate interest rate swap agreements outstanding in connection with the 2008 Series Bonds (each, a “Swap Agreement” and, collectively referred to herein as the “Swap Agreements”) with Bank of America, N.A., Citibank, N.A., Goldman Sachs Mitsui Marine Derivative Products, L.P. and Morgan Stanley Capital Services, Inc. (each, a “Counterparty” and, collectively referred to herein as the “Counterparties”). Each Swap Agreement is scheduled to terminate on April 1, 2036.

The Authority has agreed to pay to the Counterparties under the Swap Agreements a fixed rate of interest and the Counterparties have agreed to pay the Authority a floating rate of interest. The Authority’s obligation to make regularly scheduled payments of interest to the counterparties under the Swap Agreements is payable from and secured by 2000 Measure A Sales Tax Revenues on a parity basis with all 2008 Series Bonds issued under the Indenture. The fixed interest rate paid by the Authority pursuant to each of the Swap Agreements has been used in computing debt service on the 2008 Series Bonds.

The terms of the Swap Agreements do not alter or affect any of the obligations of the Authority with respect to the payment of principal of or interest on the 2008 Series Bonds. Neither the Owners nor the Beneficial Owners of the 2008 Series Bonds have any rights under the Swap Agreements or against the Counterparties. Payments due to the Authority from the Counterparties are not pledged to the payment of principal of or interest on the 2008 Series Bonds.

Under certain circumstances, one or more of the Swap Agreements may be terminated, at which time the Authority may be required to make a termination payment to the applicable Counterparty. If the Swap Agreements were terminated as of May 1, 2013, the Authority would owe the respective Counterparties an aggregate amount of approximately \$82,560,000. Any termination payments made pursuant to the Swap Agreements are secured by a lien on 2000 Measure A Sales Tax Revenues subordinate to the lien which secures the Bonds, Parity Obligations and Subordinate Obligations. The Authority is unable to predict what the amount of termination payments owed by the Authority in the future would be if any of the Swap Agreements actually were terminated; however, such termination payments could be substantial. To the extent that the Authority has insufficient funds on hand to make any such payment, the Authority may borrow such amounts through the issuance of additional Bonds or otherwise.

In addition, the Swap Agreements all contain provisions that require the Authority to post collateral at specific fair value amounts based on the Authority's unenhanced long-term credit ratings on the 2008 Series Bonds. Collateral generally consists of cash, U.S. government securities and U.S. agency securities. The Authority currently has posted \$9,707,309.21 of collateral pursuant to the Swap Agreements.

For a further discussion regarding the Authority's existing swaps (including swaps that have liens on the Authority's 1976 Sales Tax) and potential risks in connection therewith, see APPENDIX B – "AUTHORITY AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2012, Note 7(d), 7(e) and 7(f)."

THE LIQUIDITY FACILITY PROVIDER AND THE LIQUIDITY FACILITY

The Liquidity Facility Provider

The following information has been provided by the Liquidity Facility Provider for use in this Remarketing Memorandum. This information has not been independently verified by the Authority. No representation is made by the Authority as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

Sumitomo Mitsui Banking Corporation. Sumitomo Mitsui Banking Corporation (*Kabushiki Kaisha Mitsui Sumitomo Ginko*) (under this subcaption, "SMBC") is a joint stock corporation with limited liability (*Kabushiki Kaisha*) under the laws of Japan. The registered head office of SMBC is located at 1-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0005, Japan.

SMBC was established in April 2001 through the merger of two leading banks, The Sakura Bank, Limited and The Sumitomo Bank, Limited. In December 2002, Sumitomo Mitsui Financial Group, Inc. ("SMFG") was established through a stock transfer as a holding company under which SMBC became a wholly owned subsidiary. **SMFG reported ¥ 148,696,800 million (USD 1,578,187 million) in consolidated total assets as of March 31, 2013.**

SMBC is one of the world's leading commercial banks and provides an extensive range of banking services to its customers in Japan and overseas. In Japan, SMBC accepts deposits, makes loans and extends guarantees to corporations, individuals, governments and governmental entities. It also offers financing solutions such as syndicated lending, structured finance and project finance. SMBC also underwrites and deals in bonds issued by or under the guarantee of the Japanese government and local government authorities, and acts in various administrative and advisory capacities for certain types of corporate and government bonds. Internationally, SMBC operates through a network of branches,

representative offices, subsidiaries and affiliates to provide many financing products including syndicated lending and project finance.

The New York Branch of SMBC is licensed by the State of New York Banking Department to conduct branch banking business at 277 Park Avenue, New York, New York, and is subject to examination by the State of New York Banking Department and the Federal Reserve Bank of New York.

Financial and Other Information. Audited consolidated financial statements for SMFG and its consolidated subsidiaries for the fiscal year ended December 31, 2012, as well as other corporate data, financial information and analyses are available in English on the website of the Parent at www.smfg.co.jp/english.

The information herein has been obtained from SMBC, which is solely responsible for its content. The delivery of the Remarketing Memorandum shall not create any implication that there has been no change in the affairs of SMBC since the date hereof, or that the information contained or referred herein is correct as of any time subsequent to its date.

The Liquidity Facility

General. The Liquidity Facility Provider has agreed to issue, in favor of the Trustee on behalf of the owners of the 2008 Series Bonds, and pursuant to the Standby Letter of Credit and Reimbursement Agreement, dated as of June 1, 2013 (as amended and supplemented from time to time, the “*Liquidity Facility*”), by and between the Authority and the Liquidity Facility Provider, four (4) standby letters of credit (as amended and supplemented from time to time, each a “*Standby Letter of Credit*” and, collectively, the “*Standby Letters of Credit*”), each Standby Letter of Credit being issued to support the 2008 Series Bonds specified in the applicable Standby Letter of Credit.

The Trustee may only draw against the Standby Letter of Credit issued in support of the 2008 Series Bonds specified in the applicable Standby Letter of Credit. For example, the Standby Letter of Credit issued in support of the 2008 Series A Bonds is available solely to pay the Purchase Price of the 2008 Series A Bonds that have been tendered, but not remarketed (subject to certain conditions described in the Liquidity Facility), and said Standby Letter of Credit is not available to pay the Purchase Price of 2008 Series B Bonds, 2008 Series C Bonds or 2008 Series D Bonds that have been tendered, but not remarketed. In addition, the Standby Letters of Credit are not available for, and do not guarantee, the payment of principal of or interest or redemption premium, if any, of any of the 2008 Series Bonds in the event of non-payment of such principal, interest or redemption premium, if any, by the Authority.

Each Standby Letter of Credit is available to support the 2008 Series Bonds described therein while said 2008 Series Bonds bear interest at the Weekly Rate.

The following summary of the Liquidity Facility and the Standby Letters of Credit does not purport to be comprehensive or definitive and is subject to all the terms and provisions of the Liquidity Facility and the Standby Letters of Credit to which reference is made hereby. Investors are urged to obtain and review copies of the Liquidity Facility and the Standby Letters of Credit in order to understand all of the terms of those documents. Copies of the Liquidity Facility and the Standby Letters of Credit may be obtained from the Authority. Capitalized terms used in the following summary which are not otherwise defined in this Remarketing Memorandum shall have the meanings given such terms in the Liquidity Facility. Unless otherwise specified below, information and statements set forth below with respect to one Standby Letter of Credit are applicable to each of the four Standby Letters of Credit.

Summary of Certain Terms of the Liquidity Facility. Subject to the terms and conditions of the Liquidity Facility, the Liquidity Facility Provider agrees from time to time during the Commitment Period to lend money to pay the Purchase Price relating to principal of (the “*Principal Component*”) and interest on (the “*Interest Component*”) Eligible Bonds that have been tendered, but not remarketed, as provided in the Third Supplemental Indenture, but only to the extent that the proceeds of remarketing of such Eligible Bonds are not available therefor. The Liquidity Facility Provider will use its own funds for such purposes. Subject to the extension of a Standby Letter of Credit pursuant to the Liquidity Facility, the Liquidity Facility Provider’s obligation with respect to the related 2008 Series Bonds will end on the earliest of (a) June 3, 2016, as such date may be extended from time to time in accordance with the Liquidity Facility (the “*Stated Expiration Date*”), (b) the date on which no Eligible Bonds of the related 2008 Series Bonds are Outstanding, (c) the close of business on the Business Day immediately following the Conversion Date, (d) the close of business on the thirtieth (30th) day following the date on which a Notice of Termination Date is received by the Authority and the Trustee pursuant to the Liquidity Facility or, if such thirtieth (30th) day is not a Business Day, the next succeeding Business Day, and (e) the date on which the Available Amount has been reduced to zero or terminated in its entirety at the option of the Authority (including the Substitution Date) or under the circumstances described below under the headings “Events of Default” and “Remedies.” The foregoing sentence sets forth the defined term “*Commitment Period*.”

Each Standby Letter of Credit will be issued initially in the aggregate amount not exceeding \$59,608,948, in the case of the Standby Letter of Credit supporting the 2008 Series A Bonds, \$59,634,228, in the case of the Standby Letter of Credit supporting the 2008 Series B Bonds, \$59,634,228, in the case of the Standby Letter of Credit supporting the 2008 Series C Bonds, and \$59,634,228, in the case of the Standby Letter of Credit supporting the 2008 Series D Bonds (as each such amount may be reduced or reinstated from time to time). The Available Amount of each Standby Letter of Credit set forth in the immediately preceding sentence represents the principal amount of the 2008 Series Bonds Outstanding on the date the related Standby Letter of Credit becomes effective plus interest thereon calculated on the basis of 34 days of interest at a rate of 12.00% based on a year comprised of 365 days. The Available Amount may be adjusted from time to time as follows: (a) downward in an amount equal to the amount of any Advance; (b) upward in an amount equal to the amount of principal on any Advance, or Bank Bond, as applicable, that is repaid, including upon the sale of Bank Bonds; (c) downward in an amount equal to any reduction thereof effected at the option of the Authority pursuant to the Liquidity Facility; and (d) downward to zero upon the expiration or termination of the applicable Available Amount as described under the sections below entitled “Events of Default” and “Remedies”.

The aggregate principal amount of all Drawings made on the date of any such Drawing shall not exceed the Available Amount set forth in the applicable Standby Letter of Credit (calculated without giving effect to any Drawing made on such date) at 9:00 a.m. (New York City time) on such date. The Principal Component of each loan made pursuant to a Standby Letter of Credit shall constitute an advance to the Authority; provided however, the Interest Component of each Drawing shall be due and payable by 4:00 p.m. (New York City time) on the date of such Drawing. Any Eligible Bond so purchased shall thereupon constitute a Bank Bond and shall, from the date of such purchase and while it is a Bank Bond, bear interest at the Bank Rate and have other characteristics of Bank Bonds as set forth in the Liquidity Facility, the Indenture and the applicable 2008 Series Bonds.

If, on any Purchase Date during the Commitment Period, the Liquidity Facility Provider receives not later than 12:30 p.m. (New York City time), a notice of bank purchase from the Trustee, the Liquidity Facility Provider shall, subject to the conditions set forth in the Liquidity Facility and described below, transfer to the Trustee not later than 2:30 p.m. (New York City time), on such Purchase Date, in immediately available funds, an amount equal to the aggregate Purchase Price of all Eligible Bonds

tendered or deemed tendered for purchase on such date but not remarketed as specified in such notice of bank purchase. A notice of bank purchase shall be irrevocable after receipt thereof by the Liquidity Facility Provider.

The obligation of the Liquidity Facility Provider to make an Advance during the Commitment Period is subject to the conditions precedent that, on the date of such Advance, (a) the Liquidity Facility Provider shall have timely received a properly completed Drawing and (b) no Immediate Termination Event (as defined below) or Suspension Event (as defined below) shall have occurred and be continuing. If and to the extent that a Suspension Event shall have been cured as described below under the section entitled "Remedies", the condition described in clause (b) of the preceding sentence regarding a Suspension Event will be deemed satisfied.

Events of Default. Each of the following events shall constitute an "*Event of Default*" under the Liquidity Facility:

(a) Immediate Termination Events. Each of the following occurrences shall constitute an "*Immediate Termination Event*" under the Liquidity Facility:

(i) the Authority shall fail to pay when due (A) any principal or sinking fund requirement due on any 2008 Series Bond (including any Bank Bond prior to the commencement of the Bank Bond Amortization Period) or any interest on any 2008 Series Bond (including any Bank Bond) or (B) any principal payment due on any Bank Bond during the Bank Bond Amortization Period pursuant to the Liquidity Facility; *provided, however*, that a failure to pay any amounts described in this clause (i) following the acceleration of Bank Bonds shall not constitute an Immediate Termination Event under the Liquidity Facility unless all Parity Obligations have been accelerated under the Indenture; or

(ii) one or more final, unappealable judgment(s) against the Authority for the payment of money, which judgment(s) is not covered by insurance, and which judgment(s) is to be enforced pursuant to a lien upon, or an attachment against, any or all of the Sales Tax Revenues, the operation or result of which judgment(s), individually or in the aggregate, equal or exceed \$10,000,000 and which judgment(s) shall remain unpaid, undischarged, unbonded or undismissed for a period of sixty (60) days; or

(iii) (A) the Authority shall institute, or take any corporate action for the purpose of instituting, a proceeding in a court having jurisdiction in the premises seeking an order for relief, rehabilitation, reorganization, conservation, liquidation or dissolution in respect to the Authority or for any substantial part of its property under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or for the appointment of a receiver, liquidator, assignee, custodian, trustee or sequestrator (or other similar official), (B) the Authority shall become insolvent within the meaning of the Bankruptcy Code, shall state in writing that it is unable generally to pay principal of or interest on the 2008 Series Bonds or any other Parity Obligations of the Authority as they become due, or shall make a general assignment for the benefit of creditors, (C) a moratorium, debt restructuring, debt adjustment or comparable extraordinary restriction with respect to the payment of principal or interest on the 2008 Series Bonds (including Bank Bonds) is declared by any Governmental Authority of competent jurisdiction pursuant to a final, non-appealable judgment, or (D) the Authority shall declare a moratorium, debt restructuring, debt adjustment, or comparable extraordinary restriction with respect to the payment of principal of or interest on the 2008 Series Bonds (including Bank Bonds) or any other Parity Obligations of the Authority, or shall take any corporate action in furtherance of any of the foregoing; or

(iv) (A) the Authority, pursuant to official action on the part of its governing body, contests in an administrative or judicial proceeding, repudiates or otherwise denies (including, without limitation, authorizing the filing of a claim to such effect in an administrative or judicial proceeding) that it has any further liability or obligation under or with respect to any provision of the Act, the Liquidity Facility, the Indenture, the 2008 Series Bonds or the Parity Obligations relating to (1) the ability or the obligation of the Authority to pay, when due, the principal of or interest on the 2008 Series Bonds (including any Bank Bonds) or on any Parity Obligation or (2) the Sales Tax Revenues securing said 2008 Series Bonds and Parity Obligation; or

(B) the Authority, pursuant to official action on the part of its governing body, contests in an administrative or judicial proceeding, repudiates or otherwise denies (including, without limitation, authorizing the filing of a claim to such effect in an administrative or judicial proceeding) the legality, validity or enforceability of any provision of the Liquidity Facility, the 2008 Series Bonds, the Act, the Indenture or any Parity Obligation relating to (1) the ability or the obligation of the Authority to pay, when due, the principal of or interest on the 2008 Series Bonds (including Bank Bonds) or on any Parity Obligation or (2) the Sales Tax Revenues securing said 2008 Series Bonds and Parity Obligation; or

(C) any provision of the Act, the Liquidity Facility, the Indenture or the 2008 Series Bonds relating to (1) the ability or the obligation of the Authority to pay, when due, the principal of or interest on the 2008 Series Bonds (including any Bank Bonds) or (2) the Sales Tax Revenues securing said 2008 Series Bonds shall, at any time, and for any reason, cease to be valid and binding on the Authority, or shall be declared to be null and void, invalid or unenforceable, in each case, as the result of a final non-appealable judgment by any federal or state court or as a result of any legislative or administrative action by any Governmental Authority having jurisdiction over the Authority; or

(D) any Governmental Authority with jurisdiction to rule on the legality, validity or enforceability of the Liquidity Facility, the 2008 Series Bonds, the Act or the Indenture shall find or rule, in a judicial or administrative proceeding, that any provision of the Liquidity Facility, the 2008 Series Bonds, the Act or the Indenture, as the case may be, relating to (1) the ability or the obligation of the Authority to pay, when due, the principal of or interest on the 2008 Series Bonds (including any Bank Bonds) or (2) the Sales Tax Revenues securing said 2008 Series Bonds, is not valid or not binding on, or enforceable against, the Authority; or

(v) Moody's, Standard & Poor's and any other Rating Agency then rating the 2008 Series Bonds and any Parity Obligation shall have (a) assigned the 2008 Series Bonds or any Parity Obligation a long-term rating below "Baa3" by Moody's and "BBB-" by Standard & Poor's (or comparable rating in the case of another Rating Agency), (b) withdrawn their long-term ratings of the 2008 Series Bonds or any Parity Obligation for any credit related reasons or (c) suspended their long-term ratings of the 2008 Series Bonds or any Parity Obligation for any credit related reasons; *provided, however*, that any downgrade, withdrawal or suspension described in any of the foregoing provisions of this sub-section (a)(v) shall not be deemed an Event of Default under the Liquidity Facility if said downgrade, withdrawal or suspension, as the case may be, shall be attributable to the downgrade, withdrawal or suspension of the long-term ratings assigned to any bond insurance or other credit enhancement provided by a Person other than the Authority; or

(vi) the Authority shall fail to make any payment in respect of principal or interest on any Parity Obligation, issued and outstanding or to be issued, when due (i.e., whether

upon said Parity Obligation's scheduled maturity, required prepayment, acceleration, upon demand or otherwise, except as such payments may be accelerated, demanded or required to be prepaid under the Liquidity Facility), and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Parity Obligation; *provided, however*, that a failure to pay any principal, sinking fund requirement or interest due on Bank Bonds as described in sub-section (a)(i) above following the acceleration of Parity Obligations described in this sub-section (vi) shall not constitute an Immediate Termination Event under the Liquidity Facility unless all Parity Obligations have been accelerated under the Indenture.

(b) Suspension Events. Each of the following occurrences shall constitute a "Suspension Event" under the Liquidity Facility:

(i) a proceeding is instituted in a court having jurisdiction in the premises seeking an order for relief, rehabilitation, reorganization, conservation, liquidation or dissolution in respect to the Authority or for any substantial part of its property under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or for the appointment of a receiver, liquidator, assignee, custodian, trustee or sequestrator (or other similar official) and such proceeding is not dismissed, vacated, discharged or stayed within sixty (60) days of commencement or such court enters an order granting the relief sought in such proceeding; or

(ii) the State shall have taken any official action, or has duly enacted any statute to the effect that (1) the Authority has no further liability or obligation under the Liquidity Facility, the 2008 Series Bonds, the Act or the Indenture to pay, when due, the principal of or interest on the 2008 Series Bonds (including any Bank Bonds) or (2) any provision of the Liquidity Facility, the 2008 Series Bonds, the Act or the Indenture relating to or otherwise affecting the Authority's ability or obligation to pay, when due, the principal of or interest on the 2008 Series Bonds (including any Bank Bonds) or the Sales Tax Revenues securing said 2008 Series Bonds is illegal, invalid or unenforceable against the Authority; or

(iii) a debt moratorium or comparable extraordinary restriction on repayment of principal or interest on all debt shall have been declared or imposed by the State or any other Governmental Authority with jurisdiction over the Authority (whether or not in writing) with respect to the 2008 Series Bonds (including any Bank Bonds).

(c) Notice Events of Default. The following are "Notice Events of Default" not resulting in immediate termination or suspension of the Liquidity Facility Provider's obligation to make Advances to purchase Eligible Bonds under each Standby Letter of Credit:

(i) except as provided in section (a) above, nonpayment of any amounts payable by the Authority to the Liquidity Facility Provider when and as due under the Liquidity Facility or under the Fee Letter; or

(ii) any representation or warranty made by the Authority in the Liquidity Facility (or incorporated herein by reference) or in any of the other Related Documents or in any certificate, document, instrument, opinion or financial or other statement contemplated by or made or delivered pursuant to or in connection with the Liquidity Facility or with any of the other Related Documents, shall prove to have been incorrect or untrue in any material respect when made or deemed to have been made; or

(iii) default in the due observance or performance by the Authority of certain covenants specified in the Liquidity Facility; or

(iv) default in the due observance or performance by the Authority of any other term, covenant or agreement set forth (or incorporated by reference) in the Liquidity Facility or the Fee Letter (other than any term, covenant or agreement specified in this section entitled “Events of Default”) and the continuance of such default for thirty (30) days after the occurrence thereof; or

(v) the long-term rating of the 2008 Series Bonds or any unenhanced Parity Obligations is lowered below “A” (or its equivalent) by Standard & Poor’s and below “A2” (or its equivalent) by Moody’s; or

(vi) excluding any Default or Event of Default otherwise specified in this section entitled “Events of Default,” the occurrence of an “event of default” under any Remarketing Agreement, the Indenture, any Parity Obligations or the 2008 Series Bonds which, if not cured, would give rise to remedies available under the applicable Remarketing Agreement or the Indenture, as case may be, after the lapse of any cure period available therefor; or

(vii) (A) the Authority shall default in the observance or performance of any other agreement or condition relating to any Parity Obligation (other than by virtue of an Event of Default under the Liquidity Facility) or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event shall occur or condition exist, the effect of which default or other event or condition is to cause, or to permit the holder or holders of such Parity Obligation (or a trustee or agent on behalf of such holder or holders or beneficiary or beneficiaries) to cause, with the giving of notice if required, such Parity Obligation to become due and payable; (B) any Governmental Authority with jurisdiction to rule on the legality, validity or enforceability of any Parity Obligation shall find or rule, in a judicial or administrative proceeding, that any provision of the Act or the Indenture, as the case may be, relating to (1) the ability or the obligation of the Authority to pay, when due, the principal of or interest on any Parity Obligation or (2) the Sales Tax Revenues securing said Parity Obligation, is not valid or not binding on, or enforceable against, the Authority; or (C) the State shall (1) make a claim in a judicial or administrative proceeding or (2) contest in a judicial or administrative proceeding that (y) the Authority has no further liability or obligation under any Parity Obligation to pay, when due, the principal of or interest on said Parity Obligation or (z) any provision of the Act or the Indenture relating to or otherwise affecting the Authority’s ability or obligation to pay, when due, the principal of or interest on any Parity Obligation or the Sales Tax Revenues securing said Parity Obligation is illegal, invalid or unenforceable against the Authority; or

(viii) one or more final, unappealable attachments against the property of the Authority, the operation or result of which, individually or in the aggregate, equal or exceed \$10,000,000 shall remain unpaid, unstayed, undischarged, unbonded or undismissed for a period of sixty (60) days; or

(ix) except as otherwise provided in this section entitled “Events of Default,” and the section entitled “Remedies” below, a default shall occur and be continuing under any other agreement between the Authority and the Liquidity Facility Provider or under any other obligation owed by the Authority to the Liquidity Facility Provider.

Remedies. Upon the occurrence and continuance of an Immediate Termination Event, the Commitment and the Available Amount applicable to each Series of 2008 Series Bonds shall

automatically, without notice or other action by the Liquidity Facility Provider or any other Person, reduce to zero, and the Commitment Period shall terminate, in which case, the obligation of the Liquidity Facility Provider to make Advances to purchase Eligible Bonds under each Standby Letter of Credit then outstanding shall immediately terminate and expire; provided, that interest on any unpaid amounts due under the Liquidity Facility and the Fee Letter shall bear interest at the Default Rate until paid in full. Promptly after the Liquidity Facility receives notice or otherwise becomes aware of the occurrence of an Immediate Termination Event, the Liquidity Facility shall give written notice of the same to the Authority, the Trustee and the applicable Remarketing Agent; provided, that the Liquidity Facility Provider shall incur no liability or responsibility whatsoever by reason of its failure to receive or give such notice and such failure shall in no way affect the termination of the Available Amount and of its obligation to make Advances to purchase Eligible Bonds under each Standby Letter of Credit.

Upon the institution of the proceeding described in sub-section (b)(i) above, a Suspension Event will be deemed to have occurred and the Available Amount and the obligation of the Liquidity Facility Provider to make Advances to purchase Eligible Bonds under each Standby Letter of Credit shall be immediately suspended without notice or demand and, thereafter, the Liquidity Facility Provider shall be under no obligation to make Advances to pay the Purchase Price of Eligible Bonds until the Commitment and the Available Amounts are reinstated. Promptly upon the occurrence of any such Suspension Event, the Liquidity Facility Provider shall notify the Authority and the Trustee and the applicable Remarketing Agent of such suspension and the effective date of such suspension in writing by facsimile, promptly confirmed by regular mail; provided, that the Liquidity Facility Provider shall incur no liability of any kind by reason of its failure to give such notice and such failure shall in no way affect the suspension of the Available Amounts or its obligation to make Advances to pay the Purchase Price of Eligible Bonds pursuant to each Standby Letter of Credit. Upon the occurrence of said Suspension Event, the Commitment and the Available Amount under each Standby Letter of Credit then outstanding shall be immediately and automatically suspended and remain suspended until the proceeding referred to in sub-section (b)(i) above is either dismissed, vacated, discharged or stayed within sixty (60) days from the commencement of such proceeding, or the date on which the Liquidity Facility Provider's obligations to make Advances to pay the Purchase Price of Eligible Bonds pursuant to a Standby Letter of Credit have terminated or expired in accordance with the terms of the Liquidity Facility occurs, whichever is first. In the event that said Suspension Event shall have been dismissed, vacated, discharged or stayed within the sixty (60) day period as described in the Liquidity Facility and prior to the termination of the Commitment and the Available Amounts under the Liquidity Facility, then the Commitment, the Available Amounts and the obligation of the Liquidity Facility Provider to make Advances to pay the Purchase Price of Eligible Bonds of each Series pursuant to the related Standby Letter of Credit shall be reinstated and the terms of the Liquidity Facility and each Standby Letter of Credit then outstanding shall continue in full force and effect as if there had been no such suspension (unless the Commitment Period shall otherwise have been terminated, suspended or expired as provided in the Liquidity Facility). In the event that said Suspension Event shall not have been dismissed, vacated, discharged or stayed within said sixty (60) day period following the institution of the proceeding described in sub-section (b)(i) above, then the Commitment, the Available Amounts and each Standby Letter of Credit then outstanding shall terminate at the close of business on such sixtieth (60th) day without notice or demand and, thereafter, the Liquidity Facility Provider shall be under no obligation to make Advances to pay the Purchase Price of Eligible Bonds pursuant to any Standby Letter of Credit.

Upon the occurrence of a Suspension Event described in sub-section (b)(ii) or (b)(iii) above, the Liquidity Facility Provider's obligations to make Advances to the Trustee to purchase Eligible Bonds of all Series shall be immediately and automatically suspended and remain suspended unless and until (1) a court with jurisdiction to rule on such an Event of Default shall enter a final and non-appealable judgment that any of the material provisions of the Act or any other document described in sub-section (b)(ii) are not valid or not binding on, or enforceable against, the Authority or (2) that a claim or contest described

in sub-section (b)(iii) shall have been upheld in favor of the State or the Authority in accordance with a final and non-appealable judgment, then, in each such case, the Available Amounts, the Commitment and the obligation of the Liquidity Facility Provider to make Advances to the Trustee to purchase Eligible Bonds shall immediately terminate without notice or demand and, thereafter, the Liquidity Facility Provider shall be under no obligation to make Advances to the Trustee to purchase Eligible Bonds. If a court with jurisdiction to rule shall find or rule by entry of a final and non-appealable judgment that (3) the material provision of the Act or any other document described in sub-section (b)(ii) is valid and binding on, or enforceable against, the Authority or (4) the claim or contest described in sub-section (b)(iii) shall have been dismissed pursuant to a final and non-appealable judgment, then the Commitment, the Available Amounts and the obligation of the Liquidity Facility Provider under each Standby Letter of Credit shall, in each such case, thereupon be reinstated (unless the Commitment Period shall otherwise have been terminated, suspended or expired as provided in the Liquidity Facility). Notwithstanding the foregoing, if the suspension of the obligations of the Liquidity Facility Provider pursuant to an Event of Default described in sub-section (b)(ii) or (b)(iii) remains in effect and litigation is still pending and a determination regarding same shall not have been dismissed or otherwise made pursuant to a final and non-appealable judgment, as the case may be, when a Stated Expiration Date occurs, then the Available Amount and the obligation of the Liquidity Facility Provider to make Advances to the Trustee to purchase Eligible Bonds under the applicable Standby Letter of Credit shall terminate on the related Stated Expiration Date without notice or demand and, thereafter, the Liquidity Facility Provider shall be under no obligation to make Advances to the Trustee to purchase Eligible Bonds under the applicable Standby Letter(s) of Credit.

Upon the occurrence of any Event of Default, the Liquidity Facility Provider shall have all remedies provided at law or equity including, without limitation, specific performance; and in addition, the Liquidity Facility Provider, in its sole discretion, may do one or more of the following: (i) declare all obligations of the Authority to the Liquidity Facility Provider under the Liquidity Facility and under the Fee Letter (other than payments of principal and redemption price of and interest on the Bank Bonds unless said Bank Bonds have otherwise become subject to acceleration pursuant to the Indenture) to be immediately due and payable, and the same shall thereupon become due and payable without demand, presentment, protest, notice of intent to accelerate, notice of acceleration or further notice of any kind, all of which are hereby expressly waived; *provided, however*, that any acceleration of the Bank Bonds shall be subject to the limitations thereon set forth in the Indenture; (ii) the Liquidity Facility Provider may give written notice of such Event of Default and termination of the Commitment, the Available Amounts and each Standby Letter of Credit then outstanding (a “*Notice of Termination Date*”) to the Trustee, the Authority and the Remarketing Agents requesting a Default Tender; *provided*, that the obligation of the Liquidity Facility Provider to make Advances to the Trustee to purchase Eligible Bonds shall terminate on the thirtieth (30th) day (or if such day is not a Business Day, the next following Business Day) after such Notice of Termination Date is received by the Trustee and, on such date, the Commitment, the Available Amounts and the Standby Letters of Credit then outstanding shall terminate and the Liquidity Facility Provider shall be under no obligation under the Liquidity Facility to make Advances to the Trustee to purchase Eligible Bonds; (iii) exercise any right or remedy available to it under any other provision of the Liquidity Facility; or (iv) exercise any other rights or remedies available under the Indenture and any other Related Document, any other agreement or at law or in equity; *provided, further, however*, that the Liquidity Facility Provider shall not have the right to terminate its obligation to make Advances to the Trustee to purchase Eligible Bonds except as provided in this section entitled “Remedies.” Notwithstanding anything to the contrary, no failure or delay by the Liquidity Facility Provider in exercising any right, power or privilege under the Liquidity Facility, the Indenture and any other Related Document or under the 2008 Series Bonds and no course of dealing between the Authority and the Liquidity Facility Provider shall operate as a waiver hereof or thereof nor shall any single or partial exercise hereof or thereof preclude any other or further exercise hereof or thereof or the exercise of

any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies which the Liquidity Facility Provider would otherwise have.

In addition to the foregoing, upon the occurrence of any Event of Default under the Liquidity Facility, all Obligations due and payable under the Liquidity Facility and under the Fee Letter shall bear interest at the Default Rate.

Definitions.

“*Advance*” means each loan of monies to the Trustee for the purchase by the Trustee of Eligible Bonds pursuant to the applicable Standby Letter of Credit, as more fully described in the Liquidity Facility. For the avoidance of any doubt, an “*Advance*” is available for the purchase of Eligible Bonds described in the applicable Standby Letter of Credit supporting the Series of Bonds described therein and no “*Advance*” will be available under a Standby Letter of Credit to purchase Eligible Bonds of a Series of Bonds not described in a Standby Letter of Credit.

“*Affiliate*” means any other Person controlling or controlled by or under common control with the Authority. For purposes of this definition, “*control*,” when used with respect to any specified Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise.

“*Available Amount*” means the sum of the Principal Component and the Interest Component set forth in each Standby Letter of Credit in effect on the Effective Date and, thereafter, such initial amount adjusted from time to time as follows: (a) downward in an amount equal to the amount of any *Advance*; (b) upward in an amount equal to the amount of principal on any *Advance*, or Bank Bond, as applicable, that is repaid, including upon the sale of Bank Bonds pursuant to the Liquidity Facility; (c) downward in an amount equal to any reduction thereof effected pursuant to the Liquidity Facility; and (d) downward to zero upon the expiration or termination of the applicable Available Amount in accordance with the terms of the Liquidity Facility; *provided*, that at no time shall the aggregate sum of the Available Amount of the Standby Letters of Credit then outstanding exceed the Commitment. For the avoidance of any doubt, unless otherwise specified herein, the term “*Available Amount*” will be deemed to refer to the Available Amount as set forth in the Standby Letter of Credit supporting the Series of Bonds specified therein.

“*Bank Bond*” means each 2008 Series Bond held by the Liquidity Facility Provider or a Participant as a result of an *Advance* and held by or for the account of the Liquidity Facility Provider or a subsequent Bank Owner in accordance with the terms of the Liquidity Facility as collateral for such *Advance*, until purchased or retained in accordance with the Liquidity Facility or purchased or redeemed in accordance with the Liquidity Facility or otherwise paid in full.

“*Bank Bond Amortization Period*” means the period commencing on the last day of the Commitment Period (excluding a Conversion Date or a Substitution Date) and ending no later than the fifth (5th) anniversary of such date.

“*Bank Bond Amortization Rate*” means the Base Rate plus one percent (1.00%) per annum; provided, however, this rate shall not exceed the Maximum Rate.

“*Bank Owner*” means the Liquidity Facility Provider (but only in its capacity as owner (which, as used in the Liquidity Facility, shall mean beneficial owner if, at the relevant time, Bank Bonds are book entry bonds) of Bank Bonds pursuant to the Liquidity Facility) or any other Person to whom the Liquidity Facility Provider or a subsequent Bank Owner has sold Bank Bonds in accordance with the Liquidity Facility.

“*Bank Rate*” means, for each period specified below, beginning with and including the date funds are advanced under the Liquidity Facility and ending on, but excluding, the date they are repaid in full with interest thereon as provided in the Liquidity Facility, the interest rate specified with respect to such period, which interest rates shall be computed on the basis set forth in the Liquidity Facility:

Period	Rate
I. Purchase Date through the earlier to occur of the last day of the Commitment Period and the 30 th day immediately following the Purchase Date:	Base Rate
II. The earlier to occur of the last day of the Commitment Period and the 31 st day immediately following the Purchase Date and thereafter:	Bank Bond Amortization Rate

provided, however, that (a) upon and following the occurrence of an Event of Default under the Liquidity Facility, all amounts due under the Liquidity Facility and under the Fee Letter shall bear interest in an amount equal to the Default Rate, (b) at no time shall the Bank Rate exceed the Maximum Rate and (c) notwithstanding the time periods set forth above, the Bank Bond Amortization Rate shall be applicable with respect to all Eligible Bonds purchased by the Trustee with monies lent by the Liquidity Facility Provider on the last day of the Commitment Period from and including such day.

“*Bankruptcy Code*” means Section 101(32) of the United States Bankruptcy Code of 1978, as it may be amended from time to time (Title 11 of the United States Code), and any successor statute thereto.

“*Base Rate*” means, for any day, the highest of (a) the Liquidity Facility Provider’s U.S. prime commercial lending rate in effect for such day (as such U.S. prime commercial lending rate is announced from time to time by the Liquidity Facility Provider at its principal New York office) plus two percent (2.00%) per annum, (b) the Federal Funds Rate plus three percent (3.00)% per annum, (c) the sum of three percent (3.00)% per annum plus the LIBOR Reference Rate; (d) the sum of three percent (3.00)% per annum plus the SIFMA Rate; and (e) six and one half per cent (6.50%) per annum. Each determination of the Base Rate by the Liquidity Facility Provider will be conclusive and binding on the Authority, absent manifest error.

“*Business Day*” means any day other than (a) a Saturday or Sunday or (b) a day on which the Trustee or the applicable Remarketing Agent is required or authorized to be closed or (c) a day on which the office of the Liquidity Facility Provider at which Advances will be paid is required or authorized to be closed or (d) a day on which The New York Stock Exchange is closed.

“*Commitment*” means initially \$238,511,632, representing the aggregate sum of the Available Amount for each Series of 2008 Series Bonds on the Effective Date and, thereafter, means such amount as reduced from time to time, or terminated, pursuant to the Liquidity Facility.

“*Conversion Date*” means the effective date of a conversion of all the 2008 Series Bonds of a particular series to bear interest at a rate of interest other than a Covered Rate.

“*Covered Rate*” means, with respect to the 2008 Series Bonds, the Weekly Rate or such other rate as consented to by the Liquidity Facility Provider pursuant to the Liquidity Facility.

“*Default*” means any occurrence, circumstance or event, or any combination thereof, which, with the lapse of time and/or the giving of notice, or both, would constitute an Event of Default.

“*Default Rate*” means the Base Rate from time to time in effect plus four percent (4.00%) per annum; provided, however, this rate shall not exceed the Maximum Rate.

“*Default Tender*” means a mandatory tender of the 2008 Series Bonds as a result of the Liquidity Facility Provider’s delivery of a Notice of Termination Date to the Trustee.

“*Drawing*” has the meaning assigned to such term in each Standby Letter of Credit.

“*Effective Date*” has the meaning assigned to such term set forth in the Liquidity Facility.

“*Eligible Bonds*” means all 2008 Series Bonds bearing interest at a Covered Rate, other than (a) Bank Bonds, and (b) 2008 Series Bonds owned beneficially or of record by or on behalf of, for the benefit of or for the account of the Authority, any Affiliate of the Authority or any nominee of the Authority.

“*Event of Default*” has the meaning assigned above in the section entitled “Events of Default” and shall include any Suspension Event or Immediate Termination Event.

“*Federal Funds Rate*” means for any day the rate per annum (rounded upward, if necessary, to the nearest 1/100th of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided that (a) if such day is not a Business Day, the Federal Funds Rate for such day shall be the rate applicable to such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average rate quoted to the Liquidity Facility Provider on such day by three Federal funds brokers selected by the Liquidity Facility Provider. Each determination of the Federal Funds Rate by the Liquidity Facility Provider shall be conclusive and binding on the Authority absent manifest error.

“*Fee Letter*” means the letter, dated the date the Standby Letters of Credit become effective, from the Liquidity Facility Provider to the Authority regarding fees and expenses, as such letter may be amended, supplemented or otherwise modified from time to time.

“*Governmental Authority*” means the United States or any state or political subdivision thereof or any foreign nation or political subdivision thereof, any entity, body or authority exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government in the United States (or any state, municipality or political subdivision thereof) or any foreign nation or political subdivision thereof, including, without limitation, any central bank or other governmental or quasi-governmental authority exercising control over banks or other financial institutions, and any corporation or other entity or authority owned or controlled (through stock or capital ownership or otherwise) by any of the foregoing.

“*LIBOR Banking Day*” means any business day on which commercial banks are open for international business (including dealings in dollar deposits) in London.

“*LIBOR Reference Rate*” means the “London Interbank Offered Rate” applicable to a one-month interest period on a principal amount approximately equal to the principal amount of the Advance or Bank Bond, which means the average (rounded upward, if necessary, to the next 1/16 of 1%) of the rate per annum at which deposits in dollars are offered to the principal London office of the Liquidity Facility Provider in the London interbank market at approximately 11:00 a.m. (London time) on the relevant date

of determination, which date shall be a LIBOR Banking Day, and if such date is not a LIBOR Banking Day, the next preceding LIBOR Banking Day.

“*Mandatory Tender*” means the mandatory tender of the 2008 Series Bonds on any date on which the 2008 Series Bonds are subject to mandatory tender for purchase in accordance with the Third Supplemental Indenture.

“*Maximum Rate*” means, with respect to Bank Bonds, the lesser of (a) the maximum lawful rate of interest permitted by applicable law and (b) 20.00% per annum.

“*Obligations*” means all amounts owed by the Authority to the Liquidity Facility Provider under the Liquidity Facility, the Bank Bonds and the Fee Letter.

“*Parity Obligations*” means (a) bonds, debentures, notes or similar instruments that evidence indebtedness or liability for borrowed money; (b) obligations as lessee under Capital Leases; and (c) any Interest Rate Swap Agreement (excluding fees and expenses and termination payments on Interest Rate Swap Agreements which fees and expenses and terminations payments shall be secured by a lien and charge on the Sales Tax Revenues subordinate to the lien and charge upon the Sales Tax Revenues which secures the 2008 Series Bonds, Parity Obligations and payment of principal and interest on Subordinate Obligations) entered into in connection with the 2008 Series Bonds, in each case, incurred in accordance with the Indenture and having an equal lien and charge upon the Sales Tax Revenues and, therefore, payable on a parity with the 2008 Series Bonds. For the avoidance of any doubt, none of the 2008 Series A Bonds, 2008 Series B Bonds, 2008 Series C Bonds and 2008 Series D Bonds will be deemed “Parity Obligations” under the Liquidity Facility.

“*Participant(s)*” means any bank(s) or other financial institutions that may purchase from the Liquidity Facility Provider a participation interest in the Liquidity Facility, any Bank Bonds held by the Trustee on the Liquidity Facility Provider’s behalf pursuant to a participation agreement between the Liquidity Facility Provider and the Participant(s).

“*Person*” means an individual, a corporation, a partnership, a limited liability company, an association, a joint venture, a trust, a business trust or any other entity or organization, including a governmental or political subdivision or an agency or instrumentality thereof.

“*Purchase Date*” means the date on which the Trustee purchases Eligible Bonds with the proceeds of an Advance.

“*Purchase Price*” means, with respect to any Eligible Bond as of any date, 100% of the principal amount of such Eligible Bond plus (if the Purchase Date is not an Interest Payment Date) accrued and unpaid interest thereon to the Purchase Date, but in no event to exceed the Available Amount; provided, however, if the Purchase Date for any Eligible Bond is also an Interest Payment Date for such Eligible Bond, the Purchase Price for such Eligible Bond shall not include accrued but unpaid interest on such Eligible Bond; and provided, further, in no event shall the Purchase Price of any 2008 Series Bond include any premium owed with respect to any 2008 Series Bond.

“*Rating Agency*” means, initially, Moody’s and Standard & Poor’s, and subsequent to the date the Standby Letters of Credit become effective, means any other nationally recognized rating agency or rating agencies designated by the Authority to maintain a public rating or ratings on the 2008 Series Bonds and any Parity Obligation other than Moody’s and Standard & Poor’s

“*Related Documents*” means the Liquidity Facility, the Fee Letter, the 2008 Series Bonds, the Indenture and the Remarketing Agreements.

“*2008 Series Bonds*,” *Bonds of a series*” and “*Series*” will, for purposes of the sections entitled “Events of Default” and “Remedies”, be deemed to refer to one or more Bonds of the 2008 Series A Bonds, 2008 Series B Bonds, 2008 Series C Bonds and/or the 2008 Series D Bonds.

“*SIFMA Rate*” means a rate equal to the index of the weekly index rate resets of tax-exempt variable rate issues included in a database maintained by Municipal Market Data, a Thomson Financial Services Company, or its successors, which meet specific criteria established by The Securities Industry and Financial Markets Association, such index currently known as The Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index or any successor to such index.

“*Substitution Date*” means the date that an Alternate Liquidity Facility has been delivered to the Trustee and become effective with respect to one or more series of 2008 Series Bonds in replacement of one or more Standby Letters of Credit.

“*Third Supplemental Indenture*” means the Third Supplemental Indenture, dated as of June 1, 2008, between the Authority and the Trustee

“*Weekly Rate*” has the meaning assigned to such term in the Third Supplemental Indenture.

Liquidity Facility; Substitution of Alternate Liquidity Facility

The Authority shall maintain a Liquidity Facility in accordance with the provisions of the Indenture with respect to each Series of 2008 Series Bonds; and shall not voluntarily terminate a Liquidity Facility without providing at least 30 days’ written notice to the Trustee and each of the other Notice Parties. Pursuant to the provisions of the Indenture, the Authority may provide an Alternate Liquidity Facility with respect to any 2008 Series Bonds. The Authority shall give at least 30 days’ written notice to the Trustee and each of the other Notice Parties of its intent to furnish an Alternate Liquidity Facility to the Trustee. The applicable 2008 Series Bonds shall be subject to mandatory purchase on the Substitution Date.

Certain Notices Relating to a Liquidity Facility

As soon as practicable after receipt of notice from a Liquidity Facility Provider of the suspension or immediate termination of a Liquidity Facility, the Trustee shall provide written notice of such suspension or immediate termination to the Holders of the affected Series of 2008 Series Bonds. The Trustee shall give written notice to the Holders of the Bonds and each of the Notice Parties of the extension of the Expiration Date of any Liquidity Facility, such notice to be given by mail as promptly as possible upon receipt by the Trustee of notification of such extension.

THE 2000 MEASURE A SALES TAX

2000 Measure A Sales Tax

In November of 2000, more than 70% of the voters in the County voting on such ballot measure approved Measure A (“2000 Measure A”) implementing a 30-year half-cent sales tax that became effective on April 1, 2006 and is scheduled to expire on March 31, 2036. The 2000 Measure A Sales Tax is a special retail transactions and use tax of one-half of one percent (0.5%) of the gross receipts of retailers from the sale of all tangible personal property sold at retail in the County and a use tax at the

same rate upon the storage, use or other consumption in the County of such property purchased from any retailer for storage, use or other consumption in the County, subject to certain exceptions. Revenues from the 2000 Measure A Sales Tax may be used to finance the transit projects and operations listed in 2000 Measure A, the ordinance which imposed the 2000 Measure A Sales Tax (the “2000 Measure A Ordinance”) and in the Authority’s Valley Transportation Plan, which was formulated to provide a balanced transportation system consisting of transit, roadway, bicycle and pedestrian improvements. See “The 2000 Measure A Program” herein.

Collection of the 2000 Measure A Sales Tax is administered by the Board of Equalization. The Authority has authorized the Board of Equalization to make payment of 2000 Measure A Sales Tax Revenues directly to the Trustee. Pursuant to its procedures, the Board of Equalization projects receipts of the 2000 Measure A Sales Tax on a quarterly basis and remits an advance of such receipts to the Trustee on a monthly basis based on such projection. During the last month of each quarter, the Board of Equalization adjusts the amount remitted to reflect the actual receipts of the 2000 Measure A Sales Tax for the prior quarter and to deduct the full amount of the administrative fee for the prior quarter. Upon receipt of the 2000 Measure A Sales Tax Revenues, the Trustee retains an amount necessary to meet debt service requirements and make the other deposits required by the Indenture and the balance is then forwarded to the Authority.

The 2000 Measure A Sales Tax is generally imposed upon the same transactions and items subject to the sales and use tax levied statewide by the State (hereinafter collectively referred to as the “State Sales Tax”), with generally the same exceptions. Proposition 30, approved by the voters of the State in the November 2012 election, increased the State Sales Tax by one-quarter of one percent, from 7.25% to 7.5%, for a period of four years from January 1, 2013 to but excluding January 1, 2017. In general, the State Sales Tax applies to the gross receipts of retailers from the sale of tangible personal property. The State use tax is imposed on the storage, use or other consumption in the State of property purchased from a retailer for such storage, use or other consumption. Since the use tax does not apply to cases where the sale of the property is subject to the sales tax, the application of the use tax generally is to purchases made outside of the State for use within the State.

Many categories of transactions are exempt from the State Sales Tax and the 2000 Measure A Sales Tax. The most important of these exemptions are: sales of food products for home consumption, prescription medicine, edible livestock and their feed, seed and fertilizer used in raising food for human consumption, and gas, electricity and water when delivered to consumers through mains, lines and pipes. In addition, “Occasional Sales” (*i.e.*, sales of property not held or used by a seller in the course of activities for which he or she is required to hold a seller’s permit) are generally exempt from the State Sales Tax and from the 2000 Measure A Sales Tax; however, the “Occasional Sales” exemption does not apply to the sale of an entire business or other sales of machinery and equipment used in a business. Sales of property to be used outside the county which are shipped to a point outside the county, pursuant to the contract of sale, by delivery to such point by the retailer, or by delivery by the retailer to a carrier for shipment to a consignee, at such point, are exempt from the State Sales Tax and from the 2000 Measure A Sales Tax.

Action by the State Legislature or by voter initiative or judicial interpretation of state law could change the transactions and items upon which the State Sales Tax and the 2000 Measure A Sales Tax are imposed. Such changes or amendments could have either an adverse or beneficial effect on 2000 Measure A Sales Tax Revenues. The Authority is not currently aware of any proposed legislative change which would have a material adverse effect on 2000 Measure A Sales Tax Revenues. See also “INVESTMENT CONSIDERATIONS – Proposition 218” herein.

1976 Sales Tax

In addition to the 2000 Measure A Sales Tax, the Authority levies another retail transactions and use tax of one-half of one percent (0.5%) for transportation purposes (the “1976 Sales Tax”). The 1976 Sales Tax, also approved by the voters, is levied against the same sales tax base as the 2000 Measure A Sales Tax. Collection of the 1976 Sales Tax is also administered by the Board of Equalization and is remitted to the trustee for the senior lien obligations secured by the 1976 Sales Tax pursuant to a separate agreement between the Authority and the Board of Equalization in the same manner and subject to payment of a separate administrative charge in the same manner as the 2000 Measure A Sales Tax. **The 1976 Sales Tax Revenues do not secure the 2008 Series Bonds.**

2008 Measure B Sales Tax

In November of 2008, over two-thirds of the voters in Santa Clara County approved Measure B, implementing a one-eighth of one percent (0.125%) sales tax that became effective July 1, 2012 and continues for 30 years (the “2008 Measure B Sales Tax”). The 2008 Measure B Sales Tax is levied against the same sales tax base as the 2000 Measure A Sales Tax, and is dedicated to support the operation and maintenance of the BART to Silicon Valley Project. Collection of the 2008 Measure B Sales Tax is administered by the Board of Equalization in virtually the same manner as the 2000 Measure A Sales Tax. **The 2008 Measure B Sales Tax Revenues do not secure the 2008 Series Bonds.**

State Sales Tax and Other Sales Taxes Levied within the County

In addition to the sales taxes described above, in November 2012, over two-thirds of the voters in Santa Clara County approved a one-eighth of one percent (0.125%) sales tax for general purposes that became effective April 1, 2013 and continues for ten years. In addition, the City of Campbell (“Campbell”), located within Santa Clara County, approved a one-quarter of one percent (0.25%) sales tax in April 2009 for vital city services, maintenance and protection. The Campbell sales tax does not expire.

In addition to these sales taxes levied at the county and city level, the State also imposes a general 7.50% sales tax. Combined with the various sales taxes described above, this results in transactions in the County of Santa Clara currently being taxed at an effective rate of 8.75% outside of Campbell and 9.00% within Campbell.

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Historical Sales Tax Revenues

The following table shows sales tax revenues reported by the Authority during the 15 Fiscal Years ended June 30, 2012.

Fiscal Years Ended June 30, 1998 – 2012

Fiscal Year Ended June 30	2000 Measure A Sales Tax ⁽²⁾	Rate of Change	1976 Sales Tax Revenues ⁽²⁾	Rate of Change
1998	-	-	\$138,428,805	-
1999	-	-	143,711,721	3.8%
2000	-	-	166,764,390	16.0
2001	-	-	183,540,308	10.1
2002	-	-	144,217,679	(21.4)
2003	-	-	132,632,377	(8.0)
2004	-	-	138,917,173	4.7
2005	-	-	145,008,106	4.4
2006	\$ 38,169,934 ⁽¹⁾	-	157,283,101	8.5
2007	161,360,552	-	163,675,750	4.1
2008	160,536,904	(0.5)%	163,037,594	(0.4)
2009	137,260,570	(14.5)	137,641,999	(15.6)
2010	139,305,038	1.5	140,036,709	1.7
2011	152,855,102	9.7	153,601,839	9.7
2012	166,279,983	8.8	166,567,320	8.4

Source: The Authority.

⁽¹⁾ 2000 Measure A Sales Tax began April 1, 2006.

⁽²⁾ Differences in amount the 1976 Sales Tax and 2000 Measure A Sales Tax are due to adjustments from prior periods resulting from either Authority or Board of Equalization audits of taxpayer records.

For a summary of historical taxable retail sales within the County see the table entitled “County of Santa Clara, Taxable Transactions by Sector” in APPENDIX C – “COUNTY OF SANTA CLARA DEMOGRAPHIC AND ECONOMIC INFORMATION.”

2000 Measure A Sales Tax Revenues

For the Fiscal Year ended June 30, 2012, the Authority received \$166.28 million in 2000 Measure A Sales Tax Revenues. For the first two quarters of the Fiscal Year ending June 30, 2013, the Authority has received approximately \$89,350,000 of 2000 Measure A Sales Tax Revenues. This compares to \$83,786,997 of 2000 Measure A Sales Tax Revenues received by the Authority during the first two quarters of the Fiscal Year ended June 30, 2012. The amount of 2000 Measure A Sales Tax received in the first two quarters of Fiscal Year 2013 represents a 6.6% increase from the same period of Fiscal Year 2012. For a discussion regarding the procedures related to the collection of the 2000 Measure A Sales Tax, see APPENDIX A – “THE SANTA CLARA VALLEY TRANSPORTATION AUTHORITY – Authority Revenues – 2000 Measure A Sales Tax Revenues” and “– Management’s Discussion of Financial Results.”

