



Ratings: Insured Ratings:
Moody's "Aaa"
S & P "AAA"
Underlying Ratings:
Moody's "Aa3"
S & P "AA+"

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Refunding Bonds, 2007 Series A (the "Measure A 2007 Series A Bonds") is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the opinion of Bond Counsel, interest on the Measure A 2007 Series A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Measure A 2007 Series A Bonds. See "TAX MATTERS" herein.

\$120,095,000

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
2000 Measure A Sales Tax Revenue Refunding Bonds,
2007 Series A

Dated: Date of Delivery

Due: April 1, as shown on the Inside Cover Page

The Measure A 2007 Series A Bonds are being issued by the Santa Clara Valley Transportation Authority (the "Authority") pursuant to an Indenture, dated as of August 1, 2006, as supplemented and amended by a First Supplemental Indenture, dated as of August 1, 2006, and as further supplemented and amended by a Second Supplemental Indenture, dated as of September 1, 2007 (collectively, the "Indenture"), between the Authority and Deutsche Bank National Trust Company, as trustee (the "Trustee"). Proceeds of the Measure A 2007 Series A Bonds will be applied: (i) to refund certain prior bonds on a current basis, as further described herein and (ii) to pay costs of issuance of the Measure A 2007 Series A Bonds, all as more particularly described herein. See "PLAN OF FINANCE."

The Measure A 2007 Series A Bonds will be registered in the name of Cede & Co., as holder of the Measure A 2007 Series A Bonds and nominee for The Depository Trust Company ("DTC"), New York, New York. Purchasers will not receive certificates representing their interest in the Measure A 2007 Series A Bonds purchased. The principal or redemption price of and interest on the Measure A 2007 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 Measure A 2007 Series A Bonds, as more fully discussed herein.

Payment of the principal of and interest on the Measure A 2007 Series A Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Measure A 2007 Series A Bonds.

Ambac

Interest on the Measure A 2007 Series A Bonds shall be payable semiannually on each April 1 and October 1, commencing on April 1, 2008. The Measure A 2007 Series A Bonds are being issued as fully registered bonds without coupons in the denominations of \$5,000 and any integral multiple thereof.

The Measure A 2007 Series A Bonds are subject to optional and mandatory redemption prior to maturity, as more fully described herein.

The Measure A 2007 Series A Bonds are limited obligations of the Authority secured solely by a pledge of Revenues (as defined in the Indenture), which consist of the receipts from the imposition in Santa Clara County of a one-half of one percent retail transactions and use tax authorized in 2000 which took effect April 1, 2006 (the "2000 Measure A Sales Tax"), less certain administrative fees paid to the California State Board of Equalization, as described herein, plus certain amounts held by the Trustee in the funds and accounts established under the Indenture. The 2000 Measure A Sales Tax was approved by more than 2/3rds of the electorate of the County of Santa Clara voting on the ballot measure in November 2000 and is scheduled to expire March 31, 2036. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Pledge of 2000 Measure A Sales Tax Revenues and Certain Amounts Held by Trustee" herein.

The Measure A 2007 Series A Bonds are being issued on a parity with certain other bonds secured by the 2000 Measure A Sales Tax Revenues (the "Existing Measure A Bonds"). See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS—Outstanding 2000 Measure A Obligations" herein. The Authority may also issue additional bonds secured by the 2000 Measure A Sales Tax Revenues on a parity with the Existing Measure A Bonds and the Measure A 2007 Series A Bonds subject to compliance with certain conditions described in the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Additional Bonds and Parity Obligations" herein.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COUNTY OF SANTA CLARA, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION OR PUBLIC AGENCY THEREOF, OTHER THAN THE AUTHORITY, TO THE EXTENT OF THE PLEDGE OF THE 2000 MEASURE A SALES TAX REVENUES AND OTHER AMOUNTS HELD UNDER THE INDENTURE, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE MEASURE A 2007 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. Potential investors are advised to read this entire Official Statement to obtain information essential to the making of an informed investment decision with respect to the Measure A 2007 Series A Bonds.

The Measure A 2007 Series A Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of validity by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, and certain other conditions. Certain legal matters will be passed on for the Authority by its General Counsel. Certain legal matters will be passed upon for the Underwriters by Nossaman, Guthner, Knox & Elliott, LLP. It is anticipated that the Measure A 2007 Series A Bonds will be available for delivery through DTC on or about September 27, 2007.

Citi

Banc of America Securities LLC

Goldman, Sachs & Co.

Morgan Stanley & Co. Incorporated

Dated: September 18, 2007

\$120,095,000
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
2000 Measure A Sales Tax Revenue Refunding Bonds,
2007 Series A

MATURITY SCHEDULE
\$60,900,000 Serial Bonds

<u>Due</u> <u>April 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP No.</u> [†]	<u>Due</u> <u>April 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP No.</u> [†]
2011	\$2,430,000	4.00%	3.49%	80168NCH0	2020	\$3,635,000	5.00%	4.09% ^C	80168NCS6
2012	2,525,000	4.00	3.52	80168NCJ6	2021	3,815,000	5.00	4.14 ^C	80168NCT4
2013	2,625,000	5.00	3.56	80168NCK3	2022	4,005,000	5.00	4.18 ^C	80168NCU1
2014	2,760,000	5.00	3.61	80168NCL1	2023	4,205,000	5.00	4.22 ^C	80168NCV9
2015	2,895,000	5.00	3.67	80168NCM9	2024	4,415,000	5.00	4.26 ^C	80168NCW7
2016	3,040,000	4.25	3.77	80168NCN7	2025	4,640,000	5.00	4.30 ^C	80168NCX5
2017	3,170,000	4.00	3.84	80168NCP2	2026	4,870,000	5.00	4.33 ^C	80168NCY3
2018	3,295,000	5.00	3.93 ^C	80168NCQ0	2027	5,115,000	5.00	4.36 ^C	80168NCZ0
2019	3,460,000	5.00	4.01 ^C	80168NCR8					

\$29,665,000 5.00% Term Bonds due on April 1, 2032; Yield: 4.45%^C; CUSIP No.: 80168NDA4[†]
\$29,530,000 5.00% Term Bonds due on April 1, 2036; Yield: 4.49%^C; CUSIP No.: 80168NDB2[†]

[†] Copyright 2007, American Bankers Association. CUSIP numbers are provided by Standard & Poor's, CUSIP Service Bureau, a division of the McGraw-Hill companies, Inc. and are set forth for convenience and reference only. Neither the Authority nor the Underwriters take any responsibility for the accuracy of such numbers.

^C Yield to call date.

No dealer, salesman or any other person has been authorized by the Santa Clara Valley Transportation Authority (the "Authority") or the Underwriters to give any information or to make any statements or representations, other than those contained in this Official Statement, and, if given or made, such other information, statements or representations must not be relied upon as having been authorized. The information set forth herein has been obtained from the Authority and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and it is not to be construed as a representation by the Underwriters. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy any of the Measure A 2007 Series A Bonds in any jurisdiction in which such offer or solicitation is not authorized, or in which any person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

This Official Statement is not to be construed as a contract with the purchasers of the Measure A 2007 Series A Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

IN CONNECTION WITH THE OFFERING OF THE MEASURE A 2007 SERIES A BONDS, THE UNDERWRITERS MAY EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE MEASURE A 2007 SERIES A BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION CONCERNING THE AUTHORITY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibility to investors under the federal securities law as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in affairs of the Authority since the date hereof. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with one or more repositories.

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. SUCH FORWARD-LOOKING STATEMENTS INCLUDE, BUT ARE NOT LIMITED TO, CERTAIN STATEMENTS CONTAINED IN THE INFORMATION UNDER THE CAPTION “THE 2000 MEASURE A SALES TAX—PROJECTED 2000 MEASURE A SALES TAX REVENUES” AND IN THE PROJECTIONS OF FUTURE OPERATING RESULTS OF THE AUTHORITY IN APPENDIX A ATTACHED HERETO. 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 OCCUR, OTHER THAN AS DESCRIBED UNDER THE CAPTION “CONTINUING DISCLOSURE” HEREIN.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

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Donald F. Gage
Sam Liccardo
Chuck Reed
Greg Sellers

Liz Kniss, Vice-Chairperson
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Breene Kerr
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Kathleen King
Peter McHugh
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Suzanne Gifford, General Counsel
Carolyn Gonot, Chief SVRT Program Officer
Bill Lopez, Chief Administrative Officer
Jerry G. Mikolajczyk, Chief Financial Officer
Donald Smith, Chief Operations Officer
John Ristow, Acting Chief Planning and CMA Officer
Maria Marinos, Board Secretary

