NEW ISSUE—BOOK-ENTRY ONLY

Ratings:
S&P: "AAA"
Moody's: "Aa2"
Fitch: "AA"
See "RATINGS" herein

In the opinion of Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel, under existing statutes, regulations, rulings and court decisions, and assuming compliance with the tax covenants described herein, interest on the 2011 Series A Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 from the gross income of the owners thereof for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. It is also the opinion of Bond Counsel that under existing law interest on the 2011 Series A Bonds is exempt from personal income taxes of the State of California. See, however, "TAX MATTERS" herein.

$47,485,000
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
SALES TAX REVENUE REFUNDING BONDS, 2011 SERIES A

Dated: Date of Delivery **Due: June 1, 2028**

The $47,485,000 Santa Clara Valley Transportation Authority Sales Tax Revenue Refunding Bonds, 2011 Series A (the "2011 Series A Bonds") are being issued by the Santa Clara Valley Transportation Authority (the "Authority") pursuant to an Indenture, dated as of November 1, 1997 (as supplemented, the "Indenture"), between the Authority and U.S. Bank National Association, as trustee (the "Trustee"), to refund the Santa Clara County Transit District Junior Lien Sales Tax Revenue Bonds, 1998 Series A and the Santa Clara Valley Transportation Authority Junior Lien Sales Tax Revenue Bonds, 2000 Series A (together, the "Refunded Bonds"), which are currently outstanding in the aggregate principal amount of $64,595,000, and to pay certain costs of issuing the 2011 Series A Bonds. The Santa Clara Valley Transportation Authority was formerly known as the Santa Clara County Transit District.

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

The 2011 Series A Bonds are subject to optional redemption prior to maturity as more fully described herein. See "THE 2011 SERIES A BONDS – Redemption" herein.

The 2011 Series A Bonds are limited obligations of the Authority secured solely by a pledge of sales tax revenues derived 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 1976 (the "1976 Sales Tax"), less certain administrative fees paid to the California State Board of Equalization, as described herein, and certain amounts held by the Trustee under the Indenture. The 1976 Sales Tax was approved by the electorate of the County in 1976 and does not expire. The 2011 Series A Bonds are being issued on a parity with certain other bonds and obligations of the Authority. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2011 SERIES A BONDS" herein.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COUNTY OF SANTA CLARA, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION OR PUBLIC AGENCY THEREOF, OTHER THAN THE AUTHORITY, TO THE EXTENT OF THE PLEDGE OF THE 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 2011 SERIES A 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 the entire Official Statement to obtain information essential to make an informed investment decision with respect to the 2011 Series A Bonds.

The 2011 Series A Bonds were sold at a competitive sale on September 15, 2011. The 2011 Series A Bonds are offered when, as and if issued and accepted by Goldman, Sachs & Co., as the Underwriter, subject to the approval as to legality by Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel to the Authority. 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. It is anticipated that the 2011 Series A Bonds will be available for delivery through the book-entry facilities of DTC on or about October 5, 2011.

Dated: September 15, 2011

MATURITY SCHEDULE

Maturity Date (June 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP (Base No. 80168N)†
2012	$ 695,000	3.00%	0.25%	101.799	FK0
2013	3,555,000	4.00	0.33	106.053	FL8
2014	3,660,000	4.00	0.45	109.360	FM6
2015	3,775,000	5.00	0.62	115.806	FN4
2016	2,130,000	5.00	0.95	118.400	FP9
2017	2,225,000	4.00	1.21	115.205	FQ7
2018	2,310,000	5.00	1.48	122.230	FR5
2019	2,410,000	5.00	1.78	122.947	FS3
2020	2,520,000	5.00	2.05	123.285	FT1
2021	2,630,000	5.00	2.25	123.744	FU8
2022	2,610,000	3.00	2.50	104.263*	FV6
2023	2,670,000	5.00	2.68	119.618*	FW4
2024	2,790,000	3.00	3.15	98.441	FX2
2025	2,855,000	5.00	3.03	116.380*	FY0
2026	2,985,000	4.00	3.26	106.084*	FZ7
2027	3,745,000	4.00	3.30	105.744*	GA1
2028	3,920,000	4.00	3.46	104.396*	GB9

* Priced to the June 1, 2021 redemption date at par.

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

No dealer, broker, salesperson or other person has been authorized by the Santa Clara Valley Transportation Authority (the "Authority") to give any information or to make any representations, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Authority.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 2011 Series A Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. This Official Statement is not to be construed as a contract with the purchasers of the 2011 Series A Bonds. Statements contained in this Official Statement that 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 a representation of facts.

The information set forth herein has been obtained from the Authority and other sources believed to be reliable. The information and expressions of opinions herein are subject to change without notice and neither delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority since the date hereof. All summaries contained herein of the Indenture (as defined herein) or other documents are made subject to the provisions of such documents and do not purport to be complete statements of any or all of such provisions. All statements made herein are made as of the date of this document by the Authority except statistical information or other statements where some other date is indicated in the text.

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.**

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Board of Directors

Margaret Abe-Koga, Chairperson
Xavier Campos
Rose Herrera
Ash Kalra
Liz Kniss
Rich Larsen

Ken Yeager, Vice Chairperson
Sam Liccardo
Chris Moylan
Chuck Page
Chuck Reed
Perry Woodward

Dave Cortese, *Ex-Officio,* Commissioner of Metropolitan
Transportation Commission representing Santa Clara County

Alternate Board Members

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Jamie Matthews
Pete McHugh
Nancy Pyle
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Administrative Staff

Michael Burns, General Manager
Kevin Allmand, General Counsel
Sandra Weymouth, Secretary of the Board
Greta Helm, Chief External Affairs Officer
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Bill Lopez, Chief Administrative Officer
Gary Miskell, Chief Information Officer
John Ristow, Chief Congestion Management Agency Officer
Mark Robinson, Chief Engineering and Construction Officer
Joseph Smith, Chief Financial Officer
Donald Smith, Chief Operating Officer

SPECIAL SERVICES

Financial Advisor

Ross Financial
San Francisco, California

Bond Counsel and Disclosure Counsel

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

Trustee

U.S. Bank National Association
San Francisco, California

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OFFICIAL STATEMENT

$47,485,000
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
SALES TAX REVENUE REFUNDING BONDS
2011 SERIES A

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 $47,485,000 in aggregate principal amount of its Sales Tax Revenue Refunding Bonds, 2011 Series A (the "2011 Series A Bonds"). A full review should be made of the entire Official Statement, including the cover page and attached appendices. The offering of the 2011 Series A Bonds to potential investors is made only by means of the entire Official Statement.

Authority for Issuance

The 2011 Series A 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"), and the Indenture, dated as of November 1, 1997, between the Authority and U.S. Bank National Association, as successor to First Trust of California, National Association, as trustee (the "Trustee"), as supplemented by a First Supplemental Indenture, dated as of November 1, 1997, a Second Supplemental Indenture, dated as of May 1, 2001, a Third Supplemental Indenture, dated as of November 1, 2003, a Fourth Supplemental Indenture, dated as of July 1, 2005, a Fifth Supplemental Indenture, dated as of June 1, 2005, a Sixth Supplemental Indenture, dated as of May 1, 2007, a Seventh Supplemental Indenture, dated as of June 1, 2008, and an Eighth Supplemental Indenture, dated as of October 1, 2011 (together, the "Indenture"), between the Authority and the Trustee.

Purpose and Application of Proceeds

The 2011 Series A Bonds are being issued to refund the Santa Clara County Transit District Junior Lien Sales Tax Revenue Bonds, 1998 Series A and the Santa Clara Valley Transportation Authority Junior Lien Sales Tax Revenue Bonds, 2000 Series A (together, the "Refunded Bonds"), which are currently outstanding in the aggregate principal amount of $64,595,000. On January 1, 2000, the Santa Clara County Transit District's name was changed to the Santa Clara Valley Transportation Authority. The outstanding principal amount of the Refunded Bonds on the date the 2011 Series A Bonds are issued and delivered will be $61,705,000. In addition, a portion of the proceeds of the 2011 Series A Bonds will be applied to pay certain costs of issuing the 2011 Series A Bonds. See "PLAN OF REFUNDING" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

Security

The 2011 Series A Bonds are limited obligations of the Authority secured by a pledge of sales tax revenues (the "1976 Sales Tax Revenues") derived from a one-half of one percent (0.5%) retail transactions and use tax (the "1976 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 1976 Sales Tax. The 1976 Sales Tax was approved by a majority of the electorate of the County of Santa Clara (the "County") voting on the ballot measure by special election in 1976 and does not expire. The 2011 Series A 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 1976 Sales Tax Revenues and Certain Amounts Held by Trustee" herein.

The 2011 Series A Bonds are secured by the 1976 Sales Tax Revenues on a parity basis with:

- the Santa Clara Valley Transportation Authority Sales Tax Revenue Refunding Bonds, 2007 Series A (the "2007 Series Bonds"), $22,685,000 in aggregate principal amount of which are currently outstanding;

- the Santa Clara Valley Transportation Authority Sales Tax Revenue Refunding Bonds, 2008 Series A, 2008 Series B and 2008 Series C (collectively, the "2008 Series Bonds"), $164,880,000 in aggregate principal amount of which are currently outstanding; and

- regularly scheduled payments to be made by the Authority pursuant to three interest rate swap agreements relating to the 2008 Series Bonds (the "Swap Agreements").

The 2007 Series Bonds, the 2008 Series Bonds and the Swap Agreements are hereinafter referred to as the "Existing 1976 Senior Lien Obligations." See "OUTSTANDING 1976 SALES TAX OBLIGATIONS" herein.

Additional Bonds and other obligations secured by a pledge of the 1976 Sales Tax Revenues on a parity with the 2011 Series A Bonds and the Existing 1976 Senior Lien Obligations may hereafter be issued or incurred. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Additional Bonds and Parity Debt" herein. The Existing 1976 Senior Lien Obligations, the 2011 Series A Bonds and any additional bonds hereafter authorized by, and at any time Outstanding under, the Indenture are referred to collectively herein as the "Bonds."

Limited Obligations

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COUNTY, THE STATE OF CALIFORNIA (THE "STATE") OR ANY POLITICAL SUBDIVISION OR PUBLIC AGENCY THEREOF, OTHER THAN THE AUTHORITY, TO THE EXTENT OF THE PLEDGE OF THE 1976 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 2011 SERIES A BONDS.

References

The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each such document for the complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each such document, copies of which are available for inspection at the offices of the Authority. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

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 of this Official Statement. The Authority (then known as the Santa Clara County Transit District) 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 representatives of the County and cities within the County. 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 2011 SERIES A BONDS

General

The 2011 Series A 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 the 2011 Series A Bonds shall be payable on December 1, 2011 and semiannually thereafter on June 1 and December 1 of each year by check mailed by first class mail or, as provided in Indenture and upon the written request of any Owner of $1,000,000 or more in aggregate principal amount of Bond Obligation who has provided the Trustee with wire transfer instructions, by wire transfer on each interest payment date to the Owner thereof as of the close of business on the fifteenth (15th) day of the calendar month immediately preceding such interest payment date. Interest on the 2011 Series A Bonds shall be computed on the basis of a 360-day year of twelve 30-day months.

The 2011 Series A 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 2011 Series A Bonds. The term "Owner" as used herein shall refer to DTC as the registered owner of the Bonds. Purchases of the 2011 Series A Bonds are to be made in book-entry only form in the principal amount of $5,000 or any integral multiple thereof. See APPENDIX F – "BOOK-ENTRY SYSTEM."

Redemption

Optional Redemption. The 2011 Series A Bonds maturing on or before June 1, 2021 shall not be subject to redemption prior to their respective stated maturities. The 2011 Series A Bonds maturing on or after June 1, 2022 shall be subject to redemption prior to their respective stated maturities, at the option of the Authority, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the Authority and by lot within a maturity), on or after June 1, 2021 at the principal amount of 2011 Series A Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

Selection of Bonds for Redemption. Whenever less than all of the Outstanding 2011 Series A Bonds are to be redeemed on any one date pursuant to the optional redemption provisions of the Indenture, the Trustee shall select the 2011 Series A Bonds to be redeemed among different maturity dates as directed in a Request of the Issuer delivered to the Trustee. Whenever less than all of the Outstanding 2011 Series A Bonds of the same maturity (and interest rate) are to be redeemed on any one date pursuant to the optional redemption provisions of the Indenture, the Trustee shall select the 2011 Series A Bonds to be redeemed in minimum denominations of $5,000, by lot in any manner which the Trustee in its sole discretion shall deem appropriate and fair.

Notice of Redemption. Notice of redemption shall be mailed by the Trustee, not less than 20 nor more than 60 days prior to the redemption date, (i) to the respective Owners of any 2011 Series A Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee by first class mail, (ii) to the Securities Depositories by registered or certified mail, return receipt requested, or by some other confirmable delivery method, and (iii) to the MSRB's Electronic Municipal Market Access system. Notice of redemption shall be given in the form and in accordance with the terms of the Indenture. The Trustee shall mail an additional copy of such notice of redemption to any Owner who has not surrendered such Owner's Bonds called for redemption within 60 days after the redemption date.

The Authority shall have the right to rescind any notice of optional redemption by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of redemption shall be cancelled and annulled if for any reason funds are not or will not be available on the date fixed for redemption for the payment in full of the 2011 Series A Bonds then called for redemption, and neither the lack of available funds nor such cancellation shall constitute an Event of Default. The Authority and the Trustee shall have no liability to the Owners or any other party related to or arising from such rescission of notice of redemption. The Trustee shall mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent.

Partial Redemption of Bonds. Upon surrender of any 2011 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 2011 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 2011 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 2011 Series A Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the 2011 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 2011 Series A Bonds so called for redemption shall cease to accrue, said 2011 Series A Bonds (or portions thereof) shall cease to be entitled to any benefit or security under this Indenture, and the Owners of said 2011 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.

PLAN OF REFUNDING

The Authority issued the Refunded Bonds to the California Transit Finance Authority ("CTFA") in order to participate in CTFA's variable rate financing program (the "Program"). The Program began in 1997, when the CTFA issued $200,000,000 in aggregate principal amount of its Variable Rate Demand Bonds, Series 1997 (California Transit Variable Rate Finance Program) (the "CTFA Bonds"), to provide variable rate financing for certain California local governmental entities that are members of the California Transit Association. Such members may borrow the proceeds of the CTFA Bonds by issuing bonds to or entering into financing agreements with CTFA. As of October 1, 2011, the CTFA Bonds will be outstanding in the aggregate principal amount of $61,705,000, all of which is payable from the Authority's payments with respect to the Refunded Bonds. At present, the Authority is the sole remaining participant in the Program.

The Authority intends to terminate its participation in the Program and refund the Refunded Bonds on October 5, 2011 (the "Refunding Date") by depositing a portion of the proceeds of the 2011 Series A Bonds with Wells Fargo Bank, National Association, the trustee for the CTFA Bonds (the "CTFA Bond Trustee") and owner of the Refunded Bonds as assignee of CTFA. The CTFA Bonds are subject to mandatory tender for purchase on the Refunding Date, at a purchase price of 100% of the principal amount thereof, plus accrued and unpaid interest thereon to but not including the date of purchase. Dexia Crédit Local, acting through its New York Branch ("Dexia"), has provided a Standby Bond Purchase Agreement supporting the payment of tenders of the CTFA Bonds. On the Refunding Date, the CTFA Bond Trustee will apply the proceeds from the payment of the Refunded Bonds, together with amounts released from the funds and accounts established under the Indenture of Trust relating to the CTFA Bonds, to the purchase and retirement of the CTFA Bonds from Dexia.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated proceeds of the 2011 Series A Bonds and certain other amounts are expected to be applied as follows:

Sources of Funds:	
Principal Amount of 2011 Series A Bonds	$47,485,000
Plus Net Bond Premium	5,803,217
Funds Transferred from the CTFA Bond Trustee	8,791,755
Total Sources:	$62,079,972
Uses of Funds:	
Payment of Refunded Bonds	$61,705,000
Costs of Issuance[(1)]	374,972
Total Uses:	$62,079,972

(1) Includes underwriter's discount, rating agency fees, trustee fees, printing costs, bond counsel, disclosure counsel and financial advisor fees and expenses and other miscellaneous expenses.

DEBT SERVICE SCHEDULE

The following table shows the annual debt service requirements on the 2011 Series A Bonds and existing Bonds.

Fiscal Year Ending June 30	2011 Series A Bonds Principal	2011 Series A Bonds Interest	Existing Bonds Annual Principal	Existing Bonds Annual Interest(1)(2)	Combined Debt Service(2)
2012	$ 695,000	$ 1,344,839	$ 6,630,000	$ 6,250,426	$ 14,920,265
2013	3,555,000	2,030,600	6,845,000	6,005,555	18,436,155
2014	3,660,000	1,888,400	6,775,000	5,751,603	18,075,003
2015	3,775,000	1,742,000	6,930,000	5,497,348	17,944,348
2016	2,130,000	1,553,250	12,180,000	5,259,221	21,122,471
2017	2,225,000	1,446,750	12,595,000	4,858,932	21,125,682
2018	2,310,000	1,357,750	13,035,000	4,423,308	21,126,058
2019	2,410,000	1,242,250	13,500,000	3,971,434	21,123,684
2020	2,520,000	1,121,750	13,980,000	3,502,246	21,123,996
2021	2,630,000	995,750	14,455,000	3,040,730	21,121,480
2022	2,610,000	864,250	15,115,000	2,536,128	21,125,378
2023	2,670,000	785,950	15,605,000	2,060,761	21,121,711
2024	2,790,000	652,450	16,110,000	1,569,984	21,122,434
2025	2,855,000	568,750	16,635,000	1,063,325	21,122,075
2026	2,985,000	426,000	17,175,000	540,154	21,126,154
2027	3,745,000	306,600	--	--	4,051,600
2028	3,920,000	156,800	--	--	4,076,800
Total	$47,485,000	$18,484,139	$187,565,000	$56,331,155	$309,865,294

(1) Debt service for the 2008 Series Bonds is calculated based on the fixed rate under the Swap Agreements of 3.145%.
(2) Totals may not add due to rounding.

The 1976 Sales Tax Revenues for the fiscal year ended June 30, 2011 will cover Maximum Annual Debt Service by 7.27x. See “THE 1976 SALES TAX – Historical Sales Tax Revenues” herein.

SECURITY AND SOURCES OF PAYMENT FOR THE 2011 SERIES A BONDS

All 1976 Sales Tax Revenues are irrevocably pledged by the Authority on a senior lien basis to secure the punctual payment of the principal of, premium, if any, and interest on the Bonds and Parity Debt, each in accordance with their terms. Pursuant to the Indenture, the pledge of 1976 Sales Tax Revenues constitutes a first lien to secure the Bonds and Parity Debt and regularly scheduled payments on the Swap Agreements (hereinafter referred to as the "Parity Swap Payments"). The pledge of 1976 Sales Tax Revenues is irrevocable until all Bonds issued under the Indenture and all Parity Debt are no longer Outstanding.

For a more detailed description of the 1976 Sales Tax, see "THE 1976 SALES TAX" herein.

Additionally, there are pledged to secure the payment of the principal of, 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 1976 Sales Tax Revenues

In order to secure the payment of Outstanding Bonds and any Parity Debt, the Authority has assigned the 1976 Sales Tax Revenues to the Trustee and has caused the Board of Equalization to transmit the same directly to the Trustee. The Indenture requires the 1976 Sales Tax Revenues to be received and held in trust by the Trustee for the benefit of the Owners of the Bonds and Parity Debt. The Trustee is required to deposit all 1976 Sales Tax Revenues in the Revenue Fund, maintained and held in trust by the Trustee, when and as such 1976 Sales Tax Revenues are received by the Trustee. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Funds and Accounts; Allocation of 1976 Sales Tax Revenues." Investment income on amounts held by the Trustee (other than amounts held in the Rebate Fund or for which particular instructions are provided) shall also be deposited in the Revenue Fund.

In each month while Bonds remain Outstanding, the Trustee is required to set aside receipts of 1976 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 Debt 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 one-sixth of the aggregate half-yearly amount of interest (calculated at the rate of 12% per annum if the actual rate of interest is not known) becoming due and payable on Outstanding Bonds during the ensuing six-month period. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Allocation of 1976 Sales Tax Revenues."

2. **Principal Fund.** 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 principal, accreted value, if applicable, and mandatory sinking account payments becoming due and payable within the next six months on Outstanding Bonds having semiannual maturity dates and mandatory sinking account redemption, plus (b) one-twelfth of the aggregate yearly amount of principal, accreted value, if applicable, and mandatory sinking

account payments becoming due and payable within the next twelve months on Outstanding Bonds having annual maturity dates and mandatory sinking account redemption.