Based on 2000 Measure A Sales Tax Revenues for Fiscal Year ended June 30, 2012, which amounted to \$166,279,983, 2000 Measure A Sales Tax Revenues are anticipated to equal at least 2.2

times Maximum Annual Debt Service on the Bonds through April 1, 2036, the final maturity of the 2008 Series Bonds, assuming such Maximum Annual Debt Service amounts as are shown in the table “DEBT SERVICE SCHEDULE” herein.

THE 2000 MEASURE A PROGRAM

General

Revenues from the 2000 Measure A Sales Tax may be used to finance the transit projects and the increased cost of operations as described in the 2000 Measure A Ordinance and the Authority’s Valley Transportation Plan (see APPENDIX A – “SANTA CLARA VALLEY TRANSPORTATION AUTHORITY – Authority Capital Improvement Programs” and “– Valley Transportation Plan”), which was formulated to provide a balanced transportation system consisting of transit, roadway, bicycle and pedestrian improvements.

The 2000 Measure A Transit Improvement Program

The 2000 Measure A Transit Improvement Program, which represents the transit portion of the Authority’s Valley Transportation Plan and is funded primarily by 2000 Measure A Sales Tax Revenues, consists of those projects and increased operations included in the 2000 Measure A Ordinance, as noted below.

- Extend San Francisco Bay Area Rapid Transit District service (“BART”) from Fremont through Milpitas to Downtown San Jose and the Santa Clara Caltrain Station (the “Silicon Valley Rapid Transit Project” or “SVRT”);
- Provide connections from the San Jose International Airport to BART, Caltrain commuter rail service (“Caltrain”) and the Authority’s light rail system;
- Extend the Authority’s light rail system from Downtown San Jose to the East Valley portion of the County (“DTEV Extension”);
- Purchase low floor light rail vehicles to better serve the disabled, senior and other segments of the ridership;
- Improve Caltrain by extending the system’s double track to Gilroy and providing funds to electrify the system;
- Increase Caltrain service;
- Construct a new Palo Alto Intermodal Transit Center;
- Improve bus service in major bus corridors;
- Upgrade the Altamont Commuter Express (“ACE”) service;
- Improve the Highway 17 express bus service;
- Connect Caltrain with the Dumbarton Rail Corridor (serving Alameda and San Mateo County);
- Purchase zero emission buses and construct service facilities;
- Provide funds to develop new light rail corridors;
- Fund operating and maintenance costs associated with increased bus, rail and paratransit service.

The Authority intends to implement as many of the projects included in the 2000 Measure A Ordinance as feasible within a framework of projected revenues, including 2000 Measure A Sales Tax Revenues. Projects that have been identified for advancement during the next ten years are included in the Authority's Measure A Capital Improvement Programs (see APPENDIX A – "SANTA CLARA VALLEY TRANSPORTATION AUTHORITY – Authority Capital Improvement Programs – Short Range Transportation Plan"). The Authority publishes a semi-annual status report as a periodic update regarding the implementation of the 2000 Measure A Transit Improvement Program (the most current copy of which may be requested through the Authority).

Future Financing Plans

The 2000 Measure A Transit Improvement Program anticipates total capital expenditures of approximately \$2.54 billion to be incurred over the next ten Fiscal Years. The Authority expects to fund these projects through a combination of monies under a Full Funding Grant Agreement ("FFGA"), State transportation grant funds and 2000 Measure A Sales Tax Revenues. The Authority may consider the issuance of grant anticipation notes or other form of interim financing to advance FFGA funding, if necessary.

INVESTMENT CONSIDERATIONS

Economy of the County and the State

The 2008 Series Bonds are secured by a pledge of 2000 Measure A Sales Tax Revenues, which consist of the 2000 Measure A Sales Tax less an administrative fee paid to the Board of Equalization. The level of 2000 Measure A Sales Tax Revenues collected at any time is dependent upon the level of retail sales within the County, which is, in turn, dependent upon the level of economic activity in the County and in the State generally. As a result, any substantial deterioration in the level of economic activity within the County or in the State could have a material adverse impact upon the level of 2000 Measure A Sales Tax Revenues and therefore upon the ability of the Authority to pay principal of and interest on the 2008 Series Bonds. During the most recent recession, 2000 Measure A Sales Tax Revenues decreased over 14.9% between Fiscal Years 2006-07 and 2008-09. The 1976 Sales Tax is imposed at the same rate on the same transactions as the 2000 Measure A Sales Tax. Since Fiscal Year 1997-98, 1976 Sales Tax Revenues have increased in a single year by as much as 16.0% and have decreased in a single year by as much as 21.4%. See "THE 2000 MEASURE A SALES TAX – Historical Sales Tax Revenues" herein.

For information relating to economic conditions within the County and the State, see APPENDIX C – "COUNTY OF SANTA CLARA DEMOGRAPHIC AND ECONOMIC INFORMATION."

The 2000 Measure A Sales Tax

With limited exceptions, the 2000 Measure A Sales Tax is imposed upon the same transactions and items subject to the sales tax levied statewide by the State. The State Legislature or the voters within the State, through the initiative process, or judicial decisions interpreting State law, could change or limit the transactions and items upon which the State Sales Tax and the 2000 Measure A Sales Tax are imposed. Any such change or limitation could have an adverse impact on the 2000 Measure A Sales Tax Revenues collected. For a further description of the 2000 Measure A Sales Tax, see "THE 2000 MEASURE A SALES TAX" herein.

Proposition 218

On November 5, 1996, voters in the State approved an initiative known as the Right to Vote on Taxes Act (“Proposition 218”). Proposition 218 added Articles XIIC and XIID to the California Constitution. Article XIIC requires majority voter approval for the imposition, extension or increase of general taxes and two-thirds voter approval for the imposition, extension or increase of special taxes by a local government, which is defined to include local or regional governmental agencies such as the Authority. The 2000 Measure A Sales Tax received the approval of more than two-thirds of the voters as required by Article XIIC. However, Article XIIC also removes limitations that may have applied to the voter initiative power with regard to reducing or repealing previously authorized taxes. In the opinion of the Authority, however, any attempt by the voters to use the initiative provisions under Proposition 218 to rescind or reduce the levy and collection of the 2000 Measure A Sales Tax in a manner which would prevent the payment of debt service on the 2008 Series Bonds or the other Bonds would violate the Impairment Clause of the United States Constitution and, accordingly, would be precluded. However, it is likely that the interpretation and application of Proposition 218 will ultimately be determined by the courts.

Further Initiatives

Proposition 218 was adopted as measures that qualified for the ballot pursuant to California’s initiative process. From time to time other initiative measures could be adopted, which may affect the Authority’s ability to levy and collect the 2000 Measure A Sales Tax.

Limitations of Liquidity Facility and Related Risks

The ability to obtain funds under any Liquidity Facility, including the Liquidity Facility issued by Sumitomo, in accordance with its respective terms may be limited by federal or state law. Bankruptcy, conservatorship, receivership and similar laws governing financial institutions may prevent or restrict payment under a Liquidity Facility, including the Liquidity Facility issued by Sumitomo. In the event funds are not provided to pay Purchase Price of any tendered 2008 Series Bond pursuant to a draw on a Liquidity Facility, the Authority may, but is not obligated to, provide funds to pay such Purchase Price. To the extent the short-term rating on the principal of and interest on any 2008 Series Bonds depends in any manner on the rating of the Liquidity Facility Provider then providing the Liquidity Facility for such 2008 Series Bonds, the short-term ratings on such 2008 Series Bonds could be downgraded or withdrawn if such Liquidity Facility Provider was downgraded, placed on credit watch or had its credit suspended or withdrawn or refused to perform under its Liquidity Facility.

Investment Considerations Related to Variable Rate Bonds and Interest Rate Swaps

The 2008 Series Bonds are variable rate bonds. Each Series of 2008 Series Bonds may be converted to fixed rate bonds. However, the Authority’s protection against rising interest rates is limited because the Authority would be required to continue to pay interest at variable rates until such time as the Authority is permitted to convert 2008 Series Bonds to fixed rate bonds pursuant to the provisions of the Indenture.

As described above under the caption “OUTSTANDING 2000 MEASURE A SALES TAX OBLIGATIONS – Swap Agreements,” the Authority has entered into the Swap Agreements to manage its interest rate exposure with respect to the 2008 Series Bonds. The total notional amount of the Swap Agreements is equal to the aggregate principal amount of the 2008 Series Bonds, excluding the amount of 2008 Series A Bonds that were subject to mandatory sinking fund redemption on April 1, 2009. In accordance with the provisions of the Swap Agreements, the Authority will pay a fixed rate of interest to

the Counterparties and will receive a variable rate of interest from the Counterparties, the effect of which is intended to achieve a synthetic fixed interest rate.

The variable rate of interest received by the Authority on the Swap Agreements may be less than the variable rate of interest on the 2008 Series Bonds, which would effectively increase the borrowing costs of the Authority. Debt service on the 2008 Series Bonds shown in the debt service schedule set forth above under the caption, “DEBT SERVICE SCHEDULE” has been calculated based on the fixed rate of interest payable by the Authority to the Counterparties established pursuant to the Swap Agreements. Actual debt service on the 2008 Series Bonds may be higher or lower than the debt service shown in the Debt Service Schedule. In addition, if one or more of the Swap Agreements were to be terminated for any reason, the Authority would have variable interest rate exposure. For a discussion of additional investment considerations relating to the Swap Agreements, see also “OUTSTANDING 2000 MEASURE A SALES TAX OBLIGATIONS – Swap Agreements.”

No Acceleration Provision

The Indenture does not contain a provision allowing for the acceleration of the 2008 Series Bonds in the event of a default in the payment of principal and interest on the 2008 Series Bonds when due. In the event of a default by the Authority, each Owner of a 2008 Series Bond will have the rights to exercise the remedies, subject to the limitations thereon, set forth in the Indenture. See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

Impact of Bankruptcy of the Authority

The Authority may be authorized to file for Chapter 9 municipal bankruptcy under certain circumstances. Should the Authority file for bankruptcy, there could be adverse effects on the holders of the 2008 Series Bonds.

If the 2000 Measure A Sales Tax Revenues are “special revenues” under the Bankruptcy Code, then 2000 Measure A Sales Tax Revenues collected after the date of the bankruptcy filing should be subject to the lien of the Indenture. “Special revenues” are defined to include taxes specifically levied to finance one or more projects or systems, excluding receipts from general property, sales, or income taxes levied to finance the general purposes of the governmental entity. The 2000 Measure A Sales Tax was levied to finance the Expenditure Plan, which includes a number of projects, including the Project, and some of these projects are described in broad terms. If a court determined that the 2000 Measure A Sales Tax was levied to finance the general purposes of the Authority, rather than specific projects, then 2000 Measure A Sales Tax Revenues would not be special revenues. No assurance can be given that a court would not hold that the 2000 Measure A Sales Tax Revenues are not special revenues or are not subject to the lien of the Indenture. Were the 2000 Measure A Sales Tax Revenues determined not to be “special revenues,” then 2000 Measure A Sales Tax Revenues collected after the commencement of a bankruptcy case would likely not be subject to the lien of the Indenture. The holders of the 2008 Series Bonds may not be able to assert a claim against any property of the Authority other than the 2000 Measure A Sales Tax Revenues, and were these amounts no longer subject to the lien of the Indenture following commencement of a bankruptcy case, then there could thereafter be no amounts from which the holders of the 2008 Series Bonds are entitled to be paid.

The Bankruptcy Code provides that special revenues can be applied to necessary operating expenses of the project or system from which the special revenues are derived, before they are applied to other obligations. This rule applies regardless of the provisions of the transaction documents. The law is not clear as to whether, or to what extent, 2000 Measure A Sales Tax Revenues would be considered to be “derived” from the Project. To the extent that 2000 Measure A Sales Tax Revenues are determined to be

derived from the Project, the Authority may be able to use 2000 Measure A Sales Tax Revenues to pay necessary operating expenses of the Project, before the remaining 2000 Measure A Sales Tax Revenues are turned over to the Trustee to pay amounts owed to the holders of the 2008 Series Bonds. It is not clear precisely which expenses would constitute necessary operating expenses.

If the Authority is in bankruptcy, the parties (including the holders of the 2008 Series Bonds) may be prohibited from taking any action to collect any amount from the Authority or to enforce any obligation of the Authority, unless the permission of the bankruptcy court is obtained. These restrictions may also prevent the Trustee from making payments to the holders of the 2008 Series Bonds from funds in the Trustee's possession. The procedure pursuant to which 2000 Measure A Sales Tax Revenues are paid directly by the Board of Equalization to the Trustee may no longer be enforceable, and the Authority may be able to require the Board of Equalization to pay 2000 Measure A Sales Tax Revenues directly to the Authority.

The Authority as a debtor in bankruptcy may be able to borrow additional money that is secured by a lien on any of its property (including 2000 Measure A Sales Tax Revenues), which lien could have priority over the lien of the Indenture, or to cause some 2000 Measure A Sales Tax Revenues to be released to it, free and clear of lien of the Indenture, in each case provided that the bankruptcy court determines that the rights of the Trustee and the holders of the 2008 Series Bonds will be adequately protected. The Authority may also be able, without the consent and over the objection of the Trustee and the holders of the 2008 Series Bonds, to alter the priority, interest rate, payment terms, collateral, maturity dates, payment sources, covenants (including tax-related covenants), and other terms or provisions of the Indenture and the 2008 Series Bonds, provided that the bankruptcy court determines that the alterations are "fair and equitable."

There may be delays in payments on the 2008 Series Bonds while the court considers any of these issues. There may be other possible effects of a bankruptcy of the Authority that could result in delays or reductions in payments on the 2008 Series Bonds, or result in losses to the holders of the 2008 Series Bonds. Regardless of any specific adverse determinations in an Authority bankruptcy proceeding, the fact of an Authority bankruptcy proceeding could have an adverse effect on the liquidity and value of the 2008 Series Bonds.

FINANCIAL STATEMENTS

The financial statements of the Authority for the Fiscal Year ended June 30, 2012, included in APPENDIX B of this Remarketing Memorandum have been audited by Vavrinek, Trine, Day & Co., LLP, independent auditors, as stated in their report therein. Vavrinek, Trine, Day & Co., LLP was not requested to consent to the inclusion of its report in APPENDIX B, nor has it undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Remarketing Memorandum, and no opinion is expressed by Vavrinek, Trine, Day & Co., LLP with respect to any event subsequent to the date of its report. The Authority represents that there has been no material adverse change in its financial position since June 30, 2012.

LITIGATION

There is not now pending or, to the knowledge of the Authority, threatened, any litigation concerning or affecting the validity of the 2000 Measure A Sales Tax or the original issuance of the 2008 Series Bonds. Neither the creation, organization or existence of the Authority, nor the title of the present members of the Authority to their respective offices is being contested. See APPENDIX A – "SANTA CLARA VALLEY TRANSPORTATION AUTHORITY – Litigation."

TAX MATTERS

On the original issuance date of the 2008 Series Bonds, Orrick, Herrington & Sutcliffe LLP, bond counsel, rendered its opinion that based upon an analysis of existing laws, regulations, rulings, and court decisions, interest on the 2008 Series Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. A complete copy of such opinion is attached as APPENDIX F hereto. Such opinion will not be updated in connection with the remarketing of the 2008 Series Bonds hereunder.

LEGAL MATTERS

On the original issuance date of the 2008 Series Bonds, Orrick, Herrington & Sutcliffe LLP, rendered its opinion as to the validity and enforceability of the 2008 Series Bonds. The opinion of Orrick, Herrington & Sutcliffe LLP has not been updated as of the date of this Remarketing Memorandum. A copy of the approving opinion of Orrick, Herrington & Sutcliffe LLP delivered in connection with the original issuance of the 2008 Series Bonds is attached as APPENDIX F hereto. Fulbright & Jaworski L.L.P. is currently serving as Bond Counsel and Disclosure Counsel to the Authority. As Bond Counsel to the Authority, Fulbright & Jaworski L.L.P. is not providing any opinion to the Owners with respect to the validity and enforceability of the 2008 Series Bonds or with respect to any tax matters in connection with 2008 Series Bonds. Certain legal matters will be passed on for the Authority by its General Counsel and for the Liquidity Facility Provider by Nixon Peabody LLP and by its Japanese Counsel.

RATINGS

Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies ("S&P"), and Moody's Investors Service, Inc. ("Moody's") have assigned long-term ratings of "AA+" and "Aa2," respectively, to the 2008 Series Bonds.

S&P is expected to assign its short-term rating of "A-1" to the 2008 Series Bonds, and Moody's has assigned its short-term rating of "VMIG-1" to the 2008 Series Bonds, in each case based on the delivery of the Liquidity Facility. These ratings reflect only the views of the rating agencies, and do not constitute a recommendation to buy, sell or hold securities. The Authority has furnished to the rating agencies certain information respecting the 2008 Series Bonds and the Authority. Generally, rating agencies base their ratings on such information and materials and their own investigations, studies and assumptions. The ratings are subject to revision or withdrawal at any time by the rating agencies, and there is no assurance that the ratings will continue for any period of time or that they will not be lowered or withdrawn. Any reduction or withdrawal of the ratings may have an adverse effect on the market price of the 2008 Series Bonds.

FINANCIAL ADVISOR

The Authority has retained Ross Financial, San Francisco, California, as financial advisor (the "Financial Advisor") in connection with the remarketing of the 2008 Series Bonds.

RELATIONSHIPS AMONG THE PARTIES

The Authority has entered into separate Swap Agreements with Goldman Sachs Mitsui Marine Derivative Products, L.P., Bank of America, N.A., and Morgan Stanley Capital Services, Inc. Goldman Sachs Mitsui Marine Derivative Products, L.P. is an affiliate of Goldman, Sachs & Co., which is the remarketing agent for the 2008 Series A Bonds. Bank of America, N.A. is an affiliate of Merrill Lynch, Pierce, Fenner & Smith Incorporated, which is the remarketing agent for the 2008 Series B Bonds, and

APPENDIX A

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

All capitalized terms used and not defined in this Appendix A shall have the meanings assigned to such terms in the forepart of the Remarketing Memorandum to which this Appendix A is attached. Unless otherwise specifically noted herein, source data for tables is provided by Santa Clara Valley Transportation Authority (the “Authority” or “VTA”).

Administration

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

Current members of the Board and the local agency each Board member represents are set forth below.

Name	Local Agency
Joe Pirzynski, Chairperson	Town of Los Gatos
Ash Kalra, Vice Chairperson	City of San José
Margaret Abe-Koga	City of Los Altos
Xavier Campos	City of San José
Jose Esteves	City of Milpitas
Rose Herrera	City of San José
Sam Liccardo	City of San José
Jamie Matthews	City of Santa Clara
Donald Rocha	City of San José
Perry Woodward	City of Gilroy
David Cortese	County of Santa Clara
Ken Yeager	County of Santa Clara

Current alternate members of the Board are Larry Carr (City of Morgan Hill), Johnny Khamis (City of San Jose), Chuck Page (City of Saratoga), Gail A. Price (City of Palo Alto), David Whittum (City of Sunnyvale) and a yet to be determined member (County of Santa Clara). Currently there are no ex-officio members of the Board.

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

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

MICHAEL BURNS – General Manager since August 2005. Mr. Burns has been in the transportation industry for more than 35 years and formerly served as Executive Director of the San Francisco Municipal Transportation Agency. Mr. Burns has also served as Executive Director of the San Francisco Department of Parking and Traffic. Prior to that, Mr. Burns served as Chief Operations Officer of the Southeastern Pennsylvania Transportation Authority (“SEPTA”). Prior to serving as Chief Operations Officer at SEPTA, Mr. Burns served as Assistant General Manager in charge of the Railroad Division and as Chief Mechanical Officer. He has also served as Assistant General Manager for Railroad Operations for the Massachusetts Bay Transportation Authority (“MBTA”). Mr. Burns recently announced that he will retire on December 31, 2013. The Authority is now actively searching for a replacement of Mr. Burns.

ROBERT FABELA – General Counsel since January 2012. Prior to his appointment as General Counsel, Mr. Fabela served as Senior Deputy City Attorney for the City of San Jose from 1996 through January 2012, and as an Associate with the Palo Alto law firm of Wilson Sonsini Goodrich and Rosati from 1990 through 1996. Mr. Fabela graduated from UCLA School of Law, class of 1990.

SANDRA WEYMOUTH – Board Secretary since 2009. Ms. Weymouth also served as the Authority's Board Secretary from 1994-2006. Ms. Weymouth has also worked for the Authority as Executive Assistant to the General Manager, and as Policy and Administration Manager of Operations.

CAROLYN GONOT – Chief Silicon Valley Rapid Transit (“SVRT”) Program Officer since June, 2007. Prior to her appointment as Chief SVRT Program Officer, Ms. Gonot served as Chief Development Officer and as the Deputy Director of the Congestion Management Program. Ms. Gonot has been employed by the Authority since July 1996. Ms. Gonot worked for transportation consulting firms before joining the Authority.

GRETA HELM – Chief External Affairs Officer since November 2007. Prior to joining the Authority, Ms. Helm was Director of Government Relations and Planning for Santa Clara County Social Services Agency, where she was responsible for managing the coordination of media relations, community outreach, legislative/policy development, and management reporting. Prior to that, she served as Senior Policy Counsel in San Mateo County.

MICHAEL A. HURSH – Chief Operating Officer since May 2012. Mr. Hursh joined VTA in 2006 and has served as Deputy Director, Operations for Maintenance and Security. Prior to joining VTA, Mr. Hursh served as Deputy General Manager for Safety, Security and Training in San Francisco Municipal Railway (MUNI). Mr. Hursh has over 20 years' experience in the communications, electronics and transit industry.

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

GARY MISKELL – Chief Information Officer since December 2007. Prior to joining the Authority, Mr. Miskell was a Senior Director at Solectron Technology, managing the Global Information Technology Application organization. Prior to that Mr. Miskell directed the System Integration & Test Business Unit at Solectron Technology, which included the following functions: Materials Management, Engineering, Quality, Program Management/Sales, Marketing, Quotation and Manufacturing.

JOHN RISTOW – Chief Congestion Management Agency (“CMA”) Officer since October, 2007. Prior to his appointment as Chief CMA Officer, Mr. Ristow served as Deputy Director, Programming and Project Development for the Authority, where he was responsible for highway planning, environmental clearance, right of way and preliminary engineering phases for all Authority projects. Prior to joining the Authority, Mr. Ristow worked at the Riverside County Transportation and Land Management Agency where he managed the County’s Road and Bridge Benefit Districts and the countywide National Pollutant Discharge Elimination System program. Since joining the Authority in 1998, Mr. Ristow has managed the completion of the Measure B Highway Program as well as highway projects funded through federal, State and local sources.

MARK ROBINSON – Chief Engineering and Construction Officer since November 2007. Mr. Robinson has been with the Authority for more than 31 years. Prior to his appointment as Chief Engineering and Construction Officer, Mr. Robinson served the Authority in many capacities, including light rail project manager and rail and facilities program manager, and has been involved in the implementation of large transit projects for the Authority.

JOSEPH SMITH – Chief Financial Officer since January 2008. Mr. Smith has more than 33 years of transit finance experience. Prior to joining the Authority, Mr. Smith held a number of positions with the Regional Transportation District in Denver, Colorado, most recently as Senior Manager of Finance.

Employees

The Authority has approximately 1,971 employees of which approximately 94% are represented by unions. The Amalgamated Transit Union, Division 265 (the “ATU”), represents 1,354 employees (68.8% of total Authority employees), including mechanics and maintenance personnel, bus and light rail operators, dispatchers, and customer service representatives. The current agreement between the ATU and the Authority was executed in 2008 and will continue until at least February 10, 2014.

The remaining represented employees consist of: members of Service Employees International Union, Local 521 (“SEIU Local 521”), representing 254 employees in technical, paraprofessional and administrative positions; members of American Federation of State, County and Municipal Employees, Local 101 (“AFSCME”), representing 210 employees in managerial, supervisory and other professional level positions; and members of Transit Authority Engineers and Architects (“TAEA”), representing 36 employees in engineering and architect positions. The contract with AFSCME expires on April 30, 2013. The Authority will begin negotiating the terms of successor agreements with AFSCME, SEIU Local 521, whose contract expires on May 31, 2013, and TAEA, whose contract expires on June 30, 2013.

The Authority has not experienced any strikes by its unionized employees.

The Authority Transit System

The Authority transit system consists of bus, light rail and other services that are funded from a variety of revenues, but primarily from sales tax revenues (see “Authority Revenues” herein).

Bus Transit Service. The Authority presently operates a bus system providing service to the approximately 346-square-mile urbanized portion of the County, a county of 1,300 square miles with a population of approximately 1.8 million. The Authority currently maintains an active fleet of 426 buses, including 291 diesel-powered, 45 unleaded gasoline-powered, and 90 hybrid-diesel-powered buses. The average age of these buses is 9.38 years and the buses range from one to 16 years old. Buses are operated and maintained from three operating divisions and an Overhaul and Repair (“O&R”) facility: Cerone

Operating Division, Don Pedro Chaboya Operating Division, North Operating Division and Cerone O&R Division. Along the bus routes, there are approximately 4341 bus stops, 728 of which have bus shelters. The Authority also maintains 10 park and ride lots – five owned by the Authority and the rest provided under a lease, permit or joint use agreement with other agencies.

Light Rail Transit Service. The Authority currently operates and maintains a 42-mile light rail system (the “LRT System”) connecting areas of Mountain View, Sunnyvale, Santa Clara, North San José and Milpitas to areas in South San José and Campbell. The Authority’s fleet consists of 99 low floor light rail vehicles and four historic trolleys. Currently, the LRT System has 62 stations and 21 park and ride lots, which are fully integrated with the bus system.

Other Services. The Authority provides funding for a portion of the operating and capital costs of the Caltrain commuter rail service. This commuter rail service is provided by the Peninsula Corridor Joint Powers Board (the “PCJPB”), which is composed of three member agencies: the Authority, the San Mateo County Transit District (“SamTrans”) and the City and County of San Francisco. There are 92 trains (including 22 Express trains) operating between San José Diridon Station and San Francisco each weekday, with 40 of these trains extended to the Tamien Station in San José. Connection to the Authority’s light rail system can be made at the Mountain View, San José Diridon, and Tamien Stations. Six peak-hour weekday trains extend south of Tamien station to Gilroy, three in the a.m. and three in the p.m. Hourly weekend service with four additional Express trains is operated between San José Diridon Station and San Francisco. Funding of operating costs is apportioned to each member agency of the PCJPB and is based upon morning peak period boardings in each county. Currently the Authority is responsible for approximately 41% of such operating costs.

The Authority is also a member of the Capitol Corridor Joint Powers Authority (the “Capitol Corridor JPA”), which is composed of the Authority, the Sacramento Regional Transit District, the Placer County Transportation Planning Agency, the congestion management agencies of Solano and Yolo Counties and the San Francisco Bay Area Rapid Transit District (“BART”). The Capitol Corridor JPA provides intercity rail service between Sacramento and San José. Thirty weekday trains run between Oakland and Sacramento, with 14 continuing to San José. Stops are located at stations in Auburn, Rocklin, Roseville, Sacramento, Davis, Suisun/Fairfield, Martinez, Richmond, Berkeley, Emeryville, Oakland (2), Hayward, Fremont, Santa Clara (2) and San José. The Authority currently does not provide any funding for this service. Funding for the operating and capital costs of this service is provided by the State of California (the “State of California” or the “State”), federal grants and passenger fares. Pursuant to a contract with the Capitol Corridor JPA, BART manages the service and Amtrak operates the service on tracks owned by Union Pacific Railroad.

The Authority provides funding for a portion of the operating costs of the Altamont Corridor Express (“ACE”) pursuant to a cooperative agreement (the “ACE Agreement”) among the Authority, Alameda County Congestion Management Agency and the San Joaquin Regional Rail Commission (“SJRRRC”). ACE rail service provides peak hour weekday commuter rail service from the Central Valley to the County. The rail line includes stops located in Stockton, Lathrop/Manteca, Tracy, Livermore (2), Pleasanton, Fremont, Santa Clara (2) and San José. Pursuant to the ACE agreement, funding of operating costs is based on Fiscal Year 2003 contributions, escalated annually by the consumer price index increases. The Authority’s share is approximately 42% of the cost of the service. The Authority also provides eight free shuttles to transport ACE riders from the Great America Station (Santa Clara) to major employment sites. These shuttles are funded by a grant from the Transportation Fund for Clean Air through the Bay Area Air Quality Management District and SJRRRC.

The Dumbarton Express is overseen by a consortium comprised of representatives from the Alameda-Contra Costa Transit District (“AC Transit”), BART, the City of Union City, SamTrans, and the

Authority through a Cooperative Agreement. The Authority currently does not provide any funding for the service, a transbay express bus route operating between the Union City BART station and Stanford University/Stanford Research Park in Palo Alto. Currently Regional Measure 2 funds are used to pay for all operating expenses. AC Transit manages the service which is operated by a private contractor.

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

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

Under the Authority’s Rail Shuttle Program, the Authority offers financial support to shuttle bus services that operate between rail stations and nearby employment/activity centers. This service is operated by the Authority or through the employer using a private contractor. Currently the DASH and IBM/ HGST shuttles are included in the program. Funding to operate this program is provided by the employers, the Authority and grants from the Transportation Fund for Clean Air Act through the Bay Area Air Quality Management District.

The Authority, in partnership with the City of San José, provides free Airport Flyer bus service connecting the Norman Y. Mineta San José International Airport terminals with the Authority’s Metro/Airport Light Rail Station and the Santa Clara Caltrain Station. The City of San José contributes approximately 19% to the net operating costs for this service with the Authority funding the remainder.

The Authority, Monterey-Salinas Transit (“MST”) and the Capitol Corridor JPA have entered into a Memorandum of Understanding to provide express bus service operating from Monterey to San José, funded by a federal Jobs Access Reverse Commute grant, the Capitol Corridor JPA and the Authority. The Line 55 Monterey-San José Express is managed and operated by MST and provides daily service with three round trips, covering commute times in the morning, mid-day and evening. The service provides passengers with transfers to and from Capitol Corridor trains that operate between San José-Oakland-Sacramento, Caltrain (including Baby Bullet express trips), and the Authority’s bus and light rail services. The service originates in downtown Monterey with other stops in Monterey County before stopping at the Gilroy Caltrain Station, Morgan Hill Caltrain Station, San José State University, downtown San José and the San José Diridon Station.

Authority Revenues

The Authority's primary revenue sources consist of (i) the 2000 Measure A Sales Tax; (ii) the 1976 Sales Tax; (iii) the 2008 Measure B Sales Tax; (iv) the one-quarter of one percent (0.25%) sales tax imposed pursuant to the California Transportation Development Act of 1971, as amended, described herein under the caption "Transportation Development Act Revenues"; (v) a portion of the revenues derived from the sales tax on diesel fuel purchases appropriated by the State Legislature to the State Transit Assistance Program ("STA") for public transportation purposes, described herein under the caption "State Transit Assistance Program"; and (vi) passenger fares charged by the Authority.

2000 Measure A Sales Tax

In November of 2000, more than 70% of the voters in the County voting on such ballot measure approved Measure A ("2000 Measure A"), implementing a 30-year, half-cent sales tax that became effective on April 1, 2006 and is scheduled to expire on March 31, 2036 (the "2000 Measure A Sales Tax"). The 2000 Measure A Sales Tax is a special retail transactions and use tax of one-half of one percent (0.5%) of the gross receipts of retailers from the sale of all tangible personal property sold at retail in the County and a use tax at the same rate upon the storage, use or other consumption in the County of such property purchased from any retailer for storage, use or other consumption in the County, subject to certain exceptions. Revenues from the 2000 Measure A Sales Tax may be used to finance the transit projects and operations listed in 2000 Measure A, the ordinance which imposed the 2000 Measure A Sales Tax (the "2000 Measure A Ordinance") and in the Authority's Valley Transportation Plan, which was formulated to provide a balanced transportation system consisting of transit, roadway, bicycle and pedestrian improvements. See "The 2000 Measure A Program" herein.

Collection of the 2000 Measure A Sales Tax is administered by the Board of Equalization. The Authority has authorized the Board of Equalization to make payment of 2000 Measure A Sales Tax Revenues directly to the Trustee. Pursuant to its procedures, the Board of Equalization projects receipts of the 2000 Measure A Sales Tax on a quarterly basis and remits an advance of such receipts to the Trustee on a monthly basis based on such projection. During the last month of each quarter, the Board of Equalization adjusts the amount remitted to reflect the actual receipts of the 2000 Measure A Sales Tax for the prior quarter and to deduct the full amount of the administrative fee for the prior quarter. Upon receipt of the 2000 Measure A Sales Tax Revenues, the Trustee retains an amount necessary to meet debt service requirements and make the other deposits required by the Indenture and the balance is then forwarded to the Authority.

1976 Sales Tax

In addition to the 2000 Measure A Sales Tax, the Authority levies another retail transactions and use tax of one-half of one percent (0.5%) for transportation purposes (the "1976 Sales Tax"). The 1976 Sales Tax, also approved by the voters, is levied against the same sales tax base as the 2000 Measure A Sales Tax and does not expire. Collection of the 1976 Sales Tax is also administered by the Board of Equalization and is remitted to the trustee for the senior lien obligations secured by the 1976 Sales Tax pursuant to a separate agreement between the Authority and the Board of Equalization and subject to payment of a separate administrative charge in the same manner as the 2000 Measure A Sales Tax. **The 1976 Sales Tax Revenues do not secure the 2008 Series Bonds.**

2008 Measure B Sales Tax

In November of 2008, over two-thirds of the voters in Santa Clara County approved Measure B, implementing a one-eighth of one percent (0.125%) sales tax that became effective July 1, 2012 and

continues for 30 years (the “2008 Measure B Sales Tax”). The 2008 Measure B Sales Tax is levied against the same sales tax base as the 2000 Measure A Sales Tax, and is dedicated to support the operation and maintenance of the BART to Silicon Valley Project. Collection of the 2008 Measure B Sales Tax is administered by the Board of Equalization in the same manner as the 2008 Measure A Sales Tax. **The 2008 Measure B Sales Tax Revenues do not secure the 2008 Series Bonds.**

The table set forth below shows the total amount of 2000 Measure A Sales Tax and 1976 Sales Tax received during the 15 fiscal years ended June 30, 2012.

**Santa Clara Valley Transportation Authority
Historical Sales Tax Revenues
Fiscal Years Ended June 30, 1998 – 2012**

Fiscal Year Ended June 30	2000 Measure A Sales Tax ⁽¹⁾	Percentage Change	1976 Sales Tax Revenues	Percentage Change
1998	-	-	\$138,428,805	-
1999	-	-	143,711,721	3.8%
2000	-	-	166,764,390	16.0
2001	-	-	183,540,308	10.1
2002	-	-	144,217,679	(21.4)
2003	-	-	132,632,377	(8.0)
2004	-	-	138,917,173	4.7
2005	-	-	145,008,106	4.4
2006	\$ 38,169,934 ⁽²⁾	-	157,283,101	8.5
2007	161,360,552	-	163,675,750	4.1
2008	160,536,904	(0.5)%	163,037,594	(0.4)
2009	137,260,570	(14.5)	137,641,999	(15.6)
2010	139,305,038	1.5	140,036,709	1.7
2011	152,855,102	9.7	153,601,839	9.7
2012	166,279,983	8.8	166,567,320	8.4

⁽¹⁾ Differences between 1976 Sales Tax and 2000 Measure A Sales Tax revenues are due to prior period adjustments.

⁽²⁾ Collection of 2000 Measure A Sales Tax began April 1, 2006.

Transportation Development Act Revenues. Transportation Development Act Revenues (“TDA Revenues”) are a State subsidy consisting of an allocation of State sales tax revenue under the California Transportation Development Act of 1971, as amended (the “TDA”), whereby a 0.25% levy of the State’s sales tax (net of collection costs) is made available for public transportation operating and capital expenses in the county in which the sales tax is collected. TDA Revenues are the Authority’s second largest source of revenue for operations and are separate and distinct from revenues derived from the 2000 Measure A Sales Tax, the 1976 Sales Tax, and the 2008 Measure B Sales Tax.

TDA Revenues are apportioned, allocated and paid by the Metropolitan Transportation Commission (“MTC”), the regional planning organization for the nine-county San Francisco Bay Area. Under TDA regulations, MTC allocates approximately 11% of the TDA Revenues to fund community and paratransit service programs, facilities for the use of pedestrians and bicycles and the transportation planning and programming process. The Authority receives approximately three-fourths of this 11% allocation. The remaining 89% of the TDA Revenues are allocated to operators who provide public transportation services in the County. As the only eligible public transit service provider in the County,

the Authority is eligible to receive the entire amount of the 89% allocation of TDA Revenues. TDA Revenues are available to the Authority in an amount up to 50% of the Authority's operating budget, after deduction of the amount received from federal grants, provided that certain TDA eligibility requirements are met. The Authority, formerly known as the Santa Clara County Transit District, began operations in 1972 and has complied with TDA eligibility requirements since it began receiving TDA funds in 1973. In accordance with procedures and eligibility requirements set forth in the TDA, the Authority submits a request for TDA Revenues to MTC following MTC's adoption of the next Fiscal Year's revenue estimate. If MTC approves the request, MTC then directs the Controller of the County (in the case of the County, the County Treasurer) to release the TDA Revenues to the Authority. TDA Revenues are received by the County Treasurer and distributed to the Authority based on direction from MTC as collected and transmitted by the State.

The table set forth below shows the total amount of TDA Revenues for operations available from annual State sales tax collections in the County during the five Fiscal Years ended June 30, 2012.

**Santa Clara Valley Transportation Authority
Historical Transportation Development Act Revenues**

<u>Fiscal Year Ended June 30</u>	<u>TDA Revenues for Operations Distributed to the Authority</u>
2008	\$83,546,655
2009	73,356,590
2010	65,800,680
2011	74,452,324
2012	81,928,315

State Transit Assistance Program; Restructuring of State Transportation Funding. A portion of the revenues derived from the sales tax on diesel fuel purchases is appropriated by the State Legislature to the State Transit Assistance Program ("STA") for public transportation purposes. These STA revenues are allocated to public transit agencies throughout the State based on population and operating revenues.

The Authority received STA Revenues since Fiscal Year 1980, with an interruption in Fiscal Year 2009 and Fiscal Year 2010, as explained below. STA Revenues have to be claimed by the Authority based on actual cash expenditures, normally on a quarterly basis. The table below shows STA Revenues received by the Authority for the five Fiscal Years ended June 30, 2012.

**Santa Clara Valley Transportation Authority
Historical State Transit Assistance Program Revenues**

<u>Fiscal Year Ended June 30</u>	<u>STA Revenues Received</u>
2008	\$19,021,666 ⁽¹⁾
2009	6,482,858
2010	-0-
2011	16,695,427
2012	14,055,417

⁽¹⁾ Includes one-time revenues representing a repayment of Prop 42 prior loans which had been diverted by the State in Fiscal Year 2004 and Fiscal Year 2005 and excess funds that are generated when gasoline prices increase at a faster rate than all other taxable items.

In February 2009, then Governor Schwarzenegger and the Legislature approved a package of bills that made a series of mid-year revisions to the State budget for Fiscal Year 2009 and enacted the State budget for Fiscal Year 2010. As part of this package, funding for STA was eliminated for the third and fourth quarters of Fiscal Year 2009, and entirely for Fiscal Year 2010 through Fiscal Year 2013.

In March 2010, then Governor Schwarzenegger signed into law a three-bill package that implemented a complex swapping of state transportation funding sources that was intended to achieve roughly \$1 billion in annual budget savings by relieving the State General Fund of the obligation of having to pay for transportation bond debt service. This restructuring of state transportation funding, which is embodied in ABX8 6, ABX8 9 and SB 70, contemplated the elimination of the State sales tax on gasoline, the sole revenue source for Proposition 42⁽¹⁾ and one of the revenue sources for the Public Transportation Account, to be replaced with a 17.3-cent increase in the per-gallon gasoline excise tax. This transportation funding swap took effect on July 1, 2010. The revenues from the gasoline excise tax increase are to be used to cover highway bond debt service and to provide money for the State Transportation Improvement Program (“STIP”), local streets and roads, and the State Highway Operation and Protection Program (“SHOPP”). The distribution of these revenues has been structured to ensure that the STIP and local streets/roads will be allocated at least the same amount of money that they would have received under Proposition 42. Furthermore, the Board of Equalization is required to adjust the gasoline excise tax rate on an annual basis, if necessary, in order to ensure that the swap does not result in a tax increase for consumers at the pump.

In the case of public transit, the package calls for retaining the State sales tax on diesel fuel for the Public Transportation Account. A one-time appropriation of \$400 million has been made for STA to cover Fiscal Years ending June 30, 2010 and June 30, 2011. According to estimates prepared by MTC, the Authority’s share is approximately \$15.5 million. The State Controller’s Office allocated these funds to public transit agencies in late June of 2010, all of which have been received by the Authority.

Beginning in the Fiscal Year ending June 30, 2012, the State diesel sales tax rate was increased to 6.75%, in conjunction with a corresponding drop in the per-gallon diesel fuel excise tax to ensure that consumers feel no impact at the pump. High-speed rail/transit bond debt service has first call on the

⁽¹⁾ Proposition 42 was an initiative approved by the voters of the State of California in 2002 that required all sales and use tax revenues received by the State of California and derived for the sale, storage, use or other consumption of motor vehicle fuel be allocated to local transportation and put restrictions on when and how often such revenues could be diverted to the State General Fund.

revenues generated by the diesel sales tax. Any remaining revenues is split 75% to STA, and 25% to intercity rail and other miscellaneous State transit programs.

The elimination of State sales tax on gasoline does not affect the Authority's local sales tax collections on gasoline.

In November 2010, California voters approved two ballot measures that affect the transportation funding swap. Proposition 22 put in place stronger protections that are intended to prevent the State from taking, diverting or borrowing local government and transportation money to address General Fund deficits. Proposition 26, among other things, prohibits the Legislature from engaging in the practice of using a simple majority vote to raise one tax while simultaneously reducing another, an approach that was used to enact the transportation funding swap.

In response, Assembly Bill 105 was enacted into law in March 2011 to ensure that all of the goals of the swap, both for the General Fund and for transportation, can be realized. This legislation re-enacted the transportation funding swap's increases in both the gas tax and the diesel sales tax to prevent Proposition 26 from eliminating billions in revenues for state highways, local streets/roads and public transit. It also made the necessary statutory revisions to ensure that: (a) the distribution of revenues from the 17.3-cent gas tax increase will achieve the same fiscal results that were anticipated for state highways and local streets/roads when the swap was enacted; and (b) STA receives, at a minimum \$350 million per year, as contemplated by the swap.

In June 2012, Governor Brown signed the Fiscal Year 2013 State budget into law. This budget estimates STA funding at \$415.0 million for the fiscal year ending June 30, 2013, of which the Authority is projected to receive at least \$13.3 million.

Ridership and Farebox, Advertising and Other Revenues. The table set forth below shows the Authority's ridership, farebox revenues, revenues from advertisements placed on the Authority's vehicles and bus shelters and other revenues received by the Authority for the five Fiscal Years ended June 30, 2012.

**Santa Clara Valley Transportation Authority
Ridership and Farebox, Advertising and Other Revenues**

Fiscal Year Ended June 30	Number of Passengers⁽¹⁾	Farebox, Advertising and Other Revenues Received
2008	43,555,049	\$38,052,724
2009	45,264,434	38,439,004
2010	41,733,376	38,830,000
2011	41,409,630	40,013,572
2012	42,426,797	40,070,000

⁽¹⁾ Directly operated services.

The Authority's ridership is highly correlated to employment within the County. In Fiscal Year 2010 ridership fell significantly as a result of the economic recession. It then stabilized in 2011 and started to grow again in 2012. In Fiscal Year 2012 ridership increased 2.1% and 3.6% for Bus and Light Rail, respectively, compared to the previous year. In the first half of Fiscal Year 2013 this trend

continued, with Bus ridership increasing by 1% and Light Rail increasing by 2.1% compared to the same period the year before.

Other Revenues. Federal guidelines established pursuant to the Moving Ahead for Progress in the 21st Century (MAP-21), the successor to the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), which was the successor to the Transportation Equity Act for the 21st Century, allow the Authority to claim grants under the Section 5307 Urbanized Area Formula Program (which are normally restricted to capital projects) for preventive maintenance costs. The Authority's principal motivation in programming this source of capital grants for preventive maintenance is to accelerate cash flow, and thus improve its financial position. In addition to the above-described revenues, the Authority, from time to time, receives other State assistance that may be used to pay operating expenses and receives interest on its operating funds.

Authority Budgeted Revenues and Expenditures

The Authority's budget is prepared biennially. The Adopted Budget for Fiscal Year ending June 30, 2012 and Fiscal Year ending June 30, 2013 (the "Budget") was approved by the Board of Directors on June 2, 2011 and includes appropriations for operating expenditures in support of all activities under the jurisdiction of the Authority's Board, including bus and rail operations in the county, regional commuter and inter-city rail service, ADA Paratransit service, congestion management, specific highway improvement and other transportation projects, and county wide transportation planning and funding. If additional appropriations are necessary, budget figures are generally revised in January of each year.

A detailed discussion of the Budget related to the Authority's Measure A Program, congestion management, highway improvements and countywide transportation planning (all of which are funded from other sources of revenue than those discussed herein) is included in the budget document, which may be obtained directly from the Authority. The Budget is currently available at <http://www.vta.org/inside/budget>. None of the information on such website is incorporated by reference herein. The remaining approved Budget amounts are in support of transit-related transportation projects, bus and rail operations in the County, and regional commuter and inter-city rail service.

The Budget was developed in a much different economic climate than the previous Biennial Budget. The Fiscal Year 2010 and Fiscal Year 2011 budget was developed amid a backdrop of economic distress, declining sales tax revenues and declining State funding for transit operations. The current environment is one of a significantly improved economic outlook: unemployment rates in the County have decreased; sales tax revenues have increased for over two consecutive years; and ridership is recovering.

The Budget includes no change in the current fare structure, while reflecting a 3.5% increase from Fiscal Year 2011 projected sales tax revenues (at the time of budget development), for Fiscal Year 2012, followed by a 5.8% increase in Fiscal Year 2013, based on forecasts of economic activity from industry experts. The Budget includes \$13.3 million per year in STA funding for Fiscal Year 2012 and Fiscal Year 2013.

Transit System-Operating and Capital Budget. The following table summarizes the Authority’s Adopted Operating and Capital Budget which supports activities related to the Authority’s Transit System. See “The Authority Transit System” herein. Additional information related to capital expenses is included in the Authority’s Short Range Transportation Plan. See “Authority Capital Improvement Programs – Short Range Transportation Plan” herein.

Santa Clara Valley Transportation Authority
Fiscal Years 2010 through 2013 – Summary of Transit System Revenues and Expenses
(in Thousands)

	Actual 2010	Actual 2011	Actual 2012	Adopted Budget 2013
Operating Reserve Balance, July 1	\$ 46,045	\$ 51,857	\$ 54,595	\$ 56,268
1976 Sales Tax Revenues	140,037	153,602	166,568	165,273
Other Operating and Non-Operating Revenues ⁽¹⁾	206,923	221,128	225,591	211,552
Federal Grants	9,207	47,027	15,575	418
Transit Security Grant Program (TSGP) ⁽²⁾	1,780	1,937	1,510	4,994
State Grants – Prop 1B	3,344	11,929	12,386	3,080
Regional Measure 2 (RM2) ⁽³⁾	2,155	1,379	396	-
Other	<u>14,361</u>	<u>7,912</u>	<u>459</u>	<u>11,785</u>
Total Revenues	<u>377,807</u>	<u>444,914</u>	<u>422,485</u>	<u>397,102</u>
Total Available for Transit System Expenses	<u>423,852</u>	<u>496,771</u>	<u>477,080</u>	<u>453,370</u>
Transit System Operating Expenses:				
Directly Operated Transit Service	262,819	270,789	290,743	305,034
Other Expense	<u>67,861</u>	<u>69,125</u>	<u>56,700</u>	<u>70,084</u>
Total Transit System Operating Expense⁽¹⁾	<u>330,680</u>	<u>339,914</u>	<u>347,443</u>	<u>375,118</u>
Transit System Capital Expenses:				
Revenue Vehicles and Equipment	2,670	52,992	21,541	3,079
Non-Revenue Vehicles	25	2,299	1	-
Operations Facilities and Equipment	9,882	8,075	4,750	4,606
Passenger Facilities	2,849	598	2,701	6,516
Information Systems and Technology	7,895	3,030	1,332	2,938
Miscellaneous	<u>7,527</u>	<u>3,190</u>	<u>0</u>	<u>3,136</u>
Total Transit Capital Expense⁽⁴⁾	<u>30,847</u>	<u>70,184</u>	<u>30,325</u>	<u>20,277</u>
Total Transit System Operating & Capital Expenses	<u>361,527</u>	<u>410,098</u>	<u>377,768</u>	<u>395,395</u>
Transit Operating Reserves in Excess of 15% transferred to Debt Reduction Fund	(10,468)	(32,078)	(24,044)	(1,707)
Transfer to Transit Sales Tax Stabilization Fund	-	-	(19,000)	-
Ending Balance – Transit Operating Reserve	<u>\$ 51,857</u>	<u>\$ 54,595</u>	<u>\$ 56,268</u>	<u>\$ 56,268</u>

(See Footnotes on the following page.)

(Footnotes continued from previous page.)

(1) For a general line item detail of operating and non-operating revenues as well as operating expenses, see the Draft Recommended Fiscal Year ending June 30, 2012 and Fiscal Year ending June 30, 2012 Budget which may be obtained directly from the Authority, currently available at:

http://www.vta.org/inside/boards/packets/2011/06_jun/bod_060211_packet.pdf, pp. 454-571. Information on such website is not incorporated herein by reference.

(2) TSGP provides grant funding to the nation's key high-threat urban areas to enhance security measures for their critical transit infrastructure including bus, rail and ferry systems.

(3) In March 2004, voters passed RM2, raising the toll on the seven State-owned toll bridges in the San Francisco Bay Area by \$1.00. This extra dollar is to fund various transportation projects within the region that have been determined to reduce congestion or to make improvements to travel in the toll bridge corridors, as identified in SB 916 (Chapter 715, Statutes of 2004). Specifically, RM2 establishes the Regional Traffic Relief Plan and identifies specific transit operating assistance and capital projects and programs eligible to receive RM2 funding.

(4) Transit projects included in the two year budget cycle are part of an overall 10-year capital improvement plan (see "Authority Capital Improvement Plan – Short Range Transportation Plan" herein) that supports the Authority's Transit System (see "The Authority Transit System" herein). The capital portion of the Transit Budget funds and augments 31 transit related state of good repair (infrastructure renewals/replacement) projects and 6 improvement projects in an amount of \$93.3 million over the two-year budget period.

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

Valley Transportation Plan. As the designated Congestion Management Agency for the County, the Authority is responsible for preparing the County's long-range countywide transportation plan. In August 2000, the Authority's Board of Directors adopted the Valley Transportation Plan 2020 (as revised, from time to time, the "Valley Transportation Plan") to satisfy this requirement. The Board of Directors adopted the current revision of the Valley Transportation Plan, Valley Transportation Plan 2035 in January 2009. The Valley Transportation Plan is a long-range transportation planning document which does not set priorities or schedules for project completion. The Valley Transportation Plan encompasses a set of investments through 2035 that offers improvements and manages the existing roadway network with an expanded high-occupancy vehicle ("HOV") system, improved interchanges and freeway-to-freeway connector ramps, and freeway upgrades.

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

Short Range Transportation Plan. As a transit operator, the Authority prepares a complete Short Range Transit Plan ("SRTP") every four years and a "mini-SRTP" every year as required by MTC and the Federal Transit Administration ("FTA"). The SRTP is used as documentation to support projects included in the Regional Transportation Plan ("RTP") prepared by MTC. Both the FTA and MTC use the SRTP as the detailed planning justification required for awarding operating and capital grants to the Authority. The Authority's most recent SRTP for the Fiscal Years 2010-2019 was adopted by the Board of Directors in February 2010. An updated SRTP is currently scheduled for update in late calendar 2013.

There are two Capital Improvement Programs included in the SRTP: the Authority's Core System Capital Improvement Program ("Core CIP") and the 2000 Measure A Program ("Measure A CIP"). For a

discussion on the Measure A CIP, refer to the Authority’s Short Range Transit Plan, which may be obtained from the Authority or downloaded from <http://www.vta.org/studies/>. The information set forth on such website is not incorporated by reference herein. The CIPs are funded by a combination of federal, State and local regional funding as well as bonds secured by the Authority’s sales tax revenues.

The Core CIP includes routine bus replacement needs, facility rehabilitation, bus facilities, technology upgrades, security, rehabilitation needs of the light rail system and system enhancements. The Core CIP includes two tiers of projects. Tier 1 projects are those projects essential to the maintenance of the system, funded by a combination of federal, State and local funding, including bonds secured by the 1976 Sales Tax Revenue. Tier 2 projects are enhancements to the Authority’s existing system for which no additional funding has yet been identified. The following table represents a summary of the Tier 1 Projects included in the Core CIP.

Core Capital Improvement Program Summary
(In Thousands)

Program Area	Fiscal Years
	<u>2010-2019</u>
Revenue Vehicles and Equipment	\$289,743
Operations Facilities and Equipment	32,969
Light Rail System Maintenance & Enhancement	142,720
Passenger Facilities	11,581
Information Systems and Technology	21,163
Security	32,672
Miscellaneous Projects	<u>46,513</u>
Total Program Project Costs	<u>\$577,361</u>

Funding for the Core CIP includes grant (federal, State and regional) funding of \$392 million with the remaining portion funded from Authority local funds. The 2000 Measure A Sales Tax does not provide funding for the Core CIP.