SPECIAL SERVICES

Financial Advisor

Ross Financial
San Francisco, California

Bond Counsel

Orrick, Herrington & Sutcliffe LLP
San Francisco, California

Trustee

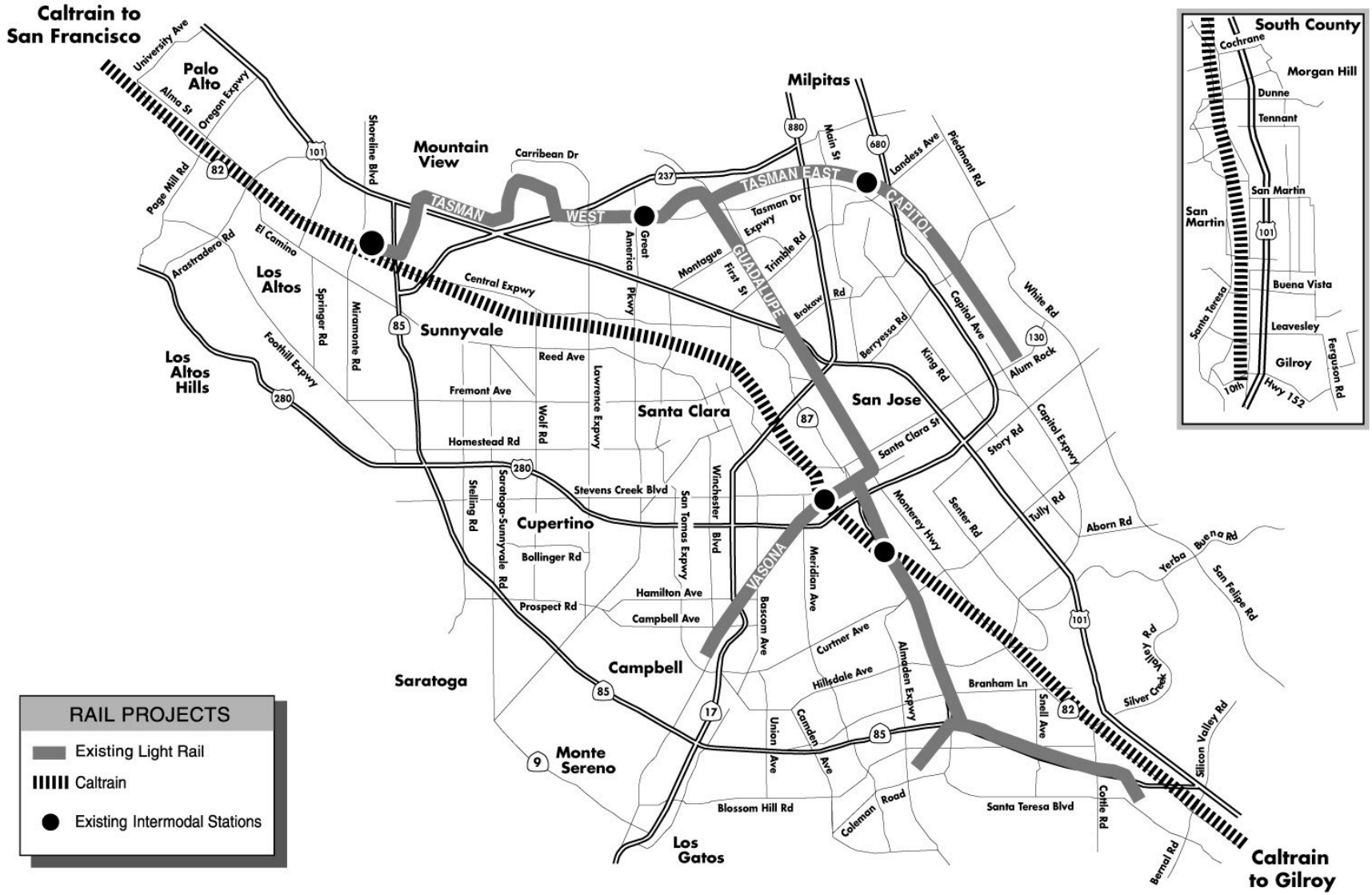
Deutsche Bank National Trust Company
San Francisco, California

Verification Agent

Samuel Klein and Company, Certified Public Accountants
Newark, New Jersey

Santa Clara County Bus and Rail Transit Service Area

Caltrain to San Francisco



RAIL PROJECTS

- Existing Light Rail
- Caltrain
- Existing Intermodal Stations

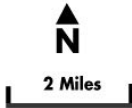


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OFFICIAL STATEMENT

\$120,095,000

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY 2000 Measure A Sales Tax Revenue Refunding Bonds,

2007 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 \$120,095,000 of Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Refunding Bonds, 2007 Series A (the “Measure A 2007 Series A Bonds”). The Measure A 2007 Series A Bonds are being issued pursuant to the Indenture, dated as of August 1, 2006, between the Authority and Deutsche Bank National Trust Company, as trustee (the “Trustee”), as supplemented by a First Supplemental Indenture, dated as of August 1, 2006 (the “First Supplemental Indenture”), between the Authority and the Trustee, and as further supplemented by a Second Supplemental Indenture, dated as of September 1, 2007 (the “Second Supplemental Indenture”), between the Authority and the Trustee. The Indenture, as so supplemented and as further supplemented from time to time pursuant to its terms is hereinafter referred to as the “Indenture.” All capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE,” or, if not defined therein, in the Indenture.

Authority for Issuance

The Measure A 2007 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”).

Purpose and Application of Proceeds

The Measure A 2007 Series A Bonds are being issued in order to refund on a current basis \$137,800,000 aggregate principal amount of the Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds, 2006 Series F and 2006 Series G (hereinafter collectively referred to as the “Prior Bonds”). In addition, a portion of the proceeds of the Measure A 2007 Series A Bonds will be used to pay the costs of issuance of the Measure A 2007 Series A Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS” herein.

Security

The Measure A 2007 Series A Bonds are limited obligations of the Authority secured by a pledge of sales tax revenues (herein called the “2000 Measure A Sales Tax Revenues”) derived from a one-half of one percent (0.5%) retail transactions and use tax (the “2000 Measure A Sales Tax”), imposed in accordance with the Act and the California Transactions and Use Tax Law (Revenue and Taxation Code Section 7251 *et seq.*), net of an administrative fee paid to the

California State Board of Equalization in connection with the collection and disbursement of the 2000 Measure A Sales Tax. The 2000 Measure A Sales Tax was approved by more than 2/3rds of the electorate of the County of Santa Clara (the “County”) voting on the ballot measure in November 2000 and is scheduled to expire March 31, 2036.

The Measure A 2007 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 MEASURE A 2007 SERIES A BONDS—Pledge of 2000 Measure A Sales Tax Revenues and Certain Amounts Held by Trustee” herein.

Upon their issuance, the Measure A 2007 Series A Bonds will be secured on a parity basis under the Indenture with the Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds, 2006 Series A, 2006 Series B, 2006 Series C and 2006 Series D (hereinafter collectively referred to as the “Outstanding 2006 Bonds”) issued in the aggregate principal amount of \$235,875,000, all of which will remain Outstanding upon the issuance of the Measure A 2007 Series A Bonds.

Additional Bonds and other obligations secured by a pledge of the 2000 Measure A Sales Tax Revenues on a parity with the Measure A 2007 Series A Bonds and the Outstanding 2006 Bonds may hereafter be issued or incurred. See “SECURITY AND SOURCES OF PAYMENT FOR THE MEASURE A 2007 SERIES A BONDS – Additional Bonds and Parity Obligations” herein. The Outstanding 2006 Bonds, the Measure A 2007 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 OF SANTA CLARA, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION OR PUBLIC AGENCY THEREOF, OTHER THAN THE AUTHORITY TO THE EXTENT OF THE PLEDGE OF THE 2000 MEASURE A SALES TAX REVENUES AND OTHER AMOUNTS PLEDGED UNDER THE INDENTURE, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS.

Bond Insurance and Surety Bond

Payment of the principal of and interest on the Measure A 2007 Series A Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation (the “Insurer” or “Ambac”) simultaneously with the delivery of the Measure A 2007 Series A Bonds. See “BOND INSURANCE AND SURETY BOND” herein.

A Bond Reserve Fund for the Measure A 2007 Series A Bonds will be established under the Indenture. The Bond Reserve Requirement with respect to the Measure A 2007 Series A Bonds will be satisfied by the deposit of a surety bond (the “Surety Bond”) issued by the Insurer and in a stated amount equal to the Bond Reserve Requirement for the Measure A 2007 Series A Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE MEASURE A 2007 SERIES A BONDS—Bond Reserve Funds,” and “BOND INSURANCE AND SURETY BOND” herein.

The Insurer will have the right to consent, on behalf of Owners of Measure A 2007 Series A Bonds (with certain exceptions) to amendments to the Indenture, without notice to or consent of the Owners of the Measure A 2007 Series A Bonds. See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

References

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

THE AUTHORITY

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

For a more complete description of the Authority and its operations, see APPENDIX A – “THE AUTHORITY.”

THE MEASURE A 2007 SERIES A BONDS

General

The Measure A 2007 Series A Bonds will be dated as of their date of delivery, and will bear interest from their dated date at the rates per annum set forth on the inside cover page hereof, payable semiannually on each April 1 and October 1, commencing on April 1, 2008 (each, an “Interest Payment Date”) and will mature in the amounts and on the dates set forth on the inside cover page hereof. The Measure A 2007 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 (“DTC”), the initial Securities Depository for the Measure A 2007 Series A Bonds. The Measure A 2007 Series A Bonds will be issued in authorized denominations of \$5,000 or any multiple thereof. Under the Indenture, the Authority may appoint a successor Securities Depository.

The Measure A 2007 Series A Bonds will be issued initially pursuant to a book-entry only system (the “Book-Entry System”). While the Measure A 2007 Series A Bonds are in the Book-Entry System, the information under this caption, “THE MEASURE A 2007 SERIES A

BONDS “ is subject in its entirety to the provisions described below under “APPENDIX E – BOOK ENTRY ONLY SYSTEM.”

