

NEW ISSUE – BOOK-ENTRY ONLY

Ratings:
S&P: “AA+”
Moody’s: “Aa2”
See “Ratings” herein.

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2010 Series B Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the 2010 Series B Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, nor is such interest included in adjusted current earnings when calculating corporate alternative minimum taxable income. Interest on the 2010 Series A Bonds and the 2010 Series B Bonds is exempt from State of California personal income taxes. Bond Counsel observes that interest on the 2010 Series A Bonds is not excluded from gross income for federal income tax purposes. Bond Counsel expresses no opinion regarding any other federal or state tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the 2010 Series A Bonds or the 2010 Series B Bonds. See “TAX MATTERS” herein.



\$645,890,000

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

\$469,730,000

\$176,160,000

**2000 Measure A Sales Tax Revenue Bonds, 2010 Series A
 (Taxable Build America Bonds)**

**2000 Measure A Sales Tax Revenue Bonds, 2010 Series B
 (Tax-Exempt Bonds)**

Dated: Date of Delivery

Due: April 1, as set forth on the inside cover

The Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds, 2010 Series A (Taxable Build America Bonds) (the “2010 Series A Bonds”) and the Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds, 2010 Series B (Tax-Exempt Bonds) (the “2010 Series B Bonds”) and, together with the 2010 Series A Bonds, the “2010 Series Bonds”) are being issued by the Santa Clara Valley Transportation Authority (the “Authority”) 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 2010 Series Bonds are being issued to (i) finance certain 2000 Measure A transit capital improvement projects, (ii) fund the 2010 Series Bond Reserve Fund and (iii) pay certain costs of issuing the 2010 Series Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS” herein.

Interest on the 2010 Series Bonds will be payable on April 1 and October 1 of each year, commencing on April 1, 2011. The 2010 Series Bonds will be issued as fully registered bonds, without coupons, in denominations of \$5,000 or any integral multiple thereof. The 2010 Series Bonds will be registered in the name of Cede & Co., as holder of the 2010 Series Bonds and nominee for The Depository Trust Company, New York, New York (“DTC”). Purchasers will not receive physical certificates representing their interest in the 2010 Series Bonds purchased. The principal or redemption premium, if any, of and interest on the 2010 Series Bonds is payable by wire transfer to DTC which, in turn, will remit such principal, redemption premium, if any, or interest to the DTC Participants for subsequent disbursement to the beneficial owners of the 2010 Series Bonds. See APPENDIX E – “BOOK-ENTRY SYSTEM AND GLOBAL CLEARANCE PROCEDURES.”

The 2010 Series A Bonds are subject to optional and mandatory redemption prior to their respective stated maturities, as more fully described herein. See “THE 2010 SERIES BONDS – Redemption” herein. The 2010 Series B Bonds are not subject to redemption prior to their respective stated maturities.

The 2010 Series Bonds are limited obligations of the Authority secured solely by a pledge of Revenues (as defined in the Indenture), which primarily consist of the receipts from the imposition in the County of Santa Clara (the “County”) of a one-half of one percent retail transactions and use tax authorized in 2000 which took effect on 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 voting on the ballot measure in November 2000 and is scheduled to expire on March 31, 2036. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” herein.

The Authority will designate the 2010 Series A Bonds as build America bonds (“Build America Bonds”) that are “qualified bonds” under the provisions of the American Recovery and Reinvestment Act of 2009 (the “Stimulus Act”), the interest on which is not excluded from gross income for federal income tax purposes but is exempt from State of California personal income taxes. The Authority expects to receive a cash subsidy from the United States Treasury equal to 35% of the interest payable on the 2010 Series A Bonds. The Authority is obligated to make all payments of principal of, redemption premium, if any, and interest on the 2010 Series A Bonds from the sources described herein whether or not it receives cash subsidy payments pursuant to the Stimulus Act.

The 2010 Series Bonds are being issued 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 2010 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, 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 2010 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 read this entire Official Statement to obtain information essential to making an informed investment decision with respect to the 2010 Series Bonds.

The 2010 Series Bonds are offered when, as and if issued and accepted by the Underwriters, subject to the approval of validity by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority. Certain legal matters will be passed on for the Authority by its General Counsel, and by Fulbright & Jaworski L.L.P., Los Angeles, California, as Disclosure Counsel, and for the Underwriters by Nixon Peabody LLP, Los Angeles, California. It is anticipated that the 2010 Series Bonds will be available for delivery through the book-entry facilities of DTC on or about November 17, 2010.

Barclays Capital

Citi

De La Rosa & Co.

J.P. Morgan

Morgan Stanley

Stone & Youngberg

MATURITY SCHEDULE

\$469,730,000

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
2000 Measure A Sales Tax Revenue Bonds,
2010 Series A
(Taxable Build America Bonds)**

<u>Maturity Date (April 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP (80168N)†</u>	<u>ISIN (US80168NE)†</u>	<u>COMMON CODES††</u>
2021	\$30,285,000	4.649%	100%	EL9	L91	056153934
2022	31,450,000	4.899	100	EM7	M74	056153985
2023	8,825,000	5.099	100	EN5	N57	056153993

\$399,170,000 5.876% Term Bonds due April 1, 2032 Price: 100%;
CUSIP†: 80168NEP0 ISIN†: US80168NEP06 COMMON CODES†† 056154027

\$176,160,000

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
2000 Measure A Sales Tax Revenue Bonds,
2010 Series B
(Tax-Exempt Bonds)**

<u>Maturity Date (April 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP (80168N)†</u>
2014	\$ 5,000,000	4.00%	1.10%	EV7
2014	16,835,000	5.00	1.10	FB0
2015	5,000,000	3.00	1.39	EQ8
2015	17,880,000	5.00	1.39	EW5
2016	13,025,000	4.00	1.74	ER6
2016	10,900,000	5.00	1.74	EX3
2017	5,000,000	4.00	2.08	ES4
2017	19,990,000	5.00	2.08	EY1
2018	265,000	3.00	2.38	ET2
2018	25,925,000	5.00	2.38	EZ8
2019	725,000	3.00	2.65	EU9
2019	1,190,000	4.00	2.65	FA2
2019	25,580,000	5.00	2.65	FC8
2020	28,845,000	5.00	2.88	FD6

† CUSIP is a registered trademark of the American Bankers Association. CUSIP data 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. CUSIP and ISIN numbers have been assigned by an independent company not affiliated with the Authority and are included solely for the convenience of investors. None of the Authority, the Underwriters or Ross Financial, as the Financial Advisor, are responsible for the selection or uses of these CUSIP or ISIN numbers, and no representation is made as to their correctness on the 2010 Series A Bonds or as included herein. The CUSIP or ISIN number for a specific maturity is subject to being changed after the issuance of the 2010 Series A Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the 2010 Series A Bonds.

†† The Common Codes are provided herein by Euroclear Bank S.A./N.V. Common Codes are provided for convenience of reference only. None of the Authority, the Underwriters or Ross Financial, as the Financial Advisor, is responsible for the accuracy of such numbers.

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 Official Statement, 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 Official Statement does not constitute an offer to sell or a solicitation of an offer to buy any of the 2010 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 Official Statement is not to be construed as a contract with the purchasers of the 2010 Series Bonds. Statements contained in this Official Statement 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 Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement 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 Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THE OFFERING OF THE 2010 SERIES BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 2010 SERIES BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

FORWARD-LOOKING STATEMENTS

Certain statements included or incorporated by reference in this Official Statement constitute forward-looking statements. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget" or other similar words. **The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. No assurance is given that actual results will meet the forecasts of the Authority in any way. 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.**

**INFORMATION CONCERNING OFFERING RESTRICTIONS
IN CERTAIN JURISDICTIONS OUTSIDE THE UNITED STATES.
ONLY THE 2010 SERIES A BONDS ARE OFFERED OUTSIDE THE
UNITED STATES**

THE FOLLOWING INFORMATION HAS BEEN PROVIDED BY THE UNDERWRITERS FOR USE IN THIS OFFICIAL STATEMENT. THE AUTHORITY MAKES NO REPRESENTATION AS TO THE ACCURACY OR ADEQUACY OF SUCH INFORMATION.

The 2010 Series A Bonds will trade and settle on a unit basis (one unit equaling one bond of \$5,000 principal amount). For any sales made outside the United States, the minimum purchase and trading amount is 20 units (being 20 bonds in an aggregate principal amount of \$100,000).

EEA

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), each Underwriter has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of any 2010 Series A Bonds which are the subject of the offering contemplated by this Official Statement to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such 2010 Series A Bonds to the public in that Relevant Member State:

(a) at any time to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(b) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than EUR43,000,000; and (3) an annual net turnover of more than EUR50,000,000, as shown in its last annual or consolidated accounts;

(c) at any time to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Authority; or

(d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of any 2010 Series A Bonds referred to in (a) through (d) above shall require the Authority or any Underwriter to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression “an offer of 2010 Series A Bonds to the public” in relation to any 2010 Series A Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the 2010 Series A Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the 2010 Series A Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

Each Underwriter has represented and agreed that:

(a) in relation to any 2010 Series A Bonds having a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any 2010 Series A Bonds other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the

purposes of their businesses where the issue of the 2010 Series A Bonds would otherwise constitute a contravention of section 19 of the Financial Services and Markets Act 2000 (“FSMA”) by the Authority;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any 2010 Series A Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Authority; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such 2010 Series A Bonds in, from or otherwise involving the United Kingdom.

Australia

No prospectus, product disclosure statement or other disclosure document (as defined in the Corporations Act) in relation to the 2010 Series A Bonds has been lodged with the Australian Securities and Investments Commission (“ASIC”). Each Underwriter has represented and agreed that it: (a) has not (directly or indirectly) offered for issue or sale or invited applications for the issue or offers to purchase, and will not offer for issue or sale or invite applications for the issue or offers to purchase, made or invited, and will not make or invite, an offer of any 2010 Series A Bonds for issue or sale in Australia (including an offer or invitation which is received by a person in Australia); and (b) has not distributed or published, and will not distribute or publish, any draft, preliminary or definitive offering or information memorandum, advertisement or other offering material relating to the 2010 Series A Bonds in Australia, unless (i) the minimum aggregate consideration payable by each offeree or invitee is at least A\$500,000 (or its equivalent in other currencies, but disregarding moneys lent by the offeror or its associates) or the offer or invitation otherwise does not require disclosure to investors in accordance with Part 6D.2 or Chapter 7 of the Corporations Act and is not an offer to a “retail client” under Chapter 7 of the Corporations Act, and (ii) such action complies with all applicable laws and directives and does not require any document to be lodged with ASIC.

Belgium

This Official Statement is not intended to constitute a public offer in Belgium and may not be distributed to the Belgian public. The Belgian Commission for Banking, Finance and Insurance (Commission Bancaire, Financière et des Assurances) has not been notified of the offer under this Official Statement pursuant to Article 32 of the Belgian law of 16 June 2006 on the Public Offering of Securities and the Admission of Securities to Trade on a Regulated Market (the “Prospectus Law”) nor has this Official Statement been, or will it be, approved by the Belgian Banking, Finance and Insurance Commission pursuant to Article 32 of the Prospectus Law. Accordingly, each Underwriter has represented and agreed that it will not offer or sell the 2010 Series A Bonds or distribute this Official Statement or any other information, document, brochure or similar document, directly or indirectly, to any person in Belgium other than to investors who are required to acquire 2010 Series A Bonds for an amount of at least €50,000 (or its equivalent in foreign currencies) per investor for each separate offer, as specified in article 3, §2 c) of the Prospectus Law.

Brazil

The 2010 Series A Bonds have not been, and will not be, registered with the Brazilian Securities Commission (Comissão de Valores Mobiliários - CVM). The 2010 Series A Bonds may not be offered or sold in Brazil, except in circumstances that do not constitute a public offering or distribution under Brazilian laws and regulations.

Denmark

This Official Statement is not intended to constitute a public offering in Denmark and will not be registered with and has not been approved by or otherwise published by the Danish Financial Supervisory Authority, the Danish Securities Council or the Danish Commerce and Companies Agency under the relevant Danish acts and regulations. The 2010 Series A Bonds have not been offered or sold and may not be offered or sold or delivered directly or indirectly in Denmark by way of a public offering, unless in compliance with

chapter 6 of the Danish Securities Trading Act and Executive Orders, including Executive Order no 223 of 10 March 2010 issued pursuant thereto from time to time.

Dubai International Financial Centre

Each Underwriter has represented and agreed that it has not offered and will not offer the 2010 Series A Bonds to be issued to any person in the Dubai International Financial Centre unless such offer is:

(a) deemed to be an “Exempt Offer” in accordance with the offered securities rules of the Dubai Financial Services Authority (the “DFSA”); and

(b) made only to persons who meet the professional client criteria set out in rule 2.3.2 of the DFSA conduct of business module.

France

Each of the Underwriters has represented and agreed that it has not offered or sold and will not offer or sell, directly or indirectly, any 2010 Series A Bonds to the public in France and it has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, this Official Statement or any other offering material relating to the 2010 Series A Bonds and such offers, sales and distributions have been and will be made in France only to (a) persons providing investment services relating to portfolio management for the account of third parties, and/or (b) qualified investors (*investisseurs qualifiés*), other than individuals, all as defined in, and in accordance with, Articles L.411-1, L.411-2 and D.411-1 to D.411-3 of the French *Code monétaire et financier*.

Germany

Each of the Underwriters has represented and agreed that in Germany the 2010 Series A Bonds will be offered only to qualified investors within the meaning of section 2 No. 6 of the German Securities Prospectus Act (*Wertpapierprospektgesetz*) to investors who acquire the 2010 Series A Bonds for a total consideration of at least USD \$100,000 per investor for each separate offer or otherwise in compliance with German law and that in making any such offers any applicable German laws or regulations will be complied with.

Hong Kong

Each Underwriter has represented and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any 2010 Series A Bonds other than (i) to persons whose ordinary business is to buy or sell shares or debentures (whether as principal or agent); or (ii) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (iii) in other circumstances which do not result in this Official Statement being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the 2010 Series A Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to 2010 Series A Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

India

Each Underwriter has represented and agreed that:

(a) it has not offered or sold and will not offer or sell in India, by means of this Official Statement or any other document, any 2010 Series A Bonds in circumstances which would constitute an offering to the public within the meaning of the (Indian) Companies Act, 1956;

(b) this Official Statement and any document by means of which it offers the 2010 Series A Bonds will not be generally distributed or circulated in India and will be for the sole consideration and exclusive use of the persons permitted to acquire 2010 Series A Bonds under Indian law to whom it is issued; and

(c) the 2010 Series A Bonds will not be offered, directly or indirectly, to persons exceeding 49 in number in India or any other number as may be specified under the (Indian) Companies Act, 1956 from time to time.

This Official Statement is strictly personal to the recipient and neither this Official Statement nor the issue is calculated to result, directly or indirectly, in the securities becoming available for subscription or purchase by persons other than those receiving the invitation or offer.

The 2010 Series A Bonds have not been approved by the Securities and Exchange Board of India, reserve bank of India or any other regulatory authority of India, nor have the foregoing authorities approved this Official Statement or confirmed the accuracy or determined the adequacy of the information contained in this Official Statement. This Official Statement has not been and will not be registered as a prospectus or a statement in lieu of prospectus with the Registrar of Companies in India.

Prospective investors from India must seek legal advice as to whether they are entitled to subscribe to the 2010 Series A Bonds and must comply with all relevant Indian laws in this respect. Each investor is deemed to have acknowledged and agreed that it is eligible and permitted to invest in the 2010 Series A Bonds under applicable laws and regulations in India and that it is not prohibited under any law or regulation in India from acquiring, owning or selling the 2010 Series A Bonds.

Ireland

The 2010 Series A Bonds may be offered, sold or placed in Ireland only in the circumstances described in Regulation 9(1)(a), (b) or (c) of the Prospectus (Directive 2003/71/EC) Regulations 2005 of Ireland. The 2010 Series A Bonds may not be offered, sold or placed in Ireland in any other circumstances.

Italy

The offering of the 2010 Series A Bonds has not been registered pursuant to Italian securities legislation and, accordingly, each Underwriter has represented and agreed that it has not offered, sold or delivered, will not offer, sell or deliver, has not distributed and will not distribute and has not made and will not make available in Italy any 2010 Series A Bonds, this Official Statement nor any other offering material relating to the 2010 Series A Bonds other than:

(a) to qualified investors (investitori qualificati), as defined pursuant to Articles 100 of Legislative Decree no. 58 of February 24, 1998, as amended (the "Financial Services Act") and article 34-ter, first paragraph, letter b) of Consob Regulation no. 11971 of May 14, 1999, as amended from time to time ("Regulation no. 11971"); or

(b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter of Regulation no. 11971.

Any offer, sale or delivery of the 2010 Series A Bonds or distribution of copies of this Official Statement or any other document relating to the bonds in Italy under (a) or (b) above must be:

(i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act, Legislative Decree no. 385 of September 1, 1993, as amended from time to time (“the Banking Act”), and Consob Regulation no. 16190 of October 29, 2007 (as amended);

(ii) in compliance with Article 129 of the Banking Act, as amended, and the implementing guidelines of the bank of Italy, as amended from time to time, pursuant to which the bank of Italy may request information on the issue or the offer of securities in Italy; and

(iii) in accordance with any other applicable laws and regulations or requirement imposed by Consob or other Italian authority.

Please note that in accordance with Article 100-Bis of the Financial Services Act, where no exemption from the rules on public offerings applies under (a) and (b) above, the subsequent distribution of the 2010 Series A Bonds on the secondary market in Italy must be made in compliance with the public offer and the prospectus requirement rules provided under the Financial Services Act and Regulation no. 11971. Failure to comply with such rules may result in the sale of such 2010 Series A Bonds being declared null and void and in the liability of the intermediary transferring the financial instruments for any damages suffered by the investors.

Japan

The 2010 Series A Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act no. 25 of 1948, as amended; the “FIEA”). Accordingly, the 2010 Series A Bonds may not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under item 5, paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act no. 228 of 1949, as amended)), or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the FIEA and any other applicable laws and regulations of Japan.

For the primary offering of the 2010 Series A Bonds, the 2010 Series A Bonds and the solicitation of an offer for acquisition thereof have not been and will not be registered under Paragraph 1, Article 4 of the FIEA. As it is a primary offering, the 2010 Series A Bonds may only be offered, sold, resold or otherwise transferred, directly or indirectly to, or for the benefit of, (i) a person who is not a resident of Japan or (ii) a Qualified Institutional Investor (“QII”) defined in Article 10 of the Cabinet Ordinance Concerning definitions under Article 2 of the FIEA (Ordinance no. 14 of 1993, as amended). A person who purchased or otherwise obtained the 2010 Series A Bonds cannot resale or otherwise transfer the 2010 Series A Bonds in Japan to any person except another QII.

Korea

No registration statement for the offering and sale of the 2010 Series A Bonds has been filed with the Financial Services Commission of Korea. Accordingly, no 2010 Series A Bonds may be offered, sold or delivered, directly or indirectly, in Korea or to, or for the benefit of any Korean resident (as such term is defined in the Foreign Exchange Transaction law of Korea), except as otherwise permitted by applicable Korean laws and regulations. Furthermore, a holder of the 2010 Series A Bonds will be prohibited from offering, delivering or selling any 2010 Series A Bonds, directly or indirectly, in Korea or to any Korean resident, except as may be permitted by applicable Korean laws and regulations.

Luxembourg

In addition to the cases described in the section “EEA” in which each Underwriter can make an offer of the 2010 Series A Bonds to the public in an European Economic Area Member State (including the Grand Duchy of Luxembourg) (Luxembourg), each Underwriter can also make an offer of the 2010 Series A Bonds to the public in Luxembourg:

(a) at any time, to national and regional governments, central banks, international and supranational institutions (such as the International Monetary Fund, the European Central Bank, the European Investment Bank) and other similar international organizations;

(b) at any time, to legal entities which are authorized or regulated to operate in the financial markets (including credit institutions, investment firms, other authorized or regulated financial institutions, undertakings for collective investment and their management companies, pension and investment funds and their management companies, insurance undertakings and commodity dealers) as well as entities not so authorized or regulated whose corporate purpose is solely to invest in securities; and

(c) at any time, to certain natural persons or small and medium-sized enterprises (as defined in the Luxembourg act dated July 10, 2005 on prospectuses for securities implementing the Prospective Directive into Luxembourg law) recorded in the register of natural persons or small and medium-sized enterprises considered as qualified investors as held by the Commission de surveillance du secteur financier as competent authority in Luxembourg in accordance with the Prospectus Directive.

Netherlands

Each Underwriter has undertaken that in relation to the issue of the 2010 Series A Bonds it has not and will not, directly or indirectly, offer, sell, transfer or deliver any 2010 Series A Bond as part of their initial distribution or at any time thereafter (including rights representing an interest in a global bond) to individuals or legal entities who or which are established, domiciled or have their residence in the Netherlands other than for a minimum consideration of € 50,000, or the equivalent in another currency than Euro, per investor.

Norway

This Official Statement has not been approved by, or registered with, any Norwegian securities regulators pursuant to the Norwegian Securities Trading Act of 29 June 2007. Accordingly, neither this Official Statement nor any other offering material relating to the offering or the 2010 Series A Bonds constitutes, or shall be deemed to constitute, an offer to the public in Norway within the meaning of the Norwegian Securities Trading Act of 2007. The 2010 Series A Bonds may not be offered or sold, directly or indirectly, in Norway except;

(a) in respect of an offer of 2010 Series A Bonds addressed to investors subject to a minimum purchase of 2010 Series A Bonds for a total consideration of not less than €50,000 per investor;

(b) to “professional investors” as defined in the Norwegian Securities Regulation of 29 June 2007 no. 876, being;

(i) legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in 2010 Series A Bonds;

(ii) any legal entity which is registered as a professional investor with the Norwegian Financial Supervisory Authority (No. *Finanstilsynet*) and which has two or more of; (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(iii) any natural person which is registered as a professional investor with the Oslo Stock Exchange (No. *Oslo Børs*) and which has two or more of; (1) an average execution of at least ten – 10 – transactions in securities of significant volume per quarter for the last four quarters; (2) a portfolio of securities with a market value of at least €500,000; (3) worked or works, for at least one (1) year, within the financial markets in a position which presuppose knowledge of investing in securities;

(c) to fewer than 100 natural or legal persons (other than “professional investors” as defined in the Norwegian Securities Regulation of 29 June 2007 no. 876), subject to obtaining the prior consent of the Underwriters for any such offer; or

(d) in any other circumstances provided that no such offer of 2010 Series A Bonds shall result in a requirement for the registration, or the publication by the Authority or any Underwriter, of a prospectus pursuant to the Norwegian Securities Trading Act of 29 June 2007.

Portugal

This Official Statement has not been and will not be registered or approved by the Portuguese Securities Market Commission (“Comissão do Mercado dos Valores Mobiliários”) nor has a Prospectus recognition procedure been commenced with the Portuguese Securities Market Commission and therefore the offer is not addressed to investors resident and/or located in Portugal and can not be made to the public in Portugal or under circumstances which are deemed to be a public offer under the Portuguese Securities Code (“Código dos Valores Mobiliários”) and other securities legislation and regulations applicable in Portugal. In addition, this Official Statement and other offer materials are only being publicly distributed in the jurisdictions where lawful and may not be publicly distributed in Portugal, nor may any publicity or marketing activities related to the offer be conducted in Portugal.

The offer is not addressed to investors resident and/or located in Portugal, and no tenders from investors resident and/or located in Portugal will be accepted, except if those investors are all qualified investors (“investidores qualificados”), as defined in articles 30.º and 110.º-A of the Portuguese Securities Code, or 99 or fewer non-qualified investors, in which case the offer can be made through a private placement (“oferta particular”), in accordance with the relevant provisions of the Portuguese Securities Code.

Singapore

This Official Statement has not been registered as a prospectus with the Monetary Authority of Singapore, and any offering of the 2010 Series A Bonds will be made pursuant to exemptions under the Securities and Futures Act, Chapter 289 of Singapore (the “*Securities and Futures Act*”). Accordingly, the 2010 Series A Bonds may not be offered or sold or made the subject of an invitation for subscription or purchase nor may this Official Statement or any other document or material in connection with the offer or sale or invitation for subscription or purchase of any 2010 Series A Bonds be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor pursuant to Section 274 of the Securities and Futures Act, (b) to a relevant person under Section 275(1) of the Securities and Futures Act or to any person pursuant to Section 275(1A) of the Securities and Futures Act and in accordance with the conditions specified in Section 275 of the Securities and Futures Act, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Each of the following persons specified in Section 275 of the Securities and Futures Act which has subscribed or purchased the 2010 Series A Bonds, is a person who is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the Securities and Futures Act)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor;

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an individual who is an accredited investor,

should note that shares, debentures and units of shares and debentures of that corporation or the beneficiaries’ rights and interests in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the 2010 Series A Bonds under Section 275 of the Securities and Futures Act except:

(i) to an institutional investor under Section 274 of the Securities and Futures Act or to a relevant person or to any person pursuant to Section 275(1) and Section 275(1A) of the Securities and Futures Act, respectively and in accordance with the conditions specified in Section 275 of the Securities and Futures Act;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law; or

- (iv) pursuant to Section 276(7) of the Securities and Futures Act.

Spain

Neither the 2010 Series A Bonds nor this Official Statement have been or will be verified or registered in the administrative registries of the Spanish Securities Markets Commission (Comisión Nacional de Mercado de Valores), and therefore this Official Statement is not intended for any public offer of the 2010 Series A Bonds in Spain.

Accordingly, the 2010 Series A Bonds may not be offered, sold or distributed in the Kingdom of Spain except in circumstances which do not constitute a public offering of securities in the Kingdom of Spain within the meaning of section 30-Bis of law 24/1988, of 28 July, on the securities market (ley 24/1988, de 28 de Julio, del mercado de valores) as amended and restated, and Royal Decree 1310/2005, of 4 November 2005, partially developing law 24/1988, of 28 July, on the securities market in connection with listing of securities in secondary official markets, initial purchase offers, rights issues and the prospectus required in these cases (real decreto 1310/2005, de 4 de Noviembre, por el que se desarrolla parcialmente la ley 24/1988, de 28 de Julio, del mercado de valores, en materia de admisión a negociación de valores en mercados secundarios oficiales, de ofertas públicas de venta o suscripción y del folleto exigible a tales efectos) and the supplemental rules enacted thereunder or in substitution thereof from time to time.

Sweden

Each Underwriter has represented and agreed, that it will not, directly or indirectly, offer for subscription or purchase or issue invitations to subscribe for or buy 2010 Series A Bonds or distribute any draft or definitive document in relation to any such offer, invitation or sale in the Kingdom of Sweden except in circumstances that will not result in a requirement to prepare a prospectus pursuant to the provisions of the Swedish Financial Instruments Trading Act (Sw. *Lag (1991:980) om handel med finansiella instrument*).

Switzerland

This Official Statement is not intended to constitute an offer or solicitation to purchase or invest in the 2010 Series A Bonds described herein. The 2010 Series A Bonds may not be publicly offered, sold or advertised, directly or indirectly, in or from Switzerland. Neither this Official Statement nor any other offering or marketing material relating to the 2010 Series A Bonds constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Federal Code of Obligations or a listing prospectus within the meaning of the listing rules of SIX Swiss Exchange Ltd or any other regulated trading facility, and neither this Official Statement nor any other offering or marketing material relating to the 2010 Series A Bonds may be publicly distributed or otherwise made publicly available in Switzerland.

Taiwan

The 2010 Series A Bonds have not been and will not be registered with the Financial Supervisory Commission of Taiwan, the Republic of China pursuant to relevant securities laws and regulations and may not be offered or sold in Taiwan, the Republic of China through a public offering or in circumstance which constitutes an offer within the meaning of the Securities and Exchange Law, the Republic of China that requires a registration or approval of the Financial Supervisory Commission of Taiwan, the Republic of China. No person or entity in Taiwan, the Republic of China has been authorized to offer or sell the 2010 Series A Bonds in Taiwan, the Republic of China.

United Arab Emirates (excluding the Dubai International Financial Centre)

Each Underwriter has represented and agreed that the 2010 Series A Bonds to be issued have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

Each Underwriter has acknowledged that the information contained in this Official Statement does not constitute a public offer of securities in the United Arab Emirates in accordance with the Commercial

Companies law (Federal law no.8 of 1984 (as amended)) or otherwise and is not intended to be a public offer and the information contained in this official statement is not intended to lead to the conclusions of any contract within the territory of the United Arab Emirates.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

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Donald F. Gage
Ash Kalra
Rich Larsen
Chuck Page
Chuck Reed

Margaret Abe-Koga, Vice-Chairperson
Rose Herrera
Liz Kniss
Chris Moylan
Nancy Pyle
Perry Woodward

Dean J. Chu, *Ex-Officio*
Ken Yeager, *Ex-Officio*

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Jamie Matthews
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Greta Helm, Chief External Affairs Officer
Carolyn Gonot, Chief Silicon Valley Rapid Transit Project Program Officer
Bill Lopez, Chief Administrative Officer
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Mark S. Robinson, Chief Engineering and Construction Officer
Joseph T. Smith, Chief Financial Officer
Donald Smith, Chief Operations Officer

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Disclosure Counsel

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

Trustee

Deutsche Bank National Trust Company
San Francisco, California

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TABLE OF CONTENTS

	Page
INTRODUCTION	1
General	1
Authority for Issuance.....	1
Purpose and Application of Proceeds	1
Security	2
Designation of 2010 Series A Bonds as “Build America Bonds”	2
Proposed Amendment of the Indenture	3
Limited Obligations	3
References.....	3
THE AUTHORITY	3
THE 2010 SERIES BONDS	3
General	3
Designation of 2010 Series A Bonds as “Build America Bonds”	4
Redemption.....	4
PLAN OF FINANCE.....	9
ESTIMATED SOURCES AND USES OF FUNDS	9
DEBT SERVICE SCHEDULE.....	10
SECURITY AND SOURCES OF PAYMENT FOR THE BONDS	11
Limited Obligations	11
Pledge of 2000 Measure A Sales Tax Revenues and Certain Amounts Held by Trustee.....	11
Revenue Fund; Allocation of 2000 Measure A Sales Tax Revenues	12
2010 Series Bond Reserve Fund.....	14
Additional Bonds and Parity Obligations	14
Subordinate Obligations.....	15
AMENDMENT OF THE INDENTURE.....	16
OUTSTANDING 2000 MEASURE A SALES TAX OBLIGATIONS	16
Existing Bonds.....	16
Existing Swap Agreements.....	17
THE 2000 MEASURE A SALES TAX	19
Authorization, Application and Collection of the 2000 Measure A Sales Tax.....	19
The 1976 Sales Tax.....	19
The 2008 Measure B Sales Tax	19
Historical Sales Tax Revenues.....	20
THE 2000 MEASURE A PROGRAM	21
General	21
The 2000 Measure A Transit Improvement Program	21
Overview of the BART Silicon Valley Program	22
Overview of Bus Rapid Transit Program.....	23
Future Financing Plans	24

TABLE OF CONTENTS
(continued)

	Page
RISK FACTORS	24
Economy of the County and the State.....	24
The 2000 Measure A Sales Tax	24
Impact of Bankruptcy of the Authority.....	24
Proposition 218.....	25
Further Initiatives.....	25
No Acceleration Provision.....	25
Loss of Subsidy Payment.....	25
Possible Impact of Bankruptcy of Ambac Financial	26
FINANCIAL STATEMENTS	26
LITIGATION	26
TAX MATTERS	27
Tax Matters Relating to the 2010 Series A Bonds.....	27
Circular 230	30
Tax Matters Relating to the 2010 Series B Bonds	30
LEGAL MATTERS.....	32
RATINGS	32
UNDERWRITING	32
FINANCIAL ADVISOR	33
CONTINUING DISCLOSURE.....	33
MISCELLANEOUS	34
APPENDIX A – SANTA CLARA VALLEY TRANSPORTATION AUTHORITY	A-1
APPENDIX B – AUDITED FINANCIAL STATEMENTS OF THE SANTA CLARA VALLEY TRANSPORTATION AUTHORITY FOR FISCAL YEAR ENDED JUNE 30, 2010.....	B-1
APPENDIX C – COUNTY OF SANTA CLARA DEMOGRAPHIC AND ECONOMIC INFORMATION.....	C-1
APPENDIX D – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.....	D-1
APPENDIX E – BOOK-ENTRY SYSTEM AND GLOBAL CLEARANCE PROCEDURES	E-1
APPENDIX F – PROPOSED FORM OF BOND COUNSEL OPINION.....	F-1
APPENDIX G – FORM OF CONTINUING DISCLOSURE CERTIFICATE	G-1

\$645,890,000
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
2000 MEASURE A SALES TAX REVENUE BONDS

\$469,730,000
2000 Measure A Sales Tax Revenue Bonds,
2010 Series A
(Taxable Build America Bonds)

\$176,160,000
2000 Measure A Sales Tax Revenue Bonds,
2010 Series B
(Tax-Exempt Bonds)

INTRODUCTION

General

This Official Statement, which includes the cover page and the appendices hereto, sets forth certain information in connection with the offering by the Santa Clara Valley Transportation Authority (the “Authority”) of the Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds, 2010 Series A (Taxable Build America Bonds) (the “2010 Series A Bonds”) and the Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds, 2010 Series B (Tax-Exempt Bonds) (the “2010 Series B Bonds” and, together with the 2010 Series A Bonds, the “2010 Series Bonds”). The 2010 Series Bonds are being issued pursuant to the Indenture, dated as of August 1, 2006 (the “Master Indenture”), 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”), a Third Supplemental Indenture, dated as of June 1, 2008 (the “Third Supplemental Indenture”), and a Fourth Supplemental Indenture, dated as of November 1, 2010 (the “Fourth Supplemental Indenture”), each between the Authority and the Trustee. The Master Indenture as so supplemented and amended 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 2010 Series Bonds are being issued by the Authority under and pursuant to the Santa Clara Valley Transportation Authority Act, being Sections 100000 *et seq.* of the California Public Utilities Code and the provisions of the Revenue Bond Law of 1941, being Section 54300 *et seq.* of the California Government Code as referenced in the Santa Clara Valley Transportation Authority Act (collectively, the “Act”).

Purpose and Application of Proceeds

The 2000 Measure A 2010 Series Bonds are being issued to (i) finance certain 2000 Measure A transit capital improvement projects, (ii) fund the 2010 Series Bond Reserve Fund and (iii) pay certain costs of issuing the 2010 Series Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS” herein.

Security

The 2010 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 2010 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. In addition, pursuant to the provisions of the Indenture, the Authority has determined to pledge the Subsidy Payments as additional security for the benefit of the 2010 Series A Bonds.

Upon their issuance, the 2010 Series Bonds will be secured on a parity basis under the Indenture with the Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds, 2007 Series A (the “2007 Series Bonds”), currently outstanding in the aggregate principal amount of \$120,095,000, 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 (collectively, the “2008 Series Bonds”), currently outstanding in the aggregate principal amount of \$235,875,000, and regularly scheduled payments on the Swap Agreements (as defined herein).

Additional Bonds (as defined herein) and other obligations secured by a pledge of the 2000 Measure A Sales Tax Revenues on a parity with the 2007 Series Bonds, the 2008 Series Bonds, the 2010 Series Bonds and the regularly scheduled payments on the Swap Agreements 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.”

Designation of 2010 Series A Bonds as “Build America Bonds”

The Authority will designate the 2010 Series A Bonds as build America bonds (“Build America Bonds”) that are “qualified bonds” under the provisions of the American Recovery and Reinvestment Act of 2009 (the “Stimulus Act”), the interest on which is not excluded from gross income for federal income tax purposes but is exempt from State of California (the “State”) personal income taxes. The Authority expects to receive a Subsidy Payment equal to 35% of the interest payable on the 2010 Series A Bonds. “Subsidy Payments” means payments to be made by the United States Department of the Treasury (the “United States Treasury”) to the Trustee pursuant to Section 54AA of the Internal Revenue Code of 1986 (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 Stimulus Act or any successor thereto or replacement thereof. The Authority will covenant for the benefit of the Holders of the 2010 Series A Bonds to comply with any conditions to receive the cash subsidy or to maintain the Authority’s right to retain or receive future subsidy payments in respect of the 2010 Series A Bonds. The Authority is obligated to make all payments of principal of, redemption premium, if any, and interest on the 2010 Series A Bonds from the sources described herein whether or not it receives cash subsidy payments pursuant to the Stimulus Act.