Two significant capital projects that are not part of the Core CIP are the BART Silicon Valley Project (a 2000 Measure A project) and the Express Lanes Project, each described below.

Bay Area Rapid Transit (BART) Silicon Valley Project. The BART Silicon Valley Project is a 16-mile extension of the existing BART system to San Jose, Milpitas, and Santa Clara, which will be delivered through a phased approach. The first phase, the Berryessa Extension, is a 10-mile, two-station extension, beginning in Fremont south of the future BART Warm Springs Station and proceeding via the former Union Pacific Railroad right-of-way through Milpitas, the location of the first station, and then to the Berryessa area of north San Jose, at the second station. The Authority plans to continue project development activities for the second 6-mile phase of the project that includes a 5.1 mile-long subway tunnel through downtown San Jose, ending at grade in Santa Clara near the Caltrain Station. Construction on the second phase of the project will commence as additional funding is secured.

The cost of the Berryessa Extension is approximately \$2.4 billion, which includes \$900 million in federal assistance, \$350 million in State funding and \$1.171 billion from 2000 Measure A Sales Tax. In March 2012, the Authority received a \$900 million grant commitment from the FTA for the project, along with the first \$100 million appropriation, as provided for in the Full Funding Grant Agreement (“FFGA”). The FFGA is a multi-year contractual agreement with the Federal Transit Administration that formally defines the project scope, cost and schedule, and establishes the terms of the federal financial assistance. Execution of the FFGA was the final step before construction on the 10-mile, two station Berryessa Extension could begin.

The first major design and construction contract, valued at \$772 million for the line, track, systems and stations, was awarded in December 2011 to Skanska-Shimmick-Herzog, a Joint Venture. Construction of the 10-mile, two station project is planned for 2012 to 2016. Initial construction activities include relocating utilities and preparing the future station areas for construction. Other current and near-term work includes construction at major intersections that the BART system will cross. Installing the tracks for BART will be one of the last construction activities.

Express Lanes Project. The Authority partnered with the Caltrans to convert carpool lanes at the State Route (SR) 237/I-880 interchange in Milpitas to express lanes in March 2012. The SR 237 Express Lanes extend from south of Dixon Landing Road in Milpitas to Lawrence Expressway in San Jose.

Tolls from solo drivers are collected electronically using FasTrak technology already in use on Bay Area bridges and express lanes throughout California. Tolls are based on the level of congestion and are adjusted to maintain a free flow of traffic. Revenue from these tolls remains in Santa Clara County and will be used for operation, maintenance, enforcement costs, and transit improvements within the corridors. For Fiscal Year 2012, total revenue collections from SR 237 Express Lanes amounted to approximately \$218,000.

The cost of the Express Lanes Project was \$11.8 million. Approximately 65% of the cost was funded by federal grant programs: \$3.5 million through the American Recovery and Reinvestment Act (ARRA) and \$4 million through the Federal Value Pricing Pilot Program (VPPP). The balance of \$4.3 million came from local funds.

Significant Accounting Policies

The Authority follows the accrual basis of accounting and the economic resources exchange measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. See APPENDIX B – “AUDITED FINANCIAL STATEMENTS OF THE SANTA CLARA VALLEY TRANSPORTATION AUTHORITY FOR FISCAL YEAR ENDED JUNE 30, 2012 – Note 2 – Summary of Significant Accounting Policies,” which includes a more detailed explanation regarding the Authority’s significant accounting policies.

Financial Results

The table on the following page summarizes the Statement of Revenues, Expenses and Changes in Fund Net Assets for the Enterprise Fund of the Authority for the five Fiscal Years ended June 30, 2012. The summary statements are presented in accordance with generally accepted accounting principles (“GAAP”), are excerpted from the audited financial statements of the Authority and are qualified in their entirety by reference to such statements, including the notes thereto. For the audited financial statements of the Authority for the Fiscal Year ended June 30, 2012, see APPENDIX B – “AUDITED FINANCIAL STATEMENTS OF THE SANTA CLARA VALLEY TRANSPORTATION AUTHORITY FOR FISCAL YEAR ENDED JUNE 30, 2012.” Totals may not add due to independent rounding.

Santa Clara Valley Transportation Authority
Statements of Revenues and Expenses
Fiscal Years Ended June 30, 2008 through 2012
(In Thousands)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Operating Revenues:					
Passenger fares	\$35,830	\$36,184	\$36,857	38,106	37,744
Advertising and other	2,223	2,255	1,973	1,908	2,326
Total operating revenues	<u>38,053</u>	<u>38,439</u>	<u>38,830</u>	<u>40,014</u>	<u>40,070</u>
Operating Expenses:					
Labor	131,732	134,181	129,803	129,291	135,097
Fringe benefits	108,422	111,969	116,736	119,082	127,459
Materials and supplies	31,513	27,097	26,216	29,765	30,912
Services	27,098	22,777	18,345	18,116	20,241
Utilities	6,867	6,869	6,718	6,787	6,983
Casualty and liability	5,278	5,818	4,688	4,962	4,862
Purchased transportation	28,392	27,974	24,245	20,768	18,923
Leases and rentals	420	3,499	2,217	495	552
Miscellaneous	1,856	1,966	1,461	1,313	1,481
Costs allocated to capital and other programs ⁽¹⁾	<u>(39,691)</u>	<u>(39,628)</u>	<u>(33,989)</u>	<u>(31,827)</u>	<u>(29,452)</u>
Total operating expenses, excluding depreciation	<u>301,887</u>	<u>302,522</u>	<u>296,440</u>	<u>298,752</u>	<u>317,058</u>
Operating loss before depreciation	<u>(263,834)</u>	<u>(264,083)</u>	<u>(257,610)</u>	<u>258,738</u>	<u>276,988</u>
Depreciation Expense:					
Total depreciation expense	<u>53,292</u>	<u>51,762</u>	<u>51,378</u>	<u>55,060</u>	<u>57,886</u>
Operating loss	<u>(317,126)</u>	<u>(315,845)</u>	<u>(308,988)</u>	<u>(313,798)</u>	<u>(334,874)</u>
Non-operating revenues (expenses):					
1976 Sales Tax Revenue	163,038	137,642	140,037	153,602	166,567
Measure A Sales Tax Revenues	160,537	137,261	139,305	152,855	166,280
Federal operating grants and reimbursements	22,425	33,449	59,101	42,225	42,286
Federal Subsidy for Build America Bonds	-	-	-	5,848	9,399
State and local operating grants and reimbursements	104,080	81,488	67,833	95,579	98,133
Caltrain subsidy and Capital contributions to other agencies	(34,747)	(58,504)	(97,592)	(80,917)	(90,290)
Altamont Commuter Express Subsidy	(2,621)	(2,707)	(2,708)	(2,706)	(2,707)
Investment Earnings	20,370	15,341	5,764	10,067	18,594
Interest expense & Other Bond Fees	(12,214)	(11,651)	(20,583)	(23,536)	(31,307)
Other (expense)/Income, net ⁽²⁾	243	(2,061)	(4,192)	(8,939)	3,797
Total non-operating revenues, net	<u>421,111</u>	<u>330,258</u>	<u>286,965</u>	<u>344,078</u>	<u>380,752</u>
Change in net assets, before capital contributions	<u>103,985</u>	<u>14,413</u>	<u>(22,024)</u>	<u>30,280</u>	<u>45,878</u>
Capital Contributions	153,443	82,175	92,594	148,303	115,584
Transfer In/(Out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>32,650</u>	<u>-</u>
Net income (loss)⁽³⁾	<u>\$257,428</u>	<u>\$96,588</u>	<u>\$70,570</u>	<u>211,233</u>	<u>161,462</u>

⁽¹⁾ Represents a credit for direct and indirect labor and associated fringe benefits, reproduction and mileage costs and other costs that were capitalized as construction in progress. See Note 2(k) to the audited financial statements of the Authority attached hereto as Appendix B.

⁽²⁾ Includes miscellaneous revenues such as permit fees, parking citations, property rentals and miscellaneous expenses such as costs related to express services, freight shipping and other bond related expenses associated with liquidity and remarketing fees.

⁽³⁾ Net income (loss) is funded from reserves and presented in accordance with GAAP.

Management's Discussion of Financial Results

The Authority has experienced 12 consecutive quarters of sales tax growth. Sales tax revenues from the Authority's 1976 Sales Tax (which subsidize operations) have increased more than 21% since Fiscal Year 2009 and, in Fiscal Year 2012, reached their highest levels since FY 2001. Coupled with the Authority's proactive and aggressive strategies to address the budgetary impacts from the recent financial crisis that still affects part of the U.S. and global economies, the Authority has ended the last three fiscal years with overall revenues exceeding transit operating costs.

The Authority adopted the following steps to address the "Great Recession" of 2008: an 8% reduction in transit service; an increase in fares; the establishment of additional reserves; and continued ongoing efforts to control costs (including mandatory unpaid furlough days and wage freezes for all administrative employees) and enhance operational efficiencies.

As the Great Recession lost its local foothold, the Authority was able to increase transit service. During Fiscal Year 2012, Bus service increased 1.7% and Light Rail increased 6.6% compared to Fiscal Year 2011. During the same period, operating expenses increased from \$298.75 million to \$317.06 million. The increase in operating expenses was a result of the service increase, the increased cost of materials (diesel fuel and gasoline) and services, and the elimination of furloughs and wage freezes that were implemented during the recession.

The Authority maintains four Board-designated reserve funds designed to promote long-term financial sustainability: its Operating Reserve Fund, its Debt Reduction Fund, its Transit Sales Tax Stabilization Fund and its OPEB Liability Reduction Fund. The last two funds were established in Fiscal Year 2011 as part of the Board's strategies to address budgetary shortfalls following the Great Recession. Additionally, Authority management designated a SWAP/Lease Collateral Fund as an unrestricted reserve fund.

The purpose of the Operating Reserve Fund is to ensure that sufficient funds are always available in the event of either unanticipated revenue shortfalls (other than sales tax revenues) or unavoidable expenditure needs. The Authority Board policy goal is for a funding level equal to 15% of the subsequent year's final operating budget in the VTA Transit Enterprise Fund. These funds are to remain unappropriated for any operating or capital use except to meet emergency needs that cannot be funded from any other source. As of June 30, 2012, the Operating Reserve Fund was at \$56.3 million, 15% of the Fiscal Year 2013 adopted operating budget, as compared to Fiscal Year 2011 funding of \$54.6 million.

The Authority's Debt Reduction Fund provides reserves against unfunded obligations and long-term liabilities and funding for transit-related capital improvements and capital replacement in lieu of financing. As of June 30, 2012, the Debt Reduction Fund was at \$114.3 million compared to Fiscal Year 2011 funding of \$93.5 million.

The Other Post-Employment Benefit (OPEB) Liability Reduction Fund is designed to enhance the Authority's fiduciary governance practices and to reduce the levels of unfunded OPEB obligations. As of June 30, 2012, the Authority allocated \$20.6 million to the OPEB liability reduction reserve, unchanged from Fiscal Year 2011. The Authority expects to transfer moneys in the OPEB Liability Reduction Fund to a trust in the fourth quarter of Fiscal Year 2013.

The Transit Sales Tax Stabilization Fund serves to mitigate the impact of sales tax receipt volatility on service levels and the VTA Transit Fund Operating Budget. Sales tax-based revenues for the Transit Sales Tax Stabilization Fund include the 1976 Sales Tax, a quarter-cent State sales tax (from the

Transportation Development Act or TDA), and 2000 Measure A Sales Tax – Operating Assistance which is derived from 18.5% of 2000 Measure A Sales Tax Revenues. As of June 30, 2012, the Transit Sales Tax Stabilization Fund was funded at \$35.0 million, the capped limit authorized by the Board, compared to Fiscal Year 2011 funding at \$16.0 million.

The Authority’s SWAP/Lease Collateral Fund reserves against contingent liabilities arising from the Authority’s interest rate swaps and leveraged lease arrangements. As of June 30, 2012, the SWAP/Lease Collateral Fund was at \$112.93 million compared to Fiscal Year 2011 funding of \$73.55 million.

Authority Obligations

Obligations Secured by the 1976 Sales Tax. The following table sets forth the senior lien obligations secured by the Authority’s 1976 Sales Tax Revenues.

	Original Principal Amount	Principal Amount Outstanding as of May 1, 2013
Sales Tax Revenue Refunding Bonds, 2011 Series A	\$ 47,485,000	\$ 46,790,000
Sales Tax Revenue Refunding Bonds, 2008 Series A, Series B and Series C ⁽¹⁾	168,585,000	160,210,000
Sales Tax Revenue Refunding Bonds, 2007 Series A	26,275,000	20,725,100

⁽¹⁾ The Authority has entered into interest rate swap agreements in connection with these bonds. A description of the swaps is included in Note 7(c-e) of the Authority’s audited financial statements attached hereto as Appendix B.

Obligations Secured by the 2000 Measure A Sales Tax. The following table sets forth the outstanding obligations secured by the Authority’s 2000 Measure A Sales Tax Revenues.

	Original Principal Amount	Principal Amount Outstanding as of May 1, 2013
Sales Tax Revenue Refunding Bonds, 2008 Series A, Series B, Series C and Series D ⁽¹⁾	\$236,730,000	\$235,875,000
Sales Tax Revenue Refunding Bonds, 2007 Series A	120,095,000	112,515,000
Sales Tax Revenue Bonds, 2010 Series A and 2010 Series B	645,890,000	645,890,000

⁽¹⁾ The Authority has entered into interest rate swap agreements in connection with the 2008 Series Bonds. A description of the swaps is included in Note 7(c-e) of the Authority’s audited financial statements attached hereto as Appendix B.

Leveraged Lease Transactions. The Authority has outstanding four tax-advantaged leveraged lease transactions encumbering certain light rail vehicles. These transactions involve a lease of the Authority’s interest in these vehicles to special purpose trusts formed by equity investors and a leaseback to the Authority. One of these transactions involving rail vehicles with an aggregate value of \$54.2 million was entered into in 1998 and has a lease expiration date of 2017 (the “1998 Lease”). Three of these transactions involving rail vehicles with an aggregate value of \$181.2 million were entered into in

2003 and have lease expiration dates of 2027 and 2034 (the “2003 Leases” and, collectively with the 1998 Lease, the “Leases”).

Under the Leases, the Authority is required to make annual rental payments to the special purpose trusts. The Authority also has a purchase option at the end of each Lease term. The funding for those rental payments and the purchase options, if exercised, derives from various deposits, payment agreements with certain financial institutions (“payment undertakers”) and U.S. Government and Agency securities entered into or purchased at the outset of each Lease, as the case may be. In addition, early termination payments, if any, under the Leases are guaranteed by surety providers.

The Authority is required to replace the payment undertakers and surety providers if their credit ratings fall below certain thresholds. Failure to replace such undertakers and surety providers within specified time frames could trigger a technical default which, if uncured, could cause an early termination at a substantial penalty to the Authority.

The 1998 Lease involves Assured Guaranty Municipal Corp. (“AGM”) as surety provider. On January 17, 2013, Moody’s Investors Service downgraded the rating of AGM to “A2”, which is below the required minimum Moody’s minimum rating of “Aa3” under the 1998 Lease documents; Standard & Poor’s Corporation (“S&P”) rates AGM “AA-”, which complies with the required minimum rating. Under the 1998 Lease documents, the Authority is required to replace AGM within 30 days upon demand of the equity investor. The Authority’s failure to replace AGM within 30 days could result in the termination of the 1998 Lease, requiring the Authority to make a payment equal to the scheduled termination value on the termination date. As of March 2, 2013, the scheduled termination value for the 1998 Lease was approximately \$24.45 million. The 1998 Lease contains a pledge of U.S. Treasury securities, which mature in amounts that will be sufficient for the Authority to fund its purchase option, if exercised, under the 1998 Lease; as of March 2, 2013, the market value of those U.S. Treasury securities was approximately \$24.89 million. The equity investor has not made any demands of the Authority to replace AGM.

The 2003 Leases involve American International Group Inc. (“AIG”) and Ambac Assurance Corp. (“Ambac”) as surety providers, whose ratings have fallen below the required minimum ratings. With respect to the 2003 Lease involving Ambac, the Authority entered into a collateral delivery and pledge agreement with the equity investor and statutory trust whereby the Authority’s obligation to replace Ambac was waived, assuming the Authority continues to post collateral in the form of marketable securities for the benefit of the equity investor and statutory trust in accordance with that agreement. That agreement allows the Authority to hold the collateral on its books and provides for the Authority to receive the income from that collateral. With respect to the 2003 Leases involving AIG, the equity investor has permanently waived the requirement to replace AIG as a surety coverage provider in two of them. The Authority is providing additional collateral in lieu of replacing the surety coverage provider in the third. All payments with respect to the Leases have been made in full and on a timely basis.

See APPENDIX B – “AUDITED FINANCIAL STATEMENTS OF THE SANTA CLARA VALLEY TRANSPORTATION AUTHORITY FOR FISCAL YEAR ENDED JUNE 30, 2012 - Note 21.”

Litigation

The Authority has reserved amounts that its management believes are adequate to provide for claims and litigation which have arisen during the normal course of business. Other claims and litigation are outstanding for which the Authority cannot determine the ultimate outcome and resulting liability, if

any. However, the Authority's management believes the ultimate outcome of these claims and lawsuits will not significantly impact the Authority's financial position.

Investments and Investment Policy

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

Amounts held in funds and accounts established pursuant to the Indenture will be invested as provided in the Indenture, and as may be further restricted by the Authority's Investment Policy (the "Investment Policy"), adopted by the Board of Directors on April 4, 1996, as amended by the Board of Directors on December 14, 2000, February 6, 2003, and reaffirmed on February 5, 2009, and most recently amended on November 1, 2012. The Investment Policy covers all funds (other than any Amalgamated Transit Union Pension Funds and the Authority Retirees' Other Post Employment Benefits Trust) and investment activities under the direction of the Authority.

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

1. **Safety.** Safety of principal is the foremost objective of the Investment Policy. The Authority's investments shall be undertaken in a manner that seeks to ensure the preservation of capital.
2. **Liquidity.** The Authority's investment portfolio shall remain sufficiently liquid to enable the Authority to meet its cash flow requirements.
3. **Return on Investment.** The Authority's investment portfolio shall be designed with the objective of attaining a market rate of return on its investments consistent with the constraints imposed by its safety objective and cash flow considerations.

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

Investment	Maximum % of Portfolio
Local Agency Bonds	100
U.S. Treasury Obligations	100
State Obligations – CA and Others	100
CA Local Agency Obligations	100
U.S. Agency Obligations	100
Bankers' Acceptances	40
Commercial Paper	25
Negotiable Certificates of Deposit	30
Repurchase Agreements	100
Reverse Purchase Agreements and Securities Lending Agreements	20
Medium Term Notes ^H	30
Mutual Funds and Money Market Mutual Funds	20
Collateralized Bank Deposits	100
Mortgage Pass-Through Securities	20
Bank/Time Deposits	100
County Pooled Investment Funds	100
Joint Powers Authority Pool	100
Local Agency Investment Funds (LAIF)	100

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

Pension and Retirement Plans

Santa Clara Valley Transportation Authority Amalgamated Transit Union, Local 265 Pension Plan. All ATU employees are covered by the Santa Clara Valley Transportation Authority Amalgamated Transit Union, Local 265 Pension Plan (“ATU Plan”). The ATU Plan is a noncontributory single-employer defined benefit pension plan. The ATU Plan provides retirement, disability, and death benefits based on the employees’ years of service, age, and final compensation. As of January 1, 2013, there were 2,744 members of the ATU Plan. Employees with ten (10) or more years of service are entitled to full annual pension benefits beginning at age 65. Employees with less than ten (10) but at least five (5) years of service are entitled to a reduced annual benefit at age 65 provided that the Pension Board approves such benefit. Employees with fifteen (15) or more years of service are entitled to full annual pension benefits beginning at age 55. The ATU Plan permits early retirement if an employee becomes disabled after ten (10) or more years of service, and deferred vested retirement upon employee termination after ten (10) or more years of service, with benefits payable 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 State statute and the labor agreement with the ATU. The following actuarial methods and assumptions are based on a report dated January 1, 2013.

Actuarial Methods and Assumptions:

Description	Methods/Assumptions
Valuation Date	January 1, 2013
Actuarial cost method	Individual Entry Age Normal to Final Decrement
Amortization method	Level dollar open
Remaining amortization period	20 years
Asset Valuation Method	Market value less unrecognized investment gains or losses during the prior four years, phased in at 20% per year, subject to a minimum of 80% and a maximum of 120% of market value
Actuarial Assumptions	
Investment Rate of Return	7.50%
Projected Salary Increases	15.25% for the first four years of service, 3.50% thereafter (includes inflation at CPI rate of 3.25%)
Consumer Price Index (CPI)	3.25% per year
Costs of living adjustments	None

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

Asset Allocation	Range	Actual⁽¹⁾	Ongoing Target
Domestic Fixed Income	28-38%	31%	33%
Domestic Large-Cap Value	12-22	18	17
Domestic Large-Cap Index	8-18	13	13
Domestic Small-Cap Value	2-12	8	7
International Equity Developing Markets	9-19	14	14
International Emerging Markets	2-10	5	5
US Core Real Estate	5-15	10	10
Cash	0-5	1	1

⁽¹⁾ As of January 31, 2013.

The Authority contributes to the ATU Plan at actuarially determined rates applied to eligible payroll sufficient to maintain funding of vested benefits. Actuarial rates are determined on the basis of the previous calendar year data for implementation in the following fiscal year, beginning on July 1 of that year. Such contribution includes an amortized amount of the unfunded accrued actuarial liability (“UAAL”) as well as current year normal costs. Totals of the actual cost and the amortized cost of the UAAL equal the actuarial rate that would liquidate the UAAL over the remaining amortization period (20 years). The actuarial review and analysis as of January 1, 2012 resulted in an increase in the Authority’s contributions to \$25.3 million, or 24.77% in dollar terms and as a percentage of covered payroll. The Authority pre-funded its Fiscal Year 2013 contribution to the ATU Pension plan at \$24.4 million.

The schedules of funding progress using Actuarial Value of Assets (AVA) and Market Value of Assets (MVA) for the most recent 10 years of available data are as follows:

**Schedule of Funding Progress Using Actuarial Value of Assets
Santa Clara Valley Transportation Authority Amalgamated Transit Union, Local 265
Pension Plan**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/03	\$247,693,872	\$325,530,324	\$77,836,452	76%	\$91,255,094	85%
12/31/04	268,428,853	350,895,167	82,466,314	76	88,448,718	93
12/31/05	288,829,224	363,114,404	74,285,180	80	92,663,178	80
12/31/06	314,816,391	397,853,860	83,037,469	79	93,985,560	88
12/31/07	344,521,552	423,739,213	79,217,661	81	98,722,453	80
12/31/08	325,247,483	442,830,578	117,583,095	73	100,877,989	117
12/31/09	354,785,095	462,912,195	108,127,100	77	102,625,557	105
12/31/10	368,134,113	486,770,538	118,636,425	76	97,569,124	122
12/31/11	373,170,465	517,200,475	144,030,010	72	100,376,441	143
12/31/12	386,347,400	543,942,719	157,595,319	71	102,040,657	154

**Schedule of Funding Progress Using Market Value of Assets
Santa Clara Valley Transportation Authority Amalgamated Transit Union, Local 265
Pension Plan**

Actuarial Valuation Date	Market Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/03	\$248,017,773	\$325,530,324	\$77,836,452	76%	\$91,255,094	85%
12/31/04	277,537,728	350,895,167	82,466,314	79	88,448,718	93
12/31/05	295,228,426	363,114,404	74,285,180	81	92,663,178	80
12/31/06	334,890,452	397,853,860	83,037,469	84	93,985,560	88
12/31/07	347,417,595	423,739,213	79,217,661	82	98,722,453	80
12/31/08	271,039,569	442,830,578	117,583,095	61	100,877,989	117
12/31/09	327,447,278	462,912,195	108,127,100	71	102,625,557	105
12/31/10	361,181,295	474,252,147	106,118,034	76	97,569,124	109
12/31/11	356,289,950	517,200,475	160,910,525	69	100,376,441	160
12/31/12	401,661,601	543,942,719	142,281,118	74	102,040,657	139

Based on the Authority's Comprehensive Annual Financial Report, the trend of pension contributions is as follows:

Fiscal Year Ended	Annual Pension Cost ("APC")	Percentage of APC Contributed	Net Pension Obligation
6/30/02	\$10,302,000	100%	-
6/30/03	12,362,000	100	-
6/30/04	12,071,000	100	-
6/30/05	14,292,000	100	-
6/30/06	15,278,000	100	-
6/30/07	14,859,000	100	-
6/30/08	16,137,000	100	-
6/30/09	14,843,000	100	-
6/30/10	17,905,000	100	-
6/30/11	17,807,000	100	-
6/30/12	19,148,000	100	-

The funding ratio for termination liability, which is an estimate of the obligation the ATU Plan would have to meet if it was terminated as of January 1, 2012, was 78.3%. This estimate is based on pay and years of service of all covered employees and uses the actuarial methods and assumptions above.

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

CalPERS is an agent multiple-employer defined benefit retirement plan that acts as a common investment and administrative agent for various local and state governmental agencies within the State. CalPERS provides retirement, disability, and death benefits based on the employees' years of service, age, and final compensation. Employees vest after five (5) years of service and may receive retirement benefits at age 50. These benefit provisions and all other requirements are established by state statute and Authority resolutions. The Authority contracts with CalPERS to administer these benefits. The actuarial methods and assumptions are based on a report dated October 2012, for data as of June 30, 2011.

Actuarial Methods and Assumptions:

Description	Methods/Assumptions
Valuation Date	June 30, 2011
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level percent of Payroll
Average Remaining Period	28 years as of the Valuation Date
Asset Valuation Method	15 years smoothed market
Actuarial Assumptions	
Investment Rate of Return	7.50% (net of investment expense)
Projected Salary Increases	3.30 to 14.20% depending on age, service, and type of employment
Inflation	2.75%
Payroll Growth	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 2.75% and an annual production growth of 0.25%

The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. Annually, CalPERS provides the Authority with a required contribution rate as a percentage of payroll.

Historically, the Authority has paid both the required employer and employee contributions, including payments for the UAAL. The required contribution rate (including both the employer and employee contribution rates) is 20.3% of payroll for the Fiscal Year ending June 30, 2013, based on the latest actuarial valuation. The employee contribution rate for the pension benefit used by the Authority (miscellaneous 2% at 55) is 7%, and is included in the above. The Authority has budgeted its contributions at the required rate, estimated at \$17.3 million. For the Fiscal Year ended June 30, 2012, the Authority's annual CalPERS pension cost was \$ 7.2 million.

On September 1, 2011, the Authority's Board of Directors approved labor contracts with SEIU Local 521 and TAEA. The terms of the contracts call for current employees to pay 1% and 3% toward the employee's required contribution to CalPERS, effective January 2012 and January 2013, respectively and new employees to pay 6% and 7% toward the employee's required contribution to CalPERS, also effective January 2012 and January 2013, respectively. The Authority will implement the same terms for non-represented employees.

The schedules of funding progress using Actuarial Value of Assets ("AVA") and using Market Value of Assets ("MVA") are as set forth below.

**Schedule of Funding Progress Using Actuarial Value of Assets
Santa Clara Valley Transportation Authority CalPERS Plan
(Unaudited)**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities	UAAL	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/02	\$ 98,352,244	\$103,253,419	\$ 4,901,175	95%	\$56,796,212	9%
6/30/03	107,060,545	126,069,247	19,008,702	85	56,006,441	34
6/30/04	119,708,580	142,662,507	22,953,927	84	50,876,724	45
6/30/05	135,508,064	160,103,833	24,595,769	85	50,193,561	49
6/30/06	152,536,031	177,983,295	25,447,264	86	50,301,722	51
6/30/07	170,836,697	195,098,516	24,261,819	88	49,681,839	49
6/30/08	188,897,985	214,450,572	25,552,587	88	51,043,339	50
6/30/09	203,338,247	238,083,095	34,744,848	85	54,589,177	64
6/30/10	217,334,996	252,655,448	35,320,452	86	53,230,543	66
6/30/11	233,515,530	274,924,477	41,408,947	85	51,626,152	80

**Schedule of Funding Progress Using Market Value of Assets
Santa Clara Valley Transportation Authority CalPERS Plan
(Unaudited)**

Actuarial Valuation Date	Market Value of Assets	Actuarial Value of Liabilities	UAAL	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/02	\$ 89,411,131	\$103,253,419	\$13,842,288	87%	\$56,796,212	24%
6/30/03	97,327,768	126,069,247	28,741,479	77	56,006,441	51
6/30/04	117,874,036	142,662,507	24,788,471	83	50,876,724	49
6/30/05	139,214,955	160,103,833	20,888,878	87	50,193,561	42
6/30/06	161,056,711	177,983,295	16,926,584	90	50,301,722	34
6/30/07	196,452,892	195,098,516	(1,354,376)	101	49,681,839	(3)
6/30/08	190,976,832	214,450,572	23,473,740	89	51,043,339	46
6/30/09	148,423,875	238,083,095	89,659,220	62	54,589,177	164
6/30/10	170,928,494	252,655,448	81,726,954	68	53,230,543	154
6/30/11	208,802,014	274,924,477	66,122,463	76	51,626,152	128

Based on the Authority's Comprehensive Annual Financial Report, the ten-year trend of CalPers contributions is as follows:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/03	\$6,995,000	100%	-
6/30/04	7,424,000	100	-
6/30/05	5,171,000	100	-
6/30/06	6,501,000	100	-
6/30/07	5,929,000	100	-
6/30/08	6,278,000	100	-
6/30/09	6,507,000	100	-
6/30/10	6,167,000	100	-
6/30/11	6,090,000	100	-
6/30/12	7,159,000	100	-

At its April 17, 2013 meeting, the CalPERS Board of Administration approved a recommendation to change CalPERS' amortization and smoothing policies. Prior to this change, CalPERS employed an amortization and smoothing policy which spread investment returns over a 15-year period with experience gains and losses paid for over a rolling 30-year period. After this change, CalPERS will employ an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period. The new rule affects Authority employer contributions in Fiscal Year 2015-16 and later. The Authority estimates that its contributions will increase by 1% in Fiscal Year 2015-16 to 5% in Fiscal Year 2019-20. The Authority does not expect this change to have a material adverse affect its operations or its ability to pay the principal of and interest on the 2008 Series Bonds when due.

CalPERS faces a large accrued unfunded liability due to a variety of factors, including substantial investment losses in recent years. There can be no assurances that the Authority's contributions to CalPERS will not be subject to further increases in the future, and those increases could be material. The actual amount of any increases will depend on a variety of factors, including but not limited to investment returns, actuarial assumptions, experience and retirement benefit adjustments.

Additional information concerning CalPERS may be found on its website at <http://www.calpers.ca.gov>. Such website information is not incorporated into this Remarketing Memorandum.

Retiree Health Care Program. Employees who retire directly from the Authority are eligible for retiree health benefits if they meet certain requirements relating to age and service.

For ATU retirees, the Authority provides an ATU Retiree Health Care Program ("ATU Program"), in accordance with the agreement between the Authority and the ATU, to all ATU represented employees who retire from the Authority on or after attaining the age of 55 with at least fifteen (15) years of service, or age 65 with ten (10) years of service, age 65 with five (5) years of service upon approval of the Authority/ATU Board of Pensions or if an employee becomes disabled and has completed at least ten (10) years of service. The Authority pays the full cost of employee-only premium for employees who retired before September 1, 2004. ATU employees who retired on or after September 1, 2004 contribute \$25 toward the employee only monthly premium. ATU retirees who retire on or after January 1, 2011 will pay the greater of \$35 or the amount over the Kaiser Out of Area medicare rate. ATU retirees who

are eligible for Medicare are reimbursed for the Medicare Part B premium. As of June 30, 2012, 700 retirees met the eligibility requirements for the ATU program.

All non-ATU employees upon retirement with at least five (5) years of service and attaining age 50 are also covered under a Retiree Health Care Program (Non-ATU Program) if hired before specific dates (as described below).

- SEIU represented employees hired on or after May 15, 2006 must have 8 years of service;
- TAEA represented employees hired on or after December 5, 2006 must have 8 years of service;
- AFSCME represented employees hired between August 10, 2007 and December 31, 2009 must have 8 years of service;
- AFSCME represented employees hired on or after January 1, 2010 must have 15 years of service;
- Non-represented employees hired between February 11, 2008 and October 31, 2009 must have 8 years of service;
- Non-represented employees hired on or after November 1, 2009 must have 15 years of service.

The Authority contribution towards retiree health benefits for Non-ATU retirees who retired before January 2, 2006 is limited to the Kaiser single active employee rate. The Authority also reimburses Medicare Part B premiums for retirees eligible for Medicare. Non-ATU employees who retired after January 1, 2006 contribute \$25 toward the employee only monthly premium. As of June 30, 2012, 381 retirees met the eligibility requirements for the Non-ATU Program.

The most recent actuarial analysis of Retiree Health Benefits as of July 1, 2012 disclosed that the actuarial accrued liability, which is the present value of benefits attributed to past service, is \$259.6 million. The unfunded actuarial accrued liability of the Authority as of July 1, 2012 is \$91.1 million. The Authority contributions are, at a minimum, advance funded on an actuarially determined basis. For the Fiscal Year ending June 30, 2013, the Authority made contributions to both the ATU and Non-ATU programs of \$17.3 million, which was 12.6% of payroll. This contribution reflects a recommended higher contribution for a quicker amortization of Unfunded Accrued Liability (“UAL”), which was initially adopted and implemented in the prior year.

The actuarial cost method used for determining the benefit obligations is the entry age normal method. The significant economic assumptions used were: (1) a discount rate of 7.00%; (2) a projected salary increase of 3.25% per year plus those due to longevity and promotion; (3) inflation component of 3.25% used for amortization; (4) a healthcare inflation assumption (non Part B) of 9.0% in 2014, declining 1% annually to 5% in 2018 and remaining at that level thereafter; (5) retiree contribution remaining fixed at \$25 per month.

APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF THE SANTA CLARA VALLEY
TRANSPORTATION AUTHORITY FOR FISCAL YEAR ENDED JUNE 30, 2012**

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

VALUE THE DIFFERENCE

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the business-type activities, the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Clara Valley Transportation Authority (VTA), as of and for the fiscal year ended June 30, 2012. These financial statements are the responsibility of the VTA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity, the governmental activities, each major fund, and the aggregate remaining fund information of VTA as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 16, 2012, on our consideration of the VTA's internal control over financial reporting and our tests of its compliance with certain provisions of law, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules of funding progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the VTA's financial statements as a whole. The introductory section, combining and comparative individual fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. With respect to the June 30, 2011 comparative information presented in the combining statements and schedules, we have previously audited, in accordance with auditing standards generally accepted in the United States, the VTA's basic financial statements for the year ended June 30, 2011, which are not presented with the accompanying financial statements. In our report dated October 7, 2011, we expressed an unqualified opinion on the respective basic financial statements of the business-type activities, governmental activities, each major fund and the aggregate remaining fund information. In our opinion, the June 30, 2011 information is fairly stated in all material respects in relation to the June 30, 2011 audited financial statements as a whole.

The introductory and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Vavrinck, Trine, Day & Co. LLP

Palo Alto, California
October 18, 2012



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

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Management's Discussion and Analysis

Management Discussion and Analysis (MD&A) provides a narrative overview and analysis of the financial activities of VTA for FY 2012. To obtain a complete understanding of VTA's financial condition, this document should be read in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

Financial Highlights

- As of June 30, 2012, VTA's assets exceeded liabilities by approximately \$3.2 billion. Of the \$3.2 billion in net assets, approximately \$2.4 billion was invested in capital assets net of related debt which is associated with VTA's capital expansion program.
- Enterprise Fund operating revenues mainly from passenger fares were \$40.1 million, an increase of \$56 thousand or 0.1% compared to FY 2011.
- As of June 30, 2012, VTA has total outstanding bonds in the amount of \$1.2 billion compared to \$1.3 billion in the prior fiscal year. During FY 2012, VTA issued \$47.5 million (par value) of 2011 Series A Bonds to refund the 1998 Series A and 2000 Series A Junior Lien bonds.
- In FY 2012, VTA Transit Fund net assets increased \$17.1 million to \$2.1 billion. The four board-designated reserves: Transit Operating Reserve, Debt Reduction Fund, Sales Tax Stabilization Reserve, and Other Post-Employment Benefits (OPEB) Liability Reduction Reserve were \$56.3 million, \$114.3 million, \$35.0 million, and \$20.7 million, respectively.
- In FY 2012, VTA Measure A Fund net assets increased \$137.7 million to a total of \$1.0 billion. This amount is restricted for the Measure A Transit Improvement Program per the Measure A Ballot.
- The 1976 Sales Tax revenues increased \$13.0 million or 8.4% to \$166.6 million in FY 2012 compared to FY 2011 reflecting an improvement in taxable sales activity in the County.
- The 2000 Measure A Sales Tax revenues increased \$13.4 million or 8.8% to \$166.3 million in FY 2012 compared to FY 2011.
- Federal, state and local operating assistance were \$2.6 million or 1.9% higher in FY 2012 mainly due to increased Transportation Development Act (TDA) revenues. The total increase in TDA was offset by the decline in STA revenue.
- Capital grants decreased by \$32.7 million compared to FY 2011. This decrease was mainly due to lesser Traffic Congestion Relief Program (TCRP) grant receipts for the BART Silicon Valley project, and the exhaustion of grant revenues received under the American Recovery and Reinvestment Act (ARRA) for the procurement of 70 diesel-electric hybrid buses.

- In FY 2012, VTA created a new enterprise fund to account for the express lane activities. As of June 30, 2012, the fund has total net assets of \$218 thousand.

Overview of the Financial Statements

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

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

The *Statement of Net Assets* presents information on all of VTA's assets and liabilities, with the difference between the two reported as net assets. Over time, an increase or decrease in net assets may serve as an indicator of whether VTA's financial position is improving or deteriorating.

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

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

2. **Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. VTA, like local and state governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All VTA funds can be

divided into three categories: governmental funds, proprietary funds (i.e., enterprise fund and internal service fund), and fiduciary funds.

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

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

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

The combination of the enterprise fund and the internal service fund provide 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 VTA Amalgamated Transit Union (ATU) Pension Plan, the ATU Spousal Medical and Retiree Vision and Dental Funds and the Retirees' Other Post Employment Benefits (OPEB) Trust are reported in the retiree trust funds. Pension trust

funds are used to account for assets held by VTA as a trustee for individuals and other organizations, such as ATU.

Senate Bill 83 Vehicle Registration Fee (SB83 VRF) program, The Bay Area Air Quality Management District (BAAQMD) program and the 1996 Measure B Ancillary Programs, which includes the Pavement Management and Bicycle Programs, are accounted for in an agency fund. Agency funds are used to account for assets held solely in a custodial capacity.

3. **Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 2-31 through 2-83 of this report.

In addition to the basic financial statements and notes, *required supplementary information* is presented as required by GAAP. The required supplementary information shows VTA's progress in funding its obligation to provide employees with pension benefits and also shows the Congestion Management Program Budgetary Schedule. Required supplementary information can be found on pages 2-84 through 2-88 of this report.

Other supplementary information such as the combining statements and other individual schedules found immediately following the required supplementary information present individual fund statements and schedules for the Enterprise and Fiduciary Funds. Other supplementary information can be found on pages 2-89 through 2-99 of this report.

4. **Government-wide Financial Analysis.** The Government-Wide Statement of Net Assets and the Statement of Activities reports a \$161.9 million increase in net assets. The increase was mainly in the Business-Type activities as the Government-type activities only experienced \$497 thousand increase in its net assets. The business-type net asset increase was primarily due to Measure A sales tax receipts and capital grants related to the BART Silicon Valley project as the locally funded capital expenditures were lower compared to the revenue receipts. During FY 2012, VTA enterprise funds acquired or built total capital assets of approximately \$226.7 million (see Note 6). These capital assets were funded by a variety of sources such as federal and state grants, bond proceeds as well as local Measure A sales tax revenues.

Santa Clara Valley Transportation Authority
Condensed Statement of Net Assets
FY 2012 and FY 2011
(In thousands)

	Business-Type Activities		Governmental Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets:						
Current and other assets	\$ 1,626,494	\$ 1,572,862	\$ 25,347	\$ 23,772	\$ 1,651,841	\$ 1,596,634
Capital assets, net	3,078,174	2,909,780	-	-	3,078,174	2,909,780
Total assets	4,704,668	4,482,642	25,347	23,772	4,730,015	4,506,414
Liabilities:						
Current liabilities	151,991	130,289	23,903	22,825	175,894	153,114
Long-term liabilities outstanding	1,389,731	1,350,817	-	-	1,389,731	1,350,817
Total liabilities	1,541,722	1,481,106	23,903	22,825	1,565,625	1,503,931
Net assets:						
Invested in capital assets, net of related debt	2,351,676	2,220,118	-	-	2,351,676	2,220,118
Restricted	548,367	572,054	1,444	947	549,811	573,001
Unrestricted	262,903	209,364	-	-	262,903	209,364
Total net assets	\$ 3,162,946	\$ 3,001,536	\$ 1,444	\$ 947	\$ 3,164,390	\$ 3,002,483

The largest portion of VTA's net assets (approximately 74.4%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment); less any related outstanding debt used to acquire those assets. VTA uses these capital assets to provide services to its customers. Consequently, these assets are not available for future spending. Although VTA's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot reasonably be used to liquidate these liabilities. The restricted net assets represent mainly the funds set aside for the Measure A and B Transit Improvement Programs, debt service with the bond trustees, SWAP/Lease collateral, reserve for inventory, prepaid expenses, and bond issuance unamortized costs. The unrestricted categories include funds set aside by Board policies and for funding of local share of capital projects, VTA transit operating reserve, debt reduction, joint development program fund, sales tax stabilization, OPEB liability reduction and for workers' compensation and general liability claims. The unrestricted net assets are available for appropriation with Board approval. The details of net assets categories are shown on page 2-23 and Note 2(j).

Santa Clara Valley Transportation Authority
Condensed Statement of Activities
FY 2012 and FY 2011
(In thousands)

	Business-Type Activities		Governmental Activities		Total	
	2012	2011	2012	2011	2012	2011
Expenses:						
Operations, support services, and CMP program	\$ 364,723	\$ 343,302	\$ 6,692	\$ 7,196	\$ 371,415	\$ 350,498
Caltrain subsidy & capital expenditures on behalf of, and contribution to other agencies	90,290	80,917	-	-	90,290	80,917
Altamont Commuter Express subsidy	2,707	2,706	-	-	2,707	2,706
Interest Expense	31,307	23,536	-	-	31,307	23,536
Other non-operating expenses	8,059	15,434	-	-	8,059	15,434
Claims and change in future claim estimates	11,419	8,410	-	-	11,419	8,410
Contribution to agencies	-	-	37	867	37	867
Capital outlay on behalf of other agencies	-	-	19,052	21,091	19,052	21,091
Total expenses	508,505	474,305	25,781	29,154	534,286	503,459
Program revenues:						
Charges for services	40,070	40,014	2,503	2,520	42,573	42,534
Operating grants	140,419	137,804	2,110	2,127	142,529	139,931
Capital grants	115,584	148,303	21,530	24,051	137,114	172,354
Total program revenues	296,073	326,121	26,143	28,698	322,216	354,819
Net program revenues (expenses)	(212,432)	(148,184)	362	(456)	(212,070)	(148,640)
General revenues:						
Sales tax revenue	332,847	306,456	-	-	332,847	306,456
Investment income	19,289	11,039	31	10	19,320	11,049
Federal subsidy for Build America Bonds	9,399	5,848	-	-	9,399	5,848
Other income	12,307	7,507	104	1,106	12,411	8,613
Total general revenues	373,842	330,850	135	1,116	373,977	331,966
Excess (deficiency) before special items	161,410	182,666	497	660	161,907	183,326
Special items:						
Change in provisions for general liability & workers' compensation claims	-	5,716	-	-	-	5,716
Change in net assets	161,410	188,382	497	660	161,907	189,042
Net assets, beginning of year	3,001,536	2,813,154	947	287	3,002,483	2,813,441
Net assets, end of year	\$ 3,162,946	\$ 3,001,536	\$ 1,444	\$ 947	\$ 3,164,390	\$ 3,002,483

Business-Type Activities. Total net assets were \$3.2 billion in FY 2012, an increase of \$161.4 million compared to FY 2011. Net program expenses (total expenses minus program revenues) were \$212.4 million during FY 2012 compared to \$148.2 million in FY 2011. Total expenses increased \$34.2 million compared to FY 2011. Major increases were operation and support services, which include labor, material and supplies, utilities, and other operating expenses (\$21.4 million), capital expenditures on behalf of, and contributions to other agencies (\$9.4 million), interest expenses on bonds (\$7.8 million), and claim payments for self-insured programs (\$3.0 million). They were offset by a \$7.4 million decrease in other non-operating expenses.

In the program revenue categories, charges for services increased \$56 thousand mainly due to the newly created express lane revenues that was offset by a decrease in shuttle revenues. Operating assistance grants increased slightly due to an increase in TDA revenues received, partially offset by a decrease in STA revenues. Capital grants decreased by \$32.7 million primarily due to the exhaustion of the federal ARRA grant for the procurement of hybrid buses granted for FY 2011 as well as lower TCRP grant receipts for

the BART Silicon Valley project. Total general revenues increased \$43.0 million resulting from higher sales tax (\$26.4 million), investment income (\$8.2 million), federal subsidy for newly issued Build America Bonds (\$3.6 million), and other income (\$4.8 million).

Governmental Activities. Total net assets for the governmental funds increased \$497 thousand in FY 2012, with an ending balance of \$1.4 million, all in the Special Revenue Fund. Major elements of changes in net assets were as follows:

- In the Capital Projects Funds, total federal, state, and local grant revenues were \$21.5 million and capital expenses and labor/overhead costs were also \$21.5 million, with no net assets.
- In the Congestion Management Program (CMP) Special Revenue Fund, total revenue sources were \$4.7 million, a decrease of \$1.0 million compared to FY 2011. The decrease was mainly due to a one time reimbursement of SB83 VRF ballot measure election expenditures from local program reserve that CMP received in FY 2011. Total expenditures were \$4.3 million reflecting \$0.8 million lower expenses (again due to payment of SB83 VRF election costs in FY 2011), with a net change in net assets of \$497 thousand. CMP projects are funded only from member assessments and various federal, state, and local grants.

Financial Analysis of VTA's Funds

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

Proprietary funds. VTA's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The VTA maintains two types of proprietary funds – *Enterprise Funds* and *Internal Service Funds*.

**Comparison of
Proprietary Funds Revenue
FY 2012 and FY 2011
(In thousands)**

Proprietary Funds Revenue	2012	2011	Changes	
			Favorable/(Unfavorable) Amount	Percent
Charges for services	\$ 40,070	\$ 40,014	\$ 56	0.14 %
Operating grants	140,419	137,804	2,615	1.90 %
Capital grants	115,584	148,303	(32,719)	(22.06)%
1976 half-cent sales tax	166,567	153,601	12,966	8.44 %
2000 Measure A half-cent sales tax	166,280	152,855	13,425	8.78 %
Investment earnings	19,289	11,039	8,250	74.74 %
Federal subsidy for Build America Bonds	9,399	5,848	3,551	60.72 %
Other income	12,307	7,507	4,800	63.94 %
Special Item	-	5,716	(5,716)	N/A
TOTAL	\$ 669,915	\$ 662,687	\$ 7,228	1.09 %

Charges for Services

Charges for services, derived from bus fare box receipts, light rail ticket sales, the sale of monthly passes (including Eco Pass and tokens) and advertisement income, were \$40.1 million in FY 2012, \$56 thousand or 0.1% higher compared to FY 2011. The slight increase was due to implementation of Express Lane in FY 2012 that was partially offset by lower shuttle revenues collected in FY 2012. In March 2012, VTA partnered with Caltrans to convert carpool lanes at the State Route (SR) 237/I880 interchange in Milpitas to express lanes, and VTA started collecting toll revenues from solo drivers who wished to use the express lanes. As of June 30, 2012, toll revenues collected from the express lanes amount to approximately \$218 thousand.

Operating Grants

Operating grants include California Transportation Development Act (TDA), State Transit Assistance (STA) grant, Federal Section 5307 Urbanized Formula Program Grants, state vehicle license fees (AB434), and federal planning grants. In FY 2012, total operating grants increased \$2.6 million or 1.9% higher compared to FY 2011. This is primarily due to increase in TDA revenues, partially offset by a decrease in STA revenues.

TDA funds are derived from a quarter-cent sales tax levied by the state on taxable transactions occurring in the Santa Clara County. The Metropolitan Transportation Commission (MTC) retains a portion of these funds for administration and approximately 96.5% is returned to the source county (i.e., Santa Clara). After sales tax derived from local measures, TDA revenues are VTA's second largest sources of revenue for operations. For FY 2012, the actual TDA receipts were \$82.0 million, reflecting \$7.5 million or 10.0%

increase over the prior fiscal year as the taxable sales activity improved in the County during FY 2012.

STA funds are derived from state sales tax on diesel fuel. STA apportionments are made to regional transportation planning agencies (MTC in the San Francisco Bay Area Region) based on a formula that allocates 50% of the funds according to population and 50% according to the transit operator's qualified revenues in the region from the prior fiscal year. In FY 2012, VTA received \$14.1 million compared to \$16.7 million in FY 2011.

Federal Section 5307 allows eligible recipients to claim capital grant funds for maintenance costs and other projects such as routine bus replacements. Grant applicants may apply for FTA grants in an amount up to 80% of annual vehicle maintenance costs. The funds are reflected in the financial statements as Federal Operating Assistance. Currently, VTA treats a large portion of its bus maintenance costs for revenue and non-revenue vehicles as eligible expenditures. For FY 2012, total grant revenues under this program were \$41.9 million, a \$0.4 million increase from FY 2011.

Capital Grants

Capital grants include Federal Section 5309 capital grants, various State transit-related capital grants, capital contribution from local agencies, and reimbursements received by VTA for capital expenses undertaken on behalf of other agencies. In FY 2012, total capital grants decreased \$32.7 million or 22.0% to \$115.6 million. This was primarily due to lower grant revenues received from the federal ARRA program and state TCRP. VTA received additional funding from the federal ARRA program for the procurement of 70 diesel-electric hybrid buses in FY 2011 while FY 2012 recorded ARRA funding for only 20 hybrid vehicles.

1976 Half-Cent Sales Tax Revenues

The 1976 Sales Tax is VTA's single largest source of revenue for operations. The State Board of Equalization (SBOE) collects the 1976 Sales Tax for VTA. The 1976 Sales Tax Revenues pay the operating expenses and capital expenditures, where state or federal capital assistance programs require that the recipient of assistance contribute locally derived revenue. For FY 2012, total sales tax revenues were \$166.6 million, \$13.0 million or 8.4% higher compared to the prior fiscal year.

2000 Measure A Half-Cent Sales Tax Revenues

The 2000 Measure A Sales Tax is collected by the SBOE for VTA in the same manner as the 1976 Measure B Sales Tax. The collection of the Measure A half-cent sales tax revenue occurred after the expiration of 1996 Half-Cent Measure B Sales Tax on March 31, 2006.

FY 2012 revenues of \$166.3 million were \$13.4 million or 8.8% higher than the prior year. The 2000 Sales Tax revenues are restricted for projects and operational activities included on the 2000 Measure A ballot.

Investment Earnings

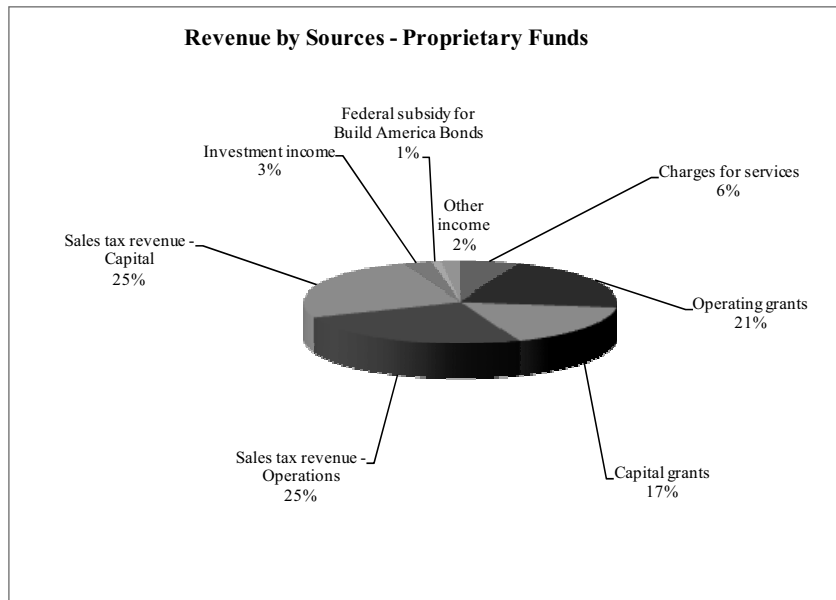
The investment earnings are derived from three primary sources: short, mid, and long-term investment portfolios. Pursuant to VTA's adopted investment policy and California Government Code, 100% of surplus assets are invested in domestic fixed income investments. In FY 2012, the investment earnings were \$8.2 million or 74.7% higher than the prior year. This was mainly due to a \$7.7 million net trading gain and decreased unrealized loss in investments, as well as an additional \$0.5 million in interest earned for FY 2012.