The term “Owner” as used herein shall refer to DTC as the registered owner of the Measure A 2007 Series A Bonds. Payments to the beneficial owners of the Measure A 2007 Series A Bonds are to be made as described below in APPENDIX E – “BOOK ENTRY ONLY SYSTEM.”

Interest on the Measure A 2007 Series A Bonds shall be computed upon the basis of a 360-day year, consisting of twelve 30-day months. Each Measure A 2007 Series A Bond shall bear interest on overdue principal and, to the extent permitted by law, on overdue interest at the rate borne by such Measure A 2007 Series A Bond on the date on which such principal became due and payable.

Payment of interest on any Measure A 2007 Series A Bond shall be made to the person appearing on the bond registration books of the Trustee as the registered owner thereof as of the close of business on the applicable Record Date, such interest to be payable on each Interest Payment Date by the Trustee (i) by check mailed on such Interest Payment Date to such registered owner’s address as it appears on the bond registration books of the Trustee at the close of business on the Record Date or (ii) by wire transfer to any Holder of at least \$1,000,000 aggregate principal amount of Measure A 2007 Series A Bonds according to the written instructions provided by such Holder on or prior to the applicable Record Date to the Trustee, which written instructions shall remain in effect until revised by such Holder by an instrument in writing delivered to the Trustee. “Record Date” is defined in the Indenture as the 15th day of the calendar month next preceding an Interest Payment Date, whether or not such day is a Business Day.

The principal of the Measure A 2007 Series A Bonds shall be payable in lawful money of the United States of America at the designated Corporate Trust Office of the Trustee upon surrender of the Measure A 2007 Series A Bonds to the Trustee for cancellation.

Redemption

Optional Redemption. The Measure A 2007 Series A Bonds maturing on or before April 1, 2017 will not be subject to redemption prior to their respective stated maturities. The Measure A 2007 Series A Bonds maturing on or after April 1, 2018 will 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, in Authorized Denominations, on any date on or after April 1, 2017 at a redemption price equal to the principal amount of Measure A 2007 Series A Bonds called for redemption, without premium, plus accrued interest to the date fixed for redemption.

Mandatory Sinking Fund Redemption. The Measure A 2007 Series A Bonds maturing on April 1, 2032 will be redeemed by mandatory sinking fund redemption, in part, on each April 1 in the mandatory sinking fund redemption amount set forth below at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the date of redemption, without premium.

Sinking Fund Redemption Date (April 1)	Mandatory Sinking Fund Redemption Amount
2028	\$5,370,000
2029	5,635,000
2030	5,920,000
2031	6,215,000
2032 (maturity)	6,525,000

The Measure A 2007 Series A Bonds maturing on April 1, 2036 will be redeemed by mandatory sinking fund redemption, in part, on each April 1 in the mandatory sinking fund redemption amount set forth below at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the date of redemption, without premium.

Year	Mandatory Sinking Fund Redemption Amount
2033	\$6,850,000
2034	7,195,000
2035	7,555,000
2036 (maturity)	7,930,000

Notice of Redemption; Conditional Notice. Notice of redemption shall be mailed by the Trustee, not less than 30 nor more than 60 days prior to the redemption date, (i) to the respective Holders of any Measure A 2007 Series A Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee by first class mail, and (ii) to each of the Repositories by first class mail; provided, however, that failure to give such notice to any Repository or the failure of any Holder or Repository to receive such notice or any defect in any such notice, will not affect the sufficiency or validity of the proceedings for redemption.

With respect to any notice of optional redemption of Measure A 2007 Series A Bonds, unless, upon the giving of such notice, such Measure A 2007 Series A Bonds shall be deemed to have been paid in accordance with the provisions of the Indenture, such notice shall state that such redemption shall be conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of amounts sufficient to pay the principal of, and premium, if any, and interest on, such Measure A 2007 Series A Bonds to be redeemed, and that if such amounts shall not have been so received said notice shall be of no force and effect and the Authority shall not be required to redeem such Measure A 2007 Series A Bonds. In the event that such notice of redemption contains such a condition and such amounts are not so received, the redemption shall not be made and the Trustee shall within a reasonable time thereafter give notice to the Holders to the effect that such amounts were not so received and such redemption was not made, such notice to be given by the Trustee in the manner in which the notice of redemption was given.

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

Effect of Redemption. Notice of redemption having been duly given as described above, and moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, the Measure A 2007 Series A Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Measure A 2007 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 Measure A 2007 Series A Bonds so called for redemption shall cease to accrue, said Measure A 2007 Series A Bonds (or portions thereof) shall cease to be entitled to any benefit or security under the Indenture, and the Holders of said Measure A 2007 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 from funds held by the Trustee for such payment.

Mandatory Purchase in Lieu of Redemption. Each Holder, by purchase and acceptance of any Measure A 2007 Series A Bond, irrevocably grants to the Authority the option to purchase such Measure A 2007 Series A Bond on any date such 2007 Series A Bond is subject to optional redemption as described above at a purchase price equal to the Redemption Price then applicable to such Measure A 2007 Series A Bond, plus accrued interest thereon to the date of purchase. In order to exercise such option, the Authority will deliver to the Trustee a Favorable Opinion of Bond Counsel and will direct the Trustee to provide notice of mandatory purchase in lieu of redemption, such notice to be provided, as and to the extent applicable, in accordance with the provisions set forth in the Indenture and described above. On the date fixed for purchase of any Measure A 2007 Series A Bond, the Authority will pay the purchase price of such Measure A 2007 Series A Bond to the Trustee in immediately available funds and the Trustee will pay the same to the Holders of Measure A 2007 Series A Bonds being purchased against delivery thereof. Following such purchase, the Trustee will register such Measure A 2007 Series A Bonds in accordance with the written instructions of the Authority. No purchase of any 2007 Series A Bond in this manner will operate to extinguish the indebtedness evidenced by such 2007 Series A Bond. No Holder may elect to retain a Measure A 2007 Series A Bond subject to mandatory purchase.

In the event that the Authority lacks sufficient funds to pay the purchase price of any Measure A 2007 Series A Bond subject to mandatory purchase in lieu of redemption on the date fixed for such purchase, the Authority will cancel such mandatory purchase in lieu of redemption and will return each such Measure A 2007 Series A Bond to the Holder who will have tendered such Measure A 2007 Series A Bond for mandatory purchase in lieu of redemption. The Trustee will give notice that such mandatory purchase was not effected promptly following the date fixed for such purchase. Any failure to pay the purchase price of any Measure A 2007 Series A Bond subject to mandatory purchase will not constitute an Event of Default under the Indenture.

PLAN OF FINANCE

General

Proceeds of the Measure A 2007 Series A Bonds will be applied to (i) refund on a current basis all of the outstanding principal amount of the Prior Bonds and (ii) pay costs of issuance of the Measure A 2007 Series A Bonds. The Bond Reserve Fund for the Measure A 2007 Series A Bonds will be funded with a surety bond.

Plan of Refunding

A portion of the proceeds will be used to purchase direct obligations of the United States of America (the "Escrow Securities") for irrevocable deposit in the refunding escrow (the "Escrow Fund") to be held by Deutsche Bank National Trust Company, trustee and escrow agent for the Prior Bonds. The Escrow Securities will mature at such time and in such amount as will be sufficient to pay the principal of and interest on the Prior Bonds on their redemption dates. See "VERIFICATION" herein. The 2006 Series F Bonds will be redeemed on November 6, 2007 and the 2006 Series G Bonds will be redeemed on November 5, 2007, at a redemption price of 100% of the principal amount thereof plus accrued and unpaid interest to the date of redemption. The deposit of Escrow Securities into the Escrow Fund will constitute an irrevocable deposit for the benefit of the holders of the Prior Bonds. Neither the maturing principal of the Escrow Securities nor the interest thereon will be available to make payments on the Measure A 2007 Series A Bonds. Upon such irrevocable deposit of the Escrow Securities in the Escrow Fund, the Prior Bonds will be deemed paid and no longer outstanding.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of the funds are as follows:

<u>Sources of Funds:</u>	
Par Amount of Bonds	\$120,095,000.00
Original Issue Premium	5,884,065.50
Amounts held in the Reserve	
Funds for the Prior Bonds	<u>13,480,754.29</u>
Total Sources:	\$139,459,819.79
<u>Uses of Funds:</u>	
Deposit to Escrow Fund	\$138,491,474.22
Costs of Issuance ⁽¹⁾	<u>968,345.57</u>
Total Uses:	\$139,459,819.79

⁽¹⁾ Includes underwriters' discount, rating agency fees, trustee fees, printing costs, bond insurance and surety bond premium, bond 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 Outstanding 2006 Bonds and the Measure A 2007 Series A Bonds.