After the allocations described above have been made on a monthly basis, any funds remaining in the Revenue Fund are available to be applied to the payment of the principal of, redemption premium, if any, and interest on junior lien bonds, and reserve fund requirements with respect thereto (collectively, the "Junior Lien Obligations"). Upon the refunding of the Refunded Bonds as described in "PLAN OF REFUNDING" above, no Junior Lien Obligations will be outstanding. After payment of any Junior Lien Obligations, any remaining funds are available to pay termination payments, if any, under the Swap Agreements. Liquidity Facility Providers' fees and expenses are paid on a basis subordinate to the Bonds, but prior to payments on any Junior Lien Obligations.

After making the foregoing allocations, all remaining funds are available to the Authority for any lawful Authority purposes.

Bond Reserve Fund

The Bond Reserve Requirement as of any date of calculation shall be zero dollars ($0), except that if 1976 Sales Tax Revenues during the immediately preceding Fiscal Year do not cover Maximum Annual Debt Service by at least 3.00 times, the Authority shall be required to fund the Bond Reserve Fund in an amount equal to the amount specified in the definition of Bond Reserve Requirement set forth in the Indenture. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE." Maximum Annual Debt Service is calculated assuming that the variable rate 2008 Series Bonds bear interest at the fixed rate under the Swap Agreements of 3.145%. See "OUTSTANDING 1976 SALES TAX OBLIGATIONS – Swap Agreements" herein.

If the Authority shall be required to fund the Bond Reserve Fund, the Bond Reserve Requirement with respect to any Series of Bonds bearing interest at a fixed rate, including the 2011 Series A Bonds, means an amount not less than the lesser of: (i) 10% of the aggregate original principal amount of such Series (less any original issue discount); (ii) 125% of Average Annual Debt Service for such Series; or (iii) 100% of Maximum Annual Debt Service for such Series as of any date of calculation. The Bond Reserve Requirement for any 2011 Series A Bonds shall have the same meaning.

Except as otherwise permitted by the Indenture, at such time as the Bond Reserve Fund is required to be funded due to a decrease in the coverage of 1976 Sales Tax Revenues over Maximum Annual Debt Service below 3.00 times, the Authority shall make or cause to be made, within one year, a deposit or deposits into the Bond Reserve Fund equal to the Bond Reserve Requirement. Additionally, except as otherwise provided in the Indenture, the Trustee shall make deposits to the Bond Reserve Fund equal to the sum of (i) one-twelfth (1/12th) of the aggregate amount of each unreplenished prior withdrawal from the Bond Reserve Fund and (ii) the full amount of any deficiency due to any required valuation of the investments in the Bond Reserve Fund. In lieu of a cash deposit, the Authority may fulfill all or a portion of its obligation to fund the Bond Reserve Fund by depositing a letter of credit, surety bond or insurance policy, as provided in the Indenture. For a more complete discussion of the Bond Reserve Fund provisions, see APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Funds and Accounts; Allocation of 1976 Sales Tax Revenues – Bond Reserve Fund" and "– Funding and Application of Bond Reserve Fund."

Additional Bonds and Parity Debt

The Authority may issue additional Bonds and may issue or incur other obligations secured in whole or in part by a pledge of 1976 Sales Tax Revenues on a parity with the Bonds, subject to compliance with the terms and provisions set forth in the Indenture.

Issuance of Additional Series of Bonds. The Authority may by Supplemental Indenture establish one or more Series of Bonds payable from 1976 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) The Supplemental Indenture providing for the issuance of such Series of additional Bonds shall require that the balance in the Bond Reserve Fund, forthwith upon the receipt of the proceeds of the sale of Bonds of such Series, be increased, if necessary, to an amount at least equal to the Bond Reserve Requirement with respect to all Bonds to be considered Outstanding upon the issuance of Bonds of such Series. 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 "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Funding and Application of Bond Reserve Fund."

(c) The Authority shall have placed on file with the Trustee the report of the Authority, certifying that the lesser of (i) the amounts of 1976 Sales Tax Revenues for a period of twelve (12) consecutive months during the eighteen (18) months immediately preceding the date on which such Bonds will become outstanding, or (ii) the estimated 1976 Sales Tax Revenues for the Fiscal Year in which the Bonds are to be issued, will equal at least 2.00 times Maximum Annual Debt Service for all Series of Bonds and Parity Debt 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 subcaption "Issuance of Additional Series of Bonds"; provided, that Maximum Annual Debt Service on all Bonds and Parity Debt Outstanding following the issuance of such refunding Bonds is less than or equal to Maximum Annual Debt Service on all Bonds and Parity Debt Outstanding prior to the issuance of such refunding Bonds.

Parity Debt. As defined in the Indenture, "Parity Debt" means any indebtedness, installment sale obligation, lease obligation or other obligation of the Authority for borrowed money or interest rate swap agreement having an equal lien and charge upon the 1976 Sales Tax Revenues and therefore payable on a parity with the Bonds (whether or not any Bonds are Outstanding). As defined in the Indenture, the Parity Swap Payments constitute Parity Debt. The Authority may issue or incur additional Parity Debt payable on a parity with the Bonds and which will have, when issued, an equal lien and charge upon the 1976 Sales Tax Revenues, provided that the conditions to the issuance of such Parity Debt set forth in the Indenture and any other authorizing instruments are satisfied, including the coverage test described in subsection (c) above under the subcaption "Issuance of Additional Series of Bonds," unless such Parity Debt is for refunding purposes, in which case the coverage test shall not apply.

Subordinate Obligations

The Authority may issue obligations that are subordinate to the payment of the principal, premium, interest and reserve fund requirements for the Bonds and all other Parity Debt, which subordinated obligations are payable as to principal, premium, interest and reserve fund requirements, if any, only out of 1976 Sales Tax Revenues after the prior payment of all amounts then required to be paid from funds in the Revenue Fund for principal, premium, interest and reserve fund requirements for the Bonds and all Parity Debt, as the same become due and payable.

OUTSTANDING 1976 SALES TAX OBLIGATIONS

Bonds Outstanding

As of September 1, 2011, the aggregate principal amount of Bonds Outstanding was $187,565,000, comprised of $22,685,000 aggregate principal amount of 2007 Series Bonds and $164,880,000 aggregate principal amount of 2008 Series Bonds.

Swap Agreements

The Authority has entered into the Swap Agreements with Goldman Sachs Mitsui Marine Derivative Products, L.P., Citibank, N.A., New York, and Morgan Stanley Capital Services Inc., respectively. Pursuant to the terms of the Swap Agreements, the Authority agreed to pay to the counterparties a fixed rate of interest of 3.145% and the counterparties agreed to pay the Authority a floating rate of interest equal to the lower of 1-month London Interbank Offered Rate ("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%. The current notional amounts of the Swap Agreements are $66,060,000 with respect to the 2008 Series A Bonds, $49,410,000 with respect to the 2008 Series B Bonds and $49,410,000 with respect to the 2008 Series C Bonds, respectively. The Authority's obligation to make regularly scheduled payments of interest to the counterparties under the Swap Agreements is payable from and secured by 1976 Sales Tax Revenues on a parity basis with the Bonds.

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

Under certain circumstances, including a downgrade of the Authority's revenue bond ratings below investment grade, the Swap Agreements may be terminated, at which time the Authority may be required to make a substantial termination payment to the applicable Counterparty.

Termination payments payable pursuant to the Swap Agreements are secured by a lien on 1976 Sales Tax Revenues subordinate to the lien which secures the Bonds, Parity Obligations and Subordinate Obligations; such termination payments could be substantial. If the Swap Agreements were terminated as of September 1, 2011, the Authority would owe an aggregate termination payment of approximately $23,272,550 to the counterparties under the Swap Agreements. To the extent that the Authority does not have sufficient funds on hand to make any such payment, it is likely that the Authority would seek to borrow such amounts through the issuance of additional Bonds or otherwise. For a further discussion regarding the Authority's existing swaps (including swaps that have liens on the 1976 Sales Tax) and potential risks in connection therewith, see APPENDIX B – "AUTHORITY AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2010, Note 7(d) and 7(e)."

THE 1976 SALES TAX

General

The terms of the Act authorize the imposition of the 1976 Sales Tax upon the approval of the electorate of the County. Voter approval of the 1976 Sales Tax was obtained by special election in 1976. The Act does not provide for expiration of the 1976 Sales Tax.

The 1976 Sales Tax is a 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 limited exceptions. The most important exemptions from the 1976 Sales Tax are the sales of food products for home consumption, prescription medicine, edible livestock and their feed, seed and fertilizer used in raising food for human consumption, and gas, electricity and water, when delivered to consumers through mains, lines and pipes. Additionally, occasional sales, i.e., sales of property not held or used by a seller in the course of activities for which he or she is required to hold a seller's permit, are generally exempt from the 1976 Sales Tax. However, the "occasional sales" exemption does not apply to the sale of an entire business and other sales of machinery and equipment used in a business. Sales of property to be used outside the County which are shipped to a point outside the County pursuant to the contract of sale are exempt from the 1976 Sales Tax.

1976 Sales Tax Revenues are net of an administrative fee paid to the Board of Equalization for the collection and disbursement of the 1976 Sales Tax, which by statute cannot exceed 1.5% of collections. In the Fiscal Year ended June 30, 2010, the amount of the administrative fee was approximately $1.6 million.

For a summary of the 1976 Sales Tax Revenues reported by the Authority for the ten Fiscal Years ended June 30, 2011, see "THE 1976 SALES TAX – Historical Sales Tax Revenues" herein.

Collection

Collection of the 1976 Sales Tax is administered by the Board of Equalization. The Authority and the Board of Equalization have entered into an agreement to authorize payment of 1976 Sales Tax Revenues directly to the Trustee. Pursuant to its procedures, the Board of Equalization projects receipts of the 1976 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 1976 Sales Tax for the quarter.

The Trustee is required to apply receipts of 1976 Sales Tax Revenues as provided in the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Revenue Fund; Allocation of 1976 Sales Tax Revenues" and APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Funds and Accounts; Allocation of Sales Tax Revenues." The Trustee is required to transfer any remaining unapplied 1976 Sales Tax Revenues to pay any Junior Lien Obligations. Liquidity Facility Providers' fees and expenses are paid on a basis subordinate to the Bonds, but prior to payments on any Junior Lien Obligations. Following the refunding of the Refunded Bonds, there will be no Junior Lien Obligations outstanding. Termination payments, if any, with respect to the

Swap Agreements are payable on a basis subordinate to any Junior Lien Obligations. After such allocations, any remaining unapplied 1976 Sales Tax Revenues are transferred to the Authority for use for any lawful purpose.

Historical Sales Tax Revenues

The following table shows 1976 Sales Tax Revenues reported by the Authority during the ten Fiscal Years ended June 30, 2011.

Annual 1976 Sales Tax Revenues
Fiscal Years Ended June 30, 2002 – 2011

Fiscal Year Ended June 30	1976 Sales Tax Revenues	% Change from Prior Year
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
2007	163,675,750	4.1
2008	163,037,594	-0.4
2009	137,641,999	-15.6
2010	140,036,709	1.7
2011	153,601,839	9.7

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."

Additional Sales Taxes Collected in the County

In the November 2000 general election, voters in the County authorized a ½-cent sales tax for transportation purposes (the "2000 Measure A Sales Tax"). The imposition of the 2000 Measure A Sales Tax commenced on April 1, 2006 and is scheduled to expire on March 31, 2036. The 2000 Measure A Sales Tax is a separate tax collected by the Authority and is not pledged as a source of repayment for the 2011 Series A Bonds. See APPENDIX A – "THE SANTA CLARA VALLEY TRANSPORTATION AUTHORITY."

In the November 2008 general election, voters in the County authorized a 30-year 1/8-cent sales tax (the "2008 Measure B Sales Tax"). The imposition of the 2008 Measure B Sales Tax is contingent on the Authority's ability to secure a Full Funding Grant Agreement from the Federal Transit Administration 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. If imposed, the 2008 Measure B Tax would be a separate tax collected by the Authority and would not be pledged as a source of repayment for the 2011 Series A Bonds. See APPENDIX A – "THE SANTA CLARA VALLEY TRANSPORTATION AUTHORITY."

In addition to sales taxes levied at the County level, the State also imposes a 7.25% sales tax. The State may increase such sales tax in the future, and such increase could have an adverse effect on consumption in the County resulting in a reduction in 1976 Sales Tax Revenues.

RISK FACTORS

Economy of the County and the State

The 2011 Series A Bonds are secured by a pledge of 1976 Sales Tax Revenues, which consist of the 1976 Sales Tax less an administrative fee paid to the Board of Equalization. The level of 1976 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 1976 Sales Tax Revenues and therefore upon the ability of the Authority to pay principal of and interest on the 2011 Series A Bonds. For example, during the most recent recession, which had a severe impact on the United States and California economies, 1976 Sales Tax Revenues decreased 15.6% between the Fiscal Year ended June 30, 2008 and the Fiscal Year ended June 30, 2009. See "THE 1976 SALES TAX – Historical Sales Tax Revenues" above.

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

The 1976 Sales Tax

With limited exceptions, the 1976 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 1976 Sales Tax are imposed. Any such change or limitation could have an adverse impact on the 1976 Sales Tax Revenues collected. For a further description of the 1976 Sales Tax Revenues, see "THE 1976 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 1976 Sales Tax Revenues is fully enforceable only if a bankruptcy court determines that the 1976 Sales Tax Revenues are "Special Revenues" under Chapter 9 and that the pledge is valid and binding under Chapter 9. 1976 Sales Tax Revenues may not constitute "Special Revenues" under Chapter 9 because, among other reasons, the 1976 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 1976 Sales Tax Revenues to be unenforceable under Chapter 9, then the owners of the Bonds (including the 2011 Series A Bonds) would no longer be entitled to any special priority to the 1976 Sales Tax Revenues and may be treated as general unsecured creditors of the Authority as to the 1976 Sales Tax Revenues.

Furthermore, since the obligations of the Authority under the Indenture, including its obligation to pay principal of and interest on the 2011 Series A Bonds, are limited obligations and are payable solely from 1976 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 2011 Series A Bonds) would have no recourse to any assets or revenues of the Authority other than 1976 Sales Tax Revenues and such other amounts held by the Trustee under the Indenture.

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.

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 2011 Series A 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 – "THE SANTA CLARA VALLEY TRANSPORTATION AUTHORITY – Litigation."

TAX MATTERS

The Internal Revenue Code of 1986 (the "Code") imposes certain requirements that must be met subsequent to the issuance and delivery of the 2011 Series A Bonds for interest thereon to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause the interest on the 2011 Series A Bonds to be included in the gross income of the owners thereof for federal income tax purposes retroactive to the date of issuance of the 2011 Series A Bonds. The Authority has covenanted to maintain the exclusion of the interest on the 2011 Series A Bonds from the gross income of the owners thereof for federal income tax purposes. In rendering its opinions with respect to the 2011 Series A Bonds as described below, Bond Counsel will rely upon representations and covenants of the Authority (including such covenant noted above) made in connection with the issuance and delivery of the 2011 Series A Bonds, and will assume that all such representations are true and correct and that the Authority will comply with all such covenants.

In the opinion of Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel, under existing statutes, regulations, rulings and court decisions, interest on the 2011 Series A Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the aforementioned covenant, interest on the 2011 Series A Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. In the further opinion of Bond Counsel, under existing statutes, regulations, rulings and court decisions, the 2011 Series A Bonds are not "specified private activity bonds" within the meaning of section 57(a)(5) of the Code and, therefore, interest on the 2011 Series A Bonds will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. Receipt or accrual of interest on 2011 Series A Bonds owned by a corporation may affect the computation of the alternative minimum taxable income. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed.

To the extent that a purchaser of a 2011 Series A Bond acquires that 2011 Series A Bond at a price in excess of its "stated redemption price at maturity" (within the meaning of section 1273(a)(2) of the Code), such excess will constitute "bond premium" under the Code. Section 171 of the Code, and the Treasury Regulations promulgated thereunder, provide generally that bond premium on a tax-exempt obligation must be amortized over the remaining term of the obligation (or a shorter period in the case of certain callable obligations); the amount of premium so amortized will reduce the owner's basis in such obligation for federal income tax purposes, but such amortized premium will not be deductible for federal income tax purposes. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of the obligation. The amount of premium that is amortizable each year by a purchaser is determined by using such purchaser's yield to maturity. The rate and timing of the amortization of the bond premium and the corresponding basis reduction may result in an owner realizing a taxable gain when its 2011 Series A Bond is sold or disposed of for an amount equal to or in some circumstances even less than the original cost of the 2011 Series A Bond to the owner. Purchasers of 2011 Series A Bonds at a price that includes bond premium should consult their own tax advisors with respect to the computation and treatment of such bond premium, including, but not limited to, the calculation of gain or loss upon the sale, redemption or other disposition of the 2011 Series A Bonds.

Pursuant to the Indenture and in the *Tax Certificate Pertaining to Arbitrage and Other Matters under Sections 103 and 141-150 of the Internal Revenue Code of 1986*, to be delivered by the Authority in connection with the issuance of the 2011 Series A Bonds, the Authority will make representations relevant to the determination of, and will make certain covenants regarding or affecting, the exclusion of interest on the 2011 Series A Bonds from the gross income of the owners thereof for federal income tax purposes. In reaching its opinions described above, Bond Counsel will assume the accuracy of such representations and the present and future compliance by the Authority with such covenants. Further, except as stated above, Bond Counsel will express no opinion as to any federal or state tax consequences of the receipt of interest on, or the ownership or disposition of, the 2011 Series A Bonds.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the 2011 Series A Bonds may affect the tax status of interest on the 2011 Series A Bonds or the tax consequences of the ownership of the 2011 Series A Bonds. No assurance can be given that future legislation, if enacted into law, will not contain provisions that could directly or indirectly reduce the benefit of the exemption of interest on the 2011 Series A Bonds from personal income taxation by the State of California or of the exclusion of the interest on the 2011 Series A Bonds from the gross income of the owners thereof for federal income tax purposes. Furthermore, Bond Counsel will express no opinion as to any federal, state or local tax law consequences with respect to the 2011 Series A Bonds, or the interest thereon, if any action is taken with respect to the 2011 Series A Bonds or the proceeds thereof predicated or permitted upon the advice or approval of other counsel.

Although Bond Counsel is of the opinion that interest on the 2011 Series A Bonds is exempt from California personal income tax and excluded from the gross income of the owners thereof for federal income tax purposes, an owner's federal, state or local tax liability may be otherwise affected by the ownership or disposition of the 2011 Series A Bonds. The nature and extent of these other tax consequences will depend upon the owner's other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the 2011 Series A Bonds should be aware that (i) section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the 2011 Series A Bonds and the Code contains additional limitations on interest deductions applicable to financial institutions that own tax-exempt obligations (such as the 2011 Series A Bonds), (ii) with respect to insurance companies subject to the tax imposed by section 831 of the Code, section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15% of the sum of certain items, including interest on the 2011 Series A Bonds, (iii) interest on the 2011 Series A Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by section 884 of the Code, (iv) passive investment income, including interest on the 2011 Series A Bonds, may be subject to federal income taxation under section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income, (v) section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest on the 2011 Series A Bonds and (vi) under section 32(i) of the Code, receipt of investment income, including interest on the 2011 Series A Bonds, may disqualify the recipient thereof from obtaining the earned income credit. 2011 Series A Bond Counsel has expressed no opinion regarding any such other tax consequences.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the Authority described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the 2011 Series A Bonds is commenced, under current procedures the Service is likely to treat the Authority as the "taxpayer," and the owners would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the 2011 Series A Bonds, the Authority may have different or conflicting interest from the owners. Public awareness of any future audit of the 2011 Series A Bonds could adversely affect the value and liquidity of the 2011 Series A Bonds during the pendency of the audit, regardless of its ultimate outcome.

A copy of the form of opinion of Bond Counsel to be delivered at the closing of the 2011 Series A Bonds is included in APPENDIX G.

On September 12, 2011, President Obama submitted to Congress the "American Jobs Act of 2011" (the "American Jobs Act"), which, if enacted, could result in additional federal income tax being imposed on certain owners of tax-exempt obligations, including the 2011 Series A Bonds, for tax years beginning on or after January 1, 2013. As proposed, the American Jobs Act would limit for certain individual taxpayers the value of certain deductions and exclusions, including the exclusion for tax-exempt interest, to 28 percent irrespective of the actual marginal tax rate imposed on such taxpayers. The American Jobs Act or other similar legislation, if enacted, could directly or indirectly reduce or eliminate the benefit of the exclusion of interest on the 2011 Series A Bonds from gross income for federal income tax purposes. The introduction or enactment of the American Jobs Act or other similar legislation could also affect the market value and liquidity of the 2011 Series A Bonds. Prospective purchasers of the 2011 Series A Bonds should consult with their own tax advisors with respect to the American Jobs Act or other pending or proposed tax legislation.

LEGAL MATTERS

Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel to the Authority, will render an opinion substantially in the form set forth in APPENDIX G hereto, with respect to the Indenture and the 2011 Series A Bonds. Bond Counsel expresses no opinion regarding the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Authority by the Authority's General Counsel and by Fulbright & Jaworski LLP, as Disclosure Counsel. Compensation paid to Bond Counsel and Disclosure Counsel is contingent on the successful issuance of the 2011 Series A Bonds.