Federal Subsidy for Build America Bonds (BABs)

In FY 2011, VTA issued 2010 Measure A Sales Tax Bonds which are taxable to the bond holders. The bonds were issued under the federal BABs program which provides a 35% interest cost subsidy to VTA. As per Governmental Accounting Standards Board (GASB), VTA recognizes the BABs subsidy as an income item on its financial statements. In FY 2012, total BABs subsidy was \$3.6 million or 60.7% higher than FY 2011. This was a result of recognizing one full year of BABs subsidy in FY 2012 compared to eight months in FY 2011.

Other Income

In FY 2012, total other income was \$12.3 million; \$4.8 million or 63.9% higher than the prior fiscal year. This was a result of revenue increases in permit fees, sale of scrap, insurance proceeds, land sale proceeds, and the recognition of the 1996 Measure B income in FY 2012.



Total expenses for Proprietary Funds increased \$34.2 million or 7.2% in FY 2012. A detail analysis of major expense categories is discussed below.

**Comparison of
Proprietary Funds Expenses
for FY 2012 and FY 2011
(In thousands)**

Proprietary Funds Expenses	2012	2011	Changes Favorable/(Unfavorable)	
			Amount	Percent
Operations and support services	\$ 364,723	\$ 343,302	\$ (21,421)	(6.24)%
Caltrain and ACE subsidy	12,914	16,841	3,927	23.32 %
Capital contributions to/or expenses on-behalf of other agencies	80,083	66,782	(13,301)	(19.92)%
Interest expense	31,307	23,536	(7,771)	(33.02)%
Other non-operating expenses	8,059	15,434	7,375	47.78 %
Claims and change in future claim estimates	11,419	8,410	(3,009)	(35.78)%
TOTALS	\$ 508,505	\$ 474,305	\$ (34,200)	(7.21)%

Operations and Support Services

Operations and support services expenses are incurred for labor, support services, contracted services, insurance, purchased transportation and other overhead costs related to bus and light rail operations, services, and support programs. For FY 2012, they were \$21.4 million or 6.2% higher compared to FY 2011. Labor and benefit costs increased \$14.2 million or 5.7% in FY 2012 as VTA's furlough programs and wage increase freezes for various employee categories ended in FY 2011. Other major categories which increased in FY 2012 were the cost of materials (diesel fuel and gasoline), services, and depreciation.

Caltrain and Altamont Commuter Express (ACE) Subsidy

Caltrain is a commuter rail service, provided by the Peninsula Corridor Joint Powers Board (PCJPB), which is composed of 3 member agencies: VTA, San Mateo County Transit District (SamTrans) and City and County of San Francisco. VTA contributes a portion of Caltrain operating and maintenance costs for commuter train service from Santa Clara County to San Francisco. Operating subsidy to Caltrain was \$10.2 million in FY 2012; \$3.9 million lower than contributed in FY 2011.

The ACE is administered by and funded under a cooperative agreement among VTA, the Alameda County Congestion Management Agency and the San Joaquin Regional Rail Commission (SJRRC). VTA's subsidy to ACE commuter rail service totaled \$2.7 million in FY 2012. Approximately the same amount was contributed in FY 2011. The annual subsidy was based on the joint power agreements with these agencies.

Capital Expenses to/or On Behalf of Other Agencies

As a part of its capital program, VTA makes capital contribution to or undertakes capital projects jointly with other agencies. As the ownership of these capital projects does not rest with VTA, these capital expenses are reported as non-operating expenses on its financial statements. In FY 2012, total capital contributions and expenses were \$80.1 million, an increase of \$13.3 million compared to FY 2011. The FY 2012 contribution included \$7.8 million swap payment to Congestion Management and Highway Program Fund and other agencies in the Measure A Transit Improvement Fund. In addition, VTA Transit and Measure A Transit Improvement Fund expended \$72.3 million to/or on behalf of other agencies. VTA was partially reimbursed for these capital expenses by other agencies and the reimbursements are reported as capital contributions.

Interest Expense

Bond interest expense was \$31.3 million, \$7.8 million higher compared to prior year primarily due to recognition of a full year of interest expense for 2010 Bonds issued in November 2010.

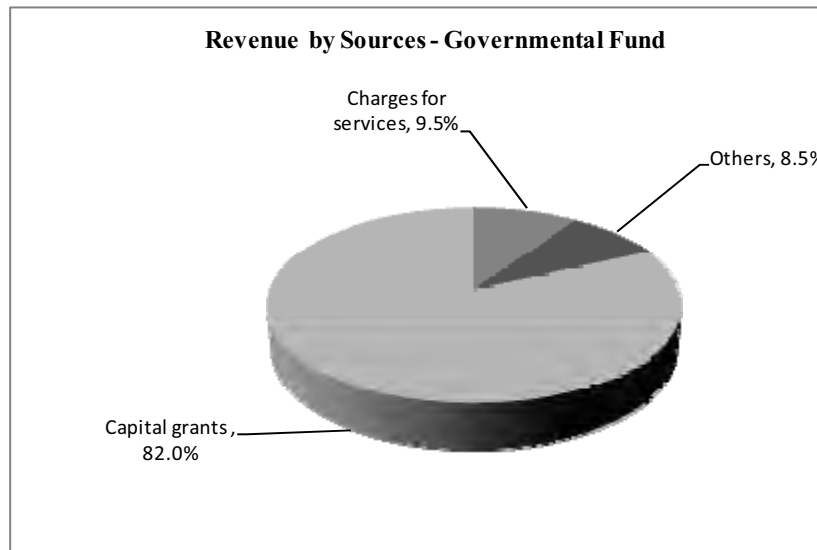
Other Non-Operating Expenses

Other non-operating expenses were \$8.1 million, \$7.4 million lower in FY 2012 compared to the prior year. This was mainly due to an accrual for the right-of-way acquisition loan payment to SamTrans in VTA Transit Fund in FY 2011 that didn't occur again in FY 2012.

Claims and Change in Future Claim Estimates

Claim payments in FY 2012 were \$11.4 million, \$3.0 million higher than FY 2011 due to payments made for workers’ compensation and liability claims. VTA also recorded additional expenses to increase the claims liability reserve to the actuarially determined amount.

Internal Service Funds. VTA maintains Internal Service Funds to account for the activities related to Workers’ Compensation, General Liability, and Compensated Absences programs. The costs of these activities are accounted for in these funds and then charged to other VTA funds. As of June 30, 2012, the total deficit for this fund category was \$5 million, a decrease of \$52 thousand from the prior year.



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

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

**Comparison of
Special Revenue Fund
FY 2012 and FY 2011
(In thousands)**

Special Revenue Fund	2012	2011	Changes	
			Favorable/(Unfavorable)	
			Amount	Percent
Member agency assessment revenues	\$ 2,407	\$ 2,407	\$ -	0.00%
Federal technical studies operating assistance grants	1,367	1,398	(31)	(2.22)%
State and local assistance grants	743	729	14	1.92%
Other revenues	104	1,106	(1,002)	(90.60)%
Administrative fees	96	113	(17)	(15.04)%
Investment earnings	31	10	21	210.00%
Total Revenues	4,748	5,763	(1,015)	(17.61)%
Salaries and benefits	(3,767)	(3,854)	87	2.26%
Professional services	(436)	(374)	(62)	(16.58)%
Contribution to other agencies	(37)	(867)	830	95.73%
Material and services	(6)	(8)	2	25.00%
Miscellaneous	(5)	-	(5)	N/A
Total Expenses	(4,251)	(5,103)	852	16.70%
Change in Net Assets	497	660	(163)	(24.70)%
Net assets, beginning of year	947	287	660	
Net assets, end of year	<u>\$ 1,444</u>	<u>\$ 947</u>	<u>\$ 497</u>	52.48%

Total fund revenues, which mainly include member assessments, and grants were \$4.7 million in FY 2012, \$1.0 million lower than the prior year. The decrease was mainly due to a one-time transfer of \$867 thousand from local program reserve to pay for the cost of a ballot measure in November 2010 recorded in FY 2011. In addition, federal and state operating assistance grants were also lower in FY 2012 compared to FY 2011. Total expenses were \$4.3 million, a decrease of \$852 thousand mainly due to a contribution to other agency related to the cost of ballot measure election. The ending fund balance was \$1.4 million.

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

**Comparison of
Capital Project Funds
FY 2012 and FY 2011
(In thousands)**

Capital Projects Funds	2012	2011	Changes	
			Favorable/(Unfavorable)	Amount
Federal, state, and local capital grant revenues	\$ 21,530	\$ 24,051	\$ (2,521)	(10.48)%
VTA labor and overhead costs	(2,478)	(2,960)	482	16.28%
Capital expenditures on behalf of other agencies	(19,052)	(21,091)	2,039	9.67%
Change in Net Assets	\$ -	\$ -	\$ -	

As of June 30, 2012, total revenues were \$21.5 million which represent the total amount expended on the projects during the fiscal year and billed to other governmental agencies. The VTA labor and overhead costs were \$482 thousand lower in FY 2012.

Capital Assets and Debt Administration

Capital assets. VTA's investment in capital assets for its business-type activity as of June 30, 2012, amounts to \$3.1 billion, net of accumulated depreciation. VTA has no capital assets invested in the governmental activities. This investment in capital assets includes: Land and Right-of-Way, Buildings, Improvements, Equipment & Furniture, Vehicles, the Caltrain-Gilroy Extension, Light Rail Tracks/Electrification, Leasehold Improvements, and Other Operating Equipment. During FY 2012, VTA expended \$226.7 million on the acquisition and construction of capital assets.

**Capital Assets
(Net of Accumulated Depreciation)
(In thousands)**

	2012	2011
Land and Right-of-way	\$ 1,122,495	\$ 1,122,805
Construction in Progress	1,107,386	902,026
Buildings & Improvements		
Equipment & Fixtures	280,569	288,264
Vehicles	310,103	318,280
Caltrain-Gilroy Extension	37,426	39,061
Light Rail Tracks/Electrification	198,919	216,057
Other Operating Equipment	13,620	15,189
Leasehold Improvements	7,656	8,098
Total	\$ 3,078,174	\$ 2,909,780

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

Long-term debt. At year-end, VTA had \$1.2 billion bonds outstanding versus \$1.3 billion in FY 2011. In FY 2012, VTA issued \$47.5 million (notional amount) in Sales Tax

Revenues Bonds to refund the 1998 Series A and 2000 Series A Junior Lien bonds in October 2011. The total debt payment made for FY 2012 was approximately \$74.4 million, which includes the amount due in FY 2012 and the refunded debts.

Outstanding Debt Proprietary Funds (In thousands)		
	2012	2011
Jr. Lien Sales Tax Revenue Bonds (1976 Tax)	\$ -	\$ 64,595
Sr. Lien Sales Tax Revenue Bonds (1976 Tax)	219,399	173,222
Sr. Lien Sales Tax Revenue Bonds (2000 Tax)	1,029,105	1,036,892
Total	\$1,248,504	\$1,274,709

More information on this transaction is included in Note 7a – Long-Term Debt and Liabilities.

VTA maintains uninsured ratings of “AAA” from Standard & Poor’s (S&P), “AA” rating from Fitch, and a “Aa2” rating from Moody’s for its Senior Lien Sales Tax Revenue Bonds secured by 1976 sales tax revenues.

The ratings for Sales Tax Revenue Bonds secured by the 2000 Measure A sales tax are “Aa2” from Moody’s and “AA+” from S&P. The 2007 Series A Measure A bonds have underlying (insured) ratings of AA+ and Aa2 from S&P and Moody’s, respectively.

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

VTA Transit Fund Budgetary Highlights

In June 2011, VTA Board of Directors adopted a biennial budget for Fiscal Years 2012 and 2013. The FY 2012 and FY 2013 Biennial Budget reflect an improved, although somewhat tenuous, economic outlook with lower unemployment rates, increased sales tax revenues, and improved ridership. The budget invests in service, infrastructure, and the Measure A capital program promised to voters in 2000.

As shown on the Budgetary Comparison Schedule for the VTA Transit Fund (pages 2-94 & 2-95), the FY 2012 actual results for revenues and expenses were favorable compared to both the Adopted and Final Budget.

Requests for Information

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

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BASIC FINANCIAL STATEMENTS

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SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Statement of Net Assets

June 30, 2012

(In thousands)

	Business-Type Activities	Governmental Activities	Total
ASSETS			
Cash and investments	\$ 249,032	\$ -	\$ 249,032
Receivables, net	3,217	-	3,217
Internal balances	(765)	765	-
Due from other agencies	87,133	-	87,133
Inventories	19,389	-	19,389
Other current assets	881	-	881
Restricted assets:			
Cash and investments	1,046,073	19,026	1,065,099
Receivables, net	2,172	-	2,172
Due from other agencies	89,796	5,553	95,349
Other current assets	231	3	234
Long-term assets:			
Deferred charges	12,412	-	12,412
Deferred outflow of resources	116,923	-	116,923
Capital assets - nondepreciable	2,229,881	-	2,229,881
Capital assets - depreciable, net of accumulated depreciation	848,293	-	848,293
Total assets	4,704,668	25,347	4,730,015
LIABILITIES			
Accounts payable and accrued expenses	16,304	-	16,304
Deposits	532	-	532
Accrued payroll and related liabilities	4,719	-	4,719
Bond interest and other fee payable	653	-	653
Deferred revenues	2,264	-	2,264
Due to other agencies	5,327	-	5,327
Liabilities payable from restricted assets:			
Accounts payable and accrued expenses	32,651	3,156	35,807
Bond interest and other fee payable	12,439	-	12,439
Deferred revenues	35	-	35
Due to other agencies	54,175	20,747	74,922
Long-term liabilities:			
Derivative instruments	116,923	-	116,923
Due within one year	22,892	-	22,892
Due in more than one year	1,272,808	-	1,272,808
Total liabilities	1,541,722	23,903	1,565,625
NET ASSETS			
Invested in capital assets, net of related debt	2,351,676	-	2,351,676
Restricted:			
Transit debt service	1,586	-	1,586
SWAP/lease collateral	112,899	-	112,899
2000 Measure A debt service	63,528	-	63,528
Retention	17,263	-	17,263
2000 Measure A projects	318,895	-	318,895
1996 Measure B projects	1,645	-	1,645
Inventory, prepaid expenses, and issuance cost	32,551	-	32,551
Congestion management program	-	1,444	1,444
Unrestricted (Note 2j)	262,903	-	262,903
Total net assets	\$ 3,162,946	\$ 1,444	\$ 3,164,390

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Statement of Activities

For the Year ended June 30, 2012

(In thousands)

	Business-Type Activities	Governmental Activities	Total
Expenses:			
Operations, support services, and CMP program	\$ 364,723	\$ 6,692	\$ 371,415
Caltrain subsidy & capital expenditures on behalf of, and contribution to other agencies	90,290	-	90,290
Altamont Commuter Express subsidy	2,707	-	2,707
Interest expense	31,307	-	31,307
Other non-operating expenses	8,059	-	8,059
Claims and change in future claim estimates	11,419	-	11,419
Contribution to agencies	-	37	37
Capital outlay on behalf of other agencies	-	19,052	19,052
Total expenses	<u>508,505</u>	<u>25,781</u>	<u>534,286</u>
Program revenues:			
Charges for services	40,070	2,503	42,573
Operating grants	140,419	2,110	142,529
Capital grants	115,584	21,530	137,114
Total program revenues	<u>296,073</u>	<u>26,143</u>	<u>322,216</u>
Net program revenues (expenses)	<u>(212,432)</u>	<u>362</u>	<u>(212,070)</u>
General revenues:			
Sales tax revenue	332,847	-	332,847
Investment income	19,289	31	19,320
Federal subsidy for Build America Bonds	9,399	-	9,399
Other income	12,307	104	12,411
Total general revenues	<u>373,842</u>	<u>135</u>	<u>373,977</u>
Change in net assets	161,410	497	161,907
Net assets, beginning of year	<u>3,001,536</u>	<u>947</u>	<u>3,002,483</u>
Net assets, end of year	<u>\$ 3,162,946</u>	<u>\$ 1,444</u>	<u>\$ 3,164,390</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Fund Net Assets
Proprietary Funds
June 30, 2012
(In thousands)

	Enterprise Funds						Internal Service Fund
	VTA	Measure B	Express	Measure A	Joint	Total	
	Transit Fund	Transit Fund	Lanes Fund	Transit Fund	Development Fund	Enterprise Funds	
ASSETS							
<i>Current assets:</i>							
Cash and cash equivalents	\$ 24,580	\$ -	\$ 200	\$ -	\$ 25	\$ 24,805	\$ 376
Investments	174,355	-	-	-	7,618	181,973	41,878
Receivables, net	3,207	-	-	-	5	3,212	5
Due from other funds	385	-	-	-	-	385	-
Due from other agencies	87,115	-	18	-	-	87,133	-
Inventories	19,389	-	-	-	-	19,389	-
Other current assets	881	-	-	-	-	881	-
<i>Restricted assets:</i>							
Cash and cash equivalents	-	3,081	-	23	-	3,104	-
Cash and cash equivalents with fiscal agent	1,596	-	-	602,787	-	604,383	-
Investments	58,656	-	-	379,930	-	438,586	-
Receivables, net	-	-	-	2,172	-	2,172	-
Due from other agencies	-	-	-	89,796	-	89,796	-
Other current assets	-	-	-	231	-	231	-
TOTAL CURRENT ASSETS	370,164	3,081	218	1,074,939	7,648	1,456,050	42,259
<i>Noncurrent assets:</i>							
Deferred charges	1,226	-	-	11,186	-	12,412	-
Deferred outflow of resources	25,566	-	-	91,357	-	116,923	-
<i>Capital assets - Non-depreciable:</i>							
Land and right of way	1,122,495	-	-	-	-	1,122,495	-
Construction in progress	68,996	733	-	1,037,657	-	1,107,386	-
<i>Capital assets - Depreciable:</i>							
Caltrain - Gilroy extension	53,307	-	-	-	-	53,307	-
Buildings, improvements, furniture, and fixtures	511,853	-	-	-	-	511,853	-
Vehicles	481,014	-	-	-	-	481,014	-
Light-rail tracks and electrification	403,394	-	-	-	-	403,394	-
Leasehold Improvements	9,686	-	-	-	-	9,686	-
Other	46,152	-	-	-	-	46,152	-
Less accumulated depreciation	(657,113)	-	-	-	-	(657,113)	-
<i>Net capital assets</i>	2,039,784	733	-	1,037,657	-	3,078,174	-
TOTAL NONCURRENT ASSETS	2,066,576	733	-	1,140,200	-	3,207,509	-
TOTAL ASSETS	2,436,740	3,814	218	2,215,139	7,648	4,663,559	42,259

(continued on next page)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Statement of Fund Net Assets (continued)

Proprietary Funds

June 30, 2012

(In thousands)

	Enterprise Funds						Internal Service Fund
	VTA	Measure B	Express	Measure A	Joint	Total	
	Transit Fund	Transit Fund	Lanes Fund	Transit Fund	Development Fund	Enterprise Funds	
LIABILITIES							
<i>Current liabilities:</i>							
Accounts payable and accrued expenses	16,078	-	-	-	-	16,078	226
Deposits	527	-	-	-	5	532	-
Accrued payroll and related liabilities	4,719	-	-	-	-	4,719	-
Bond interest and other fee payable	653	-	-	-	-	653	-
Deferred revenues	2,243	-	-	-	21	2,264	-
Due to other agencies	5,327	-	-	-	-	5,327	-
Claims liability	-	-	-	-	-	-	2,767
Compensated absences	-	-	-	-	-	-	7,100
Liabilities payable from restricted assets:							
Current portion of long-term debt	10,400	-	-	2,625	-	13,025	-
Accounts payable and accrued expenses	-	-	-	32,651	-	32,651	-
Bond interest and other fee payable	-	-	-	12,439	-	12,439	-
Deferred revenues	-	-	-	35	-	35	-
Due to other funds	-	7	-	1,143	-	1,150	-
Due to other agencies	37,114	1,429	-	15,632	-	54,175	-
TOTAL CURRENT LIABILITIES	77,061	1,436	-	64,525	26	143,048	10,093
<i>Non-current liabilities:</i>							
Long-term debt, excluding current portion	208,999	-	-	1,026,480	-	1,235,479	-
Derivative instruments	25,566	-	-	91,357	-	116,923	-
Claims liability	-	-	-	-	-	-	18,267
Compensated absences	-	-	-	-	-	-	18,931
Other accrued expenses	131	-	-	-	-	131	-
TOTAL NON-CURRENT LIABILITIES	234,696	-	-	1,117,837	-	1,352,533	37,198
TOTAL LIABILITIES	311,757	1,436	-	1,182,362	26	1,495,581	47,291
NET ASSETS							
Invested in capital assets, net of related debt	1,820,385	733	-	530,558	-	2,351,676	-
<i>Restricted:</i>							
Transit debt service	1,586	-	-	-	-	1,586	-
SWAP/lease collateral	21,542	-	-	91,357	-	112,899	-
2000 Measure A Debt service	-	-	-	63,528	-	63,528	-
Retention	10	-	-	17,253	-	17,263	-
2000 Measure A projects	-	-	-	318,895	-	318,895	-
1996 Measure B projects	-	1,645	-	-	-	1,645	-
Inventory, prepaid expenses, and issuance cost	21,365	-	-	11,186	-	32,551	-
<i>Unrestricted (Note 2j)</i>	260,095	-	218	-	7,622	267,935	(5,032)
TOTAL NET ASSETS	\$ 2,124,983	\$ 2,378	\$ 218	\$ 1,032,777	\$ 7,622	\$ 3,167,978	\$ (5,032)

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

Net Assets of Enterprise Fund	\$ 3,167,978
Net Assets of Internal Service Fund, which benefits Business-type Activities	(5,032)
Net Assets (Page 2-20)	<u>\$ 3,162,946</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year ended June 30, 2012
(In thousands)

	Enterprise Funds						
	Measure						
	VTA Transit Fund	B Transit Fund	Express Lanes Fund	Measure A Transit Fund	Joint Development Fund	Total Enterprise Funds	Internal Service Fund
OPERATING REVENUE:							
Passenger fares	\$ 37,744	\$ -	\$ -	\$ -	\$ -	\$ 37,744	\$ -
Toll revenues collected	-	-	218	-	-	218	-
Advertising and other	2,108	-	-	-	-	2,108	-
Charges for services	-	-	-	-	-	-	12,531
Total Operating Revenues	39,852	-	218	-	-	40,070	12,531
OPERATING EXPENSE:							
Labor cost	262,556	-	-	-	-	262,556	-
Materials and supplies	30,912	-	-	-	-	30,912	-
Services	20,094	-	-	-	147	20,241	-
Utilities	6,983	-	-	-	-	6,983	-
Casualty and liability	4,862	-	-	-	-	4,862	-
Purchased transportation	18,923	-	-	-	-	18,923	-
Leases and rentals	552	-	-	-	-	552	-
Miscellaneous	1,481	-	-	-	-	1,481	2,310
Depreciation expense	57,886	-	-	-	-	57,886	-
Costs allocated to capital and other programs	(29,452)	-	-	-	-	(29,452)	-
Claims and change in future claims estimates	-	-	-	-	-	-	11,419
Total Operating Expense	374,797	-	-	-	147	374,944	13,729
Operating Income/(Loss)	(334,945)	-	218	-	(147)	(334,874)	(1,198)
NON-OPERATING REVENUES (EXPENSES):							
Sales tax revenue	166,567	-	-	166,280	-	332,847	-
Measure A operating assistance	30,691	-	-	(30,691)	-	-	-
Federal operating assistance and other grants	42,286	-	-	-	-	42,286	-
Federal subsidy for Build America Bonds	-	-	-	9,399	-	9,399	-
State and local operating assistance grants	98,133	-	-	-	-	98,133	-
Caltrain subsidy	(10,207)	-	-	-	-	(10,207)	-
Capital expenditure on behalf of, and contribution							
to other agencies	(12,123)	(3,600)	-	(64,360)	-	(80,083)	-
Altamont Commuter Express subsidy	(2,707)	-	-	-	-	(2,707)	-
Investment earnings	5,299	-	-	13,151	144	18,594	695
Interest expense	(8,153)	-	-	(23,154)	-	(31,307)	-
Measure A repayment obligations	10,843	-	-	(10,843)	-	-	-
Other income	11,248	-	-	440	168	11,856	451
Other expense	(3,751)	-	-	(4,308)	-	(8,059)	-
Total Non-operating Revenues (Expenses)	328,126	(3,600)	-	55,914	312	380,752	1,146
Income (loss) before capital contributions and transfers	(6,819)	(3,600)	218	55,914	165	45,878	(52)
Capital grants and contributions	30,207	3,618	-	81,759	-	115,584	-
Transfer in/(out)	(6,300)	-	-	-	6,300	-	-
Change in net assets	17,088	18	218	137,673	6,465	161,462	(52)
Net assets, beginning of year	2,107,895	2,360	-	895,104	1,157	3,006,516	(4,980)
Net assets, end of year	\$ 2,124,983	\$ 2,378	\$ 218	\$ 1,032,777	\$ 7,622	\$ 3,167,978	\$ (5,032)

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

Change in net assets of the Enterprise Fund	\$ 161,462
Change in net assets of the Internal Service Fund, which benefits Business-type Activities	(52)
Change in net assets of Business-type Activities (Page 2-21)	<u>\$ 161,410</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2012
(In thousands)

	Enterprise Funds						Internal Service Fund	
	Measure B		Express Lanes Fund	Measure A		Joint Development Fund		Total Enterprise Funds
	VTA Transit Fund	Transit Fund		Transit Fund	Development Fund			
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>								
Cash received from passenger fares	\$ 38,414	\$ -	\$ -	\$ -	\$ -	\$ 38,414	\$ -	
Cash received from toll revenues collected	-	-	200	-	-	200	-	
Cash received from advertising	2,074	-	-	-	-	2,074	-	
Cash paid to employees	(234,904)	-	-	-	-	(234,904)	-	
Cash paid to suppliers	(63,392)	-	-	-	(147)	(63,539)	-	
Cash paid for purchased transportation	(18,923)	-	-	-	-	(18,923)	-	
Cash received from contributions	-	-	-	-	-	-	12,526	
Payments made to beneficiaries	-	-	-	-	-	-	(9,206)	
Payments made to third party contractors	-	-	-	-	-	-	(475)	
Other non-operating receipts	9,227	-	-	9,490	704	19,421	520	
Net cash provided by/(used in) operating activities	<u>(267,504)</u>	<u>-</u>	<u>200</u>	<u>9,490</u>	<u>557</u>	<u>(257,257)</u>	<u>3,365</u>	
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>								
Operating grants received	143,904	-	-	-	-	143,904	-	
Sales tax received	163,878	-	-	163,441	-	327,319	-	
Measure A operating assistance	30,473	-	-	(30,473)	-	-	-	
Measure A repayment obligations	10,843	-	-	(10,843)	-	-	-	
Caltrain subsidy	(10,207)	-	-	-	-	(10,207)	-	
Altamont Commuter Express subsidy	(2,707)	-	-	-	-	(2,707)	-	
Capital contributions to other agencies	(12,728)	(3,600)	-	(64,807)	-	(81,135)	-	
Transfer in	-	-	-	-	6,300	6,300	-	
Transfer out	(6,300)	-	-	-	-	(6,300)	-	
Net cash provided by/(used in) non-capital financing activities	<u>317,156</u>	<u>(3,600)</u>	<u>-</u>	<u>57,318</u>	<u>6,300</u>	<u>377,174</u>	<u>-</u>	
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>								
Payment of long-term debt	(71,920)	-	-	(2,525)	-	(74,445)	-	
Proceeds from issuance of long-term debt	47,485	-	-	-	-	47,485	-	
Premium on issuance of long-term bonds	5,108	-	-	-	-	5,108	-	
Issuance and other cost	(360)	-	-	-	-	(360)	-	
Advance (to)/from other governments	6,671	(3,558)	-	1,850	-	4,963	-	
Interest and other fees paid on long-term debt	(8,560)	-	-	(30,469)	-	(39,029)	-	
Acquisition and construction of capital assets	(31,297)	(17)	-	(203,400)	-	(234,714)	-	
Capital contribution from other governments	31,099	3,617	-	84,664	-	119,380	-	
Net cash provided by/(used in) capital and related financing activities	<u>(21,774)</u>	<u>42</u>	<u>-</u>	<u>(149,880)</u>	<u>-</u>	<u>(171,612)</u>	<u>-</u>	
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>								
Proceeds from sale of investments	593,662	-	-	1,018,996	18,026	1,630,684	106,881	
Purchase of investments	(630,400)	-	-	(1,012,813)	(25,137)	(1,668,350)	(110,565)	
Interest income received	5,286	-	-	13,151	144	18,581	695	
Net cash provided by/(used in) investment activities	<u>(31,452)</u>	<u>-</u>	<u>-</u>	<u>19,334</u>	<u>(6,967)</u>	<u>(19,085)</u>	<u>(2,989)</u>	
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(3,574)	(3,558)	200	(63,738)	(110)	(70,780)	376	
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	29,750	6,639	-	666,548	135	703,072	-	
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 26,176	\$ 3,081	\$ 200	\$ 602,810	\$ 25	\$ 632,292	\$ 376	
<u>Reconciliation to Fund Balance Sheet</u>								
<u>Unrestricted:</u>								
Cash and cash equivalents	\$ 24,580	\$ -	\$ 200	\$ -	\$ 25	\$ 24,805	\$ 376	
<u>Restricted:</u>								
Cash and cash equivalents	-	3,081	-	23	-	3,104	-	
Cash and cash equivalents with fiscal agent	1,596	-	-	602,787	-	604,383	-	
	<u>\$ 26,176</u>	<u>\$ 3,081</u>	<u>\$ 200</u>	<u>\$ 602,810</u>	<u>\$ 25</u>	<u>\$ 632,292</u>	<u>\$ 376</u>	

(continued on next page)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Statement of Cash Flows *(Continued)*

Proprietary Funds

For the Year Ended June 30, 2012

(In thousands)

	Enterprise Funds						
	Measure		Express Lanes Fund	Measure A Transit Fund	Joint Development Fund	Total Enterprise Funds	Internal Service Fund
	VTA Transit Fund	B Transit Fund					
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES:							
Operating income/(loss)	\$ (334,945)	\$ -	\$ 218	\$ -	\$ (147)	\$ (334,874)	\$ (1,198)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:							
Depreciation	57,886	-	-	-	-	57,886	-
Changes in operating assets and liabilities:							
Other current assets	(200)	-	-	-	-	(200)	-
Receivables	294	-	-	-	-	294	(4)
Due from other agencies	-	-	(18)	-	-	(18)	-
Inventories	246	-	-	-	-	246	-
Accounts payable	1,683	-	-	-	-	1,683	-
Other accrued liabilities	(2,065)	-	-	-	-	(2,065)	4,047
Deposits from others	27	-	-	-	-	27	-
Deferred revenue	343	-	-	-	-	343	-
Other non operating receipts	9,227	-	-	9,490	704	19,421	520
Net cash provided by/(used in) operating activities	\$ (267,504)	\$ -	\$ 200	\$ 9,490	\$ 557	\$ (257,257)	\$ 3,365
Reconciliation of cash and cash equivalents to the Statement of Fund Net Assets:							
Cash and cash equivalents, end of year:							
Unrestricted	\$ 24,580	\$ -	\$ 200	\$ -	\$ 25	\$ 24,805	\$ 376
Restricted	1,596	3,081	-	602,810	-	607,487	-
	<u>\$ 26,176</u>	<u>\$ 3,081</u>	<u>\$ 200</u>	<u>\$ 602,810</u>	<u>\$ 25</u>	<u>\$ 632,292</u>	<u>\$ 376</u>
NONCASH ACTIVITIES:							
Increase/(Decrease) in fair value of investments	\$ (197)	\$ -	\$ -	\$ (304)	\$ (6)	\$ (507)	\$ (20)
Noncash capital contributions in Due from Other Agencies	3,323	-	-	31,513	-	34,836	-
Amortization expense of Caltrain Access Fee	-	-	-	(881)	-	(881)	-
Total non-cash activities	\$ 3,126	\$ -	\$ -	\$ 30,328	\$ (6)	\$ 33,448	\$ (20)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Balance Sheet
 Governmental Funds
 June 30, 2012
 (In thousands)

	Special Revenue Fund	Capital Projects Funds		
		Congestion		
	Congestion Management Program	Management & Highway Program	Measure B Highway Program	Total Governmental Funds
<u>ASSETS</u>				
<i>Restricted assets:</i>				
Cash and cash equivalents	\$ 691	\$ 13,920	\$ 3,415	\$ 18,026
Investments	1,000	-	-	1,000
Due from other funds	-	937	-	937
Due from other agencies	456	5,097	-	5,553
Other Current Asset	-	3	-	3
TOTAL ASSETS	\$ 2,147	\$ 19,957	\$ 3,415	\$ 25,519
<u>LIABILITIES</u>				
Liabilities payable from restricted assets:				
Accounts payable	\$ 81	\$ 3,008	\$ 29	\$ 3,118
Other accrued liabilities-current	-	38	-	38
Due to other funds	12	151	9	172
Due to other agencies	610	16,760	3,377	20,747
TOTAL LIABILITIES	703	19,957	3,415	24,075
<u>FUND BALANCES</u>				
Restricted for congestion management program	1,444	-	-	1,444
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,147	\$ 19,957	\$ 3,415	\$ 25,519

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year ended June 30, 2012
(In thousands)

	Special Revenue Fund	Capital Projects Funds		
		Congestion Management & Highway Program	Measure B Highway Program	Total Governmental Funds
<u>REVENUES:</u>				
Assessment to member agencies	\$ 2,407	\$ -	\$ -	\$ 2,407
Federal grant revenues	1,367	-	-	1,367
Administrative fees	96	-	-	96
State and local operating assistance grants	743	-	-	743
Federal capital grant revenues	-	9,077	-	9,077
State and local capital grant revenues	-	12,005	448	12,453
Other revenues	104	-	-	104
Investment earnings	31	-	-	31
TOTAL REVENUES	4,748	21,082	448	26,278
<u>EXPENDITURES:</u>				
VTA labor and overhead costs	3,767	2,478	-	6,245
Professional services	436	-	-	436
Material and services	6	-	-	6
Miscellaneous	5	-	-	5
Contribution to agencies	37	-	-	37
Capital expenditures on behalf of other agencies	-	18,604	448	19,052
TOTAL EXPENDITURES	4,251	21,082	448	25,781
NET CHANGES IN FUND BALANCES	497	-	-	497
FUND BALANCES, BEGINNING OF YEAR	947	-	-	947
FUND BALANCES, END OF YEAR	\$ 1,444	\$ -	\$ -	\$ 1,444

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012
(In thousands)

	Retiree Trust Funds	Agency Funds
<u>ASSETS</u>		
<i>Restricted assets:</i>		
Cash and Cash Equivalents	\$ 1,410	\$ 4,065
Corporate Bond	85,148	-
U.S. Government Securities	28,109	-
U.S. Agency notes	78,502	-
Equity Based	91,711	-
Mutual Funds	266,342	-
Money Market Funds	6,222	-
Investment Pool	2,673	14,303
Receivables	1,848	-
TOTAL ASSETS	561,965	18,368
<u>LIABILITIES</u>		
<i>Liabilities payable from restricted assets:</i>		
Accounts payable	873	19
Program payable	-	18,349
TOTAL LIABILITIES	873	\$ 18,368
NET ASSETS		
<i>Net assets held in trust for:</i>		
ATU Pension benefits	376,724	
Retiree medical benefits	168,414	
ATU Retiree spousal medical benefits	9,798	
ATU Retiree dental and vision benefits	6,156	
TOTAL NET ASSETS	\$ 561,092	

SANTA CLARA VALLEY TRANSPORTATION AGENCY
 Statement of Changes in Fiduciary Net Assets
 Retiree Trust Funds
 For the Year ended June 30, 2012
 (In thousands)

	Retiree Trust Funds
<u>ADDITIONS</u>	
Employer Contributions	\$ 38,109
<i>Investment earnings:</i>	
Investment income	19,688
Net depreciation in the fair value of investments	(2,411)
Investment expense	(1,932)
Net investment income	15,345
Other revenue	210
TOTAL ADDITIONS	53,664
 <u>DEDUCTIONS</u>	
Benefit payments	34,791
Administrative expenses	282
TOTAL DEDUCTIONS	35,073
 NET INCREASE	 18,591
<u>NET ASSETS HELD IN TRUST</u>	
Beginning of year	542,501
End of year	\$ 561,092

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**NOTES TO THE BASIC FINANCIAL
STATEMENTS**

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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 and the Other Post Employment Benefit Plan (the Plans) in the Trust Funds. The financial activities of the Plans are included in the basic financial statements because they exclusively serve the employees of VTA. Due to the fact that the Plans are fiscally dependent on VTA, they are considered trust funds by VTA.

The Santa Clara Valley Transportation Authority Congestion Management Program (CMP) was created in 1990 in response to Proposition 111. The CMP is not legally separate from VTA. The CMP is responsible for the development and implementation of the Valley Transportation Plan (VTP), the long-range transportation and land use plan for the County, and for preparing and implementing the state-mandated Congestion Management Program. It is also responsible for the programming and oversight of discretionary federal, state, and local funds, and for serving as the program manager for certain countywide grant funds, including the Transportation Fund for Clean Air (TFCA) and 1996 Measure B Transportation Improvement Program's (MBTIP) Ancillary Program. Annual contributions from 17 member agencies are based on a formula adopted by the VTA's Board of Directors. The contribution formula considers each member agency's share of Proposition 111, state gas tax monies, as well as employment within the County. The CMP is included as a major governmental fund in the accompanying basic financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

Government-wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about VTA as a whole. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements 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 Funds (Enterprise Funds)* are used to account for activities for which a fee is charged to external users for goods or services where:
 - (a) the activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or
 - (b) laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or
 - (c) the pricing policies of the activity establish fees and charges designated to recover its costs, including capital costs (such as depreciation or debt service).

VTA reports the activities of its transit operations, 1996 Measure B Transit Improvement Program, 2000 Measure A Transit Improvement Program, Express Lanes Program and Joint Development Program as major funds 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 Funds).

- 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 Funds (Internal Service Fund)* are used to account for activities that provide goods or services to other funds, departments or to other governments, on a cost-reimbursement basis. General Liability, Workers' Compensation, and Compensated Absences are accounted for in the Internal Service Fund.
- The *Fiduciary Funds* are used to account for assets held by VTA as a trustee or as an agent for others and which assets cannot be used to support its own programs. VTA's trust and agency funds include the VTA/ATU Pension Plan, Retirees' Other Post Employment Benefits Trust (OPEB Trust), ATU Spousal Medical and Retiree Dental Vision Fund, Bay Area Air Quality Management District (BAAQMD) Program, Senate Bill 83 Vehicle Registration Fee (SB83 VRF) Program, and Measure B Ancillary Program. The VTA/ATU Pension Plan, OPEB Trust, and the ATU Medical and Retiree Dental Vision Fund are reported as Retiree Trust Funds. The BAAQMD, SB83 VRF, 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. The SB83 VRF fund was established to administer the vehicle registration fee collected under California Senate Bill 83 and approved by voters in 2010.

(b) *Basis of Accounting*

The government-wide, business-type funds, and fiduciary funds including agency funds financial statements are reported using the accrual basis of accounting and the economic resources exchange measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange 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 accrual for amounts collected by the State Board of Equalization but not remitted to VTA at the end of the fiscal year. 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. Fiduciary funds, including all agency funds, are also reported using accrual basis of accounting and the economic resources exchange measurement focus.

VTA's operating revenues are generated directly from its transit operations and consist principally of passenger fares. Operating expenses for the transit operations include 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 non-operating 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 earnings, certain state and federal grants, and charges for services are accrued if their receipt occurs within 180 days after the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. 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 most of its investment portfolio. VTA's investment program manager has oversight responsibility for investments managed by these firms. The securities are held by a third-party custodial bank. Purchases and sales of securities are reflected on the trade date. Investment income is recognized as earned.

The remaining cash balances in certain VTA funds are invested in the Local Agency Investment Fund (LAIF). Unless there are specific legal or contractual requirements for specific allocations, income earned or losses arising from investments are allocated on a monthly basis 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, from its fiscal agent for actively managed accounts and from management firms for commingled accounts.

The fair value of VTA's investments commingled in LAIF state pool is based on VTA's cash positions in the commingled accounts as of the end of the fiscal year.

(d) *Inventories*

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

(e) *Restricted Assets*

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

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

Bond issuance costs and deferred amount on refundings for the government-wide statement of net assets and the enterprise funds are deferred and amortized on a straight line basis over a period equal to the term of the related bond. The discounts and premiums are amortized using the effective interest rate method. Government-wide and enterprise fund bond discounts and deferred amount on refundings are presented as a reduction of the face amount of bonds payable whereas issuance costs are recorded as a deferred cost (asset).

(g) *Capital Assets*

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

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

<u>Asset being Depreciated</u>	<u>Useful Life</u>
Buildings, improvements, furniture and fixtures	5 to 50 years
Vehicles (excluding light-rail vehicles)	5 to 12 years
Light-rail tracks, electrification and light-rail vehicles	25 to 45 years
Leasehold improvements	10 to 35 years
Other operating equipment	5 to 10 years

Depreciation on such assets is included in the accompanying statement of activities and enterprise 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 and other bond charges of \$23.0 million relating to the Measure A Transit Improvement Projects.

(h) *Vacation and Sick Leave Benefits*

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

(i) *Self-Insurance*

VTA is self-insured for general liability and workers' compensation claims. Estimated losses on claims other than workers' compensation claims are charged to expense in the period the loss is determinable. Estimated losses for workers' compensation claims are charged to expense as a percentage of labor in each accounting period. The costs incurred for workers' compensation and general liability (including estimates for claims incurred but not yet reported) are reported in the Internal Service Fund based on an actuarial determination of the present value of estimated future cash payments (see Notes 14 and 16).

(j) *Net Assets*

The government-wide and proprietary funds financial statements utilize a net asset presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted, 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 (including deferred bond issuance costs) that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* – This category consists of debt service reserve, SWAP/lease collateral, net assets restricted for Measure B Transit, 2000 Measure A capital programs, carrying balances of inventory, retention payable, prepaid expenses and unamortized bond issuance cost, and Congestion Management Program.

The Statement of Fund Net Assets on pages 2-22 & 23 reports that enterprise fund net assets amount to \$3.2 billion as of June 30, 2012, of which \$1.0 billion is restricted by enabling legislation for the 2000 Measure A Sales Tax Programs. The 2000 Measure A half-cent sales tax was approved by Santa Clara County voters to fund certain transportation related projects.

- *Unrestricted Net Assets* – The remaining unrestricted net assets, although not legally restricted, have been earmarked for future capital and operating needs, as well as for other purposes in accordance with Board directives. Unrestricted Net Assets consist of the following:

	Proprietary Funds				
	VTA Transit Fund	Express Lanes Fund	Joint Development Fund	Total Enterprise Funds	Internal Service Fund
Local share of capital projects	\$ 33,846	\$ -	\$ -	\$ 33,846	\$ -
Debt reduction	114,331	-	-	114,331	-
Express Lane	-	218	-	218	-
Joint Development	-	-	7,622	7,622	-
OPEB liability reduction	20,650	-	-	20,650	-
Sales tax stabilization	35,000	-	-	35,000	-
Operating reserve	56,268	-	-	56,268	-
Workers' compensation, general liability and compensated absences	-	-	-	-	(5,032)
Total	<u>\$ 260,095</u>	<u>\$ 218</u>	<u>\$ 7,622</u>	<u>\$267,935</u>	<u>\$ (5,032)</u>

(k) Cost Allocated to Capital and Other Programs

On the Statement of Revenues, Expenses and Changes in Net Assets, the VTA Transit Fund reports \$29.5 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) Fund Balance - Governmental funds

In FY 2011, VTA implemented the GASB Statement 54, "*Fund Balance Reporting and Governmental Fund-Type Definitions*". The Congestion Management Program net assets are classified restricted. These are amounts that can be spent only for specific purposes because of enabling legislation or constraints that are externally imposed by creditors, grantors, contributions, or the laws or regulations of other governments.

(n) Spending Order Policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, VTA considers restricted funds to have been spent first.

(o) Transfer In/(Out)

The transfer represents the interfund transaction between funds. During FY 2012, total transfer in and out consists of transfer from VTA Transit to Joint Development Fund of \$6.3 million. This transfer relates to proceeds for the sale of land per the Board policy.

NOTE 3 - CASH AND INVESTMENTS

Total cash and investments as of June 30, 2012, are reported in the accompanying basic financial statements as follows (in thousands):

	Enterprise Fund	Internal Service Fund	Governmental Fund	Retiree Trust Funds	Agency Funds	Total
Unrestricted:						
Cash and Cash Equivalents	\$ 24,805	\$ 376	\$ -	\$ -	\$ -	\$ 25,181
Investments	181,973	41,878	-	-	-	223,851
Total unrestricted	<u>206,778</u>	<u>42,254</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>249,032</u>
Restricted:						
Cash and Cash Equivalents	3,104	-	18,026	1,410	4,065	26,605
Cash and Cash Equivalents with Fiscal Agents	604,383	-	-	-	-	604,383
Investments	438,586	-	1,000	558,707	14,303	1,012,596
Total restricted	<u>1,046,073</u>	<u>-</u>	<u>19,026</u>	<u>560,117</u>	<u>18,368</u>	<u>1,643,584</u>
Total Cash and Investments	<u>\$ 1,252,851</u>	<u>\$ 42,254</u>	<u>\$ 19,026</u>	<u>\$560,117</u>	<u>\$ 18,368</u>	<u>\$1,892,616</u>

As of June 30, 2012 total cash and investments among all funds consisted of the following (in thousands):

Cash & Cash Equivalents	\$ 51,786
Cash & Cash Equivalents with Fiscal Agents	604,383
Investments	<u>1,236,447</u>
Total	<u>\$ 1,892,616</u>

Cash and Cash Equivalents

VTA maintains checking accounts for its 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, 2012, the carrying amounts of these cash balances are shown below (in thousands):

Operation Account	\$	34,785
CM&HP Account		13,920
Measure B Account		3,081
Total Deposits	<u>\$</u>	<u>51,786</u>

Investments

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

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

Specific restrictions of investment are noted below:

VTA's investment policies (Unrestricted/Restricted Funds and retiree plan) conform to state statutes, and provide written investment guidance regarding the types of investments that may be made and amounts, which may be invested in any one financial institution or amounts which may be invested in any one long-term instrument. VTA's permissible investments include U.S. treasury obligations, obligations of federal agencies and U.S. government sponsored enterprises, state of California obligations, local agency obligations, bonds issued by VTA except BABs, bankers' acceptances, commercial paper, repurchase and reverse repurchase agreements, medium-term corporate notes, insured savings/money market accounts, negotiable certificates of deposit, mortgage and asset-back obligations, mutual funds, state of California's local agency agreements, and qualified structured investment. Asset allocations for ATU Pension Plan, ATU Spousal Medical Plan, and Retirees' OPEB are all included investments in bonds, equity securities, and cash.

The Local Investment Advisory Board has oversight responsibility for Local Agency Investment Fund (LAIF). The Board consists of five members as designated by the state statute.

VTA's portfolio includes asset-backed securities, which are invested and managed by money managers and structured notes which are invested indirectly through LAIF. At June 30, 2012, investment in LAIF is \$50.0 million. LAIF is voluntarily commingled within the state of California Pooled Money Investment Account (PMIA), whose balance at June 30, 2012 was approximately \$60.5 billion. If cash reserves of the state of California are exhausted, then the participation by the State's General Fund in the PMIA is zero. There is no correlation between the state's general fund cash reserves and VTA's funds on deposit in the LAIF. None of this amount was invested in derivative instruments. PMIA is not a Securities and Exchange Commission (SEC) registered pool, but it is required to invest in accordance with the guidelines established by the California Government Code. The weighted-average to maturity of the investments in PMIA at June 30, 2012 was 268 days. The value of the pool shares in investment earnings are paid quarterly based on the average daily balance. Withdrawals from LAIF are completed on a dollar for dollar basis.

Interest Rate Risk – Interest rate risk is the risk that changes in market interest rates may adversely affect the fair value of an investment. Normally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. Of VTA's (Operation Funds and Plan Trust Funds) \$1.24 billion in investments, 16.0% of the investments have a maturity of less than 1 year. Only 7.1% of the remainder has a maturity of more than 10 years. Per VTA's investment policy, long-term securities of more than five years are limited to 40% of the portfolio.

Credit Risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Per its investment policy, VTA is permitted to hold investments in commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record. Negotiable certificate of deposit must have long-term ratings of Aa/AA or better by two national rating agencies. Purchases of mortgage and asset-back obligations do not exceed 20% of VTA's portfolio. In addition, VTA is permitted to invest in the state's Local Agency Investment Fund, money market and mutual funds that are non-rated. Table on page 2-43 shows the credit quality of VTA's investments as of June 30, 2012.

Custodial Credit Risk – Deposits - For deposits, custodial credit risk is the risk that in the event of a bank failure, VTA's deposits may not be returned to it. California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of VTA's cash on deposit or first trust deed mortgage notes with a value of 150 percent of the deposit as collateral for these deposits. At June 30, 2012, VTA deposits were collateralized by securities held by the financial institutions, which was not in VTA's name.

Custodial Credit Risk – Investments – The custodial credit risk for investments is the risk that, in the event of a failure of the counterparty (e.g. broker-dealer) to a transaction, VTA may not be able to recover the value of its investments or collateral securities that are in the possession of another party. VTA's Investment Policy limits its exposure to custodial credit risk by requiring that all securities owned by VTA are kept in safekeeping with "perfected interest" in the name of VTA by a third-party bank trust department, acting as agent for VTA under the terms of a custody agreement executed between the bank and VTA. As of June 30, 2012, VTA did not participate in reverse securities lending that would result in any possible risk in this area.

Concentration of Credit Risk – Concentration of credit risk is the risk that the failure of any one issuer would place an undue financial burden on VTA. Investments issued by or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments are exempt from this requirement, as they are normally diversified themselves. Forty one and eight tenths percent (41.8%) of VTA's investments at year-end are in U.S. Government or Agency investments. There is no limitation on amounts invested in these types of issues. At June 30, 2012, VTA had \$138.0 million representing 11% of VTA's portfolio invested in debt securities issued by the US Government Agencies. At June 30, 2012, VTA had \$64.3 million, \$44.7 million and \$11.9 million representing 5.2%, 3.6% and 1.0% of VTA's portfolio invested in debt securities issued by the Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLM), and Federal Home Loan Banks (FHLB), respectively. Of the 29.0% of the portfolio invested in equities, no investment in a single issuer exceeds 5%.

Certain investments, such as obligations that are backed by the full faith and credit of the United States Treasury are not subject to credit ratings.

The following schedule indicates the interest rate and credit risk at June 30, 2012 (in thousands):

<u>Investment Type</u>	<u>Maturity</u>				<u>Market Value</u>
	<u>Less than 1 Year</u>	<u>2-5 Years</u>	<u>6-10 Years</u>	<u>Over 10 Years</u>	
Corporate Bonds - Commingled ⁽¹⁾	\$ 33,315	\$ 187,548	\$ -	\$ 100	\$ 220,963
Corporate Bonds - Pension Plan	1,665	12,609	27,005	13,864	55,143
Corporate Bonds - OPEB Trust	563	6,053	16,909	6,359	29,884
US Government Agency Bonds					
Commingled ⁽¹⁾	18,245	41,126	-	-	59,371
Pension Plan	488	2,781	4,969	42,407	50,645
OPEB Trust	50	824	2,420	24,685	27,979
US Treasury					
Commingled ⁽¹⁾	71,118	219,348	59,944	-	350,410
Pension Plan	10,134	6,554	-	-	16,688
OPEB Trust	6,276	5,145	-	-	11,421
SUB TOTAL	141,854	481,988	111,247	87,415	822,504
Money Market Funds - Commingled ⁽¹⁾⁽²⁾	(329)	-	-	-	(329)
Money Market Funds - Pension	5,164	-	-	-	5,164
Money Market Funds - OPEB Trust	1,057	-	-	-	1,057
Cash with Fiscal Agents - Commercial Paper/CD	241,252	-	-	-	241,252
Cash with Fiscal Agents - Money Market Funds	249,249	-	-	-	249,249
Cash with Fiscal Agents - LAIF	112,826	-	-	-	112,826
TOTAL INVESTMENTS with Money Manager	751,073	481,988	111,247	87,415	1,431,723
LAIF ⁽¹⁾	50,000	-	-	-	50,000
TOTAL INVESTMENTS	\$ 801,073	\$ 481,988	\$ 111,247	\$ 87,415	1,481,723
Equity-Based Investments					358,051
Retention Fund at Escrow Agents (Deposits)					1,056
Cash Deposits ⁽¹⁾					51,786
TOTAL					\$ 1,892,616

¹ \$4,084 thousand in Retirees, ATU, ATU Spousal Medical Plan are included in these line items.

² This is to record trades on June 30, 2012. GASB requires that investments be stated at the trade date.