Fiscal Year Ending June 30	Outstanding 2006 Bonds Principal Amount⁽¹⁾	Outstanding 2006 Bonds Interest Payment⁽¹⁾⁽²⁾⁽³⁾	Measure A 2007 Series A Bonds Principal Amount⁽¹⁾	Measure A 2007 Series A Bonds Interest Payment⁽²⁾	Aggregate Annual Debt Service⁽²⁾
2008	-	\$8,880,693.76	-	\$3,015,913.33	\$11,896,607.09
2009	-	8,880,693.76	-	5,900,700.00	14,781,393.76
2010	-	8,880,693.76	-	5,900,700.00	14,781,393.76
2011	-	8,880,693.76	\$2,430,000.00	5,900,700.00	17,211,393.76
2012	-	8,880,693.76	2,525,000.00	5,803,500.00	17,209,193.76
2013	-	8,880,693.76	2,625,000.00	5,702,500.00	17,208,193.76
2014	-	8,880,693.76	2,760,000.00	5,571,250.00	17,211,943.76
2015	-	8,880,693.76	2,895,000.00	5,433,250.00	17,208,943.76
2016	-	8,880,693.76	3,040,000.00	5,288,500.00	17,209,193.76
2017	-	8,880,693.76	3,170,000.00	5,159,300.00	17,209,993.76
2018	-	8,880,693.76	3,295,000.00	5,032,500.00	17,208,193.76
2019	-	8,880,693.76	3,460,000.00	4,867,750.00	17,208,443.76
2020	-	8,880,693.76	3,635,000.00	4,694,750.00	17,210,443.76
2021	-	8,880,693.76	3,815,000.00	4,513,000.00	17,208,693.76
2022	-	8,880,693.76	4,005,000.00	4,322,250.00	17,207,943.76
2023	-	8,880,693.76	4,205,000.00	4,122,000.00	17,207,693.76
2024	-	8,880,693.76	4,415,000.00	3,911,750.00	17,207,443.76
2025	-	8,880,693.76	4,640,000.00	3,691,000.00	17,211,693.76
2026	-	8,880,693.76	4,870,000.00	3,459,000.00	17,209,693.76
2027	-	8,880,693.76	5,115,000.00	3,215,500.00	17,211,193.76
2028	-	8,880,693.76	5,370,000.00	2,959,750.00	17,210,443.76
2029	-	8,880,693.76	5,635,000.00	2,691,250.00	17,206,943.76
2030	-	8,880,693.76	5,920,000.00	2,409,500.00	17,210,193.76
2031	-	8,880,693.76	6,215,000.00	2,113,500.00	17,209,193.76
2032	-	8,880,693.76	6,525,000.00	1,802,750.00	17,208,443.76
2033	\$55,750,000.00	8,880,693.76	6,850,000.00	1,476,500.00	72,957,193.76
2034	57,825,000.00	6,781,706.26	7,195,000.00	1,134,000.00	72,935,706.26
2035	60,025,000.00	4,604,595.00	7,555,000.00	774,250.00	72,958,845.00
2036	<u>62,275,000.00</u>	<u>2,344,653.76</u>	<u>7,930,000.00</u>	<u>396,500.00</u>	<u>72,946,153.76</u>
Total	\$235,875,000.00	\$244,628,992.78	\$120,095,000.00	\$111,263,813.33	\$711,862,806.11

⁽¹⁾ Includes mandatory sinking fund payments.

⁽²⁾ Totals may not add due to rounding.

⁽³⁾ Debt Service on the Outstanding 2006 Bonds is calculated based on the rate of 3.765% established pursuant to the hereinafter identified 2006 Swap Agreements. See, "SECURITY AND SOURCES OF PAYMENT FOR THE MEASURE A 2007 SERIES A BONDS—Additional Bonds and Parity Obligations—Outstanding 2000 Measure A Sales Tax Obligations" herein.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Limited Obligations

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

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

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

All 2000 Measure A Sales Tax Revenues are irrevocably pledged by the Authority to secure the punctual payment of the principal of, premium, if any, and interest on the Bonds and Parity Obligations, each in accordance with their terms, and the 2000 Measure A Sales Tax Revenues shall not be used for any other purpose while any of the Bonds or Parity Obligations remain Outstanding, except as permitted by the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, as described below. Pursuant to the Indenture, the pledge of 2000 Measure A Sales Tax Revenues constitutes a first lien to secure the Bonds and Parity Obligations. The pledge of 2000 Measure A Sales Tax Revenues is irrevocable until all Bonds issued under the Indenture, including the Measure A 2007 Series A Bonds, and all Parity Obligations are no longer Outstanding.

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

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

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

Revenue Fund; Allocation of 2000 Measure A Sales Tax Revenues

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

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

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

2. Principal Fund; Sinking Accounts. The Indenture also requires the Trustee to make monthly deposits in the Principal Fund in an amount equal to at least (a) one-sixth of the aggregate semiannual amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds of all Series having semiannual maturity dates within the next six (6) months, plus (b) one-twelfth of the aggregate yearly amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds of all Series

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

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

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

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

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

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

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

Bond Reserve Fund

In connection with the Measure A 2007 Series A Bonds, the Authority will cause the Trustee to establish a separate Bond Reserve Fund for the Measure A 2007 Series A Bonds (the “2007 A Bond Reserve Fund”). The 2007 A Bond Reserve Fund will be funded with the Surety Bond issued in stated amount equal to the Bond Reserve Requirement in the Measure A 2007 Sales A Bonds. The 2007 A Bond Reserve Fund will not serve as security for any other Series of Bonds. Nor does the Bond Reserve Fund established for the Outstanding 2006 Bonds, which is funded with a separate surety bond issued by Ambac Assurance Corporation, serve as security for the Measure A 2007 Series A Bonds.

Additional Bonds and Parity Obligations

Following the redemption of the Prior Bonds, the only obligations secured by 2000 Measure A Sales Tax Revenues at such time will be the Outstanding 2006 Bonds, the regularly scheduled payments on the hereinafter identified 2006 Swap Agreements and the Measure A 2007 Series A Bonds. The Authority may issue additional Bonds and may issue or incur other obligations secured in whole or in part by a pledge of 2000 Measure A Sales Tax Revenues on a parity with the Bonds and the regularly scheduled payments on the 2006 Swap Agreements, subject to compliance with the terms and provisions set forth in the Indenture. See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Issuance of Additional Bonds and Other Obligations.”

Issuance of Additional Series of Bonds. Subsequent to the issuance of the Measure A 2007 Series A Bonds, the Authority may by Supplemental Indenture establish one or more Series of Bonds payable from 2000 Measure A Sales Tax Revenues and secured by the pledge made under the Indenture equally and ratably with Bonds previously issued, but only upon compliance by the Authority with the provisions of the Indenture. Certain of the applicable provisions of the Indenture are described below:

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

(b) If a Bond Reserve Fund is required in connection with the issuance of an additional Series of Bonds, the Supplemental Indenture providing for the issuance of such Series of additional Bonds may require either (i) the establishment of a Bond Reserve Fund for such Series of Bonds or (ii) that the balance in an existing Bond Reserve Fund, forthwith upon the receipt of the proceeds of the sale of Bonds of such Series, be increased to an amount at least equal to the Bond Reserve Requirement with respect to such Series of Bonds and all other Bonds secured by such Bond Reserve Fund to be considered Outstanding upon the issuance of such additional Series of Bonds. Said

deposit may be made from the proceeds of the sale of Bonds of such Series or from other funds of the Authority or from both such sources or in the form of a letter of credit or surety bond or insurance policy as described under APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Establishment and Application of Funds and Accounts - Funding and Application of Bond Reserve Funds.”

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

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

The Insurer has required additional covenants relating to the issuance of additional Bonds. These covenants impose limitations which are more restrictive than the covenants described above. Such covenants may be waived or modified by the Insurer in its sole discretion and are not described in this Official Statement.

Issuance of Refunding Bonds. Refunding Bonds may be authorized and issued by the Authority without compliance with the provisions of the Indenture summarized above under the caption “Issuance of Additional Series of Bonds;” provided that Maximum Annual Debt Service on all Bonds and Parity Obligations Outstanding following the issuance of such Refunding Bonds is less than or equal to Maximum Annual Debt Service on all Bonds and Parity Obligations Outstanding prior to the issuance of such Refunding Bonds. The Measure A 2007 Series A Bonds are Refunding Bonds.

Parity Obligations. As defined in the Indenture, “Parity Obligations” means any indebtedness, installment sale obligation, lease obligation or other obligation of the Authority for borrowed money or any Interest Rate Swap Agreement (excluding fees and expenses and termination payments on Interest Rate Swap Agreements which fees and expenses and termination payments shall be secured by a lien and charge on the 2000 Measure A Sales Tax Revenues subordinate to the lien and charge upon the 2000 Measure A Sales Tax Revenues which secures the Bonds, Parity Obligations and payment of principal and interest on Subordinate Obligations) entered into in connection with a Series of Bonds, in each case incurred in accordance with the provisions of the Indenture described herein and having an equal lien and charge upon the 2000 Measure A Sales Tax Revenues and therefore payable on a parity with the Bonds (whether or not any Bonds are Outstanding). See “SECURITY AND SOURCES OF PAYMENT FOR THE MEASURE A 2007 SERIES A BONDS—Additional Bonds and Parity

Obligations—Outstanding 2000 Measure A Sales Tax Obligations” herein. The Authority may issue or incur additional Parity Obligations which will have, when issued, an equal lien and charge upon the 2000 Measure A Sales Tax Revenues, provided that the conditions to the issuance of such Parity Obligations set forth in the Indenture are satisfied, including satisfaction of the coverage test described in subsection (c) above under the caption “Issuance of Additional Series of Bonds,” unless such Parity Obligations are being issued for refunding purposes, in which case the coverage test shall not apply.