Proposed Amendment of the Indenture

The Authority is proposing to amend the definition of Debt Service as described herein under the caption "AMENDMENT OF THE INDENTURE." Such amendment will take effect at the sole option of the Authority, upon the earliest to occur of (i) the date when no 2007 A Series Bond remains Outstanding and (ii) the date when the certain provisions set forth in the Indenture relating to the limitations on the rights of Credit Enhancement Providers and Reserve Facility Providers shall apply with respect to the exercise of rights by the Credit Enhancement Provider and Reserve Facility Provider for the 2007 Series A Bonds. See "AMENDMENT OF THE INDENTURE" herein.

Limited Obligations

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COUNTY, THE STATE 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, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE 2010 SERIES BONDS.

References

The descriptions and summaries of the Act, the Indenture and the 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 Official Statement. The Authority was created in 1972 pursuant to the Santa Clara County Transit District Act. Prior to January 1, 1995, the County Board of Supervisors served as the Board of Directors of the Authority. Effective January 1, 1995, pursuant to State legislation, the Authority has operated under a separate Board of Directors composed of County and city representatives. On January 1, 2000, pursuant to State 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 2010 SERIES BONDS

General

The 2010 Series Bonds will be dated their date of delivery, will bear interest at the rates and will mature on the dates set forth on the inside cover of this Official Statement. Interest on each 2010 Series Bond shall be computed on the basis of a 360-day year, consisting of twelve 30-day months and shall be payable commencing on April 1, 2011 and semiannually thereafter on each April 1 and October 1 (each an "Interest Payment Date").

The 2010 Series Bonds will be issued in fully registered form without coupons and will initially be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), as the securities depository for the 2010 Series Bonds. The term “Owner” as used herein shall refer to DTC as the registered owner of the 2010 Series Bonds. Purchases of the 2010 Series Bonds are to be made in book-entry only form in the principal amount of \$5,000 or any integral multiple thereof. See APPENDIX E – “BOOK-ENTRY SYSTEM AND GLOBAL CLEARANCE PROCEDURES.”

Designation of 2010 Series A Bonds as “Build America Bonds”

The Authority is issuing the 2010 Series A Bonds as taxable bonds, and will designate the 2010 Series A Bonds as Build America Bonds under Section 54AA(d) of the Code and as “qualified Build America Bonds (Direct Subsidy)” under Section 54AA(g) of the Code. In connection with the issuance of the 2010 Series A Bonds, and as permitted by the Stimulus Act, the Authority will elect (which election is irrevocable pursuant to the provisions of the Stimulus Act) for the Trustee to receive directly from the United States Treasury on or about each Interest Payment Date for the 2010 Series A Bonds a Subsidy Payment equal to 35% of the taxable interest it pays on the 2010 Series A Bonds. The Subsidy Payment does not constitute a full faith and credit guarantee of the United States Government, but is required to be paid by the United States Treasury under the Stimulus Act. If the Authority fails to comply with the conditions to receiving the Subsidy Payments throughout the term of the 2010 Series A Bonds, it may no longer receive the Subsidy Payments and could be subject to a claim for the return of previously received Subsidy Payments. The Authority will covenant for the benefit of the Holders of the 2010 Series A Bonds to comply with any conditions to receive the Subsidy Payments or to maintain the Authority’s right to retain or receive future Subsidy Payments in respect of the 2010 Series A Bonds. The Authority is obligated to make all payments of principal of, redemption premium, if any, and interest on the 2010 Series A Bonds from the sources described herein whether or not it receives Subsidy Payments pursuant to the Stimulus Act.

Redemption

Optional Redemption of 2010 Series A Bonds. The 2010 Series A Bonds shall be subject to redemption prior to their stated maturity date, at the option of the Authority, from any source of available funds, as a whole or in part on any date, at a Redemption Price equal to 100% of the principal amount of the 2010 Series A Bonds to be redeemed plus the Make-Whole Premium, if any, together with accrued interest to the date fixed for redemption. The Authority shall advise, or shall cause the Designated Banking Institution to advise, the Trustee in writing of the amount of the Make-Whole Premium, if any.

“Designated Banking Institution” means a financial institution of national standing which is a primary United States government securities dealer designated by the Authority.

“Make-Whole Premium” means, with respect to any 2010 Series A Bond to be redeemed, 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.

“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.

Extraordinary Optional Redemption. The 2010 Series A Bonds shall be subject to redemption prior to maturity at the option of the Authority upon the occurrence of a Tax Law Change, from any source of available funds, as a whole or in part, on any date, at a Redemption Price equal to 100% of the principal amount of 2010 Series A Bonds to be redeemed plus the Make-Whole Premium (using a discount rate equal to the Comparable Treasury Yield plus 100 basis points), if any, plus accrued interest to the date fixed for redemption. The Authority shall advise, or shall cause the Designated Banking Institution to advise, the Trustee in writing of the amount of the Make-Whole Premium, if any.

“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 United States Treasury, the Internal Revenue Service or other governmental agency of appropriate jurisdiction, the effect of which, as reasonably determined by the Authority, would be to suspend, reduce or terminate the Subsidy Payments from the United States Treasury to the Authority 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 Authority to comply with the requirements under the Code to receive such Subsidy Payments.

Selection of 2010 Series A Bonds for Optional Redemption and Extraordinary Optional Redemption. If less than all of the 2010 Series A Bonds are to be redeemed pursuant to the Indenture, the Authority shall designate which maturities of 2010 Series A Bonds shall be called for redemption. For so long as (i) the 2010 Series A Bonds are registered in book-entry only form and (ii) DTC or a successor Securities Depository to DTC is the sole registered owner of the 2010 Series A Bonds, if less than all of the 2010 Series A Bonds of a maturity are called for redemption, the particular 2010 Series A Bonds or portions thereof to be redeemed shall be selected on a “Pro Rata Pass-Through Distribution of Principal” basis in accordance with DTC procedures, provided that, so long as the 2010 Series A Bonds are held in book-entry form, the selection for redemption of such 2010 Series A Bonds shall be made in accordance with the operational arrangements of DTC then in effect, which operational arrangements currently provide for adjustment of the principal by a factor provided pursuant to such operational arrangements. Redemption allocations made by DTC, direct or indirect participants in DTC, or such other intermediaries that may exist between the Authority and the ownership interest of each actual purchaser of each 2010 Series A Bond (each a “Beneficial Owner”) are to be made on a “Pro Rata Pass-Through Distribution of Principal” basis as described above. If the Trustee does not identify the redemption as on a Pro Rata Pass-Through Distribution of Principal basis and provide the necessary information to DTC or if the DTC operational arrangements do not allow for the redemption of the 2010 Series A Bonds on a Pro Rata Pass-Through Distribution of Principal basis, then the 2010 Series A Bonds shall be selected for redemption by lot in accordance with DTC procedures. If the 2010 Series A Bonds are not registered in book-entry only form, any redemption of less than all of a maturity of the 2010 Series A Bonds shall be effected by the Trustee among Holders on a pro-rata basis subject to minimum Authorized Denominations. “Authorized Denominations” means \$5,000 and any integral multiple thereof. The particular 2010 Series A Bonds to be redeemed shall be determined by the Trustee, using such method as the Trustee in its sole discretion shall deem fair and appropriate. If the 2010 Series A Bonds designated for redemption are Term Bonds, the Authority may designate the Mandatory Sinking Account Payments under the Indenture, or portions thereof, that are to be allocated to, and reduced as a result of, such redemption.

Mandatory Sinking Fund Redemption of 2010 Series A Bonds. The 2010 Series A Bonds maturing on April 1, 2032 are Term Bonds and shall be redeemed by mandatory sinking fund redemption, in part, on each April 1 in the mandatory sinking fund redemption amount set forth below at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest to the Redemption Date, without premium.

<u>Year</u>	<u>Mandatory Sinking Fund Redemption Amount</u>
2023	\$23,895,000
2024	34,250,000
2025	35,905,000
2026	37,650,000
2027	39,475,000
2028	41,385,000
2029	43,395,000
2030	45,495,000
2031	47,705,000
2032*	50,015,000

* Maturity.

Selection of 2010 Series A Bonds for Mandatory Sinking Fund Redemption. If less than all of a maturity of 2010 Series A Bonds are to be redeemed from Mandatory Sinking Account Payments made pursuant to the Indenture, the principal of all such 2010 Series A Bonds shall be subject to redemption on a pro rata basis. For so long as (i) the 2010 Series A Bonds are registered in book-entry only form and (ii) DTC or a successor Securities Depository to DTC is the sole registered owner of the 2010 Series A Bonds, if less than all of the 2010 Series A Bonds of a maturity are called for redemption from Mandatory Sinking Account Payments made pursuant to the Indenture, the particular 2010 Series A Bonds or portions thereof to be redeemed shall be selected on a “Pro Rata Pass-Through Distribution of Principal” basis in accordance with DTC procedures, provided that, so long as the 2010 Series A Bonds are held in book-entry form, the selection for redemption of such 2010 Series A Bonds shall be made in accordance with the operational arrangements of DTC then in effect, which operational arrangements currently provide for adjustment of the principal by a factor provided pursuant to such operational arrangements. Redemption allocations made by DTC, direct or indirect participants in DTC, or such other intermediaries that may exist between the Authority and the Beneficial Owners are to be made on a “Pro Rata Pass-Through Distribution of Principal” basis as described above. If the Trustee does not identify the redemption as on a Pro Rata Pass-Through Distribution of Principal basis and provide the necessary information to DTC or if the DTC operational arrangements do not allow for the redemption of the 2010 Series A Bonds on a Pro Rata Pass-Through Distribution of Principal basis, then the 2010 Series A Bonds shall be selected for redemption by lot in accordance with DTC procedures. If the 2010 Series A Bonds are not registered in book-entry only form, any redemption of less than all of a maturity of the 2010 Series A Bonds shall be effected by the Trustee among Holders on a pro-rata basis subject to minimum Authorized Denominations. The particular 2010 Series A Bonds to be redeemed shall be determined by the Trustee, using such method as the Trustee in its sole discretion shall deem fair and appropriate.

Notice of Redemption. Each notice of redemption with respect to the 2010 Series A Bonds shall be mailed by the Trustee, not less than twenty (20) nor more than thirty (30) days prior to the redemption date, to each Holder and the Repository. Any notice of redemption given pursuant to the Indenture may be rescinded by written notice delivered to the Trustee by the Authority. Upon receipt of such written notice of rescission from the Authority, 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 redemption was given pursuant to the Indenture. Notice of redemption of 2010 Series A Bonds shall otherwise be given in accordance with the provisions set forth in the Indenture.

With respect to any notice of optional redemption of 2010 Series A Bonds, unless, upon the giving of such notice, such 2010 Series A 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 2010 Series A 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 2010 Series A 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 Holders 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.

Partial Redemption of 2010 Series A Bonds. Upon surrender of any 2010 Series A Bond redeemed in part only, the Authority shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the Authority, a new 2010 Series A Bond of authorized denominations, and of the same maturity and interest rate, equal in aggregate principal amount to the unredeemed portion of the 2010 Series A Bond surrendered.

Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, the 2010 Series A Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the 2010 Series A Bonds (or portions thereof) so called for redemption shall become due and payable at the Redemption Price specified in such notice together with interest accrued thereon to the date fixed for redemption, interest on the 2010 Series A Bonds so called for redemption shall cease to accrue, said 2010 Series A Bonds (or portions thereof) shall cease to be entitled to any benefit or security under this Indenture, and the Owners of said 2010 Series A Bonds shall have no rights in respect thereof except to receive payment of said Redemption Price and accrued interest to the redemption date.

No Redemption of the 2010 Series B Bonds. The 2010 Series B Bonds are not subject to redemption prior to their respective stated maturities.

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PLAN OF FINANCE

The 2010 Series Bonds are being issued to (i) finance certain 2000 Measure A transit capital improvement projects, (ii) fund the 2010 Series Bond Reserve Fund and (iii) pay certain costs of issuing the 2010 Series Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS” and “THE 2000 MEASURE A PROGRAM” herein.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the 2010 Series Bonds and certain other amounts are expected to be applied as follows:

Sources of Funds:	2010 Series A <u>Bonds</u>	2010 Series B <u>Bonds</u>	<u>Total</u>
Principal Amount	\$469,730,000.00	\$176,160,000.00	\$645,890,000.00
Premium	<u> --</u>	<u>27,262,436.00</u>	<u>27,262,436.00</u>
Total Sources:	\$469,730,000.00	\$203,422,436.00	\$673,152,436.00
 Uses of Funds:			
Deposit to 2010 Series Project Fund	\$447,282,085.84	\$194,028,130.67	\$641,310,216.51
Deposit to 2010 Series Bond Reserve Fund	19,936,727.16	8,633,848.39	28,570,575.55
Costs of Issuance ⁽¹⁾	<u>2,511,187.00</u>	<u>760,456.94</u>	<u>3,271,643.94</u>
Total Uses:	<u>\$469,730,000.00</u>	<u>\$203,422,436.00</u>	<u>\$673,152,436.00</u>

⁽¹⁾ Includes Underwriters’ discount, rating agency fees, Trustee fees, printing costs, bond counsel, disclosure counsel and financial advisor fees and expenses and other miscellaneous costs of issuance.

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DEBT SERVICE SCHEDULE

The following table shows the annual debt service requirements on the Bonds.

Fiscal Year Ending June 30	2008 Series Bonds ⁽¹⁾		2010 Series A Bonds		2010 Series B Bonds		Combined Debt Service
	2007 Series Bonds		Principal	Interest	Principal	Interest	
2011	\$ 8,330,700.00	\$ 8,880,693.78	--	\$ 9,995,618.74	--	\$ 3,143,807.50	\$ 30,350,820.02
2012	8,328,500.00	8,880,693.78	--	26,853,901.10	--	8,446,050.00	52,509,144.88
2013	8,327,500.00	8,880,693.78	--	26,853,901.10	--	8,446,050.00	52,508,144.88
2014	8,331,250.00	8,880,693.78	--	26,853,901.10	\$21,835,000.00	8,446,050.00	74,346,894.88
2015	8,328,250.00	8,880,693.78	--	26,853,901.10	22,880,000.00	7,404,300.00	74,347,144.88
2016	8,328,500.00	8,880,693.78	--	26,853,901.10	23,925,000.00	6,360,300.00	74,348,394.88
2017	8,329,300.00	8,880,693.78	--	26,853,901.10	24,990,000.00	5,294,300.00	74,348,194.88
2018	8,327,500.00	8,880,693.78	--	26,853,901.10	26,190,000.00	4,094,800.00	74,346,894.88
2019	8,327,750.00	8,880,693.78	--	26,853,901.10	27,495,000.00	2,790,600.00	74,347,944.88
2020	8,329,750.00	8,880,693.78	--	26,853,901.10	28,845,000.00	1,442,250.00	74,351,594.88
2021	8,328,000.00	8,880,693.78	\$ 30,285,000.00	26,853,901.10	--	--	74,347,594.88
2022	8,327,250.00	8,880,693.78	31,450,000.00	25,445,951.46	--	--	74,103,895.24
2023	8,327,000.00	8,880,693.78	32,720,000.00	23,905,215.96	--	--	73,832,909.74
2024	8,326,750.00	8,880,693.78	34,250,000.00	22,051,159.00	--	--	73,508,602.78
2025	8,331,000.00	8,880,693.78	35,905,000.00	20,038,629.00	--	--	73,155,322.78
2026	8,329,000.00	8,880,693.78	37,650,000.00	17,928,851.20	--	--	72,788,544.98
2027	8,330,500.00	8,880,693.78	39,475,000.00	15,716,537.20	--	--	72,402,730.98
2028	8,329,750.00	8,880,693.78	41,385,000.00	13,396,986.20	--	--	71,992,429.98
2029	8,326,250.00	8,880,693.78	43,395,000.00	10,965,203.60	--	--	71,567,147.38
2030	8,329,500.00	8,880,693.78	45,495,000.00	8,415,313.40	--	--	71,120,507.18
2031	8,328,500.00	8,880,693.78	47,705,000.00	5,742,027.20	--	--	70,656,220.98
2032	8,327,750.00	8,880,693.78	50,015,000.00	2,938,881.40	--	--	70,162,325.18
2033	8,326,500.00	64,630,693.78	--	--	--	--	72,957,193.78
2034	8,329,000.00	64,606,706.28	--	--	--	--	72,935,706.28
2035	8,329,250.00	64,629,595.04	--	--	--	--	72,958,845.04
2036	8,326,500.00	64,619,653.78	--	--	--	--	72,946,153.78
Total	<u>\$216,541,500.00</u>	<u>\$453,861,912.04</u>	<u>\$469,730,000.00</u>	<u>\$445,079,385.36</u>	<u>\$176,160,000.00</u>	<u>\$55,868,507.50</u>	<u>\$1,817,241,304.90</u>

⁽¹⁾ Debt Service on the 2008 Series Bonds is calculated based on the fixed rate under the Swap Agreements, 3.765% per annum. See "OUTSTANDING 2000 MEASURE A SALES TAX OBLIGATIONS – Existing Swap Agreements" herein.

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. See “- Pledge of 2000 Measure A Sales Tax Revenues and Certain Amounts Held by Trustee” below. 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, THE STATE 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 2010 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, redemption 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 2010 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.

As additional security for the payment of all amounts owing on the 2010 Series A Bonds, there will be irrevocably pledged to the Trustee all Subsidy Payments received with respect to the 2010 Series A Bonds, 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 this pledge, and this 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 Authority and all others asserting the rights therein, to the extent set forth, and in accordance with, the 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 made in the Indenture shall be irrevocable until all of the 2010 Series A Bonds are

no longer Outstanding and no amounts are owed in connection with the Bonds. The Authority 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.

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 Holders 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.

2010 Series Bond Reserve Fund

The Fourth Supplemental Indenture establishes the 2010 Series Bond Reserve Fund to be maintained in an amount equal to the Bond Reserve Requirement on the date of issuance of the 2010 Series Bonds, for the purpose of paying principal of and interest on the 2010 Series Bonds when due if insufficient moneys for such payment are on deposit in the Principal Account and the Interest Account, and for such other purposes as are specified in the Indenture. “Bond Reserve Requirement” is defined in the Indenture to mean, with respect to the 2010 Series Bonds, as of any date of calculation, an amount equal to fifty percent (50%) of Maximum Annual Debt Service on the 2010 Series Bonds. The Bond Reserve Requirement upon issuance of the 2010 Series Bonds is \$28,570,575.55, which amount will be funded from the proceeds of the sale of the 2010 Series Bonds. Except as otherwise provided in the Indenture, upon the occurrence of any deficiency in the 2010 Series Bond Reserve Fund, the Trustee shall deposit in the 2010 Series Bond Reserve Fund, as soon as possible in each month, until the balance therein is at least equal to the Bond Reserve Requirement, one-twelfth of the aggregate amount of each unreplenished prior withdrawal from the 2010 Series Bond Reserve Fund or decrease resulting from any required valuation of the investments in the 2010 Series Bond Reserve Fund.

In lieu of a cash deposit, the Authority may fulfill all or a portion of its obligation to fund the 2010 Series Bond Reserve Fund by depositing a letter of credit, surety bond or insurance policy meeting the requirements of a Reserve Facility, as provided in the Indenture. See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Funding and Application of 2010 Series Bond Reserve Fund” and “– Definitions” for a more complete discussion.

The 2010 Series Bond Reserve Fund secures only the 2010 Series Bonds. The Series 2010 Bond Reserve Fund does not secure any other Series of Bonds under the Indenture.

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 Bonds and the regularly scheduled payments on the Swap Agreements (as defined herein), 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 2010 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.

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, redemption premium, if any, 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.

AMENDMENT OF THE INDENTURE

Pursuant to its provisions, the Indenture may be amended with the written consent of the Holders of a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding. Upon their issuance, the 2010 Series Bonds will constitute a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding. Each purchaser of a 2010 Series Bond shall by acceptance of such 2010 Series Bond be deemed to have consented to the amendment of the Indenture as set forth in the Fourth Supplemental Indenture. The Underwriters, acting on behalf of the purchasers of the 2010 Series Bonds will provide their written consent to the amendment of the Indenture as set forth in the Fourth Supplemental Indenture, as described below.

At the sole option of the Authority, upon the earliest to occur of (i) the date when no 2007 Series A Bond remains Outstanding and (ii) the date when the certain provisions set forth in the Indenture relating to the limitations on the 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 and Reserve Facility Provider for the 2007 Series A Bonds, clause (g) of the definition of “Debt Service” in the Indenture will be amended and restated 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 Authority expects to receive.”

At such time as the amendment to the definition of “Debt Service” described above shall become effective, Subsidy Payments shall no longer be included in the definition of Revenues for purposes of any calculations described in subsection (c) under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Additional Bonds and Parity Obligations - Issuance of Additional Series of Bonds.”

See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Definitions.”

OUTSTANDING 2000 MEASURE A SALES TAX OBLIGATIONS

Existing Bonds

As of October 1, 2010, the aggregate principal amount of Bonds Outstanding was \$355,970,000, consisting of \$120,095,000 aggregate principal amount of 2007 Series Bonds and \$235,875,000 aggregate principal amount of 2008 Series Bonds.

The 2008 Series Bonds are currently subject to optional tender by the holders thereof. The payment of the purchase price of tendered 2008 Series Bonds is payable from the proceeds of remarketing the 2008 Series Bonds and, to the extent remarketing proceeds are insufficient, from amounts available from an Amended and Restated Standby Bond Purchase Agreement, dated as of June 5, 2009, as amended by a First Amendment thereto dated as of June 16, 2010, relating to the 2008 Series A Bonds and the 2008 Series B Bonds (the “2008 Series A and B Liquidity Facility”), between the Authority and JPMorgan Chase Bank, National Association (“JPMorgan Chase”), or a Standby Bond Purchase Agreement, dated as of June 16, 2010, relating to the 2008 Series C Bonds and the 2008 Series D Bonds (the “2008 Series C and D Liquidity Facility”), between the Authority and Sumitomo Mitsui Banking

Corporation (“Sumitomo”), and from any Alternate Liquidity Facility that may be obtained by the Authority. The 2008 Series A and B Liquidity Facility and the 2008 Series C and D Liquidity Facility are referred to collectively as the “2008 Series Bonds Liquidity Facilities,” and JPMorgan Chase and Sumitomo are referred to collectively as the “2008 Series Bonds Liquidity Providers.” Each 2008 Series Bonds Liquidity Facility expires on June 14, 2013, unless extended by the parties thereto.

The obligation of the Authority to reimburse a 2008 Series Bonds Liquidity Provider or make any other payments under a 2008 Series Bonds Liquidity Facility is secured by a pledge of Measure A Sales Tax Revenues on a parity with the pledge securing the Bonds, including the 2010 Series Bonds. Under certain circumstances, 2008 Series Bonds purchased by a 2008 Series Bonds Liquidity Provider and not remarketed may become Liquidity Facility Bonds. Such Liquidity Facility Bonds shall bear interest as provided in the relevant 2008 Series Bonds Liquidity Facility and may be subject to mandatory payment upon the occurrence of certain events of default described in such 2008 Series Bonds Liquidity Facility.

Existing Swap Agreements

To hedge its variable rate exposure on the 2008 Series Bonds, the Authority entered into four separate interest rate swap agreements (each, a “Swap Agreement” and, collectively referred to herein as the “Swap Agreements”), with Bank of America, N.A. (“BofA”), Citibank, N.A. (“Citibank”), Goldman Sachs Mitsui Marine Derivative Products, L.P. (“Goldman”) and Morgan Stanley Capital Services, Inc. (“Morgan Stanley”) (each, a “Counterparty” and, collectively, the “Counterparties”). Each Swap Agreement is scheduled to terminate on April 1, 2036.

The Authority has agreed to pay to the Counterparties under the respective Swap Agreements certain fixed amounts and the Counterparties have agreed to pay the Authority certain floating amounts, based on an amortizing aggregate notional amount corresponding to the aggregate principal amount of 2008 Series Bonds Outstanding, as described below. The Authority’s obligation to make regularly scheduled payments to the Counterparties under the Swap Agreements is payable from and secured by 2000 Measure A Sales Tax Revenues on a parity with all Bonds issued under the Indenture. The fixed amounts paid by the Authority pursuant to each of the Swap Agreements has been used in computing debt service on the 2008 Series Bonds, as provided in the Indenture.

The BofA Swap Agreement is in the initial notional amount of \$50,000,000. Pursuant to this agreement, BofA has agreed to pay the Authority a floating rate equal to 65% of the three-month London Interbank Offered Rate (“LIBOR”) and the Authority has agreed to pay BofA a fixed rate equal to 3.765%.

The Citibank Swap Agreement is in the initial notional amount of \$85,875,000. Pursuant to this agreement, Citibank has agreed to pay the Authority a floating rate equal to 65% of the three-month LIBOR and the Authority has agreed to pay Citibank a fixed rate equal to 3.765% per annum.

The Goldman Swap Agreement is in the initial notional amount of \$50,000,000. Pursuant to this agreement, Goldman has agreed to pay the Authority a floating rate equal to 65% of the three-month LIBOR and the Authority has agreed to pay Goldman a fixed rate equal to 3.765% per annum.

The Morgan Stanley Swap Agreement is in the initial notional amount of \$50,000,000. Pursuant to this agreement, Morgan Stanley has agreed to pay the Authority a floating rate equal to 65% of the three-month LIBOR and the Authority has agreed to pay Morgan Stanley a fixed rate equal to 3.765% per annum.

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 2007 Series Bonds or the 2010 Series Bonds. Neither the Owners nor the Beneficial Owners of the 2010 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 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 October 1, 2010, the Authority would owe the Counterparties an aggregate amount of \$64,018,773. 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. It cannot be predicted at this time what the value 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.

Each of the Swap Agreements with BofA and Citibank include an additional potential termination event for an “Adverse Surety Event.” An “Adverse Surety Event” occurs if the provider of the swap insurance (hereafter referred to as the “Insurer”) fails to maintain either a financial strength rating of at least A3 from Moody’s; a claims paying ability rating of at least A- from S&P; or an equivalent rating determined by a nationally-recognized ratings service acceptable to both parties to the respective BofA or Citibank Swap Agreements; provided, however, that in any such case, either an event of default shall have occurred and be continuing with respect to the Authority as the defaulting party or a termination event shall have occurred and be continuing with respect to the Authority as the affected party (in each case, other than if such event occurred solely with respect to the Insurer). The current ratings of the Insurer are below the foregoing threshold requirements. Because of the Adverse Surety Event caused by the downgrades of the Insurer’s ratings, the Authority provides BofA and Citibank at least annually written evidence of the unenhanced ratings on the 2008 Series Bonds. Under the BofA and Citibank Swap Agreements, it is an additional termination event following an Adverse Surety Event if the Authority does not post collateral to BofA or Citibank, as applicable, if the Authority’s ratings are Baa3 or higher from Moody’s and BBB- or higher from S&P. Based on the current termination values of the BofA Swap Agreement, the Authority does not presently have an obligation to post collateral thereunder. As of September 30, 2010, the Authority had posted a total of approximately \$6.7 million as collateral under the Citibank Swap Agreement.

Further, following an Adverse Surety Event, notwithstanding any collateral posted by the Authority under the Swap Agreements, there is a termination event if the Authority’s ratings are below Baa3 from Moody’s or BBB- from S&P. The Authority is currently working to amend the Swap Agreements with BofA and Citibank to delete the Insurer provisions.

For a further discussion regarding the Authority’s existing swaps and potential risks in connection therewith, see APPENDIX B – “AUTHORITY AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2010 – Note 7(d), 7(e) and 7(f).”

THE 2000 MEASURE A SALES TAX

Authorization, Application and Collection of the 2000 Measure A Sales Tax

On November 7, 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 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 2010 Series Bonds.

The 2008 Measure B Sales Tax

On November 4, 2008, over two-thirds the voters in the County voting on such ballot measure approved Measure B (“2008 Measure B”), a 30-year one-eighth of one percent (0.125%) sales tax. See APPENDIX A – “SANTA CLARA VALLEY TRANSPORTATION AUTHORITY – Authority Revenues – 2008 Measure B Sales Tax Revenues.” The sales tax is contingent on the Authority’s ability to secure a Full Funding Grant Agreement to support the BART Silicon Valley Program. Revenues from the 2008 Measure B Sales Tax will be dedicated to fund the operations and maintenance of the BART Silicon Valley Program extension into Santa Clara County and are not available to pay debt service on the Bonds, including the 2010 Series Bonds.

Historical Sales Tax Revenues

The following table shows the 1976 Sales Tax Revenues and the 2000 Measure A Sales Tax Revenues reported by the Authority during the ten Fiscal Years immediately preceding Fiscal Year ended June 30, 2010.

**Santa Clara Valley Transportation Authority
Historical 1976 Sales Tax Revenues and 2000 Measure A Sales Tax Revenues
Fiscal Years Ended June 30, 2001 through 2010**

Fiscal Year Ended June 30	1976 Sales Tax Revenues⁽¹⁾	Change From Prior Fiscal Year	2000 Measure A Sales Tax Revenues⁽¹⁾	Change From Prior Fiscal Year
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	157,283,101	8.5	\$ 38,169,934 ⁽²⁾	-
2007	163,675,750	4.1	161,360,552	-
2008	163,037,594	(0.4)	160,536,904	(0.5)%
2009	137,641,999	(15.6)	137,260,570	(14.5)
2010	140,036,709	1.7	139,305,038	1.5

Source: The Authority.

⁽¹⁾ Differences in the amount of the 1976 Sales Tax Revenues and the 2000 Measure A Sales Tax Revenues are due to adjustments from prior periods resulting from either Authority or State Board of Equalization audits of taxpayer records.

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

For the Fiscal Year ended June 30, 2010, the Authority received \$139.3 million in 2000 Measure A Sales Tax Revenues. For a discussion regarding the procedures related to the collection of the 2000 Measure A Sales Tax, see APPENDIX A – “SANTA CLARA VALLEY TRANSPORTATION AUTHORITY – Authority Revenues – 2000 Measure A Sales Tax Revenues” and APPENDIX A – “SANTA CLARA VALLEY TRANSPORTATION AUTHORITY – Management’s Discussion of Financial Results.”

Based on 2000 Measure A Sales Tax Revenues for the Fiscal Year ended June 30, 2010 in the amount of \$139,305,038, 2000 Measure A Sales Tax Revenues are anticipated to equal at least 2.0 times Maximum Annual Debt Service on the Bonds through April 1, 2032, the final maturity of the 2010 Series Bonds, assuming such Maximum Annual Debt Service amounts as are shown in the table “DEBT SERVICE SCHEDULE” herein. 2000 Measure A Sales Tax Revenues are anticipated to equal approximately 1.93 times Maximum Annual Debt Service on the Bonds through April 1, 2036.

The following table shows 2000 Measure A Sales Taxes by quarter during the Fiscal Years ended June 30, 2009 and 2010 and each quarter's percentage change from the prior Fiscal Year's quarter.

**Santa Clara Valley Transportation Authority
2000 Measure A Sales Tax Revenues
Quarterly Results
Fiscal Years Ended June 30, 2009 and 2010**

Quarter	Fiscal Year 2009	Fiscal Year 2010	Change From Prior Fiscal Year's Quarter
1st	\$ 39,354,562	\$ 35,026,712	(11.0)%
2nd	38,129,017	36,531,224	(4.19)
3rd	29,859,266	32,607,625	9.20
4th	<u>29,917,729</u>	<u>35,139,477</u>	17.45
Total	\$137,260,574	\$139,305,038	1.49%

Source: The Authority.

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."

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 José and the Santa Clara Caltrain Station (the "BART Silicon Valley Program");
- Provide connections from the San José 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 José to the East Valley portion of the County ("DTEV Extension");

- Purchase low floor light rail vehicles to better serve the disabled, seniors 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). Although the proceeds of the 2010 Series Bonds may be spent on any of the eligible capital projects described above, the Authority anticipates that most of the proceeds of the 2010 Series Bonds will be used on the BART Silicon Valley Program and improvements to its bus system, especially implementation of Bus Rapid Transit (“BRT”) on highly used corridors.

Overview of the BART Silicon Valley Program

The BART Silicon Valley Program is planned to extend the BART regional heavy rail system to San José, Milpitas and Santa Clara. The line will be extended an additional 16 miles along an existing Union Pacific Railroad alignment, south of the approved Warm Springs Station in Fremont (for which BART is the implementing agency), and then will tunnel underneath downtown San José, rising to street level in Santa Clara. When completed, this fully grade-separated project will include: six stations - one in Milpitas, four in San José and one in Santa Clara; a five-mile tunnel in downtown San José; and a new maintenance and storage facility in Santa Clara. This project has been designated as the priority project of the 2000 Measure A Program.

BART Silicon Valley is designed to connect County residents to the existing 104-mile BART system, light rail, buses, Caltrain, the Altamont Commuter Express, the Capitol Corridor and Amtrak, the Mineta San José International Airport and future high speed rail. The 16-mile project will complete the rail connection to encircle the San Francisco Bay and link the three largest cities in the Bay Area region, San Francisco, Oakland and San José.

The BART Silicon Valley Program is supported by the Silicon Valley Leadership group, the San José Chamber of Commerce, local governments and other labor and business organizations. The Metropolitan Transportation Commission, responsible for the transportation planning and financing for the nine-county San Francisco Bay Area, has included the project in the current Regional Transportation Plan.

The entire project will be built in phases. The first phase is a 10-mile, two-station Berryessa Extension Project. This extension of the BART system will begin south of the future BART Warm Springs Station in Fremont and proceed alongside the Union Pacific Railroad through Milpitas and end in the Berryessa area of north San José.

The Berryessa Extension Project, entered the preliminary engineering phase of the federal New Starts funding program in December, 2009 (the “New Starts Program”). Federal environmental clearance was awarded June 2010. In September 2010, VTA applied for acceptance into the final design phase of the New Starts Program, the final step before receiving a Full Funding Grant Agreement (“FFGA”). VTA anticipates getting accepted into final design in December and being recommended for FFGA in the amount of \$900 million, in February 2011.

Several construction contracts are underway to “clear the corridor” for the Berryessa Extension Project. These projects include creek improvements, railroad track relocation, bridge widening, and roadway grade separations.

The Berryessa Extension Project will be constructed as a design build project. The first major contract will include the line, track, stations, and systems (“LTSS”). Construction of the station campuses, including parking structures, roadways and transit centers, will be included in a separate contract. The request for qualifications for the LTSS was released on October 21, 2010 and the request for proposals will be released in February 2011. The contract award is planned for September 2011, with early construction and related activities beginning approximately the same time. Completion of the Berryessa Extension is planned for 2018, but utilizing design build as the project delivery method, could result in earlier completion. Design continues on the remaining six-miles of the extension, and construction will commence as funding becomes available.

Overview of Bus Rapid Transit Program

The BRT system is an enhanced bus service that offers many of the same attributes as rail transit, such as fast, frequent, and reliable service, a branded product, specialized vehicles, high-amenity stations, and real-time passenger information. Other BRT attributes include some degree of dedicated bus lanes, bus signal priority and off-board fare collection.

The Authority conducted an assessment of six potential corridors within the County and identified three corridors as those best suited to support BRT services. These corridors include Santa Clara Alum Rock (Hewlett Packard Pavilion to Eastridge Mall), El Camino (Palo Alto Transit Center to Hewlett Packard Pavilion), and Stevens Creek (De Anza College to Downtown San José).

Santa Clara/Alum Rock. An Environmental Impact Report was approved by the Authority’s Board of Directors in 2008. Preliminary engineering is underway and will be completed by June 2011. Construction is scheduled to start in 2012 with new BRT service beginning by the end of 2013.

El Camino. Conceptual engineering is underway and will be complete in June 2011. The environmental process will start in 2011 as conceptual engineering products become available. Full project completion is scheduled for 2016.

Stevens Creek. A study is underway for the portion of the corridor between Highway I-880 and Winchester Blvd to define improvements needed to support a BRT service. This work will continue through 2010, with project completion forecasted for 2017.

Future Financing Plans

The 2000 Measure A Transit Improvement Program anticipates total capital expenditures of approximately \$2.76 billion to be incurred over the next ten Fiscal Years. The Authority expects to fund these projects through a combination of monies under a FFGA, State transportation grant funds and 2000 Measure Sales Tax Revenues. Although it has not formalized specific plans, the Authority anticipates the issuance of bonds in Fiscal Year 2014, which bonds may be on a parity with or subordinate to the Bonds, or secured by a revenue source other than 2000 Measure A Sales Tax Revenues. In addition, the Authority may consider the issuance of grant anticipation notes or other form of interim financing, which could be prior to the anticipated date stated herein.

RISK FACTORS

Economy of the County and the State

The 2010 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 2010 Series Bonds. During the most recent recession, 2000 Measure A Sales Tax Revenues decreased 14.5% between Fiscal Years 2007-08 and 2008-09. 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, could change or limit the transactions and items upon which the statewide 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.