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 Poor's:

<u>Ratings</u>	<u>Fair Value (In Thousands)</u>	<u>Percentages of Portfolios</u>
Unrated	\$ 966,856	51.08%
Not Applicable	378,519	20.00%
BBB	23,644	1.25%
BBB-	5,149	0.27%
BBB+	12,210	0.65%
A-1	241,252	12.75%
A	51,781	2.74%
A-	78,831	4.17%
A+	35,296	1.86%
AA	11,371	0.60%
AA-	22,215	1.17%
AA+	49,217	2.60%
AAA	16,275	0.86%
TOTAL	\$ 1,892,616	100.00%

As of June 30, 2012, the Retiree Trust Funds restricted investments consisted of the following (in thousands):

ATU Pension Plan Investments	\$	374,842
ATU Spousal Medical Investments		15,909
Retirees Medical Trust		167,956
Total	\$	<u>558,707</u>

NOTE 4 – INTERFUND TRANSACTIONS

The composition of interfund balances as of June 30, 2012 is as follows (in thousands):

<u>Due from other funds</u>	<u>Due to other funds</u>	<u>Amount</u>
VTA Transit Fund	Congestion Management & Highway Program Fund	\$ 151 ¹
VTA Transit Fund	Measure B Transit Fund	7 ²
VTA Transit Fund	Measure B Highway Program Fund	9 ²
VTA Transit Fund	Measure A Transit Fund	218 ³
Congestion Management & Highway Program Fund	Measure A Transit Fund	925 ⁴
Congestion Management & Highway Program Fund	Congestion Management Program Fund	12 ⁵
		<u>\$ 1,322</u>

¹ represents \$302K labor cost transfer net of \$151K collection for project billing

² represents mainly labor cost transfer

³ represents Measure A operating assistance

⁴ represents the swap project cost

⁵ represents Community Development Transportation (CDT) planning grant reimbursement

NOTE 5 – DUE FROM AND DUE TO OTHER AGENCIES

Due from other agencies as of June 30, 2012 consisted of the following (in thousands):

DUE FROM OTHER AGENCIES	Business-Type Activities	Governmental Activities		Total
		Congestion Management Program	Congestion Management & Highway Program	
Federal Government	\$ 47,139	\$ -	\$ 2,966	\$ 50,105
State Government	128,193	456	1,325	129,974
Others	1,597	-	806	2,403
Total	<u>\$ 176,929</u>	<u>\$ 456</u>	<u>\$ 5,097</u>	<u>\$ 182,482</u>

Due from other agencies as of June 30, 2012, is reported in the accompanying general-purpose financial statements as follows (in thousands):

	Business- Type Activities	Governmental Activities			Total
		Enterprise Funds	Congestion Management Program	Congestion Management & Highway	
				Program	
ASSETS					
Current assets - unrestricted	\$ 87,133	\$ -	\$ -	\$ -	\$ 87,133
Current assets - restricted	89,796	456	5,097		95,349
Total	<u>\$176,929</u>	<u>\$ 456</u>	<u>\$ 5,097</u>		<u>\$ 182,482</u>

Due to other agencies as of June 30, 2012, consisted of the following (in thousands):

	Business- Type Activities	Governmental Activities			Total	
		Enterprise Funds	Congestion Management Program	Congestion Management & Highway		Measure B
				Program		Program
DUE TO OTHER AGENCIES						
State	\$48,526	\$ -	\$ 760	\$ -	\$ 49,286	
Caltrain	5,177	-	-	-	5,177	
County of Santa Clara	1,428	610	10,986	3,377	16,401	
City of San Jose	97	-	4,882	-	4,979	
City of Fremont	684	-	-	-	684	
Outreach	3,588	-	-	-	3,588	
Misc.	2	-	132	-	134	
Total	<u>\$59,502</u>	<u>\$ 610</u>	<u>\$ 16,760</u>	<u>\$ 3,377</u>	<u>\$ 80,249</u>	

Due to other agencies as of June 30, 2012, is reported in the accompanying basic financial statements as follows (in thousands):

	Business- Type Activities	Governmental Activities			Total	
		Enterprise Funds	Congestion Management Program	Congestion Management & Highway		Measure B
				Program		Program
LIABILITIES						
Current Liabilities - unrestricted	\$ 5,327	\$ -	\$ -	\$ -	\$ 5,327	
Current Liabilities - restricted	54,175	610	16,760	3,377	74,922	
Total	<u>\$ 59,502</u>	<u>\$ 610</u>	<u>\$ 16,760</u>	<u>\$ 3,377</u>	<u>\$ 80,249</u>	

NOTE 6 – CAPITAL ASSETS

Capital asset changes for VTA’s business-type activities for the year ended June 30, 2012 were as follows (in thousands):

	<u>July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>June 30, 2012</u>
Capital assets, not being depreciated:					
Land and right of way	\$ 1,122,805	\$ -	\$ (310)	\$ -	\$ 1,122,495
Construction in progress	902,026	226,415	-	(21,055)	1,107,386
Total capital assets, not being depreciated	<u>2,024,831</u>	<u>226,415</u>	<u>(310)</u>	<u>(21,055)</u>	<u>2,229,881</u>
Capital assets, being depreciated					
Caltrain - Gilroy extension	53,307	-	-	-	53,307
Buildings improvements, furniture and fixtures	504,531	233	(224)	7,313	511,853
Vehicles	485,590	-	(18,755)	14,179	481,014
Light-rail tracks and electrification	403,831	-	-	(437)	403,394
Leasehold improvement	9,686	-	-	-	9,686
Other operating equipment	46,065	87	-	-	46,152
Total capital assets, being depreciated	<u>1,503,010</u>	<u>320</u>	<u>(18,979)</u>	<u>21,055</u>	<u>1,505,406</u>
Accumulated Depreciation					
Buildings, improvements, furniture and fixtures	(216,267)	(15,743)	220	506	(231,284)
Vehicles	(167,310)	(21,709)	18,614	(506)	(170,911)
Light-rail tracks and electrification	(187,774)	(16,701)	-	-	(204,475)
Caltrain - Gilroy extension	(14,246)	(1,635)	-	-	(15,881)
Other operating equipment	(30,876)	(1,656)	-	-	(32,532)
Leasehold improvement	(1,588)	(442)	-	-	(2,030)
Total accumulated depreciation	<u>(618,061)</u>	<u>(57,886)</u>	<u>18,834</u>	<u>-</u>	<u>(657,113)</u>
Total capital assets, being depreciated, net	<u>884,949</u>	<u>(57,566)</u>	<u>(145)</u>	<u>21,055</u>	<u>848,293</u>
Total capital assets, net	<u>\$ 2,909,780</u>	<u>\$ 168,849</u>	<u>\$ (455)</u>	<u>\$ -</u>	<u>\$ 3,078,174</u>

Construction in progress (CIP) includes capitalized costs and right-of-way acquisitions associated with the following projects as of June 30, 2012 (in thousands):

Silicon Valley Rapid Transit	\$ 952,033
Light Rail Program	66,254
Light Rail-Way, Power & Signal	32,254
Bus Program	15,976
Revenue Vehicle & Equipment	12,744
Information Systems Technology	11,437
Operating Facilities & Equipment	10,173
Vasona Corridor Projects	3,813
Passenger Facilities	1,370
Commuter Rail Program	1,332
Total project costs expended to date	<u>\$ 1,107,386</u>

Additional information regarding projects in progress as of June 30, 2012 is as follows (in thousands):

<u>Information Regarding Capital Expenditures:</u>	<u>Costs</u>
Total Board approved capital budget	\$ 3,913,999
Capital expenditures settling to CIP	(1,107,386)
Capital expenditures settling to CIP re: court deposits	(24,147)
Capital expenditures settling to fixed assets	(421,452)
Capital expenditures settling to expense	(285,840)
Remaining capital budget available	<u>\$ 2,075,174</u>
 <u>Anticipated funding sources are as follows:</u>	
Federal, state, and other local assistance	\$ 1,444,894
Local contributions	630,280
Total funding sources	<u>\$ 2,075,174</u>

VTA has outstanding commitments of about \$223.5 million as of June 30, 2012, related to the above capital projects.

NOTE 7 - LONG-TERM DEBT & LIABILITIES

Long-term debt as of June 30, 2012, consisted of the following (in thousands):

Secured by VTA's 1976 1/2 cent Sales Tax

2007 Series A Refunding (\$20,725 plus unamortized premium of \$522 less unamortized loss in refunding of \$1,706)	\$ 19,541
2008 Series A-C Refunding (\$160,210 less unamortized deferred amount in refunding of	147,959
2011 Series A Refunding (\$46,790 plus unamortized premium of \$5,109)	51,899

Secured by VTA's 2000 Measure A 1/2 cent Sales Tax

2007 Series A Measure A Refunding (\$115,140 plus unamortized premium of \$3,007 and deferred amount in refunding of \$4,142)	122,289
2008 Series A-D Measure A Refunding (\$235,875 plus unamortized deferred amount in refunding of \$4,649)	240,524
2010 Series A-B Measure A (\$645,890 plus unamortized premium of \$20,402)	666,292
Total long-term debt	<u>1,248,504</u>
Less current portion of long-term debt	(13,025)
Long-term debt, excluding current portion	<u>\$ 1,235,479</u>

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

- \$26.3 million of 2007 Series A Sales Tax Revenue Refunding Bonds (2007 Bonds) were issued, at a true interest cost of 3.97%, to refund and completely pay off a portion of the 1997 Series A Sales Tax Revenue Bonds, maturing in series on each

June 1st from 2010 – 2021. Proceeds of the 2007 Bonds were deposited into an escrow account held by a Trustee, and were used to pay the principal and accrued interest on the refunded bonds on the redemption date of June 1, 2007; therefore there are no refunded bonds outstanding and no funds remaining in escrow. The 2007 Bonds have a final maturity of June 1, 2021. 2007 Bonds maturing on or before June 1, 2017 are not subject to redemption prior to their respective stated maturities. The 2007 Bonds maturing on or after June 1, 2018 are subject to redemption prior to their stated maturities any time on or after June 1, 2017.

- \$168.6 million of 2008 Series A-C Sales Tax Revenue Refunding Bonds (2008 VTA Bonds) were issued to implement a current refunding and completely pay off the 2005 Sales Tax Revenue Refunding Bonds, originally issued to finance the retirement of a portion of 2001 Bonds. There is no escrow fund nor are there 2005 Sales Tax Revenue Refunding Bonds outstanding. The 2008 VTA Bonds were issued as variable rate demand bonds and bear interest at a weekly rate, which is determined by the Remarketing Agent to be the rate necessary to remarket the 2008 VTA Bonds at par value. The maturities of the 2008 VTA Bonds extend to June 1, 2026 and are subject to optional and mandatory redemption and optional and mandatory tender for purchase before maturity.
- Concurrent with the issuance and sale of the 2008 VTA Bonds, VTA transferred interest rate swap agreements (originally entered into concurrent with the issuance of the retired 2005 Sales Tax Revenue Refunding Bonds). Pursuant to the terms of the swap agreements, VTA pays interest at a fixed rate of 3.145% to the counterparties to the swaps. In return, the counterparties pay VTA interest based on a formula (lower of 1 Month LIBOR¹ or a rate equal to the greater of 63.5% of 1 Month LIBOR, or 55.5% of 1 Month LIBOR plus 0.44%). The outstanding principal on the 2008 VTA Bonds is used as the basis on which the interest payments are calculated. Under certain circumstances, the agreements are subject to termination before maturity of the 2008 VTA Bonds.
- \$47.5 million of 2011 Series A Sales Tax Revenue Refunding Bonds (2011 Bonds) were issued, at a true interest cost of 2.73%, to refund the 1998 Series A Sales Tax Revenue Bonds and the 2000 Series A Sales Tax Revenue Bonds (collectively, the “Refunded Bonds”), maturing in series on each June 1st from 2012 – 2028. The Refunded Bonds were variable rate bonds, which were issued through the California Transit Finance Authority (CTFA) (Note 20d). The bonds were refunded in order to reduce bank and interest rate risk associated with variable rate demand bonds.

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

Proceeds of the 2011 Bonds were deposited into an escrow account held by a Trustee, and were used to pay the principal and accrued interest on the refunded bonds on the redemption date of October 5, 2011. There are no 1998 Series A Sales Tax Revenue Bonds or 2000 Series A Sales Tax Revenue Bonds outstanding, and no funds remaining in escrow. The economic gain, which is calculated by comparing the present value of the original issue debt service to the present value of the refunded issue debt service is, \$0.15 million. This assumes that the variable rates on the refunded bonds would have remained constant through maturity at a rate equivalent to their historic average weekly rate of 2.52% and liquidity costs equivalent to similar rates paid on the 2008 VTA Bonds. 2011 Series A Bonds maturing on or before June 1, 2021 are not subject to redemption prior to their respective stated maturities. The 2011 Bonds maturing on or after June 1, 2022 are subject to redemption prior to their stated maturities any time on or after June 1, 2021.

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

- \$120.1 million of 2007 Measure A Series A Sales Tax Revenue Refunding Bonds (2007 Measure A Bonds) were issued, at a true interest cost of 4.60%, to current refund Series F and G of the 2006 Measure A Sales Tax Revenue Bonds, none of which remain outstanding. Proceeds of the 2007 Measure A Bonds were deposited into an escrow account held by a Trustee, and were used to fully pay the principal and accrued interest on the refunded bonds on the redemption date of November 6, 2007. There is no open escrow or refunded bonds outstanding. Maturities for the 2007 Measure A Bonds extend to April 1, 2036. 2007 Measure A Bonds maturing on or before April 1, 2017 are not subject to redemption prior to their respective stated maturities. 2007 Measure A Bonds maturing on or after April 1, 2018 are subject to redemption any time on or after April 1, 2017.
- \$236.7 million of 2008 Series A-D Measure A Sales Tax Revenue Refunding Bonds (2008 Measure A Bonds) were issued to current refund Series A-D of the 2006 Measure A Sales Tax Revenue Bonds, none of which remain outstanding. The 2008 Measure A Bonds were issued as variable rate demand bonds and bear interest at a weekly rate, which is determined by the Remarketing Agent to be the rate necessary to remarket the 2008 Measure A Bonds at par value. The maturities of the 2008 Measure A Bonds extend to April 1, 2036 and are subject to optional and mandatory redemption and optional and mandatory tender for purchase before maturity.

- Concurrent with the issuance and sale of the 2008 Measure A Bonds, the four interest rate swap agreements (originally entered into concurrent with the issuance of the Series A-D of the 2006 Measure A Sales Tax Revenue Bonds, none of which remain outstanding) were reassigned to the 2008 Measure A Bonds. Pursuant to the terms of the swap agreements, VTA pays interest at a fixed rate of 3.765% to the counterparties to the swaps. In return, the counterparties pay VTA a variable rate of interest equal to 65% of three-month LIBOR. The outstanding principal is used as the basis on which the interest payments are calculated. Under certain circumstances, the agreements are subject to termination before maturity of the 2008 Measure A Bonds.
- \$645.9 million of 2010 Measure A Bonds (2010 Measure A Bonds) were issued, at a true interest cost of 3.54%, to fund certain Measure A transit capital improvement projects, most notably the BART extension to Berryessa. The bonds were issued as a combination of taxable, Build America Bonds (Series A), and traditional tax-exempt bonds (Series B). Build America Bonds are subject to 35% Federal subsidy on its interest cost. Both are fixed interest bonds. The bonds have a final maturity date of April 1, 2032. The 2010 Measure A Bonds, Series A (taxable Build America Bonds) are subject to mandatory and optional redemption provisions prior to their stated maturity dates. The 2010 Measure A Bonds Series B (tax-exempt) are not subject to redemption prior to their maturity date.

(c) Interest Rate Swaps

VTA has seven interest rate swap agreements outstanding as of year-end. Three require that VTA pay fixed interest rates and receive variable interest at the lower of: 1) 1 month LIBOR or, 2) a rate equal to the greater of 63.5% of 1 month LIBOR or 55.5% of 1 month LIBOR plus 0.44%. Four agreements require that VTA pay fixed interest rates and receive interest at 65% of three-month LIBOR.

Objective of the Swaps: The objective of the swaps is to hedge VTA's exposure to variable rate risk by synthetically fixing its interest costs at rates anticipated to be less than what VTA otherwise would have paid to issue fixed rate debt in the tax-exempt municipal bond market.

(d) **Summary:** The terms, fair values, and credit ratings of the outstanding swaps as of June 30, 2012 were as follows (dollars in thousands):

Associated Bonds	Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Value	Swap Termination Date	Counterparty Credit Rating^{CR}
2008A	\$ 64,180	7/7/2005 ^{ED}	3.145%	Cal-E ^{VR}	\$ (10,239)	6/1/2026	Aa2, AAA,---
2008B	48,015	7/7/2005 ^{ED}	3.145%	Cal-E ^{VR}	(7,663)	6/1/2026	A3, A, ---
2008C	48,015	7/7/2005 ^{ED}	3.145%	Cal-E ^{VR}	(7,663)	6/1/2026	Baa1, A-, --
MA2008A	85,875	8/10/2006	3.765%	LIBOR	(33,260)	4/1/2036	A3, A, --
MA2008B	50,000	8/10/2006	3.765%	LIBOR	(19,366)	4/1/2036	A3, A, --
MA2008C	50,000	8/10/2006	3.765%	LIBOR	(19,366)	4/1/2036	Aa2, AAA, --
MA2008D	50,000	8/10/2006	3.765%	LIBOR	(19,366)	4/1/2036	Baa1, A-, --
	\$ 396,085				\$ (116,923)		

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

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

^{VR} Lower of 1 month LIBOR or a rate equal to the greatest of 63.5% of 1 month LIBOR or 55.5% of 1 month LIBOR plus 0.44%.

Fair Values: At June 30, 2012, the swaps had a negative fair value of \$116.9 million. This is because interest rates have declined since the execution of the swaps. Because the coupons on VTA's variable rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases or decreases. The fair values of the interest rate swaps were estimated using the zero-coupon method. The swaps were deemed to be effective derivative instruments using regression analysis and therefore were recorded as deferred outflow of resources in the assets section and as a derivative instrument liability in the liability section of the statement of net assets.

Credit Risks: It is VTA's policy to enter into derivative agreements with highly rated counterparties. Although VTA's counterparties have experienced declines in their ratings since inception of the swaps, their S&P and Moody's ratings remain at investment grade levels. All payments due from counterparties continue to be made on time and are current as of June 30, 2012. When the swaps have a positive market value, VTA manages any credit risk (associated with termination of swaps) by requiring counterparties to post collateral based on certain events. VTA is entitled to collateral in an amount up to 100% of the swap's fair value as identified in the following table.

Swap	Amount of Collateral Required	Rating Threshold for Collateral Requirement^{CR}	Rating Threshold for 100% Collateral
2008A	\$ 5,000,000	A3/A-	Baa1/BBB+
2008B	7,000,000	A2/A	A3/A-
2008C	5,000,000	A3/A-	Baa3/BBB-
MA2008A	7,000,000	A2/A	A3/A-
MA2008B	7,000,000	A2/A	A3/A-
MA2008C	5,000,000	A3/A-	Baa1/BBB+
MA2008D	5,000,000	A3/A-	Baa3/BBB-

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

Collateral generally consists of cash, U.S. Government securities, and U.S. Agency securities, held by a third party custodian. VTA enters into derivative agreements with multiple counterparties to limit concentration of credit risk. Currently, VTA has interest rate swaps with four different counterparties and no counterparty accounts for more than 35% of outstanding notional. VTA monitors counterparty credit risk on an ongoing basis.

Basis Risk: The variable rate debt hedged by VTA's interest rate swaps are variable rate demand obligation (VRDO) bonds that are remarketed weekly. VTA is exposed to basis risk because the variable rate receipts from the swap are based on a rate or index other than the interest rates VTA pays on the VRDO bonds. VTA is exposed to basis risk to the extent that variable payments on the hedged item are not offset by the variable receipts from the swap. On June 30, 2012, the weighted average interest rates of the variable rate debt associated with the 2008 VTA VRDO Bonds was 0.12%. The interest rate for variable rate payments received from the counterparties pursuant to the swaps was 0.24%. The weighted average interest rates of the variable rate debt associated with the 2008 Measure A VRDO Bonds was 0.15%, and the interest rate for variable rate payments received from the counterparties pursuant to the swaps was 0.30%.

Interest Rate Risk: Interest payments on VTA's variable rate debt will typically increase as interest rates increase. VTA believes it has significantly reduced interest rate risk by entering into pay-fixed, receive floating interest rate swaps. As interest rates increase, variable rate debt interest payments increase and net swap payments decrease. As interest rates decrease, variable rate debt interest payments decrease and net swap payments increase.

Rollover Risk: Rollover risk is the risk that a hedging derivative instrument associated with a hedgeable item does not extend to the maturity of that hedgeable item. All of VTA's swap agreements have maturities equal to the term of the bonds.

Termination Risk: VTA has the right to terminate any swap at its option at any time. In addition, each counterparty may terminate a swap if VTA fails to perform under the terms of the contract. Furthermore, the terms of the agreements provide for Additional Termination Events in the event that the ratings of either the counterparty or the unenhanced long-term revenue bonds ratings of VTA are downgraded below Baa3 by Moody's or BBB- by S & P. An additional termination event, if it occurs,

could cause a substantial termination payment to be owed by VTA. As of the end of the period, VTA's unenhanced long-term revenue bond rating is Aa2 by Moody's and AAA by S&P (AA+ for Measure A secured bonds).

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

Foreign Currency Risk: All of VTA's swaps are denominated in US Dollars and therefore VTA is not exposed to foreign currency risk.

Commitments: All of the swap agreements contain provisions that require collateral posting by VTA at specific fair value amounts based on VTA's unenhanced long term credit ratings during times when the swaps are in liability positions (negative fair value). For swaps associated with long-term variable rate bonds secured by VTA's 1976 Sales Tax Revenues, VTA is required to post the full collateralization of the fair value of the transactions should VTA's credit rating fall below A or A2 for one of the swaps and below A- or A3 for two of the swaps. For the swaps associated with long-term variable rate bond secured by 2000 Measure A Sales Tax Revenues, VTA is required to post the full collateralization of the fair value of the transaction should the long-term unenhanced rating fall below A or A2 for two swaps, and below A- or A3 for two of the swaps. In addition, each credit support annex requires collateral posting at various rating levels and threshold amounts. Collateral generally consists of cash, U.S. Government securities and U.S. Agency securities. As of June 30, 2012, VTA had \$16,207,309 of cash collateral posted among four different counterparties (all related to the swaps associated with the long-term variable rate bonds secured by 2000 Measure A Sales Tax Revenues).

(e) Swap Payments and Associated Debt

Using rates as of June 30, 2012, debt service requirements on VTA's swap-related variable rate debt and net swap payments are as follows. As rates vary, variable rate bond interest payments and net swap payments will vary (dollars in thousands).

Year Ending June 30	Variable Rate Bonds		Interest Rate	Total
	Principal	Interest	Swap, Net	
2013	\$ 4,760	\$ 532	\$ 12,801	\$ 18,093
2014	4,555	526	12,664	17,745
2015	4,570	521	12,532	17,623
2016	10,165	515	12,386	23,066
2017	10,465	503	12,090	23,058
2018-2022	60,170	2,329	55,986	118,485
2023-2027	65,525	1,925	45,504	112,954
2028-2032	-	1,740	40,836	42,576
2033-2036	235,875	799	18,753	255,427
	\$396,085	\$ 9,390	\$ 223,552	\$ 629,027

Long-term Debt Obligation Summary

Interest Rates on all outstanding fixed-rate obligations range from 3.00% - 5.00%. Interest on the variable rate debt is reset weekly based upon market conditions. Projected principal and interest obligations as of June 30, 2012 are as follows:

(Dollars in thousands)

Year ending June 30:	Principal	Interest	Total
2013	\$ 13,025	\$ 57,853	\$ 70,878
2014	35,030	57,064	92,094
2015	36,480	55,479	91,959
2016	41,275	53,855	95,130
2017	42,980	52,119	95,099
2018-2022	245,040	230,171	475,211
2023-2027	283,815	167,275	451,090
2028-2032	261,580	94,262	355,842
2033-2036	265,405	23,903	289,308
	1,224,630	\$791,981	\$2,016,611
Unamortized bond discount, premium and deferred amount on refunding, net	23,874		
Total debt	1,248,504		
Less current portion	(13,025)		
Long-term portion of debt	\$1,235,479		

(f) Restrictions and Limitations

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

(g) Long Term Liabilities

(Dollars in thousands)	July 1, 2011	Additions	Reductions	June 30, 2012	Amounts Due Within One Year
Sales Tax Revenue Bonds Secured by 1976 ½ Cent Sales Tax					
1998 Series A	\$ 35,585	\$ -	\$ (35,585)	\$ -	\$ -
2000 Series A	29,010	-	(29,010)	-	-
2007 Series A	22,685	-	(1,960)	20,725	2,085
2008 Series A-C	164,880	-	(4,670)	160,210	4,760
2011 Series A	-	47,485	(695)	46,790	3,555
Sales Tax Revenue Bonds: Secured by 2000 Measure A ½ Cent Sales					
2007 Series A	117,665	-	(2,525)	115,140	2,625
2008 Series A-D	235,875	-	-	235,875	-
2010 Series A-B	645,890	-	-	645,890	-
Total Outstanding Debt	<u>1,251,590</u>	<u>47,485</u>	<u>(74,445)</u>	<u>1,224,630</u>	<u>13,025</u>
Plus (less) premiums, deferred amount on refundings and discounts	23,119	5,109	(4,354)	23,874	-
Outstanding Debt, Net	<u>1,274,709</u>	<u>52,594</u>	<u>(78,799)</u>	<u>1,248,504</u>	<u>13,025</u>
Derivative Instruments Liability	55,639	61,284	-	116,923	-
Arbitrage Liability	392	-	(261)	131	-
Claims Liability:					
General Liability	3,703	-	(193)	3,510	852
Worker's Compensation	17,189	335	-	17,524	1,915
Compensated Absences	22,125	3,906	-	26,031	7,100
Total Long-Term Liabilities	<u>\$ 1,373,757</u>	<u>\$ 118,119</u>	<u>\$ (79,253)</u>	<u>\$ 1,412,623</u>	<u>\$ 22,892</u>

NOTE 8 –SALES TAX REVENUES

Sales tax revenue represents sales tax receipts from the California State Board of Equalization, which, under voter-approved 1976 and 2000 Sales Tax Measures, collects a half-cent for each taxable sales dollar spent in the County. These amounts are available to fund both operations and capital expenditures except that portion which is to be used to repay long-term debt as described in Note 7. The amount of the 1976 Sales Tax and 2000 Measure A Sales Tax recognized during FY 2012 was \$166.6 million and \$166.3 million respectively, totaling \$332.9 million.

NOTE 9 – VTA PROGRAMS FUNDED THROUGH LOCAL SALES TAX MEASURES

Measure B Transportation Improvement Program (MBTIP)

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

legality of the sales tax. In August 1998, the California courts upheld the tax allowing the Measure A transportation program to move forward.

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

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

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

A third agreement was 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, 2007, the full amount of \$198.3 million have been expended out of the agency fund for the acquisition of low floor vehicles.

Amendment 20 to the Master Agreement was executed in June 2007 to formalize the process for winding down the Measure B Program. That amendment included the following significant terms:

- VTA was paid the value of all approved 1996 Measure B project budgets, less the funds already paid by County to VTA, and the net remaining Measure B funding for Fund Swap Projects and Ancillary Programs administered by VTA.
- A lump sum amount of approximately \$4.0 million was also paid to VTA by the County to cover the closeout effort associated with incomplete projects.

During the current fiscal year, VTA paid approximately \$8.1 million for current year costs for the program. This amount was contributed by the Santa Clara County as follows: \$3.6 million of Measure B fund for transit projects in the Enterprise Fund; \$0.5 million of Measure B fund for highway projects in the Measure B Highway Capital Projects Fund; and \$4.0 million for the Ancillary Program (Measure B & Fund Swap Projects, Pavement and Bikeways).

In March 2010, \$10.23 million was transferred to Congestion Management and Highway Program (CMHP) from the Measure B Highway and the Measure B Ancillary programs for \$7.23 million and \$3 million, respectively. The purpose is for CMHP to administer the landscaping phase of Measure B highway projects as well as the availment of various Measure B swap funds.

2000 Measure A Program

The Santa Clara Valley Transportation Authority 2000 Measure A Program (the Measure A Program) was created in response to the Measure A ballot approved by the voters of Santa Clara County on November 7, 2000. The Measure A Program is responsible for a number of key capital transit projects, including the connection of rapid transit to San Jose, increased bus and light rail service and providing for related operating expenses. The Measure A Program is funded by the half-cent sales tax to be imposed for a period of 30 years and took effect upon expiration of the current County of Santa Clara 1996 Measure B half-cent sales tax on March 31, 2006.

The Measure A Program consists of those projects and increased operations included in the 2000 Measure A ballot, as noted below:

- Extend San Francisco Bay Area Rapid Transit District service (“BART”) from Fremont through Milpitas to Downtown San Jose and the Santa Clara Caltrain Station (the “Silicon Valley Rapid Transit Project” or “SVRT”);
- Provide connections from the San Jose International Airport to BART, Caltrain commuter rail service (“Caltrain”) and VTA’s light rail system;
- Extend VTA’s light rail system from Downtown San Jose to the East Valley portion of Santa Clara County (“DTEV Extension”);
- Purchase low floor light rail vehicles to better serve the disabled, senior and other segments of the ridership;
- Improve Caltrain by extending the system’s double track to Gilroy and providing funds to electrify the system;
- Increase Caltrain service;
- Construct a new Palo Alto Intermodal Transit Center;
- Improve bus service in major bus corridors;
- Upgrade the Altamont Commuter Express (“ACE”) services;
- Improve the Highway 17 express bus service;
- Connect Caltrain with the Dumbarton Rail Corridor (serving Alameda and San Mateo County);
- Purchase zero emission buses and construct service facilities;
- Provide funds to develop new light rail corridors;
- Fund operating and maintenance costs associated with increased bus, rail and paratransit service.

The following activities have either been completed or are in progress, funded by a combination of Tax revenues, state and federal grants, bond proceeds, and other locally obtained funds. To date, Measure A efforts have:

- Completed the purchase of low floor light rail vehicles.
- Completed the Zero Emission Bus demonstration project.
- Reached a Project Agreement between the City of San Jose and VTA establishing a project description and vision statement for Bus Rapid Transit (BRT) in the Santa Clara/Alum Rock corridor. An environmental document was completed and approved in 2008, final engineering is underway and right-of-way acquisition has begun. The procurement of new BRT vehicle is in progress. Service is scheduled to begin in late 2014. On the El Camino Real Transit Improvement Project, conceptual engineering for BRT is nearing completion. Different cross sections have been analyzed, and preliminary and traffic projections have been developed. Full BRT service is estimated

to start in late 2016. On the Stevens Creek/West San Carlos Corridor, conceptual engineering has begun.

- Substantially completed fiber optic cable relocation on Phase 1 of the South County Improvements, consisting of grading and crossing work in preparation for eight miles of double-track installation in the UPRR corridor from Coyote to Morgan Hill.
- With the execution of the Federal Funding Grant Agreement (FFGA), the Berryessa Extension Project has moved to the Construction Phase. The SVBX is the first ten-mile segment that runs from Warm Springs in Fremont to Las Plumas Avenue in San Jose and includes two stations. Relocated and constructed utilities in the freight rail corridor in Fremont and Milpitas. The Freight Railroad Relocation (FRR) activities fulfill VTA's obligations under the Purchase and Sale Agreement with Union Pacific Railroad (UPRR) and eliminate ongoing freight operations on VTA property. The FRR activities are compatible with the eventual use of the property as a transportation corridor but do not include SVRT project-level elements. The Berryessa Creek crossing, Abel Street Seismic Retrofit, and Railroad Relocation contract are substantially complete.
- Initiated preparation of a Federal Environmental Impact Statement for the Capitol Expressway Light Rail Extension to Eastridge. Pedestrian Improvements (sidewalk and landscaping) and the Eastridge Transit Center are underway as the initial stage of the light rail project.
- Completed the Light Rail Systems Analysis, which was adopted by the VTA Board in May 2010. The Light Rail Improvement Plan serves as an action plan for future implementation and an investment program which identifies capital and operating improvements for the system over the next 20 years.
- Finished safety improvements to eight JPB crossings from Sunnyvale to Palo Alto for the Caltrain Safety Improvements – JPB Crossings project.
- Construction for the Blossom Hill Pedestrian Grade Separation is underway and scheduled for completion in late 2012.
- Received TCRP funds as reimbursements for the preliminary engineering and construction phase on the BART extension.
- Continued to provide operating assistance to VTA Transit operations.

SVRT Measure B Sales Tax Ordinance

At the election held on November 4, 2008, the voters passed VTA Measure B supporting the tax that would be dedicated to the operation, maintenance, improvement, and future capital needs of the 16.1 mile Santa Clara Bay Area Rapid Transit (BART) extension. The BART extension includes stations in Milpitas, San Jose, and Santa Clara, connecting with Caltrain from Gilroy to San Francisco and an Airport People Mover. In November 2011, the Board of Directors approved a retail transaction and use tax ordinance which imposes a

tax for the privilege of selling tangible personal property sold at retail upon a retailer in Santa Clara County, at the rate of one-eighth of one percent on the gross receipts of the retailer. Collection of the tax took effect on July 1, 2012, for a period not to exceed 30 years. This ordinance is also known as the Santa Clara Valley Transportation Authority BART Operating and Maintenance Transactions and Use Tax Ordinance.

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, 2012 are summarized as follows (in thousands):

	<u>Enterprise Funds</u>	<u>Special Revenue Fund</u>	<u>Capital Project Funds</u>
Operating Assistance Grants:			
FTA Section 9	\$ 41,925	\$ -	\$ -
Guaranteed Ride Home	93	-	-
Department of Labor	23	-	-
Mobility Options Travel Training Program	52	-	-
Security Plan Revision	193	-	-
Federal Technical Studies/Training Grants	-	1,367	-
Total Operating Assistance Grants	<u>42,286</u>	<u>1,367</u>	<u>-</u>
Capital Grants:			
FTA Section 3	3,496	-	-
FTA Section 9	14,783	-	-
Pass-through Grants	-	-	9,077
Total Capital Grants	<u>18,279</u>	<u>-</u>	<u>9,077</u>
Total Operating Assistance and Capital Grants	<u>\$ 60,565</u>	<u>\$ 1,367</u>	<u>\$ 9,077</u>

FTA and FHWA reserve the right to audit expenditures financed by their grants to determine if such expenditures comply with the conditions of the grant agreements.

VTA's management believes the results of such audits would not have a material adverse effect on VTA's financial position. FTA and FHWA retain their interest in assets acquired under federal grants should the assets be disposed of prior to the end of their economic lives, or not be used for mass transit purposes.

FTA Section 9 operating assistance represents Bus and Rail preventive maintenance. Bus maintenance consists of North Maintenance, Chaboya Maintenance, Cerone Maintenance, and Overhaul and Repair. These maintenance facilities are responsible for the timely and reliable preventive maintenance, running repair, heavy repair, engine rebuilding, other maintenance services, inspections, and servicing of VTA's various bus fleets. Rail maintenance consists of Light Rail Vehicle (LRV) maintenance and Way, Power, and Signal (WPS) maintenance. LRV maintenance is responsible for the timely and reliable preventive maintenance, inspections, repair, and servicing of VTA's LRV fleet. WPS maintenance is responsible for timely and reliable preventive maintenance of right of way, rail system power, track, signals, wayside communications, stations, transit center and bus stop facilities, related equipment park and ride lot maintenance, and evaluation of rail maintenance efficiency.

The Guaranteed Ride Home Program is provided by FHWA Surface Transportation Project funds. This project provides CalWorks participants and low income residents in Santa Clara County a guaranteed ride home. The program is being administered by Outreach, a community-based non-profit organization that is currently under contract with the VTA to provide paratransit brokerage service.

The Department of Labor grant under the Enterprise Fund represents an agreement to provide skills upgrade training for VTA operators and maintenance mechanics.

The Mobility Options Travel Training Program is being funded in whole or in part by a New Freedom grant from the FTA. The program is being administered by the Metropolitan Transportation Commission providing training and transit route information to persons with disabilities, including seniors.

The Security Plan Revision is under the Transit Security Grant Program for costs related to addressing security and preparedness enhancements for transit systems.

The Federal technical studies grant under the Special Revenue Fund represents an interagency agreement with the Metropolitan Transportation Commission (MTC) for the purpose of conducting specific planning and programming activities to assist

MTC in meeting the requirements of federal legislation and related State and regional planning and programming policies and guidelines.

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

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

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

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

- The Transit Security Grant Program (TSGP) award comes from the State Governor’s Office of Homeland Security for costs related to addressing security and preparedness enhancements for transit systems. The program includes a requirement that transit systems selected for funding participate in a Regional Transit Security Working Group for the purpose of developing the Regional Transit Security Strategy as well as a regional consensus on the expenditure of TSGP funds.
- The purpose of the Congestion Mitigation and Air Quality (CMAQ) Program is to fund transportation projects or programs that will contribute to attainment or maintenance of the National Ambient Air Quality Standards (NAAQS) for ozone and carbon monoxide. The Transportation Equity Act for the 21st Century (TEA-21) also allows CMAQ funding to be expended in particulate matter nonattainment and maintenance areas.

The pass-through federal grants under the Capital Project Funds represent fund agreements covering highway projects with various government agencies of the State of California.

(b) State and Local Grants and Assistance

State and local grants for the year ended June 30, 2012, are summarized as follows (in thousands):

	Business-type		
	Activities	Governmental Activities	
	Enterprise Fund	Special Revenue Fund	Capital Projects Funds
Operating assistance grants:			
Transportation Development Act	\$ 81,928	\$ -	\$ -
State Transit Assistance	14,056	-	-
State Operating Assistance Grants	402	743	-
AB434	1,497	-	-
Other	250	-	-
Total Operating Assistance Grants	<u>98,133</u>	<u>743</u>	<u>-</u>
Capital grants:			
Traffic Congestion Relief Program	51,549	-	-
Public Transportation Modernization			
Improvement and Service Enhancement Act	15,026	-	-
Proposition 1B Fund	2,391	-	-
PTA	16,055	-	-
HRCSA	5,141	-	-
Regional Measure 2	843	-	-
Congestion Management Highway Program	-	-	12,005
Other Local Grants:			
Santa Clara County (Measure B Program) [Note 9]	3,623	-	448
Various cities, counties and others	2,677	-	-
Total Capital Grants	<u>97,305</u>	<u>-</u>	<u>12,453</u>
Total State and Local Grants	<u>\$ 195,438</u>	<u>\$ 743</u>	<u>\$ 12,453</u>

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

State Transit Assistance (STA) represents funds received pursuant to the STA Program, whereby, a portion of diesel 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.

State Operating Assistance Grants represent (a) reimbursement receipts for operating bus lines in the City of Gilroy under the Enterprise Fund and (b) grant receipts from the California Department of Transportation for project planning, programming and monitoring activities related to development of the Regional Transportation Improvement Program under the Congestion Management Program.

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.

Other local assistance includes grants received from Metropolitan Transportation Commission for marketing and communications activities relative to adoption and use of Clipper Cards by VTA customers.

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 (CTC), in consultation with State Department of Transportation. The CTC approved TCRP for the Silicon Valley Rapid Transit (SVRT) project.

PTMISEA or Public Transportation Modernization, Improvement, and Service Enhancement Account Program was created by Proposition 1B, the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond of 2006. The program is being administered by the California Department of Transportation.

Proposition 1B Fund provides funding under the California Transit Security Grant Program and is administered by the California Emergency Management Agency.

PTA or Public Transportation Account was established by the Transportation Development Act of 1971 to promote the development of public transportation infrastructure by providing funds to local and state transportation agencies primarily for transit (including bus and rail) purposes.

HRCSA or Highway-Railroad Crossing Safety Account was created by Proposition 1B, the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond of 2006 to provide funding for the completion of high-priority grade separation and railroad crossing safety improvements. The account is being administered by the California Transportation Commission.

Regional Measure 2 was passed in March 2004 to raise toll fee on the seven-State-owned to bridges in the San Francisco Bay Area. The measure specifically establishes the Regional Traffic Relief Plan and identifies specific traffic operating assistance and capital projects and programs eligible to receive RM2 funding. The measure is being administered by the Metropolitan Transportation Commission.

Congestion Management and Highway Program includes state grants with the State of California such as Corridor Mobility Improvement Account (CMIA) and State Transportation Improvement Program (STIP). It also includes local grants relating to Santa Clara County Fund Swap. This relates to Measure B revenue received by VTA for local projects in exchange for federal and state grant funds programmed for certain 1996 MBTIP Projects. Additional information on the 1996 MBTIP can be found in Note 9.

Capital Projects revenues consist of state, and local grant revenues pertaining to Congestion Management and Highway Program of \$12.0 million and Measure B Highway Program of \$0.4 million.

Santa Clara County (Measure B Program) includes both transit and highway projects.

Various cities, counties and others contribute revenue to light rail projects and Silicon Valley Rapid Transit Corridor for project enhancements.

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

(a) Plan Description

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

Employees with 10 or more years of service are entitled to full annual pension benefits beginning at normal retirement age of 65. Employees with less than 10 years of service are entitled to a reduced annual benefit at age 65 provided the Pension Board approves of such benefit. Employees with 15 or more years of service are entitled to full annual pension benefits beginning at age 55. The Plan permits early retirement if an employee becomes disabled after 10 or more years of service, 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.

Separately issued audited GAAP basis financial statements of the Plan are available and can be obtained from Santa Clara Valley Transportation Authority, Fiscal Resources, 3331 North First Street, Building C-2, San Jose, California 95134-1927.

The membership of the Plan as of June 30, 2012 is as follows:

Membership Status	No. of Members
Retirees and beneficiaries currently receiving benefits	1,065
Terminated vested members not yet receiving benefits	156
Active Members	1,391
Total	2,612

(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 and investment income is recognized as earned.

(c) Concentration

Investments in the commingled State Street Global Advisers, S&P 500 Conservative Index Fund and MFS Investment Management represented 13.57% and 13.96%, respectively, of the Plan's investments as of June 30, 2012.

(d) Funding Policy

VTA contributes to the Plan at an actuarially determined amount or rate applied to eligible payroll sufficient to maintain funding of vested benefits. VTA's contribution of \$19.1 million for the year ended June 30, 2012 was made in accordance with actuarially determined requirements computed as of January 1, 2011. VTA's contribution as a percentage of payroll was 19.1% for fiscal year 2012.

(e) Net Pension Obligation

VTA's net pension obligation to the Plan was zero as of June 30, 2012. The three-year trend information is shown below (in thousands):

<i>Net Pension Obligation</i>			
<u>Fiscal</u> <u>Year</u> <u>Ended</u>	<u>Annual</u> <u>Pension Cost</u> <u>(APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
6/30/2012	\$ 19,148	100%	\$ -
6/30/2011	17,807	100%	-
6/30/2010	17,905	100%	-

(f) Funding Status & Progress

As of January 1, 2012, the most recent actuarial valuation date, the plan was 72.2% funded. The actuarial accrued liability was \$517.2 million and the actuarial value of assets was \$373.2 million resulting in an unfunded actuarial accrued liability (UAAL) of \$144.0 million. The total covered payroll was \$100.4 million which resulted in a UAAL percentage of 143.5% of total covered payroll. The schedule of funding progress is presented on page 2-84, in the required supplementary information following the notes to the financial statements.

(g) Actuarial Methods and Assumptions

A summary of principal assumptions and methods used by EFI Actuaries to determine VTA's annual required contributions to the Plan is as follows:

<u>Description</u>	<u>Methods/Assumptions</u>
Valuation date	January 1, 2012
Actuarial cost method	Individual Entry Age Normal (Individual Entry Age Normal for Prior Valuation)
Amortization method	Level dollar open
Remaining amortization period	20 years
Actuarial asset valuation method	Market value less unrecognized investment gain or losses during the prior four years, phased in at 20% per year, subject to a minimum of 80% and a maximum of 120% of market value.
Actuarial assumptions	
Investment rate of return	7.50%
Projected salary increases	3.50% to 15.60%, depending on service
Inflation rate	3.25%
Cost of living adjustments	None

NOTE 12 – PUBLIC EMPLOYEES’ RETIREMENT PLAN

(a) Plan Description

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

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

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

(b) Funding Policy

Active members in VTA's CalPERS Plan pay a portion (depending on hire date) of the employee contribution to the CalPERS Plan. Starting in FY 2012, employees hired prior to the first full pay period in January 2012 pay 1% toward the required employee share while employees hired in or after the first full pay period in January 2012 pay 6%. VTA pays the remaining portion of the employee contribution and the entire employer contribution for active members. The contribution rate from July 1, 2011 through June 30, 2012, was 13.349% for the employer and 7% for employees. The required contribution for FY 2012 was determined as part of the June 30, 2009 actuarial valuation using the entry age normal cost method with the contributions determined as a percent of pay. 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 actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The amortization period used is closed which means that amortization periods for initial unfunded liability, benefit change, and assumption change decline every year.

(c) Net Pension Obligation

VTA's net pension obligation to the CalPERS Plan was zero as of June 30, 2012. For FY 2012, VTA's annual pension cost was approximately \$7.2 million, which was fully contributed. The three-year trend information of the actuarially required employer contribution is as follows (in thousands):

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2012	\$ 7,159	100%	\$ -
6/30/2011	6,090	100%	-
6/30/2010	6,167	100%	-

(d) Funding Status and Progress

As of June 30, 2010, the most recent actuarial valuation date, the plan was 86.0% funded. The actuarial accrued liability was \$252.6 million and the actuarial value of assets was \$217.3 million resulting in an Unfunded Accrued Actuarial Liability (UAAL) of \$35.3 million. The total covered payroll was \$53.2 million which resulted in a 66.4% UAAL as a percent of covered payroll. The schedule of funding progress is presented on page 2-85, in the required supplementary information following the notes to the financial statements.

(e) Actuarial Methods and Assumptions

A summary of principal assumptions and methods used by CalPERS to determine VTA's annual required contributions to the CalPERS Plan is as follows:

<i>Description</i>	<i>Methods/Assumptions</i>
Valuation date	June 30, 2010
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level Percent of Payroll
Average remaining period	25 years as of the Valuation Date
Asset valuation method	15 Year Smoothed Market
Actuarial assumptions	
Investment rate of return	7.75% (net of administrative expenses)
Projected salary increases	3.55% to 14.45% depending on Age, Service, and Type of employment
Inflation	3.00%
Payroll growth	3.25%
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%

NOTE 13 – ATU SPOUSAL MEDICAL AND VISION/DENTAL FUND

VTA administers the ATU Spousal Medical and Retiree Vision and Dental Fund. Both are considered to be employee plans. As of June 30, 2012, VTA had net assets of approximately \$9.8 million for the ATU Spousal Medical Fund and \$6.2 million for the Retiree Vision and Dental Fund.

The Spousal Medical Fund is a medical insurance benefit for eligible pensioners' spouses. Pursuant to a collective bargaining agreement with ATU represented employees, contribution to the Spousal Fund was changed from \$0.20 to \$0.35 per hour worked. In May 2010, the contribution was increased to \$0.40 per hour worked. As of June 30, 2012, there were 265 participating spouses who were eligible for benefits from the Spousal Medical Fund. FY 2012 contributions were approximately \$1.3 million while benefit payments made by the Fund were approximately \$1.2 million.

The Retiree Vision and Dental Fund is a vision and dental benefit for eligible pensioners. Effective 1999 and pursuant to a collective bargaining agreement, ATU represented employees are required to contribute \$0.10 per hour worked. As of June 30, 2012, there were 844 eligible participants. Contributions for the fiscal year were approximately \$327 thousand while there was no payment made for the Retiree Vision and Dental Fund.

NOTE 14 – INTERNAL SERVICE FUND

As of June 30, 2012, the assets and liabilities by individual components of the Internal Service Fund are as follows (in thousands):

	<u>Workers'</u> <u>Compensation</u>	<u>General</u> <u>Liability</u>	<u>Compensated</u> <u>Absence</u>	<u>Total</u>
Assets	\$ 19,272	\$ 5,354	\$ 17,633	\$ 42,259
Liabilities	17,703	3,556	26,032	47,291
Net Assets	<u>\$ 1,569</u>	<u>\$ 1,798</u>	<u>\$ (8,399)</u>	<u>\$ (5,032)</u>

Workers' Compensation and General Liability

VTA contracts with third-party administrators to process claims for both programs. VTA's annual contribution to General Liability is based on an actuarially determined amount while contributions to Workers' Compensation fund occur every pay period. Actuarial studies for both activities are obtained on an annual basis.

Actuarial Information

An actuarial analysis as of June 30, 2012 disclosed that the present values of estimated outstanding losses, at 4% average discount rate using a 60% confidence level, are \$17.5 million and \$3.5 million for Workers' Compensation and General Liability, respectively. The accrued liabilities for both Workers' Compensation and General Liability claims were based on the actuarial estimates.

Changes in the balance of Workers' Compensation and General Liability claims for the two years ended June 30, 2012, are as follows (in thousands):

	<u>Workers'</u> <u>Compensation</u>	<u>General</u> <u>Liability</u>
Unpaid claims at June 30, 2010	\$ 21,937	\$ 4,963
Provision for claims and claims adjustment expense	5,872	2,726
Changes in estimates for provision for future claims	(5,928)	(1,704)
Payment for claims and other adjustments	<u>(4,692)</u>	<u>(2,282)</u>
Unpaid claims at June 30, 2011	17,189	3,703
Provision for claims and claims adjustment expense	6,021	2,226
Changes in estimates for provision for future claims	(731)	(394)
Payment for claims and other adjustments	<u>(4,955)</u>	<u>(2,025)</u>
Unpaid claims at June 30, 2012	<u>\$ 17,524</u>	<u>\$ 3,510</u>

Compensated Absences

This represents the amount charged each month to accrue the estimated increase in unused vacation and sick leave. This account is adjusted annually to reflect the year-end value of unused vacation and sick leave. Compensated absences are limited to leaves that are attributable to services already rendered and are not contingent on a specific event that is outside the control of the employer and employee. At June 30, 2012, the outstanding balance of compensated absence liability was \$26.0 million.

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

(a) *OPEB Trust Description*

VTA offers post employment benefits to its employees through the Santa Clara Valley Transportation Authority Other Post Employment Benefit Trust, a single employer defined benefit health plan funded and administered by VTA.

Employees who retire directly from VTA are eligible for retiree health benefits if they meet certain requirements relating to age and service, and haven't opted to enroll in the Defined Contribution Retirement Health Savings Plan. For ATU retirees, VTA provides an ATU Retiree Health Care Program (the ATU Program), a post-employment benefit, in accordance with the agreement between VTA and the ATU, to all ATU represented employees who retire from VTA on or after attaining the age of 55 with at least 15 years of service, or age 65 with 10 years of service, or upon Board approval age 65 with 5 years of service, or if an employee becomes disabled and has completed at least 10 years of service. ATU retirees can select either the Kaiser, United Health Care, or Valley Health Plan retiree health plans. VTA pays the full cost of the employee-only premium, and ATU retirees who are eligible for Medicare are reimbursed for the Medicare Part B premium. ATU employees who retire on or after September 1, 2004, must contribute \$25 toward the employee only monthly premium. Employees who retire on or after January 1, 2011 pay \$35 or the excess above the Kaiser Medicare out of area (OOA) rate. As of June 30, 2012, 844 retirees met the eligibility requirements for the ATU Program.

Non ATU employees who retire directly from VTA with age at least 50 years are also covered under a Retiree Health Care Program (the administrative retiree program) if they retire with at least 5 years of service, if hired before the following dates, or with

at least 8 years of service (2,088 days) or with at least 15 years of service (3,915 days) if hired on or after the following dates:

- Service Employees International Union (SEIU) represented employees on or after May 15, 2006 (8 years).
- Transportation Authority Engineers and Architects Association (TAEA) represented employees on or after December 5, 2006 (8 years).
- American Federation of State, County and Municipal Employees (AFSCME) represented employees hired between August 10, 2007 and December 31, 2009 (8 years), and on or after January 1, 2010 (15 years).
- Non-represented employees hired before 2/11/08 (5 years), hired between 2/11/08 and 10/31/09 (8 years), and on or after November 1, 2009 (15 years).

Non ATU employees who retired before 1/2/06 pay any premium in excess of the Kaiser single active rate while those who retired on or after January 2, 2006, pay \$25 toward their monthly premium, plus any premium in excess of the Kaiser single active rate. Medicare part B premium is reimbursed for administrative retirees eligible for Medicare. As of June 30, 2012, 381 retirees met the eligibility requirements for the administrative retiree program.

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

(b) *Funding Policy*

Benefit allowance provisions are established through agreements and memorandums of understanding (MOU) between VTA and unions representing its employees. VTA's contributions to the plans are based on Annual Required Contribution (ARC) as determined by an actuarial valuation study. In FY 2008, VTA established an irrevocable trust to fund the ARC in accordance with the provisions of GASB Statement 45.

As of June 30, 2012, VTA had assets of \$168.9 million to cover costs of the ATU and Non-ATU Programs. The Plan is presented in these financial statements as the OPEB Trust. Separate financial statements are also prepared for the trust.

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

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

Plan cost which was estimated using the level dollar method, the percentage of annual cost contributed to the Plan, and the net Plan obligation for the year is as follows (in thousands):

Annual Required Contributions	\$	(17,321)
Interest on Net Plan Asset		-
Annual Plan Cost (Expense)		(17,321)
Contributions Made		17,321
Net Plan Assets, Beginning of Year		-
Net Plan Assets, End of Year	\$	-

Plan cost, the percentage of annual cost contributed to the Plan, and the net Plan assets for the year ended June 30, 2012 is presented below (in thousands):

Net Other Post Employment Benefit Obligation

Fiscal Year Ended	Annual Other Post Employment Benefit (OPEB) Cost	Percentage of Annual OPEB Contributed	Net Other Post Employment Benefit Asset
6/30/12	\$ 17,321	100%	\$ -
6/30/11	16,208	95%	-
6/30/10	15,187	102%	837

(d) **Funding Status and Funding Progress**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as

actual results are compared with past expectations and new estimates are made about the future.

As of June 30, 2011, the most recent actuarial valuation date, the plan was 59.3% funded. The actuarial accrued liability was \$254.2 million and the actuarial value of assets was \$150.7 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$103.5 million. The covered payroll was \$137.0 million which resulted in a 75.5% UAAL as a percent of covered payroll. The schedule of funding progress is presented on page 2-86, in the required supplementary information following the notes to the financial statements.