RATINGS

Standard & Poor's Financial Services LLC, Moody's Investors Service, Inc. and Fitch Ratings have assigned ratings of "AAA," "Aa2" and "AA," respectively, to the 2011 Series A 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 2011 Series A 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 2011 Series A Bonds.

UNDERWRITING

Goldman, Sachs & Co. (the "Underwriter") has purchased the 2011 Series A Bonds from the Authority at a competitive sale for a purchase price of $53,176,888.29 (representing $47,485,000.00 aggregate principal amount of 2011 Series A Bonds, plus a net bond premium of $5,803,217.05, less an Underwriter's discount of $111,328.76). The Underwriter may offer and sell the 2011 Series A 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 2011 Series A Bonds may be changed from time to time by the Underwriter.

FINANCIAL ADVISOR

The Authority has retained Ross Financial, San Francisco, California, as financial advisor (the "Financial Advisor") in connection with the issuance and sale of the 2011 Series A Bonds. Compensation paid to the Financial Advisor is contingent on the successful issuance of the 2011 Series A Bonds.

CONTINUING DISCLOSURE

The Authority has covenanted for the benefit of the owners and beneficial owners of the 2011 Series A 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 2010-11 Fiscal Year, and to provide notices of the occurrence of certain enumerated events. The Annual Report will be filed by Digital Assurance Certification, L.L.C. (the "Dissemination Agent") on behalf of the Authority with the Municipal Securities Rulemaking Board (the "MSRB"). Any notices of enumerated events will be filed by the Dissemination Agent on behalf of the Authority with the MSRB. The specific nature of the information to be contained in the Annual Report and the notices of enumerated events is set forth under the caption APPENDIX E – "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12 (the "Rule") of the U.S. Securities and Exchange Commission promulgated under the Securities Exchange Act of 1934, as amended. 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. A copy of the Indenture is available for inspection at the Authority and following delivery of the 2011 Series A Bonds will be on file at the offices of the Trustee in San Francisco, California.

Any statement 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 Owners of any of the 2011 Series A Bonds.

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

By: /s/ Joseph Smith
Chief Financial Officer

APPENDIX A

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

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

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
Margaret Abe-Koga, Chairperson	City of Mountain View
Ken Yeager, Vice Chairperson	County of Santa Clara
Xavier Campos	City of San José
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
Sam Liccardo	City of San José
Chris Moylan	City of Sunnyvale
Chuck Page	City of Saratoga
Chuck Reed	City of San José
Perry Woodward	City of Gilroy

Current alternate members of the Board are Nancy Pyle (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). The current ex-officio member of the Board is Dave Cortese.

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 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 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 1,970 employees of which approximately 94% are represented by unions. The Amalgamated Transit Union, Division 265 (the "ATU"), represents 1,354 employees (68.8% of total Authority employees), including mechanics and maintenance personnel, bus and light rail operators, dispatchers, and customer service representatives. The current agreement between the ATU and the Authority was executed in 2008 and expires on February 10, 2013.

The remaining represented employees consist of: members of Service Employees International Union, Local 521 ("SEIU Local 521"), representing 254 employees in technical, paraprofessional and administrative positions; members of American Federation of State, County and Municipal Employees, Local 101 ("AFSCME"), representing 210 employees in managerial, supervisory and other professional level positions; and members of Transit Authority Engineers and Architects ("TAEA"), representing 35 employees in engineering and architect positions. The contract with AFSCME expired on June 30, 2011; although the Authority and AFSCME are continuing to observe many of the essential terms of the expired contract. The Authority is currently negotiating the terms of a successor contract with AFSCME. Contracts with SEIU Local 521 and TAEA expire May 31, 2013 and June 30, 2013, respectively.

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

The Authority Transit System

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

Bus Transit Service. The Authority presently operates a bus system providing service to the approximately 346-square-mile urbanized portion of the County, a county of 1,300 square miles with a population of approximately 1.9 million. The Authority currently maintains an active fleet of 436 buses, including 321 diesel-powered, 45 unleaded gasoline-powered, and 70 hybrid-diesel-powered buses. The average age of these buses is eight years and the buses range from one to 13 years old. Buses are operated and maintained from three operating divisions and an Overhaul and Repair ("O&R") facility: Cerone Operating Division, Don Pedro Chaboya Operating Division, North Operating Division and Cerone O&R Division. Along the bus routes, there are approximately 3,800 bus stops, 800 of which have bus shelters.

The Authority also maintains 11 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 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 with four additional Express trains is operated between San José Diridon Station and San Francisco. Funding of operating costs is apportioned to each member agency of the PCJPB and is based upon morning peak period boardings in each county. Currently the Authority is responsible for approximately 41% of such operating costs.

The Authority is also a member of the Capitol Corridor Joint Powers Authority (the "Capitol Corridor JPA"), which is composed of the Authority, the Sacramento Regional Transit District, the Placer County Transportation Planning Agency, the congestion management agencies of Solano and Yolo Counties and the San Francisco Bay Area Rapid Transit District ("BART"). The Capitol Corridor JPA provides intercity rail service between Sacramento and San José. Thirty-two 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 ("SJRRC"). 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 SJRRC.

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 the Authority is responsible for approximately 41% of such operating expenses. 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 26% to the net operating costs for this service, a reduction from 30% previously, with the Authority funding the remainder.

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

Authority Revenues

The Authority's primary revenue sources consist of 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 1976 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 1976 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 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.

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 or available as a source of repayment for 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, 2011.

Santa Clara Valley Transportation Authority
Historical Sales Tax Revenues
Fiscal Years Ended June 30, 2002 - 2011

Fiscal Year Ended June 30	1976 Sales Tax Revenues	Percentage Change	2000 Measure A Sales Tax[1]	Percentage Change
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
2011	153,601,839	9.7	152,855,102	9.7

(1) Differences between 1976 and 2000 Measure A Sales Tax revenues are to prior period adjustments.
(2) 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 Authority receives approximately three-fourths of this 11% allocation. The remaining 89% of the TDA Revenues are allocated to operators who provide public transportation services in the County. As the only public transit service provider in the County, the Authority is eligible to receive the entire amount of the 89% allocation of TDA Revenues. TDA Revenues are available to the Authority in an amount up to 50% of the Authority's operating budget, after deduction of the amount received from federal grants, provided that certain TDA eligibility requirements are met. The Authority, formerly known as the Santa Clara County Transit District, began operations in 1972 and has complied with TDA eligibility requirements since it began receiving TDA funds in 1973. In accordance with procedures and eligibility requirements set forth in the TDA, the Authority submits a request for TDA Revenues to MTC following MTC's adoption of the next Fiscal Year's revenue estimate. If MTC approves the request, MTC then directs the Controller of the County (in the case of the County, the County Treasurer) to release the TDA Revenues to the Authority. TDA Revenues are received by the County Treasurer and distributed to the Authority based on direction from MTC as collected and transmitted by the State.

The table set forth below shows the total amount of TDA Revenues for operations available from annual State sales tax collections in the County during the five Fiscal Years ended June 30, 2011. Fiscal Year 2011 data is preliminary and unaudited.

Santa Clara Valley Transportation Authority
Historical Transportation Development Act Revenues

Fiscal Year Ended June 30	TDA Revenues for Operations Distributed to the Authority
2007	$81,061,374
2008	83,546,655
2009	73,356,590
2010	65,800,680
2011	67,776,462

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

The Authority received STA Revenues since Fiscal Year 1980, with an interruption in Fiscal Year 2009 and Fiscal Year 2010, as explained below. STA Revenues have to be claimed by the Authority based on actual cash expenditures, normally on a quarterly basis. The table below shows STA Revenues received by the Authority for the five Fiscal Years ended June 30, 2011. Fiscal Year 2011 data is preliminary and unaudited.

Santa Clara Valley Transportation Authority
Historical State Transit Assistance Program Revenues

Fiscal Year Ended June 30	STA Revenues Received
2007	$22,320,559(1)
2008	19,021,666(1)
2009	6,482,858
2010	-0-
2011(2)	15,304,141

(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.
(2) Preliminary and unaudited.

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

In March 2010, then Governor Schwarzenegger signed into law a three-bill package that implemented a complex swapping of state transportation funding sources that was intended to achieve roughly $1 billion in annual budget savings by relieving the State General Fund of the obligation of having to pay for transportation bond debt service. This restructuring of state transportation funding, which is embodied in ABX8 6, ABX8 9 and SB 70, 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 transportation funding 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 will 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, all of which have been received by the Authority.

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

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

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

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(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.

In June 2011, Governor Brown signed the Fiscal Year 2012 State budget into law. This budget estimates STA funding at $416.3 million for the fiscal year ending June 30, 2012, of which the Authority is projected to receive at least $13.3 million.

Ridership and Farebox, Advertising and Other Revenues. The table set forth below shows the Authority's ridership, farebox revenues, revenues from advertisements placed on the Authority's vehicles and bus shelters and other revenues received by the Authority for the five Fiscal Years ended June 30, 2011. Fiscal Year 2011 data are preliminary and unaudited.

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
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
2011[2]	41,409,630	40,025,881

(1) Directly operated services.
(2) Preliminary and unaudited.

The Authority's ridership is highly correlated to employment within the County. During the first half of Fiscal Year 2011, total monthly system ridership continued to decline on a year over year basis as meaningful employment opportunities seemed elusive. However, since January 2011, total monthly system ridership has been increasing, coinciding with improved employment within the County. The total monthly system ridership in June 2011 for bus and light rail increased 6.3% over June 2010 levels. The average weekday system ridership for June 2011 also increased by 7.1% from June 2010. The Authority's ridership for the Fiscal Year Ended June 30, 2011 was 41.4 million, slightly down by 0.8% compared to the previous fiscal year.

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 the measure approved Measure B ("2008 Measure B"), a 30-year one-eighth of one percent (0.125%) sales tax (the "2008 Measure B Sales Tax"). The imposition of the 2008 Measure B Sales Tax is contingent on the Authority's ability to secure a Full Funding Grant Agreement from the Federal Transit Administration 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. **If imposed, the 2008 Measure B Sales Tax would not be pledged as a revenue source and would not secure 1976 Sales Tax Obligations or 2000 Measure A Obligations.**

Authority Budgeted Revenues and Expenditures

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

A detailed discussion of the Budget related to the Authorities Measure A Program, congestion management, highway improvements and countywide transportation planning (all of which are funded from other sources of revenue than those discussed herein) is included in the budget document, which may be obtained directly from the Authority. The Fiscal Year 2012-2013 Adopted Budget is currently available at http://www.vta.org/inside/budget. None of the information on such website is incorporated by reference herein. The remaining approved Budget amounts are in support of transit-related transportation projects, bus and rail operations in the County, and regional commuter and inter-city rail service.

The Budget was developed in a much different economic climate than the previous Biennial Budget. The Fiscal Year 2010 and Fiscal Year 2011 budget was developed amid a backdrop of economic distress, declining Sales Tax Revenues and declining State funding for transit operations. The current environment is one of an improved, if still somewhat tenuous, economic outlook: unemployment rates in the County have decreased; Sales Tax Revenues are experiencing positive growth; and ridership is showing signs of improvement. However, the Authority's approach is to remain diligent in its ongoing efforts to contain costs and ensure that recurring expenditures do not outpace recurring revenues.

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

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

Santa Clara Valley Transportation Authority
Fiscal Years 2012 and 2013 – Summary of Transit System Revenues and Expenses
(in Thousands)

	Actual	Actual	Adopted Budget	
	2010	2011[1]	2012	2013
Operating Reserve Balance, July 1	$ 46,045	$ 51,857	$ 54,595	$ 56,268
1976 Sales Tax Revenues	140,037	153,602	156,242	165,273
Other Operating and Non-Operating Revenues[2]	206,923	221,128	209,868	211,552
Federal Grants	9,207	47,027	24,391	418
Transit Security Grant Program (TSGP)[3]	1,780	1,937	4,994	4,994
State Grants – Prop 1B	3,344	11,929	21,977	3,080
Regional Measure 2 (RM2)[4]	2,155	1,379	-	-
Other	14,361	7,912	21,629	11,785
Total Revenues	**377,807**	**444,914**	**439,101**	**397,102**
Total Available for Transit System Expenses	**423,852**	**496,771**	**493,696**	**453,370**
Transit System Operating Expenses:				
Directly Operated Transit Service	262,819	270,789	295,350	305,034
Other Expense	67,861	69,125	68,617	70,084
Total Transit System Operating Expense[2]	**330,680**	**339,914**	**363,967**	**375,118**
Transit System Capital Expenses:				
Revenue Vehicles and Equipment	2,670	52,992	21,333	3,079
Non-Revenue Vehicles	25	2,299	1,931	-
Operations Facilities and Equipment	9,882	8,075	34,150	4,606
Passenger Facilities	2,849	598	5,734	6,516
Information Systems and Technology	7,895	3,030	4,706	2,938
Miscellaneous	7,527	3,190	5,136	3,136
Total Transit Capital Expense[5]	**30,847**	**70,184**	**72,990**	**20,277**
Total Transit System Operating & Capital Expenses	**361,527**	**410,098**	**436,958**	**395,395**
Transit Operating Reserves in Excess of 15% transferred to Debt Reduction Fund	(10,468)	(32,078)	(470)	(1,707)
Ending Balance – Transit Operating Reserve	**$ 51,857**	**$ 54,595**	**$ 56,268**	**$ 56,268**

(See Footnotes on the following page.)

(Footnotes continued from previous page.)

(1) Projection as of August 19, 2011; year-end data is preliminary and unaudited.
(2) For a general line item detail of operating and non-operating revenues as well as operating expenses, see the Draft Recommended Fiscal Year ending June 30, 2012 and Fiscal Year ending June 30, 2012 Budget which may be obtained directly from the Authority, currently available at:
http://www.vta.org/inside/boards/packets/2011/06_jun/bod_060211_packet.pdf, pp. 454-571. Information on such website is not incorporated herein by reference.
(3) 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.
(4) 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.
(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 31 transit related state of good repair (infrastructure renewals/replacement) projects and 6 improvement projects in an amount of $93.3 million over the two-year budget period.

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

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

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

Short Range Transportation Plan. As a transit operator, the Authority prepares a complete Short Range Transit Plan ("SRTP") every four years and a "mini-SRTP" every year as required by MTC and the Federal Transit Administration ("FTA"). The SRTP is used as documentation to support projects included in the Regional Transportation Plan ("RTP") prepared by MTC. Both the FTA and MTC use the SRTP as the detailed planning justification required for awarding operating and capital grants to the Authority. The Authority's most recent SRTP for the Fiscal Years 2010-2019 was adopted by the Board of Directors in February 2010. An updated SRTP is currently scheduled for update in the first quarter of calendar 2012.

There are two Capital Improvement Programs included in the SRTP: the Authority's Core System Capital Improvement Program ("Core CIP") and the 2000 Measure A Program ("Measure A CIP"). For a discussion on the Measure A CIP, refer to the Authority's Short Range Transit Plan, which may be obtained from the Authority or downloaded from http://www.vta.org/studies/. The information set forth on such website is not incorporated by reference herein. The CIPs are funded by a combination of federal, State and local regional funding as well as bonds secured by the Authority's sales tax revenues.

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

Core Capital Improvement Program Summary
(In Thousands)

Program Area	**Fiscal Years 2010-2019**
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	46,513
Total Program Project Costs	**$577,361**

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

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

Audited financial results for the Fiscal Year ended June 30, 2011 are not yet available.

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, 2011. The summary statements are presented in accordance with generally accepted accounting principles ("GAAP"). Data for the Fiscal Years ended June 30, 2007 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. Data for the Fiscal Year ended June 30, 2011 are preliminary and unaudited. 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, 2007 through 2011
(In Thousands)

	2007	2008	2009	2010	2011[1]
Operating Revenues:					
Passenger fares	$35,242	$35,830	$36,184	$36,857	38,106
Advertising and other	2,634	2,223	2,255	1,973	1,908
Total operating revenues	**37,876**	**38,053**	**38,439**	**38,830**	**40,014**
Operating Expenses:					
Labor	126,387	131,732	134,181	129,803	129,291
Fringe benefits	116,723	108,422	111,969	116,736	119,082
Materials and supplies	28,398	31,513	27,097	26,216	29,765
Services	27,943	27,098	22,777	18,345	18,116
Utilities	6,638	6,867	6,869	6,718	6,787
Casualty and liability	3,856	5,278	5,818	4,688	4,962
Purchased transportation	28,132	28,392	27,974	24,245	20,768
Leases and rentals	112	420	3,499	2,217	495
Miscellaneous	1,821	1,856	1,966	1,461	1,313
Costs allocated to capital and other programs[(2)]	(35,159)	(39,691)	(39,628)	(33,989)	(31,827)
Total operating expenses, excluding depreciation	**304,851**	**301,887**	**302,522**	**296,440**	**298,752**
Operating loss before depreciation	**(266,975)**	**(263,834)**	**(264,083)**	**(257,610)**	**258,738**
Depreciation Expense:					
Total depreciation expense	51,022	53,292	51,762	51,378	55,060
Operating loss	**(317,997)**	**(317,126)**	**(315,845)**	**(308,988)**	**(313,798)**
Non-operating revenues (expenses):					
1976 Sales Tax Revenue	163,676	163,038	137,642	140,037	153,602
Measure A Sales Tax Revenues [(3)]	161,361	160,537	137,261	139,305	152,855
Federal operating grants and reimbursements	35,514	22,425	33,449	59,101	48,073
State and local operating grants and reimbursements	104,917	104,080	81,488	67,833	95,579
Caltrain subsidy and Capital contributions to other agencies	(22,509)	(34,747)	(58,504)	(97,592)	(80,917)
Altamont Commuter Express Subsidy	(2,542)	(2,621)	(2,707)	(2,708)	(2,706)
Investment Earnings	11,304	20,370	15,341	5,764	10,067
Interest expense & Other Bond Fees	(13,672)	(12,214)	(11,651)	(20,583)	(23,536)
Other (expense)/Income, net[(4)]	(2,234)	243	(2,061)	(4,192)	(8,939)
Total non-operating revenues, net	**435,815**	**421,111**	**330,258**	**286,965**	**344,078**
Change in net assets, before capital contributions	**117,818**	**103,985**	**14,413**	**(22,024)**	**30,280**
Capital Contributions	199,999	153,443	82,175	92,594	148,303
Transfer In/(Out)	-	-	-	-	32,650[(6)]
Net income (loss)[(5)]	**$317,817**	**$257,428**	**$96,588**	**$70,570**	**211,233**

Footnotes on next page.

(1) Preliminary and unaudited.
(2) 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.
(3) Collection of 2000 Measure A Sales Tax started in April 2006.
(4) 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.
(5) Net income (loss) is funded from reserves and presented in accordance with GAAP.
(6) Represents the transfer of excess internal service funds (worker's compensation, general liability) to Enterprise Funds.

Management's Discussion of Financial Results

In response to declines in Fiscal Year 2009 Sales Tax Revenues and deficit projections subsequent to adoption of the Fiscal Year 2010 and Fiscal Year 2011 Biennial Budget, the Authority's Board of Directors approved several budget reduction strategies in December 2009 to address the Fiscal Year 2010 and Fiscal Year 2011 projected budget shortfall. Strategies implemented during the two-year budget period included an 8% reduction in transit service, an increase in fares, and continued ongoing efforts to control costs (including mandatory unpaid furlough days and wage freezes for all administrative employees) and enhance operational efficiencies.

The financial results of Fiscal Years ended June 30, 2010 and June 30, 2011 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 both years, the Authority ended the fiscal year with revenues in excess of transit operating costs, allowing the Authority to fully fund its policy level operating reserve of 15%.

Authority Obligations

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

	Original Principal Amount	Principal Amount Outstanding
Sales Tax Revenue Refunding Bonds, 2008 Series A, Series B and Series C[(1)]	$168,585,000	$164,880,000
Sales Tax Revenue Refunding Bonds, 2007 Series A	26,275,000	22,685,000

(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.

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	117,665,000
Sales Tax Revenue Bonds, 2010 Measure A	645,890,000	645,890,000

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

Leveraged Lease Transactions. The Authority has outstanding four tax-advantaged leveraged lease transactions encumbering certain light rail vehicles. These transactions involve a lease of the Authority's interest in these vehicles to special purpose trusts formed by equity investors and a leaseback to the Authority. One of these transactions involving rail vehicles with an aggregate value of $54.2 million was entered into in 1998 and has a lease expiration date of 2017 (the "1998 Lease"). The three other 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"). On September 19, 2011, the Authority terminated a leveraged lease entered into in 1998 and involving rail vehicles with an aggregate value of $38.1 million.

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 Lease. 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.

See Appendix B – "Audited Financial Statements of the Santa Clara Valley Transportation 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.