Impact of Bankruptcy of the Authority

As a municipal entity, the Authority may be qualified to file a petition under Chapter 9 of the United States Bankruptcy Code (“Chapter 9”) under certain circumstances. Under Chapter 9, the pledge of 2000 Measure A Sales Tax Revenues is fully enforceable only if a bankruptcy court determines that the 2000 Measure A Sales Tax Revenues are “Special Revenues” under Chapter 9 and that the pledge is valid and binding under Chapter 9. 2000 Measure A Sales Tax Revenues may not constitute “Special Revenues” under Chapter 9 because, among other reasons, the 2000 Measure A Sales Tax was not levied

for a particular project and is available for the general purposes of the Authority. If a bankruptcy court were to hold the pledge of 2000 Measure A Sales Tax Revenues to be unenforceable under Chapter 9, then the owners of the Bonds (including the 2010 Series Bonds) would no longer be entitled to any special priority to the 2000 Measure A Sales Tax Revenues and may be treated as general unsecured creditors of the Authority as to the 2000 Measure A Sales Tax Revenues.

Furthermore, since the obligations of the Authority under the Indenture, including its obligation to pay principal of and interest on the 2010 Series Bonds, are limited obligations and are payable solely from 2000 Measure A Sales Tax Revenues and certain other amounts held by the Trustee under the Indenture, if the Authority filed a petition for bankruptcy under Chapter 9, the owners of the Bonds (including the 2010 Series Bonds) would have no recourse to any assets or revenues of the Authority other than 2000 Measure A Sales Tax Revenues and such other amounts.

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 2010 Series 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 a measure 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.

No Acceleration Provision

The Indenture does not contain a provision allowing for the acceleration of any Bonds, including the 2010 Series Bonds, in the event of a default in the payment of principal and interest on the Bonds when due, provided, however, that if any 2008 Series Bonds become Liquidity Facility Bonds, such Liquidity Facility Bonds are subject to mandatory prepayment as set forth in the related 2008 Bonds Liquidity Facility. See “OUTSTANDING 2000 MEASURE A SALES TAX OBLIGATIONS – Existing Bonds.” In the event of a default by the Authority, each Owner of a 2010 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.”

Loss of Subsidy Payment

The 2010 Series A Bonds are being issued as Build America Bonds. The amount of any Subsidy Payments to be received in connection with the 2010 Series A Bonds are subject to legislative changes by the United States Congress. Further, Subsidy Payments will only be paid if the 2010 Series A Bonds

continue to qualify as Build America Bonds. For the 2010 Series A Bonds to be and remain Build America Bonds, the Authority must comply with certain covenants and establish certain facts and expectations with respect to the 2010 Series A Bonds, the use and investment of proceeds thereof and the use of property financed thereby. Thus, it is possible that the Authority may not receive the Subsidy Payments. Subsidy Payments are also subject to offset against amounts that may, for unrelated reasons, be owed by the Authority to any agency of the United States of America. The Authority does not believe that failure to receive the Subsidy Payments or any offset to the Subsidy Payments will materially and adversely impact the Authority's ability to pay interest on the 2010 Series A Bonds.

Possible Impact of Bankruptcy of Ambac Financial

Ambac Assurance Corporation ("Ambac") issued a financial guaranty insurance policy (the "2007 Series A Insurance Policy") in connection with the 2007 Series Bonds, which are secured on a parity basis with the 2010 Series Bonds. Ambac also provided a surety bond (the "2007 Series A 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 A Insurance Policy to the holders of the 2007 Series A Bonds and/or could result in a decrease in the value of the 2007 Series A Surety Bond. In the event of a decrease in the amount available to be drawn by the Trustee under the 2007 Series A 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.

FINANCIAL STATEMENTS

The financial statements of the Authority for the Fiscal Year ended June 30, 2010, included in APPENDIX B of this Official Statement, have been audited by Vavrinek, Trine, Day & Co., LLP, independent auditors, as stated in their report therein. Vavrinek, Trine, Day & Co., LLP was not requested to consent to the inclusion of its report in APPENDIX B, nor has it undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by Vavrinek, Trine, Day & Co., LLP with respect to any event subsequent to the date of its report. The Authority represents that there has been no material adverse change in its financial position since June 30, 2010.

LITIGATION

There is not now pending or, to the knowledge of the Authority, threatened, any litigation concerning or affecting the validity or the original issuance of the 2010 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

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2010 Series B Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code. In the further opinion of Bond Counsel, interest on the 2010 Series B Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, nor is such interest included in adjusted current earnings when calculating corporate alternative minimum taxable income. Interest on the 2010 Series A Bonds and the 2010 Series B Bonds is exempt from State of California personal income taxes. Bond Counsel observes that interest on the 2010 Series A Bonds is not excluded from gross income for federal income tax purposes. Bond Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or accrual or receipt of interest on the 2010 Series A Bonds and the 2010 Series B Bonds. A complete copy of the proposed form of the opinion of Bond Counsel is set forth in APPENDIX F.

Tax Matters Relating to the 2010 Series A Bonds

The following discussion summarizes certain U.S. federal tax considerations generally applicable to holders of the 2010 Series A Bonds that acquire their 2010 Series A Bonds in the initial offering. The discussion below is based upon laws, regulations, rulings, and decisions in effect and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the Internal Revenue Service (the “IRS”) with respect to any of the U.S. federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following discussion does not deal with all U.S. federal income tax consequences applicable to any given investor, nor does it address the U.S. federal income tax considerations applicable to categories of investors some of which may be subject to special taxing rules (regardless of whether or not such persons constitute U.S. Holders), such as certain U.S. expatriates, banks, REITs, RICs, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors that hold their 2010 Series A Bonds as part of a hedge, straddle or an integrated or conversion transaction, or investors whose “functional currency” is not the U.S. dollar. Furthermore, it does not address (i) alternative minimum tax consequences or (ii) the indirect effects on persons who hold equity interests in a holder. In addition, this summary generally is limited to investors that acquire their 2010 Series A Bonds pursuant to this offering for the issue price that is applicable to such 2010 Series A Bonds (i.e., the price at which a substantial amount of the 2010 Series A Bonds are sold to the public) and who will hold their 2010 Series A Bonds as “capital assets” within the meaning of Section 1221 of the Code.

As used herein, “U.S. Holder” means a Beneficial Owner of a 2010 Series A Bond that for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust). As used herein, “Non-U.S. Holder” generally means a Beneficial Owner of a 2010 Series A Bond (other than a partnership) that is not a U.S. Holder. If a partnership holds 2010 Series A Bonds, the tax treatment of such partnership or a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partnerships holding 2010 Series A Bonds, and partners in such

partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the 2010 Series A Bonds (including their status as U.S. Holders or Non-U.S. Holders).

For U.S. Holders. The 2010 Series A Bonds are not expected to be treated as issued with original issue discount (“OID”) for U.S. federal income tax purposes because the stated redemption price at maturity of the 2010 Series A Bonds is not expected to exceed their issue price, or because any such excess is expected to only be a de minimis amount (as determined for tax purposes).

Prospective investors that are not individuals or regular C corporations who are U.S. persons purchasing the 2010 Series A Bonds for investment should consult their own tax advisors as to any tax consequences to them from the purchase, ownership and disposition of the 2010 Series A Bonds.

Disposition of the 2010 Series A Bonds. Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption, defeasance, retirement (including pursuant to an offer by the Authority) or other disposition of a 2010 Series A Bond, will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder of a 2010 Series A Bond will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the 2010 Series A Bond which will be taxed in the manner described above) and (ii) the U.S. Holder’s adjusted tax basis in the 2010 Series A Bond (generally, the purchase price paid by the U.S. Holder for the 2010 Series A Bond, decreased by any amortized premium). Any such gain or loss generally will be capital gain or loss. In the case of a noncorporate U.S. Holder of the 2010 Series A Bonds, the maximum marginal U.S. federal income tax rate applicable to any such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. holder’s holding period for the 2010 Series A Bonds exceeds one year. The deductibility of capital losses is subject to limitations.

For Non-U.S. Holders.

Interest. Subject to the discussion below under the heading “Information Reporting and Backup Withholding,” payments of principal of, and interest on, any 2010 Series A Bond to a Non-U.S. Holder, other than (1) a controlled foreign corporation, as such term is defined in the Code, which is related to the Authority through stock ownership and (2) a bank which acquires such 2010 Series A Bond in consideration of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, will not be subject to any U.S. withholding tax provided that the Beneficial Owner of the 2010 Series A Bond provides a certification completed in compliance with applicable statutory and regulatory requirements, which requirements are discussed below under the heading “Information Reporting and Backup Withholding,” or an exemption is otherwise established.

Disposition of the 2010 Series A Bonds. Subject to the discussion below under the heading “Information Reporting and Backup Withholding,” any gain realized by a Non-U.S. Holder upon the sale, exchange, redemption, retirement (including pursuant to an offer by the Authority) or other disposition of a 2010 Series A Bond generally will not be subject to U.S. federal income tax, unless (i) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States; or (ii) in the case of any gain realized by an individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale, exchange, redemption, retirement (including pursuant to an offer by the Authority) or other disposition and certain other conditions are met.

U.S. Federal Estate Tax. A 2010 Series A Bond that is held by an individual who at the time of death is not a citizen or resident of the United States will not be subject to U.S. federal estate tax as a result of such individual’s death, provided that at the time of such individual’s death, payments of interest

with respect to such 2010 Series A Bond would not have been effectively connected with the conduct by such individual of a trade or business within the United States.

Information Reporting and Backup Withholding. U.S. information reporting and “backup withholding” requirements apply to certain payments of principal of, and interest on the 2010 Series A Bonds, and to proceeds of the sale, exchange, redemption, retirement (including pursuant to an offer by the Authority) or other disposition of a 2010 Series A Bond, to certain noncorporate holders of 2010 Series A Bonds that are United States persons. Under current U.S. Treasury Regulations, payments of principal and interest on any 2010 Series A Bonds to a holder that is not a United States person will not be subject to any backup withholding tax requirements if the Beneficial Owner of the 2010 Series A Bond or a financial institution holding the 2010 Series A Bond on behalf of the Beneficial Owner in the ordinary course of its trade or business provides an appropriate certification to the payor and the payor does not have actual knowledge that the certification is false. If a Beneficial Owner provides the certification, the certification must give the name and address of such owner, state that such owner is not a United States person, or, in the case of an individual, that such owner is neither a citizen nor a resident of the United States, and the owner must sign the certificate under penalties of perjury. If a financial institution, other than a financial institution that is a qualified intermediary, provides the certification, the certification must state that the financial institution has received from the Beneficial Owner the certification set forth in the preceding sentence, set forth the information contained in such certification, and include a copy of such certification, and an authorized representative of the financial institution must sign the certificate under penalties of perjury. A financial institution generally will not be required to furnish to the IRS the names of the Beneficial Owners of the 2010 Series A Bonds that are not United States persons and copies of such owners’ certifications where the financial institution is a qualified intermediary that has entered into a withholding agreement with the IRS pursuant to applicable U.S. Treasury Regulations.

In the case of payments to a foreign partnership, foreign simple trust or foreign grantor trust, other than payments to a foreign partnership, foreign simple trust or foreign grantor trust that qualifies as a withholding foreign partnership or a withholding foreign trust within the meaning of applicable U.S. Treasury Regulations and payments to a foreign partnership, foreign simple trust or foreign grantor trust that are effectively connected with the conduct of a trade or business within the United States, the partners of the foreign partnership, the beneficiaries of the foreign simple trust or the persons treated as the owners of the foreign grantor trust, as the case may be, will be required to provide the certification discussed above in order to establish an exemption from withholding and backup withholding tax requirements. The current backup withholding tax rate is 28% (subject to future adjustment).

In addition, if the foreign office of a foreign “broker,” as defined in applicable U.S. Treasury Regulations pays the proceeds of the sale of a 2010 Series A Bond to the seller of the 2010 Series A Bond, backup withholding and information reporting requirements will not apply to such payment provided that such broker derives less than 50% of its gross income for certain specified periods from the conduct of a trade or business within the United States, is not a controlled foreign corporation, as such term is defined in the Code, and is not a foreign partnership (1) one or more of the partners of which, at any time during its tax year, are U.S. persons (as defined in U.S. Treasury Regulations Section 1.1441-1(c)(2)) who, in the aggregate hold more than 50% of the income or capital interest in the partnership or (2) which, at any time during its tax year, is engaged in the conduct of a trade or business within the United States. Moreover, the payment by a foreign office of other brokers of the proceeds of the sale of a 2010 Series A Bond, will not be subject to backup withholding unless the payer has actual knowledge that the payee is a U.S. person. Principal and interest so paid by the U.S. office of a custodian, nominee or agent, or the payment by the U.S. office of a broker of the proceeds of a sale of a 2010 Series A Bond, is subject to backup withholding requirements unless the Beneficial Owner provides the nominee, custodian,

agent or broker with an appropriate certification as to its non-U.S. status under penalties of perjury or otherwise establishes an exemption.

Circular 230

Under 31 C.F.R. part 10, the regulations governing practice before the I.R.S. (Circular 230), the Authority and our tax advisors are (or may be) required to inform you that:

- Any advice contained herein, including any opinions of counsel referred to herein, is not intended or written to be used, and cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer;
- Any such advice is written to support the promotion or marketing of the 2010 Series A Bonds and the transactions described herein (or in such opinion or other advice); and
- Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

Tax Matters Relating to the 2010 Series B Bonds

To the extent the issue price of any maturity of the 2010 Series B Bonds is less than the amount to be paid at maturity of such 2010 Series B Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2010 Series B Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the 2010 Series B Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the 2010 Series B Bonds is the first price at which a substantial amount of such maturity of the 2010 Series B Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the 2010 Series B Bonds accrues daily over the term to maturity of such 2010 Series B Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such 2010 Series B Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2010 Series B Bonds. Beneficial Owners of the 2010 Series B Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2010 Series B Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such 2010 Series B Bonds in the original offering to the public at the first price at which a substantial amount of such 2010 Series B Bonds is sold to the public.

2010 Series B Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium 2010 Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium 2010 Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium 2010 Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium 2010 Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the 2010 Series B Bonds. The Authority has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 2010 Series B Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the 2010 Series B Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2010 Series B Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the 2010 Series B Bonds may adversely affect the value of, or the tax status of interest on, the 2010 Series B Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the 2010 Series B Bonds is excluded from gross income for federal income tax purposes and that the interest on the 2010 Series B Bonds is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the 2010 Series B Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2010 Series B Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the 2010 Series B Bonds. Prospective purchasers of the 2010 Series B Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the 2010 Series B Bonds for federal income tax purposes. It is not binding on the IRS or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the 2010 Series B Bonds ends with the issuance of the 2010 Series B Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority or the Beneficial Owners regarding the tax-exempt status of the 2010 Series B Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the 2010 Series B Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the 2010 Series B Bonds, and may cause the Authority or the Beneficial Owners to incur significant expense.

LEGAL MATTERS

The validity of the 2010 Series Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority. A complete copy of the proposed form of opinion of Bond Counsel is attached hereto as APPENDIX F. Bond Counsel expresses no opinion regarding the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed on for the Authority by the Authority's General Counsel and by Fulbright & Jaworski L.L.P., Los Angeles, California, as Disclosure Counsel, and for the Underwriters by Nixon Peabody LLP, Los Angeles, California, as Underwriters' Counsel. Compensation paid to Disclosure Counsel is contingent on the successful issuance of the 2010 Series Bonds.

RATINGS

The Authority anticipates that Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies ("S&P"), and Moody's Investors Service, Inc. ("Moody's") will assign their municipal bond ratings of "AA+" and "Aa2," respectively, to the 2010 Series Bonds. These ratings reflect only the views of the rating agencies, and do not constitute a recommendation to buy, sell or hold securities. The Authority has furnished to the rating agencies certain information respecting the 2010 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 2010 Series Bonds.

UNDERWRITING

The 2010 Series Bonds are being purchased by Barclays Capital, Inc., as representative of the underwriters listed on the cover page of this Official Statement (collectively, the "Underwriters"). The Underwriters have agreed, subject to certain conditions, to purchase 2010 Series A Bonds at a price of \$467,555,211.46 (representing \$469,730,000.00 aggregate principal amount of the 2010 Series A Bonds, less an Underwriters' discount of \$2,174,788.54) and to purchase the 2010 Series B Bonds at a price of \$202,807,660.60 (representing \$176,160,000.00 aggregate principal amount of the 2010 Series B Bonds, plus an original issue premium of \$27,262,436.00, less an Underwriters' discount of \$614,775.40). The Underwriters may offer and sell the 2010 Series Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices on the 2010 Series Bonds may be changed from time to time by the Underwriters.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the Authority, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Authority.

Citigroup Inc. and Morgan Stanley, the respective parent companies of Citigroup Global Markets Inc. and Morgan Stanley & Co. Incorporated, each an underwriter of the 2010 Series Bonds, have entered into a retail brokerage joint venture. As part of the joint venture each of Citigroup Global Markets Inc. and Morgan Stanley & Co. Incorporated will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, each of Citigroup Global Markets Inc. and Morgan Stanley & Co. Incorporated will compensate Morgan Stanley Smith Barney LLC. for its selling efforts in connection with their respective allocations of the 2010 Series Bonds.

De La Rosa & Co., Inc., one of the Underwriters of the 2010 Series Bonds, has entered into separate agreements with UnionBanc Investment Services LLC and City National Securities, Inc. for retail distribution of certain municipal securities offerings, at the original issue prices. Pursuant to said agreement, if applicable to the 2010 Series Bonds, De La Rosa & Co., Inc. will share a portion of its underwriting compensation with respect to the 2010 Series Bonds, with UnionBanc Investment Services LLC or City National Securities, Inc.

J.P. Morgan Securities LLC (“JPMS”), one of the Underwriters of the 2010 Series Bonds, has entered into negotiated dealer agreements (each, a “Dealer Agreement”) with each of UBS Financial Services Inc. (“UBSFS”) and Charles Schwab & Co., Inc. (“CS&Co.”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of UBSFS and CS&Co. will purchase 2010 Series Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any 2010 Series Bonds that such firm sells.

FINANCIAL ADVISOR

The Authority has retained Ross Financial, San Francisco, California, as financial advisor (the “Financial Advisor”) in connection with the issuance of the 2010 Series Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. The Financial Advisor is an independent financial advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

CONTINUING DISCLOSURE

The Authority has covenanted for the benefit of the owners and Beneficial Owners of the 2010 Series Bonds to provide certain financial information and operating data relating to the Authority by not later than 210 days following the end of the Authority’s Fiscal Year (presently June 30) (the “Annual Report”), commencing with the report for the Fiscal Year ended June 30, 2010, and to provide notices of the occurrence of certain enumerated events. The Annual Report and the notices of material events will be filed by Digital Assurance Certification, L.L.C. (the “Dissemination Agent”) on behalf of the Authority with the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System for municipal securities disclosures, maintained on the Internet at <http://emma.msrb.org>. The specific nature of the information to be contained in the Annual Report and the notice of material events is summarized in APPENDIX G – “FORM OF CONTINUING DISCLOSURE CERTIFICATE.” These covenants have been made in order to assist the Underwriters in complying with Rule 15c2-12, promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the “Rule”). The Authority has never failed to comply in all material respects with any previous continuing disclosure undertaking pursuant to the Rule to provide annual reports or notices of material events.

MISCELLANEOUS

The references herein to the Act and the Indenture are brief summaries of certain provisions thereof. Such summaries do not purport to be complete or definitive. For full and complete statements of such provisions reference is made to the Act, or such documents, as the case may be. Copies of the Indenture, including the Fourth Supplemental Indenture, are available for inspection at the Authority and following delivery of the 2010 Series Bonds will be on file at the offices of the Trustee in San Francisco, California.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or Holders of any of the 2010 Series Bonds.

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

SANTA CLARA VALLEY TRANSPORTATION
AUTHORITY

By: /s/ Joseph T. Smith
 Chief Financial Officer

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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 Official Statement 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”).

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. Three members of the Board and one alternate are appointed from among the city councils of the Cities of Los Altos, Mountain View, Palo Alto, Sunnyvale and Santa Clara, and the Town of Los Altos Hills. One Board member and one alternate are appointed from among the city councils of the Cities of Campbell, Cupertino, Monte Sereno and Saratoga, and the Town of Los Gatos. One Board member and one alternate are appointed from among the city councils of the Cities of Gilroy, Milpitas and Morgan Hill. The final two seats on the Board and one alternate are appointed by the Board of Supervisors of the County of Santa Clara (the “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
Sam Liccardo, Chairperson	City of San José
Margaret Abe-Koga, Vice Chairperson	City of Mountain View
Don Gage	County of Santa Clara
Rose Herrera	City of San José
Ash Kalra	City of San José
Liz Kniss	County of Santa Clara
Rich Larsen	Town of Los Altos Hills
Chris Moylan	City of Sunnyvale
Chuck Page	City of Saratoga
Nancy Pyle	City of San José
Chuck Reed	City of San José
Perry Woodward	City of Gilroy

Current alternate members of the Board are Nora Campos (City of San José), Jamie Matthews (City of Santa Clara), Pete McHugh (City of Milpitas), George Shirakawa (the County) and Marshall Anstandig (City of Monte Sereno). Current ex-officio members of the Board are Dean J. Chu and Ken Yeager.

The Board has established four standing committees, each consisting of four Board members: Administration and Finance, Congestion Management Program and Planning, Transit Planning and Operations, and Audit. 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 30 years and formerly served as Executive Director of the San Francisco Municipal Transportation Agency. Mr. Burns has also served as Executive Director of the San Francisco Department of Parking and Traffic. Prior to that, Mr. Burns served as Chief Operations Officer of the Southeastern Pennsylvania Transportation Authority ("SEPTA"). Prior to serving as Chief Operations Officer at SEPTA, Mr. Burns served as Assistant General Manager in charge of the Railroad Division and as Chief Mechanical Officer. He has also served as Assistant General Manager for Railroad Operations for the Massachusetts Bay Transportation Authority ("MBTA").

KEVIN ALLMAND - General Counsel since December 2008. Prior to his appointment as General Counsel, Mr. Allmand served the Authority as Acting General Counsel from April 2008 until December 2008, as Assistant General Counsel from 2002 until April 2008 and as Senior Assistant Counsel from 1993 until 2002. Prior to joining the Authority, Mr. Allmand served as a Deputy County Counsel in the Santa Clara County Counsel's Office from 1990 to 1993.

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.

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 S. ROBINSON - Chief Engineering and Construction Officer since November 2007. Mr. Robinson has been with the Authority for more than 28 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.

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

JOSEPH T. SMITH - Chief Financial Officer since January 2008. Mr. Smith has more than 28 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 2,000 employees of which approximately 93.8% are represented by unions. The Amalgamated Transit Union, Division 265 (the "ATU"), represents 1,357 employees (68.2% 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 expires on February 10, 2013.

The remaining represented employees consist of: members of Service Employees International Union, Local 521 ("SEIU Local 521"), representing 264 employees in technical, paraprofessional and administrative positions; members of American Federation of State, County and Municipal Employees, Local 101 ("AFSCME"), representing 218 employees in managerial, supervisory and other professional level positions; and members of Transit Authority Engineers and Architects ("TAEA"), representing 37 employees in engineering and architect positions. All of these contracts expire on June 30, 2011.

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 326-square-mile urbanized portion of the County, a county of 1,300 square miles with a population of approximately 1.9 million. The Authority currently maintains an active fleet of 367 diesel-powered and 45 unleaded gasoline-powered buses. The average age of these buses is nine years and the buses range from two to 13 years old. Buses are operated and maintained from 3 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 3,800 bus stops, 798 of which have bus shelters. The Authority also maintains 12 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 86 trains (including 22 Baby Bullet Express trains) operating between San José Diridon Station and San Francisco each weekday, with 36 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 (32 Saturday trains and 28 Sunday 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 approximately 41% for the Authority.

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. 32 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 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 Commuter 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, Tracy, Livermore (2), Pleasanton, Fremont, Santa Clara 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 Authority provides funding for a portion of the operating costs of the Dumbarton Express, a transbay express bus route operating between the Union City BART station and Stanford Research Park in Palo Alto. A consortium comprised of representatives from the Alameda-Contra Costa Transit District (“AC Transit”), BART, the City of Union City, SamTrans, and the Authority fund the net operating costs of the service. Each member of the consortium pays a share of the operating expenses based on the origin and destination of the passengers as determined by an annual ridership survey (currently approximately 41% for the Authority). AC Transit manages and operates the service.

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/Hitachi 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 30% 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 include the 1976 Sales Tax and the 2000 Measure A Sales Tax, both as defined in the forepart of the Official Statement, 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,” 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 passenger fares charged by the Authority.

1976 Sales Tax Revenues. The 1976 Sales Tax is the Authority’s single largest source of revenue for operations. The 1976 Sales Tax is collected by the State Board of Equalization (the “SBOE”). Pursuant to an agreement between the Authority and the SBOE, the SBOE remits revenues from the 1976 Sales Tax to the trustee for senior lien obligations secured by the Sales Tax (herein referred to as the “1976 Sales Tax Bond Trustee”) on a monthly basis. Pursuant to its procedures, the SBOE projects receipts of the 1976 Sales Tax on a quarterly basis and remits an advance of such receipts to the trustee each month based on such projection. During the last month of each quarter, the SBOE adjusts the amount remitted to reflect the actual receipts of the 1976 Sales Tax for the previous quarter less administration costs. After application for payment of the senior lien obligations and the junior lien obligations secured by the Sales Tax (herein referred to as the “1976 Sales Tax Obligations”), 1976 Sales Tax Revenues are budgeted to pay operating expenses and to pay capital expenditures where state or federal capital assistance programs require that the recipient of assistance contribute locally derived revenue.

The 1976 Sales Tax secures the 1976 Sales Tax obligations and is not pledged as a source of repayment for the 2010 Series Bonds or any other Measure A Sales Tax Obligations.

2000 Measure A Sales Tax Revenues. The 2000 Measure A Sales Tax is also collected by the SBOE. Pursuant to an agreement between the Authority and the SBOE, the SBOE remits revenues from the 2000 Measure A Sales Tax to the trustee for obligations secured by the 2000 Measure A Sales Tax (herein referred to as the “2000 Measure A Sales Tax Bond Trustee”) on a monthly basis. Pursuant to its procedures, the SBOE projects receipts of the 2000 Measure A Sales Tax on a quarterly basis and remits an advance of such receipts to the 2000 Measure A Sales Tax Bond Trustee each month based on such projection. During the last month of each quarter, the SBOE adjusts the amount remitted to reflect the actual receipts of the 2000 Measure A Sales Tax for the previous quarter less administration costs. After application for payment of the senior lien obligations and the junior lien obligations, if any, secured by the 2000 Measure A Sales Tax herein referred to as the “2000 Measure A Sales Tax Obligations,” 2000 Measure A Sales Tax Revenues provide funding for operations and transit projects listed in the Authority’s Valley Transportation Plan. See “Authority Budgeted Revenues and Expenditures - Valley Transportation Plan.”

The 2000 Measure A Sales Tax secures the 2000 Measure A Sales Tax Obligations and is not pledged as a source of repayment for the 1976 Sales Tax Obligations and does not secure the 1976 Sales Tax Obligations.

The table set forth below shows the total amount of 1976 Sales Tax and 2000 Measure A Sales Tax received during the ten fiscal years ended June 30, 2010.

**Santa Clara Valley Transportation Authority
Historical Sales Tax Revenues
Fiscal Years Ended June 30, 2001 - 2010**

Fiscal Year Ended June 30	1976 Sales Tax Revenues	Percentage Change	2000 Measure A Sales Tax	Percentage Change
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	157,283,101	8.5	\$ 38,169,934 ⁽¹⁾	-
2007	163,675,750	4.1	161,360,552	-
2008	163,037,594	(0.4)	160,536,904	(0.5)%
2009	137,641,999	(15.6)	137,260,570	(14.5)
2010	140,036,709	1.7	139,305,038	1.5

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

Transportation Development Act Revenues. Transportation Development Act Revenues (the “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 1976 Sales Tax and the 2000 Measure A Sales Tax.

TDA Revenues are apportioned, allocated and paid by the Metropolitan Transportation Commission (“MTC”), the regional planning organization for the nine-county San Francisco Bay Area. Under TDA regulations, MTC allocates approximately 11% of the TDA Revenues to fund community and paratransit service programs, facilities for the use of pedestrians and bicycles and the transportation planning and programming process. The remaining 89% of the TDA Revenues are allocated to operators who provide public transportation services in the County. As the only public transit service provider in the County, the Authority is eligible to receive the entire amount of the 89% allocation of TDA Revenues. TDA Revenues are available to the Authority in an amount up to 50% of the Authority’s operating budget, after deduction of the amount received from federal grants, provided that certain TDA eligibility requirements are met. The 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 on each April 1 for the next Fiscal Year. If MTC approves the request, MTC then directs the Controller of the County (in the case of the County, the County Treasurer) to release the TDA Revenues to the Authority. TDA Revenues are received by the County Treasurer and distributed to the Authority based on direction from MTC in substantially equal monthly installments.

The table 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, 2010.

**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>
2006	\$71,044,484
2007	81,061,374
2008	83,546,655
2009	73,356,590
2010	65,800,680

⁽¹⁾ Allocations by MTC were based on projections with adjustments made in following fiscal years based on actual receipts.

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 from Fiscal Year 1980 through Fiscal Year 2009. 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 four Fiscal Years ended June 30, 2009.

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

<u>Fiscal Year Ended June 30</u>	<u>STA Revenues Received</u>
2006	\$ 7,736,714
2007	22,320,559 ⁽¹⁾
2008	19,021,666 ⁽¹⁾
2009	6,482,858

⁽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, the Governor 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, the Governor signed into law a three-bill package that implements a complex swapping of state transportation funding sources that is 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, calls for eliminating 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, and replacing it with a 17.3-cent increase in the per-gallon gasoline excise tax. This swap took effect on July 1, 2010. The revenues from the gasoline excise tax increase will 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 is structured to ensure that the STIP and local streets/roads would be allocated at least the same amount of money that they would have received under Proposition 42. Furthermore, the SBOE 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 the 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. The Authority anticipates that it will receive its share of the funds by November 2010.

Beginning in the Fiscal Year ending June 30, 2012, the state diesel sales tax rate will be 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 will have first call on the revenues generated by the diesel sales tax. Any remaining revenues will be split 75% to STA, and 25% to intercity rail and other miscellaneous state transit programs. The intent is to ensure, at a minimum, an annual STA Program of \$350 million. According to MTC’s figures, the Authority’s share of a \$350 million STA Program is expected to be approximately \$13.6 million in Fiscal Year 2012. This share is projected to increase as diesel sales tax revenues grow over time.

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

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, 2010.

⁽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.

**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
2006	39,217,851	\$36,925,269
2007	41,925,015	37,876,676
2008	43,555,049	38,052,724
2009	45,264,434	38,439,004
2010	41,733,376	38,830,000

⁽¹⁾ Directly operated services.

In Fiscal Year 2010, system ridership decreased by approximately 7.8% from the prior year. The Authority attributes the decrease in ridership to reduced employment opportunities within the County.

Other Revenues. Federal guidelines established pursuant to the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (“SAFETEA-LU”), the successor to the Transportation Equity Act for the 21st Century, allow the Authority to claim grants 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.

2008 Measure B Sales Tax Revenues. On November 4, 2008, over two-thirds of the voters in the County voting on such ballot measure approved Measure B (“2008 Measure B”), a 30-year one-eighth of one percent (0.125%) sales tax. The sales tax is contingent on the Authority’s ability to secure a Full Funding Grant Agreement to support the BART Silicon Valley Program. Revenues for the 2008 Measure B Sales Tax will be dedicated to fund the operations and maintenance of the BART Silicon Valley Program extension. The 2008 Measure B Tax is not pledged as a revenue source and does not secure the 1976 Sales Tax Obligations or 2000 Measure A Obligations, including the 2010 Series Bonds.

Authority Budgeted Revenues and Expenditures

The Authority’s budget is prepared biennially. The Adopted Budget for Fiscal Year ending June 30, 2010 and Fiscal Year ending June 30, 2011 (the “Budget”) was approved by the Board of Directors on June 4, 2009 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 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 may also be obtained at <http://www.vta.org/inside/investor>. 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 amid a backdrop of economic distress, declining sales tax revenues and evaporating State funding for transit operations. At the outset, the Authority established five objectives to guide the development of the Budget: maintain core service, preserve jobs, continue infrastructure investments, advance capital programs, and take a balanced approach in the Authority's reliance on new revenues, the use of reserves, and reduced expenditures. The Budget reflected substantial achievement of those objectives including fare increases, wage freezes and un-paid furloughs, use one time federal stimulus and state grants, reduction in operating expenditures and planned use of a portion of the Authority's operating reserves.

Overall, the Budget represented a balanced approach by having both riders and employees share the burden of bridging the funding gap, while attempting to avoid more drastic solutions such as widespread service cuts or layoffs. Subsequent to the adoption of the Budget, sales tax revenues declined significantly. The Authority responded by implementing a previously approved fare increase in October 2009 which had been planned for implementation in January 2010. Additionally, not all of the wage freezes assumed in the Budget were successfully negotiated with the Authority's largest union, ATU. The Authority responded by approving and implementing an 8% reduction in bus and light rail service hours, effective January 2010.

The combination of a severe decline in sales tax revenues in the third and fourth quarters of Fiscal Year 2009 and forecasted additional declines for Fiscal Year 2010 resulted in a projected budget deficit of \$98 million for the two Fiscal Years ending June 30, 2011 – an increase in the budget deficit by an additional \$70 million over what had been originally assumed in the Budget. Furthermore, such projections indicated that an on-going structural deficit of approximately \$40 million would exist for transit operations beyond the current budget cycle, indicating a need for either permanent cost reductions or identification of a new on-going revenue source. In response, the Authority reduced the transit operating appropriation by \$7.5 million per fiscal year. The Board also authorized the use of additional 2000 Measure A operating assistance in an amount not to exceed \$25 million. Finally, the Board formed an Ad-Hoc Committee of the Board to focus on long-term solutions to solve the projected \$40 million structural deficit. See “Ad-Hoc Committee of the Board” herein.

The reduction in appropriation and authorization to use up to \$25 million of 2000 Measure A Sales Tax Revenues for additional operating assistance reduced the revised projected Budget deficit to \$30 million. The Board established a March 2010 decision point to re-assess the projected Budget deficit. If at such time the projected additional deficit for the budget period remained at \$30 million or, if the operating reserve balance was projected to be less than \$20 million at the end of Fiscal Year ending June 30, 2011 (which was the original projection in the Budget), then the Board would take such further actions including additional service reductions, a reduction in the workforce, and a transfer of funds from the Authority's capital reserve.

During the first two quarters of Fiscal Year 2010, 1976 Sales Tax Revenues were significantly greater than the September 2009 forecasts. Additionally, the Governor of the State of California signed legislation which resulted in the return of STA funding (including \$15.5 million for Fiscal Year ending June 30, 2010) (see “Fiscal Year 2010 State Budget” herein). In light of these additional revenues, coupled with continued cost containment measures and enhanced operating efficiencies, no further actions were needed to ensure the identified operating reserve level. Use of the additional operating assistance from the 2000 Measure A Sales Tax was also unnecessary and was not implemented.

1976 Sales Tax Revenues for the Fiscal Year ended June 30, 2010 were \$140 million, a 1.7% increase from the Fiscal Year ended June 30, 2009 levels, but 3% below budget. Total operating revenues of \$347.0 were \$2.6 million or 0.8% below budget while total operating expenses of \$330.7 million were \$15.0 million or 4.3% below budget. The resulting \$16.3 million surplus for Fiscal Year 2010 restored the June 30, 2010 operating reserves to the Authority's policy level of 15% of projected operating expenses or \$51.9 million.

Current projections for Fiscal Year 2011 reflect a continued improvement in Sales Tax Revenues as well as the return of STA funding. Those additional revenues coupled with continued cost containment measures and enhanced operating efficiencies result in a projected operating surplus for Fiscal Year 2011 and maintenance of the 15% reserve level.

Ad-Hoc Committee of the Board

The Ad-Hoc Committee of the Board of Directors (the "Ad-Hoc Committee"), referred to above was formed in December 2009. It was composed of three Board members supported by a representative stakeholder group of business, labor, the Authority advisory committees and other communities of interest. The Ad-Hoc Committee's directive was to review the Authority's financial structure and to develop recommendations for the Board of Directors that addressed the Authority's structural deficit to insure the continued sustainability of transit services in the County. The Ad-Hoc Committee met from January to September 2010 and unanimously approved operating expenditure guidance priorities, key financial principles and deficit reduction targets. The full Board of Directors is scheduled to act on the Ad Hoc Committee's recommendations at its December 9, 2010 meeting. Part of the recommendations from the Ad-Hoc Committee include policy level targeted reductions (on-going in nature) of \$40 million to be obtained from a combination of internal efficiencies, labor cost reduction and service delivery changes. The policy level targets, if adopted by the Board of Directors, will be used as the basis to develop the Authority's Fiscal Year 2012 and Fiscal Year 2013 budget.