NOTE 16 –INSURANCE

VTA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors, and omissions; injuries to employees; injuries to the public; and natural disasters. For additional information on workers’ compensation and general liability, see Note 14. Coverage provided by self-insurance/insurance and excess coverage as of June 30, 2012, is shown as follows:

Type of Coverage	Self-Insurance/ Deductible	Excess Coverage (in aggregate)
Workers’ compensation	Self-Insured	None
Employer’s liability	\$3,000,000	\$47,000,000 per incident
Excess public liability/property damage	\$3,000,000	\$47,000,000
Property, boiler, and machinery	\$100,000	\$70,000,000 combined blanket limit
National Flood Insurance (eligible locations)	\$5,000	\$500,000
Light rail vehicles (includes spare parts coverage, no earthquake coverage)	\$250,000	\$50,000,000
Buses	\$100,000	\$50,000,000
Hybrid Buses	\$150,000	Included in \$50,000,000 with buses
Community Buses	\$75,000	Included in \$50,000,000 with buses
Vans and mobile equipment	\$25,000	Included in \$50,000,000 with buses
Express Lane Equipment	\$25,000	Included in \$50,000,000 with buses
Maintenance Trucks	\$25,000	Included in \$50,000,000 with buses
Public officials liability	\$3,000,000	\$47,000,000

NOTE 17 – LEASES

VTA leases various properties for use as transfer facilities, parking lots, information centers, office buildings, and warehouses under lease agreements that expire at various dates through 2020. VTA may renew the leases after their expiration. Some of these agreements were accounted for as operating leases in VTA Transit Fund for approximately \$269 thousand in FY 2012. Other leases were charged to capital project expenditures and were capitalized in FY 2012. The future lease payments under noncancellable lease agreements are as follows (in thousands):

Years ending June 30,	Future Lease Payments
2013	\$ 1,100
2014	916
2015	923
2016	944
2017	965
2018-2020	1,364
Total	<u>\$ 6,212</u>

NOTE 18 – LITIGATION

As of September 17, 2012, VTA has no open claims which will have any adverse financial impact or liability. VTA’s management believes its actuarially determined reserves and excess insurance coverage will adequately cover estimated potential material adverse losses as of June 30, 2012.

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

The County provides support services to VTA for protection (Office of the Sheriff), vehicle maintenance and fuel, and contributions for retiree medical for County public safety staff assigned to VTA. As of June 30, 2012, the support services totaled \$5.3 million and are included in Operating Expenses.

NOTE 20 – JOINT VENTURES

(a) Peninsula Corridor Joint Powers Board

VTA is a member agency of the Peninsula Corridor Joint Powers Board (PCJPB), along with the San Mateo County Transit District (SamTrans) and the City and

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

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 FY 2012, VTA, SamTrans, and CCSF were responsible for 40.3%, 41.9%, and 17.8%, respectively, of the member agencies' total reimbursement for such expenses. During the year ended June 30, 2012, VTA paid \$10.2 million to the PCJPB for operating costs.

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

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

Summary financial information (not included in VTA's financial statements) for the PCJPB for the years ended June 30, 2011 and 2010 (in thousands), are as follows¹:

PCJPB Financial Information	2011	2010
Total assets	\$1,261,456	\$1,222,379
Total liabilities	(81,272)	(75,380)
Total net assets	\$1,180,184	\$1,146,999
Operating revenues	\$ 53,295	\$ 46,462
Operating expenses	(157,747)	(145,983)
Non-operating revenues, net	45,803	44,535
Capital contributions	91,834	71,579
Change in net assets	\$ 33,185	\$ 16,593

¹ Latest audited information available.

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

(b) Altamont Commuter Express

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

ACE commenced operations in October 1998, and now provides four daily round trips commuter rail service from San Joaquin County through the Tri-Valley Area of Alameda County to Santa Clara County. In June 2003, VTA entered into a Cooperative Service Agreement with the San Joaquin Regional Rail Commission (SJRRRC) 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, SJRRRC and ACCMA. Per the cooperative agreement, VTA’s financial subsidy is the amount paid in fiscal year 2003, increased annually by the CPI. During the year ended June 30, 2012, VTA contributed approximately \$2.7 million for operating costs.

Summary financial information (not included in VTA’s financial statements) for the Altamont Commuter Express for the years ended June 30, 2011 and 2010 (in thousands), are as follows¹:

ACE Financial Information	2011	2010
Total assets	\$ 126,496	\$ 97,815
Total liabilities	(46,012)	(15,021)
Total net assets	\$ 80,484	\$ 82,794
Operating revenues	\$ 4,293	\$ 3,937
Operating expenses	(24,265)	(21,372)
Non-operating revenues, net	5,741	4,248
Capital contributions	5,785	8,601
Transfer in/(out)	650	11,974
Change in net assets	\$ (7,796)	\$ 7,388

¹ Latest audited information available. 2010 financial statements were restated in 2011.

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

(c) *Capitol Corridor Intercity Rail Service*

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

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

(d) *California Transit Finance Authority*

VTA is a participant of the California Transit Finance Authority (CTFA), which was formed in 1997 through a joint powers agreement for the purpose of establishing the California Transit Variable Rate Finance Program (Program). The Program makes low-cost, variable rate financing available to the members of the California Transit Association for the acquisition of transit equipment and facilities. In December 1997, the CTFA issued \$200,000,000 of variable rate demand bonds (the "CTFA Bonds") to fund the Program. In March 1998, VTA borrowed \$50,000,000 under the Program and evidenced its borrowing through the issuance of \$50,000,000 Junior Lien Sales Tax Revenue Bonds, 1998 Series A held by the CTFA Bond trustee. In November 2000, VTA borrowed an additional \$40,000,000 under the Program and evidenced its borrowing through the issuance of \$40,000,000 Junior Lien Sales Tax Revenue Bonds, 2000 Series A held by the CTFA Bond trustee. In September 2011, VTA issued the 2011 Bonds to refund the 1998 Series A and 2000 Series A bonds in October 2011 (Note 7 – Long-Term Liabilities).

In September 2012, CTFA concluded the steps to wind up the affairs of the organization. Statements on its dissolution can be obtained from Shaw/Yoder Inc., 1414 K Street, Suite 320, Sacramento, California 95814.

NOTE 21 – OTHER FINANCING TRANSACTIONS

(a) Lease/Leaseback

In September 1998, VTA simultaneously entered into two transactions to lease 50 UTDC light rail vehicles (the “UTDC LRVs”) to statutory trusts formed on behalf of equity investors (the “Trusts”) under separate lease agreements (the “Lease Agreements”) and simultaneously leased the UTDC LRVs back from the Trusts under separate sublease agreements (the “Subleases”). The Lease Agreements and Subleases terminate in 2025 and 2026, subject to VTA’s option to buy-out the remaining terms in 2015 and 2017, as the case may be (the “Early Buy-out”). During the terms of the Lease Agreements and Subleases, VTA retains ownership of and is obligated to insure and maintain the UTDC LRVs.

VTA received approximately \$92,286,000, which represented the prepayment of the rental obligations owed by the Trusts as Lessees under the Lease Agreements. The equity investors made equity contributions of approximately 20% of the prepaid Lease Agreement amount and AIG-FP Funding (Cayman) Limited made loans for the balance of prepayment amount. VTA is required to make annual rental payments as Sublessee pursuant to the Subleases.

To provide for the funding of the debt portion of its rental payments under the Subleases and the debt portion of the Early Buy-out, VTA entered into debt payment agreements with AIG-FP Special Finance (Cayman) Limited (“AIG Special Finance”), whose obligations are guaranteed by American International Group, Inc (“AIG”). Under the terms of the debt payment agreements, VTA made an aggregate payment of \$68,149,000 in consideration of AIG Special Finance’s agreement to make payments equal to the debt portion of VTA’s rental payments under the Subleases and the debt portion of VTA Early Buy-out. VTA is obligated to replace AIG if the credit rating assigned to it by Standard & Poor’s or Moody’s falls below Baa1/BBB+. As of June 30, 2012, AIG is rated Baa1/A-.

VTA also used \$16,853,000 of the amounts received from the Trusts to purchase US Treasury securities that mature on the dates and in the amounts equal to the equity portion of its rental payments under the Subleases and the equity portion of the Early Buy-out. These US Treasury securities are held by a third party custodian.

Additionally, VTA purchased a financial guaranty insurance policy from Financial

Security Assurance (now Assured Guaranty Municipal Corp. or “AGM”) to guarantee its obligations to pay liquidated damages in the event one or more UTDC LRVs are destroyed or there is an early termination of the Subleases. VTA is obligated to replace AGM if its credit rating by Standard & Poor’s or Moody’s falls below Aa3/AA-. On June 30, 2012, AGM was rated Aa3/AA-, although Moody’s has placed AGM’s rating under review for potential downgrade.

VTA reported revenue of \$5,600,000 from these transactions in FY 1999, net of \$1,683,000 in transaction costs.

In September 2011, VTA terminated one of the Lease/Sublease transactions by transferring its rights in the United States Treasury obligations to the equity investor, which agreed to pay all transaction costs associated with the termination process. The market value of the US Treasury securities held by the custodian as of June 30, 2012 was \$24,608,268, compared to the scheduled termination value of the remaining Lease/Sublease transaction of \$24,423,577.

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

In May 2003, the VTA Board approved the execution of sub-sublease agreements with the Utah Transit Authority (UTA) and Sacramento Regional Transit District (RT) for the sub-sublease of 50 UTDC LRVs for terms of 13 years, with sublease renewal terms of 9 years thereafter. UTA and RT prepaid rent owing under the sub-subleases in an aggregate amount of \$9.3 million.

The sub-subleases to UTA and RT were recorded as capital leases in FY 2004. VTA subtracted \$23 million and \$10 million in net book value of assets from its balance sheet and recognized a loss of \$16 million and \$7.8 million as special items in FY 2004 and FY 2005, respectively.

(c) Lease to Service Contracts

In August and December 2003, VTA entered into four “lease to service” contract arrangements over 66 Kinkisharyo low floor light rail vehicles (the “Low Floor LRVs”) whereby VTA leased the Low Floor LRVs under four 65 year head leases (the “Head Leases”) to statutory trusts (the “Trusts”) created by equity investors and simultaneously leased back such LRVs under separate lease agreements (the “Leases”) that terminate in 2027 or 2034, as the case may be. At the expiration of the

Lease terms, VTA has the option to purchase the remaining interest of the Trusts in their respective Head Leases or enter into service contracts with respect to the Low Floor LRVs. The Leases provide for VTA's right to continue to use and control such LRVs, and VTA is obligated to insure and maintain them.

VTA received Head Lease prepayments in the aggregate amount of approximately \$291.2 million, of which \$221.5 million was invested with debt payment undertakers to provide funding for the scheduled rent payments under the Leases and \$33.5 million was used to purchase US Treasury or Agency securities or invest in payment undertakers to fund purchase options at the end of the lease terms, should VTA decide to exercise its purchase options. Approximately \$30.0 million represents considerations for tax benefits net of \$6.2 million in expenses, and was reported as revenue from head lease in the enterprise fund.

VTA also purchased a surety bond policy from Ambac Assurance Corporation ("Ambac") and credit default options guaranteed by AIG (collectively, "Strip Coverage") that guaranteed payment of certain liquidated damages in the event a Low Floor LRV was destroyed or an event causing early termination of the Leases occurred. VTA has an obligation to replace Ambac or AIG, as the case may be, if their ratings fall below Aa3/AA- by Moody's or Standard & Poor's.

During 2008, AIG's credit rating was reduced amid the U.S. global economic crisis. The downgrade of AIG impacted three of four leases to service contracts. Although each equity investor had the right to demand that VTA replace AIG as guarantor, one of the investors decided to exercise the option to terminate a transaction. VTA entered negotiations with this investor to unwind the transaction at the current market value in the equity defeasance account plus a return of \$3.0 million (equal to 24% of the original net benefit received by VTA for the transaction). The negotiations were finalized in FY 2009 and final payment was made and a termination agreement was executed. During FY 2012, VTA concluded negotiations with the other equity investor (covering two transactions) to determine a mutually agreeable resolution as no replacements for AIG are available in the current market. The equity investor accepted a one-time payment of \$35,000 in consideration for permanently waiving the requirement to replace AIG as strip coverage provider for the transaction.

Also during 2008, Ambac's credit rating was reduced, impacting the fourth lease to service contract. In June 2010, VTA and the equity investor entered into a Collateral Delivery and Pledge Agreement (Pledge Agreement). Under the terms of the Pledge Agreement the equity investor waived the requirement to replace Ambac as the surety

provider in the transaction, in exchange for a pledge of collateral in an amount equal to 50% of Ambac's scheduled obligations, which is adjusted on an annual basis pursuant to transaction documents and market values. Pledged collateral is held by VTA's custodian and is included in the Statement of Fund Net Assets as a restricted investment. Also in June 2010, one light rail vehicle was removed from this transaction due to loss and as of June 30, 2012, VTA had \$7.2 million of pledged collateral.

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

NOTE 22 – SUBSEQUENT EVENT

In July 2012, 2000 Measure A recorded a \$50.44 million revenue as a result of VTA's assignment to Bay Area Rapid Transit (BART) of Santa Clara County Regional Improvement Program funds currently programmed in the State Transportation Improvement Program (STIP) for construction of the BART extension to San Jose – Warm Springs to Berryessa in FY 2013. This is to relieve VTA of its funding obligation relative to the construction of BART's Hayward Maintenance Center (HMC) and Hayward Shop Modification. Similar amount of expenditure was recorded for this purpose.

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REQUIRED SUPPLEMENTARY INFORMATION
(other than MD&A)

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SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
 Required Supplementary Information
 Schedule of Funding Progress ⁽¹⁾
 As of June 30, 2012

Amalgamated Transit Union Pension Plan
 (Unaudited)
 (In thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/2012	\$ 373,170	\$ 517,200	\$ 144,030	72.2%	\$ 100,376	143.5%
1/1/2011	368,134	486,771	118,637	75.6%	97,569	121.6%
1/1/2010	354,785	462,912	108,127	76.6%	102,626	105.4%

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
 Required Supplementary Information
 Schedule of Funding Progress ⁽¹⁾
 As of June 30, 2012

California Public Employees' Retirement System
 (Unaudited)
 (In thousands)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
6/30/2010	\$ 217,335	\$ 252,655	\$ 35,320	86.0%	\$ 53,231	66.4%
6/30/2009	203,338	238,083	34,745	85.4%	54,589	63.6%
6/30/2008	188,898	214,451	25,553	88.1%	51,043	50.1%

⁽¹⁾ The schedule of funding progress presents the most recent actuarial information regarding the CalPERS funding progress of the Santa Clara Valley Transportation Authority.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
 Required Supplementary Information
 Schedule of Funding Progress ⁽¹⁾
 As of June 30, 2012

Retirees' Other Post Employment Benefits (OPEB) Trust
 (Unaudited)
 (In thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/2011	\$150,716	\$ 254,187	\$ 103,471	59.3%	\$ 137,050	75.5%
6/30/2010	119,687	226,022	106,335	53.0%	140,601	75.6%
6/30/2008	104,404	225,482	121,078	46.3%	155,426	77.9%

⁽¹⁾ The schedule of funding progress presents the most recent actuarial information regarding the OPEB funding progress of the Santa Clara Valley Transportation Authority.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
 Required Supplementary Information
 Budgetary Comparison Schedule
 Congestion Management Program Special Revenue Fund
 For the Year ended June 30, 2012
 (In thousands)

	Original Budget	Final Budget	Actual	Variance Final to Actual Favorable/ (Unfavorable)
Revenues:				
Assessments to member agencies	\$ 2,407	\$ 2,407	\$ 2,407	\$ -
Federal grant revenues	1,367	1,367	1,367	-
Administrative fees	110	110	96	(14)
State and local operating assistance grants	770	770	743	(27)
Other revenues	170	170	104	(66)
Investment earnings	12	12	31	19
TOTAL REVENUES	4,836	4,836	4,748	(88)
Expenditures:				
VTA labor and overhead costs	3,727	3,852	3,767	85
Services and other:				
Professional services	693	568	434	134
Other services	13	13	2	11
Data processing	51	51	6	45
Miscellaneous	9	9	5	4
Contribution to other agencies	-	-	37	(37)
TOTAL EXPENDITURES	4,493	4,493	4,251	242
Changes in fund balance, on a budgetary basis	\$ 343	\$ 343	497	\$ 154
Revenues and Expenditures not budgeted:				
Change in fund balance, on a GAAP basis			497	
Fund Balance, Beginning of Year			947	
Fund Balance, End of Year			\$ 1,444	

Budgetary Basis of Accounting

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

Budgetary control is maintained at the fund level. The Division Chief must authorize line item reclassification amendments to the budget. Managers are assigned the responsibility for controlling their budgets and monitoring operating expenses. Annual appropriations for the operating budget lapse at the end of the fiscal year to the extent that they have not been expended. The unexpended capital budget at fiscal year-end is carried forward from year to year until the project is completed.

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SUPPLEMENTARY INFORMATION
(Combining and Individual Fund Statements)

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SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Comparative Statement of Fund Net Assets

Enterprise Funds

June 30,

(In thousands)

	2012	2011
	<u> </u>	<u> </u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 24,805	\$ 17,028
Investments	181,973	137,747
Receivables, net	3,212	3,488
Due from other funds	385	762
Due from other agencies	87,133	88,803
Inventories	19,389	19,637
Other current assets	881	680
Total current assets	<u>317,778</u>	<u>268,145</u>
Restricted assets:		
Cash and cash equivalents	3,104	21,317
Cash and investments with fiscal agent	604,383	664,727
Investments	438,586	445,147
Receivables, net	2,172	1,634
Due from other agencies	89,796	65,649
Other current assets	231	185
Total restricted current assets	<u>1,138,272</u>	<u>1,198,659</u>
Non-current assets:		
Deferred charges	12,412	13,837
Deferred outflow of resources	116,923	55,639
Capital Assets		
<i>Nondepreciable:</i>		
Land and right-of-way	1,122,495	1,122,805
Construction in progress	1,107,386	902,026
<i>Depreciable:</i>		
Caltrain - Gilroy extension	53,307	53,307
Buildings, improvements, furniture, and fixtures	511,853	504,531
Vehicles	481,014	485,590
Light-rail tracks and electrification	403,394	403,831
Leasehold improvement	9,686	9,686
Other	46,152	46,065
Less: Accumulated depreciation	(657,113)	(618,061)
Net capital assets	<u>3,078,174</u>	<u>2,909,780</u>
TOTAL ASSETS	<u>4,663,559</u>	<u>4,446,060</u>

(Continued)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
 Comparative Statement of Fund Net Assets *(Continued)*
 Enterprise Funds
 June 30,
 (In thousands)

	2012	2011
LIABILITIES		
<i>Current liabilities:</i>		
Accounts payable and accrued expenses	16,078	14,395
Deposits	532	499
Accrued payroll and related liabilities	4,719	6,519
Bond interest and other fee payable	653	647
Deferred revenues	2,264	1,900
Due to other funds	-	1,362
Due to other governmental agencies	5,327	8,159
Other accrued liabilities	-	3
<i>Total current liabilities</i>	29,573	33,484
 <i>Liabilities payable from restricted assets:</i>		
Current portion of long-term debt	13,025	12,045
Accounts payable and accrued expenses	32,651	16,230
Bond interest and other fee payable	12,439	12,444
Deferred revenues	35	15
Due to other funds	1,150	251
Due to other governmental agencies	54,175	46,380
<i>Total current liabilities payable from restricted assets</i>	113,475	87,365
 <i>Non-current liabilities</i>		
Long-term debt, excluding current portion	1,235,479	1,262,664
Derivative instruments	116,923	55,639
Other accrued liabilities	131	392
<i>Total non-current liabilities</i>	1,352,533	1,318,695
TOTAL LIABILITIES	1,495,581	1,439,544
NET ASSETS	\$ 3,167,978	\$ 3,006,516

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

	2012	2011
OPERATING REVENUES:		
Passenger fares	\$ 37,744	\$ 38,106
Toll revenues collected	218	-
Advertising and other	2,108	1,908
TOTAL OPERATING REVENUES	40,070	40,014
OPERATING EXPENSES:		
Labor cost	262,556	248,373
Materials and supplies	30,912	29,765
Services	20,241	18,116
Utilities	6,983	6,787
Casualty and Liability	4,862	4,962
Purchased transportation	18,923	20,768
Leases and rentals	552	495
Miscellaneous	1,481	1,313
Depreciation expense	57,886	55,060
Costs allocated to capital and other programs	(29,452)	(31,827)
TOTAL OPERATING EXPENSE	374,944	353,812
OPERATING LOSS	(334,874)	(313,798)
NON-OPERATING REVENUES (EXPENSES)		
Sales tax revenue	332,847	306,456
Federal operating assistance and other grants	42,286	42,225
Federal subsidy for Build America Bonds	9,399	5,848
State and local operating assistance grants	98,133	95,579
Caltrain subsidy	(10,207)	(14,135)
Capital expenses on behalf of, and contribution to, other agencies	(80,083)	(66,782)
Altamont Commuter Express subsidy	(2,707)	(2,706)
Investment earnings	18,594	10,067
Interest expense	(31,307)	(23,536)
Other income	11,856	7,137
Other expense	(8,059)	(15,434)
NON-OPERATING REVENUE, NET	380,752	344,719
INCOME (LOSS) BEFORE CONTRIBUTIONS	45,878	30,921
CAPITAL CONTRIBUTIONS	115,584	148,303
TRANSFER IN/(OUT)	-	32,650
CHANGE IN NET ASSETS	161,462	211,874
NET ASSETS, BEGINNING OF YEAR	3,006,516	2,794,642
NET ASSETS, END OF YEAR	\$ 3,167,978	\$ 3,006,516

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

	2012	2011
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash received from passenger fares	\$ 38,414	\$ 38,106
Cash received from toll revenues collected	200	-
Cash received from advertising	2,074	1,908
Cash paid to employees	(234,904)	(216,546)
Cash paid to suppliers	(63,539)	(60,620)
Cash paid for purchased transportation	(18,923)	(20,768)
Other non-operating receipts	19,421	1,354
Net cash provided by/(used in) operating activities	(257,257)	(256,566)
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>		
Operating grants received	143,904	132,711
Sales tax received	327,319	301,597
Caltrain subsidy	(10,207)	(14,135)
Altamont Commuter Express subsidy	(2,707)	(2,706)
Capital contribution to other agencies	(81,135)	(66,782)
Transfers in	6,300	33,165
Transfers out	(6,300)	(515)
Net cash provided by/(used in) non-capital financing activities	377,174	383,335
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Payment of long-term debt	(74,445)	(11,800)
Proceeds from issuance of long-term debt	47,485	645,890
Premium on issuance of long-term bonds	5,108	27,262
Issuance and other cost	(360)	(3,272)
Advance (to)/from other governments	4,963	1,522
Interest and other fees paid on long-term debt	(39,029)	(19,070)
Acquisition and construction of capital assets	(234,714)	(164,147)
Capital contribution from other governments	119,380	138,257
Net cash provided by/(used in) capital and related financing activities	(171,612)	614,642
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Proceeds from sale of investments	1,630,684	1,149,348
Purchases of investments	(1,668,350)	(1,230,832)
Interest income received	18,581	15,120
Net cash provided by/(used in) investing activities	(19,085)	(66,364)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(70,780)	675,047
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	703,072	28,025
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 632,292	\$ 703,072

(continued on next page)

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

	2012	2011
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET		
CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES:		
Operating income/(loss)	\$ (334,874)	\$ (313,798)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Depreciation	57,886	55,060
Changes in operating assets and liabilities:		
Other current assets	(200)	1,465
Receivables	294	38
Due from other agencies	(18)	-
Inventories	246	1,184
Accounts payable	1,683	(1,397)
Other accrued liabilities	(2,065)	(491)
Deposits from others	27	19
Deferred revenue	343	-
Other non operating receipts	19,421	1,354
Net cash provided by/(used in) operating activities	\$ (257,257)	\$ (256,566)
Reconciliation of cash and cash equivalents to the Statement of Fund Net Assets:		
Cash and cash equivalents, end of year:		
Unrestricted	\$ 24,805	\$ 17,028
Restricted	607,487	686,044
	\$ 632,292	\$ 703,072
NONCASH ACTIVITIES:		
Increase/(Decrease) in fair value of investments	\$ (507)	\$ (4,615)
Noncash capital contributions in Due from Other Agencies	34,836	38,632
Amortization expense of Caltrain Access Fee	(881)	(881)
Total non-cash activities	\$ 33,448	\$ 33,136

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
 Budgetary Comparison Schedule - Enterprise Fund
 VTA Transit Fund
 For the Year ended June 30, 2012
 (In thousands)

	FY12 Adopted Budget	Final Budget	Actual	Variance Final to Actual Favorable/ (Unfavorable)
REVENUES				
Fares	\$ 37,755	\$ 37,755	\$ 37,744	\$ (11)
1976 1/2 Cent Sales Tax	156,242	156,242	166,567	10,325
Transportation Development Act funds	73,434	73,434	81,928	8,494
Measure A Sales Tax Oper Assistance	28,706	28,706	30,691	1,985
STA	13,307	13,307	14,055	748
Federal Operating Grants	42,351	42,351	42,286	(65)
Less: Transfer for Capital	(4,190)	(4,190)	(4,193)	(3)
State Operating Grants	2,268	2,268	2,149	(119)
Investment Earnings	854	854	3,031	2,177
Advertising Income	1,648	1,648	1,739	91
Other Income	13,736	13,736	16,160	2,424
Total revenues	366,110	366,110	392,157	26,047
OPERATING EXPENSES				
Labor Costs	261,570	263,870	262,556	1,314
Materials & Supplies	16,671	16,671	16,110	561
Security	7,910	7,910	7,745	165
Professional & Special Services	3,628	4,075	2,672	1,403
Other Services	7,927	7,802	6,370	1,432
Fuel	16,602	16,602	13,881	2,721
Traction Power	3,441	3,441	3,151	290
Tires	1,569	1,569	1,494	75
Utilities	2,604	2,604	2,734	(130)
Insurance	4,433	4,433	4,862	(429)
Data Processing	2,881	2,859	2,651	208
Office Expense	324	324	313	11
Communications	1,211	1,211	1,098	113
Employee Related Expense	717	717	643	74
Leases & Rents	564	564	552	12
Miscellaneous	746	746	643	103
Reimbursements	(37,449)	(36,391)	(36,732)	341
Total operating expenses	295,350	299,007	290,743	8,264
OTHER EXPENSES				
Paratransit ¹	25,723	20,082	20,007	75
Caltrain ¹	15,947	12,276	11,516	760
Light Rail Shuttles ¹	40	40	20	20
Altamont Commuter Express ¹	4,384	4,384	4,377	7
Highway 17 Express ¹	394	394	122	272
Dumbarton Express ¹	451	451	538	(87)
Monterey-San Jose Express Service ¹	40	40	39	1
Contribution to Other Agencies	590	590	605	(15)
Debt Service	19,637	19,637	19,477	160
Contingencies	1,410	-	-	-
Total other expenses	68,617	57,895	56,701	1,194
Total operating and other expenses	363,967	356,902	347,444	9,458
Net change in net assets, on a a budgetary basis	\$ 2,143	\$ 9,208	\$ 44,713	\$ 35,505

(continued on next page)

¹ Includes allocation of indirect costs.

Note: Totals and subtotals may not be precise due to independent rounding.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Budgetary Comparison Schedule - Enterprise Fund (continued)

VTA Transit Fund

For the Year ended June 30, 2012

(In thousands)

	<u>Adopted Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
Net change in net assets, on a budgetary basis	<u>\$ 2,143</u>	<u>\$ 9,208</u>	<u>\$ 44,713</u>	<u>\$ 35,505</u>
Reconciliation of net income on a budgetary basis to net income on a GAAP Basis:				
Capital Contributions			30,207	
Project Expenditure			(3,119)	
Capital Contributions to Other Agencies			(12,123)	
Bond Principal Payment			10,215	
Amortization of Bond Premium			(840)	
Unrealized Loss on investment			(197)	
Debt Reduction Fund Interest Earnings			2,465	
Other non-budgetary revenues/(expenses)			(83)	
Gain/(Loss) on Disposal of assets			(457)	
Transfer for Capital			4,193	
Depreciation			<u>(57,886)</u>	
Net change in net assets, on a GAAP Basis			<u>\$ 17,088</u>	

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Combining Statement of Fiduciary Net Assets

Retiree Trust Funds

June 30, 2012

(In thousands)

	ATU Pension Trust	OPEB Trust	ATU Medical Trusts			Total
			Spousal Medical	Vision/ Medical	Total Medical Trusts	
ASSETS						
<i>Restricted assets:</i>						
Cash and cash equivalents	\$ 1,076	\$ 288	\$ 28	\$ 18	\$ 46	\$ 1,410
Investments	374,842	167,956	9,771	6,138	15,909	558,707
Receivables	1,181	667	-	-	-	1,848
Total assets	<u>377,099</u>	<u>168,911</u>	<u>9,799</u>	<u>6,156</u>	<u>15,955</u>	<u>561,965</u>
LIABILITIES						
<i>Restricted liabilities:</i>						
Accounts payable	<u>375</u>	<u>497</u>	<u>1</u>	<u>-</u>	<u>1</u>	<u>873</u>
NET ASSETS						
<i>Net assets held in trust for:</i>						
Pension benefits	376,724	-	-	-	-	376,724
Other post-employment benefits	-	168,414	-	-	-	168,414
Spousal medical benefits	-	-	9,798	-	9,798	9,798
Retiree dental and vision benefits	-	-	-	6,156	6,156	6,156
TOTAL NET ASSETS	<u>\$376,724</u>	<u>\$168,414</u>	<u>\$ 9,798</u>	<u>\$6,156</u>	<u>\$ 15,954</u>	<u>\$561,092</u>

SANTA CLARA VALLEY TRANSPORTATION AGENCY
Combining Statement of Changes in Fiduciary Net Assets
Retiree Trust Funds
For the Year ended June 30, 2012
(In thousands)

	ATU		ATU Medical Trusts			Total
	Pension Trust	OPEB Trust	Spousal Medical	Vision/Dental	Total Medical Trusts	
ADDITIONS						
Contributions	\$ 19,148	\$ 17,321	\$ 1,313	\$ 327	\$ 1,640	\$ 38,109
<i>Investment earnings:</i>						
Investment income	15,606	4,063	11	8	19	19,688
Net appreciation/(depreciation) in the fair value of investments	(8,137)	4,910	507	309	816	(2,411)
Investment expense	(1,776)	(153)	(2)	(1)	(3)	(1,932)
Net investment income	5,693	8,820	516	316	832	15,345
Other revenue	-	210	-	-	-	210
TOTAL ADDITIONS	<u>24,841</u>	<u>26,351</u>	<u>1,829</u>	<u>643</u>	<u>2,472</u>	<u>53,664</u>
DEDUCTIONS						
Benefit payments	24,956	8,623	1,212	-	1,212	34,791
Administrative expenses	238	29	9	6	15	282
TOTAL DEDUCTIONS	<u>25,194</u>	<u>8,652</u>	<u>1,221</u>	<u>6</u>	<u>1,227</u>	<u>35,073</u>
NET INCREASE	(353)	17,699	608	637	1,245	18,591
NET ASSETS HELD IN TRUST						
BEGINNING OF YEAR	377,077	150,715	9,190	5,519	14,709	542,501
END OF YEAR	<u>\$ 376,724</u>	<u>\$ 168,414</u>	<u>\$ 9,798</u>	<u>\$ 6,156</u>	<u>\$ 15,954</u>	<u>\$ 561,092</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Combining Statement of Fiduciary Assets and Liabilities

Agency Funds

June 30, 2012

(In thousands)

	Measure B			
	BAAQMD	SB83 VRF	Ancillary	
	<u>Program</u>	<u>Agency</u>	<u>Program</u>	<u>Total</u>
<u>Assets</u>				
<i>Restricted assets:</i>				
Cash and cash equivalents	\$ 537	\$ 2,428	\$ 1,100	\$ 4,065
Investments	2,788	11,515	-	14,303
Total Assets	<u>3,325</u>	<u>13,943</u>	<u>1,100</u>	<u>18,368</u>
<u>Liabilities</u>				
<i>Liabilities payable from restricted assets:</i>				
Accounts Payable	19	-	-	19
Program payable	3,306	13,943	1,100	18,349
Total Liabilities Payable from Restricted Assets	<u>\$ 3,325</u>	<u>\$ 13,943</u>	<u>\$ 1,100</u>	<u>\$ 18,368</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Combining Statement of Changes in Fiduciary Assets and Liabilities
Agency Funds
June 30, 2012
(In thousands)

	Balance July 1, 2011	Increase	Decrease	Balance June 30, 2012
BAAQMD Program				
Restricted assets:				
Cash and cash equivalents	\$ 401	\$ 136	\$ -	\$ 537
Investments	3,103	-	315	2,788
Total restricted assets	\$ 3,504	\$ 136	\$ 315	\$ 3,325
Liabilities payable from restricted assets:				
Accounts Payable	\$ -	\$ 19	\$ -	\$ 19
Program payable	3,504	-	198	3,306
Total liabilities payable from restricted assets	\$ 3,504	\$ 19	\$ 198	\$ 3,325
SB83 VRF Program				
Restricted assets:				
Cash and cash equivalents	\$ 7	\$ 2,421	\$ -	\$ 2,428
Investments	-	11,515	-	11,515
Total restricted assets	\$ 7	\$ 13,936	\$ -	\$ 13,943
Liabilities payable from restricted assets:				
Program payable	\$ 7	\$ 13,936	\$ -	\$ 13,943
Total liabilities payable from restricted assets	\$ 7	\$ 13,936	\$ -	\$ 13,943
Measure B Ancillary Program				
Restricted assets:				
Cash and cash equivalents	\$ 2,169	\$ -	\$ 1,069	\$ 1,100
Total restricted assets	\$ 2,169	\$ -	\$ 1,069	\$ 1,100
Liabilities payable from restricted assets:				
Program payable	\$ 2,169	\$ -	\$ 1,069	\$ 1,100
Total liabilities payable from restricted assets	\$ 2,169	\$ -	\$ 1,069	\$ 1,100
Total - All Agency Funds				
Restricted assets:				
Cash and cash equivalents	\$ 2,577	\$ 2,557	\$ 1,069	\$ 4,065
Investments	3,103	11,515	315	14,303
Total restricted assets	\$ 5,680	\$ 14,072	\$ 1,384	\$ 18,368
Liabilities payable from restricted assets:				
Account Payable	\$ -	\$ 19	\$ -	\$ 19
Program payable	5,680	13,936	1,267	18,349
Total liabilities payable from restricted assets	\$ 5,680	\$ 13,955	\$ 1,267	\$ 18,368

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APPENDIX C

COUNTY OF SANTA CLARA DEMOGRAPHIC AND ECONOMIC INFORMATION

General Information

The County of Santa Clara (the “County”) lies immediately south of San Francisco Bay and is the sixth most populous county in the State of California (the “State”). It encompasses an area of approximately 1,316 square miles. The County was incorporated in 1850 as one of the original 28 counties of the State and operates under a home rule charter adopted by County voters in 1950 and amended in 1976.

The southern portion of the County has retained the agricultural base which once existed throughout the area and has two cities, separated by roughly 10 miles. The northern portion of the County is densely populated, extensively urbanized and heavily industrialized. The County contains 15 cities, the largest of which is the City of San Jose, the third largest city in the State and the County seat. The uppermost northwestern portion of the County, with its concentration of high-technology, electronics-oriented industry, is popularly referred to as the “Silicon Valley.” Large employers include Google Inc., Apple Inc., Oracle Corporation, Cisco Systems, Inc., Hewlett-Packard Company and Yahoo! Inc.

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

Population

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

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

The County’s population growth subsided somewhat during the 1960s, although the 66% growth rate was over four times the 15.4% statewide increase. The population of San Jose doubled for the second decade in a row, while the cities of Mountain View, Santa Clara, and Sunnyvale added at least 23,000 residents each. As a result of the incorporation of four cities, the unincorporated area of the County posted its first decline in the 1960s, setting the stage for further drops in each of the subsequent three decades.

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

The data from the 2010 U.S. Census indicate that the County's population reached 1,781,642, representing a 37.6% overall increase from the population base in 1980, an average rate of 11.2% per Census count. Over the same period, statewide population grew more rapidly at a rate of 16.3%. San Jose surpassed San Francisco as the largest city in the Bay Area, with a population of 957,369. According to the 2010 census data, over one-half of the County's residents live in San Jose.

The proportion of residents living in cities is currently approximately 95.0%, in contrast to the County's makeup in 1940 when urban residents made up only 6.5% of the County's population. Since the 1940s, the increasing maturation of the County's employment and economic sectors has resulted in the incorporation of new cities as well as the expansion of city boundaries, resulting in a shrinking fraction (currently 5.6%) of residents living in unincorporated areas.

Recent Annual Population Performance. Between 2010 and 2012, the County population grew another 2.0%. All of the cities in the County experienced growth during this period, with the City of Gilroy posting the fastest growth (2.7%). The number of residents living in the unincorporated areas of the County declined 4.0% from 2010 to 2012. Currently, approximately 5.0% of the County residents live in unincorporated areas, a percentage which has steadily decreased over time as the population continues to migrate toward the cities.

By the year 2020, the State Department of Finance predicts that the County's population will grow by approximately 73,412 residents, a 4.0% increase from 2012. (Source: State of California, Department of Finance, Demographic Research Unit (Report P-1)). The following table provides a historical summary of population in the County and its incorporated cities.

County of Santa Clara Population

City	1970	1980	1990	2000	2010	2011	2012 ⁽¹⁾
Campbell	24,731	26,843	36,088	38,138	39,349	39,610	39,882
Cupertino	18,216	34,297	39,967	50,602	58,302	58,665	59,022
Gilroy	12,665	21,641	31,487	41,464	48,821	49,316	50,158
Los Altos	24,872	25,769	26,599	27,693	28,976	29,136	29,460
Los Altos Hills	6,862	7,421	7,514	8,025	7,922	7,969	8,027
Los Gatos	23,466	26,906	27,357	28,592	29,413	29,613	29,854
Milpitas	27,149	37,820	50,690	62,698	66,790	66,637	66,966
Monte Sereno	3,074	3,434	3,287	3,483	3,341	3,360	3,373
Morgan Hill	6,485	17,060	23,928	33,586	37,882	38,255	39,127
Mountain View	54,206	58,655	67,365	70,708	74,066	74,618	75,275
Palo Alto	55,999	55,225	55,900	58,598	64,403	64,853	65,544
San Jose	445,779	629,400	782,224	895,131	945,942	957,369	971,372
Santa Clara	87,717	87,700	93,613	102,361	116,468	117,998	118,813
Saratoga	27,199	29,261	28,061	29,849	29,926	30,153	30,363
Sunnyvale	95,408	106,618	117,324	131,844	140,081	140,898	142,896
Unincorporated	<u>152,181</u>	<u>127,021</u>	<u>106,173</u>	<u>99,813</u>	<u>89,960</u>	<u>85,887</u>	<u>86,354</u>
County Total ⁽²⁾	<u>1,066,009</u>	<u>1,295,071</u>	<u>1,497,577</u>	<u>1,682,585</u>	<u>1,781,642</u>	<u>1,794,337</u>	<u>1,816,486</u>
California	18,136,045	23,668,145	29,760,021	33,873,086	37,253,956	37,427,946	37,678,563

⁽¹⁾ As of January 1. January 1, 2013 data not available.

⁽²⁾ Totals may not be precise due to independent rounding.

Source: U.S. Census 1970-2010; State of California, Department of Finance, Demographic Research Unit (E-4 City/County Population and E-1 Population Estimates for Cities, Counties and State – January 1, 2011 and 2012).

Employment and Industry

The County is home to a highly skilled and diverse work force, a situation that has traditionally translated into lower unemployment rates in the County when compared to State and national average unemployment rates. Three major industry sectors comprise approximately 60% of the County's employment: Goods Producing – 186,300, Professional & Business Activities – 168,800 and Manufacturing – 150,500.

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

The following table lists employment in the County by Industry.

**County of Santa Clara
Average Annual Employment by Industry**

	2007	2008	2009	2010	2011	2012 ⁽¹⁾
Civilian Labor Force	844,700	870,300	875,200	880,800	896,200	916,600
Employment	805,100	818,300	780,500	784,100	809,300	840,400
County Unemployment	39,600	52,200	94,600	96,700	86,900	76,200
Unemployment Rate						
County	4.7%	6.0%	10.8%	11.0%	9.7%	8.3%
State of California	5.4%	7.2%	11.3%	12.4%	11.7%	9.8%
Industry Employment						
Total, All Industries	900,300	905,200	847,500	846,200	869,000	929,700
Total Farm	3,900	3,700	3,500	3,500	3,400	4,400
Total Nonfarm	896,500	901,500	844,000	842,600	865,600	925,300
Goods Producing	209,600	208,200	186,900	182,600	186,300	N/A
Natural Resources and Mining	300	300	200	200	200	N/A
Construction	45,500	42,800	33,400	31,400	30,600	N/A
Manufacturing	163,800	165,200	153,300	151,000	155,500	N/A
Service Providing	686,900	693,300	657,100	660,000	679,200	N/A
Trade, Transportation & Utilities	137,300	135,300	124,200	123,200	125,000	N/A
Information	39,500	42,200	41,500	43,800	48,900	N/A
Financial Activities	36,800	34,200	31,200	30,600	31,400	N/A
Professional & Business Services	176,600	178,000	160,700	161,300	168,800	N/A
Education & Health Services	102,500	107,200	108,400	112,000	116,600	N/A
Leisure & Hospitality	75,300	76,600	73,500	73,800	75,200	N/A
Other Services	24,600	25,000	24,100	23,900	23,900	N/A
Government	94,300	94,900	93,400	91,500	89,500	N/A

⁽¹⁾ 2012 data for industry types is not yet available.
Source: Employment Development Department.

Major Employers

The County, which is centered in the heart of Silicon Valley, is home to numerous high technology and computer software and hardware manufacturing companies. According to the Silicon Valley Business Journal, as of January 1, 2012, Cisco, a technology company, was the largest employer of the Silicon Valley with 15,492 employees. Second on the list was the County of Santa Clara who employed 14,957. Kaiser Permanente, Apple and Stanford University topped off the top five employers in the County respectively. Comparative data for the end of 2012 or the beginning of 2013 is not available.

Income

The American Community Survey, a nationwide survey conducted by the U.S. Census Bureau, reported that in 2011 the County had a median household income of \$89,064 whereas the state average was \$61,632. 2012 median household income data for the County is not yet available.

Commercial Activity

The County is an important center of commercial activity. Taxable sales activity at business and personal service outlets, as well as at other non-retail commercial establishments, is a significant component of the County's commercial activity. The following table sets forth the amount of taxable transactions from 2006 through 2010. Annual figures for 2011 and 2012 are not yet available.

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**County of Santa Clara
Taxable Transactions by Sector
2006 through 2010**

(In thousands)

	2006	2007	2008	2009	2010
Apparel Stores	\$ 1,264,215	\$ 1,334,050	\$ 1,422,687	\$ 1,690,211	\$ 1,824,590
General Merchandise Stores	2,979,387	3,112,536	2,946,466	2,272,162	2,368,820
Specialty Stores ⁽²⁾	3,674,311	-	-	-	-
Service Stations ⁽³⁾	-	2,320,507	2,526,073	1,800,162	2,104,764
Food Stores	849,281	890,341	868,612	975,086	984,824
Eating and Drinking Places	2,645,787	2,813,519	2,876,837	2,705,143	2,848,824
Home Furnishings and Appliances	879,892	901,164	1,068,519	1,622,804	1,829,840
Building Materials	1,659,844	1,581,859	1,356,505	1,164,960	1,245,941
Automotive	5,534,342	3,468,163	2,709,927	2,284,032	2,538,029
Other Retail Stores	552,873	4,368,119	3,537,686	1,870,513	1,950,226
Total Retail Stores	20,039,932	20,790,258	19,313,313	16,385,238	17,695,858
Business and Personal Services ⁽⁴⁾	1,265,315	1,244,445	1,111,792	-	-
All Other Outlets	<u>10,967,991</u>	<u>11,628,745</u>	<u>11,849,202</u>	<u>11,042,471</u>	<u>12,827,464</u>
Total All Outlets ⁽¹⁾	\$32,273,238	\$33,663,448	\$32,274,306	\$27,427,709	\$30,523,322

⁽¹⁾ Totals may not add due to independent rounding.

⁽²⁾ Not available after 2006.

⁽³⁾ Not available prior to 2006.

⁽⁴⁾ Not available after 2008.

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

Construction Activity and Home Sales

The following tables provide a summary of building permit valuations and the number of new dwelling units authorized in the County since 2003.

**County of Santa Clara
Building Permit Valuations
2003 through 2012
(In Millions of Dollars)**

<u>Year</u>	<u>New Residential</u>	<u>New Non-Residential</u>	<u>Total</u>
2003	\$1,466.40	\$ 972.90	\$2,439.30
2004	1,406.20	915.80	2,322.00
2005	1,537.30	1,287.80	2,825.10
2006	1,652.90	1,534.20	3,187.10
2007	1,378.20	1,986.20	3,361.30
2008	1,051.10	1,914.50	2,965.70
2009	578.70	1,187.80	1,766.50
2010	1,085.90	1,155.60	2,241.50
2011	333.70	627.70	961.40
2012	1,088.40	660.10	1,748.50

Source: Construction Industry Research Board.

**County of Santa Clara
Number of New Dwelling Units
2003 through 2012**

<u>Year</u>	<u>Single Family</u>	<u>Multiple Family</u>	<u>Total</u>
2003	2,320	5,170	7,490
2004	2,688	2,816	5,504
2005	2,577	3,295	5,872
2006	2,257	3,928	6,185
2007	2,063	2,520	4,583
2008	1,254	2,417	3,671
2009	667	450	1,117
2010	826	3627	4,453
2011	464	64	526
2012	1,269	3,970	5,239

Source: Construction Industry Research Board.

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APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a brief summary of certain provisions of the Indenture, dated as of August 1, 2006, between the Santa Clara Valley Transportation Authority (the “Issuer”) and Deutsche Bank National Trust Company, as trustee (the “Trustee”), as supplemented and amended by the First Supplemental Indenture, dated as of August 1, 2006 (the “First Supplemental Indenture”), the Second Supplemental Indenture, dated as of September 1, 2007 (the “Second Supplemental Indenture”), the Third Supplemental Indenture, dated as of June 1, 2008 (the “Third Supplemental Indenture”), and as further supplemented and amended by the Fourth Supplemental Indenture, dated as of November 1, 2010 (the “Fourth Supplemental Indenture,” and, together with the First Supplemental Indenture, the Second Supplemental Indenture and the Third Supplemental Indenture, hereinafter collectively referred to as the “Indenture”), between the Issuer and the Trustee. Such summary is not intended to be complete or definitive, is supplemental to the summary of other provisions of the Indenture contained elsewhere in this Remarketing Memorandum, and is qualified in its entirety by reference to the full terms of the Indenture. All capitalized terms used and not otherwise defined in this Remarketing Memorandum shall have the meanings assigned to such terms in the Indenture.

Definitions

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

Accreted Value Table means the table denominated as such which appears as an exhibit to, and to which reference is made in, a Supplemental Indenture providing for a Series of Capital Appreciation Bonds issued pursuant to such Supplemental Indenture.

Act means the Santa Clara Valley Transportation Authority Act, Part 12 of Division 10 (Section 100000 et seq.) of the Public Utilities Code of the State of California and Chapter 6 of Part 1 of Division 2 of Title 5 (Section 54300 et seq.) of the Government Code of the State of California as referenced in the Santa Clara Valley Transportation Authority Act.

Alternate Liquidity Facility means, with respect to a Series of Bonds, a line of credit, letter of credit, standby purchase agreement or similar liquidity facility, issued by a commercial bank or other financial institution, and delivered or made available to the Trustee, as a replacement or substitute for any Liquidity Facility then in effect.

Annual Debt Service means, for any Fiscal Year, the aggregate amount (without duplication) of principal and interest on all Bonds and Parity Obligations becoming due and payable during such Fiscal Year calculated using the principles and assumptions set forth under the definition of Debt Service.

ARS means Auction Rate Securities.

ARS Mode means, with respect to a Series of 2008 Series Bonds, the Mode during which such Series of 2008 Series Bonds bear interest at the ARS Rate.

ARS Rate shall have the meaning specified in the Indenture.

Assumed Debt Service means for any Fiscal Year the aggregate amount of principal and interest which would be payable on all Bonds if each Excluded Principal Payment were amortized on a substantially level debt service basis for a period commencing on the date of calculation of such Assumed Debt Service and ending on the earlier of (i) the date specified by the Issuer, which date may be the final maturity date of such Bonds or (ii) the Tax Expiration Date, such Assumed Debt Service to be calculated based on a fixed interest rate equal to the rate at which the Issuer could borrow for such period, as set forth in a certificate of a financial advisor or investment banker, delivered to the Trustee, who may rely conclusively on such certificate, such certificate to be delivered within thirty (30) days of the date of calculation.

Authority or Issuer means the Santa Clara Valley Transportation Authority, a public transit district duly established and existing under the laws of the State of California.

Authorized Denominations with respect to the 2010 Series Bonds means \$5,000 and any integral multiple thereof.

Authorized Representative means the Chairperson of the Board, the General Manager, the Chief Financial Officer or such other person as may be designated to act on behalf of the Issuer by a written certificate furnished to the Trustee containing the specimen signature of such person and signed on behalf of the Issuer by an Authorized Representative.

Automatic Termination Event means an event of default set forth in a Reimbursement Agreement between the Issuer and a Liquidity Facility Provider which would result in the immediate termination of the Liquidity Facility provided pursuant to such Reimbursement Agreement prior to its stated expiration date without prior notice from the Liquidity Facility Provider to the Trustee.

Beneficial Owner means any Person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of any Bond, including, without limitation, any Person holding Bonds through nominees or depositories, including the Securities Depository.

Board means the Board of Directors of the Issuer.

Bond Counsel means any firm of nationally recognized municipal bond attorneys selected by the Issuer and experienced in the issuance of municipal bonds and matters relating to the exclusion of the interest thereon from gross income for federal income tax purposes.

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

Bond Reserve Fund means any fund by that name established with respect to one or more Series of Bonds pursuant to the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

Bond Reserve Requirement with respect to a Series of Bonds for which the Issuer shall have established a Bond Reserve Fund shall have the meaning specified in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds. Bond Reserve Requirement with respect to the 2010 Series Bonds means as of any date of calculation, an amount equal to fifty percent (50%) of Maximum Annual Debt Service on the 2010 Series Bonds.

Bondholder or Holder or Owner, whenever used in the Indenture or in this Remarketing Memorandum with respect to a Bond, means the person in whose name such Bond is registered.

Bonds means the Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds authorized by, and at any time Outstanding pursuant to, the Indenture.

Book-Entry System means a system under which physical bond certificates in fully registered form are registered only in the name of a Securities Depository or its nominee.

Business Day means, except as is otherwise provided in the Supplemental Indenture pursuant to which a Series of Bonds are issued, any day other than (1) a Saturday, Sunday, or a day on which banking institutions in the State or the State of New York are authorized or obligated by law or executive order to be closed, (2) for purposes of payments and other actions relating to Bonds secured by a Credit Enhancement or supported by a Liquidity Facility, a day upon which commercial banks in the city in which is located the office of the issuing bank at which demands for payment under the Credit Enhancement or Liquidity Facility, as applicable, are to be presented are authorized or obligated by law or executive order to be closed, and (3) a day on which the New York Stock Exchange is closed.

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

Certificate, Statement, Request, Requisition and Order of the Issuer mean, respectively, a written certificate, statement, request, requisition or order signed in the name of the Issuer by an Authorized Representative.

Code means the Internal Revenue Code of 1986, and the regulations applicable thereto or issued thereunder, or any successor to the Internal Revenue Code of 1986. Reference to any particular Code section shall, in the event of such a successor Code, be deemed to be reference to the successor to such Code section.

Comparable Treasury Issue means the United States Treasury security selected by the Designated Banking Institution as having a maturity comparable to the remaining term to maturity of the 2010 Series A Bond being redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term to maturity of the 2010 Series A Bond being redeemed.

Comparable Treasury Price means, with respect to any date on which a 2010 Series A Bond or portion thereof is being redeemed, either (a) the average of five Reference Treasury Dealer quotations for the date fixed for redemption, after excluding the highest and lowest such quotations, and (b) if the Designated Banking Institution is unable to obtain five such quotations, the average of the quotations that are obtained. The quotations will be the average, as determined by the Designated Banking Institution, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of principal amount) quoted in writing to the Designated Banking Institution, at 2:00 p.m. New York City time on a Business Day at least two (2) Business Days but no more than forty-five (45) calendar days preceding the applicable date fixed for redemption.

Comparable Treasury Yield means the yield appearing in the most recently published statistical release designated "H.15(519) Selected Interest Rates" under the heading "Treasury Constant Maturities," or any successor publication selected by the Designated Banking Institution that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded

United States Treasury securities adjusted to constant maturity, for the maturity corresponding to the remaining term to maturity of the 2010 Series A Bond being redeemed. The Comparable Treasury Yield will be determined at least two (2) Business Days but no more than forty-five (45) calendar days preceding the applicable date fixed for redemption. If the H.15(519) statistical release sets forth a weekly average yield for United States Treasury securities that have a constant maturity that is the same as the remaining term to maturity of the 2010 Series A Bond being redeemed, then the Comparable Treasury Yield will be equal to such weekly average yield. In all other cases, the Comparable Treasury Yield will be calculated by interpolation on a straight-line basis, between the weekly average yields on the United States Treasury securities that have a constant maturity (i) closest to and greater than the remaining term to maturity of the 2010 Series A Bond being redeemed and (ii) closest to and less than the remaining term to maturity of the 2010 Series A Bond being redeemed. Any weekly average yields calculated by interpolation will be rounded to the nearest 1/100th of 1%, with any figure of 1/200th of 1% or above being rounded upward.