Outstanding 2000 Measure A Sales Tax Obligations

The following table sets forth the Authority’s Outstanding Bonds as of the date of issuance of the Measure A 2007 Series A Bonds which are secured by the 2000 Measure A Sales Tax.

	Principal Amount <u>Outstanding</u>
2000 Measure A Sales Tax Revenue Bonds, 2007 Series A	\$120,095,000
2000 Measure A Sales Tax Revenue Bonds, 2006 Series A-D	\$235,875,000

In August 2006, the Authority entered into interest rate swap agreements (the “2006 Swap Agreements”) in connection with the Outstanding 2006 Bonds. Pursuant to the terms of the 2006 Swap Agreements, the Authority agreed to pay to the counterparties a fixed rate of interest and the counterparties agreed to pay the Authority a floating rate of interest. The Authority’s obligation to make regularly scheduled payments of interest to the counterparties under the 2006 Swap Agreements is payable from and secured by 2000 Measure A Sales Tax Revenues on a parity basis with the Bonds.

Under certain circumstances, the 2006 Swap Agreements may be terminated, at which time the Authority may be required to make a termination payment to the applicable counterparty.

Termination payments payable in accordance with the provisions of the 2006 Swap Agreements are secured by a lien on the 2000 Measure A Sales Tax Revenues subordinate to the lien which secures the Bonds, Parity Obligations and Subordinate Obligations.

For a further discussion regarding the Authority’s existing swaps (including swaps that have liens on the Authority’s 1976 Sales Tax) and potential risks in connection therewith, see APPENDIX B – “AUTHORITY AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2006, Note 7(d) and 21.”

Subordinate Obligations

The Authority may also issue obligations which are payable as to principal, premium, interest and reserve fund requirements, if any, only out of 2000 Measure A Sales Tax Revenues after the prior payment of all amounts then required to be paid from 2000 Measure A Sales Tax Revenues for principal, premium, interest and reserve fund requirements for the Bonds and all

Parity Obligations, as the same become due and payable. Currently, there are no Subordinate Obligations outstanding.

BOND INSURANCE AND SURETY BOND

The following information has been furnished by the Insurer for use in this Official Statement. Reference is made to APPENDIX G -- "SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY." The Authority makes no representation as to the accuracy or completeness of this information or as to the absence of material adverse changes in this information subsequent to the date hereof.

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance Corporation (the "Insurer" or "Ambac") has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the Measure A 2007 Series A Bonds effective as of the date of issuance of the Measure A 2007 Series A Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac will pay to The Bank of New York, New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Measure A 2007 Series A Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Obligations (as such term is defined in the Financial Guaranty Insurance Policy) and, once issued, cannot be canceled by Ambac.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund redemption dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Measure A 2007 Series A Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Measure A 2007 Series A Bonds, Ambac will remain obligated to pay principal of and interest on outstanding Measure A 2007 Series A Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates.

In the event the Trustee has notice that any payment of principal of or interest on a Measure A 2007 Series A Bond that has become Due for Payment and that is made to an Owner by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does not insure any risk other than Nonpayment, as set forth in the Policy. Specifically, the Financial Guaranty Insurance Policy does **not** cover:

1. payment, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity;
2. payment of any redemption or prepayment premium; and.
3. nonpayment of principal or interest caused by the insolvency or negligence of the Trustee, paying agent or bond registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of the Measure A 2007 Series A Bonds to the Insurance Trustee, together with an appropriate instrument of assignment, so as to permit ownership of such Measure A 2007 Series A Bonds to be registered in the name of Ambac to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Owner entitlement to interest payments and an appropriate assignment of the Owner's right to payment to Ambac.

Upon payment of the insurance benefits, Ambac will become the owner of the 2007 Series A Bond, appurtenant coupon, if any, or right to payment of principal or interest on such 2007 Series A Bond and will be fully subrogated to the surrendering Holder's rights to payment.

The Financial Guaranty Insurance Policy does not insure against loss relating to payments made in connection with losses suffered as a result of a Holder's inability to sell the Measure A 2007 Series A Bonds.

In the event that Ambac were to become insolvent, any claims arising under the Financial Guaranty Insurance Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Surety Bond

The Indenture authorizes the Obligor (as such term is defined in the Surety Bond) to obtain one or more Surety Bonds in order to fund a Bond Reserve Fund. Application has been made to the Insurer for the issuance of a Surety Bond for the purpose of funding the 2007 Series A Bond Reserve Fund (see the "SECURITY AND SOURCES OF PAYMENT FOR THE MEASURE A 2007 SERIES A – BONDS -- Bond Reserve Funds" herein). The Measure A 2007 Series A Bonds will only be delivered upon the issuance of such Surety Bond. The Surety Bond provides that upon the later of (i) one (1) day after receipt by the Insurer of a demand for payment executed by the Trustee certifying that provision for the payment of principal or interest on the Measure A 2007 Series A Bonds described in this paragraph when due has not been made or (ii) the interest payment date specified in the Demand for Payment submitted to the Insurer, the Insurer will promptly deposit funds with the Trustee sufficient to enable the Trustee to make such payments due on the Measure A 2007 Series A Bonds described in this paragraph, but in no event exceeding the Surety Bond Coverage, as defined in the Surety Bond.

Pursuant to the terms of the Surety Bond, the Surety Bond Coverage is automatically reduced to the extent of each payment made by the Insurer under the terms of the Surety Bond and the Obligor is required to reimburse the Insurer for any draws under the Surety Bond with interest at a market rate. Upon such reimbursement, the Surety Bond is reinstated to the extent

of each principal reimbursement up to but not exceeding the Surety Bond Coverage. The reimbursement obligation of the Obligor is subordinate to the Obligor's obligations with respect to the Measure A 2007 Series A Bonds described in this paragraph.

In the event the amount on deposit, or credited to the 2007 A Bond Reserve Fund funded with the Surety Bond, exceeds the amount of the Surety Bond, any draws on the Surety Bond shall be made only after all the funds in the 2007 A Bond Reserve Fund have been expended. The Indenture provides that the Bond Reserve Fund shall be replenished in the following priority: (i) principal and interest on the Surety Bond shall be paid from first available 2000 Measure A Sales Tax Revenues; (ii) after all such amounts are paid in full, amounts necessary to fund the 2007 A Bond Reserve Fund described in this paragraph to the required level, after taking into account the amounts available under the Surety Bond shall be deposited from next available 2000 Measure A Sales Tax Revenues.

The Surety Bond does not insure against nonpayment caused by the insolvency or negligence of the Trustee.

In the event that Ambac were to become insolvent, any claims arising under the Financial Guaranty Insurance Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Ambac Assurance Corporation

Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin, and is licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$10,391,000,000 (unaudited) and statutory capital of approximately \$6,730,000,000 (unaudited) as of June 30, 2007. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service, Inc. and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in the Financial Guaranty Insurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor.

Ambac Assurance makes no representation regarding the Measure A 2007 Series A Bonds or the advisability of investing in the Measure A 2007 Series A Bonds and makes no representation regarding, nor has it participated in the preparation of, this Official Statement other than the information supplied by Ambac Assurance and presented under the heading "BOND INSURANCE AND SURETY BOND".

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the “Company”), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the “SEC”). These reports, proxy statements and other information can be read and copied at the SEC’s public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance’s financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance’s administrative offices is One State Street Plaza, 19th Floor, New York, New York 10004, and its telephone number is (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and filed on March 1, 2007;
2. The Company’s Current Report on Form 8-K dated and filed on April 25, 2007;
3. The Company’s Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2007 and filed on May 10, 2007;
4. The Company’s Current Report on Form 8-K dated and filed on July 25, 2007;
5. The Company’s Current Report on Form 8-K dated and filed on August 3, 2007; and
6. The Company’s Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2007 and filed on August 9, 2007.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in “**Available Information**”.

THE 2000 MEASURE A SALES TAX

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

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

Collection of the 2000 Measure A Sales Tax is administered by the State Board of Equalization (“SBOE”). The Authority has authorized the SBOE to make payment of 2000 Measure A Sales Tax Revenues directly to the Trustee. 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 Trustee on a monthly basis 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 prior quarter and to deduct the full amount of the administrative fee for the prior quarter. Upon receipt of the 2000 Measure A Sales Tax Revenues, the Trustee retains an amount necessary to meet debt service requirements and make the other deposits required by the Indenture. The balance is then forwarded to the Authority.

Historical 1976 Sales Tax Revenues

In addition to the 2000 Measure A Sales Tax, the Authority levies another retail transactions and use tax of one half of one percent (0.5%) for transportation purposes (the “1976 Sales Tax”). The 1976 Sales Tax, also approved by the voters, is levied against the same sales tax base as the 2000 Measure A Sales Tax. Collection of the 1976 Sales Tax is also administered by the SBOE and is remitted to the trustee for the senior lien obligations secured by the 1976 Sales Tax pursuant to a separate agreement between the Authority and the SBOE in the same manner and subject to payment of a separate administrative charge in the same manner as the 2000 Measure A Sales Tax.

The following table shows 1976 Sales Tax Revenues reported by the Authority during the ten Fiscal Years ended June 30, 2007.