2000 Measure A Program Budget. The 2000 Measure A Program Budget ("Measure A Budget") reflects the planned capital spending that will be incurred over the budget period. The Measure A Budget augmented previously approved budget authorization by \$410.6 million. 64% of the additional appropriation is provided by federal, State and other local grant funding. The remaining portion of the Measure A Budget is funded from 2000 Measure A Sales Tax.

The following table summarizes the Authority's adopted and updated budgets for Fiscal Year 2010 and 2011. The Current Projection column shows actual expenditures during Fiscal Year ended June 30, 2010 and planned expenditures for Fiscal Year ending June 30, 2011 for the 2000 Measure A Program, including prior year appropriations that remained unspent as of June 30, 2009 and have been carried forward to future years.

Santa Clara Valley Transportation Authority
Fiscal Years 2010 and 2011 – 2000 Measure A Revenues and Expenses
(In Thousands)

	Adopted Budget (2010 and 2011)	Current Projections (2010 and 2011)
Measure A Programs Fund Balance⁽¹⁾, July 1	\$259,678	\$256,449
2000 Measure A Sales Tax	281,564	282,018
Federal, State & Local Grants	300,952	270,996
Investment Earnings	11,923	8,399
Other Income	<u>787</u>	<u>758</u>
Total Revenues	<u>595,226</u>	<u>562,171</u>
Total Available for Measure A Programs	<u>854,904</u>	<u>818,620</u>
2000 Measure A Expenditures:		
Authority Operating Assistance	51,968	52,052
Debt Service ⁽²⁾	39,649	34,604
Contributions to Other Agencies	300	150
Repayment Obligation	24,100	23,275
Other Expense	<u>978</u>	<u>3,201</u>
Total Operating Expenses	<u>116,995</u>	<u>113,282</u>
2000 Measure A Capital Expenses		
Revenue Vehicles and Equipment	43,497	363
Operations Facilities and Equipment	89,092	22,052
Rail Facility Expansion	482,256	463,194
Passenger Facilities	147	126
Miscellaneous ⁽²⁾	<u>47,112</u>	<u>(51,324)</u>
Total Capital Expenses	<u>662,104</u>	<u>434,411</u>
Total 2000 Measure A Operating & Capital Expenses	<u>779,099</u>	<u>547,693</u>
Transfer to Restricted Reserves	--	(16,957)
Ending Balance – 2000 Measure A Program Funds	<u>\$ 75,805</u>	<u>\$253,970</u>

⁽¹⁾ Fund balance represents Measure A Program funds on hand, less an amount set aside in the Measure A Debt Reduction Fund.

⁽²⁾ Reflects redistribution of capitalized interest to individual projects.

Transit System-Operating and Capital Budget. The following table summarizes the Authority’s Adopted Operating and Capital Budget with current projections, 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 and 2011 – Summary of Transit System Revenues and Expenses
(in Thousands)

	<u>Adopted Budget</u>		Actual	Current
	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>
Operating Reserve Balance, July 1	\$ 49,250	\$ 45,456	\$ 46,045	\$ 51,857
1976 Sales Tax Revenues	144,420	140,088	140,037	145,022
Other Operating and Non-Operating Revenues ⁽¹⁾	205,180	196,167	206,923	211,725
Federal Grants	52,756	6,286	9,207	6,286
Transit Security Grant Program (TSGP) ⁽²⁾	9,346	3,000	1,780	3,000
State Grants – Prop 1B	21,643	3,428	3,344	3,428
Regional Measure 2 (RM2) ⁽³⁾	2,530	-	2,155	-
Other	16,207	4,515	14,361	4,514
Total Revenues	<u>452,082</u>	<u>353,484</u>	<u>377,807</u>	<u>373,975</u>
Total Available for Transit System Expenses	<u>501,332</u>	<u>398,940</u>	<u>423,852</u>	<u>425,832</u>
Transit System Operating Expenses:				
Directly Operated Transit Service	275,563	279,035	262,819	272,348
Other Expense	77,832	80,494	67,861	70,996
Total Transit System Operating Expense⁽⁴⁾	<u>353,395</u>	<u>359,529</u>	<u>330,680</u>	<u>343,344</u>
Transit System Capital Expenses:				
Revenue Vehicles and Equipment	62,141	973	2,670	973
Non-Revenue Vehicles	2,608	-	25	-
Operations Facilities and Equipment	21,366	11,319	9,882	11,319
Passenger Facilities	803	602	2,849	602
Information Systems and Technology	2,830	690	7,895	690
Miscellaneous	12,733	3,644	7,527	3,644
Total Transit Capital Expense⁽⁵⁾	<u>102,481</u>	<u>17,228</u>	<u>30,847</u>	<u>17,228</u>
Total Transit System Operating & Capital Expenses	<u>455,876</u>	<u>376,757</u>	<u>361,527</u>	<u>360,572</u>
Transit Operating Reserves in Excess of 15% transferred to Debt Reduction Fund	-	-	(10,468)	(12,456)
Ending Balance – Transit Operating Reserve	<u>\$ 45,456</u>	<u>\$ 22,183</u>	<u>\$ 51,857</u>	<u>\$ 52,804</u>

(See Footnotes on the following page.)

⁽¹⁾ For a general line item detail of operating and non-operating revenues, see the Adopted Fiscal Year ending June 30, 2010 and Fiscal Year ending June 30, 2011 Budget which may be obtained directly from the Authority.

⁽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⁾ For general line item detail of Transit System Operating Expense, see the Adopted Fiscal Year ending June 30, 2010 and Fiscal Year ending June 30, 2011 Budget which may be obtained directly from the Authority.

⁽⁵⁾ 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 24 transit projects in an amount of \$119.7 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.

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”). 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. 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 and financing of \$198 million. The remaining portion is funded from Authority local funds. The 2000 Measure A Sales Tax does not provide funding for the Core CIP.

The Measure A CIP includes projects that are authorized pursuant to 2000 Measure A, approved by the voters in November 2000. As with the Core CIP, the Measure A CIP includes two tiers of projects. Tier 1 projects are those projects for which sufficient funding have been identified including 2000 Measure A Sales Tax revenues and federal, State and other regional funding, and short and long term bond financing. Tier 2 projects include planned projects that may proceed if federal, State or other funding becomes available during the Measure A CIP period. The following table represents a summary of the Tier 1 projects included in the Measure A CIP.

Measure A Capital Improvement Program Summary

(In Thousands)

Program Area	Fiscal Years <u>2010-2019</u>
Revenue Vehicles and Equipment	\$ 43,650
Operations Facilities and Equipment	163,725
Rail Facility Expansion	2,921,917 ⁽¹⁾
Passenger Facilities	147
Miscellaneous Projects	<u>58,020</u>
Total Program Project Costs	<u>\$3,187,459</u>

⁽¹⁾ Includes \$2.7 billion for Phase 1 of the planned BART extension to San José/Santa Clara, California.

Funding for the Measure A CIP includes bond financing, grant (federal, State regional and local) funding and pay-as-you-go funding from the 2000 Measure A Sales Tax. Grant funding includes an assumption that the Authority will be successful in obtaining a Full Funding Grant Agreement (“FFGA”) through the Federal 5309 (New Starts) Program in an amount equal to the amount requested (\$900 million) for the first phase of the BART Silicon Valley Program.

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, 2010 – 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, 2010. The summary statements are presented in accordance with generally accepted accounting principles (“GAAP”). Data for the Fiscal Years ended June 30, 2006 through June 30, 2010 is excerpted from the audited financial statements of the Authority and is qualified in its 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, 2010, see Appendix B – “Audited Financial Statements of the Santa Clara Valley Transportation Authority for Fiscal Year Ended June 30, 2010.” Totals may not add due to independent rounding.

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

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Operating Revenues:					
Passenger fares	\$34,335	\$35,242	\$35,830	\$36,184	\$36,857
Advertising and other	2,591	2,634	2,223	2,255	1,973
Total operating revenues	<u>36,926</u>	<u>37,876</u>	<u>38,053</u>	<u>38,439</u>	<u>38,830</u>
Operating Expenses:					
Labor	123,941	126,387	131,732	134,181	129,803
Fringe benefits	114,056	116,723	108,422	111,969	116,736
Materials and supplies	27,777	28,398	31,513	27,097	26,216
Services	20,141	27,943	27,098	22,777	18,345
Utilities	6,186	6,638	6,867	6,869	6,718
Casualty and liability	6,114	3,856	5,278	5,818	4,688
Purchased transportation	27,395	28,132	28,392	27,974	24,245
Leases and rentals	205	112	420	3,499	2,217
Miscellaneous	2,000	1,821	1,856	1,966	1,461
Costs allocated to capital and other programs ⁽¹⁾	<u>(26,239)</u>	<u>(35,159)</u>	<u>(39,691)</u>	<u>(39,628)</u>	<u>(33,989)</u>
Total operating expenses, excluding depreciation	<u>301,576</u>	<u>304,851</u>	<u>301,887</u>	<u>302,522</u>	<u>296,440</u>
Operating loss before depreciation	<u>(264,650)</u>	<u>(266,975)</u>	<u>(263,834)</u>	<u>(264,083)</u>	<u>(257,610)</u>
Depreciation Expense:					
Total depreciation expense	<u>63,766</u>	<u>51,022</u>	<u>53,292</u>	<u>51,762</u>	<u>51,378</u>
Operating loss	<u>(328,416)</u>	<u>(317,997)</u>	<u>(317,126)</u>	<u>(315,845)</u>	<u>(308,988)</u>
Non-operating revenues (expenses):					
1976 Sales Tax Revenue	157,283	163,676	163,038	137,642	140,037
Measure A Sales Tax Revenues ⁽²⁾	38,170	161,361	160,537	137,261	139,305
Federal operating grants and reimbursements	33,565	35,514	22,425	33,449	58,975
State and local operating grants and reimbursements	81,199	104,917	104,080	81,488	67,987
Caltrain subsidy and Capital contributions to other agencies	(42,200)	(22,509)	(34,747)	(58,504)	(97,592)
Altamont Commuter Express Subsidy	(2,470)	(2,542)	(2,621)	(2,707)	(2,708)
Interest income	6,457	11,304	20,370	15,341	5,764
Interest expense	(11,562)	(13,672)	(12,214)	(11,651)	(20,583)
Other (expense)/Income, net ⁽³⁾	2,186	(2,234)	243	(2,061)	(4,192)
Total non-operating revenues, net	<u>262,628</u>	<u>435,815</u>	<u>421,111</u>	<u>330,258</u>	<u>286,993</u>
Change in net assets, before capital contributions	<u>(65,788)</u>	<u>117,818</u>	<u>103,985</u>	<u>14,413</u>	<u>(21,995)</u>
Capital Contributions	<u>22,522</u>	<u>199,999</u>	<u>153,443</u>	<u>82,175</u>	<u>92,594</u>
Net income (loss)⁽⁴⁾	<u>(\$43,266)</u>	<u>\$317,817</u>	<u>\$257,428</u>	<u>\$96,588</u>	<u>\$70,599</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⁾ Collection of 2000 Measure A Sales Tax started in April 2006.

⁽³⁾ 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.

⁽⁴⁾ Net income (loss) is funded from reserves and presented in accordance with GAAP.

Management’s Discussion of Financial Results

The financial results of Fiscal Year ended June 30, 2010 reflect the overall success of the Authority’s plan to aggressively and appropriately respond to the worst recession since World War II and the impact it had on the local economy.

In response to lower than anticipated sales tax revenues and reduced levels of STA funding, the Authority reduced its Fiscal Year 2010 and Fiscal Year 2011 budget appropriation for transit operations by \$7.5 million per year, reduced service 8% and accelerated an authorized increase in fares from January 2010 to October 2009. In addition, the Authority continued ongoing efforts to control costs and enhance operational efficiencies. See “Authority Budgeted Revenues and Expenditures.”

Overall for Fiscal Year 2010, total operating revenues of \$347.0 were \$2.6 million or 0.8% below budget while Total Operating Expenses of \$330.7 million were \$15.0 million or 4.3% below budget. The resulting \$16.3 million surplus for Fiscal Year 2010 restored the June 30, 2010 operating reserves to the Authority’s policy level of 15% of projected operating expenses or \$51.9 million.

Although the National Bureau of Economic Research declared the recession ended in June 2009, a robust recovery has not yet materialized. High unemployment levels persist and they affect the Authority’s main revenue sources - sales tax receipts and fare revenues. Current projections for Fiscal Year 2011 reflect a continued improvement in Sales Tax Revenues as well as the return of STA funding. Those additional revenues, coupled with continued cost containment measures and enhanced operating efficiencies, result in a projected operating surplus for Fiscal Year 2011 and maintenance of the 15% reserve level.

Authority Obligations

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
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	120,095,000

⁽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(d) of the Authority’s audited financial statements attached hereto as Appendix B.

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.

	<u>Original Principal Amount</u>	<u>Principal Amount Outstanding</u>
Sales Tax Revenue Refunding Bonds, 2008 Series A, Series B and Series C ⁽¹⁾	\$168,585,000	\$166,155,000
Sales Tax Revenue Refunding Bonds, 2007 Series A	26,275,000	24,525,000
Sales Tax Revenue Bonds, 2001 Series A ⁽²⁾	200,000,000	3,455,000

⁽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(d) of the Authority's audited financial statements attached hereto as Appendix B.

⁽²⁾ A portion of these bonds was previously refunded and defeased.

Leveraged Lease Transactions

The Authority has outstanding five 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. Two of these transactions involving rail vehicles with an aggregate value of \$92.3 million were entered into in 1998 and have lease expiration dates of 2015 and 2017 (the "1998 Leases"). 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 Leases, 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 Authority is in full compliance with the 1998 Leases. 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 Lease involving AIG, the equity investor has provided forbearance letters to the Authority and has not threatened termination. All payments with respect to the Leases have been made in full and on a timely basis.

The 2000 Measure A Sales Tax Revenues are not pledged to and do not secure the Leases.

See APPENDIX B – AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY FOR FISCAL YEAR ENDED JUNE 30, 2010 - 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 and February 6, 2003, and most recently reaffirmed on February 5, 2009. The Investment Policy covers all funds (other than any Amalgamated Transit Union Pension Funds) and investment activities under the direction of the Authority.

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

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

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

Investment	Maximum % of Portfolio
U.S. Treasury Obligations	100%
Obligations of Federal Agencies and U.S. Government-Sponsored Enterprises	100
State of California Obligations	30
Bankers' Acceptances	40
Commercial Paper not to exceed 180 days rated "A-1/P-1"	
if weighted average maturity of all paper is 31 days or more	25
if weighted average maturity of all paper is less than 31 days	15
Negotiable Certificates of Deposit	30
Repurchase Agreements	100
Reverse Repurchase Agreements	20
Medium Term Notes	30
Savings and Money Market Accounts	15
Mortgage and Asset-Backed Obligations	20
Mutual Funds	15
State of California Local Agency Investment Fund (LAIF)	Maximum limit by law (\$50 million)
Santa Clara County Investment Pool	100

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

Issuer/Credit Diversification:

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

Risk Management

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

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

An actuarial analysis as of June 30, 2010, dated June 21, 2010, disclosed that the present values of estimated outstanding losses, at 4% average discount rate using a 90% confidence level, are \$20.3 million and \$4.6 million for Workers' Compensation and General Liability, respectively. The Authority has funded reserves in amounts sufficient to cover these liabilities. This actuarial analysis reflects the enactment of State Assembly Bill 749 ("AB 749"), State Senate Bill 228 ("SB 228") and State Senate Bill 899 ("SB 899"). AB 749 increased the cost of indemnity benefits, whereas SB 228 and SB 899 have

reduced the cost of medical and indemnity benefits. On February 3, 2009, the Workers Compensation Appeal Board issued two en banc decisions relating to SB 899. As a result of those decisions, the Workers Compensation Insurance Rating Bureau of California estimated the impact on overall claims cost to be at least 5.8% on claims filed between January 1, 2005 and February 3, 2009. The actuarial analysis includes a 5.8% unpaid provision for such claims. The accrued liabilities for Workers' Compensation and General Liability claims were based on the actuarial estimates. It is Authority's practice to obtain full actuarial studies annually.

Changes in the balance of Workers' Compensation and General Claims Liabilities for the two Fiscal Years ended June 30, 2010, are as follows (in thousands):

	Workers' Compensation	General Liability
Unpaid Claims as of June 30, 2008	\$26,116	\$9,955
Provisions for claims and claim adjustment expenses	5,904	(29)
Payment for claims and other adjustments		
Change in estimates for provision for future claims	<u>(5,695)</u>	<u>(4,235)</u>
Unpaid claims as June 30, 2009	22,325	5,691
Provision for claims and claim adjustment expense	5,726	2,479
Payment for claims and other adjustments	<u>(6,114)</u>	<u>(3,207)</u>
Unpaid claims as June 30, 2010	<u>\$21,937</u>	<u>\$4,963</u>

Insurance. The Authority is exposed to various risks of losses 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 worker's compensation and general liability, see "Risk Management - Worker's Compensation and General Liability" above.

Coverage provided by self-insurance, insurance and excess insurance as of July 1, 2010, is shown below:

Type of Coverage	Self-Insurance/ Deductible	Excess Coverage (in aggregate)
Workers' compensation	Self-Insured	None
Employer's Liability	\$3,000,000	\$22,000,000 per occurrence
Public Officials liability	Self-Insured \$3,000,000	\$22,000,000
Excess public entity liability	\$3,000,000	\$22,000,000
Property, boiler, and machinery	\$100,000	\$70,000,000 combined blanket limit
National Flood Insurance (eligible locations)	\$5,000	\$500,000
Light rail vehicles, includes spare parts coverage, no earthquake coverage	\$250,000	\$20,000,000/maximum loss limit per year ⁽¹⁾
Buses	\$100,000	\$20,000,000/maximum loss limit per year ⁽¹⁾
Hybrid Buses	\$150,000	Included in the \$20,000,000 with buses ⁽¹⁾
Community Buses	\$75,000	Included in the \$20,000,000 with buses ⁽¹⁾
Mobile Equipment	\$25,000	Included in the \$20,000,000 with buses

⁽¹⁾ Additional \$30,000,000 excess coverage applied on catastrophic losses on Buses and Light rail vehicles while parked in Yard.

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 June 30, 2010, there were 2,548 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, 2010.

Actuarial Methods and Assumptions:

Description	Methods/Assumptions
Valuation Date	January 1, 2010
Actuarial cost method	Aggregate Entry Age Normal
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	8.00%
Projected Salary Increases	22.13% for the first three years of service, 3.76% thereafter
Consumer Price Index (CPI)	3.50% 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%	37%	39%
Domestic Large-Cap Value	12-22	20	20
Domestic Large-Cap Index	8-18	15	15
Domestic Small-Cap Value	2-12	9	10
International Equity Developing Markets	9-19	16	15
International Emerging Markets	2-10	0	5
US Core Real Estate	5-15	3	10
Cash	0-5	0	1

⁽¹⁾ As of August 31, 2010.

The Authority contributes to the ATU Plan at actuarially determined rates applied to eligible payroll sufficient to maintain funding of vested benefits. Such contribution includes an amortized amount of 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 a period of years. The actuarial review and analysis as of January 1, 2010 resulted in a decrease in the Authority’s contributions to \$17.6 million, or 17.99% in dollar terms and as a percentage of covered payroll. The Authority’s contribution for Fiscal Year ending June 30, 2010 was \$17.9 million. The actuarial valuation reflects a reduction from \$18.4 million, or 18.25% of covered payroll in the previous year. The primary driver for the decrease in plan costs was better than assumed investment experience of plan assets during 2009.

The schedule of funding progress is as follows:

Schedule of Funding Progress⁽¹⁾
Santa Clara Valley Transportation Authority Amalgamated Transit Union, Local 265
Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (“AAL”)	Unfunded AAL	Funded Ratio	Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
12/31/05	\$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

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

Fiscal Year Ended	Annual Pension Cost ("APC")	Percentage of APC Contributed	Net Pension Obligation
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	-

The funding ratio for termination liability for the ATU Plan, as of January 1, 2010, for benefits earned to January 1, 2010, based on pay and years of service of covered employees as of January 1, 2010, was 83.8%. The funding ratio for termination liability is intended to provide an estimate of the obligation the ATU Plan would have to meet if the ATU Plan was terminated, assuming that the expected return on assets remained at 8%.

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 following actuarial methods and assumptions are based on a report dated October 2009. The Authority anticipates that CalPERS will provide its next actuarial update by the end of November 2010.

Actuarial Methods and Assumptions:

Description	Methods/Assumptions
Valuation Date	June 30, 2008
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level percent of Payroll
Average Remaining Period	26 years as of the Valuation Date
Asset Valuation Method	15 years smoothed market
Actuarial Assumptions	
Investment Rate of Return	7.75% (net of investment expense)
Projected Salary Increases	3.25 to 14.45% depending on age, service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.00% and an annual production growth of 0.25%

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 19.08% of payroll for the Fiscal Year ending June 30, 2010, based on the latest actuarial valuation. For the Fiscal Year ended June 30, 2010, the Authority's annual CalPERS pension cost was \$6.2 million. The schedule of funding progress is as set forth below.

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

Actuarial Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio⁽¹⁾	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/2004	\$142,662,507	\$119,708,580	\$22,953,927	83.9%	\$50,876,724	45.1%
6/30/2005	160,103,833	135,508,064	24,595,769	84.6	50,193,561	49.0
6/30/2006	177,983,295	152,536,031	25,447,264	85.7	50,301,722	50.6
6/30/2007	195,098,516	170,836,697	24,261,819	87.6	49,681,839	48.8
6/30/2008	214,450,572	188,897,985	25,552,587	88.1	51,043,339	50.1

⁽¹⁾ Using Actuarial Value of Assets.

The five-year trend in contributions are as follows:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2006	\$6,501,000	100%	-
6/30/2007	5,929,000	100	-
6/30/2008	6,278,000	100	-
6/30/2009	6,507,000	100	-
6/30/2010	6,167,000	100	-

CalPERS' policy is to spread market value asset gains and losses over fifteen (15) years. CalPERS also has a policy of establishing the actuarial value of assets from 80-120 percent of market value. These policies are designed to reduce fluctuations in employer contributions over time.

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, 2009, 853 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 30, 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, 2009, 310 retirees met the eligibility requirements for the Non-ATU Program.

An actuarial analysis of Retiree Health Benefits as of July 1, 2008 disclosed that the actuarial liability, which is the present value of benefits attributed to past service, is \$225.5 million. The unfunded actuarial accrued liability of the Authority as of July 1, 2008 is \$121.1 million. The Authority contributions are advance funded on an actuarially determined basis. For the Fiscal Year ended June 30, 2009, the Authority made contributions to both the ATU and Non-ATU programs of \$15.9 million, which was 104% of the annual required contribution. The Authority anticipates receipt of an updated actuarial analysis by the end of November 2010.

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 7.75%; (2) a projected salary increase of 4.0% per year; (3) inflation component of 3.25% used for amortization; (4) a health inflation assumption of 10.0%, graded down 1.0% per year to 5% after six (6) years, remaining at that level thereafter; (5) retiree contribution remaining fixed at \$25 per month.

In 2004, the Government Accounting Standards Board (“GASB”) issued Statement No. 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions (“GASB 45”). GASB 45 requires governmental agencies to change their accounting for other post employment benefits from pay-as-you-go to an accrual basis. The most recent actuarial analysis of Retiree Health Benefits as of July 1, 2008 also provides the following estimates of assets, liabilities and unfunded liability, based on the GASB 45 method: actuarial accrued liability \$225.5 million, assets of \$104.4 million, and UAAL of \$121.1 million. The Authority has been making funding contributions on an actuarially determined basis since prior to its legal separation from the County in 1995. The Authority implemented the requirements of GASB 45, including financial statement reporting and disclosures, by July 1, 2007, the results of which are included in the audited financial statements as of June 30, 2008 and later.

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APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF THE SANTA CLARA VALLEY
TRANSPORTATION AUTHORITY FOR FISCAL YEAR ENDED JUNE 30, 2010**

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the business-type activity, the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Clara Valley Transportation Authority (VTA), as of and for the year ended June 30, 2010, which collectively comprise VTA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of VTA's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity, the governmental activities, each major fund, and the aggregate remaining fund information of VTA as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 53 for the year ended June 30, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2010, on our consideration of VTA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, the schedules of funding progress and the budgetary comparison schedules on pages 2-3 through 2-20 and pages 2-78 through 2-81 are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the VTA's basic financial statements. The introductory section, combining and comparative individual fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. We have previously audited, in accordance with auditing standards generally accepted in the United States, the VTA's basic financial statements for the year ended June 30, 2009, which are not presented with the accompanying financial statements. In our report dated October 15, 2009, we expressed unqualified opinions on the respective financial statements of the business-type activities, governmental activities, each major fund and the aggregate remaining fund information. In our opinion, the 2009 supplementary information is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2009. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Varrink Time Day + Co. LLP

Palo Alto, California
October 15, 2010



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

Management's Discussion and Analysis

This Section of the CAFR presents a narrative overview and analysis of the financial activities of VTA for FY2010. Please read this document in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

Financial Highlights

- As of June 30, 2010, VTA's assets exceeded liabilities by approximately \$2.8 billion. Of the \$2.8 billion in net assets, approximately \$2.2 billion was invested in capital assets net of related debt which is associated with VTA's capital expansion program.
- Enterprise Fund operating revenues mainly from passenger fares were \$38.8 million, an increase of \$391 thousand or 1% percent compared to FY2009.
- As of June 30, 2010, VTA has total outstanding bonds in the amount of \$616 million compared to \$625 million the previous fiscal year.
- In FY2010, VTA Transit Fund net assets decreased \$6.5 million to \$2 billion. The three board-designated reserves: transit operating reserve, debt reduction fund and SWAP/collateral, were \$51.9 million, \$53.2 million, and \$26.9 million, respectively.
- In FY2010, VTA Measure A Fund net assets increased \$95.4 million to a total of \$766.3 million. This amount is restricted for the Measure A Transit Improvement Program per the Measure A Ballot.
- The 1976 Sales Tax revenues increased \$2.4 million or 1.7% to \$140.0 million in FY2010 compared to FY2009 reflecting a slight improvement in taxable sales in the County.
- The 2000 Measure A Sales Tax revenues increased \$2.0 million or 1.5% to \$139.3 million in FY2010 compared to FY2009.
- Federal, state and local operating assistance were \$12.0 million or 10.4% higher in FY2010 mainly due to increased revenues in federal operating grants.
- Capital grants were also \$10.4 million above FY2009 mainly due to higher Traffic Congestion Relief Program (TCRP) grant receipts for the Silicon Valley Rapid Transit (SVRT) project.

Overview of the Financial Statements

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

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

The *Statement of Net Assets* presents information on all of VTA's assets and liabilities, with the difference between the two reported as net assets. Over time, 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 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: an enterprise fund and an internal service fund. The enterprise fund is used to report the same function presented as "business-type activity" in the government-wide financial statements. The internal service fund is used to account for activities that provide services to other funds, departments or to other governments on a cost-reimbursement basis. General Liability, Workers' Compensation, and Compensated Absences are accounted for in the internal service fund. VTA uses the enterprise fund to account for its transit operation and capital activities, the 1996 Measure B Transit projects, and the 2000 Measure A capital and operating activities.

The 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.

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.

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.

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.

4. **Government-wide Financial Analysis.** The Government-Wide Statement of Net Assets and the Statement of Activities reports a \$73.9 million increase in net assets (pages 2-21 and 22). The increase was mainly in the Business-Type activities as the Government-type activities only experienced \$235 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 SVRT project as the locally funded capital expenditures were lower compared to the revenue receipts. During FY2010, VTA enterprise funds acquired or built total capital assets of approximately \$59.5 million (see Note 6). These capital assets were funded by a variety of sources such as federal and state grants as well as local Measure A sales tax proceeds.

Santa Clara Valley Transportation Authority
Condensed Statement of Net Assets
FY2010 and FY2009
(In thousands)

	Business-Type Activity		Governmental Activity		Total	
	2010	2009	2010	2009	2010	2009
Assets:						
Current and other assets	\$ 835,018	\$ 693,752	\$ 24,914	\$ 29,757	\$ 859,932	\$ 723,509
Capital assets, net	2,811,863	2,806,348	-	-	2,811,863	2,806,348
Total assets	3,646,881	3,500,100	24,914	29,757	3,671,795	3,529,857
Liabilities:						
Current liabilities	122,071	100,643	24,627	29,705	146,698	130,348
Long-term liabilities outstanding	711,656	659,982	-	-	711,656	659,982
Total liabilities	833,727	760,625	24,627	29,705	858,354	790,330
Net assets:						
Invested in capital assets, net of related debt	2,195,790	2,180,768	-	-	2,195,790	2,180,768
Restricted	409,136	362,079 *	-	-	409,136	362,079
Unrestricted	208,228	196,628 *	287	52	208,515	196,680
Total net assets	\$ 2,813,154	\$ 2,739,475	\$ 287	\$ 52	\$ 2,813,441	\$ 2,739,527

*reclassified to match 2010 presentation

The largest portion of VTA's net assets (approximately 78%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment); less any related outstanding debt used to acquire those assets. VTA uses these capital assets to provide services to its customers. Consequently, these assets are not available for future spending. Although VTA's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot reasonably be used to liquidate these liabilities. The restricted assets represent mainly the funds set aside for the Measure A and B Transit Improvement Programs, Measure A bonds, debt service payments with the bond trustees, and 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, and debt reduction and swap/lease collateral reserves, and for workers' compensation and liability claims. The unrestricted net assets are available for appropriation with Board approval. The details of net assets categories are shown on page 2-21.

Santa Clara Valley Transportation Authority

Statement of Activities

FY2010 and FY2009

(In thousands)

	Business-Type Activity		Governmental Activity		Total	
	2010	2009	2010	2009	2010	2009
Expenses:						
Operations, support services, and CMP program	\$ 338,771	\$ 343,973	\$ 7,164	\$ 8,840	\$ 345,935	\$ 352,813
Caltrain subsidy & capital expenditures on behalf of, and contribution to other agencies	97,592	58,504	-	-	97,592	58,504
Altamont Commuter Express subsidy	2,707	2,707	-	-	2,707	2,707
Interest Expense	20,583	11,651	-	-	20,583	11,651
Other non-operating expenses	7,268	5,446	-	-	7,268	5,446
Claims and change in future claim estimates	7,693	9,826	-	-	7,693	9,826
Capital outlay on behalf of other agencies	-	-	19,402	26,398	19,402	26,398
Total expenses	<u>474,614</u>	<u>432,107</u>	<u>26,566</u>	<u>35,238</u>	<u>501,180</u>	<u>467,345</u>
Program revenues:						
Charges for services	38,830	38,439	2,606	2,618	41,436	41,057
Operating grants	126,934	114,937	1,854	1,496	128,788	116,433
Capital grants	92,594	82,175	22,314	29,479	114,908	111,654
Total program revenues	<u>258,358</u>	<u>235,551</u>	<u>26,774</u>	<u>33,593</u>	<u>285,132</u>	<u>269,144</u>
Net program revenues (expenses)	<u>(216,256)</u>	<u>(196,556)</u>	<u>208</u>	<u>(1,645)</u>	<u>(216,048)</u>	<u>(198,201)</u>
General revenues:						
Sales tax revenue	279,342	274,903	-	-	279,342	274,903
Investment income	7,352	16,862	12	41	7,364	16,903
Other income	3,241	3,385	15	161	3,256	3,546
Total general revenues	<u>289,935</u>	<u>295,150</u>	<u>27</u>	<u>202</u>	<u>289,962</u>	<u>295,352</u>
Special items:						
Change in provisions for workers' compensation claims	-	3,500	-	-	-	3,500
Change in net assets	73,679	102,094	235	(1,443)	73,914	100,651
Net assets beginning of year	<u>2,739,475</u>	<u>2,637,381</u>	<u>52</u>	<u>1,495</u>	<u>2,739,527</u>	<u>2,638,876</u>
Net assets, end of year	<u>\$ 2,813,154</u>	<u>\$ 2,739,475</u>	<u>\$ 287</u>	<u>\$ 52</u>	<u>\$ 2,813,441</u>	<u>\$ 2,739,527</u>

Proprietary Funds. Total net assets were \$2.8 billion in FY2010, an increase of \$73.7 million compared to FY2009. Net program expenses (total expenses minus program revenues) were \$216.3 million during FY2010 compared to \$196.6 million in FY2009. Total expenses increased \$42.5 million. Major increases were in the capital expenditures on behalf of, and contributions to other agencies (\$39.1 million) and interest expenses (\$8.9 million) categories. They were offset by a \$5.2 million decrease in Operations and Support Services expenses as VTA implemented various cost containment measures in response to declining revenues. In the program revenue categories, operating assistance grants increased mainly due to higher receipt of federal preventive maintenance grant and operating assistance grants. Capital contributions were also higher in FY2010 compared to the prior year. Due to the state cutting STA funding to transit agencies in FY2010, VTA did not receive STA grants which are normally allocated through the state on the basis of population and operating revenues.

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

**Comparison of
Proprietary Funds Revenue
FY2010 and FY2009
(In thousands)**

<u>Proprietary Funds Revenue</u>	<u>2010</u>	<u>2009</u>	<u>Change</u>	
			<u>Favorable/(Unfavorable)</u> <u>Amount</u>	<u>Percent</u>
Charges for services	\$ 38,830	\$ 38,439	\$ 391	1.02%
Operating grants	126,934	114,937	11,997	10.44%
Capital grants	92,594	82,175	10,419	12.68%
1976 half-cent sales tax	140,037	137,642	2,395	1.74%
2000 Measure A half-cent sales tax	139,305	137,261	2,044	1.49%
Investment earnings	7,352	16,862	(9,510)	-56.40%
Other income	3,241	6,885	(3,644)	-52.93%
TOTAL	<u>\$ 548,293</u>	<u>\$ 534,201</u>	<u>\$ 14,092</u>	<u>2.64%</u>

¹ included a special item of \$3.5 million related to change in provision for future general liability and workers' compensation claims.

Charges for Services

Charges for services, derived from bus fare box receipts, light rail ticket sales, the sale of monthly passes (including Eco Pass and tokens) and advertisement income were \$38.8 million in FY2010, \$391 thousand or 1% higher compared to FY2009 mainly as a result of fare increases implemented in the year. Overall for the fiscal year, bus and light rail

ridership was 41.7 million which reflects a 7.8% decrease compared to the prior year. Continued high unemployment in Silicon Valley hampered ridership for all VTA transit services. Advertising and Shuttle revenues from contracted services were \$2.0 million which were \$282 thousand or 12.5% below FY2009, again a sign of a sluggish local economy.

Operating Grants

Operating grants include California Transportation Development Act (TDA), state operating assistance grants, Federal Section 5307 Urbanized Formula Program Grants, state vehicle license fees (AB434), federal planning grants, and new federal operating assistance under the American Recovery and Reinvestment Act (ARRA). In FY2010, total operating grants increased \$12.0 million or 10.4% higher compared to FY2009.

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 source of revenue for operations. For FY2010, the actual TDA receipts were \$65.8 million, reflecting a \$7.6 million or 10.3% decline over the prior fiscal year.

STA funds are derived from state sales tax on gasoline and 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 FY2010, VTA did not receive STA funds.

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 FY2010, total grant revenues under this program were \$58.7 million, a \$25.3 million increase over FY2009.

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 FY2010, total capital grants increased \$10.4 million or 12.7% to \$92.6 million. This was primarily due to higher grant revenues from the state under the Transit Congestion Relief Program (TCRP) to fund the SVRT project.

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. Subsequent to the recovery from the dot.com bust, they were growing annually, but declined significantly in FY2009. For FY2010, total sales tax revenues were \$140 million, \$2.4 million or 1.7% higher compared to the prior fiscal year. Even though sales tax revenues grew slightly in FY2010, the ongoing recession, financial meltdown, and credit tightening along with high unemployment continue to have an impact on the taxable activity in the County.