A draft actuarial analysis as of June 30, 2011, dated July 6, 2011, disclosed that the present values of estimated outstanding losses, at 4% average discount rate using a 60% confidence level, are $16.1 million and $3.4 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, 2011, are as follows (in thousands):

	Workers' Compensation	**General Liability**
Unpaid Claims as of June 30, 2009	$22,325	$5,691
Provisions for claims and claim adjustment expenses	5,726	2,479
Payment for claims and other adjustments	(6,114)	(3,207)
Unpaid claims as June 30, 2010	$21,937	$4,963
Provision for claims and claim adjustment expense	5,879	2,726
Change in estimates for provision for future claims	(5,962)	(1,760)
Payment for claims and other adjustments	(4,658)	(2,226)
Unpaid claims as June 30, 2011	17,189	3,703

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, 2011, is shown below:

Type of Coverage	**Self-Insurance/ Deductible**	**Excess Coverage (in aggregate)**
Workers' compensation	Self-Insured	None
Employer's Liability	$3,000,000	$47,000,000 per occurrence
Public Officials liability	Self-Insured $3,000,000	$47,000,000
Excess public entity liability	$3,000,000	$47,000,000
Property, boiler, and machinery	$100,000	$70,000,000 combined blanket limit
National Flood Insurance (eligible locations)	$5,000	$500,000
Light rail vehicles, includes spare parts coverage, no earthquake coverage	$250,000	$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 January 1, 2011, there were 2,633 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, 2011.

Actuarial Methods and Assumptions:

Description	Methods/Assumptions
Valuation Date	January 1, 2011
Actuarial cost method	Individual 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 (includes inflation at CPI rate of 3.50%)
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%	32%	33%
Domestic Large-Cap Value	12-22	19	17
Domestic Large-Cap Index	8-18	15	13
Domestic Small-Cap Value	2-12	9	7
International Equity Developing Markets	9-19	16	14
International Emerging Markets	2-10	3	5
US Core Real Estate	5-15	6	10
Cash	0-5	0	1

(1) As of May 31, 2011.

The Authority contributes to the ATU Plan at actuarially determined rates applied to eligible payroll sufficient to maintain funding of vested benefits. Actuarial rates are determined on the basis of the previous calendar year data for implementation in the following fiscal year, beginning on July 1 of that year. Such contribution includes an amortized amount of the unfunded accrued actuarial liability ("UAAL") as well as current year normal costs. Totals of the actual cost and the amortized cost of the UAAL equal the actuarial rate that would liquidate the UAAL over the remaining amortization period (20 years). The actuarial review and analysis as of January 1, 2011 resulted in an increase in the Authority's contributions to $18.3 million, or 18.43% in dollar terms and as a percentage of covered payroll. The Authority pre-funded its Fiscal Year 2012 contribution to the ATU Pension plan at $20.0 million.

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

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/01	$220,426,090	$273,436,635	$53,010,545	81%	$100,320,190	53%
12/31/02	224,004,253	278,113,814	54,109,561	81	93,951,901	58
12/31/03	247,693,872	325,530,324	77,836,452	76	91,255,094	85
12/31/04	268,428,853	350,895,167	82,466,314	76	88,448,718	93
12/31/05	288,829,224	363,114,404	74,285,180	80	92,663,178	80
12/31/06	314,816,391	397,853,860	83,037,469	79	93,985,560	88
12/31/07	344,521,552	423,739,213	79,217,661	81	98,722,453	80
12/31/08	325,247,483	442,830,578	117,583,095	73	100,877,989	117
12/31/09	354,785,095	462,912,195	108,127,100	77	102,625,557	105
12/31/10	368,134,113	474,252,147	106,118,034	78	97,569,124	109

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

Actuarial Valuation Date	Market Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/01	$211,887,568	$273,436,635	$53,010,545	77%	$100,320,190	53%
12/31/02	203,777,731	278,113,814	54,109,561	73	93,951,901	58
12/31/03	248,017,773	325,530,324	77,836,452	76	91,255,094	85
12/31/04	277,537,728	350,895,167	82,466,314	79	88,448,718	93
12/31/05	295,228,426	363,114,404	74,285,180	81	92,663,178	80
12/31/06	334,890,452	397,853,860	83,037,469	84	93,985,560	88
12/31/07	347,417,595	423,739,213	79,217,661	82	98,722,453	80
12/31/08	271,039,569	442,830,578	117,583,095	61	100,877,989	117
12/31/09	327,447,278	462,912,195	108,127,100	71	102,625,557	105
12/31/10	361,181,295	474,252,147	106,118,034	76	97,569,124	109

After completion of the January 2011 actuarial valuation, the Pension Board approved the staff's recommendation to change the investment rate of return assumption to 7.75% from 8.0%. An investment return assumption of 7.75% increases the unfunded portion of the actuarial accrued liability to $118,636,425. The Authority's contribution included in the Fiscal Year 2012 and Fiscal Year 2013 Adopted Budget already includes the impact of the change in methodology.

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**
6/30/01	$7,349,000	100%	-
6/30/02	10,302,000	100	-
6/30/03	12,362,000	100	-
6/30/04	12,071,000	100	-
6/30/05	14,292,000	100	-
6/30/06	15,278,000	100	-
6/30/07	14,859,000	100	-
6/30/08	16,137,000	100	-
6/30/09	14,843,000	100	-
6/30/10	17,905,000	100	-

The funding ratio for termination liability, which is an estimate of the obligation the ATU Plan would have to meet if it was terminated as of January 1, 2011, was 89.3%. This estimate is based on pay and years of service of all covered employees and uses the actuarial methods and assumptions above.

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

CalPERS is an agent multiple-employer defined benefit retirement plan that acts as a common investment and administrative agent for various local and state governmental agencies within the State. CalPERS provides retirement, disability, and death benefits based on the employees' years of service, age, and final compensation. Employees vest after five (5) years of service and may receive retirement benefits at age 50. These benefit provisions and all other requirements are established by state statute and Authority resolutions. The Authority contracts with CalPERS to administer these benefits. The actuarial methods and assumptions are based on a report dated October 2010, for data as of June 30, 2009.

Actuarial Methods and Assumptions:

Description	Methods/Assumptions
Valuation Date	June 30, 2009
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level percent of Payroll
Average Remaining Period	25 years as of the Valuation Date
Asset Valuation Method	15 years smoothed market
Actuarial Assumptions	
Investment Rate of Return	7.75% (net of investment expense)
Projected Salary Increases	3.55 to 14.45% depending on age, service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation 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 19.2% of payroll for the Fiscal Year ending June 30, 2011, based on the latest actuarial valuation. The Authority has budgeted its contributions at the required rate, estimated at $10.0 million. For the Fiscal Year ended June 30, 2011, the Authority's annual CalPERS pension cost was $6.2 million.

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

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

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities	UAAL	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/00	$88,459,322	$74,228,216	$(14,231,106)	119%	$29,010,893	-49%
6/30/01	97,221,500	87,012,005	(10,209,495)	112	48,235,128	-21
6/30/02	98,352,244	103,253,419	4,901,175	95	56,796,212	9
6/30/03	107,060,545	126,069,247	19,008,702	85	56,006,441	34
6/30/04	119,708,580	142,662,507	22,953,927	84	50,876,724	45
6/30/05	135,508,064	160,103,833	24,595,769	85	50,193,561	49
6/30/06	152,536,031	177,983,295	25,447,264	86	50,301,722	51
6/30/07	170,836,697	195,098,516	24,261,819	88	49,681,839	49
6/30/08	188,897,985	214,450,572	25,552,587	88	51,043,339	50
6/30/09	203,338,247	238,083,095	34,744,848	85	54,589,177	64

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

Actuarial Valuation Date	Market Value of Assets	Actuarial Value of Assets	UAAL	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/00	$94,050,280	$74,228,216	$(19,822,064)	127%	$29,010,893	-41%
6/30/01	91,410,263	87,012,005	(4,398,258)	105	48,235,128	-9
6/30/02	89,411,131	103,253,419	13,842,288	87	56,796,212	24
6/30/03	97,327,768	126,069,247	28,741,479	77	56,006,441	51
6/30/04	117,874,036	142,662,507	24,788,471	83	50,876,724	49
6/30/05	139,214,955	160,103,833	20,888,878	87	50,193,561	42
6/30/06	161,056,711	177,983,295	16,926,584	90	50,301,722	34
6/30/07	196,452,892	195,098,516	(1,354,376)	101	49,681,839	-3
6/30/08	190,976,832	214,450,572	23,473,740	89	51,043,339	46
6/30/09	148,423,875	238,083,095	89,659,220	62	54,589,177	164

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

Fiscal Year Ended	**Annual Pension Cost (APC)**	**Percentage of APC Contributed**	**Net Pension Obligation**
6/30/01	$5,077,000	100%	-
6/30/02	6,361,000	100	-
6/30/03	6,995,000	100	-
6/30/04	7,424,000	100	-
6/30/05	5,171,000	100	-
6/30/06	6,501,000	100	-
6/30/07	5,929,000	100	-
6/30/08	6,278,000	100	-
6/30/09	6,507,000	100	-
6/30/10	6,167,000	100	-

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. In June 2009, the CalPERS Board adopted changes to the asset smoothing method as well as changes to the Board policy on the amortization of gains and losses to phase in over a three year period the impact of the 24% investment loss experienced by CalPERS in Fiscal Year 2009. The following changes were adopted:

- Increase the corridor limits for the actuarial value of assets from 80%-120% of market value to 60%-140% of market value on June 30, 2009

- Reduce the corridor limits for the actuarial value of assets to 70%-130% of market value on June 30, 2010

- Return to the 80%-120% of market value corridor limits for the actuarial value of assets on June 30, 2011 and thereafter

- Isolate and amortize all gains and losses during fiscal year 2008-2009, 2009-2010 and 2010-2011 over fixed and declining 30 year periods (as opposed to the current rolling 30 year amortization)

The required contribution rates for the Authority reflect those changes.

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, 2010, 827 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, 2010, 333 retirees met the eligibility requirements for the Non-ATU Program.

The most recent actuarial analysis of Retiree Health Benefits as of July 1, 2010 disclosed that the actuarial accrued liability, which is the present value of benefits attributed to past service, is $226.0 million. The unfunded actuarial accrued liability of the Authority as of July 1, 2010 is $106.3 million. The Authority contributions are, at a minimum, advance funded on an actuarially determined basis. For the Fiscal Year ended June 30, 2010, the Authority made contributions to both the ATU and Non-ATU programs of $15.2 million, which was 10.2% of payroll. The actuarial report Annual Required Contribution (“ARC”) for Fiscal Year 2011 is $14.0 million. The report also suggested an alternative, higher contribution for a quicker amortization of Unfunded Accrued Liability (“UAL”), at a level of $16.1 million. The Authority has adopted the higher contribution level for Fiscal Year 2011, using 11.49% of payroll to achieve the $16.1 million target. The Authority has pre-funded its contribution for the Fiscal Year 2012 at $16.2 million, based on the actuary’s recommendation of 11.07% of projected $146.2 million payroll.

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 3.25% per year; (3) inflation component of 3.25% used for amortization; (4) a health inflation assumption of 10.0% in 2012, graded down annually to 8%, 6% and 5% in 2015, remaining at that level thereafter; (5) retiree contribution remaining fixed at $25 per month.

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APPENDIX B

AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

VALUE THE DIFFERENCE

Independent Auditor's Report

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

We have audited the accompanying financial statements of the business-type 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.

Vavrinek Trine 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	474,614	432,107	26,566	35,238	501,180	467,345
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	258,358	235,551	26,774	33,593	285,132	269,144
Net program revenues (expenses)	(216,256)	(196,556)	208	(1,645)	(216,048)	(198,201)
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	289,935	295,150	27	202	289,962	295,352
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	2,739,475	2,637,381	52	1,495	2,739,527	2,638,876
Net assets, end of year	$ 2,813,154	$ 2,739,475	$ 287	$ 52	$ 2,813,441	$ 2,739,527

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)

			Change Favorable/(Unfavorable)	
Proprietary Funds Revenue	**2010**	**2009**	**Amount**	**Percent**
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 [1]	(3,644)	-52.93%
TOTAL	$ 548,293	$ 534,201	$ 14,092	2.64%

[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

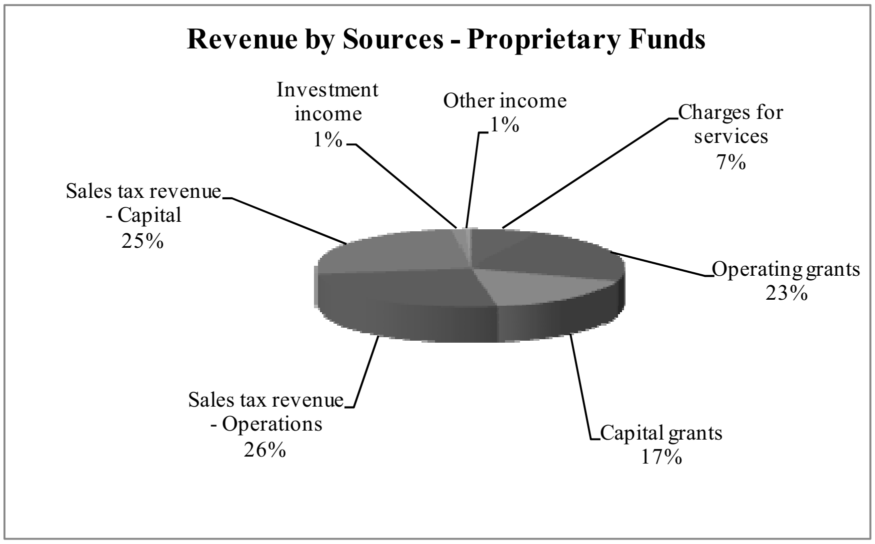
The 2000 Measure A Sales Tax is collected by the SBOE for VTA in the same manner as the 1976 Measure B Sales Tax. The collection of the Measure A half-cent sales tax revenue occurred after the expiration of 1996 Half-Cent Measure B Sales Tax on March 31, 2006. FY2010 revenues of $139.3 million were $2.0 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 (SJRRC). 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.

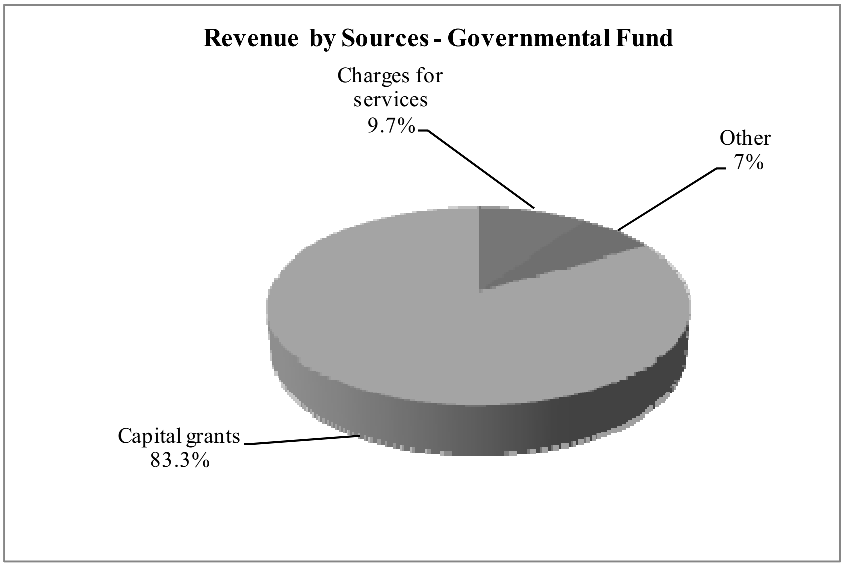
Claims and Change in Future Claim Estimates

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 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)

			Change Favorable/(Unfavorable)	
Special Revenue Fund	**2010**	**2009**	**Amount**	**Percent**
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	$ 287	$ 52	$ 235	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)

			Change Favorable/(Unfavorable)	
Capital Projects Funds	**2010**	**2009**	**Amount**	**Percent**
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	$ -	$ -	$ -	

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)

	2010	2009
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	$ 2,811,863	$ 2,806,348

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)

	2010	2009
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	$ 616,073	$ 625,342

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 2009[1]. 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 ago[2]. 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.

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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**

See Accompanying Notes to Basic Financial Statements

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	474,614	26,566	501,180
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	258,358	26,774	285,132
Net program revenues (expenses)	(216,256)	208	(216,048)
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	289,935	27	289,962
Change in net assets	73,679	235	73,914
Net assets beginning of year	2,739,475	52	2,739,527
Net assets, end of year	$ 2,813,154	$ 287	$ 2,813,441

See Accompanying Notes to Basic Financial Statements

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Fund Net Assets
Proprietary Funds
June 30, 2010
(In thousands)

	Enterprise Funds				
	VTA Transit Fund	Measure B Transit Fund	Measure A Transit Fund	Total Enterprise Fund	Internal Service Fund
ASSETS					
Current assets:					
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	-
Restricted assets:					
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
Noncurrent assets:					
OPEB obligation over-contributions	837	-	-	837	-
Deferred charges	1,638	-	10,129	11,767	-
Deferred outflow of resources	16,529	-	54,961	71,490	-
Capital assets - Non-depreciable:					
Land and right of way	1,123,321	-	-	1,123,321	-
Construction in progress	61,959	684	751,598	814,241	-
Capital assets - Depreciable:					
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)	-
Net capital assets	2,059,581	684	751,598	2,811,863	-
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				
	VTA Transit Fund	Measure B Transit Funds	Measure A Transit Fund	Total Enterprise Fund	Internal Service Fund
LIABILITIES					
Current liabilities:					
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
Non-current liabilities:					
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	-
Restricted:					
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	-
Unrestricted:					
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)	$ 2,813,154

See Accompanying Notes to Basic Financial Statements

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				
	VTA Transit Fund	Measure B Transit Fund	Measure A Transit Fund	Total Enterprise	Internal Service Fund
OPERATING REVENUE:					
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
OPERATING EXPENSE:					
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
NON-OPERATING REVENUES (EXPENSES):					
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 Transfers[1]	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)	$ 73,679

[1]Note 2 (k)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2010
(In thousands)

	VTA Transit Fund	Measure B Transit Fund	Measure A Transit Fund	Total Enterprise Funds	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES					
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	(251,622)	-	-	(251,622)	2,762
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
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	282,347	(956)	95,534	376,925	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
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	(24,471)	(3,622)	(39,716)	(67,809)	-
CASH FLOWS FROM INVESTING ACTIVITIES					
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	(11,779)	-	(55,021)	(66,800)	(1,535)
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
Reconciliation to Statement of Fund Net Assets:					
Unrestricted:					
Cash and cash equivalents	$ 510	$ -	$ -	$ 510	$ 1,227
Restricted					
Cash and cash equivalents	-	6,688	19	6,707	-
Cash and cash equivalents with fiscal agent	13,049	-	7,759	20,808	-
	$ 13,559	$ 6,688	$ 7,778	$ 28,025	$ 1,227

(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)

	VTA Transit	Measure B Transit Fund	Measure A Transit Fund	Total Enterprise Funds	Internal Service Fund
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	$ (251,622)	$ -	$ -	$ (251,622)	$ 2,762
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	-
	$ 13,559	$ 6,688	$ 7,778	$ 28,025	$ 1,227
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	$ 819	$ -	$ 1,182	$ 2,001	$ (1,407)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Balance Sheet
Governmental Funds
June 30, 2010
(In thousands)

	Special Revenue Fund	Capital Projects Funds		
	Congestion Management Program	Congestion Management & Highway Program	Measure B Highway Program	Total
ASSETS				
Cash and cash equivalents	$ 949	$ -	$ -	$ 949
Due from other funds	-	1,411	-	1,411
Due from other governmental agencies	367	-	-	367
Restricted assets:				
Cash and cash equivalents	-	14,929	2,607	17,536
Investments	-	12	-	12
Due from other governmental agencies	-	4,970	-	4,970
TOTAL ASSETS	$ 1,316	$ 21,322	$ 2,607	$ 25,245
LIABILITIES				
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	1,029	21,322	2,607	24,958
FUND BALANCES				
Unreserved, reported in special revenue fund	287	-	-	287
TOTAL LIABILITIES AND FUND BALANCES	$ 1,316	$ 21,322	$ 2,607	$ 25,245

See Accompanying Notes to Basic Financial Statements

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:				
Congestion management:				
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

See Accompanying Notes to Basic Financial Statements

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2010

(In thousands)

	Retiree Trust Funds	Agency Funds
ASSETS		
Restricted assets:		
Cash and Cash Equivalents	$ 789	$ 2,398
Investments	447,381	3,052
Receivables	1,623	-
Due from other funds	-	7
TOTAL ASSETS	449,793	$ 5,457
LIABILITIES		
Liabilities payable from restricted assets:		
Accounts payable	777	$ -
Program payable	-	5,457
TOTAL LIABILITIES	777	$ 5,457
NET ASSETS		
Net assets held in trust for:		
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	$ 449,016	

See Accompanying Notes to Basic Financial Statements

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
ADDITIONS	
Employer Contributions	$ 33,353
Investment earnings:	
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
DEDUCTIONS	
Benefit payments	30,722
Administrative expenses	209
TOTAL DEDUCTIONS	30,931
NET INCREASE	55,420
NET ASSETS HELD IN TRUST	
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:

Asset being Depreciated	Useful Life
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):

Cash and Cash Equivalents	Enterprise Fund	Internal Service Fund	Governmental Fund	Retiree Trust Funds	Agency Funds	Total
Unrestricted:						
Cash and Cash Equivalents	$ 510	$ 1,227	$ 949	$ -	$ -	$ 2,686
Investments	3,847	66,311	-	-	-	70,158
Total unrestricted	4,357	67,538	949	-	-	72,844
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	527,679	-	17,548	448,170	5,450	998,847
Total Cash and Investments	$ 532,036	$ 67,538	$ 18,497	$ 448,170	$ 5,450	$ 1,071,691

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	1,020,767
	$ 1,071,691

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	9,295
Total Deposits	$ 30,116

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.