**Santa Clara Valley Transportation Authority
Historical 1976 Sales Tax Revenues
Fiscal Years Ended June 30, 1998- 2007**

<u>Fiscal Year Ended June 30</u>	<u>1976 Sales Tax Revenues</u>	<u>Percent Increase (Decrease)</u>
1998	\$138,428,805	--
1999	143,711,721	3.8%
2000	166,764,390	16.0
2001	183,540,308	10.1
2002	144,217,679	(21.4) ⁽¹⁾
2003	132,632,377	(8.0) ⁽¹⁾
2004	138,917,173	4.7
2005	145,008,106	4.3
2006	157,283,101	8.5
2007	163,462,003 ⁽²⁾	4.1

Source: The Authority.

⁽¹⁾ The Authority attributes the Fiscal Year 2002 and 2003 reductions shown above to the effects of a severe downturn of the local economy (principally in the high-tech industry), which began in 2001 and resulted in reductions in 1976 Sales Tax Revenues and available jobs within the County.

⁽²⁾ Preliminary, unaudited.

The Measure A 2007 Series A Bonds are not secured by 1976 Sales Tax Revenues.

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 DEMOGRAPHIC AND ECONOMIC INFORMATION.”

2000 Measure A Sales Tax Revenues

Commencing April 1, 2006 and ending June 30, 2006, the Authority received \$38,169,934 of 2000 Measure A Sales Tax Revenues. For the Fiscal Year ending June 30, 2007, the Authority has received \$161,360,552 in 2000 Measure A Sales Tax Revenues. For a discussion regarding the procedures related to the collection of the 2000 Measure A Sales Tax, see “APPENDIX A -- “THE AUTHORITY – Authority Revenues – 2000 Measure A Sales Tax Revenues.”

The table below shows a projection of 2000 Measure A Sales Tax Revenues for the ten Fiscal Years ending June 30, 2008 through 2017.

**Santa Clara Valley Transportation Authority
 Projected 2000 Measure A Sales Tax Revenues
 Fiscal Years Ending June 30, 2008 – 2017**

<u>Fiscal Year Ending June 30</u>	<u>Projected 2000 Measure A Sales Tax Revenues</u>	<u>Percent Increase (Decrease)</u>
2008	\$171,532,186	--
2009	179,765,731	4.80%
2010	189,760,706	5.56
2011	200,956,588	5.59
2012	212,250,348	5.62
2013	224,263,718	5.66
2014	237,024,323	5.69
2015	250,582,114	5.72
2016	264,364,131	5.50
2017	276,921,427	4.75

Source: The Authority.

Annual 2000 Measure A Revenues for the Fiscal Year ended June 30, 2007, total \$161,360,552. These 2000 Measure A Revenues are anticipated to equal at least 9.37 times Maximum Annual Debt Service on the Bonds through April 1, 2032, and 2.21 times Maximum Annual Debt Service on the Bonds through April 1, 2036, the final maturity of all Bonds outstanding upon the issuance of the Measure A 2007 Series A Bonds assuming such Maximum Annual Debt Service amounts as shown in the table “DEBT SERVICE SCHEDULE” herein.

The Authority has obtained the services of an outside economist, who has provided projected assumptions and projections of taxable sales for Santa Clara County through 2016 to assist in developing sales tax revenue forecasts. The taxable sales projections are developed by applying high, middle, and low growth assumptions to several key variables affecting taxable sales, including population, jobs, earnings per job, non-earnings income per person, the ratio of taxable sales to personal income and total personal income. The Authority has developed its sales tax revenue forecasts using the midpoint between middle and low growth projections of taxable sales for Santa Clara County. Beyond 2016, the Authority uses a growth rate of 4.75%, which is slightly below historical averages since inception of its 1976 Sales Tax. As with all assumptions, actual achievement of certain results or other expectations contained in such assumptions 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 forecasts. No assurance is given that actual results will meet the forecasts of the Authority in any way, regardless of the level of optimism communicated in the information. The Authority is not obligated to issue any updates or revisions to the forecasts if or when its expectations, or events, conditions or circumstances on which such statements are based occur.

THE 2000 MEASURE A PROGRAM

General

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

The 2000 Measure A Transit Improvement Program

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

- Extend San Francisco Bay Area Rapid Transit District service ("BART") from Fremont through Milpitas to Downtown San Jose and the Santa Clara Caltrain Station (the "Silicon Valley Rapid Transit Project" or "SVRT");
- Provide connections from the San Jose International Airport to BART, Caltrain commuter rail service ("Caltrain") and the Authority's light rail system;
- Extend the Authority's light rail system from Downtown San Jose to the East Valley portion of 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") service;
- Improve the Highway 17 express bus service;
- Connect Caltrain with the Dumbarton Rail Corridor (serving Alameda and San Mateo County);
- Purchase zero emission buses and construct service facilities;

- Provide funds to develop new light rail corridors;
- Fund operating and maintenance costs associated with increased bus, rail and paratransit service.

On June 15, 2006, the Authority's Board of Directors adopted a Revenue and Expenditure Plan (the "Expenditure Plan") that prioritizes project implementation within the framework of projected revenues, including 2000 Measure A Sales Tax Revenues. Existing revenue sources are projected to cover approximately 80% of the Expenditure Plan. The Authority has not identified the revenue sources to fund the remaining portion of the Expenditure Plan. Additional funding sources under consideration include an additional ¼ of one-cent sales tax (which is assumed in the Expenditure Plan and which would require 2/3rds voter approval), transit-oriented developments, benefit assessment districts, and additional state and federal grants. If additional funding sources do not materialize, the Authority may not be able to fund the entire Expenditure Plan. The Authority intends to continue to advance design development so projects are ready to go into construction subject to funding availability. This strategy enhances the competitiveness of projects eligible for state and federal funds. Projects which are the subject of preliminary engineering and design will not proceed to construction without the express prior approval by the Authority's Board of Directors. The Authority intends to review the Expenditure Plan on a regular basis, to update the financial status of the 2000 Measure A Program and to make project priority adjustments based on updated cost and revenue information.

The Authority publishes a quarterly report as a periodic update regarding the implementation of the 2000 Measure A Transit Improvement Program (the most current copy of which may be requested through the Authority). The following activities have either been completed or are in progress, funded by a combination of funds, including 2000 Measure A Sales Tax Revenues, state and federal grants, bond proceeds and other locally obtained funds:

- Completed conceptual design, preliminary engineering and proceeding with 65% design and engineering phase on the Silicon Valley Rapid Transit Project;
- Completed conceptual design, preliminary design and began final design on Capitol Expressway Light Rail to Eastridge (part of the DTEV extension);
- Purchased low floor light rail vehicles and placed in revenue service;
- Completed preliminary design and began final design for extending Caltrain's double track to Gilroy;
- Implemented a rapid bus service on the Authority's busiest bus route and have begun studying potential bus rapid transit improvements in other major bus corridors;
- Participated in a regional zero emission bus demonstration project;

- Conducting new rail corridor study consisting of two phases; developing a transit sustainability policy and mode-specific service design guidelines; and identifying potential new transit corridors using aforementioned policy and guidelines;
- Providing operating assistance to the Authority.

Future Financing Plans

The Authority anticipates that the Expenditure Plan will be funded through a combination of pay-as-you-go and bond financing. The initial Expenditure Plan adopted in June 2006 assumes additional bond financing beginning in Fiscal Year 2011; however, based on actual receipts of projected revenues, including 2000 Measure A Sales Tax Revenues, as well as the results of periodic updates to the Expenditure Plan, this assumption may be modified.

INVESTMENT CONSIDERATIONS

Economy of the County and the State

The Measure A 2007 Series A Bonds are secured by a pledge of 2000 Measure A Sales Tax Revenues, which consist of the 2000 Measure A Sales Tax less an administrative fee paid to the SBOE. The level of 2000 Measure A Sales Tax Revenues collected at any time is dependent upon the level of retail sales within the County, which level of retail sales is, in turn, dependent upon the level of economic activity in the County and in the State generally. As a result, any substantial deterioration in the level of economic activity within the County or in the State could have a material adverse impact upon the level of 2000 Measure A Sales Tax Revenues and therefore upon the ability of the Authority to pay principal of and interest on the Measure A 2007 Series A Bonds. For information relating to current economic conditions within the County and the State see APPENDIX C - "COUNTY DEMOGRAPHIC AND ECONOMIC INFORMATION."

The 2000 Measure A Sales Tax

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

Proposition 218

On November 5, 1996, voters in the State approved an initiative known as the Right to Vote on Taxes Act ("Proposition 218"). Proposition 218 added Articles XIIC and XIID to the California Constitution. Article XIIC requires majority voter approval for the imposition, extension or increase of general taxes and two-thirds voter approval for the imposition, extension or increase of special taxes by a local government, which is defined to include local or regional governmental agencies such as the Authority. The 2000 Measure A Sales Tax received the

approval of more than 2/3rds of the voters as required by Article XIIC. However, Article XIIC also removes limitations that may have applied to the voter initiative power with regard to reducing or repealing previously authorized taxes. In the opinion of the Authority, however, any attempt by the voters to use the initiative provisions under Proposition 218 to rescind or reduce the levy and collection of the 2000 Measure A Sales Tax in a manner which would prevent the payment of debt service on the Measure A 2007 Series A Bonds would violate the Impairment Clause of the United States Constitution and, accordingly, would be precluded. However, it is likely that the interpretation and application of Proposition 218 will ultimately be determined by the courts.

Further Initiatives

Proposition 218 and Proposition 42 (discussed in Appendix A) were each adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiative measures could be adopted, which may affect the Authority's ability to levy and collect the 2000 Measure A Sales Tax.