2000 Measure A Half-Cent Sales Tax Revenues

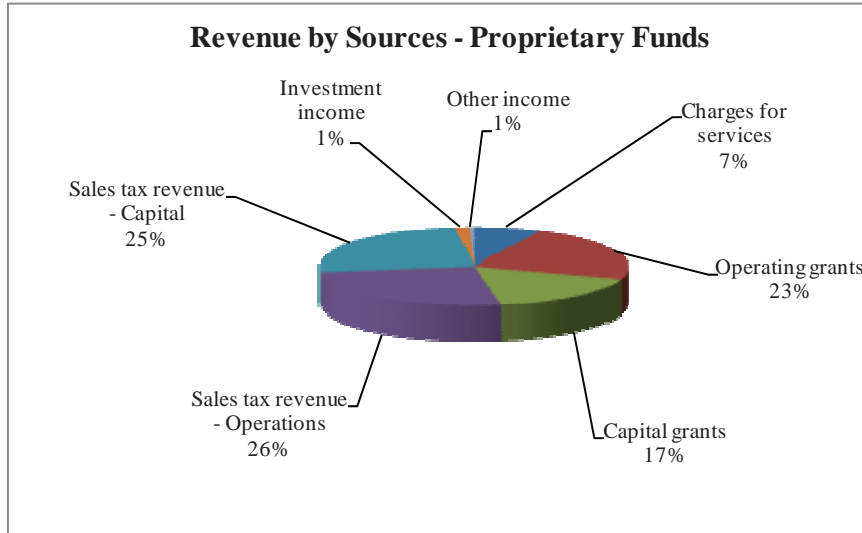
The 2000 Measure A Sales Tax is collected by the SBOE for VTA in the same manner as the 1976 Measure B Sales Tax. The collection of the Measure A half-cent sales tax revenue occurred after the expiration of 1996 Half-Cent Measure B Sales Tax on March 31, 2006. FY2010 revenues of \$139.3 million were \$2.0 million or 1.5% 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 FY2010, the investment earnings decreased \$9.5 million compared to FY2009 due mainly to reclassification of interest earnings capitalized in prior years in the Measure A Transit Improvement Fund. In addition, interest rates for investments remained historically low, contributing to revenue decline.

Other Income

In FY2010, total other income was \$3.2 million; \$0.1 million lower than the prior fiscal year.



Total expenses for Proprietary Funds increased \$42.5 million or 9.8% in FY2010. A detail analysis of major expense categories is discussed below.

**Comparison of
Proprietary Funds Expenses
for FY2010 and FY2009
(In thousands)**

Proprietary Funds Expenses	2010	2009	Change	
			Favorable/(Unfavorable) Amount	Percent
Operations and support services	\$ 338,771	\$ 343,973	\$ (5,202)	-1.51%
Caltrain and ACE subsidy	18,585	18,585	-	0.00%
Capital contributions to/or expenses on-behalf of other agencies	81,714	42,626	39,088	91.70%
Interest expense	20,583	11,651	8,932	76.66%
Other non-operating expenses	7,268	5,446	1,822	33.46%
Claims and change in future claim estimates	7,693	9,826	(2,133)	-21.71%
TOTALS	\$ 474,614	\$ 432,107	\$ 42,507	9.84%

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 FY2010, they were \$5.2 million or 1.5% lower compared to FY2009 as VTA implemented various cost

containment measures in response to declining revenues. Labor and benefit costs were almost flat in FY2010 as vacant positions and wages were frozen and an unpaid furlough program was implemented for certain categories of employees. Other major cost categories were lower in FY2010 as a result of budget cuts implemented in the Adopted 2010-2011 Biennial Budget.

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 \$15.9 million in FY2010; the same amount was contributed in FY2009.

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 (SJRRRC). VTA's subsidy to ACE commuter rail service totaled \$2.7 million in FY2010. The same amount was contributed in FY2009. 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 FY2010, total capital contributions and expenses were \$81.7 million, an increase \$39.1 million compared to FY2009. The FY2010 contribution included \$12.6 million swap payment to Congestion Management and Highway Program Fund and other agencies in the Measure A Transit Improvement Fund. In addition, Measure A Transit Improvement Fund expended \$51.6 million to/or on behalf of other agencies. VTA was partially reimbursed for these capital expenses by other agencies and are reported as capital contributions. VTA Transit Fund and Measure B Transit Fund expended the remaining \$17.5 million.

Interest Expenses

Bond interest expense was \$20.6 million, \$8.9 million higher compared to prior year primarily due to reclassification of bond interest expenses capitalized in prior years to interest expense in FY2010.

Other Non-Operating Expenses

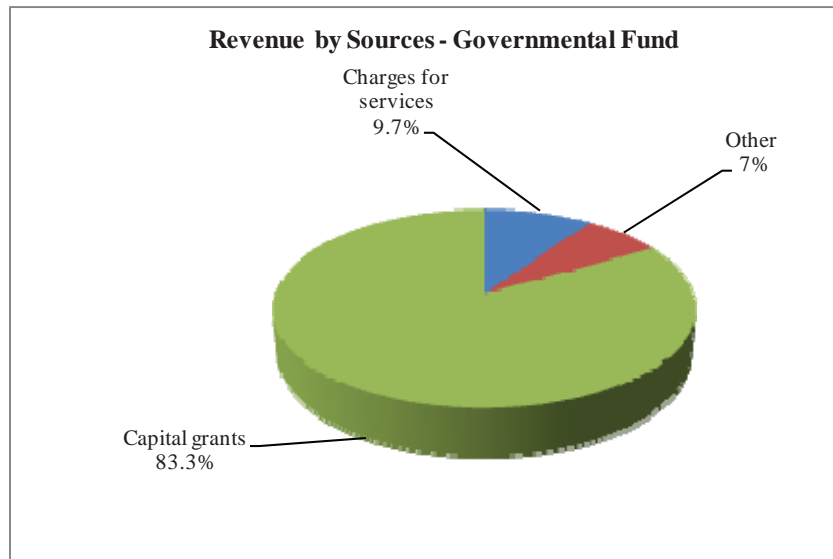
Other non-operating expenses were \$1.8 million higher in FY2010 compared to the prior fiscal year. Most of the increases were in the Measure A Transit Improvement Fund which included \$1 million professional services expenses (reported as operating expense in FY2009) and \$800 thousand higher Caltrain access fee.

Claims and Change in Future Claim Estimates

Claim payments in FY2010 were \$7.7 million, \$2.1 million less than FY2009 due to lower payments made for workers' compensation claims and a decrease in liability claims. In addition, the provisions for future claim estimates were also lower in FY2010 based on the recent actuarial valuation report.

Governmental Funds. Total net assets for the governmental funds increased \$235 thousand in FY2010, with an ending balance of \$287 thousand, 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 \$22.3 million and capital expenses and labor/overhead costs were also \$22.3 million, with no net assets.
- In the Congestion Management Program (CMP) Special Revenue Fund, total revenue sources were \$4.5 million, an increase of \$184 thousand over FY2009 mainly due to higher state and federal operating assistance grants. Total expenditures were \$4.3 million reflecting \$1.5 million lower expenses compared to prior year, with a net change in net assets of \$235 thousand. A number of CMP projects/studies were either deferred or changed in scope due to declining revenues. CMP projects are funded only from member assessments and various federal, state, and local grants.



Financial Analysis of VTA's Funds

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

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

Enterprise fund. The Enterprise Fund is used to account for activities for which a fee is charged to external users for goods or services where:

- (a) the activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or
- (b) laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or
- (c) the pricing policies of the activity establish fees and charges designated to recover its costs, including capital costs (such as depreciation or debt service).

A Comparative Statement of Revenues, Expenses, and Changes in Fund Net Assets is included on page 2-88 of this report. For FY2010, operating revenues were \$38.8 million, up \$391 thousand or 1% compared to FY2009. Fares from transit services increased \$673 thousand or 1.9% from prior fiscal year mainly due to fare increases introduced during the fiscal year. Total operating expenses in FY2010 were \$6.5 million or 1.8% lower than FY2009. Labor costs were \$389 thousand higher than the prior fiscal year. The non-labor

expense categories that experienced significant variance in FY2010 include Services (\$4.4 million), Casualty and Liability Insurance (\$1.1 million), Purchased Transportation (\$3.7 million) and Leases and Rentals (\$1.3 million) and Cost Allocated to Capital and Other Programs (\$5.6 million) resulting in an overall decrease in operating expenses compared to FY2009.

FY2010 net non-operating revenues were \$287.0 million, \$43.3 million lower compared to FY2009. Major negative changes include a decrease in the state and local operating assistance grants (\$13.7 million) especially in TDA and STA programs, and investment earnings (\$9.6 million) due to the reclassification of interest earnings capitalized in prior years in the Measure A Transit Improvement Fund. Federal operating assistance grant increased \$25.7 million as VTA programmed a higher allocation to preventive maintenance activities and receipt of federal operating assistance under ARRA. Total sales tax revenues were \$4.4 million or 1.6% higher compared to FY2009. In non-operating expenses, the capital expenses on behalf of, and contribution to, other agencies increased \$39.1 million. Interest expenses increased \$8.9 million mainly as a result of the reclassification of bond interest capitalized in prior years to interest expense in the Measure A Transit improvement Fund. Capital contributions from other governmental agencies were \$10.4 million more in FY2010 primarily due to higher TCRP grant funding for the SVRT project.

Total FY2010 Enterprise Fund net assets were \$2.8 billion, an increase of \$70.6 million over the FY2009 net assets. Of the total net asset increase, \$95.4 million was related to the 2000 Measure A Transit Improvement Program Fund. VTA Transit Fund's net assets declined \$6.5 million in FY2010, mainly due to lower TDA and STA grant revenues. Measure B Transit Fund's net assets also decreased \$18.3 million in FY2010 mainly due to the reclassification of two project costs to non-operating expenses capitalized in prior years. VTA accounts for the 2000 Measure A Sales Tax Capital Program as part of its Enterprise Fund. Even though the 2000 Measure A program revenues and related capital expenses are reported as part of Enterprise Fund financial statements, they are restricted for capital programs and operating activities included in the 2000 Measure A Ballot. VTA reports total net assets by restricted and unrestricted categories to comply with various legal requirements and board designations. For FY2010, the details of net assets are reported on Statement of Fund Net Assets on page 2-21.

Internal service fund. VTA maintains an Internal Service Fund to account for the activities related to Workers' Compensation, General Liability, and Compensated Absences programs. The cost of these activities are accounted for in this fund and then

charged to other VTA funds. As of June 30, 2010, total net assets for this fund were \$18.5 million, an increase of \$3.1 million from prior fiscal year. Decreases in claim payments were the major factors for higher net assets. In FY2010, provisions and claims liability in both workers' compensation and general liability programs were lowered based on the actuarial valuation report. This change also contributed to higher net assets in the internal service funds.

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

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

**Comparison of
Special Revenue Fund
FY2010 and FY2009
(In thousands)**

<u>Special Revenue Fund</u>	<u>2010</u>	<u>2009</u>	<u>Change</u>	
			<u>Favorable/(Unfavorable)</u> <u>Amount</u>	<u>Percent</u>
Member agency assessment revenues	\$ 2,495	\$ 2,495	\$ -	0.00%
Federal technical studies operating assistance grants	1,235	915	320	34.97%
Administrative fees	111	123	(12)	-9.76%
State and local assistance grants	619	581	38	6.54%
Federal, state and local capital grant revenues	27	14	13	92.86%
Other revenues	15	161	(146)	-90.68%
Investment earnings	12	41	(29)	-70.73%
Salaries and benefits	(3,709)	(4,894)	1,185	-24.21%
Professional services	(541)	(793)	252	-31.78%
Material and services	(8)	(17)	9	-52.94%
Miscellaneous	(9)	(24)	15	-62.50%
Capital outlay on behalf of other agencies	(12)	(45)	33	-73.33%
Change in Net Assets	235	(1,443)	1,678	116.29%
Net assets, beginning of year	52	1,495	(1,443)	
Net assets, end of year	<u>\$ 287</u>	<u>\$ 52</u>	<u>\$ 235</u>	451.92%

Total fund revenues, which mainly include member assessments and grants, were \$4.5 million in FY2010, \$184 thousand higher than prior year. The increase was mainly due to higher federal operating assistance grants billed in FY2010 compared to FY2009. Total expenses were \$4.3 million, a decrease of \$1.5 million is mainly due to lower VTA labor

and overhead costs, and professional services. The ending fund balance was \$287 thousand.

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
FY2010 and FY2009
(In thousands)

<u>Capital Projects Funds</u>	<u>2010</u>	<u>2009</u>	<u>Change</u>	
			<u>Favorable/(Unfavorable)</u>	<u>Amount</u>
Federal, state, and local capital grant revenues	\$ 22,287	\$ 29,465	\$ (7,178)	-24.36%
VTA labor and overhead costs	(2,897)	(3,112)	215	-6.91%
Capital expenditures on behalf of other agencies	(19,390)	(26,353)	6,963	-26.42%
Change in Net Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

As of June 30, 2010, total revenues were \$22.3 million which represents the total amount expended on the projects during the fiscal year and billed to other governmental agencies. The VTA labor and overhead costs were \$215 thousand lower in FY2010 due to a decrease in project activity. Equity fund balances were zero at year-end.

Capital Assets and Debt Administration

Capital assets. VTA’s investment in capital assets for its business-type activity as of June 30, 2010, amounts to \$2.8 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 FY2010, VTA expended \$59.5 million on the acquisition and construction of capital assets.

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

	<u>2010</u>	<u>2009</u>
Land and Right-of-way	\$ 1,123,321	\$ 1,119,217
Construction in Progress	814,241	781,381
Buildings & Improvements		
Equipment & Fixtures	292,603	298,818
Vehicles	286,826	304,406
Caltrain-Gilroy Extension	40,696	42,176
Light Rail Tracks/Electrification	232,223	245,185
Other Operating Equipment	13,414	6,184
Leasehold Improvements	8,539	8,981
Total	<u>\$ 2,811,863</u>	<u>\$ 2,806,348</u>

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

Long-term debt. At year-end, VTA had \$616.1 million in bonds outstanding versus \$625.3 million in FY2009 – a decrease of \$9.3 million which represents the principal payments made on the bonds during the year.

Outstanding Debt
Proprietary Funds
(In thousands)

	<u>2010</u>	<u>2009</u>
Jr. Lien Sales Tax Revenue Bonds (1976 Tax)	\$ 67,395	\$ 70,105
Sr. Lien Sales Tax Revenue Bonds (1976 Tax)	178,903	184,487
Sr. Lien Sales Tax Revenue Bonds (2000 Tax)	369,775	370,750
Total	<u>\$ 616,073</u>	<u>\$ 625,342</u>

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 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.

Economic Conditions

In a recent report, the National Bureau of Economic Research, an independent group of economists that are charged with dating when economic downturns begin and end, reported that the economic recession ended in June 2009¹. But the news comes amid rising fears of a double-dip recession. That makes the 18-month recession that started in December 2007 the longest and deepest downturn for the U.S. economy since the Great Depression. The basis for this decision was the length and strength of the economic recovery to date. Some economists are also calling it a jobless recovery. The national unemployment rate is around 9.6 percent almost at the same level as last year. The unemployment rate in the county averaged 11.3% in June 2010, slightly below 11.8% a year ago. During the same period, the state's unemployment rate was 12.6%, higher from 11.6% reported in the same period a year ago². Contributing to this slowdown is global recession and financial meltdown which has resulted in sharp downturn in the housing industry as well as loss of manufacturing and other jobs. The Santa Clara County economy has not been immune to the economic meltdown, issues related to credit crunch, and failure of financial institutions across the country. The credit crunch has seriously impacted the housing industry as foreclosures and inventories of unsold homes hit record highs for third year in a row. The consensus economic opinion now believes that the Silicon Valley economy will go through challenging periods as venture capital money to startup companies dries up and make borrowing more difficult and expensive to meet the operating and capital needs of local high-tech firms.

The state has its own financial challenges which have and will continue to negatively impact local governments and agencies. In FY2010, California Legislature approved and the Governor signed a series of bills in an attempt to balance the state's massive budget gap. This package consisted of tax hikes, borrowing, and spending reductions that also impacted public transit agencies. In the case of transportation, the State Transit Assistance Program (STA), the only state program that directly provides funds to operate bus and rail systems in California, was not funded at all in FY2010. In VTA's case, STA program revenue loss amounted to approximately \$13 million.

¹ www.cnnmoney.com, September 20, 2010.

² California Employment Development Department and U.S. Labor Department.

At the local level, reduced home building, home sales, auto sales and other consumer spending contributed to a slowdown in taxable sales. As a result of the economic slowdown, VTA experienced double digit percentage declines in sales tax revenues during FY2009 – its largest source of funding for operating and capital needs. The negative trend seems to be turning around, based on FY2010 sales tax receipts. The 1976 Half-Cent Sales Tax increased over the prior year by \$2.4 million or 1.7% to \$140 million. However TDA revenues, which are also derived from the local taxable sales tax activity base, declined \$5.4 million or 7.4% in the current year compared to the prior year. VTA will continue to take steps to exercise fiscal discipline and manage this revenue shortfall through diligent cost control and enhanced operating efficiencies. Nevertheless, it is likely that VTA will continue to face ongoing challenges, including sluggish sales tax receipts, higher employee benefit and pension contribution costs, as well as the turmoil and volatility in the financial markets.

Adopted FY2010 and FY2011 Biennial Budget

In June 2009, VTA Board of Directors adopted a biennial budget for Fiscal Years 2010 and 2011. Overall, the adopted biennial budget represents a balanced approach by asking riders and employees to share the burden of bridging the funding gap in these difficult economic times while attempting to avoid more drastic solutions like widespread service cuts or layoffs. In addition, the adopted budget included drawing of operating reserves to balance the operating 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.



BASIC FINANCIAL STATEMENTS

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Statement of Net Assets

June 30, 2010

(In thousands)

	Business-Type Activity	Governmental Activity	Total
ASSETS			
Cash and investments	\$ 71,895	\$ 949	\$ 72,844
Receivables, net	3,526	-	3,526
Internal balances	(1,080)	1,080	-
Due from other governmental agencies	73,395	367	73,762
Inventories	20,818	-	20,818
Other current assets	1,308	-	1,308
Restricted assets:			
Cash and investments	527,679	17,548	545,227
Receivables, net	1,003	-	1,003
Due from other governmental agencies	52,347	4,970	57,317
Other current assets	33	-	33
Long-term assets:			
OPEB obligation over-contributions	837	-	837
Deferred charges	11,767	-	11,767
Deferred outflow of resources	71,490	-	71,490
Capital assets - nondepreciable	1,937,562	-	1,937,562
Capital assets - depreciable, net of accumulated depreciation	874,301	-	874,301
Total assets	3,646,881	24,914	3,671,795
LIABILITIES			
Accounts payable and accrued expenses	16,046	67	16,113
Deposits	481	-	481
Accrued payroll and related liabilities	10,033	-	10,033
Due to fiduciary funds	-	7	7
Bond interest and other fee payable	763	-	763
Deferred revenues	2,116	-	2,116
Other accrued expenses	133	-	133
Due to other governmental agencies	1,669	962	2,631
Liabilities payable from restricted assets:			
Accounts payable and accrued expenses	19,093	3,099	22,192
Bond interest and other fee payable	3,665	-	3,665
Deferred revenues	27	-	27
Due to other government agencies	43,060	20,492	63,552
Long-term liabilities:			
Derivative instruments	71,490	-	71,490
Due within one year	24,985	-	24,985
Due in more than one year	640,166	-	640,166
Total liabilities	833,727	24,627	858,354
NET ASSETS			
Invested in capital assets, net of related debt	2,195,790	-	2,195,790
Restricted:			
Measure A bonds debt service	3,885	-	3,885
Measure A fund SWAP/lease collateral	87,277	-	87,277
Retention	3,874	-	3,874
2000 Measure A projects	279,323	-	279,323
1996 Measure B projects	390	-	390
Inventory, prepaid expenses, and issuance cost	34,387	-	34,387
Unrestricted:			
Debt service	13,049	-	13,049
Local share of capital projects	44,729	-	44,729
Debt reduction	53,170	-	53,170
SWAP/lease collateral	26,911	-	26,911
Operating reserve	51,857	-	51,857
Workers' compensation and liability claims	18,512	-	18,512
Special revenue fund	-	287	287
Total net assets	\$ 2,813,154	\$ 287	\$ 2,813,441

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Statement of Activities

For the Year Ended June 30, 2010

(In thousands)

	Business-Type Activity	Governmental Activity	Total
Expenses:			
Operations, support services, and CMP program	\$ 338,771	\$ 7,164	\$ 345,935
Caltrain subsidy & capital expenditures on behalf of, and contribution to other agencies	97,592	-	97,592
Altamont Commuter Express subsidy	2,707	-	2,707
Interest expense	20,583	-	20,583
Other non-operating expenses	7,268	-	7,268
Claims and change in future claim estimates	7,693	-	7,693
Capital outlay on behalf of other agencies	-	19,402	19,402
Total expenses	<u>474,614</u>	<u>26,566</u>	<u>501,180</u>
Program revenues:			
Charges for services	38,830	2,606	41,436
Operating grants	126,934	1,854	128,788
Capital grants	92,594	22,314	114,908
Total program revenues	<u>258,358</u>	<u>26,774</u>	<u>285,132</u>
Net program revenues (expenses)	<u>(216,256)</u>	<u>208</u>	<u>(216,048)</u>
General revenues:			
Sales tax revenue	279,342	-	279,342
Investment income	7,352	12	7,364
Other income	3,241	15	3,256
Total general revenues	<u>289,935</u>	<u>27</u>	<u>289,962</u>
Change in net assets	73,679	235	73,914
Net assets beginning of year	<u>2,739,475</u>	<u>52</u>	<u>2,739,527</u>
Net assets, end of year	<u>\$ 2,813,154</u>	<u>\$ 287</u>	<u>\$ 2,813,441</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Statement of Fund Net Assets

Proprietary Funds

June 30, 2010

(In thousands)

	Enterprise Funds				Internal Service Fund
	VTA Transit	Measure B	Measure A	Total	
	Fund	Transit Fund	Transit Fund	Enterprise Fund	
ASSETS					
<i>Current assets:</i>					
Cash and cash equivalents	\$ 510	\$ -	\$ -	\$ 510	\$ 1,227
Investments	3,847	-	-	3,847	66,311
Receivables, net	3,526	-	-	3,526	-
Due from other funds	1,529	-	-	1,529	-
Due from other governmental agencies	73,395	-	-	73,395	-
Inventories	20,818	-	-	20,818	-
Other current assets	1,308	-	-	1,308	-
<i>Restricted assets:</i>					
Cash and cash equivalents	-	6,688	19	6,707	-
Cash and cash equivalents with fiscal agent	13,049	-	7,759	20,808	-
Investments	140,562	-	359,602	500,164	-
Receivables	-	-	1,003	1,003	-
Due from other governmental agencies	-	-	52,347	52,347	-
Other current assets	-	-	33	33	-
TOTAL CURRENT ASSETS	258,544	6,688	420,763	685,995	67,538
<i>Noncurrent assets:</i>					
OPEB obligation over-contributions	837	-	-	837	-
Deferred charges	1,638	-	10,129	11,767	-
Deferred outflow of resources	16,529	-	54,961	71,490	-
<i>Capital assets - Non-depreciable:</i>					
Land and right of way	1,123,321	-	-	1,123,321	-
Construction in progress	61,959	684	751,598	814,241	-
<i>Capital assets - Depreciable:</i>					
Caltrain - Gilroy extension	53,307	-	-	53,307	-
Buildings, improvements, furniture, and fixtures	495,436	-	-	495,436	-
Vehicles	435,652	-	-	435,652	-
Light-rail tracks and electrification	402,622	-	-	402,622	-
Leasehold Improvements	9,686	-	-	9,686	-
Other	42,610	-	-	42,610	-
Less accumulated depreciation	(565,012)	-	-	(565,012)	-
<i>Net capital assets</i>	<u>2,059,581</u>	<u>684</u>	<u>751,598</u>	<u>2,811,863</u>	<u>-</u>
TOTAL NONCURRENT ASSETS	2,078,585	684	816,688	2,895,957	-
TOTAL ASSETS	2,337,129	7,372	1,237,451	3,581,952	67,538

(continued on next page)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Statement of Fund Net Assets *(continued)*

Proprietary Funds

June 30, 2010

(In thousands)

	Enterprise Funds				Internal Service Fund
	VTA Transit Fund	Measure B		Total	
		Transit Funds	Measure A Transit Fund	Enterprise Fund	
LIABILITIES					
<i>Current liabilities:</i>					
Accounts payable and accrued expenses	15,755	-	-	15,755	291
Deposits	481	-	-	481	-
Accrued payroll and related liabilities	10,033	-	-	10,033	-
Bond interest and other fee payable	763	-	-	763	-
Deferred revenues	2,116	-	-	2,116	-
Due to other governmental agencies	1,669	-	-	1,669	-
Other accrued expenses	133	-	-	133	-
Claims liability	-	-	-	-	7,298
Compensated absences	-	-	-	-	5,887
Liabilities payable from restricted assets:					
Current portion of long-term debt (Note 7)	9,370	-	2,430	11,800	-
Accounts payable and accrued expenses	37	9	19,047	19,093	-
Bond interest and other fee payable	-	-	3,665	3,665	-
Deferred revenues	-	-	27	27	-
Due to other funds	-	3	2,606	2,609	-
Due to other governmental agencies	15,715	6,286	21,059	43,060	-
TOTAL CURRENT LIABILITIES	56,072	6,298	48,834	111,204	13,476
<i>Non-current liabilities:</i>					
Long-term debt, excluding current portion (Note 7)	236,928	-	367,345	604,273	-
Derivative instruments	16,529	-	54,961	71,490	-
Claims liability	-	-	-	-	19,311
Compensated absences	-	-	-	-	16,239
Other accrued expenses	343	-	-	343	-
TOTAL NON-CURRENT LIABILITIES	253,800	-	422,306	676,106	35,550
TOTAL LIABILITIES	309,872	6,298	471,140	787,310	49,026
NET ASSETS					
Invested in capital assets, net of related debt	1,813,283	684	381,823	2,195,790	-
<i>Restricted:</i>					
Debt service	-	-	3,885	3,885	-
Measure A fund SWAP/lease collateral	-	-	87,277	87,277	-
Retention	-	-	3,874	3,874	-
2000 Measure A projects	-	-	279,323	279,323	-
1996 Measure B projects	-	390	-	390	-
Inventory, prepaid expenses, and issuance cost	24,258	-	10,129	34,387	-
<i>Unrestricted:</i>					
Transit bonds debt service	13,049	-	-	13,049	-
Local share of capital projects	44,729	-	-	44,729	-
Debt reduction	53,170	-	-	53,170	-
VTA transit SWAP/lease collateral	26,911	-	-	26,911	-
Operating reserve	51,857	-	-	51,857	-
Workers' compensation and liability claims	-	-	-	-	18,512
TOTAL NET ASSETS	2,027,257	1,074	766,311	2,794,642	18,512
Reconciliation of the Statement of Net Assets to the Statement of Fund Net Assets:					
Net Assets of Enterprise Fund					\$ 2,794,642
Net Assets of Internal Service Fund, which benefits Business-type Activity					18,512
Net Assets (page 2-21)					<u>\$ 2,813,154</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2010
(In thousands)

	Enterprise Funds				Internal Service Fund
	VTA	Measure B	Measure A	Total	
	Transit Fund	Transit Fund	Transit Fund		
<u>OPERATING REVENUE:</u>					
Passenger fares	\$ 36,857	\$ -	\$ -	\$ 36,857	\$ -
Advertising and other	1,973	-	-	1,973	-
Charges for services	-	-	-	-	11,638
Total Operating Revenues	38,830	-	-	38,830	11,638
<u>OPERATING EXPENSE:</u>					
Labor cost	246,539	-	-	246,539	-
Materials and supplies	26,216	-	-	26,216	-
Services	18,345	-	-	18,345	-
Utilities	6,718	-	-	6,718	-
Casualty and liability	4,689	-	-	4,689	-
Purchased transportation	24,245	-	-	24,245	-
Leases and rentals	2,217	-	-	2,217	-
Miscellaneous	1,461	-	-	1,461	2,590
Depreciation expense	51,378	-	-	51,378	-
Costs allocated to capital and other programs	(33,989)	-	-	(33,989)	-
Claims and change in future claims estimates	-	-	-	-	7,693
Total Operating Expense	347,819	-	-	347,819	10,283
Operating Income/(Loss)	(308,989)	-	-	(308,989)	1,355
<u>NON-OPERATING REVENUES (EXPENSES):</u>					
Sales tax revenue	140,037	-	139,305	279,342	-
Measure A operating assistance	25,711	-	(25,711)	-	-
Federal operating assistance and other grants	59,101	-	-	59,101	-
State and local operating assistance grants	67,833	-	-	67,833	-
Caltrain subsidy	(15,878)	-	-	(15,878)	-
Capital expenditure on behalf of, and contribution to other agencies	(2,675)	(14,839)	(64,200)	(81,714)	-
Altamont Commuter Express subsidy	(2,707)	-	-	(2,707)	-
Investment earnings	4,519	-	1,245	5,764	1,588
Interest expense	(7,025)	-	(13,558)	(20,583)	-
Measure A repayment obligations	11,275	-	(11,275)	-	-
Other income	2,689	-	386	3,075	166
Other expense	(4,560)	-	(2,708)	(7,268)	-
Non-operating revenues, net	278,320	(14,839)	23,484	286,965	1,754
Income(loss) before capital contributions	(30,669)	(14,839)	23,484	(22,024)	3,109
CAPITAL CONTRIBUTIONS	16,104	3,622	72,868	92,594	-
Change in net assets	(14,565)	(11,217)	96,352	70,570	3,109
Net assets, beginning of year	2,033,765	19,384	670,923	2,724,072	15,403
Equity Transfers¹	8,057	(7,093)	(964)	-	-
Net assets, end of year	\$ 2,027,257	\$ 1,074	\$ 766,311	\$ 2,794,642	\$ 18,512
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				\$ 70,570	
Change in net assets of the Internal Service Fund, which benefits Business-type Activity				3,109	
Change in net assets of the Business-type Activity (page 2-22)				<u>\$ 73,679</u>	

¹Note 2 (k)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2010
(In thousands)

	VTA Transit	Measure B	Measure A	Total	Internal
	Fund	Transit Fund	Transit Fund	Enterprise	Service
	Fund	Transit Fund	Transit Fund	Funds	Fund
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>					
Cash received from passenger fares	\$ 36,857	\$ -	\$ -	\$ 36,857	\$ -
Cash received from advertising	1,973	-	-	1,973	-
Cash paid to employees	(212,509)	-	-	(212,509)	-
Cash paid to suppliers	(53,698)	-	-	(53,698)	-
Cash paid for purchased transportation	(24,245)	-	-	(24,245)	-
Cash received from contributions	-	-	-	-	11,638
Payments made to beneficiaries	-	-	-	-	(6,286)
Payments made to third party contractors	-	-	-	-	(2,590)
Net cash provided by/(used in) operating activities	<u>(251,622)</u>	<u>-</u>	<u>-</u>	<u>(251,622)</u>	<u>2,762</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>					
Operating grants received	125,894	-	-	125,894	-
Sales tax received	133,891	-	133,248	267,139	-
Measure A operating assistance	25,711	-	(25,711)	-	-
Measure A repayment obligations	11,275	-	(11,275)	-	-
Caltrain subsidy	(15,878)	-	-	(15,878)	-
Altamont Commuter Express subsidy	(2,707)	-	-	(2,707)	-
Other non-operating receipts/(payments)	4,161	(956)	(728)	2,477	-
Net cash provided by/(used in) non-capital financing activities	<u>282,347</u>	<u>(956)</u>	<u>95,534</u>	<u>376,925</u>	<u>-</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>					
Payment of long-term debt	(9,180)	-	-	(9,180)	-
Advance (to)/from other governments	11,583	-	2,627	14,210	-
Interest and other fees paid on long-term debt	(9,396)	-	(3,058)	(12,454)	-
Acquisition and construction of capital assets	(29,591)	(14,839)	(47,954)	(92,384)	-
Capital contributions to other agencies	(3,991)	-	(64,199)	(68,190)	-
Capital contribution from other governments	16,104	11,217	72,868	100,189	-
Net cash used in capital and related financing activities	<u>(24,471)</u>	<u>(3,622)</u>	<u>(39,716)</u>	<u>(67,809)</u>	<u>-</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>					
Proceeds from sale of investments	248,846	-	436,365	685,211	-
Purchases in investments	(263,434)	-	(492,931)	(756,365)	(3,123)
Interest income received	2,809	-	1,545	4,354	1,588
Net cash provided by/(used in) investment activities	<u>(11,779)</u>	<u>-</u>	<u>(55,021)</u>	<u>(66,800)</u>	<u>(1,535)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(5,525)	(4,578)	797	(9,306)	1,227
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	19,084	11,266	6,981	37,331	-
CASH AND CASH EQUIVALENTS, END OF YEAR	13,559	6,688	7,778	28,025	1,227
<u>Reconciliation to Statement of Fund Net Assets:</u>					
<i>Unrestricted:</i>					
Cash and cash equivalents	\$ 510	\$ -	\$ -	\$ 510	\$ 1,227
<i>Restricted</i>					
Cash and cash equivalents	-	6,688	19	6,707	-
Cash and cash equivalents with fiscal agent	13,049	-	7,759	20,808	-
	<u>\$ 13,559</u>	<u>\$ 6,688</u>	<u>\$ 7,778</u>	<u>\$ 28,025</u>	<u>\$ 1,227</u>

(continued on next page)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Statement of Cash Flows (Continued)

Proprietary Funds

For the Year Ended June 30, 2010

(In thousands)

	<u>VTA Transit</u>	<u>Measure B Transit Fund</u>	<u>Measure A Transit Fund</u>	<u>Total Enterprise Funds</u>	<u>Internal Service Fund</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET					
CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES:					
Operating income/(loss)	(308,989)	-	-	(308,989)	2,762
Adjustments to reconcile operating income (loss) to net cash used in operating activities:					
Depreciation	51,378	-	-	51,378	-
Changes in operating assets and liabilities:					
Receivables	1,155	-	-	1,155	-
Due from other funds	(1,003)	-	-	(1,003)	-
Inventories	340	-	-	340	-
Accounts payable	2,709	-	-	2,709	-
Other accrued liabilities	133	-	-	133	-
Other current assets	(3)	-	-	(3)	-
Due to other governmental agencies	2,658	-	-	2,658	-
Net cash provided by/(used in) operating activities	<u>\$ (251,622)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (251,622)</u>	<u>\$ 2,762</u>
Reconciliation of cash and cash equivalents to the Statement of Fund Net Assets:					
Cash and cash equivalents, end of year:					
Unrestricted	\$ 510	\$ -	\$ -	\$ 510	\$ 1,227
Restricted	13,049	6,688	7,778	27,515	-
	<u>\$ 13,559</u>	<u>\$ 6,688</u>	<u>\$ 7,778</u>	<u>\$ 28,025</u>	<u>\$ 1,227</u>
NONCASH ACTIVITIES:					
Increase/(Decrease) in fair value of investments	819	-	2,496	3,315	-
Amortization expense of Caltrain Access Fee	-	-	(1,314)	(1,314)	-
Change in estimates for provision of Worker's compensation, general liability, and Compensated absences claims	-	-	-	-	(1,407)
Total non-cash activities	<u>\$ 819</u>	<u>\$ -</u>	<u>\$ 1,182</u>	<u>\$ 2,001</u>	<u>\$ (1,407)</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Balance Sheet
 Governmental Funds
 June 30, 2010
 (In thousands)

	<u>Special Revenue Fund</u>	<u>Capital Projects Funds</u>		
	Congestion Management Program	Congestion Management & Highway Program	Measure B Highway Program	<u>Total</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ 949	\$ -	\$ -	\$ 949
Due from other funds	-	1,411	-	1,411
Due from other governmental agencies	367	-	-	367
<i>Restricted assets:</i>				
Cash and cash equivalents	-	14,929	2,607	17,536
Investments	-	12	-	12
Due from other governmental agencies	-	4,970	-	4,970
TOTAL ASSETS	<u>\$ 1,316</u>	<u>\$ 21,322</u>	<u>\$ 2,607</u>	<u>\$ 25,245</u>
<u>LIABILITIES</u>				
Accounts payable	\$ 67	\$ -	\$ -	\$ 67
Other accrued liabilities	-	-	-	-
Due to other government agencies	962	-	-	962
Liabilities payable from restricted assets:				
Accounts payable	-	2,866	233	3,099
Due to other funds	-	301	37	338
Due to other governmental agencies	-	18,155	2,337	20,492
TOTAL LIABILITIES	<u>1,029</u>	<u>21,322</u>	<u>2,607</u>	<u>24,958</u>
<u>FUND BALANCES</u>				
Unreserved, reported in special revenue fund	<u>287</u>	<u>-</u>	<u>-</u>	<u>287</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,316</u>	<u>\$ 21,322</u>	<u>\$ 2,607</u>	<u>\$ 25,245</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2010
(In thousands)

	Special Revenue Fund	Capital Projects Funds		
	Congestion Management Program	Congestion Management & Highway Program	Measure B Highway Program	Total
REVENUES:				
Member agency assessment revenue	\$ 2,495	\$ -	\$ -	\$ 2,495
Federal technical studies operating assistance grants	1,235	-	-	1,235
Administrative fees	111	-	-	111
State and local assistance grants	619	-	-	619
Federal, state and local capital grant revenues	27	19,875	2,412	22,314
Other revenues	15	-	-	15
Investment earnings	12	-	-	12
TOTAL REVENUES	4,514	19,875	2,412	26,801
EXPENDITURES:				
<i>Congestion management:</i>				
VTA labor and overhead costs	3,709	2,897	-	6,606
Professional services	541	-	-	541
Material and services	8	-	-	8
Miscellaneous	9	-	-	9
Capital expenditures on behalf of other agencies	12	16,978	2,412	19,402
TOTAL EXPENDITURES	4,279	19,875	2,412	26,566
 CHANGE IN FUND BALANCES	 235	 -	 -	 235
 FUND BALANCES, BEGINNING OF YEAR	 52	 -	 -	 52
 FUND BALANCES, END OF YEAR	 \$ 287	 \$ -	 \$ -	 \$ 287

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2010

(In thousands)

	<u>Retiree Trust Funds</u>	<u>Agency Funds</u>
<u>ASSETS</u>		
<i>Restricted assets:</i>		
Cash and Cash Equivalents	\$ 789	\$ 2,398
Investments	447,381	3,052
Receivables	1,623	-
Due from other funds	-	7
TOTAL ASSETS	<u>449,793</u>	<u>\$ 5,457</u>
<u>LIABILITIES</u>		
<i>Liabilities payable from restricted assets:</i>		
Accounts payable	777	\$ -
Program payable	-	5,457
TOTAL LIABILITIES	<u>777</u>	<u>\$ 5,457</u>
NET ASSETS		
<i>Net assets held in trust for:</i>		
ATU Pension benefits	317,394	
Retiree medical benefits	119,687	
ATU Retiree spousal medical benefits	7,578	
ATU Retiree dental and vision benefits	4,357	
TOTAL NET ASSETS	<u>\$ 449,016</u>	

SANTA CLARA VALLEY TRANSPORTATION AGENCY
Statement of Changes in Fiduciary Net Assets
Retiree Trust Funds
For the Year Ended June 30, 2010
(In thousands)

	Retiree Trust Fund
<u>ADDITIONS</u>	
Employer Contributions	\$ 33,353
<i>Investment earnings:</i>	
Investment income	15,622
Net appreciation in the fair value of investments	38,826
Investment expense	(1,450)
Net investment income	52,998
TOTAL ADDITIONS	86,351
 <u>DEDUCTIONS</u>	
Benefit payments	30,722
Administrative expenses	209
TOTAL DEDUCTIONS	30,931
 NET INCREASE	 55,420
 <u>NET ASSETS HELD IN TRUST</u>	
Beginning of year	393,596
End of year	\$ 449,016



**NOTES TO THE BASIC FINANCIAL
STATEMENTS**

NOTE 1 – THE FINANCIAL REPORTING ENTITY

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

The accompanying basic financial statements also include the financial activities of the Santa Clara Valley Transportation Authority Amalgamated Transit Union (ATU) Pension Plan and the Other Postemployment 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 Fund (Enterprise Fund)* is used to account for activities for which a fee is charged to external users for goods or services where:
 - (a) the activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or
 - (b) laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues;
 - (c) the pricing policies of the activity establish fees and charges designated to recover its costs, including capital costs (such as depreciation or debt service).