If, and only if, weekly average yields for United States Treasury securities for the preceding week are not available in the H.15(519) statistical release or any successor publication, then the Comparable Treasury Yield will be the rate of interest per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price as of the date fixed for redemption.

Continuing Disclosure Certificate means, with respect to each Series of Bonds requiring an undertaking regarding disclosure under Rule 15c2-12, the Continuing Disclosure Certificate, dated the date of issuance of such Series of Bonds, executed by the Issuer, as the same may be supplemented, modified or amended in accordance with its terms.

Conversion Date shall have the meaning specified in the Indenture.

Corporate Trust Office or **corporate trust office** means the corporate trust office of the Trustee at 101 California Street, 46th Floor, San Francisco, California 94111, Attention: Corporate Trust, or such other or additional offices as may be designated by the Trustee from time to time.

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

Costs of Issuance Fund means a fund by that name established pursuant to the provisions of a Supplemental Indenture to pay Costs of Issuance with respect to a Series of Bonds being issued pursuant to such Supplemental Indenture.

Counterparty means an entity which has entered into an Interest Rate Swap Agreement with the Issuer.

Credit Enhancement means, with respect to a Series of Bonds, any Insurance, letter of credit, line of credit, surety bond or other instrument, if any, which secures or guarantees the payment of principal of and interest on a Series of Bonds, issued by an insurance company, commercial bank or other

financial institution, and delivered or made available to the Trustee, as from time to time supplemented or amended pursuant to its terms, or, in the event of the delivery or availability of an Alternate Credit Enhancement, such Alternate Credit Enhancement.

Credit Enhancement Provider means, with respect to a Series of Bonds, the Insurer, commercial bank or other financial institution issuing (or having primary obligation, or acting as agent for the financial institutions obligated, under) a Credit Enhancement then in effect with respect to such Series of Bonds. Credit Enhancement Provider with respect to the 2007 Series A Bonds means Ambac Assurance Corporation or any successor thereto.

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

Daily Mode means, with respect to a Series of 2008 Series Bonds, the Mode during which such Series of 2008 Series Bonds bear interest at the Daily Rate.

Debt Service, when used with respect to any Bonds, means, as of any date of calculation and with respect to any Fiscal Year, the sum of (1) the interest falling due on such Bonds during such Fiscal Year and (2) the principal or mandatory sinking account payments required with respect to such Bonds during such Fiscal Year; computed on the assumption that no portion of such Bonds shall cease to be Outstanding during such Fiscal Year except by reason of the application of such scheduled payments; provided, however, that for purposes of such computation:

(a) Excluded Principal Payments and the interest related thereto, provided such interest is being paid by the same source as the Excluded Principal Payments, shall be excluded from such calculation and Assumed Debt Service shall be included in such calculation;

(b) in determining the principal amount due in each Fiscal Year, payment shall (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made in accordance with any amortization schedule established for such Bonds, including any Mandatory Sinking Account Payments or any scheduled redemption or payment of Bonds on the basis of Accreted Value, and for such purpose, the redemption payment or payment of Accreted Value shall be deemed a principal payment and interest that is compounded and paid as Accreted Value shall be deemed due on the scheduled redemption or payment date of such Capital Appreciation Bond;

(c) if any Bonds bear, or if any Bonds proposed to be issued will bear, interest at a variable interest rate for which an Interest Rate Swap Agreement is not in place and the interest on which is excluded or expected to be excluded from gross income for federal income tax purposes, the interest rate on such variable interest rate Bonds shall be calculated at an interest rate listed in The Bond Buyer "25 Revenue Bond Index" published on a date selected by the Issuer, which date shall be no earlier than the first day of the calendar month preceding the date of sale of such Bonds and no later than the date of sale of such Bonds plus twenty-five (25) basis points or if such index is not published on the date of sale such Bonds, at the interest rate listed in such index published immediately prior to the date of sale such Bonds plus twenty-five (25) basis points (provided, however, that if such index is no longer published, the interest rate on such Bonds shall be calculated based upon such index as the Issuer shall designate in writing to the Trustee);

(d) if any Bonds bear, or if any Bonds proposed to be issued will bear, interest at a variable interest rate for which an Interest Rate Swap Agreement is not in place and the interest on which

is included or expected to be included in gross income for federal income tax purposes, the interest rate on such Bonds shall be calculated at an interest rate equal to 110% of the average One Month USD LIBOR Rate during the three (3) months preceding the month of sale of such Bonds, or if the One Month USD LIBOR Rate is no longer available, such similar rate as the Issuer shall designate in writing to the Trustee;

(e) with respect to any Bonds bearing interest, or expected to bear interest, at a variable interest rate for which an Interest Rate Swap Agreement is in place, if (i) the interest rate on such Bonds, plus (ii) the payments received and made by the Issuer under an Interest Rate Swap Agreement with respect to such Bonds, are expected to produce a synthetic fixed rate to be paid by the Issuer (e.g., an interest rate swap under which the Issuer pays a fixed rate and receives a variable rate that is expected to equal or approximate the rate of interest on such Bonds), such Bonds shall be treated as bearing such synthetic fixed rate for the duration of the synthetic fixed rate;

(f) if any Bonds bear, or are expected to bear, a fixed interest rate and an Interest Rate Swap Agreement is entered into with respect to such Bonds, if (i) the interest rate on such fixed interest rate Bonds, plus (ii) the payments received and made by the Issuer under an Interest Rate Swap Agreement with respect to such fixed interest rate Bonds, are expected to produce a synthetic variable rate to be paid by the Issuer (e.g., an interest rate swap under which the Issuer pays a variable rate and receives a fixed rate that is expected to equal or approximate the rate of interest on such fixed interest rate Bonds), the fixed interest rate Bonds, shall be treated as bearing such synthetic variable rate for the duration of the Interest Rate Swap Agreement calculated as provided in subparagraph (c) or subparagraph (d), as applicable, above; and

(g) principal and interest payments on Bonds shall be excluded to the extent such payments are to be paid from amounts on deposit with the Trustee or other fiduciary in escrow specifically therefor, and interest payments shall be excluded to the extent that such interest payments are to be paid from the proceeds of Bonds held by the Trustee or other fiduciary as capitalized interest specifically to pay such interest or are to be paid from Revenues then held on deposit by the Trustee.*

Designated Banking Institution means a financial institution of national standing which is a primary United States government securities dealer designated by the Issuer.

DTC means The Depository Trust Company.

Event of Default means any of the events of default specified in the Indenture.

Excluded Principal Payments means each payment of principal of Bonds which the Issuer determines (in the Supplemental Indenture) that the Issuer intends to pay with moneys which are not Revenues (such as commercial paper, balloon indebtedness or bond anticipation notes) but from future debt obligations of the Issuer, grants from the State or federal government, or any agency or instrumentality thereof, or any other source of funds of the Issuer, upon which determination of the Issuer the Trustee may conclusively rely. No such determination shall affect the security for such Bonds or the obligation of the Issuer to pay such payments from Revenues. No payment of principal of Bonds may be determined to be an Excluded Principal Payment unless it is due on or prior to the later of April 1, 2036 or the Tax Expiration Date.

Favorable Opinion of Bond Counsel means, with respect to any action the occurrence of which requires such an opinion with respect to any Series of 2008 Series Bonds, an Opinion of Bond Counsel addressed to the Trustee, to the effect that the action proposed to be taken will not, in and of itself, adversely affect any exclusion from gross income of interest on the affected Series of 2008 Series Bonds.

*See "Fourth Supplemental Indenture – Proposed Amendment of Definition of Debt Service."

Favorable Opinion of Bond Counsel means, with respect to the 2010 Series A Bonds, an Opinion of Bond Counsel, addressed to the Trustee, to the effect that any specific action required under the Indenture is no longer required or that some further or different action is required to maintain the receipt of the Subsidy Payments with respect to the 2010 Series A Bonds, and, with respect to the 2010 Series B Bonds, an Opinion of Bond Counsel, addressed to the Trustee, to the effect that the action proposed to be taken will not, in and of itself, adversely affect any exclusion from gross income of interest on the 2010 Series B Bonds.

Fees and Expenses Fund means the fund by that name established pursuant to the Indenture.

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

Fitch means Fitch Inc., and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency selected by the Issuer.

Fixed Rate means the per annum interest rate or interest rates on any Series of 2008 Series Bonds in a Fixed Rate Mode determined pursuant to the provisions of the Indenture.

Fixed Rate Mode means, with respect to a Series of 2008 Series Bonds, the Mode during which such Series of 2008 Series Bonds bear interest at a Fixed Rate.

Flexible Mode means, with respect to a Series of 2008 Series Bonds, the Mode during which such Series of 2008 Series Bonds bear interest at Flexible Rates.

Flexible Rate means, with respect to any 2008 Series Bond in a Flexible Mode, the per annum interest rate determined for such 2008 Series Bond pursuant to the provisions of the Indenture.

Flexible Rate Period means, with respect to any 2008 Series Bond in a Flexible Mode, the period of from one (1) to three hundred ninety-seven (397) calendar days (which Flexible Rate Period must end on a day preceding a Business Day) during which a Flexible Rate Bond shall bear interest at a Flexible Rate, as established by the applicable Remarketing Agent pursuant to the provisions of the Indenture.

Holder or **Bondholder**, whenever used in the Indenture with respect to a Bond, means the person in whose name such Bond is registered.

Indenture means the Indenture, dated as of August 1, 2006, between the Trustee and the Issuer, as originally executed or as it may from time to time be supplemented or amended by any Supplemental Indenture delivered pursuant to the provisions of the Indenture.

Insurance means any financial guaranty insurance policy or municipal bond insurance policy issued by an Insurer insuring the payment when due of principal of and interest on a Series of Bonds as provided in such financial guaranty insurance policy or municipal bond insurance policy.

Insurer means any provider of Insurance with respect to a Series of Bonds.

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

Interest Payment Date, with respect to each Series of Bonds, shall have the meaning specified in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

Interest Period means, for each Series of 2008 Series Bonds in a particular Mode, the period of time that such Series of 2008 Series Bonds bear interest at the rate (per annum) which becomes effective at the beginning of such period, and shall include an ARS Rate Period, a Daily Rate Period, a Weekly Rate Period, a Flexible Rate Period, a Term Rate Period, and a Fixed Rate Period.

Interest Rate Mode or **Mode** means, as the context may require for each Series of 2008 Series Bonds, the ARS Mode, the Daily Mode, the Weekly Mode, the Flexible Mode, the Term Rate Mode, or the Fixed Rate Mode.

Interest Rate Swap Agreement or **Swap** means an interest rate swap, cap, collar, option, floor, forward, derivative or other hedging agreement, arrangement or security, however denominated, entered into between the Issuer and a Counterparty, in connection with, or incidental to, the issuance or carrying of Bonds including, without limitation, an interest rate swap, cap, collar, option, floor, forward, derivative or other hedging agreement, arrangement or security entered into in advance of the issuance of Bonds.

Interest Rate Swap Agreement means with respect to the 2008 Series Bonds: (i) the International Swaps and Derivatives Association (“ISDA”) Master Agreement, including the Schedule to the ISDA Master Agreement, the ISDA Credit Support Annex and the Confirmation thereto, each dated as of August 1, 2006, as amended from time to time, pursuant to which the Issuer and Bank of America, N. A. have entered into an interest rate swap transaction in the notional amount of \$50,000,000; (ii) the ISDA Master Agreement, including the Schedule to the ISDA Master Agreement, the ISDA Credit Support Annex and the Confirmation thereto, each dated as of August 1, 2006, as amended from time to time, pursuant to which the Issuer and Citibank, N.A., New York have entered into an interest rate swap transaction in the notional amount of \$85,875,000; (iii) the ISDA Master Agreement, including the Schedule to the ISDA Master Agreement, the ISDA Credit Support Annex and the Confirmation thereto, each dated as of August 1, 2006, as amended from time to time, pursuant to which the Issuer and Goldman Sachs Mitsui Marine Derivative Products, L.P. have entered into an interest rate swap transaction in the notional amount of \$50,000,000; and (iv) the ISDA Master Agreement, including the Schedule to the ISDA Master Agreement, the ISDA Credit Support Annex and the Confirmation thereto, each dated as of August 1, 2006, as amended from time to time, pursuant to which the Issuer and Morgan Stanley Capital Services Inc. have entered into an interest rate swap transaction in the notional amount of \$50,000,000.

Investment Policy means the investment policy adopted by the Board on April 4, 1996 and reaffirmed by the Board on May 3, 2007, as heretofore modified, amended and supplemented, and as such investment policy may be further modified, amended or supplemented from time to time by action of the Board.

Investment Securities means any of the following to the extent such Investment Securities are permitted pursuant to the Investment Policy:

(A) The following obligations may be used as Investment Securities for all purposes, including defeasance investments in refunding escrow accounts:

(1) Cash (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with obligations described in paragraph (2) below);

(2) Direct obligations of (including obligations issued or held in book entry form on the books of) the Department of the Treasury of the United States of America;

(3) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including

- Export-Import Bank
- Farm Credit System Financial Assistance Corporation
- Rural Economic Community Development Administration (formerly the Farmers Home Administration)
- General Services Administration
- U.S. Maritime Administration
- Small Business Administration
- Government National Mortgage Association (GNMA)
- U.S. Department of Housing & Urban Development (PHA's)
- Federal Housing Administration
- Federal Financing Bank; and

(4) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- Senior debt obligations rated “Aaa” by Moody’s and “AAA” by Standard & Poor’s issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC)
- Obligations of the Resolution Funding Corporation (REFCORP)
- Senior debt obligations of the Federal Home Loan Bank System
- Senior debt obligations of other Government Sponsored Agencies approved by each Credit Enhancement Provider then providing Credit Enhancement for a Series of Bonds.

(B) The following obligations may be used as Investment Securities for all purposes other than defeasance investments in refunding escrow accounts:

(1) U.S. dollar denominated deposit accounts, federal funds and bankers’ acceptances with domestic commercial banks (including the Trustee and its affiliates) which have a rating (ratings on holding companies are not considered as the rating of the banks) on their short-term certificates of deposit on the date of purchase of “A-1” or “A-1+” by Standard & Poor’s and “P-1” by Moody’s and maturing no more than three hundred sixty (360) days after the date of purchase;

(2) Commercial paper which is rated at the time of purchase in the single highest classification, “A-1” by Standard & Poor’s or “P-1” by Moody’s and which matures not more than two hundred seventy (270) days after the date of purchase;

(3) Investments in a money market fund rated “AAAm or “AAAm-G” or better by Standard & Poor’s including funds for which the Trustee or an affiliate provides investment advice or other services;

(4) Pre-refunded Municipal Obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior

to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(A) which are rated, based on an irrevocable escrow account or fund (the “escrow”), in the highest rating category of Standard & Poor’s and Moody’s or any successors thereto; or

(B) (i) which are fully secured as to principal and interest and prepayment premium, if any, by an escrow consisting only of cash or obligations described in paragraph A(2) above, which escrow may be applied only to the payment of such principal of and interest and prepayment premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified prepayment date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and prepayment premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(5) General obligations of states with a rating of at least “A2/A” or higher by both Moody’s and Standard & Poor’s;

(6) Any investment agreement with a financial institution or insurance company which has at the date of execution thereof an outstanding issue of unsecured, uninsured and unguaranteed debt obligations or a claims paying ability rated (or the parent company or guarantor of which is rated) in either of the two highest long-term Rating Categories by Moody’s and Standard & Poor’s;

(7) The Local Agency Investment Fund managed by the Treasurer of the State of California, as referred to in Section 16429.1 of the Government Code of the State but only to the extent such investment is registered in the name of the Trustee;

(8) Shares in a common law trust established pursuant to Title 1, Division 7, Charter 5 of the Government Code of the State which invests exclusively in investments permitted by Section 53601 of Title 5 Division 2, Chapter 4 of the Government Code of the State, as it may be amended (“CAMP”);

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

(10) Any other forms of investments, including repurchase agreements, approved in writing by each Credit Enhancement Provider then providing Credit Enhancement for a Series of Bonds.

Issuer or Authority means the Santa Clara Valley Transportation Authority, a public transit district duly established and existing under the laws of the State of California.

Liquidity Facility means, with respect to a Series of Bonds, a line of credit, letter of credit, standby purchase agreement or similar liquidity facility, issued by a commercial bank, insurance company, pension fund or other financial institution, and delivered or made available to the Trustee, as from time to time supplemented or amended pursuant to its terms, or, in the event of the delivery or availability of an Alternate Liquidity Facility, such Alternate Liquidity Facility.

Liquidity Facility Bonds means any Bonds purchased with moneys drawn under (or otherwise obtained pursuant to the terms of) a Liquidity Facility, but excluding any Bonds no longer considered to be Liquidity Facility Bonds in accordance with the terms of the applicable Liquidity Facility.

Liquidity Facility Provider means, with respect to a Series of Bonds, the commercial bank, insurance company, pension fund or other financial institution issuing (or having primary obligation, or acting as agent for the financial institutions obligated, under) a Liquidity Facility then in effect with respect to such Series of Bonds.

Liquidity Facility Rate means, with respect to a Series of Bonds, the interest rate per annum, if any, specified in the Liquidity Facility delivered in connection with such Series of Bonds as applicable to Liquidity Facility Bonds.

Mandatory Purchase Date means: (i) with respect to a Flexible Rate Bond, the first Business Day following the last day of each Flexible Rate Period with respect to such Flexible Rate Bond; (ii) for 2008 Series Bonds in a Term Rate Mode, the first Business Day following the last day of each Term Rate Period for such Series of 2008 Series Bonds; (iii) any Mode Change Date (except a change in Mode between the Daily Mode and the Weekly Mode if the then-existing Liquidity Facility provides for the payment of the purchase price of a Series of Bonds in both the Daily Mode and the Weekly Mode); (iv) any Substitution Date; (v) the fifth (5th) Business Day prior to an Expiration Date; (vi) with respect to the affected Series of 2008 Series Bonds, the date specified by the Trustee following the occurrence of an event of default (other than an event of default which constitutes an Automatic Termination Event) under the applicable Reimbursement Agreement, which date shall be a Business Day not less than twenty (20) days after the Trustee's receipt of notice of such event of default from the applicable Liquidity Facility Provider and in no event later than the Business Day preceding the termination date specified in the notice of event of default delivered to the Trustee by such Liquidity Facility Provider; (vii) for any Series of 2008 Series Bonds in a Daily Mode or a Weekly Mode, any Business Day specified by the Issuer in a notice delivered to the Trustee, which Mandatory Purchase Date shall be not less than twenty (20) days after the Trustee's receipt of such notice from the Issuer; and (viii) for any Series of 2008 Series Bonds in an ARS Mode, any date on which such Series of 2008 Bonds may be redeemed, specified by the Issuer not less than forty-five (45) days (or such lesser period as shall be agreed to by the Trustee) after the Trustee's receipt of such notice from the Issuer, which notice shall be accompanied by a Favorable Opinion of Bond Counsel.

Make-Whole Premium means, with respect to any 2010 Series A Bond to be redeemed pursuant to the Indenture, an amount calculated by a Designated Banking Institution equal to the positive difference, if any, between:

- (1) The sum of the present values, calculated as of the date fixed for redemption of:
 - (a) Each interest payment that, but for the redemption, would have been payable on the 2010 Series A Bond or portion thereof being redeemed on each regularly scheduled Interest Payment Date occurring after the date fixed for redemption through the maturity date of such 2010 Series A Bond (excluding any accrued interest for the period prior to the date fixed for redemption); provided, that if the date fixed for redemption is not a regularly scheduled Interest Payment Date with respect to such 2010

Series A Bond, the amount of the next regularly scheduled interest payment will be reduced by the amount of interest accrued on such 2010 Series A Bond to the date fixed for redemption; plus

(b) The principal amount that, but for such redemption, would have been payable on the maturity date of the 2010 Series A Bond or portion thereof being redeemed; minus

(2) The principal amount of the 2010 Series A Bond or portion thereof being redeemed.

The present values of the interest and principal payments referred to in (1) above will be determined by discounting the amount of each such interest and principal payment from the date that each such payment would have been payable but for the redemption to the date fixed for redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at a discount rate equal to the Comparable Treasury Yield (as defined herein), plus 35 basis points.

Mandatory Sinking Account Payment means, with respect to Bonds of any Series and maturity, the amount required by the Supplemental Indenture establishing the terms and provisions of such Series of Bonds to be deposited by the Issuer in a Sinking Account for the payment of Term Bonds of such Series and maturity.

Maturity Date means, with respect to a Series of Bonds, the date of maturity or maturities specified in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

Maximum Annual Debt Service means the maximum amount of Annual Debt Service becoming due and payable on all Bonds Outstanding and all Parity Obligations outstanding during the period from the date of such calculation through the final maturity date of the Bonds and Parity Obligations, calculated utilizing the assumptions set forth under the definition of Debt Service.

Maximum Rate means the lesser of (i) twelve percent (12%) and (ii) the maximum rate of interest that may legally be paid on the Bonds from time to time.

Mode or Interest Rate Mode means, as the context may require for each Series of 2008 Series Bonds, the ARS Mode, the Daily Mode, the Weekly Mode, the Flexible Mode, the Term Rate Mode, or the Fixed Rate Mode.

Moody's means Moody's Investors Service, a corporation duly organized and existing under the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the Issuer.

Notice Parties means, as and to the extent applicable, the Issuer, the Trustee, the Credit Enhancement Provider, if any, for the Series of Bonds to which the notice being given relates, the Auction Agent, if any, for the Series of Bonds to which the notice being given relates, the Broker-Dealer, if any, for the Series of Bonds to which the notice being given relates, the Liquidity Facility Provider, if any, for the Series of Bonds to which the notice being given relates, and the Remarketing Agent, if any, for the Series of Bonds to which the notice being given relates.

One Month USD LIBOR Rate means the British Banker's Association average of interbank offered rates in the London market for deposits in U. S. dollars for a one month period as reported in The Wall Street Journal or, if not reported in such newspaper, as reported in such other source as may be selected by the Issuer.

Opinion of Bond Counsel means a written opinion of a law firm of national standing in the field of public finance selected by the Issuer.

Ordinance means Ordinance No. 01.1 adopted by the Board on March 1, 2001, pursuant to the provisions of Article 9 of Chapter 5 of the Act, as now in effect and as it may from time to time hereafter be amended or supplemented.

Outstanding, when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except: (1) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (2) Bonds with respect to which all liability of the Issuer shall have been discharged in accordance with the provisions of the Indenture described below under the caption "Discharge of Liability on Bonds," and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture; provided, however, that in the event the principal of or interest due on any Bonds shall be paid by the Credit Enhancement Provider pursuant to the Credit Enhancement issued in connection with such Bonds, such Bonds shall remain Outstanding for all purposes and shall not be considered defeased or otherwise satisfied or paid by the Issuer and the pledge of 2000 Measure A Sales Tax Revenues and all covenants, agreements and other obligations of the Issuer to the Holders shall continue to exist and shall run to the benefit of such Credit Enhancement Provider and such Credit Enhancement Provider shall be subrogated to the rights of such Holders.

Parity Obligations means (i) any indebtedness, installment sale obligation, lease obligation or other obligation of the Issuer for borrowed money or (ii) any Interest Rate Swap Agreement (excluding fees and expenses and termination payments on Interest Rate Swap Agreements which fees and expenses and termination payments shall be secured by a lien and charge on the 2000 Measure A Sales Tax Revenues subordinate to the lien and charge upon the 2000 Measure A Sales Tax Revenues which secures the Bonds, Parity Obligations and payment of principal and interest on Subordinate Obligations) entered into in connection with a Series of Bonds, in each case incurred in accordance with the Indenture and having an equal lien and charge upon the 2000 Measure A Sales Tax Revenues and therefore payable on a parity with the Bonds (whether or not any Bonds are Outstanding).

Participating Underwriter means any of the original underwriters of a Series of Bonds required to comply with Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission, under the Securities Act of 1934, as the same may be amended from time to time.

Person shall mean an individual, a corporation, an association, a joint venture, a partnership, a trust, an unincorporated organization or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

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

Project means the acquisition, construction improvement or equipping of any or all real and personal and intellectual property, equipment, computers, information services, software rights or interests to be owned, held or used for transit purposes, including, but not limited to, rights-of-way, rail lines, bus lines, stations, platforms, switches, yards, terminals, parking lots and any and all facilities necessary or convenient for transit service within or partly without the County as permitted under the Ordinance, and the payment and/or reimbursement of all costs incidental to or connected with the accomplishment of such purpose including, without limitation, engineering, inspection, legal, fiscal agents, financial consultant and other fees, bond and other reserve funds, working capital, bond interest estimated to accrue during construction and for a period not to exceed one (1) year thereafter or such

greater period as shall be specified in the Tax Certificate delivered in connection with a Series of Bonds. As and to the extent permitted pursuant to 2000 Measure A and the Ordinance, Project shall also include the payment of operating expenses relating to increased bus, light rail and paratransit services.

Project Fund means, with respect to any Series of Bonds, a fund by that name established pursuant to the provisions of a Supplemental Indenture to hold the proceeds of a Series of Bonds or a portion thereof prior to expenditure on the portion of the Project being financed with the proceeds of such Series of Bonds.

Proportionate Basis, when used with respect to the redemption of Bonds, means that the amount of Bonds of each maturity to be redeemed shall be determined as nearly as practicable by multiplying the total amount of funds available for redemption by the ratio which the amount of Bond Obligation of Bonds of such maturity bears to the amount of all Bond Obligation of Bonds to be redeemed, provided, however that, any Bond may only be redeemed in an authorized denomination. For purposes of the foregoing, Term Bonds shall be deemed to mature in the years and in the amounts of the Mandatory Sinking Account Payments, and Capital Appreciation Bonds and Current Interest Bonds maturing or subject to Mandatory Sinking Account Payments in the same year shall be treated as separate maturities. When used with respect to the payment or purchase of Bonds, "Proportionate Basis" shall have the same meaning set forth above except that "pay" or "purchase" shall be substituted for "redeem" or "redemption" and "paid" or "purchased" shall be substituted for "redeemed."

Purchase Fund means a fund by that name established to hold funds to be applied to pay the purchase price of a Series of Bonds, which fund shall be established pursuant to the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

Purchase Price means an amount equal to the principal amount of any 2008 Series Bonds purchased on any Purchase Date, plus accrued interest to such Purchase Date (unless such Purchase Date is also an Interest Payment Date, in which case the Purchase Price shall not include accrued interest, which shall be paid in the normal course).

Rating Agency means, as and to the extent applicable to a Series of Bonds, each of Fitch, Moody's and Standard & Poor's then maintaining a rating on such Series of Bonds at the request of the Issuer.

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

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

Rebate Instructions means, with respect to any Series of Bonds, those calculations and directions required to be delivered to the Trustee by the Issuer pursuant to the Tax Certificate delivered in connection with such Series of Bonds.

Rebate Requirement means, with respect to any Series of Bonds, the Rebate Requirement determined in accordance with the Tax Certificate delivered in connection with such Series of Bonds.

Record Date, with respect to each Series of Bonds, shall have the meaning specified in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

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

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

Reference Treasury Dealer means a primary United States Government securities dealer appointed by the Issuer and reasonably acceptable to the Designated Banking Institution.

Refunding Bonds means a Series of Bonds or a portion of a Series of Bonds issued pursuant to the provisions of the Indenture described below under the caption “Issuance of Refunding Bonds.”

Reimbursement Agreement means, with respect to any Series of 2008 Series Bonds, any reimbursement agreement, credit agreement, line of credit agreement, standby bond purchase agreement or other agreement, between a Liquidity Facility Provider and the Issuer, as the same may be amended from time to time pursuant to its terms.

Remarketing Agent means, with respect to any Series of 2008 Series Bonds, the remarketing agent for such Series of 2008 Series Bonds appointed by the Issuer pursuant to the provisions of the Indenture.

Remarketing Agreement means, with respect to any Series of 2008 Series Bonds, an agreement providing for the remarketing of such Series of 2008 Series Bonds tendered for purchase, as the same may be amended from time to time pursuant to its terms.

Remarketing Proceeds Account means, with respect to any Series of 2008 Series Bonds, an account by that name established for such Series of 2008 Series Bonds pursuant to the Indenture.

Repositories means the public or private entities designated as Repositories in a Continuing Disclosure Certificate entered into in connection with a Series of Bonds.

Required Stated Amount means, in the case of each Liquidity Facility, at any time of calculation with respect to a Series of 2008 Series Bonds, an amount equal to the aggregate principal amount of such Series of 2008 Series Bonds then Outstanding together with interest accruing thereon (assuming an annual rate of interest equal to the Maximum Rate) for the period specified in a certificate of the Issuer to be the minimum period specified by the Rating Agencies then rating such Series of 2008 Series Bonds, as necessary to maintain the short-term rating of such Series of 2008 Series Bonds.

Reserve Facility means any insurance policy, letter of credit or surety bond issued by a Reserve Facility Provider, meeting the requirements set forth in the Indenture described below under the caption “Funding and Application of Bond Reserve Funds,” and delivered to the Trustee in satisfaction of all or a portion of the Bond Reserve Requirement applicable to one or more Series of Bonds.

Reserve Facility Provider means any issuer of a Reserve Facility. Reserve Facility Provider with respect to the 2007 Series A Bonds means Ambac Assurance Corporation or any successor thereto.

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

Revenues means: (i) all 2000 Measure A Sales Tax Revenues; and (ii) all investment earnings on amounts held by the Trustee in the funds and accounts established under the Indenture, excluding amounts deposited to the Rebate Fund and any Purchase Fund. Revenues does not include any funds or

assets of the Issuer except 2000 Measure A Sales Tax Revenues and investment earnings on amounts held by the Trustee in the funds and accounts established under the Indenture, excluding amounts deposited to the Rebate Fund and any Purchase Fund; provided, however, that in accordance with the provisions of the Indenture described below under the caption “Issuance of Additional Bonds,” the Issuer by Supplemental Indenture may provide for additional revenues or assets of the Issuer to be included in the definition of Revenues. Pursuant to the provisions set forth in the Fourth Supplemental Indenture, Subsidy Payments shall be included within the definition of Revenues until such time as the amendment of clause (g) of the definition of debt service described below in subsection (D) under the caption “Issuance of Additional Bonds” shall become effective. At such time as the amendment of clause (g) of the definition of debt service described below under the caption “Issuance of Additional Bonds” shall become effective, Subsidy Payments shall no longer be included in within the definition of Revenues for purposes of any calculations to be provided pursuant to the provisions of the Indenture described below in subsection (D) under the caption “Issuance of Additional Bonds.”

Rule 15c2-12 means Securities and Exchange Commission Rule 15c2-12, as supplemented and amended from time to time.

Sales Tax Revenues or **2000 Measure A Sales Tax Revenues** means the amounts available for distribution to the Issuer after the date of issuance of the 2006 Series Bonds on account of the 2000 Measure A Sales Tax after deducting amounts payable by the Issuer to the State Board of Equalization for costs and expenses for its services in connection with the 2000 Measure A Sales Tax collected pursuant Section 100250 et seq. of the Act and levied pursuant to the Ordinance.

Securities Depository means The Depository Trust Company, or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depository, or no such depositories, as the Issuer may designate in a Request of the Issuer delivered to the Trustee.

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

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

Sinking Account means an account by that name established in the Principal Fund for the payment of Term Bonds.

Standard & Poor’s or **S&P** means Standard & Poor’s, a division of The McGraw-Hill Companies, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “Standard & Poor’s” shall be deemed to refer to any other nationally recognized securities rating agency selected by the Issuer.

State means the State of California.

State Board of Equalization means the California State Board of Equalization.

Subordinate Obligations means any obligations issued or incurred in accordance with the provisions of the Indenture described in paragraph (D) under the caption “Limitations on the Issuance of Obligations Payable from 2000 Measure A Sales Tax Revenues; Parity Obligations; Subordinate Obligations” set forth below.

Subordinate Obligations Fund means the fund by that name established pursuant to the Indenture.

Subsidy Payments means payments to be made by the United States Treasury to the Trustee pursuant to Section 54AA of the Code or Section 6431 of the Code or any successor to either of such provisions of the Code and with respect to the interest due on a Series of taxable Bonds that have been accorded Build America Bonds status under the provisions of the American Recovery and Reinvestment Act of 2009 or any successor thereto or replacement thereof.

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

Tax Certificate means each Tax Certificate delivered by the Issuer at the time of issuance and delivery of a Series of Bonds, as the same may be amended or supplemented in accordance with its terms.

Tax Expiration Date means March 31, 2036 or such later date to which the levy of the 2000 Measure A Sales Tax is extended in accordance with the Act.

Tax Law Change means legislation has been enacted by the Congress of the United States or passed by either House of the Congress, or a decision has been rendered by a court of the United States, or an order, ruling, regulation (final, temporary or proposed) or official statement has been made by or on behalf of the Treasury Department of the United States, the Internal Revenue Service or other governmental agency of appropriate jurisdiction, the effect of which, as reasonably determined by the Issuer, would be to suspend, reduce or terminate the Subsidy Payments from the United States Treasury to the Issuer with respect to the 2010 Series A Bonds, or payments to state or local government issuers generally with respect to obligations of the general character of, and issued in the same calendar year as, the 2010 Series A Bonds; provided, that such suspension, reduction or termination of the Subsidy Payments is not due to a failure by the Issuer to comply with the requirements under the Code to receive such Subsidy Payments.

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

Term Rate means the per annum interest rate for any Series of 2008 Series Bonds in the Term Rate Mode determined pursuant to the Indenture.

Term Rate Mode means, with respect to a Series of 2008 Series Bonds, the Mode during which such Series of 2008 Series Bonds bear interest at a Term Rate.

Trustee means Deutsche Bank National Trust Company, a national banking association duly organized and existing under and by virtue of the laws of the United States of America, or its successor, as Trustee as provided in the Indenture.

2000 Measure A means the ballot measure which authorized the 2000 Measure A Sales Tax.

2000 Measure A Sales Tax means the retail transactions and use tax authorized by 2000 Measure A.

2000 Measure A Sales Tax Revenues or **Sales Tax Revenues** means the amounts available for distribution to the Issuer after the date of issuance of the 2006 Series Bonds on account of the 2000 Measure A Sales Tax after deducting amounts payable by the Issuer to the State Board of Equalization for costs and expenses for its services in connection with the 2000 Measure A Sales Tax collected pursuant Section 100250 et seq. of the Act and levied pursuant to the Ordinance.

2007 Series A Bonds means the Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Refunding Bonds, 2007 Series A, authorized by, and at any time Outstanding pursuant to the Indenture.

2008 Series Bonds means, collectively, the 2008 Series A Bonds, the 2008 Series B Bonds, the 2008 Series C Bonds and the 2008 Series D Bonds.

2008 Series A Bonds means the Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Refunding Bonds, 2008 Series A, authorized by, and at any time Outstanding pursuant to the Indenture.

2008 Series B Bonds means the Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Refunding Bonds, 2008 Series B, authorized by, and at any time Outstanding pursuant to the Indenture.

2008 Series C Bonds means the Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Refunding Bonds, 2008 Series C, authorized by, and at any time Outstanding pursuant to the Indenture.

2008 Series D Bonds means the Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Refunding Bonds, 2008 Series D, authorized by, and at any time Outstanding pursuant to the Indenture.

2008 Series Bond Reserve Fund means the fund by that name established pursuant to the Indenture.

2010 Series Bonds means, collectively, the 2010 Series A Bonds and the 2010 Series B Bonds.

2010 Series A Bonds means the Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds, 2010 Series A (Taxable Build America Bonds), authorized by, and at any time Outstanding pursuant to the Indenture.

2010 Series B Bonds means the Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds, 2010 Series B (Tax-Exempt Bonds), authorized by, and at any time Outstanding pursuant to the Indenture.

2010 Series Bond Reserve Fund means the fund by that name established pursuant to the Indenture.

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

Weekly Mode means, with respect to any Series of 2008 Series Bonds, the Mode during which such Series of 2008 Series Bonds bear interest at the Weekly Rate.

Pledge of 2000 Measure A Sales Tax Revenues; Sales Tax Revenue Fund*

The Bonds are limited obligations of the Issuer and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from the 2000 Measure A Sales Tax Revenues and other funds pledged under the Indenture. All 2000 Measure A Sales Tax Revenues are pledged to secure the punctual payment of the principal of, redemption premium, if any, and interest on the Bonds and any Parity Obligations in accordance with their terms, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and provisions set forth in the Indenture. All amounts (including proceeds of the Bonds) held by the Trustee under the Indenture (except for amounts held in the Rebate Fund and any Purchase Fund) are pledged to secure the payment of the principal of and redemption premium, if any, and interest on the Bonds in accordance with their terms, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. Said pledge shall constitute a first lien on the 2000 Measure A Sales Tax Revenues and on the amounts in such funds.

The 2000 Measure A Sales Tax Revenues pledged to the payment of Bonds and Parity Obligations shall be applied without priority or distinction of one over the other and the 2000 Measure A Sales Tax Revenues shall constitute a trust fund for the security and payment of the Bonds and Parity Obligations; but nevertheless out of 2000 Measure A Sales Tax Revenues certain amounts may be applied for other purposes as provided in the Indenture.

Out of 2000 Measure A Sales Tax Revenues there shall be applied as hereinafter described all sums required for the payment of the principal of (including any premium thereon) and interest on the Bonds and all Parity Obligations, together with any sinking fund payments of Bonds and Parity Obligations and reserve requirements with respect thereto and fees and expenses and similar charges payable in connection with the Bonds and Parity Obligations. All remaining 2000 Measure A Sales Tax Revenues, after making the foregoing allocation, shall be available to the Issuer for all lawful Issuer purposes. The pledge of 2000 Measure A Sales Tax Revenues made in the Indenture shall be irrevocable until all of the Bonds, all Parity Obligations and amounts owed in connection with the Bonds and Parity Obligations are no longer outstanding.

The 2000 Measure A Sales Tax Revenues shall be received and held in trust by the Trustee for the benefit of the Holders of the Bonds and the Parity Obligations and shall be disbursed, allocated and applied solely for the uses and purposes set forth in the Indenture and described below under the caption "Allocation of Revenues." As long as any Bonds are Outstanding or any Parity Obligations remain unpaid, the Issuer assigns and shall cause 2000 Measure A Sales Tax Revenues to be transmitted by the California State Board of Equalization directly to the Trustee. The Trustee shall forthwith deposit in a trust fund, designated as the "Sales Tax Revenue Fund," which fund the Trustee shall establish and maintain, all 2000 Measure A Sales Tax Revenues, when and as received by the Trustee. Investment income on amounts held by the Trustee under the Indenture (other than amounts held in the Rebate Fund or for which particular instructions (such as with respect to a Project Fund or a Purchase Fund) are provided in a Supplemental Indenture) shall also be deposited in the Revenue Fund. All moneys at any time held in the Revenue Fund shall be held in trust for the benefit of the Holders of the Bonds and the holders of Parity Obligations and shall be disbursed, allocated and applied solely for the uses and purposes set forth in the Indenture and described below under the caption "Allocation of Revenues."

* See "Fourth Supplemental Indenture – Pledge of Subsidy Payments."

Allocation of 2000 Measure A Sales Tax Revenues

So long as any Bonds are Outstanding, the Trustee shall set aside in each month following receipt of the 2000 Measure A Sales Tax Revenues the moneys in the Revenue Fund in the following respective funds (each of which the Trustee shall establish, maintain and hold in trust for the benefit of the Holders of the Bonds and, as and to the extent applicable, the holders of Parity Obligations) in the following amounts, in the following order of priority, the requirements of each such fund (including the making up of any deficiencies in any such fund resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any fund subsequent in priority; provided that on a parity with such deposits the Trustee may set aside or transfer amounts with respect to any outstanding Parity Obligations as provided in the proceedings for such Parity Obligations delivered to the Trustee (which shall be proportionate in the event such amounts are insufficient to provide for all deposits required as of any date to be made with respect to the Bonds and such Parity Obligations):

Interest Fund. Following receipt of the 2000 Measure A Sales Tax Revenues in each month, the Trustee shall set aside in the Interest Fund as soon as practicable in such month an amount equal to (a) one-sixth of the aggregate half-yearly amount of interest becoming due and payable on the Outstanding Current Interest Bonds (except for Bonds constituting Variable Rate Indebtedness which shall be governed by subparagraph (b) below) during the next ensuing six (6) months (excluding any interest for which there are moneys deposited in the Interest Fund from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay such interest during said next ensuing six (6) months), until the requisite half-yearly amount of interest on all such Outstanding Current Interest Bonds (except for Bonds constituting Variable Rate Indebtedness which shall be governed by subparagraph (b) below) is on deposit in such fund; provided that, from the date of delivery of a Series of Current Interest Bonds until the first interest payment date with respect to such Series of Bonds, the amounts set aside in such fund with respect to such Series of Bonds shall be sufficient on a monthly pro rata basis to pay the aggregate amount of interest becoming due and payable on said interest payment date with respect to such Series of Bonds, plus (b) the aggregate amount of interest to accrue during that month on Outstanding Variable Rate Indebtedness, calculated, if the actual rate of interest is not known, at the interest rate specified in writing by the Issuer, or if the Issuer shall not have specified an interest rate in writing, calculated at the maximum interest rate borne by such Variable Rate Indebtedness during the month prior to month of deposit plus one hundred (100) basis points (provided, however, that the amount of such deposit into the Interest Fund for any month may be reduced by the amount by which the deposit in the prior month exceeded the actual amount of interest accrued during that month on said Outstanding Variable Rate Indebtedness and provided further that the amount of such deposit into the Interest Fund for any month shall be increased by the amount by which the deposit in the prior month was less than the actual amount of interest accruing during that month on said Outstanding Variable Rate Indebtedness). No deposit need be made into the Interest Fund if the amount contained therein is at least equal to the interest to become due and payable on the Interest Payment Dates falling within the next six (6) months upon all of the Bonds issued under the Indenture and then Outstanding and on April 1 of each year any excess amounts in the Interest Fund not needed to pay interest on such date (and not held to pay interest on Bonds having interest payment dates other than April 1 and October 1) shall be transferred to the Issuer (but excluding, in each case, any moneys on deposit in the Interest Fund from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay interest on any future interest payment dates following such interest payment dates).

Principal Fund; Sinking Accounts. Following receipt of the 2000 Measure A Sales Tax Revenues in each month, the Trustee shall deposit in the Principal Fund as soon as practicable in such month an amount equal to at least (a) one-sixth of the aggregate semiannual amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds of all Series having semiannual maturity

dates within the next six (6) months, plus (b) one-twelfth of the aggregate yearly amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds of all Series having annual maturity dates within the next twelve (12) months, plus (c) one-sixth of the aggregate of the Mandatory Sinking Account Payments to be paid during the next six-month period into the respective Sinking Accounts for the Term Bonds of all Series for which Sinking Accounts have been created and for which semiannual mandatory redemption is required from said Sinking Accounts, plus (d) one-twelfth of the aggregate of the Mandatory Sinking Account Payments to be paid during the next 12-month period into the respective Sinking Accounts for the Term Bonds of all Series for which Sinking Accounts shall have been created and for which annual mandatory redemption is required from such Sinking Accounts; provided that if the Issuer certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from amounts on deposit in a Bond Reserve Fund that would be in excess of the Bond Reserve Requirement applicable to such Bond Reserve Fund upon such payment, no amounts need be set aside towards such principal to be so refunded or paid. All of the aforesaid deposits made in connection with future Mandatory Sinking Account Payments shall be made without priority of any payment into any one such Sinking Account over any other such payment.

In the event that the 2000 Measure A Sales Tax Revenues shall not be sufficient to make the required deposits so that moneys in the Principal Fund on any principal or mandatory redemption date are equal to the amount of Bond Obligation to become due and payable on the Outstanding Serial Bonds of all Series plus the Bond Obligation amount of and redemption premium on the Outstanding Term Bonds required to be redeemed or paid at maturity on such date, then such moneys shall be applied on a Proportionate Basis and in such proportion as said Serial Bonds and said Term Bonds shall bear to each other, after first deducting for such purposes from said Term Bonds any of said Term Bonds required to be redeemed annually as shall have been redeemed or purchased during the preceding 12-month period and any of said Term Bonds required to be redeemed semiannually as shall have been redeemed or purchased during the six-month period ending on such date or the immediately preceding six month period. In the event that the 2000 Measure A Sales Tax Revenues shall not be sufficient to pay in full all Mandatory Sinking Account Payments required to be paid at any one time into all such Sinking Accounts, then payments into all such Sinking Accounts shall be made on a Proportionate Basis, in proportion that the respective Mandatory Sinking Account Payments required to be made into each Sinking Account during the then current 12-month period bear to the aggregate of all of the Mandatory Sinking Account Payments required to be made into all such Sinking Accounts during such 12-month period.

No deposit need be made into the Principal Fund so long as there shall be in such fund (i) moneys sufficient to pay the Bond Obligations of all Serial Bonds issued under the Indenture and then Outstanding and maturing by their terms within the next twelve (12) months plus (ii) the aggregate of all Mandatory Sinking Account Payments required to be made in such 12-month period, but less any amounts deposited into the Principal Fund during such 12-month period and theretofore paid from the Principal Fund to redeem or purchase Term Bonds during such 12-month period; provided that if the Issuer certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from amounts on deposit in a Bond Reserve Fund that would be in excess of the Bond Reserve Requirement applicable to such Bond Reserve Fund upon such payment, no amounts need be on deposit with respect to such principal payments. At the beginning of each Fiscal Year and in any event not later than April 1 of each year, the Trustee shall request from the Issuer a Certificate of the Issuer setting forth the principal payments for which deposits will not be necessary pursuant to the preceding sentence and the reason therefor. On April 1 of each year any excess amounts in the Principal Fund not needed to pay principal on such date (and not held to pay principal on Bonds having principal payment dates other than April 1) shall be transferred to the Issuer.

Bond Reserve Fund. Upon the occurrence of any deficiency in any Bond Reserve Fund, the Trustee shall make such deposit to such Bond Reserve Fund as is required pursuant to the provisions of

the Indenture described in paragraph (D) under the caption “Funding and Application of Bond Reserve Funds,” each such deposit to be made as soon as possible in each month, until the balance therein is at least equal to the applicable Bond Reserve Requirement.

Subordinate Obligations Fund. Upon the written direction of the Issuer, the Trustee shall establish, maintain and hold in trust a separate fund designated as the “Subordinate Obligations Fund.” Upon the establishment of the Subordinate Obligations Fund at the direction of the Issuer, after the transfers to the Interest Fund, the Principal Fund and the Bond Reserve Funds described above have been made, the Trustee shall deposit in the Subordinate Obligations Fund in each month such amount as the Issuer shall specify in writing is necessary to pay principal of and interest due and payable during the following month with respect to Subordinate Obligations then outstanding.

Fees and Expenses Fund. After the transfers to the Interest Fund, the Principal Fund, the Bond Reserve Funds and the Subordinate Obligations Fund described above have been made if Issuer shall have instructed the Trustee to establish a Subordinate Obligations Fund or after the transfers described above to Interest Fund, Principal Fund, and Bond Reserve Funds have been made if no Subordinate Obligations Funds shall have been established, the Trustee shall deposit as soon as practicable in each month in the Fees and Expenses Fund (which fund the Trustee hereby agrees to establish, maintain and hold in trust) amounts necessary for payment of fees, expenses and similar charges owing in such month or the following month by the Issuer in connection with the Bonds or any Parity Obligations (excluding termination payments on Interest Rate Swap Agreements). The Issuer shall inform the Trustee of such amounts, in writing, at the beginning of each month.

Any Revenues remaining in the Revenue Fund after the foregoing transfers in the funds and accounts described above, except as the Issuer shall otherwise direct in writing or as is otherwise provided in a Supplemental Indenture, shall be transferred to the Issuer on the same Business Day or as soon as is practicable thereafter. The Issuer may use and apply the Revenues when received by it for any lawful purpose of the Issuer, including the redemption of Bonds upon the terms and conditions set forth in the Supplemental Indenture relating to such Bonds and the purchase of Bonds as and when and at such prices as it may determine.

If five (5) days prior to any principal payment date, interest payment date or mandatory redemption date the amounts on deposit in the Interest Fund, the Principal Fund, including the Sinking Accounts therein, and, as and to the extent applicable, any Bond Reserve Fund established in connection with a Series of Bonds with respect to the payments to be made on such upcoming date are insufficient to make such payments, the Trustee shall immediately notify the Issuer, in writing, of such deficiency and direct that the Issuer transfer the amount of such deficiency to the Trustee on or prior to such payment date. The Issuer covenants and agrees to transfer to the Trustee from any Revenues in its possession the amount of such deficiency on or prior to the principal, interest or mandatory redemption date referenced in such notice.

Establishment and Application of Funds and Accounts

Each of the funds and accounts described below is established pursuant to the Indenture.

Interest Fund. All amounts in the Interest Fund shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture) and making periodic payments on Interest Rate Swap Agreements, as provided pursuant to the provisions of the Indenture described below under the caption “Payment Provisions Applicable to Interest Rate Swap Agreements.”

Principal Fund. All amounts in the Principal Fund shall be used and withdrawn by the Trustee solely for the purposes of paying the Bond Obligation of the Bonds when due and payable, except that all amounts in the Sinking Accounts shall be used and withdrawn by the Trustee solely to purchase or redeem or pay at maturity Term Bonds, as provided in the Indenture.

The Trustee shall establish and maintain within the Principal Fund a separate account for the Term Bonds of each Series and maturity, designated as the “_____ Sinking Account,” inserting therein the Series and maturity designation of such Bonds. On or before the Business Day prior to any date upon which a Mandatory Sinking Account Payment is due, the Trustee shall transfer the amount of such Mandatory Sinking Account Payment (being the principal thereof, in the case of Current Interest Bonds, and the Accreted Value, in the case of Capital Appreciation Bonds) from the Principal Fund to the applicable Sinking Account. With respect to each Sinking Account, on each Mandatory Sinking Account Payment date established for such Sinking Account, the Trustee shall apply the Mandatory Sinking Account Payment required on that date to the redemption (or payment at maturity, as the case may be) of Term Bonds of such Series and maturity for which such Sinking Account was established, in the manner provided in the Indenture or the Supplemental Indenture pursuant to which such Series of Bonds was created; provided that, at any time prior to giving such notice of such redemption, the Trustee shall, upon receipt of a Request of the Issuer, apply moneys in such Sinking Account to the purchase of Term Bonds of such Series and maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Fund) as is directed by the Issuer, except that the purchase price (excluding accrued interest, in the case of Current Interest Bonds) shall not exceed the principal amount or Accreted Value thereof. If, during the 12-month period (or six-month period with respect to Bonds having semi-annual Mandatory Sinking Account Payments) immediately preceding said Mandatory Sinking Account Payment date, the Trustee has purchased Term Bonds of such Series and maturity with moneys in such Sinking Account, or, during said period and prior to giving said notice of redemption, the Issuer has deposited Term Bonds of such Series and maturity with the Trustee, or Term Bonds of such Series and maturity were at any time purchased or redeemed by the Trustee from the Redemption Fund and allocable to said Mandatory Sinking Account Payment, such Term Bonds so purchased or deposited or redeemed shall be applied, to the extent of the full principal amount thereof, to reduce said Mandatory Sinking Account Payment. All Term Bonds purchased or deposited pursuant to the provisions of the Indenture described herein shall be cancelled by the Trustee and destroyed by the Trustee and a certificate of destruction shall be delivered to the Issuer by the Trustee. Any amounts remaining in a Sinking Account on April 1 of each year following the redemption as of such date of the Term Bonds for which such account was established shall be withdrawn by the Trustee and transferred as soon as is practicable to the Issuer to be used for any lawful purpose. All Term Bonds purchased from a Sinking Account or deposited by the Issuer with the Trustee in a twelve month period ending March 31 (or in a six-month period ending March 31 or September 30 with respect to Bonds having semi-annual Mandatory Sinking Account Payments) and prior to the giving of notice by the Trustee for redemption from Mandatory Sinking Account Payments for such period shall be allocated first to the next succeeding Mandatory Sinking Account Payment for such Series and maturity of Term Bonds, if any, occurring on the next April 1 or October 1, then as a credit against such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of the Issuer. All Term Bonds redeemed by the Trustee from the Redemption Fund shall be credited to such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of the Issuer.

Funding and Application of Bond Reserve Funds. The Issuer may at its sole discretion at the time of issuance of any Series of Bonds or at any time thereafter by Supplemental Indenture provide for the establishment of a Bond Reserve Fund as additional security for a Series of Bonds. Any Bond Reserve Fund so established by the Issuer shall be available to secure one or more Series of Bonds as the Issuer shall determine and shall specify in the Supplemental Indenture establishing such Bond Reserve

Fund. Any Bond Reserve Fund established by the Issuer shall be held by the Trustee and shall comply with the requirements of the Indenture described under this caption.