No Acceleration Provision

The Indenture does not contain a provision allowing for the acceleration of the Measure A 2007 Series A Bonds in the event of a default in the payment of principal and interest on the Measure A 2007 Series A Bonds when due. In the event of a default by the Authority, each Holder of a 2007 Series A Bond will have the rights to exercise the remedies, subject to the limitations thereon, set forth in the Indenture." See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

Loss of Tax Exemption

As discussed under "TAX MATTERS," interest on the Measure A 2007 Series A Bonds could become includable in federal gross income, possibly from the date of issuance of the Measure A 2007 Series A Bonds, as a result of acts or omissions of the Authority subsequent to the issuance of the Measure A 2007 Series A Bonds. Should interest become includable in federal gross income, the Measure A 2007 Series A Bonds are not subject to redemption by reason thereof and will remain outstanding until maturity or earlier redemption.

FINANCIAL STATEMENTS

The financial statements of the Authority for the Fiscal Year ended June 30, 2006, included in APPENDIX B of this Official Statement have been audited by Vavrinek, Trine, Day & Co., LLP, independent auditors, as stated in their report therein. Vavrinek, Trine, Day & Co., LLP was not requested to consent to the inclusion of its report in APPENDIX B, nor has it undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by Vavrinek, Trine, Day & Co., LLP with respect to any event subsequent to the date of its report. The Authority represents that there has been no material adverse change in its financial position since June 30, 2006.

LITIGATION

There is not now pending or, to the knowledge of the Authority, threatened, any litigation restraining or enjoining the issuance or delivery of the Measure A 2007 Series A Bonds or questioning or affecting the validity of the Measure A 2007 Series A Bonds or the proceedings and authority under which they are to be issued or the levy, collection and pledge of 2000 Measure A Sales Taxes. 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 AUTHORITY - Litigation."

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Measure A 2007 Series A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Measure A 2007 Series A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX F hereto.

To the extent the issue price of any maturity of the Measure A 2007 Series A Bonds is less than the amount to be paid at maturity of such Measure A 2007 Series A Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Measure A 2007 Series A Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Measure A 2007 Series A Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Measure A 2007 Series A Bonds is the first price at which a substantial amount of such maturity of the Measure A 2007 Series A Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Measure A 2007 Series A Bonds accrues daily over the term to maturity of such Measure A 2007 Series A Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Measure A 2007 Series A Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Measure A 2007 Series A Bonds. Beneficial Owners of the Measure A 2007 Series A Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Measure A 2007 Series A Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Measure A 2007 Series A Bonds in the original offering to the public at the first price at which a substantial amount of such Measure A 2007 Series A Bonds is sold to the public.

Measure A 2007 Series A Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of the bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Measure A 2007 Series A Bonds. The Authority has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Measure A 2007 Series A Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Measure A 2007 Series A Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Measure A 2007 Series A Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel’s attention after the date of issuance of the Measure A 2007 Series A Bonds may adversely affect the value of, or the tax status of interest on, the Measure A 2007 Series A Bonds. Accordingly, this opinion is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Measure A 2007 Series A Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Measure A 2007 Series A Bonds may otherwise affect a Beneficial Owner’s federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner’s other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Measure A 2007 Series A Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. As one example, on May 21, 2007, the United States Supreme Court agreed to hear an appeal from a Kentucky state court which ruled that the United States Constitution prohibited the state from providing a tax exemption for interest on bonds issued by the state and its political subdivisions but taxing interest on obligations issued by other states and their political subdivisions. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Measure A 2007 Series A Bonds. Prospective purchasers of the Measure A 2007 Series A Bonds should consult their own tax advisers

regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Measure A 2007 Series A Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Measure A 2007 Series A Bonds ends with the issuance of the Measure A 2007 Series A Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority or the Beneficial Owners regarding the tax-exempt status of the Measure A 2007 Series A Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Measure A 2007 Series A Bonds for audit, or the course or result of such audit, or an audit of Bonds presenting similar tax issues may affect the market price for, or the marketability of, the Measure A 2007 Series A Bonds, and may cause the Authority or the Beneficial Owners to incur significant expense.

LEGAL MATTERS

The validity of the Measure A 2007 Series A Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority. A complete copy of the proposed form of opinion of Bond Counsel is attached hereto as APPENDIX F. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Authority by the general counsel for the Authority. Certain legal matters will be passed upon for the Underwriters by Nossaman, Guthner, Knox & Elliott LLP.

RATINGS

Standard & Poor's Ratings Group, a division of The McGraw Hill Companies ("S&P") and Moody's Investors Service, Inc. ("Moody's") are expected to assign ratings of "AAA" and "Aaa," respectively, to the Measure A 2007 Series A Bonds based on the understanding that the Financial Guaranty Insurance Policy will be issued by the Insurer simultaneously with the delivery of the Measure A 2007 Series A Bonds. In addition, the Measure A 2007 Series A Bonds have been assigned underlying ratings of "AA+" by S&P and "Aa3" by Moody's, respectively. 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 Measure A 2007 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 Bonds.

VERIFICATION

Samuel Klein and Company, Certified Public Accountants (the “Verification Agent”) will verify from information provided to them the mathematical accuracy as of the date of the closing of the Measure A 2007 Series A Bonds of the computations contained in the provided schedules to determine that the anticipated receipts from the Escrow Securities and cash deposits will be sufficient to pay, when due, the principal and interest of the Prior Bonds. The Verification Agent will express no opinion on the assumptions provided to them, nor as to the exemption from taxation of the interest on the Measure A 2007 Series A Bonds.

UNDERWRITING

Citigroup Global Markets Inc., as representative of the underwriters of the Measure A 2007 Series A Bonds listed on the cover hereof (the “Representative”), has agreed, subject to certain conditions, to purchase Measure A 2007 Series A Bonds at a price of \$125,543,396.20 (representing \$120,095,000 aggregate principal amount of Measure A 2007 Series A Bonds, plus an original issue premium of \$5,884,065.50, less \$435,669.30 Underwriters’ discount). The Purchase Contract provides that the Underwriters will purchase all the Measure A 2007 Series A Bonds if any are purchased.

FINANCIAL ADVISOR

The Authority has retained Ross Financial, San Francisco, California, as financial advisor (the “Financial Advisor”) in connection with the authorization and delivery of the Measure A 2007 Series A Bonds. Compensation paid to the Financial Advisor is conditioned on the issuance of the Measure A 2007 Series A Bonds.

CONTINUING DISCLOSURE

The Authority has covenanted for the benefit of the owners and beneficial owners of the Measure A 2007 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 Fiscal Year ended June 30, 2007, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by Digital Assurance Certificate LLC, (as initial Dissemination Agent) on behalf of the Authority with each Nationally Recognized Municipal Securities Information Repository (the “NRMSIRs”). The notices of material events will be filed by Digital Assurance Certification LLC, as dissemination agent (the “Dissemination Agent”) on behalf of the Authority with the Municipal Securities Rulemaking Board and with the NRMSIRs. The specific nature of the information to be contained in the Annual Report and the notices of material events is set forth under the caption APPENDIX H— “PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE.” These covenants have been made in order to

assist the Underwriters in complying with SEC Rule 15c2-12(b)(5). The Authority is in compliance with all continuing disclosure requirements applicable to its securities.

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 said documents, as the case may be. Copies of the Indenture, including the First Supplemental Indenture and the Second Supplemental Indenture, are available for inspection at the Authority and following delivery of the Measure A 2007 Series A Bonds will be on file at the offices of the Trustee in San Francisco, California.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or Holders of any of the Measure A 2007 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/ Jerry G. Mikolajczyk
Chief Financial Officer

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APPENDIX A

THE AUTHORITY

All capitalized terms used and not defined in this Appendix A shall have the meanings assigned to such terms in the forepart of this Official Statement. Source data for tables is provided by the Authority unless otherwise noted.

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 appointed by the City of San Jose 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 also 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 (“County of Santa Clara” or “Santa Clara County” or the “County”). The allocation of Board representation is generally based on population.

The current members of the Board and the local agency each Board member represents are as follows:

<u>Name</u>	<u>Local Agency</u>
Dean J. Chu, Chairperson	City of Sunnyvale
Liz Kniss, Vice Chairperson	County of Santa Clara
Nora Campos	City of San Jose
David Cortese	City of San Jose
Donald F. Gage	County of Santa Clara
Breene Kerr	Town of Los Altos Hills
Sam Liccardo	City of San Jose
Laura Macias	City of Mountain View
Chuck Reed	City of San Jose
Dolly Sandoval	City of Cupertino
Greg Sellers	City of Morgan Hill
Forrest Williams	City of San Jose
Ken Yeager	Ex Officio

The alternate members of the Board include Judy Chirco (City of San Jose), Dominic Caserta (City of Santa Clara), Kathleen King (City of Saratoga), Pete McHugh (County of Santa Clara) and Roland Velasco (City of Gilroy).

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

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

MICHAEL BURNS—General Manager since August 2005. Mr. Burns has been in the transportation industry for 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”).

JACK COLLINS—Chief Engineering and Construction Officer since November 1998. Mr. Collins has been in the transportation industry for 27 years implementing large transit projects as a senior executive of the Authority and in the private sector as a professional consultant and contractor. Before joining the Authority, Mr. Collins served as Vice President of O'Brien Kreitzberg, a construction management consultant firm and UTDC (USA), Inc., a turnkey contractor of automated transit systems.