VTA reports the activities of its transit operations, 1996 Measure B Transit Improvement Program, and 2000 Measure A Transit Improvement Program as major funds in the Enterprise Fund.

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

- The *Congestion Management Program Special Revenue Fund* is used to account for the congestion management planning, programming, and development services for Santa Clara County.
- The *Congestion Management and Highway Program Capital Projects Fund* is used to account for the acquisition of capital assets and construction of highway projects administered on behalf of State and other local governments (other than those accounted for in the Measure B Highway Program Capital Projects Fund).
- The *Measure B Highway Program Capital Projects Fund* is used to account for acquisition of capital assets or construction of Measure B Highway projects.

VTA reports the following additional funds:

- The *Proprietary Fund (Internal Service Fund)* is used to account for activities that provide goods or services to other funds, departments or to other governments, on a cost-reimbursement basis. General Liability, Workers' Compensation, 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, the Bay Area Air Quality Management District (BAAQMD) Program, and the Measure B Ancillary Program. The VTA/ATU Pension Plan, OPEB Trust, and the ATU Medical and Retiree Dental Vision Fund are reported as Retiree Trust Funds. The BAAQMD and the Measure B Ancillary Programs are reported as agency funds. The BAAQMD agency fund accounts for the activities that relate to the Transportation Fund for Clean Air (TFCA) Program. The Measure B Ancillary Program agency fund was established to administer the 1996 Measure B funds.

(b) Basis of Accounting

The government-wide, 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. Nonexchange transactions, in which VTA gives (or receives) value without directly receiving (or giving) equal value in exchange, include sales tax and grants. Revenues from sales tax are recognized when the underlying transactions take

place. Therefore, recorded sales taxes include an 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 nonoperating revenues and expenses.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Interest, certain state and federal grants, and charges for services are accrued if their receipt occurs within 180 days after the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. 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 Measure A debt service and Measure A funds swap/lease collateral.

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

Bond issuance costs, discounts, premiums and deferred amount on refundings for the government-wide statement of net assets and the enterprise funds are deferred and amortized over the term of the bonds using a method that approximates the interest

method. Government-wide statement and enterprise fund bond discounts and deferred amount on refundings are presented as a reduction of the face amount of bonds payable whereas issuance costs are recorded as a deferred cost (asset).

(g) Capital Assets

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

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

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

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

Interest is capitalized on construction in progress. Accordingly, interest capitalized is the total interest cost from the date of the borrowing until the specified asset is ready for its intended use. In the current year, VTA capitalized total interest expense of \$14.0 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 enterprise fund financial statements utilize a net asset presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted, and designated.

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt (including deferred bond issuance costs) that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* – This category consists of Measure A bond service reserve, Measure A SWAP/lease, and net assets restricted for Measure B Transit and 2000 Measure A capital programs, and carrying balances of inventory, retention payable, prepaid expenses, and unamortized bond issuance cost.
- *Unrestricted Net Assets* – The remaining unrestricted net assets, although not legally restricted, have been earmarked for future capital and operating needs, as well as for other purposes in accordance with Board directives.

The Statement of Net Assets on page 2-23 reports that enterprise fund's net assets amount to \$2.8 billion as of June 30, 2010, of which \$766 million is restricted by enabling legislation for the 2000 Measure A Sales Tax Programs. The 2000 Measure A half-cent sales tax was approved by Santa Clara County voters to fund certain transportation related projects.

(k) Equity Transfers

Equity transfers among three major enterprise funds represent the transfer of completed capital project costs from Measure A Transit and Measure B Transit fund to VTA Transit Fund so that the capital cost can be capitalized as fixed assets. The capital costs are transferred when the acquired or constructed assets are put into revenue service and their depreciation costs are recorded on VTA's Transit Fund. During FY2010, \$1.0 million and \$7.1million of capital costs were transferred from Measure A Transit Fund and Measure B Transit Fund, respectively, to VTA Transit Fund.

(l) **Cost Allocated to Capital and Other Programs**

On the Statement of Revenues, Expenses and Changes in Net Assets, the VTA Transit Fund reports \$34.0 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.

(m) **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.

(n) **GASB Pronouncements**

In FY2010, VTA implemented the GASB Statement 53, "Accounting and Financial Reporting for Derivative Investments". The Statement requires VTA to record the fair value of their interest rate swaps in the financial statements. Please see Note 7(e) for a summary of the fair values of those swaps as of June 30, 2010. GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets", which is also required to be implemented in FY2010, has no impact on VTA's financial statements.

VTA will implement GASB Statement 54, "Fund Balance Reporting and Governmental Fund Type Definition" in financial statements for fiscal year ending June 30, 2011.

NOTE 3 - CASH AND INVESTMENTS

Total cash and investments as of June 30, 2010, 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
Cash and Cash Equivalents						
Unrestricted:						
Cash and Cash Equivalents	\$ 510	\$ 1,227	\$ 949	\$ -	\$ -	\$ 2,686
Investments	3,847	66,311	-	-	-	70,158
Total unrestricted	<u>4,357</u>	<u>67,538</u>	<u>949</u>	<u>-</u>	<u>-</u>	<u>72,844</u>
Restricted:						
Cash and Cash Equivalents	6,707	-	17,536	789	2,398	27,430
Cash and Cash Equivalents with Fiscal Agents	20,808	-	-	-	-	20,808
Investments	500,164	-	12	447,381	3,052	950,609
Total restricted	<u>527,679</u>	<u>-</u>	<u>17,548</u>	<u>448,170</u>	<u>5,450</u>	<u>998,847</u>
Total Cash and Investments	<u>\$ 532,036</u>	<u>\$ 67,538</u>	<u>\$ 18,497</u>	<u>\$ 448,170</u>	<u>\$ 5,450</u>	<u>\$ 1,071,691</u>

As of June 30, 2010, total cash and investments among all funds consisted of the following (in thousands):

Cash and Cash Equivalents	\$ 30,116
Cash and Cash Equivalents with Fiscal Agents	20,808
Investments	<u>1,020,767</u>
	<u>\$ 1,071,691</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, 2010, the carrying amounts of these cash balances are shown below (in thousands):

Operations Account	\$ 5,892
CM&HP Account	14,929
Measure B Account	<u>9,295</u>
Total Deposits	<u>\$ 30,116</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 ATU Pension Plan) conform to state statutes, and provide written investment guidance regarding the types of investments that may be made and amounts, which may be invested in any one financial institution or amounts which may be invested in any one long-term instrument. VTA’s permissible investments include 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, bankers' acceptances, commercial paper, repurchase and reverse repurchase agreements, medium-term corporate notes, insured savings/money market accounts, negotiable certificates of deposit, mortgage and asset-back obligations, mutual funds, state of California's local agency agreements, and qualified structured investment. The ATU pension plan's asset allocation includes investments in bonds, equity securities, and cash.

The 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. The value of the pooled shares in the LAIF that may be withdrawn is determined on an amortized cost basis, which is different than the fair value of VTA's position in the pool.

VTA's portfolio includes asset-backed securities, which are invested directly by VTA and structured notes which are invested indirectly through LAIF. At June 30, 2010, investment in LAIF is \$35.4 million. LAIF is voluntarily commingled within the state of California Pooled Money Investment Account (PMIA), whose balance at June 30, 2010 was approximately \$69.4 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, 2010 was 203 days. The value of the pool shares in investment earnings are paid quarterly based on the average daily balance. Withdrawals from LAIF are completed on a dollar for dollar basis.

Interest rate risk – Interest rate risk is the risk that changes in market interest rates and may adversely affect the fair value of an investment. Normally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. Of VTA's (Operation Funds and Plan Trust Funds) \$1,020.7 million in investments, over 41% of the investments have a maturity of less than 1 year. Of the remainder, only 8% have a maturity of more than 10 years. Per VTA's investment policy, long-term securities of more than five years are limited to 40% of the portfolio.

Credit risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Per its investment policy, VTA is permitted to hold investments in commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record. Negotiable certificates of deposit are restricted to those

rated B or better by the Thompson Bankwatch Rating, Inc. rating service. Purchases of mortgage and asset-back obligations do not exceed 20% of VTA's portfolio. In addition, VTA is permitted to invest in the state's Local Agency Investment Fund, money market and mutual funds that are non-rated. Table on page 2-43 shows the credit quality of VTA's investments as of June 30, 2010.

Custodial Credit Risk - Deposits - For deposits, custodial credit risk is the risk that in the event of a bank failure, VTA's deposits may not be returned to it. California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of VTA's cash on deposit or first trust deed mortgage notes with a value of 150 percent of the deposit as collateral for these deposits. Under California Law this collateral is held in VTA's name and places VTA ahead of general creditors of the institutions. At June 30, 2010, VTA deposits were collateralized by securities held by the financial institutions, but not in VTA's name.

Custodial Credit Risk – Investments – The custodial credit risk for investments is the risk that that, in the event of a failure of the counterparty (e.g. broker-dealer) to a transaction, VTA may not be able to recover the value of its investments or collateral securities that are in the possession of another party. VTA's Investment Policy limit its exposure to custodial credit risk by requiring that all securities owned by VTA are kept in safekeeping with "perfected interest" in the name of VTA by a third-party bank trust department, acting as agent for VTA under the terms of a custody agreement executed between the bank and VTA. As of June 30, 2010, 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. 47.6% of VTA's investments at year-end are in U.S. Government or Agencies issues. There is no limitation on amounts invested in these types of issues. At June 30, 2010, VTA had \$246.3 million representing 24.1% of VTA's portfolio invested in debt securities issued by the US Government Agencies. At June 30, 2010, VTA had \$62.5 million, \$114.2 million and \$30.0 million representing 6.1%, 11.2% and 2.9% of VTA's portfolio invested in debt securities issued by the Federal Home Loan Mortgage Corporation (FHLM), Federal National Mortgage Association (FNMA), and Federal Home Loan Banks (FHLB), respectively. Of the 26.2% 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, 2010 (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	\$ 36,746	\$ 123,663	\$ -	\$ -	\$ 160,409
Corporate Bonds - Pension Plan	-	5,905	29,647	11,260	46,812
Corporate Bonds - OPEB Trust	-	3,180	11,719	5,119	20,018
US Government Agency Bonds					
Commingled	45,196	114,388	3,743	-	163,327
Pension Plan	-	2,503	10,907	44,642	58,052
OPEB Trust	74	933	1,893	22,038	24,938
US Treasury					
Commingled	14,799	140,055	70,174	-	225,028
Pension Plan	9,073	-	-	-	9,073
OPEB Trust	4,990	-	-	-	4,990
SUB TOTAL	110,878	390,627	128,083	83,059	712,647
Money Market Funds - OPS	(8,269)	-	-	-	(8,269) ¹
Money Market Funds - Pension	12,489	-	-	-	12,489
Money Market Funds - OPEB Trust	1,053	-	-	-	1,053
Cash with Fiscal Agents - Commercial Paper	1,386	-	-	-	1,386
Cash with Fiscal Agents - Money Market Funds	8,018	-	-	-	8,018
Cash with Fiscal Agents - Repurchase Agreement	-	-	-	7,531	7,531
TOTAL INVESTMENTS with Money Managers	125,555	390,627	128,083	90,590	734,855
LAIF	35,400	-	-	-	35,400
TOTAL INVESTMENTS	\$ 160,955	\$ 390,627	\$ 128,083	\$ 90,590	770,255
Equity-Based Investments					267,447
Retention Fund at Escrow Agents (Deposits)					3,873
Cash Deposits					30,116
TOTAL					\$1,071,691

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

<u>Ratings</u>	<u>Fair Value (In Thousands)</u>	<u>Percentages of Portfolios</u>
Unrated	\$ 336,857	31.43%
Not Applicable	503,669	47.01%
BBB-	12,806	1.19%
BBB	13,409	1.25%
BBB+	7,124	0.66%
A-1+	1,386	0.13%
A-	15,994	1.49%
A	62,727	5.85%
A+	17,797	1.66%
AA-	15,866	1.48%
AA	13,361	1.25%
AA+	13,785	1.29%
AAA	56,910	5.31%
TOTAL	\$ 1,071,691	100.00%

¹This is to record the trade on June 30, 2010. GASB requires that investments be stated at the trade date.

As of June 30, 2010, the Retiree Trust Funds restricted investments consisted of the following (in thousands):

ATU Pension Plan Investments	\$	316,057
ATU Spousal Medical Investment		11,905
Retiree Medical Trust		<u>119,419</u>
	\$	<u><u>447,381</u></u>

NOTE 4 – INTERFUND TRANSACTIONS

The composition of interfund balances as of June 30, 2010 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	\$ 294 ¹
VTA Transit Fund	Measure B Transit Program Fund	3 ¹
VTA Transit Fund	Measure B Highway Program Fund	37 ¹
VTA Transit Fund	Measure A Program Fund	1,195 ²
Measure B Ancillary Program Fund	Congestion Management & Highway Program Fund	7 ³
Congestion Management & Highway Program Fund	Measure A Program Fund	<u>1,110</u> ³
		<u><u>\$ 2,646</u></u>

¹ represents labor and internal charges for the program.
² represents operating assistance due to VTA Transit Fund.
³ represents the swap project cost.

NOTE 5 – DUE FROM AND DUE TO OTHER GOVERNMENTAL AGENCIES

Due from other governmental agencies as of June 30, 2010 consisted of the following (in thousands):

<u>GOVERNMENTAL AGENCY</u>	<u>Business Type Activity</u>	<u>Governmental Activity</u>		<u>Total</u>
		<u>Congestion Management Program</u>	<u>Congestion Management & Highway Program</u>	
Federal Government	\$ 44,617	\$ 325	\$ 3,945	\$ 48,887
State Government	76,578	20	199	76,797
Others	4,547	22	826	5,395
Total All Governmental Agencies	<u>\$ 125,742</u>	<u>\$ 367</u>	<u>\$ 4,970</u>	<u>\$ 131,079</u>

Due from other governmental agencies as of June 30, 2010, is reported in the accompanying general-purpose financial statements as follows (in thousands):

	Business- Type Activity	Governmental Activity			Total
		Enterprise Fund	Congestion		
			Congestion Management Program	Management & Highway Program	
ASSETS					
Current assets - unrestricted	\$ 73,395	\$ 367	\$ -		\$ 73,762
Current assets - restricted	52,347	-	4,970		57,317
Total	<u>\$ 125,742</u>	<u>\$ 367</u>	<u>\$ 4,970</u>		<u>\$ 131,079</u>

Due to other governmental agencies as of June 30, 2010, consisted of the following (in thousands):

GOVERNMENTAL AGENCY	Business- Type Activity	Governmental Activity			Total
		Enterprise Fund	Congestion		
			Congestion Management Program	Management & Highway Program	
State government	\$ 32,136	\$ -	\$ -	\$ -	\$ 32,136
County of Santa Clara	7,905	962	13,489	2,337	24,693
City of San Jose	-	-	1,710	-	1,710
City of Fremont	3,674	-	-	-	3,674
City of Milpitas	-	-	107	-	107
Santa Clara Valley Water District	1,014	-	-	-	1,014
Miscellaneous	-	-	2,849	-	2,849
Total	<u>\$ 44,729</u>	<u>\$ 962</u>	<u>\$ 18,155</u>	<u>\$ 2,337</u>	<u>\$ 66,183</u>

Due to other governmental agencies as of June 30, 2010, is reported in the accompanying basic financial statements as follows (in thousands):

LIABILITIES	Enterprise Fund	Congestion			Total
		Congestion Management Program	Management & Highway Program	Measure B Highway Program	
Liabilities payable from restricted assets	43,060	-	18,155	2,337	63,552
Total	<u>\$ 44,729</u>	<u>\$ 962</u>	<u>\$ 18,155</u>	<u>\$ 2,337</u>	<u>\$ 66,183</u>

NOTE 6 – CAPITAL ASSETS

Capital asset changes for VTA's business-type activity for the year ended June 30, 2010 were as follows (in thousands):

	<u>July 1, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>June 30, 2010</u>
Capital assets, not being depreciated:					
Land and right of way	\$ 1,119,217	\$ -	\$ -	\$ 4,104	\$ 1,123,321
Construction in progress	781,381	59,518	-	(26,658)	814,241
Total capital assets, not being depreciated	<u>1,900,598</u>	<u>59,518</u>	<u>-</u>	<u>(22,554)</u>	<u>1,937,562</u>
Capital assets, being depreciated:					
Buildings, improvements, furniture and fixtures	488,156	-	(60)	7,340	495,436
Vehicles	442,771	-	(8,478)	1,359	435,652
Light-rail tracks and electrification	399,824	-	(339)	3,137	402,622
Caltrain – Gilroy extension	53,155	-	-	152	53,307
Other operating equipment	32,044	-	-	10,566	42,610
Leasehold Improvement	9,686	-	-	-	9,686
Total capital assets, being depreciated	<u>1,425,636</u>	<u>-</u>	<u>(8,877)</u>	<u>22,554</u>	<u>1,439,313</u>
Accumulated Depreciation:					
Buildings, improvements, furniture and fixtures	(189,338)	(13,555)	60	-	(202,833)
Vehicles	(138,365)	(16,422)	5,961	-	(148,826)
Light-rail tracks and electrification	(154,639)	(15,991)	231	-	(170,399)
Caltrain – Gilroy extension	(10,979)	(1,632)	-	-	(12,611)
Other operating equipment	(25,860)	(3,336)	-	-	(29,196)
Leasehold Improvement	(705)	(442)	-	-	(1,147)
Total accumulated depreciation	<u>(519,886)</u>	<u>(51,378)</u>	<u>6,252</u>	<u>-</u>	<u>(565,012)</u>
Total capital assets, being depreciated, net	<u>905,750</u>	<u>(51,378)</u>	<u>(2,625)</u>	<u>22,554</u>	<u>874,301</u>
Total capital assets, net	<u>\$ 2,806,348</u>	<u>\$ 8,140</u>	<u>\$ (2,625)</u>	<u>\$ -</u>	<u>\$ 2,811,863</u>

Construction in progress (CIP) includes capitalized costs and right-of-way acquisitions associated with the following projects as of June 30, 2010 (in thousands):

Silicon Valley Rapid Transit Corridor	\$ 688,230
Capitol Corridor Projects	46,507
Facilities Modifications	56,862
Project Studies	15,991
Software development	1,514
Vasona Corridor Projects	4,020
Coach & Vehicle Replacements	36
Guadalupe Corridor	1,081
Total project costs expended to date	<u>\$ 814,241</u>

Additional information regarding projects in progress as of June 30, 2010 is as follows (in thousands):

<u>Information Regarding Projects:</u>	<u>Costs</u>
Total Board approved project budget	\$ 1,661,578
Expended to date	(814,241)
Remaining budget available for CIP	<u>\$ 847,337</u>
 <u>Anticipated funding sources are as follows:</u>	
Federal, state, and other local assistance	422,561
Local contributions	424,776
Total funding sources	<u>\$ 847,337</u>

VTA has outstanding commitments of about \$164.0 million as of June 30, 2010, related to the above capital projects.

NOTE 7 - LONG-TERM DEBT & LIABILITIES

Long-term debt as of June 30, 2010, consisted of the following (in thousands):

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

1998 Series A Junior Lien	\$37,120
2000 Series A Junior Lien	30,275
2001 Series A Senior Lien	3,455
2007 Series A Refunding (\$24,525 plus unamortized premium of \$869 and less unamortized loss in refunding of \$2,089)	23,305
2008 Series A-C Refunding (\$166,155 less refunding deferred amount of \$14,012)	152,143

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

2007 Series A Measure A Refunding (\$120,095 plus unamortized premium of \$4,274 and deferred amount in refunding of \$4,491)	128,860
2008 Series A-D Measure A Refunding (\$235,875 plus deferred amount in refunding of \$5,040)	<u>240,915</u>
Total long-term debt	616,073
Less current portion of long-term debt	<u>(11,800)</u>
Long-term debt, excluding current portion	<u>\$604,273</u>

(a) Sales Tax Revenue Bonds, secured by 1976 1/2 cent sales tax revenues

- \$50.0 million of 1998 Series A Junior Lien Sales Tax Revenues Bonds (1998 Bonds) were issued through the California Transit Variable Rate Program of the California Transit Finance Authority (CTFA) (Note 20d), to finance certain capital expenditures. The 1998 Bonds bear interest at a weekly rate, which is determined by the Remarketing Agent to be the rate necessary to remarket the bonds at par value. Their maturities extend to October 1, 2027 and are subject to mandatory and optional redemption provisions.
- \$40.0 million of 2000 Series A Junior Lien Sales Tax Revenue Bonds (2000 Bonds) were issued through the California Transit Variable Rate Program of the California Transit Finance Authority (CTFA) (Note 20d), to finance certain capital expenditures. The 2000

Bonds bear interest at a weekly rate, which is determined by the Remarketing Agent to be the rate necessary to remarket the bonds at par value. Their maturities extend to October 1, 2027 and are subject to mandatory and optional redemption provisions.

- \$200.0 million of 2001 Series A Senior Lien Sales Tax Revenue Bonds (2001 Bonds) were issued, at a true interest cost of 5.08%, to finance portions of the Tasman East, Vasona, and Capitol Corridor Light Rail projects. Their maturities extended through June 1, 2026. Maturities through June 1, 2011 are not subject to redemption before their maturities. Maturities from June 1, 2012 through June 1, 2026 (the Defeased 2001 Bonds) were defeased from proceeds of the 2005 Series A - C Sales Tax Revenue Refunding Bonds and will be redeemed on June 1, 2011. Such proceeds were placed in an escrow account held by a Trustee to provide for future debt service payments on the Defeased 2001 Bonds through their redemption date. The advance refunding met the requirement of an in-substance debt defeasance, and the Defeased Bonds were removed from VTA's long-term debt. Accordingly, the escrow account assets and liabilities from the Defeased 2001 Bonds are not included in VTA's financial statements. At June 30, 2009, \$155.3 million of bonds outstanding are considered defeased with an escrow balance of \$157.4 million.
- \$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 (see note regarding 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 was required to amend transferred interest rate swap agreements (originally entered into concurrent with the issuance of the retired 2005 Sales Tax Revenue Refunding Bonds) to reflect current market rates. Pursuant to the amended terms of the swap agreements, VTA owes interest at a fixed rate of 3.145% to the counterparties to the swaps. In return, the counterparties 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 amendment changing VTA's fixed rate to an on-market rate of 3.145% was necessary due to tax code compliance related to the still existing refunding escrow (see note regarding 2001 bonds), which had been funded from proceeds of the retired 2005 Sales Tax Revenue Refunding Bonds. The outstanding principal on the 2008 VTA Bonds is used as the basis on which the interest payments are calculated. In consideration for the market rate adjustment on the fixed rate paid to the counterparties of the swaps, VTA received a one-time benefit of \$1.1 million. Under certain circumstances, the agreements are subject to termination before maturity of the 2008 VTA Bonds.

(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 Sale 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

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

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.

(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, 2010 were as follows (dollars in thousands):

Associated Bonds	Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Value ^{FV}	Swap Termination Date	Counterparty Credit Rating ^{CR}
2008A	\$ 66,575	7/7/2005 ^{ED}	3.15%	Cal-E ^{VR}	\$ (6,621)	6/1/2026	Aa1,AAA,---
2008B	49,790	7/7/2005 ^{ED}	3.15%	Cal-E ^{VR}	(4,954)	6/1/2026	A1, A+, ---
2008C	49,790	7/7/2005 ^{ED}	3.15%	Cal-E ^{VR}	(4,954)	6/1/2026	A2, A, A
MA2008A	85,875	8/10/2006	3.77%	65% 3Mo LIBOR	(20,008)	4/1/2036	A1, A+, ---
MA2008B	50,000	8/10/2006	3.77%	65% 3Mo LIBOR	(11,651)	4/1/2036	Aa3, A+, A+
MA2008C	50,000	8/10/2006	3.77%	65% 3Mo LIBOR	(11,651)	4/1/2036	A2, A, A
MA2008D	50,000	8/10/2006	3.77%	65% 3Mo LIBOR	(11,651)	4/1/2036	Aa1,AAA,---
	<u>\$402,030</u>				<u>\$ (71,490)</u>		

^{FV} Includes accrued interest.

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

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

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

Fair Values: At June 30, 2010, the swaps had a negative fair value of \$71.5 million. This is because interest rates have declined since the execution of the swaps. The fair values include accrued interest. Because the coupons on VTA's variable rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases or decreases. 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. As of the end of the period, all interest rate swap counterparties are rated A2 or higher by Moody's, and A or higher by S&P. VTA manages credit risk 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.

<u>Swap</u>	<u>Amount of Collateral Required</u>	<u>Rating Threshold for Collateral Requirement^{CR}</u>	<u>Rating Threshold for 100% Collateral</u>
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 or 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 derivatives are variable rate demand obligation (VRDO) bonds that are remarketed weekly. VTA is exposed to basis risk because the variable rate receipts from the hedging derivative 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 hedging derivative. On June 30, 2010, the weighted average interest rates of the variable rate debt associated with the 2008 VTA VRDO Bonds was 0.34%. The interest rate for variable rate payments received from the counterparties pursuant to the swaps was 0.35%. The weighted average interest rates of the variable rate debt associated with the 2008 Measure A VRDO Bonds was 0.26%, and the interest rate for variable rate payments received from the counterparties pursuant to the swaps was 0.35%.

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: Because the Swap Insurer has been downgraded below minimum thresholds, 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 two of the swaps and below A- or A3 for one 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, A- or A3 for one swap or below BBB or Baa2 for the fourth remaining Measure A swap. 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, 2010, no collateral is posted by VTA to any counterparty under any swap agreement.

(e) **Swap Payments and Associated Debt**

Using rates as of June 30, 2010, 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).

<u>Year Ending June 30</u>	<u>Variable Rate Bonds</u>		<u>Interest</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Rate</u> <u>Swap, Net</u>	
2011	\$ 1,275	\$ 1,192	\$ 12,704	\$ 15,171
2012	4,670	1,188	12,668	18,526
2013	4,760	1,172	12,538	18,470
2014	4,555	1,155	12,405	18,115
2015	4,570	1,140	12,277	17,987
2016-2020	53,925	5,259	57,817	117,001
2021-2025	75,225	4,208	49,294	128,727
2026-2030	17,175	3,155	40,758	61,088
2031-2035	173,600	2,651	34,495	210,746
2036-2036	62,275	163	2,127	64,565
	<u>\$ 402,030</u>	<u>\$ 21,283</u>	<u>\$ 247,083</u>	<u>\$ 670,396</u>

Long-term Debt Obligation Summary

Interest Rates on all outstanding fixed-rate obligations range from 4.00% - 5.00%. Interest on the variable rate debt is reset weekly based upon market conditions. Projected principal and interest obligations as of June 30, 2010 are as follows:

(Dollars in thousands)			
Year ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 11,800	\$ 21,601	\$ 33,401
2012	12,045	21,180	33,225
2013	12,465	20,823	33,288
2014	12,620	20,427	33,047
2015	13,015	20,023	33,038
2016-2020	99,490	92,328	191,818
2021-2025	119,695	75,744	195,439
2026-2030	58,225	59,787	118,012
2031-2035	207,940	45,331	253,271
2036-2036	70,205	2,741	72,946
	<u>617,500</u>	<u>\$ 379,985</u>	<u>\$ 997,485</u>
Unamortized bond discount, premium and deferred amount on refunding,	(1,427)		
Total debt	<u>616,073</u>		
Less current portion	<u>(11,800)</u>		
Long-term portion of debt	<u>\$ 604,273</u>		

(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, 2009	Additions	Reductions	June 30, 2010	Amounts Due Within One Year
Sales Tax Revenue Bonds					
Secured by 1976 ½ Cent Sales Tax					
1998 Series A	\$ 38,605	\$ -	\$ (1,485)	\$ 37,120	\$ 1,535
2000 Series A	31,500	-	(1,225)	30,275	1,265
2001 Series A	6,940	-	(3,485)	3,455	3,455
2007 Series A	26,275	-	(1,750)	24,525	1,840
2008 Series A	167,390	-	(1,235)	166,155	1,275
Sales Tax Revenue Bonds: Secured by 2000 Measure A ½ Cent Sales					
2007 Series A	120,095	-	-	120,095	2,430
2008 Series A	235,875	-	-	235,875	-
Total Outstanding Debt	<u>626,680</u>	<u>-</u>	<u>(9,180)</u>	<u>617,500</u>	<u>11,800</u>
Plus (less) premiums, deferred amount on refundings and discounts	<u>(1,338)</u>	<u>1,071</u>	<u>(1,160)</u>	<u>(1,427)</u>	<u>-</u>
Outstanding Debt, Net	625,342	1,071	(10,340)	616,073	11,800
Claims Liability:					
General Liability	5,691	-	(775)	4,916	3,006
Worker's Compensation	22,325	-	(632)	21,693	4,293
Compensated Absences	22,126	3,700	(3,700)	22,126	5,887
Total Long-Term Liabilities	<u>\$ 675,484</u>	<u>\$ 4,771</u>	<u>\$ (15,447)</u>	<u>\$ 664,808</u>	<u>\$ 24,986</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 FY2010 was \$140.0 million and \$139.3 million respectively, totaling \$279.3 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 Master Agreement formalizing the partnership to implement Measure A. With this partnership in place, the County and VTA were in a position to complete a transportation program valued at \$2.1 billion. The County administered the funding, and VTA was responsible for the project management of the transit and highway projects as well as assisting 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 provided for a simultaneous exchange of funds. VTA secured 2001 Series A Senior Lien Sales Tax Revenue Bonds to reimburse the County approximately \$184.1 million of 1996 MBTIP project costs, namely the Tasman East, Vasona and Capitol Corridor Light Rail Projects. The reimbursement of 1996 MBTIP project costs made \$184.1 million available for the acquisition of low floor vehicles. On February 15, 2002, Amendment Number 1 to the Master Agreement was executed to increase the amount of reimbursement to \$198.3 million. As of FY2002, full reimbursement of the \$198.3 million was made to the Measure B Ancillary Program Agency Fund. As of June 30, 2008, the full amount of \$198.3 million has been expended out of the agency fund for the acquisition of low floor vehicles.

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 the 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 \$13.3 million for current year costs for the program. This amount was contributed by the Santa Clara County as follows: \$5.3 million of Measure B fund for transit projects in the Enterprise Fund; \$2.4 million (\$2.2 million Measure B fund and \$0.2 million Measure B Swap fund) for highway projects in the Measure B Highway Capital Projects Fund; and \$5.6 million for the Ancillary Program (Measure B Projects, Pavement and Bikeways).

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:

- Completed the purchase of low floor light rail vehicles
- Completed the Zero Emission Bus demonstration project.
- The Bus Rapid Transit (BRT) Strategic Plan, adopted by the VTA Board in May 2009, recommends moving forward with BRT deployment in the Santa Clara/Alum Rock corridor. VTA has initiated a federal environmental review to make this project eligible for federal funds. Preliminary Engineering began in mid 2010.
- Fiber optic cable relocation began on Phase 1 of the South County Improvements: grading and crossing work in preparation for eight miles of double-track installation in the UPRR corridor from Coyote to Morgan Hill.
- In June 2010, VTA received notification that the FTA issued a Record of Decision (ROD) for the first 10-mile phase of the SVRT project. This milestone signifies that VTA satisfied the requirements of the National Environmental Policy Act (NEPA), thereby issuing environmental impact approval for the \$2.1 billion Berryessa Extension.
- Currently, utility relocation and construction are moving forward 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.
- A Federal Environmental Impact Statement is being prepared for the Capitol Expressway Light Rail Extension to Eastridge. A draft for circulation is anticipated in mid 2010, with final approval in early 2011. Pedestrian Improvements (sidewalk and landscaping) and the Eastridge Transit Center are being advanced as the initial stage of the light rail project.
- The Light Rail Systems Analysis is complete and was adopted by the VTA Board in May 2010. The Light Rail Improvement Plan will now serve 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. The study recommends making improvements in two phases. Phase I is designed for near-term implementation (within the next several years), while Phase II is designed to complement the introduction of BART service to East San Jose in 2018.
- The first contract under the second phase of the Caltrain Safety Improvements – JPB Crossings project was awarded. It will construct safety improvements at eight JPB crossings from Sunnyvale to Palo Alto. Design work also continued on the Blossom Hill Pedestrian Overcrossing.
- Receiving TCRP funds as reimbursements for the preliminary engineering phase on the BART extension.
- Providing operating assistance to VTA Transit operations.