<u>Interest rate risk</u> – 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.

<u>Credit risk</u> – 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):

	Maturity				
Investment Type	Less than 1 Year	2-5 Years	6-10 Years	Over 10 Years	Market Value
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 Goverment 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:

Ratings	Fair Value (In Thousands)	Percentages of Porfolios
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%**

[1]This 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	119,419
	$ 447,381

NOTE 4 – INTERFUND TRANSACTIONS

The composition of interfund balances as of June 30, 2010 is as follows (in thousands):

Due from other funds	Due to other funds	Amount	
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	1,110	3
		$ 2,646	

[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):

	Business Type Activity	Governmental Activity		
GOVERNMENTAL AGENCY	Enterprise Fund	Congestion Management Program	Congestion Management & Highway Program	Total
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	$ 125,742	$ 367	$ 4,970	$ 131,079

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		
ASSETS	Enterprise Fund	Congestion Management Program	Congestion Management & Highway Program	Total
Current assets - unrestricted	$ 73,395	$ 367	$ -	$ 73,762
Current assets - restricted	52,347	-	4,970	57,317
Total	$ 125,742	$ 367	$ 4,970	$131,079

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

	Business-Type Activity	Governmental Activity			
GOVERNMENTAL AGENCY	Enterprise Fund	Congestion Management Program	Congestion Management & Highway Program	Measure B Highway Program	Total
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	$ 44,729	$ 962	$ 18,155	$ 2,337	$ 66,183

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 Management Program	Congestion Management & Highway Program	Measure B Highway Program	Total
Current Liabilities (unrestricted)	$ 1,669	$ 962	$ -	$ -	$ 2,631
Liabilities payable from restricted assets	43,060	-	18,155	2,337	63,552
Total	$ 44,729	$ 962	$ 18,155	$ 2,337	$ 66,183

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):

	July 1, 2009	Additions	Retirements	Transfers	June 30, 2010
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	1,900,598	59,518	-	(22,554)	1,937,562
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	1,425,636	-	(8,877)	22,554	1,439,313
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	(519,886)	(51,378)	6,252	-	(565,012)
Total capital assets, being depreciated, net	905,750	(51,378)	(2,625)	22,554	874,301
Total capital assets, net	**$ 2,806,348**	**$ 8,140**	**$ (2,625)**	**$ -**	**$ 2,811,863**

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 develoment	1,514
Vasona Corridor Projects	4,020
Coach & Vehicle Replacements	36
Guadalupe Corridor	1,081
Total project costs expended to date	$ 814,241

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

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

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)	240,915
Total long-term debt	**616,073**
Less current portion of long-term debt	(11,800)
Long-term debt, excluding current portion	**$604,273**

(a) Sales Tax Revenue Bonds, secured by 1976 ½ 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 LIBOR[1] 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,---
	$402,030				**$ (71,490)**		

[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.

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

[CR] Moody's 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 items 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).

	Variable Rate Bonds		Interest Rate	
Year Ending June 30	Principal	Interest	Swap, Net	Total
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
	$ 402,030	**$ 21,283**	**$ 247,083**	**$ 670,396**

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:	Principal	Interest	Total
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
	617,500	$ 379,985	$ 997,485
Unamortized bond discount, premium and deferred amount on refunding,	(1,427)		
Total debt	616,073		
Less current portion	(11,800)		
Long-term portion of debt	$ 604,273		

(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	626,680	-	(9,180)	617,500	11,800
Plus (less) premiums, deferred amount on refundings and discounts	(1,338)	1,071	(1,160)	(1,427)	-
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	$ 675,484	$ 4,771	$ (15,447)	$ 664,808	$ 24,986

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	59,101	1,235	-
Capital Grants:			
FTA Section 3	3,363	-	-
FTA Section 9	7,240	-	-
Pass-through Grants	-	-	5,269
Total Capital Grants	10,603	-	5,269
Total Operating Assistance and Capital Grants	$ 69,704	$ 1,235	$ 5,269

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	67,833	619	-
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	81,991	27	17,018
Total State and Local Grants	$ 149,824	$ 646	$ 17,018

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:

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

(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

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	
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):

Net Pension Obligation

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

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 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):

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

	Workers' Compensation	General Liability
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	(5,695)	(4,235)
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	(6,114)	(3,207)
Unpaid claims at June 30, 2010	$ 21,937	$ 4,963

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 follows[1]:

PCJPB Financial Information	2009	2008
Total assets	$ 1,188,338	$ 1,175,491
Total liabilities	(61,087)	(64,157)
Total net assets	$ 1,127,251	$ 1,111,334
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	$ 15,917	$ 36,283

[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 (SJRRC) and the Alameda County Congestion Management Agency (ACCMA) for continued VTA funding of Altamont Commuter Express (ACE) commuter rail service. The cooperative agreement replaced the ACE Joint Powers Agreement (JPA) executed by the ACE member agencies – VTA, SJRRC and ACCMA. During the year ended June 30, 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 follows[1]:

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

[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)

Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability (AAL)	Funded Ratio	Annual Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
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)

	Original Budget	Final Budget	Actual	Favorable/ (Unfavorable)
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	4,610	4,610	4,514	(96)
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	4,870	4,870	4,279	591
Change in fund balance, on a budgetary basis	$ (260)	$ (260)	$ 235	$ 495
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			52	
Fund Balance, End of Year			287	

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,

	2010	2009
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	**104,933**	**102,224**
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	**581,062**	**514,739**
Non-current assets:		
OPEB obligation over-contributions	837	1,473
Deferred charges	11,767	10,944
Deferred outflow of resources	71,490	-
Capital Assets		
Nondepreciable:		
Land and right-of-way	1,123,321	1,119,217
Construction in progress	814,241	781,381
Depreciable		
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	(565,012)	(519,886)
Net capital assets	**2,811,863**	**2,806,348**
TOTAL ASSETS	**3,581,952**	**3,435,728**

(Continued)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Comparative Statement of Fund Net Assets *(Continued)*

Enterprise Funds

June 30,

	2010	2009
LIABILITIES		
Current liabilities:		
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**
Liabilities payable from restricted assets:		
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**
Non-current liabilities		
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)

	2010	2009
OPERATING REVENUES:		
Passenger fares	$ 36,857	$ 36,184
Advertising and other	1,973	2,255
TOTAL OPERATING REVENUES	38,830	38,439
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	(33,989)	(39,628)
TOTAL OPERATING EXPENSE	347,819	354,284
OPERATING LOSS	(308,989)	(315,845)
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	(7,268)	(5,446)
NON-OPERATING REVENUE, NET	286,965	330,258
INCOME (LOSS) BEFORE CONTRIBUTIONS	(22,024)	14,413
CAPITAL CONTRIBUTIONS	92,594	82,175
CHANGE IN NET ASSETS	70,570	96,588
NET ASSETS, BEGINNING OF YEAR	2,724,072	2,627,484
NET ASSETS, END OF YEAR	$ 2,794,642	$ 2,724,072

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Comparative Statement of Cash Flows
Enterprise Funds
For the Years Ended June 30,
(In thousands)

	2010	2009
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	(251,622)	(275,021)
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)
	376,925	386,131
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
	(67,809)	(146,849)
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
	(66,800)	26,125
NET DECREASE IN CASH AND CASH EQUIVALENTS	(9,306)	(9,614)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	37,331	46,945
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 28,025	$ 37,331

(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	**349,600**	**349,600**	**346,960**	**(2,640)**
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	**275,562**	**271,517**	**262,819**	**8,698**
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	**77,832**	**74,198**	**67,861**	**6,337**
Total operating and other expenses	**353,394**	**345,715**	**330,680**	**15,035**
Net income(loss), on a budgetary basis	**$ (3,794)**	**$ 3,885**	**16,280**	**$ 12,395**

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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 Budget	Final Budget	Actual	Favorable (Unfavorable)
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			(51,378)	
Net Loss, on a GAAP Basis			**$ (14,565)**	

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Combining Statement of Fiduciary Net Assets

Retiree Trust Funds

June 30, 2010

(In thousands)

	ATU Pension Trust	OPEB Trust	ATU Medical Trust: Spousal Medical	ATU Medical Trust: Vision/ Medical	ATU Medical Trust: Total Medical Trust	Total
ASSETS						
Restricted assets:						
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	317,648	120,209	7,579	4,357	11,936	449,793
LIABILITIES						
Restricted liabilities:						
Accounts payable	254	522	1	-	1	777
NET ASSETS						
Net assets held in trust for:						
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	$ 317,394	$ 119,687	$ 7,578	$ 4,357	$ 11,935	$ 449,016

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 Pension Trust	OPEB Trust	ATU Medical Trust: Spousal Medical	ATU Medical Trust: Vision/ Dental	ATU Medical Trust: Total Medical Trust	Total
ADDITIONS						
Contributions	$ 17,905	$ 14,213	$ 910	$ 325	$ 1,235	$ 33,353
Investment earnings:						
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	38,939	12,659	898	502	1,400	52,998
TOTAL ADDITIONS	56,844	26,872	1,808	827	2,635	86,351
DEDUCTIONS						
Benefit payments	22,043	7,477	1,202	-	1,202	30,722
Administrative expenses	209	-	-	-	-	209
TOTAL DEDUCTIONS	22,252	7,477	1,202	-	1,202	30,931
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	$ 317,394	$ 119,687	$ 7,578	$ 4,357	$ 11,935	$449,016

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Combining Statement of Fiduciary Assets and Liabilities

Agency Funds

June 30, 2010

(In thousands)

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

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 Remarketing Memorandum are the most current data available as of the date of this Remarketing Memorandum. However, certain data relate to periods prior to the commencement of the recent recession in the economy. The inclusion in this Remarketing Memorandum of historical data relating to periods prior to the commencement of such recession 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 José, 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 Apple, Inc., 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 José 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 José 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 significant 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 José 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. The City of San José 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 by 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	2010[1,2]	2011[1,2]
Campbell	24,731	26,843	36,088	38,138	39,363	39,664
Cupertino	18,216	34,297	39,967	50,602	58,227	58,747
Gilroy	12,665	21,641	31,487	41,464	48,836	49,391
Los Altos	24,872	25,769	26,599	27,693	28,838	29,176
Los Altos Hills	6,862	7,421	7,514	8,025	7,915	7,980
Los Gatos	23,466	26,906	27,357	28,592	29,370	29,651
Milpitas	27,149	37,820	50,690	62,698	66,659	67,476
Monte Sereno	3,074	3,434	3,287	3,483	3,342	3,364
Morgan Hill	6,485	17,060	23,928	33,586	37,861	38,309
Mountain View	54,206	58,655	67,365	70,708	74,030	74,723
Palo Alto	55,999	55,225	55,900	58,598	64,417	64,943
San José	445,779	629,400	782,224	895,131	946,228	958,789
Santa Clara	87,717	87,700	93,613	102,361	116,308	118,169
Saratoga	27,199	29,261	28,061	29,849	29,924	30,195
Sunnyvale	95,408	106,618	117,324	131,844	140,075	141,099
Unincorporated	152,181	127,021	106,173	99,813	90,034	85,699
County Total[2]	1,066,009	1,295,071	1,497,577	1,682,585	1,781,427	1,797,375
California	18,136,045	23,668,145	29,760,021	33,873,086	37,223,900	37,510,766

(1) As of January 1.
(2) These population estimates incorporate 2010 census counts.
(3) Totals may not be precise due to independent rounding.
Source: U.S. Census 1970-2000; State of California, Department of Finance, Demographic Research Unit (E-4 City/County Population and E-1 Population Estimates for Cities, Counties and State – January 1, 2010 and 2011);

Employment and Industry

The County is home to a highly skilled and diverse work force, a situation that has traditionally translated into lower unemployment rates in the County when compared to State and national average unemployment rates. Three major industry sectors comprise approximately 64% of the County's employment: Goods Producing 181,800, Professional & Business Activities 161,600 and Manufacturing 150,100.

Development of high technology has been enhanced by the presence of Stanford University, Santa Clara University, San Jose State University, other institutions of higher education, and research and development facilities, such as SRI International, the Stanford Linear Accelerator Center, and Ames Research Center (NASA) within the County. In addition, the Rincon de los Esteros Redevelopment Area in northern San Jose has been the site of industrial/research and development submarkets in Silicon Valley.

The following table lists employment in the County by Industry.

County of Santa Clara
Average Annual Employment by Industry

	2005	2006	2007	2008	2009	2010
Civilian Labor Force	817,000	823,600	845,100	869,700	875,100	874,300
Employment	773,200	786,700	805,600	818,000	780,200	776,900
County Unemployment	43,700	36,900	39,500	51,800	94,900	97,400
Unemployment Rate						
County	5.3%	4.5%	4.7%	6.0%	10.8%	11.1%
State of California	5.2%	4.9%	5.3%	7.2%	11.3%	12.4%
Industry Employment						
Total, All Industries	860,100	879,800	900,300	905,200	847,500	843,100
Total Farm	3,800	3,800	3,900	3,700	3,500	3,500
Total Nonfarm	856,300	876,000	896,500	901,500	844,000	839,500
Goods Producing	211,000	205,800	209,600	208,200	186,900	181,800
Natural Resources and Mining	200	300	300	300	200	200
Construction	42,700	44,900	45,500	42,800	33,400	31,500
Manufacturing	168,000	160,600	163,800	165,200	153,300	150,100
Service Providing	645,300	670,200	686,900	693,300	657,100	657,800
Trade, Transportation & Utilities	130,300	134,500	137,300	135,300	124,200	122,500
Information	35,200	37,400	39,500	42,200	41,500	43,800
Financial Activities	36,000	36,700	36,800	34,200	31,200	30,500
Professional & Business Services	159,100	170,300	176,600	178,000	160,700	161,600
Education & Health Services	96,100	99,700	102,500	107,200	108,400	110,600
Leisure & Hospitality	71,400	73,700	75,300	76,600	73,500	73,200
Other Services	24,200	24,300	24,600	25,000	24,100	25,100
Government	92,900	93,600	94,300	94,900	93,400	90,600

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. Cisco, a technology company, is the largest employer in the Silicon Valley with 17,100 employees. Second on the list is the County of Santa Clara which employs 15,000. Kaiser Permanente, Stanford University and Apple round out the top five employers in the County, respectively.

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 that in 2009 the County had a median household income of $84,990 whereas the state average was $58,925.

Commercial Activity

The County is an important center of commercial activity. Taxable sales activity at business and personal service outlets, as well as at other non-retail commercial establishments, is a significant component of the County's commercial activity. The following table sets forth the amount of taxable transactions from 2005 through the third quarter of 2009.

County of Santa Clara
Taxable Transactions by Sector
2005 through 2009
(In thousands of Dollars)

	2005	2006	2007	2008	2009
Apparel Stores	$ 1,169,069	$ 1,264,215	$ 1,334,050	$ 1,422,687	$ 1,690,211
General Merchandise Stores	2,839,877	2,979,387	3,112,536	2,946,466	2,272,162
Specialty Stores[(2)]	3,377,917	3,674,311	-	-	-
Service Stations[(3)]	-	-	2,320,507	2,526,073	1,800,162
Food Stores	830,483	849,281	890,341	868,612	975,086
Eating and Drinking Places	2,440,418	2,645,787	2,813,519	2,876,837	2,705,143
Home Furnishings and Appliances	850,634	879,892	901,164	1,068,519	1,622,804
Building Materials	1,577,165	1,659,844	1,581,859	1,356,505	1,164,960
Automotive	5,289,878	5,534,342	3,468,163	2,709,927	2,284,032
Other Retail Stores	528,067	552,873	4,368,119	3,537,686	1,870,513
Total Retail Stores	18,903,508	20,039,932	20,790,258	19,313,313	16,385,238
Business and Personal Services[(4)]	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	11,042,471
Total All Outlets[(1)]	$30,193,802	$32,273,238	$33,663,448	$32,274,306	$27,427,709

(1) Totals may not add due to independent rounding.
(2) Not available after 2006.
(3) Not available prior to 2006.
(4) 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 slowdown 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 1976 Sales Tax Revenues in Fiscal Year 2008 and a decline in Fiscal Year 2009. See "THE 1976 SALES TAX – Historical Sales Tax Revenues" in the forepart of this Remarketing Memorandum.

Construction Activity and Home Sales

The following tables provide a summary of building permit valuations and the number of new dwelling units authorized in the County since 2001.

County of Santa Clara
Building Permit Valuations
2001 through June 2011
(In Millions of Dollars)

Year	New Residential	New Non-Residential	Total
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	1,051.1	1,914.5	2,965.7
2009	578.7	1,187.8	1,766.5
2010	1,085.9	1,155.6	2,241.5
2011	333.7	627.7	961.4

Source: Construction Industry Research Board.

County of Santa Clara
Number of New Dwelling Units
2001 through June 2011

Year	Single Family	Multiple Family	Total
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	667	450	1,117
2010	826	3627	4,453
2011	464	64	526

Source: Construction Industry Research Board.

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The Indenture contains various provisions and covenants, certain of which are summarized below. Wherever particular provisions of the Indenture are referred to, such provisions, together with related provisions, are incorporated by reference as part of the statements made and are qualified in their entirety by such references. Reference is made to the Indenture for a full and complete statement of its provisions. In addition, the Fourth Supplemental Indenture between the Authority and the Trustee entered into as of July 1, 2005 includes various definitions and provisions applicable to the Authority's Variable Rate Bonds (as defined therein), which provisions are not summarized below. For ease of reference, the Santa Clara Valley Transportation Authority (formerly the Santa Clara County Transit District) is referred to in this Summary as the "Authority," rather than the "District" or the "Issuer" as used 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 a Supplemental Indenture providing for a Series of Capital Appreciation Bonds issued pursuant to such Supplemental Indenture.

"Act" means the Santa Clara County Transit District Act, Part 12 of Division 10 (Section 100000 *et seq*.) of the California Public Utilities Code and Chapter 5 of Part 1 of Division 2 of Title 5 (Section 54300 *et seq*.) of the California Government Code as referenced in said Santa Clara County Transit District Act.

"Annual Debt Service" means for any Fiscal Year the aggregated amount of principal and interest on all Bonds and Parity Debt becoming due and payable during such Fiscal Year calculated using the principles and assumptions set forth under the definition of Debt Service.

"Beneficial Owner" means the actual beneficial Owner of any Bond, notwithstanding the registration thereof under any other name for book-entry purposes.

"Board" means the Board of Directors of the Authority.

"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 the fund by that name established pursuant to the Indentures.

"Bond Reserve Requirement" means, as of any date of calculation, zero dollars ($0), except that if Sales Tax Revenues during the Fiscal Year immediately preceding the date of calculation do not equal at least three (3) times Maximum Annual Debt Service, (a) the Bond Reserve Requirement with respect to any Series of Bonds bearing only a fixed rate of interest shall be an amount not less than the lesser of

(i) 10% of the aggregate original principal amount of such Series (less any original issue discount), or (ii) 125% of average Annual Debt Service for such Series or (iii) 100% of Maximum Annual Debt Service for such Series, and (b) the Bond Reserve Requirement with respect to any Series of Bonds which may bear a variable rate of interest shall be the amount set forth in the Supplemental Indenture authorizing such Series.

"Bonds" means the Santa Clara County Transit District Sales Tax Revenue Bonds authorized by, and at any time Outstanding pursuant to, the Indenture.

"Business Day" means 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 go be closed, and (2) for purposes of payments and other actions relating to Bonds secured by a letter of credit, 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 letter of credit 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 And on which interest is compounded and paid at maturity or on prior redemption.

"Certificate," "Statement," "Request," "Requisition" and "Order" of the Authority mean, respectively, a written certificate, statement, request, requisition or order signed in the name of the Authority by the Chairperson of its Board, its General Manager, its Chief Financial Officer, its Deputy Director, Fiscal Resources or any other person authorized by the General Manager to execute such instruments. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by the Indenture, each such instrument shall include the statements provided for in the Indenture.

"Code" means the Internal Revenue Code of 1986, and the regulations applicable thereto or issued thereunder.

"Continuing Disclosure Certificate" means any certificate or agreement executed by the Authority in connection with any Series of Bonds in order to assist the underwriter or underwriters of such Series of Bonds in complying with the continuing disclosure requirements of Rule 15c2-12(b)(5) of the Securities and Exchange Commission. When used in connection with any particular Series of Bonds, "Continuing Disclosure Certificate" shall mean that certain continuing disclosure certificate or agreement executed in connection therewith.