In lieu of making the Bond Reserve Requirement deposit applicable to one or more Series of Bonds in cash or in replacement of moneys then on deposit in any Bond Reserve Fund (which shall be transferred by the Trustee to the Issuer), or in substitution of any Reserve Facility comprising part of the Bond Reserve Requirement relating to one or more Series of Bonds, the Issuer may, at any time and from time to time, deliver to the Trustee an irrevocable letter of credit issued by a financial institution having unsecured debt obligations rated at the time of delivery of such letter of credit in one of the two highest Rating Categories of Moody's and Standard & Poor's, in an amount, which, together with cash, Investment Securities or other Reserve Facilities, as described in the paragraph below, then on deposit in such Bond Reserve Fund, will equal the Bond Reserve Requirement relating to the Bonds to which such Bond Reserve Fund relates. Such letter of credit shall have a term no less than three (3) years or, if less, the final maturity of the Bonds in connection with which such letter of credit was obtained and shall provide by its terms that it may be drawn upon as provided in this caption. At least one (1) year prior to the stated expiration of such letter of credit, the Issuer shall either (i) deliver a replacement letter of credit, (ii) deliver an extension of the letter of credit for at least one (1) additional year or, if less, the final maturity of the Bonds in connection with which such letter of credit was obtained, or (iii) deliver to the Trustee a Reserve Facility satisfying the requirements of the Indenture described in the paragraph below. Upon delivery of such replacement Reserve Facility, the Trustee shall deliver the then-effective letter of credit to or upon the order of the Issuer. If the Issuer shall fail to deposit a replacement Reserve Facility with the Trustee, the Issuer shall immediately commence to make monthly deposits with the Trustee so that an amount equal to the Bond Reserve Requirement relating to the Bonds to which such Bond Reserve Fund relates will be on deposit in such Bond Reserve Fund no later than the stated expiration date of the letter of credit. If an amount equal to the Bond Reserve Requirement relating to the Bonds to which such Bond Reserve Fund relates as of the date following the expiration of the letter of credit is not on deposit in such Bond Reserve Fund one (1) week prior to the expiration date of the letter of credit (excluding from such determination the letter of credit), the Trustee shall draw on the letter of credit to fund the deficiency resulting therefrom in such Bond Reserve Fund.

In lieu of making a Bond Reserve Requirement deposit in cash or in replacement of moneys then on deposit in a Bond Reserve Fund (which shall be transferred by the Trustee to the Issuer) or in substitution of any Reserve Facility comprising part of a Bond Reserve Requirement for any Bonds, the Issuer may, at any time and from time to time, deliver to the Trustee a surety bond or an insurance policy securing an amount which, together with moneys, Investment Securities, or other Reserve Facilities then on deposit in a Bond Reserve Fund, is no less than the Bond Reserve Requirement relating to the Bonds to which such Bond Reserve Fund relates. Such surety bond or insurance policy shall be issued by an insurance company whose unsecured debt obligations (or for which obligations secured by such insurance company's insurance policies) are rated at the time of delivery in one of the two highest Rating Categories of Moody's and Standard & Poor's. Such surety bond or insurance policy shall have a term of no less than the final maturity of the Bonds in connection with which such surety bond or insurance policy is obtained. In the event that such surety bond or insurance policy for any reason lapses or expires, the Issuer shall immediately implement (i) or (iii) of the preceding paragraph or make the required deposits to such Bond Reserve Fund.

Subject to the provisions of the Indenture described in the final paragraph under this caption, all amounts in any Bond Reserve Fund (including all amounts which may be obtained from Reserve Facilities on deposit in such Bond Reserve Fund) shall be used and withdrawn by the Trustee, as hereinafter described for the purpose of making up any deficiency in the Interest Fund or the Principal Fund relating to the Bonds to which such Bond Reserve Fund relates, or (together with any other moneys available therefor) for the payment or redemption of all Bonds then Outstanding to which such Bond

Reserve Fund relates or, for the payment of the final principal and interest payment of such Bonds. Unless otherwise directed in a Supplemental Indenture establishing the terms and provisions of a Series of Bonds, the Trustee shall apply amounts held in cash or Investment Securities in any Bond Reserve Fund prior to applying amounts held in the form of Reserve Facilities in any Bond Reserve Fund, and if there is more than one Reserve Facility being held on deposit in any Bond Reserve Fund, shall on a pro rata basis with respect to the portion of a Bond Reserve Fund held in the form of a Reserve Facility (calculated by reference to the maximum amount of such Reserve Facility), draw under each Reserve Facility issued with respect to such Bond Reserve Fund, in a timely manner and pursuant to the terms of such Reserve Facility to the extent necessary in order to obtain sufficient funds on or prior to the date such funds are needed to pay the Bond Obligation of, Mandatory Sinking Account Payments with respect to, and interest on the Bonds to which such Bond Reserve Fund relates when due. In the event that the Trustee has notice that any payment of principal of or interest on a Bond has been recovered from a Holder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee, pursuant to and provided that the terms of the Reserve Facility, if any, securing the Bonds so provide, shall so notify the issuer thereof and draw on such Reserve Facility to the lesser of the extent required or the maximum amount of such Reserve Facility in order to pay to such Holders the principal of and interest so recovered.

The Trustee shall notify the Issuer of any deficiency in any Bond Reserve Fund (i) due to a withdrawal from such Bond Reserve Fund for purposes of making up any deficiency in the Interest Fund or the Principal Fund relating to the Bonds to which such Bond Reserve Fund relates or (ii) resulting from a valuation of Investment Securities held on deposit in such Bond Reserve Fund pursuant to the provisions of the Indenture described below under the caption "Investment in Funds and Accounts" and shall request that the Issuer replenish such deficiency or repay any and all obligations due and payable under the terms of any Reserve Facility comprising part of any Bond Reserve Requirement. Upon receipt of such notification from the Trustee, the Issuer shall instruct the Trustee to commence setting aside in each month following receipt of 2000 Measure A Sales Tax Revenues for deposit in the applicable Bond Reserve Fund an amount equal to one-twelfth (1/12th) of the aggregate amount of each unreplenished prior withdrawal from such Bond Reserve Fund or decrease resulting from a valuation of Investment Securities and shall further instruct the Trustee to transfer to each Reserve Facility Provider providing a Reserve Facility satisfying a portion of the Bond Reserve Requirement relating to the Bonds to which such Bond Reserve Fund relates, an amount equal to one-twelfth (1/12th) of the aggregate amount of any unreplenished prior withdrawal on such Reserve Facility, such amount to be transferred by the Trustee as promptly as possible after receipt of the 2000 Measure A Sales Tax Revenues each month, commencing with the month following the Issuer's receipt of notification from the Trustee of withdrawal or decrease resulting from a valuation, as applicable, until the balance on deposit in such Bond Reserve Fund is at least equal to the Bond Reserve Requirement relating to the Series of Bonds to which such Bond Reserve Fund relates.

Unless the Issuer shall otherwise direct in writing, amounts in any Bond Reserve Fund in excess of the Bond Reserve Requirement relating to the Bonds to which such Bond Reserve Fund relates shall be transferred by the Trustee to the Issuer on the Business Day following April 1 of each year; provided that such amounts shall be transferred only from the portion of such Bond Reserve Fund held in the form of cash or Investment Securities. In addition, amounts on deposit in any Bond Reserve Fund shall be transferred by the Trustee to the Issuer upon the defeasance, retirement or refunding of Bonds of the Series to which such Bond Reserve Fund relates or upon the replacement of cash on deposit in such Bond Reserve Fund with one or more Reserve Facilities in accordance with the provisions of the Indenture described above.

Subordinate Obligations Fund. All moneys in the Subordinate Obligations Fund shall be applied to the payment of principal of and interest on Subordinate Obligations in accordance with, and upon the written directions of, the Issuer.

Fees and Expenses Fund. All amounts in the Fees and Expenses Fund shall be used and withdrawn by the Trustee solely for the purpose of paying fees, expenses and similar charges owed by the Issuer in connection with the Bonds or any Parity Obligations (excluding termination payments on any Interest Rate Swap Agreement) as such amounts shall become due and payable.

Redemption Fund. The Trustee shall establish, maintain and hold in trust a special fund designated as the “Redemption Fund.” All moneys deposited by the Issuer with the Trustee for the purpose of optionally redeeming Bonds of any Series shall, unless otherwise directed by the Issuer, be deposited in the Redemption Fund. All amounts deposited in the Redemption Fund shall be used and withdrawn by the Trustee solely for the purpose of redeeming Bonds of such Series and maturity as shall be specified by the Issuer in a Request to the Trustee, in the manner, at the times and upon the terms and conditions specified in the Supplemental Indenture pursuant to which the Series of Bonds was created; provided that, at any time prior to giving such notice of redemption, the Trustee shall, upon receipt of a Request of the Issuer, apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding, in the case of Current Interest Bonds, accrued interest, which is payable from the Interest Fund) as is directed by the Issuer, except that the purchase price (exclusive of any accrued interest) may not exceed the Redemption Price or Accreted Value then applicable to such Bonds. All Term Bonds purchased or redeemed from the Redemption Fund shall be allocated to Mandatory Sinking Account Payments applicable to such Series and maturity of Term Bonds as may be specified in a Request of the Issuer.

Rebate Fund. Upon receipt of funds to be applied to the Rebate Requirement, the Trustee shall establish and maintain a fund separate from any other fund established and maintained under the Indenture designated as the Rebate Fund. Within the Rebate Fund, the Trustee shall maintain such accounts as shall be necessary in order to comply with the terms and requirements of each Tax Certificate as directed in writing by the Issuer. Subject to the transfer provisions provided in the Indenture, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement, for payment to the federal government of the United States of America, and neither the Trustee nor any Holder nor any other Person shall have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by the Indenture and by each of the Tax Certificates. The Issuer covenants to comply with the directions contained in each Tax Certificate and the Trustee covenants to comply with all written instructions of the Issuer delivered to the Trustee pursuant to each Tax Certificate (which instructions shall state the actual amounts to be deposited in or withdrawn from the Rebate Fund and shall not require the Trustee to make any calculations with respect thereto).

Payment Provisions Applicable to Interest Rate Swap Agreements

In the event the Issuer shall enter into an Interest Rate Swap Agreement in connection with a Series of Bonds, the amounts received by the Issuer, if any, pursuant to such Interest Rate Swap Agreement may be applied to the deposits required under the Indenture. If the Issuer so designates in a Supplemental Indenture establishing the terms and provisions of such Series of Bonds (or if such Interest Rate Swap Agreement is issued subsequent to the issuance of such Series of Bonds, if the Issuer so designates in a Certificate of the Issuer delivered to the Trustee concurrently with the execution of such Interest Rate Swap Agreement) amounts payable under such Interest Rate Swap Agreement (excluding termination payments and payments of fees and expenses which shall in all cases be payable from, and secured by, 2000 Measure A Sales Tax Revenues on a subordinate basis to Bonds, Parity Obligations and

payment of principal and interest on Subordinate Obligations) shall constitute Parity Obligations under the Indenture, and, in such event, the Issuer shall pay or cause to be paid to the Trustee for deposit in the Interest Fund, at the times and in the manner provided in the Indenture, the amounts to be paid pursuant to such Interest Rate Swap Agreement, as if such amounts were additional interest due on the Series of Bonds to which such Interest Rate Swap Agreement relates, and the Trustee shall pay to the Counterparty to such Interest Rate Swap Agreement, to the extent required thereunder, amounts deposited in the Interest Fund for the payment of interest on the Series of Bonds with respect to which such Interest Rate Swap Agreement was entered into.

Investment in Funds and Accounts

All moneys in any of the funds and accounts held by the Trustee and established pursuant to the Indenture shall be invested, as directed by the Issuer, solely in Investment Securities, subject to the limitations set forth in the Indenture. If and to the extent the Trustee does not receive investment instructions from the Issuer with respect to the moneys in the funds and accounts held by the Trustee pursuant to the Indenture, such moneys shall be invested in Investment Securities described in clause (B)(3) of the definition thereof and the Trustee shall thereupon request investment instructions from the Issuer for such moneys.

Moneys in any Bond Reserve Fund shall be invested in Investment Securities available on demand for the purpose of payment of the Bonds to which such Bond Reserve Fund relates as provided in the Indenture. Moneys in the remaining funds and accounts shall be invested in Investment Securities maturing or available on demand not later than the date on which it is estimated that such moneys will be required by the Trustee.

Unless otherwise provided in a Supplemental Indenture establishing the terms and provisions of a Series of Bonds: (i) all interest, profits and other income received from the investment of moneys in the Interest Fund representing accrued interest or capitalized interest shall be retained in the Interest Fund; (ii) all interest, profits and other income received from the investment of moneys in a Bond Reserve Fund shall be retained in such Bond Reserve Fund to the extent of any deficiency therein, and otherwise shall be transferred to the Revenue Fund; (iii) all interest, profits and other income received from the investment of moneys in a Project Fund shall be retained in such Project Fund, unless the Issuer shall direct that such earnings be transferred to the Rebate Fund; (iv) all interest, profits and other income received from the investment of moneys in the Rebate Fund shall be retained in the Rebate Fund, except as otherwise provided in the Indenture; and (v) all interest, profits and other income received from the investment of moneys in any other fund or account shall be transferred to the Revenue Fund.

All Investment Securities credited to any Bond Reserve Fund shall be valued (at market value) as of March 1 of each year (or the next succeeding Business Day if such day is not a Business Day), such market value to be determined by the Trustee in the manner then currently employed by the Trustee or in any other manner consistent with corporate trust industry standards. Notwithstanding anything to the contrary in the Indenture, in making any valuations of investments under the Indenture, the Trustee may utilize and rely on computerized securities pricing services that may be available to it, including those available through its regular accounting system.

The Trustee may commingle any of the funds or accounts established pursuant to the Indenture (except the Rebate Fund and any Purchase Fund) into a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Trustee under the Indenture shall be accounted for separately as required by the Indenture. The Trustee may act as principal or agent in the making or disposing of any investment and, with the prior written consent of the Issuer may impose its customary charge therefor. The Trustee may sell at the best price obtainable, or present for redemption, any

Investment Securities so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Investment Security is credited. The Trustee shall not be liable or responsible for any loss resulting from any investment made in accordance with the provisions of the Indenture.

Issuance of Additional Bonds and Other Obligations

Issuance of Additional Bonds. The Issuer may by Supplemental Indenture establish one or more additional Series of Bonds, payable from 2000 Measure A Sales Tax Revenues and secured by the pledge made under the Indenture equally and ratably with Bonds previously issued, and the Issuer may issue, and the Trustee may authenticate and deliver to the purchasers thereof, Bonds of any Series so established, in such principal amount as shall be determined by the Issuer, but only upon compliance by the Issuer with the provisions of the Indenture described below under the caption “Proceedings for Issuance of Additional Bonds” and any additional requirements set forth in said Supplemental Indenture and subject to the specific conditions set forth below, each of which is hereby made a condition precedent to the issuance of any such additional Series of Bonds.

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

(B) Subject to the provisions of the Indenture described above under the caption “Funding and Application of Bond Reserve Funds,” in the event a Supplemental Indenture providing for the issuance of such Series of Bonds shall require either (i) the establishment of a Bond Reserve Fund to provide additional security for such Series of Bonds or (ii) that the balance on deposit in an existing Bond Reserve Fund be increased, forthwith upon the receipt of the proceeds of the sale of such Series, to an amount at least equal to the Bond Reserve Requirement with respect to such Series of Bonds and all other Bonds secured by such Bond Reserve Fund to be considered Outstanding upon the issuance of such additional Series of Bonds, the Supplemental Indenture providing for the issuance of such additional Series of Bonds shall require deposit of the amount necessary. Said deposit shall be made as provided in the Supplemental Indenture providing for the issuance of such additional Series of Bonds and may be made from the proceeds of the sale of such Series of Bonds or from other funds of the Issuer or from both such sources or may be made in the form of a letter of credit, surety bond or insurance policy as provided in the provisions of the Indenture described above under the caption “Funding and Application of Bond Reserve Funds.”

(C) The aggregate principal amount of Bonds issued under the Indenture shall not exceed any limitation imposed by law or by any Supplemental Indenture.

(D) The Issuer shall place on file with the Trustee a Certificate of the Issuer certifying that the lesser of (i) the amounts of 2000 Measure A Sales Tax Revenues for a period of twelve (12) consecutive months (selected by the Issuer) during the eighteen (18) months immediately preceding the date on which such additional Series of Bonds will become Outstanding, or (ii) the estimated 2000 Measure A Sales Tax Revenues for the Fiscal Year in which such Series of Bonds are to be issued, shall have been, or will be, as applicable, at least equal to 1.3 times Maximum Annual Debt Service, on all Series of Bonds and Parity Obligations then Outstanding and the additional Series of Bonds then proposed to be issued, which Certificate shall also set forth the computations upon which such Certificate is based.

(E) Principal payments of each additional Series of Bonds shall be due on April 1 in each year in which principal is to be paid if and to the extent deemed practical in the reasonable judgment of the Issuer with regard to the type of Bond to be issued, and, if the interest on such Series of Bonds is to be paid semiannually, such interest payments shall be due on April 1 and October 1 in each year to the extent deemed practical in the reasonable judgment of the Issuer with regard to the type of Bond to be issued.

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

In the event additional assets or revenues are included within the definition of “Revenues” by a Supplemental Indenture, such additional assets or revenues shall be included in the calculations to be provided pursuant to the provisions of the Indenture described in paragraph (D) above as if such additional assets or revenues had always been included in “Revenues.”

Proceedings for Issuance of Additional Bonds. Before any additional Series of Bonds shall be issued and delivered, the Issuer shall file each of the documents identified below with the Trustee (upon which documents the Trustee may conclusively rely in determining whether the conditions precedent to the issuance of such Series of Bonds have been satisfied).

(A) A Supplemental Indenture authorizing such Series executed by the Issuer.

(B) A Certificate of the Issuer certifying: (i) that no Event of Default has occurred and is then continuing; and (ii) that the requirements of the Indenture described in paragraphs (B) and (C) under the caption “Issuance of Additional Bonds” have been satisfied by the Issuer.

(C) A Certificate of the Issuer certifying (on the basis of calculations made no later than the date of sale of such Series of Bonds) that the requirement of the Indenture described in paragraph (D) under the caption “Issuance of Additional Bonds” is satisfied.

(D) An Opinion of Bond Counsel to the effect that the Supplemental Indenture is being entered into in accordance with the Indenture and that such Series of Bonds, when duly executed by the Issuer and authenticated and delivered by the Trustee, will be valid and binding obligations of the Issuer.

Issuance of Refunding Bonds. Refunding Bonds may be authorized and issued by the Issuer without compliance with the provisions of the Indenture described above under the captions “Issuance of Additional Bonds” and “Proceedings for Issuance of Additional Bonds;” provided that Maximum Annual Debt Service on all Bonds Outstanding and all Parity Obligations outstanding following the issuance of such Refunding Bonds is less than or equal to Maximum Annual Debt Service on all Bonds Outstanding and all Parity Obligations outstanding prior to the issuance of such Refunding Bonds. Such Refunding Bonds may be issued in an aggregate principal amount sufficient (together with any additional funds available or to become available) to provide funds for the payment of all or a portion of the following:

(1) the principal or Redemption Price of the Outstanding Bonds or outstanding Parity Obligations to be refunded;

(2) all expenses incident to the calling, retiring or paying of such Outstanding Bonds or outstanding Parity Obligations and the Costs of Issuance of such Refunding Bonds;

(3) interest on all Outstanding Bonds or outstanding Parity Obligations to be refunded to the date such Bonds or Parity Obligations will be called for redemption or paid at maturity;

(4) interest on the Refunding Bonds from the date thereof to the date of payment or redemption of the Bonds or Parity Obligations to be refunded; and

- (5) funding a Bond Reserve Fund for the Refunding Bonds, if required.

Before such Series of Refunding Bonds shall be issued and delivered pursuant to the provisions of the Indenture described under this caption, the Issuer shall file each of the documents identified below with the Trustee (upon which documents the Trustee may conclusively rely in determining whether the conditions precedent to the issuance of such Series of Refunding Bonds have been satisfied).

- (1) A Supplemental Indenture authorizing such Series of Refunding Bonds executed by the Issuer.

- (2) A Certificate of the Issuer certifying: (i) that Maximum Annual Debt Service on all Bonds and Parity Obligations which will be outstanding following the issuance of such Series of Refunding Bonds is less than or equal to Maximum Annual Debt Service on all Bonds Outstanding and Parity Obligations outstanding prior to the issuance of such Refunding Bonds; and (ii) that the requirements of the Indenture described in paragraphs (A), (B), and (C) under the caption "Issuance of Additional Bonds" are satisfied.

- (3) If any of the Bonds to be refunded are to be redeemed prior to their stated maturity dates, irrevocable instructions to the Trustee to give the applicable notice of redemption or a waiver of the notice of redemption signed by the Holders of all or the portion of the Bonds or Parity Obligations to be redeemed, or proof that such notice has been given by the Issuer; provided, however, that in lieu of such instructions or waiver or proof of notice of redemption, the Issuer may cause to be deposited with the Trustee all of the Bonds and Parity Obligations proposed to be redeemed (whether canceled or uncanceled) with irrevocable instructions to the Trustee to cancel said Bonds or Parity Obligations so to be redeemed upon the exchange and delivery of said Refunding Bonds.

- (4) An Opinion of Bond Counsel to the effect that the Supplemental Indenture is being entered into in accordance with the Indenture and that such Series of Refunding Bonds, when duly executed by the Issuer and authenticated and delivered by the Trustee, will be valid and binding obligations of the Issuer.

Limitations on the Issuance of Obligations Payable from 2000 Measure A Sales Tax Revenues; Parity Obligations; Subordinate Obligations. The Issuer will not, so long as any of the Bonds are Outstanding, issue any obligations or securities, howsoever denominated, payable in whole or in part from 2000 Measure A Sales Tax Revenues except the following:

- (A) Bonds authorized pursuant to provisions in the Indenture described above under the caption "Issuance of Additional Bonds";

- (B) Refunding Bonds authorized pursuant to the provisions of the Indenture described above under the caption "Issuance of Refunding Bonds";

- (C) Parity Obligations, provided that the following conditions to the issuance or incurrence of such Parity Obligations are satisfied:

- (1) Such Parity Obligations have been duly and legally authorized for any lawful purpose;

(2) No Event of Default shall have occurred and then be continuing, as evidenced by the delivery of a Certificate of the Issuer to that effect, which Certificate of the Issuer shall be filed with the Trustee;

(3) Such Parity Obligations are being issued or incurred either (i) for purposes of refunding in compliance with the requirements for the issuance of Refunding Bonds set forth in the Indenture and described above under the caption “Issuance of Refunding Bonds” or (ii) the Issuer shall have placed on file with the Trustee a Certificate of the Issuer, upon which the Trustee may conclusively rely certifying (on the basis of calculations made no later than the date of sale or incurrence of such Parity Obligations, as applicable) that the requirements of the Indenture described in paragraph (D) under the caption “Issuance of Additional Bonds” relating to the issuance of an additional Series of Bonds have been satisfied with respect to such Parity Obligations, which Certificate shall also set forth the computations upon which such Certificate is based evidencing compliance with the requirements set forth in subsection (ii) of this paragraph;

(4) As and to the extent applicable, the Trustee shall be designated as paying agent or trustee for such Parity Obligations and the Issuer shall deliver to the Trustee a transcript of the proceedings providing for the issuance of such Parity Obligations (but the Trustee shall not be responsible for the validity or sufficiency of such proceedings or such Parity Obligations).

Notwithstanding any other provision of the Indenture to the contrary, the execution and delivery of an Interest Rate Swap Agreement shall not be subject to compliance with the provisions of the Indenture described in paragraphs (C)(3) or (C)(4) above.

(D) Subordinate Obligations which are payable as to principal, premium, interest and reserve fund requirements, if any, only out of 2000 Measure A Sales Tax Revenues after the prior payment of all amounts then required to be paid under the Indenture from 2000 Measure A Sales Tax Revenues for principal, premium, interest and reserve fund requirements, if any, for all Bonds Outstanding, and all Parity Obligations outstanding, as the same become due and payable and at the times and in the manner as required in the Indenture and in the instrument or instruments pursuant to which any Parity Obligations were issued or incurred.

(E) Termination payments and fees and expenses on Interest Rate Swap Agreements and other obligations which shall be secured by a lien and charge on the 2000 Measure A Sales Tax Revenues subordinate to the lien and charge upon the 2000 Measure A Sales Tax Revenues which secures the Bonds, Parity Obligations and payment of principal and interest on Subordinate Obligations.

Calculation of Maximum Annual Debt Service with Respect to Parity Obligations. For purposes of the Indenture, Maximum Annual Debt Service with respect to Parity Obligations shall be determined no later than the date of incurrence of such Parity Obligations utilizing the assumptions set forth in the definition of Debt Service; provided, however, that if a Parity Obligation is contingent upon funds being provided pursuant to such Parity Obligation to pay principal, or purchase price of, or interest on a Bond, such Parity Obligations shall not be considered outstanding until such payment is made thereunder.

Certain Covenants of the Issuer

Punctual Payments. The Issuer will punctually pay or cause to be paid the principal or Redemption Price of and interest on all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, and shall punctually pay or cause to be

paid all Mandatory Sinking Account Payments, but in each case only out of 2000 Measure A Sales Tax Revenues as provided in the Indenture.

Against Encumbrances. The Issuer will not create any pledge, lien or charge upon any of the 2000 Measure A Sales Tax Revenues having priority over or having parity with the lien of the Bonds except only as permitted in the caption “Limitations on the Issuance of Obligations Payable from 2000 Measure A Sales Tax Revenues; Parity Obligations; Subordinate Obligations” above.

Accounting Records and Financial Statements. The Issuer will at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with generally accepted accounting principles, in which complete and accurate entries shall be made of all transactions relating to the Revenues. Such books of record and account shall be available for inspection by the Trustee at reasonable hours and under reasonable circumstances.

The Issuer will furnish the Trustee, within two hundred ten (210) days after the end of each Fiscal Year, the financial statements of the Issuer for such Fiscal Year, together with the report and opinion of an independent certified public accountant stating that the financial statements have been prepared in accordance with generally accepted accounting principles and that such accountant’s examination of the financial statements was performed in accordance with generally accepted auditing standards and a Certificate of the Chief Financial Officer of the Issuer stating that no event which constitutes an Event of Default or which with the giving of notice or the passage of time or both would constitute an Event of Default has occurred and is continuing as of the end of such Fiscal Year, or specifying the nature of such event and the actions taken and proposed to be taken by the Issuer to cure such default. Thereafter, a copy of such financial statements will be furnished to any Holder upon written request to the Issuer, which copy of the financial statements may, at the sole discretion of the Issuer, be provided by means of posting such financial statements on an internet site that provides access to the Holders.

Collection of 2000 Measure A Sales Tax Revenues. The Issuer covenants and agrees that it has duly levied the 2000 Measure A Sales Tax in accordance with the Act, pursuant to and in accordance with the Ordinance, duly passed and adopted by the Issuer. Said Ordinance has not and will not be amended, modified or altered so long as any of the Bonds are Outstanding in any manner which would reduce the amount of or timing of receipt of 2000 Measure A Sales Tax Revenues, and the Issuer will continue to levy and collect the 2000 Measure A Sales Tax to the full amount permitted by law. The Issuer further covenants that the Issuer has entered into an agreement with the State Board of Equalization under and pursuant to which the State Board of Equalization will process and supervise collection of the 2000 Measure A Sales Tax and will transmit 2000 Measure A Sales Tax Revenues directly to the Trustee. Said agreement will be continued in effect so long as any of any Bonds are Outstanding and shall not be amended, modified or altered without the written consent of the Trustee so long as any of the Bonds are Outstanding. The Issuer will receive and hold in trust for (and remit immediately to) the Trustee any 2000 Measure A Sales Tax Revenues paid to the Issuer by the State Board of Equalization.

2000 Measure A Sales Tax Revenues received by the Trustee shall be transmitted to the Issuer pursuant to the caption “Allocation of Revenues” above; provided that, during the continuance of an Event of Default, any 2000 Measure A Sales Tax Revenues received by the Trustee shall be applied first to the payment of the fees, costs and expenses of the Trustee in declaring such Event of Default and pursuing remedies, including reasonable compensation of its agents, attorneys and counsel, which costs and expenses shall be paid from the Revenue Fund, and second, to deposit into the Interest Fund and Principal Fund and to the payment of Parity Obligations as more fully set forth in the caption “Application of Revenues and Other Funds After Default” below.

The Issuer covenants and agrees to separately account for all Revenues and to provide to the Trustee access to such accounting records at reasonable hours and under reasonable circumstances.

The Issuer covenants that so long as the Bonds are Outstanding, it will not, to the best of its ability, suffer or permit any change, modification or alteration to be made to the Act which would materially and adversely affect the rights of Bondholders.

Tax Covenants. The Issuer covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on the Bonds under Section 103 of the Code; provided that, prior to the issuance of any Series of Bonds, the Issuer may exclude the application of the covenants contained in this caption “Tax Covenant” and the caption “Rebate Fund” above to such Series of Bonds. The Issuer will not directly or indirectly use or permit the use of any proceeds of the Bonds or any other funds of the Issuer, or take or omit to take any action that would cause the Bonds to be “arbitrage bonds” within the meaning of Section 148(a) of the Code. To that end, the Issuer will comply with all requirements of the Tax Certificate relating to each Series of the Bonds. In the event that at any time the Issuer is of the opinion that for purposes of this caption “Tax Covenants” it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture, the Issuer shall so instruct the Trustee in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

Without limiting the generality of the foregoing, the Issuer agrees that there shall be paid from time to time all amounts required to be rebated to the federal government of the United States of America pursuant to Section 148(f) of the Code and any temporary, proposed or final Treasury Regulations as may be applicable to the Bonds from time to time. The Issuer specifically covenants to pay or cause to be paid to the federal government of the United States of America the Rebate Requirement with respect to each Series of Bonds at the times and in the amounts determined under and as described in the Tax Certificate executed and delivered in connection with such Series of Bonds.

Notwithstanding any provision of this caption “Tax Covenant” and the caption “Rebate Fund” above and the Tax Certificate, if the Issuer shall receive an Opinion of Bond Counsel to the effect that any action required under this caption “Tax Covenant” and the caption “Rebate Fund” above or any Tax Certificate is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on the Bonds pursuant to Section 103 of the Code, the Issuer and the Trustee may rely conclusively on such opinion in complying with the provisions of the Indenture, and the covenants under the Indenture shall be deemed to be modified to that extent.

Notwithstanding any provisions of the Indenture, including particularly Article X, the covenants and obligations set forth in the provisions of the Indenture described under this caption shall survive the defeasance of the Bonds or any Series thereof.

Continuing Disclosure. Upon the issuance of any Series of Bonds requiring an undertaking regarding continuing disclosure under Rule 15c2-12, the Issuer hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate executed and delivered in connection with such Series of Bonds. Notwithstanding any other provision of the Indenture, failure of the Issuer to comply with the provisions of any Continuing Disclosure Certificate shall not be considered an Event of Default; however, the Trustee shall, at the written request of any Participating Underwriter or of the Holders of at least twenty-five (25%) aggregate principal amount of any Series of Bonds then Outstanding (but only to the extent funds in an amount satisfactory to the Trustee have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges and fees of the Trustee whatsoever, including, without limitation, reasonable fees and expenses of its attorneys), or any Holder or beneficial owner may, take such actions as may be necessary

and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under this caption “Continuing Disclosure.”

Events of Default and Remedies

Events of Default. The following are Events of Default:

(A) default in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise, or default in the redemption from any Sinking Account of any Bonds in the amounts and at the times provided therefor;

(B) default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(C) if the Issuer shall fail to observe or perform any covenant, condition, agreement or provision in the Indenture on its part to be observed or performed, other than as referred to in subsection (A) or (B) above, for a period of sixty (60) days after written notice, specifying such failure and requesting that it be remedied, has been given to the Issuer by the Trustee or by any Credit Enhancement Provider; except that, if such failure can be remedied but not within such sixty (60) day period and if the Issuer has taken all action reasonably possible to remedy such failure within such sixty (60) day period, such failure shall not become an Event of Default for so long as the Issuer shall diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time established by the Trustee;

(D) if any payment default shall exist under any agreement governing any Parity Obligations and such default shall continue beyond the grace period, if any, provided for with respect to such default;

(E) if the Issuer files a petition in voluntary bankruptcy, for the composition of its affairs or for its corporate reorganization under any state or federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or admits in writing to its insolvency or inability to pay debts as they mature, or consents in writing to the appointment of a trustee or receiver for itself;

(F) if a court of competent jurisdiction shall enter an order, judgment or decree declaring the Issuer insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of the Issuer, or approving a petition filed against the Issuer seeking reorganization of the Issuer under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within sixty (60) days from the date of the entry thereof;

(G) if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Issuer or of the Revenues, and such custody or control shall not be terminated within sixty (60) days from the date of assumption of such custody or control; or

(H) if the Legislature of the State shall repeal or amend all or any portion of the provisions of the Act relating to the 2000 Measure A Sales Tax, being Sections 100250 to 100256, inclusive, of the Act, unless the Issuer has determined that said repeal or amendment does not materially and adversely affect the rights of Bondholders.

No Acceleration of Maturities. If an Event of Default occurs, the Trustee shall not have the right to declare the principal of and the interest on the Bonds then Outstanding to be due and payable immediately. Acceleration of the Bonds is not a remedy granted to the Trustee or to the Holders.

Application of Revenues and Other Funds After Default. If an Event of Default shall occur and be continuing, the Issuer shall immediately transfer to the Trustee all Revenues held by it and the Trustee shall apply all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture (excluding the Rebate Fund and any Purchase Fund and except as otherwise provided in the Indenture) as follows and in the following order:

(1) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Holders of the Bonds and Parity Obligations, including the costs and expenses of the Trustee and the Bondholders in declaring such Event of Default, and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel and other agents) incurred in and about the performance of its powers and duties under the Indenture;

(2) to the payment of the whole amount of Bond Obligation then due on the Bonds and Parity Obligations (upon presentation of the Bonds and Parity Obligations to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, with interest on such Bond Obligation, at the rate or rates of interest borne by the respective Bonds and on Parity Obligations, to the payment to the persons entitled thereto of all installments of interest then due and the unpaid principal or Redemption Price of any Bonds and Parity Obligations which shall have become due, whether at maturity, by call for redemption or otherwise, in the order of their due dates, with interest on the overdue Bond Obligation and Parity Obligations at the rate borne by the respective Bonds and Parity Obligations, and, if the amount available shall not be sufficient to pay in full all the Bonds and Parity Obligations due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or Accreted Value (plus accrued interest) due on such date to the persons entitled thereto, without any discrimination or preference.

Trustee to Represent Bondholders. The Trustee is hereby irrevocably appointed (and the successive respective Holders of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Holders of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Holders under the provisions of the Bonds, the Indenture, the Act and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bondholders, the Trustee in its discretion may, and, with respect to any Series of Bonds for which a Credit Enhancement has been provided, upon the written request of the Credit Enhancement Provider providing such Credit Enhancement, or if such Credit Enhancement Provider is then failing to make a payment required pursuant to such Credit Enhancement, upon the written request of the Holders of not less than a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power in the Indenture granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Holders under the Indenture, the Act or any other law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the 2000 Measure A Sales Tax Revenues and other assets pledged under the Indenture, pending such proceedings; provided, however, that, with respect to

any Series of Bonds for which a Credit Enhancement has been provided, the Trustee may only act with the consent of the Credit Enhancement Provider providing such Credit Enhancement. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Holders of such Bonds, subject to the provisions of the Indenture.

Bondholders' Direction of Proceedings. Anything in the Indenture to the contrary (except provisions relating to the rights of a Credit Enhancement Provider to direct proceedings as set forth in the caption "Credit Enhancement Provider Directs Remedies Upon Event of Default" below), the Holders of a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee and upon furnishing the Trustee with indemnification satisfactory to it, to direct the method of conducting all remedial proceedings taken by the Trustee under the Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, that the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders or holders of Parity Obligations not parties to such direction.

Limitation on Bondholders' Right to Sue. No Holder of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Act or any other applicable law with respect to such Bond, unless: (1) such Holder shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Holders of not less than a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; (3) such Holder or said Holders shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; provided, however, that the written consent of a Credit Enhancement Provider providing a Credit Enhancement with respect to a Series of Bonds shall be required if the Credit Enhancement with respect to such Series of Bonds is in full force and effect and if the Credit Enhancement Provider providing such Credit Enhancement is not then failing to make a payment as required in connection therewith.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Holder of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Holders of Bonds, or to enforce any right under the Indenture, the Act or other applicable law with respect to the Bonds, except in the manner in the Indenture provided, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner in the Indenture provided and for the benefit and protection of all Holders of the Outstanding Bonds, subject to the provisions of the Indenture.

Credit Enhancement Provider Directs Remedies Upon Event of Default. Anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default, the Credit Enhancement Provider then providing Credit Enhancement for any Series of Bonds shall be entitled to control and direct the enforcement of all rights and remedies granted to the Holders of the Bonds secured by such Credit Enhancement or granted to the Trustee for the benefit of the Holders of the

Bonds secured by such Credit Enhancement, provided that the Credit Enhancement Provider's consent shall not be required as otherwise provided in the Indenture if such Credit Enhancement Provider is in default of any of its payment obligations as set forth in the Credit Enhancement provided by such Credit Enhancement Provider.

Modification or Amendment of the Indenture

Amendments Permitted. The Indenture and the rights and obligations of the Issuer, the Holders of the Bonds and the Trustee may be modified or amended from time to time and at any time by a Supplemental Indenture, which the Issuer and the Trustee may enter into when the written consent of: (i) each Credit Enhancement Provider then providing a Credit Enhancement for any Series of Bonds, provided that the Credit Enhancement provided by such Credit Enhancement Provider is in full force and effect and the Credit Enhancement Provider is not then failing to make a payment as required in connection therewith; or (ii) the Holders of a majority in aggregate amount of Bond Obligation of the Bonds (or, if such Supplemental Indenture is only applicable to a Series of Bonds, such Series of Bonds) then Outstanding shall have been filed with the Trustee; provided that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any particular maturity remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding under the Indenture; and provided, further, that if the Credit Enhancement provided for any Series of Bonds is in full force and effect and if the Credit Enhancement Provider providing such Credit Enhancement is not failing to make a payment as required in connection therewith, such Credit Enhancement Provider shall also consent in writing to such modification or amendment, which consent shall not be unreasonably withheld.

No such modification or amendment shall (a) extend the fixed maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment provided for the payment of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Holder of each Bond so affected, or (b) reduce the aforesaid percentage of Bond Obligation the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture, or deprive the Holders of the Bonds of the lien created by the Indenture on such Revenues and other assets (in each case, except as expressly provided in the Indenture), without the consent of the Holders of all of the Bonds then Outstanding. It shall not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof.

The Indenture and the rights and obligations of the Issuer, of the Trustee and of the Holders of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the Issuer may adopt without the consent of any Bondholders, but with the written consent of each Credit Enhancement Provider then providing a Credit Enhancement for any Series of Bonds which shall be materially and adversely affected by such amendment, which consent shall not be unreasonably withheld; provided, however, that such written consent shall be required only if the Credit Enhancement provided by such Credit Enhancement Provider is in full force and effect and if the Credit Enhancement Provider is not then failing to make a payment as required in connection therewith, but only to the extent permitted by law and only for any one or more of the following purposes:

- (1) to add to the covenants and agreements of the Issuer in the Indenture contained other covenants and agreements thereafter to be observed, to pledge or assign

additional security for the Bonds (or any portion thereof), or to surrender any right or power in the Indenture reserved to or conferred upon the Issuer;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Issuer may deem necessary or desirable, and which shall not materially and adversely affect the interests of the Holders of the Bonds;

(3) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially and adversely affect the interests of the Holders of the Bonds;

(4) to provide for the issuance of an additional Series of Bonds pursuant to the provisions of the Indenture described above under the caption "Issuance of Additional Bonds."

(5) to make modifications or adjustments necessary appropriate or desirable to provide for the issuance or incurrence, as applicable, of Capital Appreciation Bonds, Parity Obligations, Subordinate Obligations or Variable Rate Indebtedness, with such interest rate, payment, maturity and other terms as the Issuer may deem desirable; subject to the provisions of the Indenture described above under the captions "Issuance of Additional Bonds," "Proceedings for Issuance of Additional Bonds," and "Limitations on the Issuance of Obligations Payable from 2000 Measure A Sales Tax Revenues; Parity Obligations; Subordinate Obligations;"

(6) to make modifications or adjustments necessary, appropriate or desirable to provide for change from one interest rate mode to another in connection with any Series of Bonds;

(7) to make modifications or adjustments necessary, appropriate or desirable to accommodate Credit Enhancements, Liquidity Facilities and Reserve Facilities;

(8) to make modifications or adjustments necessary, appropriate or desirable to provide for the appointment of an auction agent, a broker-dealer, a remarketing agent, a tender agent and/or a paying agent in connection with any Series of Bonds;

(9) to modify the auction provisions applicable to any Series of Bonds in accordance with the terms and provisions set forth in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds;

(10) to provide for any additional covenants or agreements necessary to maintain the tax-exempt status of interest on any Series of Bonds;

(11) if the Issuer agrees in a Supplemental Indenture to maintain the exclusion of interest on a Series of Bonds from gross income for purposes of federal income taxation, to make such provisions as are necessary or appropriate to ensure such exclusion;

(12) to provide for the issuance of Bonds in book-entry form or bearer form and/or to modify or eliminate the book-entry registration system for any Series of Bonds;

(13) to modify, alter, amend or supplement the Indenture in any other respect, including amendments which would otherwise be described in the first two paragraphs under this caption, if the effective date of such amendments is a date on which all Bonds affected thereby are subject to mandatory tender for purchase pursuant to the provisions of the Indenture; or if notice of the proposed amendments is given to Holders of the affected Bonds at least thirty (30) days before the proposed effective date of such amendments and, on or before such effective date, such Holders have the right to demand purchase of their Bonds pursuant to the provisions of the Indenture or if all Bonds affected thereby are in an auction mode and a successful auction is held following notice of such amendment; and

(14) for any other purpose that does not materially and adversely affect the interests of the Holders of the Bonds.

Any Supplemental Indenture entered into pursuant to the provisions of the Indenture described under this caption shall be deemed not to materially adversely affect the interest of the Holders so long as (i) all Bonds are secured by a Credit Enhancement and (ii) each Credit Enhancement Provider shall have given its written consent to such Supplemental Indenture in accordance with the provisions of the Indenture.

Effect of Supplemental Indenture. From and after the time any Supplemental Indenture becomes effective, the Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Issuer, the Trustee and all Holders of Bonds Outstanding shall thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Defeasance

Discharge of Indenture. Bonds of any Series or a portion thereof may be paid by the Issuer in any of the following ways:

(A) by paying or causing to be paid the Bond Obligations of and interest on such Outstanding Bonds, as and when become due and payable;

(B) by depositing with the Trustee, an escrow agent or other fiduciary, in trust, at or before maturity, money or securities in the necessary amount (as provided pursuant to the provisions of the Indenture described below under the caption "Deposit of Money or Securities") to pay or redeem such Outstanding Bonds; or

(C) by delivering to the Trustee, for cancellation by it, such Outstanding Bonds.

If the Issuer shall pay all Series for which any Bonds are Outstanding and also pay or cause to be paid all other sums payable under the Indenture by the Issuer, then and in that case, at the election of the Issuer (evidenced by a Certificate of the Issuer, filed with the Trustee, signifying the intention of the Issuer to discharge all such indebtedness and the Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, the Indenture and the pledge of 2000 Measure A Sales Tax Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the

Issuer under the Indenture shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon Request of the Issuer, the Trustee shall cause an accounting for such period or periods as may be requested by the Issuer to be prepared and filed with the Issuer and shall execute and deliver to the Issuer all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, a sign or deliver to the Issuer all moneys or securities or other property held by it pursuant to the Indenture which, as evidenced by a verification report, upon which the Trustee may conclusively rely, from a firm of certified public accountants or other independent consulting firm, are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

Discharge of Liability on Bonds. Upon the deposit with the Trustee, escrow agent or other fiduciary, in trust, at or before maturity, of money or securities in the necessary amount (as provided pursuant to the provisions of the Indenture described below under the caption “Deposit of Money or Securities”) to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption shall have been given as in the Indenture provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the Issuer in respect of such Bond shall cease, terminate and be completely discharged, provided that the Holder thereof shall thereafter be entitled to the payment of the principal of and premium, if any, and interest on the Bonds, and the Issuer shall remain liable for such payment, but only out of such money or securities deposited with the Trustee as aforesaid for their payment.

Deposit of Money or Securities. Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and shall be:

(A) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as in the Indenture provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or

(B) Investment Securities described in clause (A) of the definition thereof the principal of and interest on which when due will, in the opinion of an independent certified public accountant delivered to the Trustee (as confirmed by a verification report upon which verification report the Trustee may conclusively rely), provide money sufficient to pay the principal or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or Redemption Price and interest become due, provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in the Indenture provided or provision satisfactory to the Trustee shall have been made for the giving of such notice; provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of the Indenture or by Request of the Issuer) to apply such money to the payment of such principal or Redemption Price and interest with respect to such Bonds.

Payment of Bonds After Discharge of Indenture. Any moneys held by the Trustee in trust for the payment of the principal, Redemption Price, or interest on any Bond and remaining unclaimed for one (1) year after such principal, Redemption Price, or interest has become due and payable (whether at maturity or upon call for redemption as provided in this Indenture), if such moneys were so held at such date, or one (1) year after the date of deposit of such principal, Redemption Price or interest on any Bond

if such moneys were deposited after the date when such Bond became due and payable, shall be repaid to the Issuer free from the trusts created by this Indenture, and all liability of the Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the Issuer as aforesaid, the Trustee may (at the cost of the Issuer) first mail to the Holders of any Bonds remaining unpaid at the addresses shown on the registration books maintained by the Trustee a notice, in such form as may be deemed appropriate by the Trustee, with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Issuer of the moneys held for the payment thereof. All moneys held by or on behalf of the Trustee for the payment of principal or Accreted Value of or interest or premium on Bonds, whether at redemption or maturity, shall be held in trust for the account of the Holders thereof and the Trustee shall not be required to pay Holders any interest on, or be liable to the Holders or any other person (other than the Issuer) interest earned on, moneys so held. Any interest earned thereon shall belong to the Issuer and shall be deposited upon receipt by the Trustee into the Revenue Fund.

Limitations on Rights of Credit Enhancement Providers, Liquidity Facility Providers, Reserve Facility Providers.

A Supplemental Indenture establishing the terms and provisions of a Series of Bonds may provide that any Credit Enhancement Provider, Liquidity Facility Provider or Reserve Facility Provider may exercise any right under the Indenture given to the Holders of the Bonds to which such Credit Enhancement, Liquidity Facility or Reserve Facility relates. All provisions under the Indenture authorizing the exercise of rights by a Credit Enhancement Provider, a Liquidity Facility Provider or a Reserve Facility Provider with respect to consents, approvals, directions, waivers, appointments, requests or other actions, shall be deemed not to require or permit such consents, approvals, directions, waivers, appointments, requests or other actions and shall be read as if the Credit Enhancement Provider, Liquidity Facility Provider or Reserve Facility Provider were not mentioned therein (i) during any period during which there is a default by such Credit Enhancement Provider, Liquidity Facility Provider or Reserve Facility Provider under the applicable Credit Enhancement, Liquidity Facility or Reserve Facility or (ii) after the applicable Credit Enhancement, Liquidity Facility or Reserve Facility shall at any time for any reason cease to be valid and binding on the provider thereof, or shall be declared to be null and void by final judgment of a court of competent jurisdiction, or after the Credit Enhancement, Liquidity Facility or Reserve Facility has been rescinded, repudiated by the provider thereof or terminated, or after a receiver, conservator or liquidator has been appointed for the provider thereof. All provisions relating to the rights of a Credit Enhancement Provider, Liquidity Facility Provider or Reserve Facility Provider shall be of no further force and effect if all amounts owing to such Credit Enhancement Provider, Liquidity Facility Provider or Reserve Facility Provider shall have been paid pursuant to the terms of the applicable Credit Enhancement, Liquidity Facility or Reserve Facility and such Credit Enhancement, Liquidity Facility or Reserve Facility shall no longer be in effect.

Fourth Supplemental Indenture

As provided pursuant to the provisions of the Indenture described above under the caption “Issuance of Additional Bonds and Other Obligations – Issuance of Additional Bonds,” the Issuer may pledge or otherwise provide additional security for the benefit of an additional Series of Bonds or any portion thereof in the Supplemental Indenture providing for the issuance of such Series of Bonds. As set forth in the Fourth Supplemental Indenture, the Issue has determined that the Subsidy Payments shall be pledged to, and provided as additional security for, the benefit of the 2010 Series A Bonds.

Pledge of Subsidy Payments. As additional security for the payment of all amounts owing on the 2010 Series A Bonds, all Subsidy Payments received with respect to the 2010 Series A Bonds are irrevocably pledged to the Trustee, subject to the provisions of the Indenture permitting the application

thereof for the purposes and on the terms and conditions set forth in the Indenture. Such Subsidy Payments shall immediately be subject to such pledge upon the issuance of the 2010 Series A Bonds, and such pledge shall constitute a first lien on and security interest in such collateral which shall immediately attach to the collateral and be effective, binding and enforceable against the Issuer and all others asserting the rights therein, to the extent set forth, and in accordance with, this Indenture irrespective of whether those parties have notice of this pledge and without the need for any physical delivery, recordation, filing or further act. The pledge of Subsidy Payments with respect to the 2010 Series A Bonds herein made shall be irrevocable until all of the 2010 Series A Bonds are no longer Outstanding and no amounts are owed in connection with the 2010 Series A Bonds. The Issuer shall cause the Subsidy Payments with respect to the 2010 Series A Bonds to be sent directly to the Trustee, and the Trustee shall deposit the Subsidy Payments, when received, to the Interest Fund. Subject to the provisions set forth in Indenture, such Subsidy Payments shall be included within the definition of Revenues.

Proposed Amendment of Definition of Debt Service. As set forth in the Fourth Supplemental Indenture, the Issuer has proposed to amend and restate clause (g) of the definition of “Debt Service” to read in its entirety as follows:

(g) principal and interest payments on Bonds shall be excluded to the extent such payments are to be paid from amounts on deposit with the Trustee or other fiduciary in escrow specifically therefor, including Investment Securities and interest to be paid thereon, and interest payments shall be excluded to the extent that such interest payments are to be paid from the proceeds of Bonds, including Investment Securities and interest to be paid thereon, held by the Trustee or other fiduciary as capitalized interest specifically to pay such interest or are to be paid from Revenues then held on deposit by the Trustee or from Subsidy Payments the Issuer expects to receive.

Effective Date of Amendment of Definition of Debt Service. The amendment of clause (g) of the definition of “Debt Service” set forth above shall take effect at the sole option of the Issuer upon the earliest to occur of (i) the date when no 2007 Series A Bond remains Outstanding and (ii) the date when the provisions set forth in the Indenture relating to the limitations on rights of Credit Enhancement Providers, Liquidity Facility Providers and Reserve Facility Providers shall apply with respect to the exercise of rights by the Credit Enhancement Provider for the 2007 Series A Bonds and the Reserve Facility Provider for 2007 Series A Bonds.

Treatment of Subsidy Payments Upon Effectiveness of Amendment. At such time as the amendment of clause (g) of the definition of “Debt Service” set forth above shall become effective, Subsidy Payments shall no longer be included within the definition of Revenues for purposes of any calculations to be provided pursuant to the provisions of the Indenture described above in subsection (D) under the caption “Issuance of Additional Bonds.”

APPENDIX E

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Refunding Bonds, 2008 Series A, 2008 Series B, 2008 Series C and 2008 Series D Bonds (each a “Series of Bonds,” and, hereinafter collectively referred to as the “Bonds”). The Bonds were issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each Series of Bonds in the aggregate principal amount of such Series of Bonds, and will be deposited with DTC. Capitalized terms used herein and not otherwise defined herein shall have the meanings set forth in the front portion of this Remarketing Memorandum or in APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

The following information has been provided by DTC, and none of the Santa Clara Valley Transportation Authority (the “Authority”), Goldman, Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Securities LLC, or Morgan Stanley & Co. LLC, each as a remarketing agent of the above-referenced Bonds, make any representation as to its accuracy or completeness. For further information, beneficial owners should contact DTC in New York, New York.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of “AA+.” The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org. The information set forth on such websites is not incorporated herein by reference.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (each a “Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant

through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee. Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a Series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Series to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority and the Trustee as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Bond Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Trustee's DTC account.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered to DTC.

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

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APPENDIX F

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June 25, 2008

Santa Clara Valley
Transportation Authority
San Jose, California

Santa Clara Valley Transportation Authority
2000 Measure A Sales Tax Revenue Refunding Bonds,
2008 Series A, 2008 Series B, 2008 Series C and 2008 Series D
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Santa Clara Valley Transportation Authority (the "Authority") in connection with the issuance by the Authority of \$236,730,000 aggregate principal amount of Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Refunding Bonds, 2008 Series A, 2008 Series B, 2008 Series C and 2008 Series D (hereinafter collectively referred to as the "Bonds"), issued pursuant to an Indenture, dated as of August 1, 2006, as previously supplemented and as further supplemented by a Third Supplemental Indenture, dated as of June 1, 2008 (hereinafter collectively referred to as the "Indenture"), between the Authority and Deutsche Bank National Trust Company, as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Tax Certificate, dated the date hereof (the "Tax Certificate"), certificates of the Authority, the Trustee, and others, opinions of counsel to the Authority and the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this opinion. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture and the Tax Certificate, including, without limitation, covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the



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application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public entities similar to the Authority in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement, dated June 23, 2008, or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding special obligations of the Authority payable from and secured by a pledge of Sales Tax Revenues.

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority.

3. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that interest on the Bonds is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per 