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, 2010 are summarized as follows (in thousands):

	Enterprise Fund	Special Revenue Funds	Capital Project Funds
Operating Assistance Grants:			
FTA Section 9	\$ 58,668	\$ -	\$ -
FTA Section 18	229		
Federal Technical Studies/Training Grants	204	1,235	-
Total Operating Assistance Grants	<u>59,101</u>	<u>1,235</u>	<u>-</u>
Capital Grants:			
FTA Section 3	3,363	-	-
FTA Section 9	7,240	-	-
Pass-through Grants	-	-	5,269
Total Capital Grants	<u>10,603</u>	<u>-</u>	<u>5,269</u>
Total Operating Assistance and Capital Grants	<u>\$ 69,704</u>	<u>\$ 1,235</u>	<u>\$ 5,269</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 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:

- Clipper[®] fees are funds received from the Metropolitan Transportation Commission in accordance with the Clipper[®] Phase II site preparation fund agreement whereby VTA is to perform site preparation on its premises for the implementation of Clipper[®] Phase II project. The agreement is funded in whole or in part from the proceeds of a grant from the United States Department of Transportation.
- 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 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, 2010, are summarized as follows (in thousands):

	Enterprise Fund	Special Revenue Fund	Capital Projects Fund
Operating Assistance Grants:			
Transportation Development Act	\$ 65,801	\$ -	\$ -
State and Local Operating Assistance Grants	367	619	-
Other Operating Assistance Grants	112	-	-
AB434	1,553	-	-
Total Operating Assistance Grants	<u>67,833</u>	<u>619</u>	<u>-</u>
Capital grants:			
Traffic Congestion Relief Program	59,445	-	-
AB434 BAAQ TFCA	22	-	-
Regional Measure 2	2,166	-	-
Public Transportation Modernization Improvement and Service Enhancement Act	1,961	-	-
Congestion Management Highway Program	-	-	14,606
Measure B Highway	-	-	2,412
Santa Clara County (Measure B Program) –	3,787	-	-
Proposition 1B Fund	2,903	-	-
Various cities, counties and others	11,707	27	-
Total Capital Grants	<u>81,991</u>	<u>27</u>	<u>17,018</u>
Total State and Local Grants	<u>\$ 149,824</u>	<u>\$ 646</u>	<u>\$ 17,018</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 gasoline sales tax revenues is appropriated by the state legislature to the State Transportation Planning and Development Account for certain transit and energy-related purposes. STA funds are allocated throughout the state on the basis of population and operating revenues and are claimed by VTA on a cost-reimbursement basis. Due the State slashing the entire STA funding to transit agencies in FY2010, VTA did not receive STA grants.

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. 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. The California Transportation Commission (CTC), in consultation with the California Department of Transportation, implements TCRP.

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

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

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

Capital Projects revenues consist of federal, state, and local grant revenues pertaining to Congestion Management and Highway Program of \$19.9 million and Measure B Highway Program of \$2.4 million.

**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 95134-1906.

The current membership of the Plan as of June 30, 2010 is comprised of the following:

<u>Membership Status</u>	<u>No. of Members</u>
Retirees and beneficiaries currently receiving benefits	982
Terminated vested members not yet receiving benefits	172
Active Members	<u>1,394</u>
Total	<u>2,548</u>

(b) Basis of Accounting

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

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal

year at current exchange rates. Purchases and sales of securities are reflected on the trade date and investment income is recognized as earned.

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

<u>Description</u>	<u>Methods/Assumptions</u>	
Valuation date	January 1, 2010	
Actuarial cost method	Aggregate Entry Age Normal	
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	8.0%
	Projected salary increases	22.13% for the first three years of service, 3.76% thereafter.
	Inflation rate	3.5%
	Cost of living adjustments	None

(d) ***Concentration***

Investments in the commingled State Street Global Advisers, S&P 500 Conservative Index Fund and MFS Investment Management represented 14.83% and 15.18%, respectively, of the Plan's investments as of June 30, 2010.

(e) ***Funding Policy***

VTA contributes to the Plan at actuarially determined rates applied to eligible payroll sufficient to maintain funding of vested benefits. VTA's contributions to the Plan for the year ended June 30, 2010 were made in accordance with actuarially determined requirements computed as of January 1, 2010. VTA's contribution rate as a percentage of payroll was 18.25 % for fiscal year 2010.

(f) ***Net Pension Obligation***

VTA's net pension obligation to the Plan was zero as of June 30, 2010. The three-year trend information is shown below (in thousands):

<u>Net Pension Obligation</u>			
<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/08	\$16,137	100%	-
6/30/09	14,843	100%	-
6/30/10	17,905	100%	-

(g) *Funding Status & Progress*

As of January 1, 2010, the most recent actuarial valuation date, the plan was 77% funded. The actuarial accrued liability was \$462.9 million and the actuarial value of assets was \$354.8 million resulting in an unfunded actuarial accrued liability (UAAL) of \$108.1 million. The total covered payroll was \$102.6 million which resulted in a UAAL percentage of 105% of total covered payroll. The schedule of funding progress is presented on page 2-78, in the required supplementary information following the notes to the financial statements.

NOTE 12 – PUBLIC EMPLOYEES’ RETIREMENT PLAN

(a) *Plan Description*

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

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

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

(b) **Actuarial Methods and Assumptions**

<u>Description</u>	<u>Methods/Assumptions</u>
Valuation date	June 30, 2008
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level Percent of Payroll
Average Remaining Period	26 years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.25% to 14.45% Depending on Age, Service, and Type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual 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%

(c) **Funding Policy**

Active members in VTA's CalPERS Plan are not required to contribute to the CalPERS Plan. VTA elected to contribute the actuarially determined amount necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The contribution rate from July 1, 2009 through June 30, 2010, was 12.077% for the employer and 7% for employees. Employees are contributing 0.154% more than the required 6.846%. The required employee contribution was paid by VTA. The contribution requirements of the CalPERS Plan are established by state statute and the employer contribution is established and may be amended by CalPERS. The amortization period used is closed which means that amortization periods for initial unfunded liability, benefit change, and assumption change decline every year.

(d) **Net Pension Obligation**

VTA's net pension obligation to the CalPERS Plan was zero as of June 30, 2010. For FY2010, VTA's annual pension cost was approximately \$6.2 million, which was fully contributed. The required contribution for FY2010 was determined as part of the June 30, 2008, actuarial valuation using the entry age normal cost method with the contributions determined as a percent of pay. Three-year trend information follows (in thousands):

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/08	6,278	100%	-
6/30/09	6,507	100%	-
6/30/10	6,167	100%	-

(e) **Funding Status and Progress**

As of June 30, 2008, the most recent actuarial valuation date, plan was 88.1% funded. The actuarial accrued liability was \$214.4 million and the actuarial value of assets was \$188.9 million resulting in an unfunded accrued actuarial liability of \$25.5 million. The total covered payroll was \$51 million which resulted in a 50.1% UAAL as a percent of covered payroll. The schedule of funding progress is presented on page 2-79, in the required supplementary information following the notes to the financial statements.

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, 2010, VTA has net assets of approximately \$7.6 million for the ATU Spousal Medical Fund and \$4.4 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, 2010, there were 251 participating spouses who were eligible for benefits from the Spousal Medical Fund. Contributions were approximately \$909 thousand. Benefit payments made by the Fund for during FY2010 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, 2010, there were 883 eligible participants. Contributions were approximately \$324.6 thousand for the Retiree Vision and Dental Fund during the current fiscal year.

NOTE 14 – INTERNAL SERVICE FUND

As of June 30, 2010, the assets and liabilities by individual components of the Internal Service Fund are as follows (in thousands):

	Workers' Compensation	General Liability	Compensated Absences	Total
Assets	\$ 35,065	\$ 10,898	\$ 21,575	\$ 67,538
Liabilities	21,937	4,963	22,126	49,026
Net Assets (Reserve)	\$ 13,128	\$ 5,935	\$ (551)	\$ 18,512

Workers' Compensation and General Liability

VTA contracts with third-party administrators to process claims for both programs. VTA's annual contribution to General Liability is based on a budgeted self-insured expense amount. Contributions to Workers' Compensation fund occur every pay period. Actuarial studies for both activities are obtained on an annual basis.

Actuarial Information

An actuarial analysis as of June 30, 2010 disclosed that the present values of estimated outstanding losses, at 4% average discount rate using a 90% confidence level, are \$21.9 million and \$5 million for Workers' Compensation and General Liability, respectively. However, VTA has decided to maintain the provision of estimated outstanding losses for the Workers' Compensation and General Liability programs at higher levels in unrestricted net assets. For Workers' Compensation, the decrease in reserves is predominantly due to paid and incurred development that was far less than anticipated. This favorable emergence is particularly pronounced in the claim experience after January 1, 2004, the date of the first statutory benefit reform. The decrease in reserves for General Liability program was based on similar trends for all policy periods. The accrued liabilities for both Workers' Compensation and General Liability claims were based on the actuarial estimates. It is VTA's practice to obtain full actuarial studies annually.

Changes in the balance of Workers' Compensation and General Claims Liabilities for the two years ended June 30, 2010, are as follows (in thousands):

	<u>Workers'</u> <u>Compensation</u>	<u>General</u> <u>Liability</u>
Unpaid claims at June 30, 2008	\$ 22,116	\$ 9,955
Provision for claims and claims adjustment	5,904	(29)
Payment for claims and other adjustments		
Change in estimates for provision for future	<u>(5,695)</u>	<u>(4,235)</u>
Unpaid claims at June 30, 2009	22,325	5,691
Provision for claims and claims adjustment	5,726	2,479
Payment for claims and other adjustments	<u>(6,114)</u>	<u>(3,207)</u>
Unpaid claims at June 30, 2010	<u><u>\$ 21,937</u></u>	<u><u>\$ 4,963</u></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, 2010, the outstanding balance of compensated absence liability was \$22.1 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. For ATU represented 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 if an employee becomes disabled and has completed at least 10 years of service. ATU retirees can select either the Kaiser or PacifiCare retiree health plans. Certain ATU retirees are grandfathered in other plans. VTA pays the full cost of employee-only premium, and ATU retirees who are eligible for Medicare are reimbursed for the Medicare Part B premium. ATU employees who retire on or after September 1, 2004, must contribute \$25 toward the employee only monthly premium. As of June 30, 2010, 883 retirees met the eligibility requirements for the ATU Program.

All Non-ATU employees who retire directly from VTA with age at least 50 years are also covered under a Retiree Health Care Program (the Non-ATU Program) provided that they retire with at least 5 years of service, if hired before the following dates or at least 8 years of service (2,088 days) if hired on or after the following dates.

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

employees on or after December 5, 2006.

- American Federation of State, County and Municipal Employees (AFSCME) represented employees on or after August 30, 2007.

VTA's contribution towards retiree health benefits for Non-ATU retirees is limited to the Kaiser rate for active single employees. VTA is also reimbursed for Medicare Part B premiums for retirees eligible for Medicare. Non-ATU employees who retire on or after January 1, 2006, must contribute \$25 toward the employee only monthly premium. As of June 30, 2010, 275 retirees met the eligibility requirements for the Non-ATU 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 to \$10,000 each year until its expiration in the sixth year.

(b) Funding Policy

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

As of June 30, 2010, VTA had assets of \$119.7 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 percentage 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	\$ (14,849)
Interest on Net Plan Asset	-
Annual Plan Cost (Expense)	(14,849)
Contributions Made	14,213
Net Plan Assets, Beginning of Year	1,473
Net Plan Asset, End of Year	\$ 837

Net plan assets shown above represent the contributed amount above the ARC in FY2010. This amount is recorded as a prepaid item in the other current assets on the Statement of Fund Net Assets – Proprietary Funds (VTA Transit Fund).

Plan cost, the percentage of annual cost contributed to the Plan, and the net Plan assets for the year ended June 30, 2010 is as follows (in thousands):

Annual Required Contribution	Amount Contributed	Percentage Contributed	Net Plan Asset
\$ 14,849	\$ 15,187	102%	\$ 837

***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 Obligation
6/30/08	\$ 15,685	106%	-
6/30/09	15,900	104%	-
6/30/10	15,187	102%	-

(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 July 1, 2008, the most recent actuarial valuation date, the plan was 46.3% funded. The actuarial accrued liability was \$225.4 million and the actuarial value of assets was \$104.4 million, resulting in an unfunded accrued liability (UAAL) of \$121 million. The covered payroll was \$155.4 million which resulted in a 77.9% UAAL as a percent of covered payroll. The schedule of funding progress is presented on page 2-80, 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, 2009, is shown below.

Type of Coverage	Self-Insurance/ Deductible	Excess Coverage (in aggregate)
Workers’ compensation	Self-Insured	None
Employer’s liability	\$3,000,000	\$22,000,000 per accident
Excess public liability/property damage	\$3,000,000	\$22,000,000
Property, boiler, and machinery	\$100,000	\$70,000,000 combined blanket limit
National Flood Insurance (eligible locations)	\$5,000	\$500,000
Light rail vehicles (includes spare parts coverage, no earthquake coverage)	\$250,000	\$20,000,000
Buses	\$100,000	\$20,000,000
Community Buses	\$ 75,000	
Vans and mobile equipment	\$25,000	Included in 20,000,000 with buses
Public officials liability	Self-Insured \$3,000,000	\$22,000,000

NOTE 17 – LEASES

VTA leases various properties for use as transfer facilities, parking lots, information centers, and warehouses under lease agreements that expire at various dates through 2030. These agreements are accounted for as operating leases. Rent expense was approximately \$288 thousand in FY2010. The future lease payments under noncancellable lease agreements are as follows (in thousands):

Year ending June 30,	Future Lease Payments
2011	\$ 313
2012	330
2013	348
2014	366
2015-2019	386
2020-2024	2,270
2025-2029	2,964
2030	3,854
Total	\$ 10,831

NOTE 18 – LITIGATION

As of September 30, 2010, 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, 2010.

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

The County provides support services to VTA for protection (Office of the Sheriff), vehicle maintenance and fuel, and contributions for retiree medical for County public safety staff assigned to VTA. Amounts paid to the County for such services were approximately \$5.1 million during FY2010.

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 FY2010, 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, 2010, VTA paid \$15.9 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, 2009 and 2008 (in thousands), are as follows¹:

<u>PCJPB Financial Information</u>	2009	2008
Total assets	\$ 1,188,338	\$ 1,175,491
Total liabilities	(61,087)	(64,157)
Total net assets	<u>\$ 1,127,251</u>	<u>\$ 1,111,334</u>
Operating revenues	46,719	43,760
Operating expenses	(143,450)	(133,248)
Non-operating revenues, net	41,407	43,220
Capital contributions	71,241	82,551
Change in net assets	<u>\$ 15,917</u>	<u>\$ 36,283</u>

¹ Latest audited information available.

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

(b) Altamont Commuter Express

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

ACE commenced operations in October 1998, and now provides four daily round trips commuter rail service from San Joaquin County through the Tri-Valley Area of Alameda County to Santa Clara County. The operating maintenance and management costs of the service is reimbursed by the members at a rate of approximately 42% from VTA, 28% from San Joaquin Regional Rail Commission and 30% from the Alameda County Congestion Management Agency. In June 2003, VTA entered into a Cooperative Service Agreement with the San Joaquin Regional Rail Commission (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. During the year ended June 30, 2010, 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, 2009 and 2008 (in thousands), are as follows¹:

<u>ACE Financial Information</u>	<u>2009</u>	<u>2008</u>
Total assets	\$ 155,322	\$ 117,287
Total liabilities	<u>(20,947)</u>	<u>(2,243)</u>
Total net assets	<u>134,375</u>	<u>115,044</u>
Operating revenues	4,793	4,352
Operating expenses	(19,811)	(16,978)
Non-operating revenues, net	11,800	10,697
Capital contributions	<u>22,906</u>	<u>8,646</u>
Change in net assets	<u>\$ 19,688</u>	<u>\$ 6,717</u>

¹ Latest audited information available.

² Restated in 2009

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. (Note 7 – Long-Term Liabilities).

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

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

Simultaneously, VTA entered into a payment agreement with a American International Group, Inc (AIG). Under the terms of the payment agreement, VTA made a payment of \$68,149,000 in consideration of the agreement by AIG to make payments equal to the debt portion of future rental payments, the debt portion of the early buy-out option and its absolute, unconditional and irrevocable guarantee of the prompt payment of such amounts when due. VTA is obligated to replace American International Group (AIG) if the credit rating assigned to such Provider by Standard & Poor's or Moody's falls below Baa1/BBB+.

VTA used an additional \$16,853,000 of the Headlease prepayment to purchase obligations of the United States government in various dollar amounts and maturities, which coincide with the due dates of the equity portion of the sublease rental obligations and the equity portion of the early buy-out option. The investments have been transferred to a custodian. Additionally, VTA acquired a financial guaranty insurance policy from FSA to secure part of the equity portion of the sublease termination obligations. VTA is obligated to replace FSA if its credit rating by Standard & Poor's or Moody's falls below Aa3/AA-. VTA paid

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

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

In May 2003, the VTA Board approved the execution of the sublease agreements with the Utah Transit Authority (UTA) and Sacramento Regional Transit District (RT) for the sublease of 50 UTDC Light Rail Vehicles (LRVs) with aggregate prepaid rent in the amount of \$9.3 million.

Per the sublease agreement, VTA shipped 29 LRV cars to UTA and 21 LRV cars to Sacramento. The UTA/RT Agreements provide that UTA and RT pay the prorated portion of the prepaid rent for the UTDC LRVs upon the delivery of each vehicle to UTA or RT. The aggregate amount of rental payments for UTA and RT are \$5.2 million and \$4.1 million, respectively. During FY2006, VTA shipped 14 cars to UTA, 21 cars to Sacramento, and the remaining 15 cars were shipped to UTA with total proceeds of approximately \$2.3 million.

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

(c) Lease to Service Contracts

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

Approximately \$30.0 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's payment obligations under these leases are guaranteed by either AIG or Ambac Assurance Corporation (Ambac). VTA is obligated to replace these parties if their credit rating by Standard & Poor's or Moody's falls below designated levels.

During 2008, AIG's credit rating was reduced amid the U.S. global economic crisis. The downgrade of AIG impacted three of four lease 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 FY2009 and final payment was made and a termination agreement was executed. VTA is in 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.

During 2008, Ambac's credit rating was also 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 (adjusted to account for market values). The initial amount of pledged collateral was \$6.7 million and will be adjusted on an annual basis based on the June 30 market values of the securities that have been pledged. 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.

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



REQUIRED SUPPLEMENTARY INFORMATION
(other than MD&A)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
 Required Supplementary Information
 Schedule of Funding Progress ⁽¹⁾
 As of June 30, 2010

Amalgamated Transit Union Pension Plan
 (Unaudited)
 (In thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
1/1/2008	\$ 344,522	\$ 423,739	\$ 79,218	81.3%	\$ 98,722	80.2%
1/1/2009	325,247	442,831	117,583	73.0%	100,878	117.0%
1/1/2010	354,785	462,912	108,127	77.0%	102,626	105.0%

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Required Supplementary Information

Schedule of Funding Progress

As of June 30, 2010

CalPERS Plan
(Unaudited)
(In thousands)

<u>Actuarial Valuation Date</u>	<u>Actuarial Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded Actuarial Accrued Liability (AAL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>Unfunded AAL as a Percentage of Covered Payroll</u>
6/30/2006	\$ 177,983	\$ 152,536	\$ 25,447	85.70%	\$ 50,302	50.60%
6/30/2007	195,099	170,837	24,262	87.60%	49,682	48.80%
6/30/2008	214,451	188,898	25,553	88.10%	51,043	50.10%

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Required Supplementary Information

Schedule of Funding Progress

As of June 30, 2010

Retirees' Other Post Employment Benefits (OPEB) Trust

(Unaudited)

(In thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age Normal (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
7/1/2007	\$ 101,738	\$ 208,775	\$ 107,037	48.7%	\$ 153,176	69.9%
7/1/2008	104,404	225,482	121,078	46.3%	155,426	77.9%

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
 Required Supplementary Information
 Budgetary Comparison Schedule
 Congestion Management Program Special Revenue Fund
 For the Year ended June 30, 2010
 (In thousands)

	<u>Original</u> <u>Budget</u>	<u>Final</u> <u>Budget</u>	<u>Actual</u>	<u>Favorable/</u> <u>(Unfavorable)</u>
Revenue:				
Assessments to member agencies	\$ 2,495	\$ 2,495	\$ 2,495	\$ -
Federal grant revenues	1,085	1,085	1,235	150
Administrative fees	-	130	111	(19)
State and local operating assistance grants	980	850	619	(231)
Other revenues	50	50	42	(8)
Investment earnings	-	-	12	12
TOTAL REVENUE	<u>4,610</u>	<u>4,610</u>	<u>4,514</u>	<u>(96)</u>
Expenditures:				
VTA labor and overhead costs	4,302	4,302	3,709	593
Services and other:				
Professional services	500	500	518	(18)
Other services	31	31	23	8
Data processing	12	12	8	4
Miscellaneous	25	25	9	16
Capital outlay on behalf of other agencies	-	-	12	(12)
TOTAL EXPENDITURES	<u>4,870</u>	<u>4,870</u>	<u>4,279</u>	<u>591</u>
Change in fund balance, on a budgetary basis	<u>\$ (260)</u>	<u>\$ (260)</u>	<u>\$ 235</u>	<u>\$ 495</u>
Revenues and Expenditure not budgeted:				
Investment earnings			(12)	
Capital Outlay on behalf of other agencies			12	
Change in fund balance, on a GAAP basis			235	
Fund Balance, Beginning of Year			<u>52</u>	
Fund Balance, End of Year			<u>287</u>	

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.



SUPPLEMENTARY INFORMATION
(Combining and Individual Fund Statements)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Comparative Statement of Fund Net Assets

Enterprise Funds

June 30,

	<u>2010</u>	<u>2009</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 510	\$ 5,502
Investments	3,847	4,167
Receivables, net	3,526	4,417
Due from other funds	1,529	526
Due from other governmental agencies	73,395	65,149
Inventories	20,818	21,158
Other current assets	1,308	1,305
Total current assets	<u>104,933</u>	<u>102,224</u>
Restricted assets:		
Cash and cash equivalents	6,707	11,266
Cash and investments with fiscal agent	20,808	20,563
Investments	500,164	433,587
Receivables, net	1,003	1,267
Due from other governmental agencies	52,347	47,883
Other current assets	33	173
Total restricted current assets	<u>581,062</u>	<u>514,739</u>
Non-current assets:		
OPEB obligation over-contributions	837	1,473
Deferred charges	11,767	10,944
Deferred outflow of resources	71,490	-
Capital Assets		
<i>Nondepreciable:</i>		
Land and right-of-way	1,123,321	1,119,217
Construction in progress	814,241	781,381
<i>Depreciable</i>		
Buildings, improvements, furniture, and fixtures	495,436	488,156
Vehicles	435,652	442,771
Light-rail tracks and electrification	402,622	399,824
CalTrain - Gilroy extension	53,307	53,155
Other	52,296	41,730
Less: Accumulated depreciation	<u>(565,012)</u>	<u>(519,886)</u>
Net capital assets	<u>2,811,863</u>	<u>2,806,348</u>
TOTAL ASSETS	<u>3,581,952</u>	<u>3,435,728</u>

(Continued)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Comparative Statement of Fund Net Assets (*Continued*)
Enterprise Funds
June 30,

	2010	2009
LIABILITIES		
<i>Current liabilities:</i>		
Accounts payable and accrued expenses	15,755	12,813
Deposits	481	459
Accrued payroll and related liabilities	10,033	8,642
Bond interest and other fee payable	763	704
Deferred revenues	2,116	1,470
Due to other governmental agencies	1,669	448
Other accrued liabilities	133	-
Total current liabilities	30,950	24,536
<i>Liabilities payable from restricted assets:</i>		
Current portion of long-term debt	11,800	9,180
Accounts payable and accrued expenses	19,093	19,326
Bond interest and other fee payable	3,665	3,642
Deferred revenues	27	286
Due to other funds	2,609	1,173
Due to other governmental agencies	43,060	33,811
Other accrued liabilities-current	-	3,302
Total current liabilities payable from restricted assets	80,254	70,720
<i>Non-current liabilities</i>		
Long-term debt, excluding current portion	604,273	616,162
Derivative instruments	71,490	-
Other accrued liabilities	343	238
Total non-current liabilities	676,106	616,400
TOTAL LIABILITIES	787,310	711,656
NET ASSETS	\$ 2,794,642	\$2,724,072

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)

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES:		
Passenger fares	\$ 36,857	\$ 36,184
Advertising and other	<u>1,973</u>	<u>2,255</u>
TOTAL OPERATING REVENUES	<u>38,830</u>	<u>38,439</u>
OPERATING EXPENSES:		
Labor cost	246,539	246,150
Materials and supplies	26,216	27,097
Services	18,345	22,777
Utilities	6,718	6,869
Casualty and Liability	4,689	5,818
Purchased transportation	24,245	27,974
Leases and rentals	2,217	3,499
Miscellaneous	1,461	1,966
Depreciation expense	51,378	51,762
Costs allocated to capital and other programs	<u>(33,989)</u>	<u>(39,628)</u>
TOTAL OPERATING EXPENSE	<u>347,819</u>	<u>354,284</u>
OPERATING LOSS	<u>(308,989)</u>	<u>(315,845)</u>
NON-OPERATING REVENUES (EXPENSES)		
Sales tax revenue	279,342	274,903
Federal operating assistance and other grants	59,101	33,449
State and local operating assistance grants	67,833	81,488
Caltrain subsidy	(15,878)	(15,878)
Capital expenses on behalf of, and contribution to, other agencies	(81,714)	(42,626)
Altamont Commuter Express subsidy	(2,707)	(2,707)
Investment earnings	5,764	15,341
Interest expense	(20,583)	(11,651)
Other income	3,075	3,385
Other expense	<u>(7,268)</u>	<u>(5,446)</u>
NON-OPERATING REVENUE, NET	<u>286,965</u>	<u>330,258</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS	(22,024)	14,413
CAPITAL CONTRIBUTIONS	<u>92,594</u>	<u>82,175</u>
CHANGE IN NET ASSETS	70,570	96,588
NET ASSETS, BEGINNING OF YEAR	<u>2,724,072</u>	<u>2,627,484</u>
NET ASSETS, END OF YEAR	<u>\$ 2,794,642</u>	<u>\$ 2,724,072</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Comparative Statement of Cash Flows

Enterprise Funds

For the Years Ended June 30,

(In thousands)

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from passenger fares	\$ 36,857	\$ 36,184
Cash received from advertising	1,973	2,255
Cash paid to employees	(212,509)	(206,475)
Cash paid to suppliers	(53,698)	(79,011)
Cash paid for purchased transportation	(24,245)	(27,974)
Net cash provided by/(used in) operating activities	<u>(251,622)</u>	<u>(275,021)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	125,894	113,712
Sales tax received	267,139	292,241
Caltrain subsidy	(15,878)	(15,878)
Altamont Commuter Express subsidy	(2,707)	(2,707)
Other non-operating receipts/(payments)	2,477	(1,237)
	<u>376,925</u>	<u>386,131</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payment of long-term debt	(9,180)	(9,745)
Advance from other governments	14,210	(2,114)
Interest paid on long-term debt	(12,454)	(26,500)
Cost of bond issuance	-	(11,651)
Acquisition and construction of capital assets	(92,384)	(180,496)
Capital contribution to other agencies	(68,190)	(23,893)
Capital contribution from other governments	100,189	107,550
	<u>(67,809)</u>	<u>(146,849)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	685,211	1,151,288
Purchases in investments	(756,365)	(1,135,915)
Interest income received	4,354	10,752
	<u>(66,800)</u>	<u>26,125</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(9,306)	(9,614)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>37,331</u>	<u>46,945</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 28,025</u>	<u>\$ 37,331</u>

(continued on next page)

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

	2010	2009
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES:		
Operating income/(loss)	\$ (308,989)	\$ (315,845)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Depreciation	51,378	51,762
Changes in operating assets and liabilities:		
Receivables	1,155	(2,539)
Due from other governmental agencies	(1,003)	
Inventories	340	(1,214)
Accounts payable	2,709	(6,911)
Other accrued liabilities	133	1,665
Other Current assets	(3)	(2,099)
Due to other governmental agencies	2,658	30,718
Due to/from other funds	-	(30,558)
Net cash provided by/(used in) operating activities	\$ (251,622)	\$ (275,021)
 Reconciliation of cash and cash equivalents to the Statement of Fund Net Assets:		
Cash and cash equivalents, end of year:		
Unrestricted	\$ 510	\$ 5,502
Restricted	27,515	31,829
	28,025	37,331
 NONCASH ACTIVITIES:		
Increase/(Decrease) in fair value of investments	\$ 3,315	\$ 3,316
Amortization expense of Caltrain Access Fee	(1,314)	(832)
Total non-cash activities	\$ 2,001	\$ 2,484

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Budgetary Comparison Schedule - Enterprise Fund

VTA Transit Fund

For the year ended June 30, 2010

(In thousands)

	FY10 Adopted Budget	Final Budget	Actual	Favorable (Unfavorable)
REVENUES				
Fares	\$ 38,533	\$ 38,533	\$ 36,857	\$ (1,676)
1976 1/2 Cent Sales Tax	144,420	144,420	140,037	(4,383)
Transportation Development Act funds	67,877	67,877	65,801	(2,076)
Measure A Sales Tax Oper Assistance	26,380	26,380	25,711	(669)
Federal Operating Grants	50,946	50,946	59,101	8,155
State Operating Grants	2,023	2,023	2,032	9
Investment Earnings	2,196	2,196	2,147	(49)
Advertising Income	2,023	2,023	1,671	(352)
Other Income	15,202	15,202	13,603	(1,599)
Total revenues	<u>349,600</u>	<u>349,600</u>	<u>346,960</u>	<u>(2,640)</u>
OPERATING EXPENSES				
Labor Costs	253,360	249,777	246,539	3,238
Materials & Supplies	15,432	15,412	15,537	(125)
Security	7,584	7,484	7,273	211
Professional & Special Services	3,685	3,680	2,788	892
Other Services	8,016	7,863	7,022	841
Fuel	10,829	10,829	10,151	678
Traction Power	3,351	3,351	3,072	279
Tires	1,597	1,597	1,528	69
Utilities	2,461	2,462	2,533	(71)
Insurance	4,847	4,772	4,689	83
Data Processing	2,694	2,259	2,134	125
Office Expense	347	347	308	39
Communications	1,039	1,039	1,113	(74)
Employee Related Expense	828	828	630	198
Leases & Rents	512	512	404	108
Miscellaneous	946	908	539	369
Reimbursements	(41,966)	(41,603)	(43,441)	1,838
Total operating expenses	<u>275,562</u>	<u>271,517</u>	<u>262,819</u>	<u>8,698</u>
OTHER EXPENSES				
Paratransit	32,132	29,275	26,376	2,899
Caltrain	18,179	18,179	18,149	30
Light Rail Shuttles	34	34	41	(7)
Altamont Commuter Express	4,509	4,468	4,389	79
Highway 17 Express	411	411	325	86
Dumbarton Express	457	457	410	47
Monterey-San Jose Express Service	46	46	40	6
Contribution to Other Agencies	671	670	588	82
Debt Service	20,893	20,408	17,541	2,867
Other expenses	-	-	2	(2)
Contingencies	500	250	-	250
Total other expenses	<u>77,832</u>	<u>74,198</u>	<u>67,861</u>	<u>6,337</u>
Total operating and other expenses	<u>353,394</u>	<u>345,715</u>	<u>330,680</u>	<u>15,035</u>
Net income(loss), on a budgetary basis	<u>\$ (3,794)</u>	<u>\$ 3,885</u>	<u>16,280</u>	<u>\$ 12,395</u>

(continued on next page)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Budgetary Comparison Schedule - Enterprise Fund (continued)

VTA Transit Fund

For the year ended June 30, 2010

(In thousands)

	FY10 Adopted <u>Budget</u>	Final Budget	<u>Actual</u>	Favorable <u>(Unfavorable)</u>
Net income(loss), on a budgetary basis	\$ (3,794)	\$ 3,885	16,280	\$ 12,395
Reconciliation of net income on a budgetary basis to net income on a GAAP Basis:				
Project Revenues - VTA Enterprise			16,104	
Project Expenditure			(2,929)	
Capital Contributions to Other Agencies			(3,403)	
Bond Principal Payment			9,180	
Amortization of Bond Discounts			(1,036)	
Unrealized Gain on investment			819	
Debt Reduction Fund Interest Earnings			1,553	
Other non-budgetary revenues/(expenses)			421	
Gain/(Loss) on Disposal of assets			(176)	
Depreciation			<u>(51,378)</u>	
Net Loss, on a GAAP Basis			<u>\$ (14,565)</u>	

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Combining Statement of Fiduciary Net Assets
Retiree Trust Funds
June 30, 2010
(In thousands)

	<u>ATU Medical Trust</u>					<u>Total</u>
	<u>ATU Pension</u>		<u>Spousal</u>	<u>Vision/</u>	<u>Total</u>	
	<u>Trust</u>	<u>OPEB Trust</u>	<u>Medical</u>	<u>Medical</u>	<u>Trust</u>	<u>Total</u>
ASSETS						
<i>Restricted assets:</i>						
Cash and cash equivalents	\$ 466	\$ 292	\$ 20	\$ 11	\$ 31	\$ 789
Investments	316,057	119,419	7,559	4,346	11,905	447,381
Receivables	1,125	498	-	-	-	1,623
Total assets	<u>317,648</u>	<u>120,209</u>	<u>7,579</u>	<u>4,357</u>	<u>11,936</u>	<u>449,793</u>
LIABILITIES						
<i>Restricted liabilities:</i>						
Accounts payable	254	522	1	-	1	777
NET ASSETS						
<i>Net assets held in trust for:</i>						
Pension benefits	317,394	-	-	-	-	317,394
Other post-employment benefits	-	119,687	-	-	-	119,687
Spousal medical benefits	-	-	7,578	-	7,578	7,578
Retiree dental and vision benefits	-	-	-	4,357	4,357	4,357
TOTAL NET ASSETS	<u>\$ 317,394</u>	<u>\$ 119,687</u>	<u>\$ 7,578</u>	<u>\$ 4,357</u>	<u>\$ 11,935</u>	<u>\$ 449,016</u>

SANTA CLARA VALLEY TRANSPORTATION AGENCY
Combining Statement of Changes in Fiduciary Net Assets
Retiree Trust Funds
For the Year Ended June 30, 2010
(In thousands)

	ATU		ATU Medical Trust			Total
	Pension Trust	OPEB Trust	Spousal Medical	Vision/Dental	Total Medical Trust	
ADDITIONS						
Contributions	\$ 17,905	\$ 14,213	\$ 910	\$ 325	\$ 1,235	\$ 33,353
<i>Investment earnings:</i>						
Investment income	12,950	2,669	2	1	3	15,622
Net appreciation in the fair value of investments	27,305	10,121	898	502	1,400	38,826
Investment expense	(1,316)	(131)	(2)	(1)	(3)	(1,450)
Net investment income	<u>38,939</u>	<u>12,659</u>	<u>898</u>	<u>502</u>	<u>1,400</u>	<u>52,998</u>
TOTAL ADDITIONS	<u>56,844</u>	<u>26,872</u>	<u>1,808</u>	<u>827</u>	<u>2,635</u>	<u>86,351</u>
DEDUCTIONS						
Benefit payments	22,043	7,477	1,202	-	1,202	30,722
Administrative expenses	209	-	-	-	-	209
TOTAL DEDUCTIONS	<u>22,252</u>	<u>7,477</u>	<u>1,202</u>	<u>-</u>	<u>1,202</u>	<u>30,931</u>
NET INCREASE	34,592	19,395	606	827	1,433	55,420
NET ASSETS HELD IN TRUST						
BEGINNING OF YEAR	282,802	100,292	6,972	3,530	10,502	393,596
END OF YEAR	<u>\$ 317,394</u>	<u>\$ 119,687</u>	<u>\$ 7,578</u>	<u>\$ 4,357</u>	<u>\$ 11,935</u>	<u>\$449,016</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Combining Statement of Fiduciary Assets and Liabilities

Agency Funds

June 30, 2010

(In thousands)

	Measure B		
	BAAQMD	Ancillary	
	Program	Program	Total
<u>Assets</u>			
<i>Restricted assets:</i>			
Cash and cash equivalents	\$ 230	\$ 2,168	\$ 2,398
Investments	3,052	-	3,052
Due from other funds	-	7	7
TOTAL ASSETS	<u>3,282</u>	<u>2,175</u>	<u>5,457</u>
<u>Liabilities</u>			
<i>Liabilities payable from restricted assets:</i>			
Program payable	<u>3,282</u>	<u>2,175</u>	<u>5,457</u>
Total Liabilities Payable from Restricted Assets	<u>\$ 3,282</u>	<u>\$ 2,175</u>	<u>\$ 5,457</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Combining Statement of Changes in Fiduciary Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2010
(In thousands)

	Balance June 30, 2009	Increase	Decrease	Balance June 30, 2010
BAAQMD Program				
Restricted assets:				
Cash and cash equivalents	\$ -	\$ 230	\$ -	\$ 230
Investments	3,012	40	-	3,052
Total restricted assets	3,012	270	-	3,282
Liabilities payable from restricted assets:				
Program payable	3,012	270	-	3,282
Total liabilities payable from restricted assets	3,012	270	-	3,282
Measure B Ancillary Program				
Restricted assets:				
Cash and cash equivalents	8,285	-	6,117	2,168
Due from other funds	-	7	-	7
Total restricted assets	8,285	7	6,117	2,175
Liabilities payable from restricted assets:				
Program payable	411	1,764	-	2,175
Due to other funds	3	-	3	-
Due to other governmental agencies	7,871	-	7,871	-
Total liabilities payable from restricted assets	8,285	1,764	7,874	2,175
Total - All Agency Funds				
Restricted assets:				
Cash and cash equivalents	8,285	230	6,117	2,398
Investments	3,012	40	-	3,052
Due from other funds	-	7	-	7
Total restricted assets	11,297	277	6,117	5,457
Liabilities payable from restricted assets:				
Program payable	3,423	2,034	-	5,457
Due to other funds	3	-	3	-
Due to other governmental agencies	7,871	-	7,871	-
Total liabilities payable from restricted assets	\$ 11,297	\$ 2,034	\$ 7,874	\$ 5,457

APPENDIX C

COUNTY OF SANTA CLARA DEMOGRAPHIC AND ECONOMIC INFORMATION

The historical economic and demographic data set forth in this Official Statement are the most current data available as of the date of this Official Statement. However, certain data relate to periods prior to the commencement of the recent downturn in the economy. The inclusion in this Official Statement of historical data relating to periods prior to the commencement of such downturn in the economy should not be regarded as a representation by the Authority with respect to future performance or any guarantee of any future results.