"Corporate Trust Office" or "corporate trust office" means the corporate trust office of the Trustee at 1 California Street, Suite 400, San Francisco, California 94111 Attention: Corporate Trust Department, but for purposes of transfer, exchange or payment of Bonds, means the principal corporate trust office of the Trustee at 180 East Fifth Street, St. Paul, Minnesota, or, in each case, 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 Authority and related to the authorization, execution, sale and delivery of the 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 the 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 and credit enhancement costs, and any other cost, charge or fee in connection with the delivery of Bonds.

"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 Owners thereof excluding the first payment of interest thereon.

"Debt Service," when used with respect to any Sales Tax Debt, means, as of any date of calculation and with respect to any fiscal period, the sum of (1) the interest falling due on such Sales Tax Debt during such fiscal period (except to the extent that such interest is payable from the proceeds of such Sales Tax Debt set aside for such purpose), and (2) the principal or mandatory sinking account or installment purchase price or lease rental or similar payments or deposits required with respect to such Sales Tax Debt during such fiscal period, computed on the assumption that no portion of such Sales Tax Debt shall cease to be outstanding during such fiscal period except by reason of the application of such scheduled payments; provided, however, that for purposes of such computation:

(a) if Sales Tax Debt as (i) secured by an irrevocable letter of credit or irrevocable line of credit issued by a financial institution having a combined capital and surplus of at least $100,000,000 and whose unsecured securities are rated in one of the two highest Rating Categories by Rating Agency, or (ii) insured by an insurance policy issued by an insurance company rated at least "A" by Alfred M. Best Company in Best's Insurance Reports and in one of the two highest Rating Categories by Rating Agency, then principal or mandatory sinking fund or installment purchase price or lease rental or similar payments or deposits with respect to such Sales Tax Debt nominally due in the last Fiscal Year in which such Sales Tax Debt matures may, at the option of the Authority, be treated as if they were due as specified in any loan agreement issued in connection with such letter of credit, line of credit or insurance policy or pursuant to the repayment provisions of such letter of credit, line of credit or insurance policy (or, if such loan agreement or repayment Provisions provide for repayment over less than 10 years and the Authority certifies that it intends to refinance such Sales Tax Debt prior to maturity, as if they were amortized over a ten-year period with substantially level debt service) and interest on such Sales Tax Debt after such period shall be assumed to be payable pursuant to the terms of such loan agreement or repayment provisions;

(b) if interest on Sales Tax Debt is payable pursuant to a variable interest rate, the interest rate on such Sales Tax Debt for fiscal periods when the actual interest rate cannot yet be determined shall be assumed to be equal to the lesser of (i) the maximum interest rate permitted by the agreement under which such Sales Tax Debt was issued or incurred, or (ii) the greater of (A) the current interest rate calculated pursuant to the provisions of such agreement, or (B) the prime interest rate of the Trustee (or the principal banking affiliate of the Trustee) as of the date of calculation (or 65% of the prime interest rate of the Trustee (or the principal banking affiliate of the Trustee) if in the opinion of nationally recognized bond counsel interest on such Sales Tax Debt is not includable in gross income for purposes of federal income taxation); and

(c) if interest is capitalized with respect to Sales Tax Debt, Debt Service on such Sales Tax Debt shall be included in computations of Maximum Annual Debt Service only in proportion to the amount of interest payable in such fiscal period from sources other than amounts capitalized to pay such interest.

“Event of Default” means any of the events specified in the Indenture, certain of which are discussed herein under “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Events of Default and Remedies of Bondholders.”

“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 selected and designated as the official Fiscal Year period of the Authority which designation shall be provided to the Trustee in a certificate of the Authority.

“Fitch” means Fitch Investors Service, L.P., a limited partnership duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns.

“Indenture” means the Indenture, dated as of November 1, 1997, by and between the Trustee and the Authority, as originally executed or as it may from time to time be supplemented or amended by any Supplemental Indenture delivered pursuant to the provisions thereof.

“Information Services” means Financial Information, Inc.’s “Daily Called Bond Service,” 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services’ “Called Bond Service,” 65 Broadway, 16th Floor, New York, New York 10004, Moody’s “FIS,” 5250-77 Center Drive, Charlotte, NC 28217, Attention: Municipal News Reports; and S&P’s “Called Bond Record,” 25 Broadway, 3rd Floor, New York, New York 10004; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds, or no such services, as the Authority may designate in a Request of the Authority delivered to the Trustee.

“Interest Fund” means the Fund by that name established pursuant to the Indenture.

“Investment Policy” means the investment policy of the Authority adopted by the Board on April 4, 1996, as such investment policy may be modified, amended or supplemented from time to time.

“Investment Securities” means any of the following, to the extent the same are permitted investments of the Authority under the Investment Policy:

(i) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, including obligations of any of the federal agencies and federally sponsored entities set forth in clause (iii) below to the extent unconditionally guaranteed by the United States of America;

(ii) any certificates, receipts, securities or other obligations evidencing ownership of, or the right to receive, a specified portion of one or more interest payments or principal payments, or any combination thereof to be made on any bond, note or other obligation described above in clause (i);

(iii) obligations of the Federal National Mortgage Association, the Government National Mortgage Association, Federal Home Loan Banks, Farmers Home Administration and Federal Home Loan Mortgage Corporation;

(iv) housing authority bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; or project notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;

(v) obligations of any state, territory or commonwealth of the United States of America or any political subdivision thereof or any agency or department of the foregoing, provided that at the time of their purchase such obligations are rated in either of the two highest Rating Categories by the Rating Agency;

(vi) any bonds or other obligations of any state of the United States of America or any political subdivision thereof (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the Trustee of such bonds or other obligations by the obligor who gave due notice of redemption and to call such Bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described above in clause (i) or (ii) which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the Interest payment dates and the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, (c) as to which the principal of and interest on the bonds and obligations of the character described above in clause (i) or (ii) which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay the principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (vi) on the interest payment dates and the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (vi), as appropriate, and (d) which have been rated in one of the two highest long-term Rating Categories by the Rating Agency;

(vii) bonds, notes, debentures or other evidences of indebtedness issued or guaranteed by any corporation which are, at the time of purchase, rated by the Rating Agency in their respective highest short-term Rating category, or, if the term of such indebtedness is longer than three (3) years, rated by the Rating Agency in one of their respective two highest long-term Rating Categories, or comparable types of debt obligations;

(viii) demand or time deposits or certificates of deposit, whether negotiable or non-negotiable, issued by any bank or trust company organized under the laws of any state of the United States of America or any national banking association (including the Trustee) or by a state-licensed branch of any foreign bank, provided that such certificates of deposit shall be purchased directly from such a bank, trust company or national banking association and shall be either (1) continuously and fully insured by the Federal Deposit Insurance Corporation, or (2) continuously and fully secured by such securities and obligations as are described above in clauses (i) through (v), inclusive, which shall have a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such certificates of deposit and shall be lodged with the Trustee, as custodian, by the bank, trust company or national banking association issuing such certificates of deposit, and the bank, trust company or national banking association issuing each such certificate of deposit required to be so secured shall furnish the Trustee with an undertaking satisfactory to it that the aggregate market value of all such obligations securing each such certificate of deposit will at all times be an amount equal to the principal amount of each such certificate of deposit and the Trustee shall be entitled to rely on each such undertaking;

(ix) taxable commercial paper, other than that issued by bank holding companies, or tax-exempt commercial paper in each case rated in the highest Rating Category by the Rating Agency;

(x) variable rate obligations required to be redeemed or purchased by the obligor or its agent or designee upon demand of the holder thereof secured as to such redemption or purchase requirement by a liquidity agreement with a corporation and as to the payment or interest and principal either upon maturity or redemption (other than upon demand by the holder thereof) thereof by an unconditional credit facility of a corporation, provided that the variable rate obligations themselves are rated in the highest Rating Category for its short-term rating, if any, and in either of the two highest Rating Categories for its long-term rating, if any, by the Rating Agency, and that the corporations providing the liquidity agreement and credit facility have, at the date of acquisition of the variable rate obligation by the Trustee, an outstanding issue of unsecured, uninsured and unguaranteed debt obligations rated in either of the two highest long-term Rating Categories by the Rating Agency;

(xi) any repurchase agreement with any bank or trust company organized under the laws of any state of the United States or any national banking association (including the Trustee) having a minimum permanent capital of one hundred million dollars ($100,000,000) or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement is secured by any one or more of the securities and obligations described in clauses (i), (ii), (iii) or (iv) above, which shall have a market value (exclusive of accrued interest and valued at least monthly) at least equal to the Principal amount of such investment and shall be lodged with the Trustee or other fiduciary, as custodian for the Trustee, by the bank, trust company, national banking association or bond dealer executing such repurchase agreements and the entity executing each such repurchase agreement required to be so secured shall furnish the Trustee with an undertaking satisfactory to it that the aggregate market value of all such obligations securing each such repurchase agreement (as valued at least monthly) will be an amount equal to the principal amount of each such repurchase agreement and the Trustee shall be entitled to rely on each such undertaking;

(xii) any cash sweep or similar account arrangement of or available to the trustee, the investments of which are limited to investments described in clauses (i), (ii), (iii), (iv), (v) and (xi) of this definition of Investment Securities and any money market fund, the entire investments of which are limited to investments described in clauses (i), (ii), (iii), (iv), (v) and (xi) of this definition or Investment Securities; provided that as used in this clause (xii) and clause (xiii) investments will be deemed to satisfy the requirements of clause (vi) if they meet the requirements set forth in clause (xi) ending with the words “clauses (i), (ii), (iii) or (iv) above” and without regard to the remainder of such clause (xi);

(xiii) 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 claim paying ability rated in either of the two highest long-term Rating Categories by the Rating Agency;

(xiv) shares of beneficial interest in diversified management companies investing exclusively in securities and obligations described in clauses (i) through (iii) of this definition of Investment Securities and which companies have the highest rating by the Rating Agency; and

(xv) shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California which invests exclusively in investments permitted by Section 53635 of Title 5, Division 2, Chapter 4 of the Government Code of the State of California, as it may be amended;

(xvi) Bankers' Acceptances issued by domestic or foreign banks, which are eligible for purchase by the Federal Reserve System, the short-term paper of which is rated in the highest Rating Category by the Rating Agency, which purchases may not exceed 270 days maturity or 40 percent of the Authority's surplus money;

(xvii) 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;

(xviii) any investments approved by the Board for which confirmation is received from each rating agency then rating any of the Bonds that such investment will not adversely affect such agency's rating of such Bonds; and

(xix) the Local Agency investment Fund of the State of California.

"Mandatory Sinking Account Payments" means, with respect to Bonds of any Series And maturity, the amount required by the Indenture to be deposited by the Authority in a Sinking Account for the payment of Term Bonds of such Series And maturity.

"Maximum Annual Debt Service" shall mean the greatest amount or Debt Service becoming due and payable on all Bonds and Parity Debt in the Fiscal Year in which the calculation is made or any subsequent Fiscal Year; provided, however, that for the purposes of computing Maximum Annual Debt Services:

(a) principal and interest payments on Bonds and Parity Debt 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 to the extent that such interest payments are to be paid from the proceeds of Bonds or Parity Debt held by the Trustee or other fiduciary as capitalized interest specifically to pay such interest by the Trustee or other fiduciary;

(b) if the Bonds or Parity Debt are Variable Rate Indebtedness and an interest rate swap agreement with a Qualified Counterparty (as defined below) is in effect with respect to such Bonds or Parity Debt pursuant to which the Authority has agreed to pay a fixed rate, then at the option of the Authority set forth in a written direction to the Trustee, the interest rate on such Variable Rate Indebtedness shall be the fixed rate payable under such interest rate swap agreement for the period that such agreement is in effect, and thereafter the variable rate on such Bonds or Parity Debt shall be calculated as provided in the definition of 'Debt Service'. Qualified Counterparties' mean any financial institution, including an insurance company or company related to a financial institution, which is a party to an interest rate swap agreement ("Counterparty") if (i) the unsecured long-term debt obligations of such Counterpart)' (or of the parent or a subsidiary of such Counterparty, if such parent or subsidiary guarantees the performance of such Counterparty under such agreement), or (ii) obligations secured or supported by a letter of credit, contract, guarantee, agreement, insurance policy or surety bond issued by such Counterparty (or such guarantor parent or subsidiary), are rated at the time of initial execution and delivery of such agreement in one of the two highest rating categories by the Rating Agency;

(c) if interest on the Bonds or Parity Debt is payable at a fixed interest rate and an interest rate swap agreement with a Qualified Counterpart)' is in effect with respect to such Bonds or Parity Debt pursuant to which the Authority has agreed to pay a variable rate, then at the option of the Authority set forth in a written direction to the Trustee, the interest rate on such fixed rate Bonds or Parity Debt shall be the variable rate payable under such interest rate swap agreement (which shall be calculated as provided in (b) of definition of Debt Service) for the period that such agreement is in effect, and thereafter at the fixed rate on such Bonds or Parity Debt; and

(d) with respect to Optional Tender Bonds (as defined below), the Maximum Annual Debt Service thereon shall not include amounts payable upon mandatory or optional tender for purchase, and shall not be based upon the terms of any reimbursement obligation to the provider of any liquidity facility or credit facility for such Optional Tender Bonds except to the extent and for the periods during which Debt Service is required to be made pursuant to such reimbursement obligation due to such provider advancing funds for such purchase. 'Optional Tender Bonds' mean any Bonds or Parity Debt: (i) by its terms may be tendered by and at the option of, or required to be tendered by, the Owners thereof for payment or purchase by the Authority or another party prior to stated maturity thereof; (ii) by its terms requires such purchase if properly presented; and (iii) is rated at time of original issuance in one of the two highest rating categories by the Rating Agency."

"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.

"1991 Indenture" means, collectively, the 1991 Master Indenture and the 1991 Supplemental Indenture.

"1991 Master Indenture" means the Indenture, dated as of August 1, 1991, between the Authority and the 1991 Trustee.

"1991 Series A Bonds" means the Authority's Sales Tax Revenue Bonds, 1991 Series A.

"1991 Supplemental Indenture" means the First Supplemental Indenture, dated as of August 1, 1991, between the Authority and the 1991 Trustee.

"1991 Trustee" means Security Pacific National Bank, as succeeded by First Trust of California, National Association.

"Opinion of Bond Counsel" means a written opinion of a law firm of national standing in the field of public finance selected by the Authority and not objected to by the Trustee.

"Outstanding," when used as of any particular time with inference to Bonds, means (subject to the provisions of the Indenture relating to the disqualification of certain Bonds in determining the aggregate principal amount of Bonds Outstanding) 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 Authority shall have been discharged in accordance with the defeasance provisions of the Indenture; 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.

"Owner" or "Bondholders or "Bondowner," whenever used with respect to a Bond, means the person in whose name such Bond is registered.

"Parity Debt" means any indebtedness, installment sale obligation, lease obligation or other obligation of the Authority for borrowed money or interest rate swap agreement having an equal lien and charge upon the Revenues and therefore payable on a parity with the Bonds (whether or not any Bonds are Outstanding).

"Person" means a corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision 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 property, equipment, 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, barns, terminals, parking lots and any and all facilities necessary or convenient for transit service within or partly without the Authority, and the payment 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 year thereafter, and expenses for all proceedings for the authorization, issuance and sale of Bonds.

"Project Fund" means the fund of that name established by the Indenture to hold the proceeds of a Series of Bonds or a portion thereof prior to expenditure on the Project.

"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 that if the amount available for redemption of Bonds of any maturity is insufficient to redeem a multiple of $5,000 principal amount or Accreted Value payable at maturity, such amount shall be applied to the redemption of the highest possible integral multiple (if any) of $5,000 principal amount or Accreted Value payable at maturity. 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."

"Rating Agency" means each of Fitch, Moody's and Standard & Poor's maintaining a rating on Bonds or Parity Debt at the request of the Authority.

"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 or letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

"Rebate Fund" means that fund established under 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 thereon pursuant to the provisions of such Bond and the Indenture.

"Revenue Fund" means the Sales Tax Revenue Fund established pursuant to the Indenture.

"Revenues" means during any fiscal period the sum of the following amounts for such fiscal period:

(1) all Sales Tax Revenues; and

(2) all other funds legally available to the Authority for payment of debt service on the Bonds and Parity Debt.

"Sales Tax Debt" means all outstanding bonds, notes and other obligations secured in whole or in part by Sales Tax Revenues.

"Sales Tax Revenues" means amounts collected by the State Board of Equalization and distributed to the Authority pursuant to Section 135250 *et seq*. of the Act and Ordinance No. NS-2 adopted by the Authority on March 29, 1976 and as approved by the voters on March 2, 1976.

"Securities Depositories" means the following: The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 21530, Fax-(216) 227-4039 or 4190, Midwest Securities Trust Company, Capital Structures-Call Notification, 440 South LaSalle Street, Chicago, Illinois 60605, Fax-(312) 663-2343; Philadelphia Depository Trust Company, Reorganization Division, 1900 Market Street, Philadelphia, Pennsylvania 13103, Attention: Bond Department, Dex-(215) 496-5058, or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories, or no such depositories, as the Authority may designate in a Request of the Authority delivered to the Trustee.

"Serial Bonds" means Bonds, maturing in specified years, for which no Mandatory Sinking Account Pavements are provided.

"Series," whenever used 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 authenticated and delivered upon transfer or exchange or in lieu of or in substitution for (but not to refund) such Bonds as provided in the Indenture.

"Sinking Accounts" means the accounts in the Principal Fund so designated and established pursuant to the Indenture for the payment of Term Bonds.

"Standard & Poor's" means Standard & Poor's Ratings Group, 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 Authority.

"State" means the State of California.

"Supplemental Indentures" 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 the tax certificate delivered by the Authority at the time of the issuance and delivery of any Series of Bonds, as the same may be amended or supplemented in accordance with its terms.

"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 U.S. Bank National Association, a national banking association, organized and existing under the laws of the United States, or its successor, as Trustee as provided in 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 single numerical rate for the entire term of the indebtedness.

Funds and Accounts; Allocation of Revenues

So long as any Bonds are Outstanding, the Trustee shall set aside in each month following receipt of the 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 Owners of the Bonds in accordance with the provisions of the Indenture) 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 outstanding Parity Debt and the proceedings of such Parity Debt delivered to the Trustee (which shall be proportional in the event such amounts are insufficient to provide for all deposits equaled as of any date to be made with respect to the Bonds and such Parity Debt).

Interest Fund. Commencing in December, 1997, the Trustee shall set aside in the Interest Fund as soon as practicable in each 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) during the next ensuing six months (excluding any interest or 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 months), until the requisite half-yearly amount of interest on all such Outstanding Current Interest Bonds (except for Bonds constituting Variable Rate Indebtedness) 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 the amounts so paid with respect to such Series 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, plus (b) the aggregate amount of interest, calculated at a rate of twelve percent (12%) per annum of the actual rate of interest is not known, to accrue during that month on the Outstanding Variable Rate Indebtedness (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 further provided that the amount of such deposit into the interest and 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 months upon all of the Bonds issued then Outstanding, and on June 1 of each year any excess amount 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 June 1 and December 1) shall be transferred to the Authority (but excluding, in each case, any moneys on deposit in the Interest Band 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. Commencing in December 1997, the Trustee shall deposit in the Principal Fund as soon as practicable in each 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 months, including any Bonds maturing on June 1, 1998, 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 12 months, plus (c) one-sixth of the aggregate of the Mandatory Sinking Account Payments to be made 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 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 the Bond Reserve Fund that would be in excess of the Bond Reserve Requirement upon such payment, no amounts need to be set aside toward such principal to be so refunded or paid. All of the aforesaid 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 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 such 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 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 such 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 Obligation of all Serial Bonds then Outstanding and maturing by their terms within the next twelve 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 demanded on or prior to their respective due dates or paid from amounts on deposit in the Bond Reserve Fund that would be in excess of the Bond Reserve Requirement 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 August 1 of each year, the Trustee shall request from the Authority a certificate of the Authority setting forth the principal payments for which deposits will not be necessary pursuant to the preceding sentence and the reason therefor. On June 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 June 1) shall be transferred to the Authority.

Bond Reserve Fund. Except as otherwise permitted by the Indenture, at such time as the Bond Reserve Requirement is required to be funded due to a decrease in the coverage of Sales Tax Revenues over Maximum Annual Debt Service below 3.00 times, the Authority shall make or cause to be made, within one year, a deposit or deposits into the Bond Reserve Fund equal to the Bond Reserve Requirement. Additionally, except as otherwise provided in the Indenture, upon the occurrence of any deficiency in the Bond Reserve Fund, the Trustee shall deposit in the Bond Reserve Fund, as soon as possible in each month, until the balance therein is at least equal to the Bond Reserve Requirement, (i) one-twelfth (1/12th) of the aggregate amount of each unreplenished prior withdrawal from the Bond Reserve Fund and (ii) the full amount of any deficiency due to any required valuation of the investments in the Bond Reserve Fund.