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 Hewlett-Packard, Intel Corp., National Semiconductor Corp., Lockheed Martin Space Systems Co., and IBM Corp.

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

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

Population

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

According to U.S. Census figures, the number of County residents grew by 66% 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 2000 U.S. Census indicate that the County's population reached 1,682,585, representing a 12.4% increase from the population base in 1980. Over the same period, statewide population grew more rapidly at a rate of 13.8%. San Jose surpassed San Francisco as the largest city in the Bay Area, with a population of 894,943. According to the 2000 census data, over one-half of the County's residents live in San Jose.

The proportion of residents living in cities is currently 94.9%, 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 2000 and 2010, the County experienced population growth of 11.8%. All of the cities in the County experienced growth during this period, with the City of Gilroy posting the fastest growth (25.5%). From 2007 to 2010, San Jose and Milpitas were the fastest growing cities in the County, growing at rates of 5.69% and 8.1%, respectively. The number of residents living in the unincorporated areas of the County decreased by 8.0% from 2000 to 2010. Currently, approximately 4.9% 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 to approximately 110,000 residents, a 6.0% increase from 2010. (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	2008⁽¹⁾	2009⁽¹⁾	2010⁽¹⁾
Campbell	24,731	26,843	36,088	38,138	39,978	40,415	40,860
Cupertino	18,216	34,297	39,967	50,602	55,045	55,838	56,431
Gilroy	12,665	21,641	31,487	41,464	50,933	51,505	52,027
Los Altos	24,872	25,769	26,599	27,693	28,165	28,457	28,863
Los Altos Hills	6,862	7,421	7,514	8,025	8,799	8,890	9,042
Los Gatos	23,466	26,906	27,357	28,592	30,161	30,495	30,802
Milpitas	27,149	37,820	50,690	62,698	69,115	70,812	71,552
Monte Sereno	3,074	3,434	3,287	3,483	3,564	3,619	3,666
Morgan Hill	6,485	17,060	23,928	33,586	39,042	39,813	40,246
Mountain View	54,206	58,655	67,365	70,708	73,598	74,758	75,787
Palo Alto	55,999	55,225	55,900	58,598	63,080	64,480	65,408
San Jose	445,779	629,400	782,224	895,131	985,047	1,006,846	1,023,083
Santa Clara	87,717	87,700	93,613	102,361	114,988	117,237	118,830
Saratoga	27,199	29,261	28,061	29,849	31,451	31,679	31,997
Sunnyvale	95,408	106,618	117,324	131,844	136,915	138,819	140,450
Unincorporated	<u>152,181</u>	<u>127,021</u>	<u>106,173</u>	<u>99,813</u>	<u>99,096</u>	<u>93,853</u>	<u>91,832</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>1,828,977</u>	<u>1,857,516</u>	<u>1,880,876</u>
California	18,136,045	23,668,145	29,760,021	33,873,086	37,871,509	38,255,508	38,648,090

⁽¹⁾ As of January 1.

⁽²⁾ Totals may not be precise due to independent rounding.

Source: U.S. Census; State of California, Department of Finance, Demographic Research Unit (E-4 City/County Population).

Employment and Industry

The County is home to a highly skilled and diverse work force, a situation that has traditionally translated into lower unemployment rates in the County when compared to State and national average unemployment rates. From 1997 through 2000, job growth in Silicon Valley was extraordinary, with the addition of more than 103,300 jobs. However, the County's unemployment rate rose sharply between 2000 and 2003 as a result of the retraction in the communications and high technology industries that dominate the County's employment base. From December 2000 to January 2004, over 200,000 jobs were lost in The County. Since 2003, the unemployment rate in the County declined, and averaging 4.5% for 2006 compared to 8.4% in 2003. However, as was the case in the rest of the United States, economic growth in the County slowed considerably in 2007, with much lower job growth than in the prior several years, and with the unemployment rate in the County increasing from 4.5% in 2006 to 4.8% in 2007.

At the end of 2009 the County had 861,300 wage and salary jobs. Three major industry sectors comprise approximately 55.5% of the County's employment: Goods Producing 189,800, Professional & Business Activities 161,900 and Trade, Transportation & Utilities 126,400.

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 wage and salary employment in the County by Industry.

County of Santa Clara
Average Annual Employment by Industry
(In Thousands)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009⁽²⁾</u>
Civilian Labor Force	824,900	(1)	(1)	(1)	874,100	877,800
Employment	771,700	(1)	(1)	(1)	822,000	781,400
County Unemployment	53,200	(1)	(1)	(1)	52,100	96,400
Unemployment Rate						
County	6.4%	(1)	(1)	(1)	6.0%	11.0%
State of California	6.2%	5.2%	4.9%	5.4%	7.2%	11.4%
Industry Employment ⁽²⁾						
Total, All Industries	868,700	876,300	897,400	917,900	921,000	861,300
Total Farm	6,700	6,300	6,200	6,700	6,100	5,700
Total Nonfarm	862,000	869,900	891,200	911,200	914,900	855,600
Goods Producing	210,300	209,600	210,800	214,200	212,400	189,800
Natural Resources and Mining	100	200	300	300	300	200
Construction	43,000	44,500	46,800	47,200	44,200	33,900
Manufacturing	167,200	164,900	163,700	166,700	168,000	155,700
Service Providing	651,700	660,300	680,400	697,000	702,500	665,800
Trade, Transportation & Utilities	130,900	132,800	137,100	139,700	137,600	126,400
Information	32,600	35,300	37,500	39,600	42,300	41,100
Financial Activities	35,400	36,300	37,100	37,200	34,600	31,700
Professional & Business Services	165,600	165,800	172,000	178,300	178,900	161,900
Education & Health Services	95,000	96,800	100,400	103,200	107,900	108,100
Leisure & Hospitality	70,900	72,800	75,200	76,800	78,100	74,300
Other Services	25,000	24,600	24,800	25,100	25,400	24,300
Government	96,300	95,900	96,400	97,200	97,800	98,000

⁽¹⁾ Data not available.

⁽²⁾ Data for 2009 is for Santa Clara and San Benito Counties combined (San Jose-Santa Clara-Sunnyvale MSA), where Santa Clara County employment share is approximately 98.0% of the total industry.

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. Public-sector employers continue to top the list of the largest employers in Silicon Valley. The County ranks as number one, employing over 15,000 workers. In addition, the City of San Jose has over 7,000 full-time employees. Although there have been hiring freezes and cut-backs that have impacted public-sector organizations, such organizations typically tend to remain more stable in a volatile job market.

Income

Owing to the presence of relatively high-wage skilled jobs and wealthy residents, the County historically achieves high rankings relative to the rest of the state on a variety of income measurements. The U.S. Census Bureau reported the County as having the tenth highest median household income in the United States, and the highest among California counties, at \$87,287 (2008 inflation adjusted - U.S. Census Bureau, Factsheet, Santa Clara County, California).

Commercial Activity

Ranking first among San Francisco Bay Area counties and fourth among all California counties in terms of retail activity through 2004, the County is an important center of commercial activity. Taxable sales activity at business and personal service outlets, as well as at other non-retail commercial establishments, is a significant component of the County's commercial activity. The following table sets forth the amount of taxable transactions from 2005 through the third quarter of 2009, which is the last period for which annual information is available.

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**County of Santa Clara
Taxable Transactions by Sector
2005 through the Third Quarter of 2009**

(In thousands)

	2005	2006	2007	2008	2009 ⁽¹⁾
Apparel Stores	1,169,069	1,264,215	1,334,050	1,422,687	1,159,825
General	2,839,877	2,979,387	3,112,536	2,946,466	1,531,000
Merchandise Stores					
Specialty Stores ⁽³⁾	3,377,917	3,674,311	-	-	-
Service Stations ⁽⁴⁾	-	-	2,320,507	2,526,073	1,313,287
Food Stores	830,483	849,281	890,341	868,612	706,034
Eating and Drinking Places	2,440,418	2,645,787	2,813,519	2,876,837	2,020,998
Home Furnishings and Appliances	850,634	879,892	901,164	1,068,519	310,236
Building Materials	1,577,165	1,659,844	1,581,859	1,356,505	891,837
Automotive	5,289,878	5,534,342	3,468,163	2,709,927	1,696,548
Other Retail Stores	528,067	552,873	4,368,119	3,537,686	2,201,402
Total Retail Stores	18,903,508	20,039,932	20,790,258	19,313,313	11,831,166
Business and Personal Services ⁽⁵⁾	1,214,550	1,265,315	1,244,445	1,111,792	-
All Other Outlets	10,075,744	10,967,991	11,628,745	11,849,202	8,057,933
Total All Outlets ⁽²⁾	30,193,802	32,273,238	33,663,448	32,274,306	19,889,099

⁽¹⁾ First through third quarters only.

⁽²⁾ Totals may not add due to independent rounding.

⁽³⁾ Not available after 2006.

⁽⁴⁾ Not available prior to 2006.

⁽⁵⁾ Not available after to 2008.

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

The local economy started to slow down in late calendar year 2007 and the beginning of 2008, leading to a decline in taxable sales. Contributing to the slow down of the local economy are recent increases in energy, food, and raw material costs, and a downturn in the housing industry. Reduced home building, home sales, and auto sales contributed to a slowdown in taxable sales growth. As a result of the economic slowdown, the Authority experienced a flattening of growth in 2000 Measure A Sales Tax Revenues in Fiscal Year 2008 and a decline in Fiscal Year 2009. See “THE 2000 MEASURE A SALES TAX – Historical Sales Tax Revenues” in the forepart of this Official Statement.

Construction Activity and Home Sales

The housing downturn continued to slow the County economy in 2007 and 2008. Home building, home sales, and related retail sales all declined in the County. The problems with subprime mortgages and the related financial market volatility and credit tightening have worsened the housing sector downturn and raised the risk of further deterioration. Construction of new single family dwelling units in the County for 2008 is below the 2000 level. New multiple-family dwelling units in 2008 have decreased from the 2000 level by 43%. The valuations of new residential building permit activity have decreased from the 2000 level by 22%. The total valuation of new residential and non-residential construction permits issued in the County was approximately \$3.0 billion in 2008, representing a decrease of \$1.3

billion (30%) from the 2000 total valuation. The following tables provide a summary of building permit valuations and the number of new dwelling units authorized in the County since 2000.

**County of Santa Clara
Building Permit Valuations
2000 to 2009
(In Millions of Dollars)**

Year	New Residential	New Non-Residential	Total
2000	\$1,348.8	\$2,865.9	\$4,214.6
2001	1,051.5	2,254.8	3,306.3
2002	1,087.3	1,330.6	2,417.9
2003	1,466.4	972.9	2,439.3
2004	1,406.2	915.8	2,322.0
2005	1,537.3	1,287.8	2,825.1
2006	1,652.9	1,534.2	3,187.1
2007	1,378.2	1,986.2	3,361.3
2008	1,052.4	1,914.5	2,965.7
2009	578.7	1,187.8	1,766.5

Source: Construction Industry Research Board.

**County of Santa Clara
Number of New Dwelling Units
2000 to 2009**

Year	Single Family	Multiple Family	Total
2000	2,834	4,220	7,054
2001	1,641	4,319	5,960
2002	2,057	2,456	4,513
2003	2,320	5,170	7,490
2004	2,688	2,816	5,504
2005	2,577	3,295	5,872
2006	2,257	3,928	6,185
2007	2,063	2,520	4,583
2008	1,254	2,417	3,671
2009	646	396	1,042

Source: Construction Industry Research Board.

Sales of single-family homes in the County increased 28.7% for the calendar year 2009 compared to calendar year 2008, but the median price for a single-family home in the County was down 20.1% for the calendar year 2009 compared to calendar year 2008 (Source: 2009 RE Report, The Real Estate Report for Santa Clara County. Home sales volume for August 2009 compared with August 2010 declined 10.4% and the median home price rose 6.5% over the same period increasing from \$451,000 to \$480,250. (Source MDA DataQuick, a division of MDA Lending Solutions.)

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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 Official Statement, 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 Official Statement 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.

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.

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 Official Statement 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.

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.

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 Bond 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 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.

* See "Fourth Supplemental Indenture – Proposed Amendment of Definition of Debt Service."

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 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.

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.

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.

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. Record Date with respect to the 2010 Series Bonds means the fifteenth (15th) day (whether or not a Business Day) of the month preceding the month in which such Interest Payment Date occurs.

Redemption Date with respect to the 2010 Series A Bonds means the date fixed for redemption of 2010 Series A Bonds in any notice of redemption given in accordance with the terms of the Indenture.

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

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

Repositories means the public or private entities designated as Repositories in a Continuing Disclosure Certificate entered into in connection with a Series of 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.

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 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.

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.

2010 Series Costs of Issuance Fund means the fund by that name established pursuant to the Indenture.

2010 Series Project 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.

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

* See "Fourth Supplemental Indenture – Pledge of Subsidy Payments."

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."

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 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 SYSTEM
AND
GLOBAL CLEARANCE PROCEDURES

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 Bonds, 2010 Series A (Taxable Build America Bonds) and the Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds, 2010 Series B (Tax-Exempt) (each a “Series of Bonds” and, collectively, referred to in this Appendix E 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 Official Statement 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 Underwriters or the Financial Advisor, 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 Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org. The 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 effect 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).

Principal and interest payments, redemption proceeds, distributions and dividend payments, 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 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 the Authority, DTC, or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest, redemption proceeds, distributions and dividends, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of 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 Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the applicable remarketing agent, 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 applicable

remarketing agent. 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 applicable remarketing agent'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, bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered in accordance with the provisions of the Indenture.

GLOBAL CLEARANCE PROCEDURES

The information set out below has been obtained from sources that the Authority believes to be reliable, but prospective investors are advised to make their own inquiries as to such procedures. In particular, such information is subject to any change in or interpretation of the rules, regulations and procedures of Euroclear or Clearstream, Luxembourg (together, the "Clearing Systems") currently in effect and investors wishing to use the facilities of any of the Clearing Systems are therefore advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. Neither the Authority nor the Underwriters will have any responsibility for the performance by the Clearing Systems, the Clearstream Participants or the Euroclear Operator or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations or for the sufficiency for any purpose of the arrangements described below. No representation is made as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

CLEARSTREAM

Clearstream Banking, société anonyme, 42 Avenue J.F. Kennedy, L-1855 Luxembourg ("Clearstream, Luxembourg"), was incorporated in 1970 as "Cedel S.A.," a company with limited liability under Luxembourg law (a société anonyme). Cedel S.A. subsequently changed its name to Cedelbank. On January 10, 2000, Cedelbank's parent company, Cedel International, société anonyme ("CI") merged its clearing, settlement and custody business with that of Deutsche Börse AG ("DBAG"). The merger involved the transfer by CI of substantially all of its assets and liabilities (including its shares in Cedelbank), and the transfer by DBAG of its shares in Deutsche Börse Clearing (DBC), to a new Luxembourg company, which with effect January 14, 2000 was renamed Clearstream International, société anonyme, and was then 50% owned by CI and 50% owned by DBAG. Following this merger, the subsidiaries of Clearstream International were also renamed to give them a cohesive brand name. On January 18, 2000, Cedelbank was renamed "Clearstream Banking, société anonyme," and Cedel Global Services was renamed "Clearstream Services, société anonyme." On January 17, 2000, Deutsche Börse Clearing AG was renamed "Clearstream Banking AG." Today Clearstream International is 100% owned by DBAG. The shareholders of DBAG are comprised of mainly banks, securities dealers and financial institutions.

Clearstream, Luxembourg holds securities for its customers and facilitates the clearance and settlement of securities transactions between Clearstream, Luxembourg customers through electronic book-entry changes in accounts of Clearstream, Luxembourg customers, thereby eliminating the need for physical movement of certificates. Transactions may be settled by Clearstream, Luxembourg in any of 36 currencies, including United States Dollars. Clearstream, Luxembourg provides to its customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded

securities and securities lending and borrowing. Clearstream, Luxembourg also deals with domestic securities markets in over 30 countries through established depository and custodial relationships. Clearstream, Luxembourg is registered as a bank in Luxembourg, and as such is subject to regulation by the Commission de Surveillance du Secteur Financier, “CSSF,” and the Banque Centrale du Luxembourg (“BCL”) which supervise and oversee the activities of Luxembourg banks. Clearstream, Luxembourg’s customers are world-wide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations.

Clearstream, Luxembourg’s U.S. customers are limited to securities brokers and dealers and banks. Currently, Clearstream, Luxembourg has approximately 2,000 customers located in over 80 countries, including all major European countries, Canada, and the United States. Indirect access to Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of Clearstream, Luxembourg. Clearstream, Luxembourg has established an electronic bridge with Euroclear Bank S.A./N.V. as the Operator of the Euroclear System (the “Euroclear Operator”) in Brussels to facilitate settlement of trades between Clearstream, Luxembourg and the Euroclear Operator.

EUROCLEAR BANK

Euroclear Bank S.A./N.V. (“Euroclear Bank”) holds securities and book-entry interests in securities for participating organizations and facilitates the clearance and settlement of securities transactions between Euroclear Participants, and between Euroclear Participants and Participants of certain other securities intermediaries through electronic book-entry changes in accounts of such Participants or other securities intermediaries.

Euroclear Bank provides Euroclear Participants, among other things, with safekeeping, administration, clearance and settlement, securities lending and borrowing, and related services. Euroclear Participants are investment banks, securities brokers and dealers, banks, central banks, supranationals, custodians, investment managers, corporations, trust companies and certain other organizations. Certain of the managers or underwriters for this offering, or other financial entities involved in this offering, may be Euroclear Participants. Non-Participants in the Euroclear System may hold and transfer book-entry interests in the Securities through accounts with a Participant in the Euroclear System or any other securities intermediary that holds a book-entry interest in the securities through one or more securities intermediaries standing between such other securities intermediary and Euroclear Bank.

Clearance and Settlement. Although Euroclear Bank has agreed to the procedures provided below in order to facilitate transfers of securities among Participants in the Euroclear System, and between Euroclear Participants and Participants of other intermediaries, it is under no obligation to perform or continue to perform such procedures and such procedures may be modified or discontinued at any time.

Initial Distribution. Investors electing to acquire securities through an account with Euroclear Bank or some other securities intermediary must follow the settlement procedures of such an intermediary with respect to the settlement of new issues of securities. Securities to be acquired against payment through an account with Euroclear Bank will be credited to the securities clearance accounts of the respective Euroclear Participants in the securities processing cycle for the business day following the settlement date for value as of the settlement date, if against payment.

Secondary Market. Investors electing to acquire, hold or transfer securities through an account with Euroclear Bank or some other securities intermediary must follow the settlement procedures of such an intermediary with respect to the settlement of secondary market transactions in securities. Please be

aware that Euroclear Bank will not monitor or enforce any transfer restrictions with respect to the securities offered herein.

Custody. Investors who are Participants in the Euroclear System may acquire, hold or transfer interests in the securities by book-entry to accounts with Euroclear Bank. Investors who are not Participants in the Euroclear System may acquire, hold or transfer interests in the securities by book-entry to accounts with a securities intermediary who holds a book-entry interest in the securities through accounts with Euroclear Bank.

Custody Risk. Investors that acquire, hold and transfer interests in the securities by book-entry through accounts with Euroclear Bank or any other securities intermediary are subject to the laws and contractual provisions governing their relationship with their intermediary, as well as the laws and contractual provisions governing the relationship between such an intermediary and each other intermediary, if any, standing between themselves and the individual securities.

Euroclear Bank has advised as follows:

Under Belgian law, investors that are credited with securities on the records of Euroclear Bank have a co-property right in the fungible pool of interests in securities on deposit with Euroclear Bank in an amount equal to the amount of interests in securities credited to their accounts. In the event of the insolvency of Euroclear Bank, Euroclear Participants would have a right under Belgian law to the return of the amount and type of interests in securities credited to their accounts with Euroclear Bank. If Euroclear Bank did not have a sufficient amount of interests in securities on deposit of a particular type to cover the claims of all Participants credited with such interests in securities on Euroclear Bank's records, all Participants having an amount of interests in securities of such type credited to their accounts with Euroclear Bank would have the right under Belgian law to the return of their pro-rata share of the amount of interests in securities actually on deposit.

Under Belgian law, Euroclear Bank is required to pass on the benefits of ownership in any interests in securities on deposit with it (such as dividends, voting rights and other entitlements) to any person credited with such interests in securities on its records.

Initial Settlement; Distributions; Actions Upon Behalf of Owners

All of the Bonds will initially be registered in the name of Cede & Co., the nominee of DTC. Clearstream and Euroclear may hold omnibus positions on behalf of their participants through customers' securities accounts in Clearstream's and/or Euroclear's names on the books of their respective U.S. Depository, which, in turn, holds such positions in customers' securities accounts in its U.S. Depository's name on the books of DTC. Citibank, N.A. acts as depository for Clearstream and JPMorgan Chase Bank acts as depository for Euroclear (the "U.S. Depositories"). Holders of the 2010 Series A Bonds may hold their 2010 Series A Bonds through DTC (in the United States) or Clearstream or Euroclear (in Europe) if they are participants of such systems, or directly through organizations that are participants in such systems. Investors electing to hold their 2010 Series A Bonds through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional EuroBonds in registered form. Securities will be credited to the securities custody accounts of Euroclear and Clearstream holders on the business day following the settlement date against payment for value on the settlement date.

Distributions with respect to the 2010 Series A Bonds held beneficially through Clearstream will be credited to the cash accounts of Clearstream customers in accordance with its rules and procedures, to the extent received by its U.S. Depository. Distributions with respect to the 2010 Series A Bonds held beneficially through Euroclear will be credited to the cash accounts of Euroclear Participants in accordance with the Terms and Conditions, to the extent received by its U.S. Depository. Such distributions will be subject to tax reporting in accordance with relevant United States tax laws and

regulations. Clearstream or the Euroclear Operator, as the case may be, will take any other action permitted to be taken by an owner of the 2010 Series A Bonds on behalf of a Clearstream customer or Euroclear Participant only in accordance with the relevant rules and procedures and subject to the U.S. Depository's ability to effect such actions on its behalf through DTC.

Secondary Market Trading

Secondary market trading between Participants (other than U.S. Depositories) will be settled using the procedures applicable to U.S. corporate debt obligations in same-day funds. Secondary market trading between Euroclear Participants and/or Clearstream customers will be settled using the procedures applicable to conventional EuroBonds in same-day funds. When securities are to be transferred from the account of a Participant (other than U.S. Depositories) to the account of a Euroclear Participant or a Clearstream customer, the purchaser must send instructions to the applicable U.S. Depository one business day before the settlement date. Euroclear or Clearstream, as the case may be, will instruct its U.S. Depository to receive the securities against payment. Its U.S. Depository will then make payment to the Participant's account against delivery of the securities. After settlement has been completed, the securities will be credited to the respective clearing system and by the clearing system, in accordance with its usual procedures, to the Euroclear participant's or Clearstream customers' accounts. Credit for the securities will appear on the next day (European time) and cash debit will be back-valued to, and the interest on the Bonds will accrue from the value date (which would be the preceding day when settlement occurs in New York). If settlement is not completed on the intended value date (i.e., the trade fails), the Euroclear or Clearstream cash debit will be valued instead as of the actual settlement date.

Euroclear Participants and Clearstream customers will need to make available to the respective clearing systems the funds necessary to process same-day funds settlement. The most direct means of doing so is to pre-position funds for settlement, either from cash on hand or existing lines of credit, as they would for any settlement occurring within Euroclear or Clearstream. Under this approach, they may take on credit exposure to Euroclear or Clearstream until the securities are credited to their accounts one day later. As an alternative, if Euroclear or Clearstream has extended a line of credit to them, participants/customers can elect not to pre-position funds and allow that credit line to be drawn upon to finance settlement. Under this procedure, Euroclear Participants or Clearstream customers purchasing securities would incur overdraft charges for one day, assuming they cleared the overdraft when the securities were credited to their accounts. However, interest on the securities would accrue from the value date. Therefore, in many cases, the investment income on securities earned during that one day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each participant's/customer's particular cost of funds. Because the settlement is taking place during New York business hours, Participants can employ their usual procedures for sending securities to the applicable U.S. Depository for the benefit of Euroclear Participants or Clearstream customers. The sale proceeds will be available to the DTC seller on the settlement date. Thus, to the Participant, a cross-market transaction will settle no differently from a trade between two Participants.

Due to time zone differences in their favor, Euroclear Participants and Clearstream customers may employ their customary procedure for transactions in which securities are to be transferred by the respective clearing system, through the applicable U.S. Depository to another Participant's. In these cases, Euroclear will instruct its U.S. Depository to credit the securities to the Participant's account against payment. The payment will then be reflected in the account of the Euroclear Participant or Clearstream customer the following business day, and receipt of the cash proceeds in the Euroclear Participants' or Clearstream customers' accounts will be backvalued to the value date (which would be the preceding day, when settlement occurs in New York). If the Euroclear Participant or Clearstream customer has a line of credit with its respective clearing system and elects to draw on such line of credit in anticipation of receipt of the sale proceeds in its account, the back-valuation may substantially reduce or offset any overdraft charges incurred over that one-day period. If settlement is not completed on the

intended value date (i.e., the trade fails), receipt of the cash proceeds in the Euroclear Participant's or Clearstream customer's accounts would instead be valued as of the actual settlement date.

Procedures May Change

Although DTC, Clearstream and Euroclear have agreed to these procedures in order to facilitate transfers of securities among DTC and its Participants, Clearstream and Euroclear, they are under no obligation to perform or continue to perform these procedures and these procedures may be discontinued and may be changed at any time by any of them.

General Statement

THE AUTHORITY CANNOT AND DOES NOT GIVE ANY ASSURANCES THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE 2010 SERIES A BONDS (1) PAYMENTS OF PRINCIPAL OF OR INTEREST OR REDEMPTION PREMIUM ON THE 2010 SERIES A BONDS (2) CONFIRMATIONS OF THEIR OWNERSHIP INTERESTS IN THE 2010 SERIES A BONDS OR (3) OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS PARTNERSHIP NOMINEE, AS THE REGISTERED OWNER OF THE 2010 SERIES A BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THE OFFICIAL STATEMENT.

THE AUTHORITY WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC, THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR, EUROCLEAR PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF OR INTEREST OR REDEMPTION PREMIUM ON THE 2010 SERIES A BONDS; (3) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO OWNERS UNDER THE TERMS OF THE SUBORDINATE INDENTURE; OR (4) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS OWNER OF THE 2010 A BONDS.

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APPENDIX F
PROPOSED FORM OF BOND COUNSEL OPINION

[Date of Closing]

Santa Clara Valley
Transportation Authority
San Jose, California

Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds,
2010 Series A (Taxable Build America Bonds) and 2010 Series B (Tax-Exempt Bonds)
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 \$469,730,000 aggregate principal amount of Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds, 2010 Series A (Taxable Build America Bonds) (the "2010 Series A Bonds") and \$176,160,000 aggregate principal amount of Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds, 2010 Series B (Tax-Exempt Bonds) (the "2010 Series B Bonds," and, together with the 2010 Series A Bonds, 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 Fourth Supplemental Indenture, dated as of November 1, 2010 (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 of the Authority for the 2010 Series B Bonds, 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 letter. 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 2010 Series B 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 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 November 10, 2010, 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 2010 Series B Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and interest on the Bonds is exempt from State of California personal income taxes. Interest on the 2010 Series B Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. Interest on the 2010 Series A Bonds is not excludable from gross income for federal income tax purposes. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Circular 230 Disclaimer. To ensure compliance with requirements imposed by the Internal Revenue Service, we inform you that any tax advice contained in this communication was not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties that may be imposed under the Code, or (ii) promoting, marketing or recommending to another party any tax-related matters addressed herein.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX G

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this "Disclosure Certificate"), dated November 17, 2010, is executed and delivered by the Santa Clara Valley Transportation Authority (the "Authority") in connection with the issuance of \$469,730,000 Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds, 2010 Series A (Taxable Build America Bonds) (the "2010 Series A Bonds") and \$176,160,000 Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds, 2010 Series B (Tax-Exempt Bonds) (the "2010 Series B Bonds," and, together with the 2010 Series A Bonds, hereinafter collectively referred to as the "Bonds"). The Bonds are being issued pursuant to an Indenture, dated as of August 1, 2006, as supplemented and amended, including as supplemented and amended by a Fourth Supplemental Indenture thereto, dated as of November 1, 2010 (hereinafter collectively referred to as the "Indenture"), between the Authority and Deutsche Bank National Trust Company, as trustee. Pursuant to Section 6.09 of the Indenture, the Authority covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Authority for the benefit of the Holders (as such term is defined in the Indenture) and the Beneficial Owners (as hereinafter defined) of the Bonds and in order to assist the Participating Underwriters (as hereinafter defined) in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture which apply to any capitalized term used in this Disclosure Certificate, unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

Annual Report shall mean any Annual Report provided by the Authority pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

Beneficial Owner shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

Disclosure Representative shall mean the designee of the Authority designated to act as the Disclosure Representative.

Dissemination Agent shall mean an entity selected and retained by the Authority, or any successor thereto selected by the Authority. The initial Dissemination Agent shall be Digital Assurance Certification LLC.

Listed Events shall mean any of the events listed in Section 5(a) of this Disclosure Certificate and any other event legally required to be reported pursuant to the Rule.

Participating Underwriters shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

Repository shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the SEC to receive reports pursuant to the Rule.

Rule shall mean Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SEC shall mean the Securities and Exchange Commission or any successor agency thereto.

State shall mean the State of California.

SECTION 3. Provision of Annual Reports.

(a) The Authority shall provide or shall cause the Dissemination Agent to provide to the Repository, not later than two hundred ten (210) days after the end of the Authority's fiscal year, commencing with the fiscal year ending June 30, 2011, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. Each Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the Repository, and may include by reference other information as provided in Section 4 of this Disclosure Certificate. Not later than one (1) Business Day prior to said date, the Authority shall provide the Annual Report to the Dissemination Agent. The Authority shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the Authority hereunder. The Dissemination Agent may conclusively rely upon such certification of the Authority.

(b) If by one (1) Business Day prior to the date specified in subsection (a) for providing the Annual Report to the Repository, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Authority to determine if the Authority is in compliance with subsection (a).

(c) If the Dissemination Agent has not received an Annual Report by the date required in the first sentence of subsection (a), the Dissemination Agent shall send a notice to the Repository in substantially the form attached as Exhibit A.

(d) If the Dissemination Agent is other than the Authority, the Dissemination Agent shall file a report with the Authority certifying that the Annual Report has been provided pursuant to this Disclosure Certificate and stating the date it was provided.

SECTION 4. Content of Annual Reports. The Authority's Annual Report shall contain or include by reference the following:

(a) The audited financial statements of the Authority for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Authority's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, dated November 10, 2010, relating to the Bonds (the "Official Statement"), and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) The amount of 2000 Measure A Sales Tax Revenues (as such term is defined in the Official Statement) received as of the most recently ended fiscal year of the Authority.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the Authority is an "obligated person" (as defined by the Rule), which have been filed with the Repository or the SEC. If the document included by reference is a final official statement, it must be available from the Repository. The Authority shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Listed Events.

(a) Pursuant to the provisions of this Section 5, the Authority shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. modifications to rights of Holders;
4. optional, contingent or unscheduled Bond calls;
5. defeasances;
6. rating changes;
7. adverse tax opinions or events affecting the tax-exempt status of the Bonds;
8. unscheduled draws on the debt service reserves, if any, reflecting financial difficulties;
9. unscheduled draws on credit enhancements, if any, reflecting financial difficulties;
10. substitution of credit or liquidity providers, if any, or their failure to perform; and
11. release, substitution, or sale of property, if any, securing repayment of the Bonds.

(b) Whenever the Authority obtains knowledge of the occurrence of a Listed Event, the Authority shall as soon as possible determine if such event would constitute material information for Holders of Bonds.

(c) If the Authority has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Authority shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (d).

(d) If the Dissemination Agent has been instructed by the Authority to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Repository. Notwithstanding the foregoing:

(i) notice of the occurrence of a Listed Event described in subsections (a)(1), (4) or (5) shall be given by the Dissemination Agent unless the Authority gives the Dissemination Agent affirmative instructions not to disclose such occurrence; and

(ii) notice of Listed Events described in subsections (a)(4) and (5) shall not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the Holders of affected Bonds pursuant to the Indenture.

In addition, if the fiscal year of the Authority changes, the Authority shall instruct the Dissemination Agent to give notice of such change in the same manner as for a Listed Event under Section 5(d).

SECTION 6. Termination of Reporting Obligation. The obligations of the Authority and the Dissemination Agent under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Authority shall give notice of such termination in the same manner as for a Listed Event under Section 5(d) hereof.

SECTION 7. Dissemination Agent. The Authority may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign at any time by providing at least thirty (30) days' notice in writing to the Authority.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Authority may amend this Disclosure Certificate, provided no amendment increasing or affecting the obligations or duties of the Dissemination Agent shall be made without the consent of such party, and any provision of this Disclosure Certificate may be waived if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to the Authority and the Dissemination Agent to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Authority from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Authority chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Certificate, the Authority shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the Authority to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions, as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Authority to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the Authority to comply with this Disclosure Certificate shall be an action to compel performance. The Authority hereby represents

and warrants that it is currently not in default under any other continuing disclosure arrangement entered into in connection with the Rule.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Authority agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their respective powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Authority for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the Authority, the Holders, or any other party. The obligations of the Authority under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Notices. All notices or communications herein required or permitted to be given shall be in writing and shall be delivered in such manner and to such addresses as are specified in the Indenture for the Authority and shall be delivered to the Dissemination Agent at the address specified below or to such other address as the Dissemination Agent shall specify from time to time in writing to the Authority. Any notice or communication may also be sent by electronic mail, receipt of which shall be confirmed.

To the Dissemination Agent: Digital Assurance Certification LLC
 390 North Orange Avenue, Suite 1750
 Orlando, Florida 32801
 Telephone: (407) 515-1100
 Fax: (407) 515-6513

SECTION 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Authority, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SANTA CLARA VALLEY
TRANSPORTATION AUTHORITY

By: _____
 Chief Financial Officer

Receipt Acknowledged By:

DIGITAL ASSURANCE CERTIFICATION LLC,
as Dissemination Agent

By: _____
 Authorized Signatory

Exhibit A

NOTICE TO REPOSITORY OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Santa Clara Valley Transportation Authority

Name of Bond Issue: \$469,730,000 Santa Clara Valley Transportation Authority 2000 Measure A
Sales Tax Revenue Bonds, 2010 Series A (Taxable Build America Bonds)

and

\$176,160,000 Santa Clara Valley Transportation Authority 2000 Measure A
Sales Tax Revenue Bonds, 2010 Series B (Tax-Exempt Bonds)

Date of Issuance: November 17, 2010

NOTICE IS HEREBY GIVEN that the Santa Clara Valley Transportation Authority (the "Authority") has not provided an Annual Report with respect to the above-referenced Bonds as required by Section 6.09 of that certain Indenture, dated as of August 1, 2006, as supplemented and amended, including as supplemented and amended by a Fourth Supplemental Indenture thereto, dated as of November 1, 2010, between the Authority and Deutsche Bank National Trust Company, as trustee. The Authority anticipates that the Annual Report will be filed by _____.

Dated:

Digital Assurance Certification LLC,
as dissemination agent on behalf of the
Authority

By: _____

Its: _____

cc: Santa Clara Valley Transportation Authority



FOR ADDITIONAL BOOKS: ELABRA.COM OR (888) 935-2272