Any Revenues remaining in the Revenue Fund after the foregoing transfers described above under "Interest Fund," "Principal Fund; Sinking Accounts" and "Bond Reserve Fund," except as otherwise provided in a Supplemental Indenture, shall be transferred on the same Business Day to the Authority. The Authority may use and apply the Revenues when received by it for any lawful purpose of the Authority, 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 days prior to any principal payment date, interest payment date or mandatory redemption date the amounts on deposit in the Interest Fund and Principal Fund, including the Sinking Accounts therein, with respect to the payments to be made on such upcoming date after any transfers from the Bond Reserve Fund are insufficient to make such payments, the Trustee shall immediately notify the Authority, in writing, of such deficiency and direct that the Authority transfer the amount of such deficiency to the Trustee on or prior to such Payment date. The Authority covenants and agrees in the Indenture 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.

Application of 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 payments on interest rate swap agreements, as provided in the Indenture.

Application of 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 any 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. 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 of Term Bonds of such Series And maturity for which such Sinking Account was established, in the manner provided in 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 Authority, apply moneys in such Sinking Account to the purchase or 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 Authority, except that purchase price (excluding accrued interest, in the case of Current Interest Bonds) shall not exceed the principal Amount or Accreted Value thereof. Assuming 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 Authority 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 this provision shall be canceled by the Trustee and destroyed by the Trustee and a certificate of destruction shall be delivered to the Authority by the Trustee. Any amounts remaining in a Sinking Account when all of the Term Bonds for which such account was established are no longer Outstanding shall be withdrawn by the Trustee and transferred to the Authority to be used for any lawful purpose. All Term Bonds purchased from a Sinking Account or deposited by the Authority with the Trustee in a 12-month period ending May 31 (or in a six-month period ending May 1 or November 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 June 1 or December 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 to the Authority. 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 Authority.

Funding and Application of Bond Reserve Fund

In lieu of making the Bond Reserve Requirement deposit in compliance with the provisions of the Indenture described above under "Additional Indebtedness" and "Funds and Accounts; Allocation of Revenues," or in replacement of moneys then on deposit in the Bond Reserve Fund (which shall be transferred by the Trustee to the Authority), the Authority may deliver to the Trustee an irrevocable letter of credit issued by a financial institution having unsecured debt obligations rated in one of the two highest Rating Categories of the Rating Agency and rated not less than the rating on the Bonds (excluding any rating attributable to a letter of credit, insurance policy or other credit enhancement securing the Bonds), in an amount, together with moneys, Investment Securities or letters of credit on deposit in the Bond Reserve Fund, equal to the Bond Reserve Requirement. Such letter of credit shall have an original term of no less than three (3) years or, if less, the maturity of the Series of Bonds in connection with which such letter of credit was obtained and such letter of credit shall provide by its terms that it may be drawn upon as provided in the provisions of the Indenture regarding the funding and application of the Bond Reserve Fund. At least one year prior to the stated expiration of such letter of credit, the Authority shall either (i) deliver a replacement letter of credit, (ii) deliver an extension of the letter of credit for at least an additional year or, if less, the maturity of the Series of Bonds in connection with which such letter of credit was obtained, or (iii) deliver to the Trustee a surety bond or an insurance policy satisfying the requirements of the Indenture provisions relating thereto. Upon delivery of such replacement letter of credit, extended letter of credit, or surety bond or insurance policy, the Trustee shall deliver the then-effective letter of credit to or upon the order of the Authority. If the Authority shall fail to deposit a replacement letter of credit, extended letter of credit or surety bond or insurance policy with the Trustee, the Authority shall immediately commence to make monthly deposits with the Trustee so that an amount equal to the Bond Reserve Requirement will be on deposit in the Bond Reserve Fund no later than the stated expiration date of the letter of credit. If an amount equal to the Bond Reserve Requirement as of the date following the expiration of the letter of credit is not on deposit in the Bond Reserve Fund one week prior to the stated 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 the Bond Reserve Fund.

In lieu of making the Bond Reserve Requirement deposit or in replacement of moneys then on deposit in the Bond Reserve Fund (which shall be transferred by the Trustee to the Authority), the Authority may deliver to the Trustee a surety bond or an insurance policy securing an amount, together with moneys, investment securities or letters of credit on deposit in the Bond Reserve Fund, equal to the Bond Reserve Requirement. 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 bonds or insurance policies) are rated in one of the two highest Rating Categories of the Rating Agency and rated not less than the rating on the Bonds (excluding any rating attributable to a letter of credit, insurance policy or other credit enhancement securing the Bonds). Such surety bond or insurance policy shall have a term of no less than the maturity of the Series of Bonds in connection with which such surety bond or insurance policy was obtained. In the event that such surety bond or insurance policy for any reason lapses or expires, the Authority shall immediately implement (i) or (iii) of the preceding paragraph or make the required deposits to the Bond Reserve Fund.

All amounts in the Bond Reserve Fund (including all amounts which may be obtained from letters of credit and surety bonds and insurance policies on deposit in the Bond Reserve Fund) shall be used and withdrawn by the Trustee, as described in the Indenture, solely for the purpose of making up any deficiency in the Interest Fund or the Principal Fund, or (together with any other moneys available therefor) for the payment or redemption of all Bonds then Outstanding, or for the payment of the final Principal and Interest Payment to a Series of Bonds if, following such payment, the amounts in the Bond Reserve Fund (including the amounts which may be obtained from letters of credit and surety bonds and insurance policies on deposit therein) will equal the Bond Reserve Requirement. The Trustee shall, on a pro rata basis with respect to the portion of the Bond Reserve Fund held in cash or Investment Securities and amounts held in the form of letters of credit and amounts held in the form of surety bonds and insurance policies (calculated by reference to the maximum amounts of such letters or credit and surety bonds and insurance policies and the amount of the initial deposit of such cash and Investment Securities), draw under each letter of credit or surety bond or insurance policy issued with respect to the Bond Reserve Fund, in a timely manner and pursuant to the terms of such letter of credit or surety bond or insurance policy to the extent necessary in order to obtain sufficient funds on the date such funds are needed to pay the Bond Obligation of, Mandatory Sinking Account payments with respect to, and interest on the Bonds when due. To the extent provided in a letter of credit, insurance policy or surety bond or in the Supplemental Indenture pursuant to which a Series of Bonds is issued, such installment or portion of the Bond Reserve Fund may be available to pay only the Series of Bonds for which it has obtained or to which it relates. In such event, all other amounts or instruments on deposit in the Bond Reserve Fund shall not be available for payments with respect to such Series of Bonds, but shall be applied by the Trustee to payments with respect to all or such other Series of Bonds not so secured. The Bond Reserve Fund, in such an instance, shall be composed of segregated accounts which shall separately secure a Series or Series of Bonds. In the event that the Trustee has notice that any payment of principal of or interest on a Bond has been recovered from a Bondowner 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 letter of credit or surety bond or bond insurance policy, if any, securing the Bonds so provide, shall so notify the Authority thereof and draw on such letter of credit or surety bond or policy to the lesser of the extent required or the maximum amount of such letter of credit or surety bond or policy in order to pay to such Bondowners the principal of and interest so recovered. Any amounts in the Bond Reserve and in excess of the Bond Reserve Requirement shall be transferred to the Trustee or the Authority on June 1 and December 1 of each rear; provided that such amounts shall be transferred only from the portion of the Bond Reserve Fund held in the form of cash or Investment Securities.

Application of Redemption Fund

The Trustee shall establish, maintain and hold in trust a special fund designated as the "Redemption Fund." All moneys deposited by the Authority with the Trustee for the purpose of optionally redeeming Bonds of any Series shall, unless otherwise directed by the Authority, 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, in the manner, at the times and upon the terms and conditions specified in the Supplemental Indenture pursuant to which such 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 Authority, apply such amounts to the purchase of Bonds of such Series 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 Account) as is directed by the Authority, except that the purchase price (exclusive of such earned 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 Authority.

Establishment and Application of Costs of Issuance Fund

The Authority shall establish, maintain and hold in trust a separate fund designated as the "Costs of Issuance Fund." The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Authority to pay the costs of issuance of the Bonds.

Investment of Moneys 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 Authority, solely in Investment Securities. The Investment Securities shall be, as directed by the Authority in writing or by telephone, promptly confirmed in writing, be acquired subject to the limitations described below under "Covenants of the Authority - Tax Covenants," the limitations as to maturities hereinafter in this provision described and such additional limitations or requirements consistent with the foregoing as may be established by Request of the Authority. If and to the extent the Trustee does not receive investment instructions from the Authority 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 (xii) of the definition thereon and the Trustee shall thereupon request investment instructions from the Authority for such moneys.

Moneys in the Bond Reserve Fund shall be invested in Investment Securities available on demand or maturing within five years of the date of such investment. Moneys in the remaining Funds and accounts shall be invested in Investment Securities maturing or available on demand not earlier than the date on which it is estimated that such moneys will be required by the Trustee.

Unless otherwise provided in a Supplemental indenture, all interest, profits and other income received from the investment of moneys in any Fund or account, other than the Rebate Fund and the Project Fund, shall be transferred to the Revenue Fund when received. All interest, profits and other income received from the investment of moneys in the Rebate Fund shall be deposited in the Rebate Fund, except as described below Under "Covenants of the Authority - Tax Covenants." All interest, profits and other income received from the investment of moneys in the Project Fund shall be deposited in the Project Fund. Notwithstanding anything to the contrary contained in this provision, an amount of interest received with respect to any Investment Security equal to the amount of accrued interest, if any, paid as part of the purchase price of such Investment Security shall be credited to the fund or account from which such acceded interest was paid.

All Investment Securities credited to the Bond Reserve Fund shall be valued as of May 31 and November 30 of each year (or the next succeeding Business Day if such day is not a Business Day) at their fair market value determined to the extent practical by reference to the closing bid price thereof published in The Wall Street Journal or any other financial publication or quotation service selected by the Trustee in its sole discretion.

The Trustee may commingle any of the funds or accounts established pursuant to the Indenture into a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Trustee shall be accounted for separately as required by the Indenture and, provided further, that such commingling shall not be allowed to the extent the Authority so instructs the Trustee, to accommodate rebate calculations. The Trustee may act as principal or agent in the rating or disposing of any investment and, with the prior written consent of the Authority, 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, and the Trustee shall not be liable or responsible for any loss resulting from such investment.

The Authority may and the Trustee shall, upon the Request of the Authority, enter into a financial futures or financial option contract with an entity the debt securities of which are rated in the highest short-term or one of the two highest long-term Rating Categories by the Rating Agency.

The Authority may and the Trustee shall upon the Request of the Authority, and provided that the Trustee is supplied with an Opinion of Bond Counsel to the effect that such action is permitted under the laws of the State of California, enter into an interest rate swap agreement corresponding to the interest rate or rates payable on a Series of Bonds or any portion thereof and the amounts received by the Authority or the Trustee, if any, pursuant to such a swap agreement may be applied to the deposits required under the Indenture; in which case, the entity with which the Authority or the Trustee may contract for an interest rate swap is limited to entities the debt securities of which are rated at the highest short-term or one of the two highest long-term Debt Rating Categories by the Rating Agency. If the Authority so designates, amounts payable under the interest swap agreement shall be secured by Revenues and other assets pledged under the Indenture to the Bonds on a parity basis therewith and, in such event, the Authority shall pay to the Trustee for deposit in the Interest Fund, at the times and in the manner provided by the Indenture, as described above under "Funds and Accounts; Allocation of Revenues," the amounts to be paid under such interest rate swap agreement, as if such amounts were additional interest due on the Bonds to which such interest rate swap agreement relates, and the Trustee shall pay to the other party to the interest rate swap agreements to the extent required thereunder, amounts deposited in the Interest Fund for the payment or interest on the Bonds with respect to which such agreement was entered into.

The Trustee shall keep proper books of record and accounts containing complete and correct entries of all transactions made by it relating to the receipt, investment, disbursement, allocation and application of the moneys related to the Bonds, including moneys derived from, pledged to, or to be used to make payments on the Bonds. Such records shall specify the account or fund to which each investment (or portion thereof) held by the Trustee as to be allocated and shall set forth, in the case of each investment security, (a) its purchase price, (b) identifying information, including par amount, coupon rate, and payment dates, (c) the amount received at maturity or its sale price, as the case may be, including accrued interest, (d) the amounts and dates of any payments made with respect thereto, and (e) the dates of acquisition and disposition or maturity.

The Trustee shall also provide to the Authority, in accordance with a request of the Authority, with respect to each Investment Security such documentation as is reasonably available to the Trustee and is required by the Code or other applicable law to be obtained by the Authority as evidence to establish that each investment had been acquired and disposed of on an established market in an arm's-length transaction at a price equal to its fair market value and with no amounts having been paid to reduce the yield on the investments, or shall be United States Treasury Obligations - State and Local Government Series As set forth in the Tax Certificate.

Covenants of the Authority

The Authority covenants in the Indenture, among other things, that:

(i) Punctual Payment. The Authority 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 Revenues as provided in the Indenture.

(ii) Extension of Payment of Bonds. The Authority will not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any Bonds or claims for interest by the purchase or funding of such Bonds or claims for interest or by any other arrangement and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims or interest thereon which shall not have been so extended. Nothing described in the Indenture shall be deemed to limit the right of the Authority to issue bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be seemed to constitute an extension of maturity of Bonds.

(iii) Waiver of Acts. The Authority will not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension of law in force that may affect the covenants and agreements contained in the Indenture or in the Funds, and all benefit or advantage of any such law or laws as expressly waived by the Authority to the extent permitted by law.

(iv) Further Assurances. The Authority will make, execute and deliver any and all such instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in the Indenture.

(v) Against Encumbrances. The Authority will not create any pledge, lien or charge upon any of the Sales Tax Revenues having priority over or having parity with the lien of the Bonds except only as permitted in the Indenture.

(vi) Accounting Records and Financial Statements. The Authority 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 Authority will furnish the Trustee, within two hundred ten (210) days after the end of each Fiscal Year, the financial statements of the Authority relating to the Revenues 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 accountants' examination of the financial statements was performed in accordance with generally accepted auditing standards and a Certificate of the chief financial officer of the Authority 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 Authority to cure such default. Thereafter, a copy of such financial statements will be furnished to any owner of Bonds upon written request to the Authority.

(vii) Collection of Sales Tax Revenues. The Authority covenants and agrees that it has duly levied a transactions and use tax in accordance with the Act, pursuant to and in accordance with the Ordinance, duly passed and adopted by the Authority. 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 Sales Tax Revenues, and the Authority will continue to levy and collect such transactions and use taxes to the full amount permitted by law. The Authority further covenants that it 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 said transactions and use taxes and will transmit Sales Tax Revenues directly to the Trustee. Said agreement will be continued in effect so long as any of the 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 Authority will receive and hold in trust for (and remit immediately to) the Trustee any Sales Tax Revenues paid to the Authority by the State Board of Equalization.

Sales Tax Revenues received by the Trustee shall be transmitted to the Authority as described above under "Funds and Accounts; Allocation of Revenues;" provided that, during the continuance of an Event of Default, any Sales Tax Revenues received by the Trustee shall be applied first to the payment of the 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 Debt as more fully set forth in the Indenture and as described under "Events of Default."

The Authority 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 Authority 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.

<u>Rebate Fund</u>. 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 the Tax Certificates subject to the transfer provisions described below, all money at any time deposited in the Rebate Fund shall be held by the Trustee for the account of the Authority in trust, to the extent required to satisfy the Rebate Requirement (as defined in the Tax Certificate), for payment to the federal government of the United States of America, and neither the Trustee nor the Owner of any Bonds 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 the Tax Certificate. The Authority covenants to comply with the directions contained in the Tax Certificate and the Trustee covenants to comply with all written instructions of the Authority delivered to the Trustee pursuant to the 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). The Trustee shall be deemed conclusively to have complied with the provisions of the Indenture described in this provision if it follows such instructions of the Authority, and the Trustee shall have no liability or responsibility to enforce compliance by the Authority with the terms of the Tax Certificate nor to make computations in connection therewith.

The Trustee shall invest all amounts held in the Rebate Fund, pursuant to written instructions of the Authority, in Investment Securities, subject to those restrictions set forth in the Tax Certificate.

Upon receipt of the instructions of the Authority, the Trustee shall remit part or all of the balances in the Rebate Fund to the Federal Government of the United States or America, as directed. In addition, if such instructions so direct, the Trustee shall deposit moneys into or transfer moneys out of the Rebate Fund from or into such accounts or funds as directed. Any funds remaining in the Rebate Fund after redemption and payment of all of the Bonds and payment and satisfaction of any Rebate Requirement, shall be withdrawn and remitted to the Authority in accordance with a Request of the Authority.

Notwithstanding any other provision of the Indenture, including in particular the defeasance provisions thereof, the obligation to remit the Rebate Requirement to the Federal Government of the United States of America and to comply with all other requirements of this provision and the Tax Certificate shall survive the defeasance or payment in full of the Bonds.

The Authority shall retain all records with respect to the calculations and instructions described in the Indenture for at least six years after the date on which the last of the principal of and interest on the Bonds has been paid, whether upon maturity or prior redemption thereof.

Tax Covenants. The Authority 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 Authority may exclude the application of these covenants and the covenants described above under "Rebate Fund" to such Series of Bonds. Without limiting the foregoing, the Authority shall comply with all requirements and covenants contained in the Tax Certificate. In the event that at any time the Authority is of the opinion that it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture, the Authority shall so instruct the Trustee in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

Notwithstanding any provision of the Indenture described in this provision and above under "Rebate Fund," if the Authority shall receive an Opinion of Bond Counsel to the effect that any action required as described in the Indenture and therein 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 Authority and the Trustee may rely conclusively on such opinion in complying with the provisions of the Indenture, and the covenants thereunder shall be deemed to be modified to that extent.

Modification or Amendment of the Indenture

Amendments Requiring the Consent of Bondowners. The Indenture and the rights and obligations of the Authority, the Owners 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 Authority and the Trustee may enter into with the written consent of the Owners 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 Owners 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 for purposes of this provision.

The Indenture and the rights and obligations of the Authority and of the Owners of the Bonds and of the Trustee may also be modified or amended at any time by a Supplemental Indenture entered into by the Authority and the Trustee which shall become binding when the written consents of each provider of a letter of credit or a policy of bond insurance for the Bonds shall have been filed with the Trustee, provided that at such time the payment of all the principal of and interest on all Outstanding Bonds shall be insured by a policy or policies of municipal bond insurance or payable under a letter of credit the provider of which shall be a financial institution or association having unsecured debt obligations rated, or insuring or securing other debt obligations rated on the basis of such insurance or letters of credit, in one of the two highest Rating Categories of the Rating Agency.

No such modification or amendment shall (a) extend the mixed 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 Owner of each Bond so affected, or (b) reduce the aforesaid percentage of Bond Obligation the consent of the Owners 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 owners 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 Owners 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. Promptly after the execution and delivery by the Trustee and the Authority of any Supplemental Indenture as described in the Indenture, the Trustee shall mail a notice, setting forth in general terms the substance of such Supplemental Indenture to the Owners of the Bonds at the addresses shown on the registration books of the Trustee. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

Amendments Not Requiring the Consent of Bondowners. The Indenture and the rights and obligations of the Authority, of the Trustee and of the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority may adopt without the consent of any Bondholders due 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 Authority in the Indenture 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 therein reserved to or conferred upon the Authority;

(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;

(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 thereafter 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 Owners of the Bonds;

(4) to make modifications or adjustments necessary, appropriate or desirable to provide for the issuance of Variable Rate Indebtedness, Capital Appreciation Bonds or Parity Debt with such interest rate, payment, maturity and other terms as the Authority may deem desirable, subject to the provisions of the Indenture described above under "Additional Indebtedness;"

(5) to provide for the issuance of Bonds in book-entry form or bearer form, provided that no such provision shall materially and adversely affect the interests of the Owners of the Bonds;

(6) to make modifications or adjustments necessary, appropriate or desirable to accommodate credit enhancements including letters of credit and surety bonds and insurance policies delivered with respect to the Bond Reserve Fund;

(7) if the Authority 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;

(8) to provide for the issuance of an additional Series of Bonds pursuant to provisions of the Indenture described above under "Additional Indebtedness;" and

(9) for any other purpose that does not materially and adversely affect the interests of the Owners of the Bonds.

Effect of Supplemental Indenture. From and after the time any Supplemental Indenture becomes effective, the Indenture shall be deemed to be modified and amended an accordance therewith, and the respective rights, duties and obligations under the Indenture of the Authority, the Trustee and all Owners of Bonds Outstanding shall thereafter be determined, exercised and enforced 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 of Bonds

Discharge of Indenture. Bonds of any Series or a portion thereof, including the Bonds, may be paid by the Authority in any of the following ways:

(a) by paying or causing to be paid the Bond Obligation of and interest on such Outstanding Bonds, as and when the same 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 discussed below under "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 Authority 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 Authority, then and in that case, at the election of the Authority (evidenced by a Certificate of the Authority, filed with the Trustee, signifying the intention of the Authority 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 Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the Authority under the Indenture shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon request of the Authority, the Trustee shall cause an accounting of such period or periods as may be requested by the Authority to be prepared and filed with the Authority and shall execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver to the Authority 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 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 discussed below under "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 provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the Authority in respect of such Bond shall cease, terminate and be completely discharged, provided that the Owner thereof shall thereafter be entitled to the payment of the principal of and premium, if any, and interest on the Bonds, and the Authority shall remain liable for such payment, but only out of such money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of the indenture regarding any principal, Redemption Price of or interest on the Bonds that remain unclaimed for a period of two years after the principal of all the Bonds has become due and payable, and the continuing duties of the Trustee under the Indenture.

The Authority may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the Authority may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

Deposit of Moneys or Securities. Whenever in the Indenture it is provided or permitted 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 moneys 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 provided in the Indenture 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 clauses (i), (ii) or (vi) 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 (upon which opinion 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 provided in the Indenture 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 Authority) to apply such money to the payment of such Principal or Redemption Price and interest with respect to such Bonds.

Transfer and Exchange of Bonds

Use of Depository. So long as the Bonds are registered in book-entry form, Beneficial Owners will not receive certificates representing their ownership interests in the Bonds. Transfers of ownership interests in, and exchanges of, the Bonds will be accomplished by book entries made by DTC and, in turn, by the DTC Participants acting on behalf of the Beneficial Owners. In the event that DTC determines to discontinue providing its services as depository or is removed as depository by the Authority (and there is no successor depository), the Authority shall issue, and the Trustee shall authenticate and deliver, Bonds to the DTC Participants for further delivery to the Beneficial Owners. Thereafter, the Trustee shall maintain a register of the Owners of the Bonds, and transfers and exchanges of Bonds shall be effected as described in this provision.

Transfer of Bonds. Any Bond may, in accordance with its terms, be transferred, upon the register required to be kept by the Trustee, by the person in whose name it is registered, in person or by its duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Trustee.

Whenever any Bond or Bonds shall be surrendered for transfer, the Authority shall execute and the Trustee shall authenticate and deliver a new Bond or Bonds, of the same tenor, maturity and interest rate and for a like aggregate principal amount; provided that no registration or transfer may occur during the period established by the Trustee for selection of Bonds for redemption, or of any Bond or portion of a Bond so selected for redemption. The Trustee shall require the Bondholder requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

Exchange of Bonds. Bonds may be exchanged at the Corporate Trust Office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations or the same series, maturity and interest rate, provided that no exchange may occur during the period established by the Trustee for selection of Bonds for redemption, or of any Bond or portion of a Bond so selected for redemption. The Trustee shall require the Bondholder requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange.

Events of Default and Remedies of Bondholders

Events of Default. Each of the following events constitutes an Event of Default under the Indenture:

(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 Authority 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 District by the Trustee; except that, if such failure can be remedied but not within such sixty (60) day period and if the District 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 District 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 default shall exist under any agreement governing any Parity Debt and such default shall continue beyond the grace period, if any, provided for with respect to such default;

(e) if the Authority 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 Authority insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of the Authority, or approving a petition filed against the Authority seeking reorganization of the Authority 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 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 Authority 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 retail transactions and use tax, being Sections 100250 to 100256, inclusive, of the Public Utilities Code unless the Authority has determined that said repeal or amendment does not materially and adversely affect the rights of Bondholders.

<u>Remedies; Acceleration; Rights of Bondholders</u>. Except as discussed below in this provision, in each and every case during the continuance of an Event of Default, the Trustee or the holders of not less than a majority in aggregate principal amount of the Bonds at the time outstanding shall be entitled, upon notice in writing to the Authority, to declare the principal of all of the Bonds then outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture other than as discussed in this provision or in the Bonds contained to the contrary notwithstanding.

These provisions, however, are subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable because of an Event of Default, the Authority shall pay to or shall deposit with the Trustee a sum sufficient to pay all principal on such Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, and the reasonable expenses of the Trustee, and any and all other defaults known to the Trustee shall have been cured to the satisfaction of the Trustee, or provision deemed by the Trustee to be adequate shall have been made therefor, then, the holders of not less than a majority in aggregate principal amount of the Bonds at the time outstanding, by written notice to the Authority and to the Trustee, may, on behalf of the holders of all the Bonds, rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

These provisions are subject to the further condition that they are only effective, and the remedy of acceleration of the Bonds is only available, during a period when Parity Debt is outstanding, which Parity Debt, pursuant to the terms thereof, is subject to acceleration and payment prior to maturity.

Application of Revenues and Other Funds After Default. If an Event of Default shall occur and be continuing, the Authority 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 (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 Owners of the Bonds and Parity Debt, 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 to 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 Debt (upon presentation of the Bonds and Parity Debt 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 Parity Debt, 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 Debt which shall have become due, whether at maturity by acceleration or by call for redemption, in the order of their due dates, with interest on the overdue Bond Obligation and Parity Debt at the rate borne by the respective Bonds and Parity Debt, and, if the amount available shall not be sufficient to pay in full all the Bonds and Parity Debt due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or Accreted Value due on such date to the persons entitled thereto, without any discrimination or preference.

Trustee to Represent Bondholders. The Trustee is irrevocably appointed (and the successive respective Owners 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 Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners 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 upon the written request of the Owners of not less than twenty-five percent (25%) 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 Owners by such appropriate action, suit, mandamus or other proceedings as it shall deem most effective 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 granted in the Indenture, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the Indenture, the Act or any other law, and upon instituting such proceedings the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the revenues and other assets pledged under the Indenture, pending such proceedings. All rights or 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 Owners of such Bonds, subject to the provisions of the Indenture.

Bondholders Direction of Proceedings. Anything in the Indenture to the contrary notwithstanding, the Owners 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 should be unjustly prejudicial to Bondholders or holders of Parity Debt not parties to such direction.

Limitation on Bondholders Right to Sue. No Owner 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 Owner shall have given to the Trustee written notice of the occurrence of an Event of Default, (2) the Owners of not less than twenty-five percent (25%) in aggregate amount of Bond Obligation or the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted under the Indenture or to institute such suit, action or proceeding in its own name; (3) such Owner or said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (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; and (5) the Trustee shall not have received contrary directions from the Owners of an aggregate amount of Bond Obligation of the Bonds then Outstanding in excess of the aggregate amount of Bond Obligation or Bonds owned by the owners making such request.

Such notification, requests, tender of indemnity and refusal or omission are conditions precedent to the exercise by any Owner of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners 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 Owners 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 provided in the Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner therein provided and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

Termination of Proceedings. In case any proceedings taken by the Trustee or any one or more Bondholders on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Bondholders, then in every such case the Authority, the Trustee and the Bondholders, subject to any determination in such proceedings, shall be restored to their former positions and rights under the Indenture, severally and respectively, and all rights, remedies, powers and duties of the Authority, the Trustee and the Bondholders shall continue as though no such proceedings had been taken.

Remedies Not Exclusive. No remedy conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given under the Indenture existing at law or in equity or otherwise.

No Waiver of Default. No delay or omission of the Trustee or of any Owner or the Bonds to exercise any right or power arising upon the occurrence of any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by the Indenture to the Trustee or to the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient. No waiver of any Event of Default under the indenture by the Trustee or the Bondholders shall extend to or affect any subsequent Event of Default or impair any rights or remedies consequent thereto.

No waiver of any Event of Default under the Indenture, whether by the Trustee or by the Bondholders, shall extend to or shall affect any subsequent Event of Default or shall impair any rights or remedies consequent thereon.

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APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this "Disclosure Certificate") is executed and delivered by the Santa Clara Valley Transportation Authority (the "Authority") in connection with the issuance of the Authority's $__________ Sales Tax Revenue Refunding Bonds, 2011 Series A (the "Bonds"). The Bonds are being issued pursuant to an Indenture, dated as of November 1, 1997 (the "Master Indenture"), between the Authority and U.S. Bank National Association, as trustee (the "Trustee"), and an Eighth Supplemental Indenture, dated as of October 1, 2011, between the Authority and the Trustee (the "Eighth Supplemental Indenture" and, together with the Master Indenture and all other supplements thereto, the "Indenture"). The Bonds are special limited obligations of the Authority payable solely from and secured solely by the Revenues (as defined in the Indenture), consisting primarily of revenues from a sales tax imposed pursuant to the California Transactions and Use Tax Law, being Sections 7251 *et seq.* of the California Revenue and Taxation Code. Pursuant to Section 15.11 of the Eighth Supplemental Indenture, the Authority covenants and agrees as follows:

SECTION 1. <u>Purpose of this Disclosure Certificate</u>. This Disclosure Certificate is being executed and delivered by the Authority for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule.

SECTION 2. <u>Definitions</u>. 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.

"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.

"EMMA" shall mean the Electronic Municipal Market Access system, maintained on the internet at <u>http://emma.msrb.org</u> by the MSRB.

"Fiscal Year" shall mean the period beginning on July 1 of each year and ending on the next succeeding June 30, or any twelve-month or fifty-two week period hereafter selected by the Authority, with notice of such selection or change in fiscal year to be provided as set forth herein.

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

"MSRB" shall mean the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934 or any other entity designated or authorized by the SEC to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through EMMA

"Official Statement" shall mean the Official Statement, dated ______, 2011, relating to the Bonds.

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

"Repository" shall mean, until otherwise designated by the SEC, EMMA.

"Rule" shall mean Rule 15c2-12 adopted by the SEC pursuant to the Securities Exchange Act of 1934, as amended.

"SEC" shall mean the United States Securities and Exchange Commission.

SECTION 3. Provision of Annual Reports.

(a) The Authority shall provide, or shall cause the Dissemination Agent to provide, to MSRB, through EMMA, not later than 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. The Annual Report must be submitted in electronic format, accompanied by such identifying information as provided by the MSRB. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to such date, the Authority shall provide the Annual Report to the Dissemination Agent. If the Fiscal Year changes for the Authority, the Authority shall give notice of such change in the manner provided under Section 5(e) hereof.

(b) If by 15 Business Days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, through EMMA, 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). 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 it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Authority and shall have no duty or obligation to review such Annual Report.

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a), the Dissemination Agent shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine the electronic filing address of, and then-current procedures for submitting Annual Reports to, the MSRB each year prior to the date for providing the Annual Report; and

(ii) (if the Dissemination Agent is other than the Authority), to the extent appropriate information is available to it, file a report with the Authority certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, 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 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) An update (as of the most recently ended fiscal year of the Authority) for the table entitled "Historical Sales Tax Revenues" set forth in the Official Statement under the caption "THE 1976 SALES TAX - Historical Sales Tax Revenues" and an update of the table entitled "Combined Annual Debt Service Schedule," set forth in the Official Statement under the caption "DEBT SERVICE SCHEDULE," reflecting the debt service requirements of any new Bonds or Parity Debt (as defined in the Indenture).

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 are available to the public on EMMA or filed with the SEC. The Authority shall clearly identify each such document to included by reference.

SECTION 5. Reporting of Significant 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, in a timely manner not more than ten (10) Business Days after the event:

(1) principal and interest payment delinquencies;

(2) defeasances;

(3) tender offers;

(4) rating changes;

(5) adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax- status of the Bonds;

(6) unscheduled draws on the debt service reserves reflecting financial difficulties;

(7) unscheduled draws on credit enhancements reflecting financial difficulties;

(8) substitution of credit or liquidity providers or their failure to perform; or

(9) bankruptcy, insolvency, receivership or similar proceedings.

For these purposes, any event described in the immediately preceding paragraph (9) is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Authority in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Authority, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Authority.

(b) 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) mergers, consolidations, acquisitions, the sale of all or substantially all of the assets of the obligated persons or their termination;

(2) appointment of a successor or additional Trustee or the change of the name of a Trustee;

(3) nonpayment related defaults;

(4) modifications to the rights of Owners;

(5) a notices of prepayment; or

(6) release, substitution or sale of property securing repayment of the Bonds.

(c) Whenever the Authority obtains knowledge of the occurrence of a Listed Event, described in subsection (b) of this Section 5, the Authority shall as soon as possible determine if such event would be material under applicable federal securities law.

(d) If the Authority determines that knowledge of the occurrence of a Listed Event described in subsection (b) of this Section 5 would be material under applicable federal securities law, the Authority shall promptly notify the Dissemination Agent in writing and instruct the Dissemination Agent to report the occurrence to the Repository in a timely manner not more than ten (10) Business Days after the event.

(e) 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 MSRB.

(f) Any information received by the Dissemination Agent before 6:00 p.m. Eastern time on any business day that it is required to file with the MSRB pursuant to the terms of this Disclosure Certificate and that is accompanied by a Certification and all other information required by the terms of this Disclosure Agreement will be filed by the Dissemination Agent with the MSRB no later than 11:59 p.m. Eastern time on the same business day; provided, however, the Dissemination Agent shall have no liability for any delay in filing with the MSRB if such delay is caused by a *force majeure* event provided that the Dissemination Agent uses reasonable efforts to make any such filing as soon as possible.

SECTION 6. Filings with the MSRB. All information, operating data, financial statements, notices and other documents provided to the MSRB in accordance with this Disclosure Certificate shall be provided in an electronic format prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 7. 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.

SECTION 8. 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 30 days' notice in writing to the Authority. The Authority hereby appoints Digital Assurance Certification LLC as initial Dissemination Agent hereunder. Notwithstanding any other provision to this Disclosure Certificate to the contrary, the Authority may provide any Annual Report to Beneficial Owners by means of posting such Annual Report on an internet site that provides open access to Beneficial Owners.

SECTION 9. 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 10. 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 Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 11. 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.

SECTION 12. 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 Bondholders, 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 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.

Dated: October 5, 2011

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

By: ___________________________________
Chief Financial Officer

DIGITAL ASSURANCE CERTIFICATION LLC, as Dissemination Agent

By: ___________________________________
Authorized Representative

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Santa Clara Valley Transportation Authority

Name of Bond Issue: $__________ Santa Clara Valley Transportation Authority Sales Tax Revenue Refunding Bonds, 2011 Series A

Date of Issuance: October 5, 2011

NOTICE IS HEREBY GIVEN that the Santa Clara Valley Transportation Authority (the "Authority") has not provided an Annual Report with respect to the above-named Bonds as required by that certain Indenture, dated as of November 1, 1997, as amended and supplemented, including as amended and supplemented by the Eighth Supplemental Indenture, dated as of October 1, 2011, each by and between the Authority and U.S. Bank National Association, as trustee. The Authority anticipates that the Annual Report will be filed by _____________.

Dated: ____________________

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

By: ___________________________________

Its: ___________________________________

APPENDIX F

BOOK-ENTRY SYSTEM

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Santa Clara Valley Transportation Authority Sales Tax Revenue Refunding Bonds, 2011 Series A (the "Bonds"). The Bonds will be 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 Bond in the aggregate principal amount of such Bond, 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 neither of the Santa Clara Valley Transportation Authority (the "Authority") nor the Underwriter makes any representation as to its accuracy or completeness. For further information, beneficial owners should contact DTC in New York, New York.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. 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 are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Bonds 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.

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APPENDIX G

FORM OF BOND COUNSEL OPINION

[Date of Delivery]

Santa Clara Valley Transportation Authority
3331 North First Street, Building C
San Jose, California 95134

$47,485,000
Santa Clara Valley Transportation Authority
Sales Tax Revenue Refunding Bonds
2011 Series A

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance of $47,485,000 aggregate principal amount of Sales Tax Revenue Refunding Bonds, 2011 Series A (the "2011 Series A Bonds") issued by the Santa Clara Valley Transportation Authority (the "Authority"), a county transit district duly organized and existing under the Santa Clara Valley Transportation Authority Act, being Part 12 of Division 10 of the Public Utilities Code of the State of California (Sections 100000 *et seq.*) (the "Act").

The 2011 Series A Bonds are being issued pursuant to the Act (and the provisions of the Revenue Bond Law of 1941, being Section 54300 *et seq.* of the California Government Code as referenced in the Act), an Indenture, dated as of November 1, 1997, as amended and supplemented (as previously amended and supplemented, the "Original Indenture"), by and between the Authority and U.S. Bank National Association, as successor to First Trust of California, National Association, as trustee (the "Trustee") and an Eighth Supplemental Indenture, dated as of October 1, 2011 (the "Eighth Supplemental Indenture"), by and between the Authority and the Trustee. The Original Indenture and the Eighth Supplemental Indenture are collectively referred to herein as the "Indenture." The 2011 Series A Bonds are being issued to refund the Santa Clara County Transit District Junior Lien Sales Tax Revenue Bonds, 1998 Series A and the Santa Clara Valley Transportation Authority Junior Lien Sales Tax Revenue Bonds, 2000 Series A (together, the "Refunded Bonds").

The 2011 Series A Bonds are limited obligations of the Authority secured under the Indenture by a pledge of sales tax revenues derived from a one-half of one percent retail transactions and use tax (the "1976 Sales Tax"), imposed in accordance with the Act and the California Transactions and Use Tax Law (Revenue and Taxation Code Section 7251 *et seq.*), less certain administrative fees paid to the California State Board of Equalization in connection with the collection and disbursement of the 1976 Sales Tax, approved by the electorate of the County of Santa Clara in October 1976. The 2011 Series A Bonds are further secured by a pledge of certain amounts held by the Trustee under the Indenture.

As Bond Counsel, we have examined copies certified to us as being true and complete copies of the proceedings of the Authority in connection with the issuance of the 2011 Series A Bonds. We have also examined such certificates of officers of the Authority and others as we have considered necessary for the purposes of this opinion.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The 2011 Series A Bonds constitute valid and binding limited obligations of the Authority as provided in the Indenture, and are entitled to the benefits of the Indenture. The 2011 Series A Bonds are payable from 1976 Sales Tax Revenues and the pledge of certain amounts held by the Trustee under the Indenture.

2. The Indenture has been duly and validly authorized, executed and delivered by the Authority and, assuming the enforceability thereof against the Trustee, constitutes the legally valid and binding obligation of the Authority, enforceable against the Authority in accordance with its terms. The Indenture creates a valid pledge, to secure the payment of principal of and interest on the 2011 Series A Bonds, of the 1976 Sales Tax Revenues and other amounts held by the Trustee in certain funds and accounts established pursuant to the Indenture, subject to the provisions of the Indenture permitting the application thereof for other purposes and on the terms and conditions set forth therein.

3. Under existing statutes, regulations, rulings and court decisions, and, assuming compliance with the covenants mentioned below, interest on the 2011 Series A Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 (the "Code") from the gross income of the owners thereof for federal income tax purposes. We are further of the opinion that under existing statutes, regulations, rulings and court decisions, the 2011 Series A Bonds are not "specified private activity bonds" within the meaning of section 57(a)(5) of the Code and, therefore, interest on the 2011 Series A Bonds will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. Receipt or accrual of interest on 2011 Series A Bonds owned by a corporation may affect the computation of the alternative minimum taxable income of that corporation. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed. We are further of the opinion that interest on the 2011 Series A Bonds is exempt from personal income taxes of the State of California under present state law.

Pursuant to the Indenture and in the Tax Certificate Pertaining to Arbitrage and Other Matters under Sections 103 and 141-150 of the Internal Revenue Code of 1986, to be delivered by Authority in connection with the issuance of the 2011 Series A Bonds, the Authority will make representations relevant to the determination of, and will make certain covenants regarding or affecting, the exclusion of interest on the 2011 Series A Bonds from the gross income of the owners thereof for federal income tax purposes. In reaching its opinions described in the immediately preceding paragraphs, we have assumed the accuracy of such representations and the present and future compliance by the Authority with such covenants. Further, except as stated above, we express no opinion as to any federal or state tax consequences of the receipt of interest on, or the ownership or disposition of, the 2011 Series A Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the 2011 Series A Bonds, or the interest thereon, if any action is taken with respect to the 2011 Series A Bonds or the proceeds thereof predicated or permitted upon the advice or approval of other counsel.

Except as stated in the preceding two paragraphs, we express no opinion as to any federal or state tax consequences of the ownership or disposition of the 2011 Series A Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the 2011 Series A Bonds, or the interest thereon, if any action is taken with respect to the 2011 Series A Bonds or the proceeds thereof predicated or permitted upon the advice or approval of other bond counsel.

The opinions expressed in paragraphs 1 and 2 above are qualified to the extent the enforceability of the 2011 Series A Bonds and the Indenture may be limited by applicable bankruptcy, insolvency, debt adjustment, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally or as to the availability of any particular remedy. The enforceability of the 2011 Series A Bonds and the Indenture is subject to the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing, to the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law, and to the limitations on legal remedies against governmental entities in California.

No opinion is expressed herein on the accuracy, completeness or fairness of the Official Statement or other offering material relating to the 2011 Series A Bonds.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Respectfully submitted,

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SANTA CLARA VALLEY TRANSPORTATION AUTHORITY • SALES TAX REVENUE REFUNDING BONDS, 2011 SERIES A

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