SUZANNE GIFFORD—General Counsel since June 1995. Ms. Gifford formerly served as General Counsel of the Southern California Rapid Transit District. Ms. Gifford is a member of the American Public Transit Association Legal Affairs Committee and has over 30 years of public transit experience.

CAROLYN GONOT—Chief SVRT Program Officer since June, 2007. Prior to her appointment as Chief SVRT Program Officer, Ms. Gonot served as Chief Development Officer since January 2004 and as the Deputy Director of the Congestion Management Program prior to that. Ms. Gonot has been employed by the Authority since July 1996. Ms. Gonot worked for transportation consulting firms before joining the Authority.

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 formerly 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.

JERRY G. MIKOLAJCZYK—Chief Financial Officer since April 2007. Mr. Mikolajczyk has more than 32 years of experience in accounting, auditing, and financial management. Much of his experience is in the construction industry, with an emphasis on project controls and reporting. He served as Chief Financial Officer with SCI Group, during which time he worked on such transit projects as the Confederation Toll Bridge, Oahu Light Rail Transit Project, H-3 Viaduct, and the Seattle underground bus system. Mr. Mikolajczyk's most recent experience was as the Chief Operating Officer of MineCore International.

JOHN RISTOW—Acting Chief Planning and CMA Officer since June, 2007. Prior to his appointment as Acting Chief Planning and 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 (NPDES) 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.

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.

MARIA MARINOS—Board Secretary since October 2005. Prior to her appointment as Board Secretary, Ms. Marininos served as Senior Transportation Planner of Programming and Grants for the Authority since January 2001. Ms. Marininos has been in the transit industry for 23 years and served in the positions of Grants & Legislative Analyst and Administrative Services Coordinator for the Santa Cruz Metropolitan Transit District.

Employees

The Authority presently has approximately 2,020 employees. The Authority’s Adopted FY 2008 and FY 2009 Budget (the “Adopted FY 2008 and FY 2009 Budget”) includes funding for authorized positions of 2,186 and 2,193 respectively.

The Amalgamated Transit Union, Division 265, represents mechanics and maintenance personnel, bus and light rail operators, dispatchers, and customer service representatives. The Authority’s existing contract with this union will expire in February 2008. The Service Employees International Union, Local 715 (SEIU Local 715) represents technical and administrative positions. The Transportation Authority Engineers and Architects Association (TAEA Local 21) represents employees in engineering occupations. Existing contracts with SEIU Local 715 and TAEA Local 21 expire May and July 2009, respectively. The American Federation of State, County and Municipal Employees (AFSCME) represents managers and supervisors. The existing contract with AFSCME will expire in April 2009. There are approximately 110 non-represented employees consisting of executive and senior level classifications. The Authority has never experienced any major work stoppages or job actions.

The Authority Transit System

Bus Transit Service. The Authority presently operates a bus system providing service to the approximately 326 square mile urbanized portion of the Santa Clara County, a county of 1,300 square miles with a population of approximately 1.8 million. The Authority currently maintains an active fleet of 435 diesel-powered, 25 unleaded-powered buses and three zero emission buses. The average age of these buses is approximately 7 years and the buses range from one to 14 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. There are approximately 4,300 bus stops and 740 bus shelters along the bus routes. The Authority also maintains eight park and ride lots – five owned by the Authority and three provided under a lease, permit, or joint use agreement with other agencies.

Light Rail Transit Service. The Authority currently operates and maintains a 42.2 mile light rail system (the “LRT System”) connecting areas of Mountain View, Sunnyvale, Santa Clara, North San Jose and Milpitas to areas in South San Jose and Campbell. The Authority’s fleet consists of 100 low floor light rail vehicles and three historic trolleys. With the completion of the Vasona Light Rail Project Phase One in October 2005, 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. The 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. Ninety-six trains (including 22 Baby Bullet Express trains) operate between San Jose Diridon Station and San Francisco each weekday, with 48 of these trains extended to the Tamien Station in San Jose where a connection can be made to the LRT System. Connection to the LRT System can also be made at the Mountain View Caltrain Station. Six peak-hour weekday trains extend south of Tamien station to Gilroy. Hourly weekend service (32 Saturday trains and 28 Sunday trains) is operated between San Jose Diridon Station and San Francisco. On weekends, a dedicated shuttle bus connects the Tamien and Diridon Stations. Funding of operating costs is apportioned to each member agency of the PCJPB and is based upon morning peak period boardings in each county, currently approximately 41% for the Authority.

The Authority is also a member of the Capitol Corridor Joint Powers Authority (the “Capitol Corridor JPA”) that provides the Capitol Corridor Intercity Rail Service, which runs 24 daily trains between Oakland and Sacramento, with 14 continuing to San Jose. 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 Jose. The Capitol Corridor JPA is comprised 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”). Under contract with the Capitol Corridor JPA, BART manages the service and Amtrak operates the service on tracks owned by Union Pacific Railroad. Funding is provided by the State of California (the “State of California” or the “State”).

The Altamont Commuter Express (“ACE”) is administered under a cooperative agreement (the “ACE Agreement”) among the Authority, Alameda County Congestion Management Agency and the San Joaquin Regional Rail Commission (“SJRR”). ACE rail service provides peak hour and midday weekday commuter rail service from the Central Valley to Santa Clara County. The rail line includes stops located in Stockton, Lathrop, Tracy, Livermore (2), Pleasanton, Fremont, Great America, Santa Clara and San Jose Diridon Station. The Authority provides eight free shuttles to transport ACE riders between the Great America and San Jose Diridon stations. Pursuant to the ACE agreement, funding of operating costs is based on Fiscal Year 2003 contributions, escalated annually by consumer price index (“CPI”) increases. The Authority’s share is approximately 42% of the cost associated with peak hour weekday service. SJRR, CalTrans and the San Joaquin/Amtrak Intercity Rail Service provide funding for the midday service.

The Dumbarton Express is a transbay express bus route operating between the Union City BART station and Stanford Research Park in Palo Alto. A consortium comprised of representatives from the Alameda-Contra Costa Transit District (“AC Transit”), BART, the City of Union City, SamTrans, and the Authority fund the net operating costs of the service. Each member of the consortium pays a share of the operating expenses based on the origin and destination of the passengers as determined by an annual ridership survey (currently approximately 36% for the Authority). AC Transit manages and operates the service.

The Highway 17 Express operating between Santa Cruz, Scotts Valley and downtown San Jose is an inter-county bus service operated through a cooperative arrangement between the Authority, the Santa Cruz Metropolitan Transit District, the Capitol Corridor JPA and the California Department of Transportation (“CalTrans”). The Authority and the Santa Cruz Metropolitan Transit District 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 the Santa Cruz Metropolitan Transit District.

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 people 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 assistance to employers that wish to operate shuttle bus service between LRT System stations and nearby employment/activity centers. This service is operated through a private contractor provided by the Authority or the employer. Funding to operate this program is provided by the employers, the Authority, and grants from the State Transportation Fund for Clean Air Act.

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

In August 2006, the Authority, Monterey-Salinas Transit ("MST") and the Capitol Corridor JPA partnered on a one-year pilot express bus service operating from Monterey to San Jose, funded by a federal Jobs Access Reverse Commute grant, the Capitol Corridor JPA and the Authority. This pilot program has recently been extended and is included in the Authority's operating budget through Fiscal Year 2009. The Authority portion of the cost for Fiscal Years 2008 and 2009 is budgeted as \$45,000 per year. The Line 55 Monterey-San Jose Express operates daily 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 Jose-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 Jose State University, downtown San Jose and the San Jose Diridon Station.

Authority Revenues

The Authority's primary revenue sources include: 2000 Measure A Sales Tax (as defined in the forepart of this Official Statement), 1976 Sales Tax (as defined in the forepart of this Official Statement), the 1/4% 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 gasoline sales tax revenues apportioned to the State Public Transportation Account, described herein under the caption "State Transit Assistance Program," a portion of the State sales and use tax revenues derived from the sale, storage, use or other consumption of motor vehicle fuel, described herein under the caption "Proposition 42," and passenger fares charged by the Authority.

2000 Measure A Sales Tax Revenues. The 2000 Measure A Sales Tax is collected by the SBOE for the Authority and, pursuant to an agreement between the Authority and the SBOE, the SBOE remits sales tax revenues to the Trustee on a monthly basis. Pursuant to its procedures, the Board of Equalization projects receipts of the 2000 Measure A Sales Tax on a quarterly basis and remits an advance of such receipts to the Trustee each month based on such projection. During the last month of each quarter, the Board of Equalization adjusts the amount remitted to reflect the actual receipts of the

2000 Measure A Sales Tax for the previous quarter less administration costs. After application for payment of the senior obligations secured by the 2000 Measure A Sales Tax and Subordinate Obligations, if any, (see “Authority Obligations-Obligations Secured by the 2000 Measure A Sales Tax”), 2000 Measure A Sales Tax Revenues provide funding for transit projects and operations listed in the Authority’s Valley Transportation Plan (see “Authority Budgeted Revenues and Expenditures - Valley Transportation Plan”).

1976 Sales Tax Revenues. The 1976 Sales Tax is the Authority’s single largest source of revenue for operations. The SBOE also collects the 1976 Sales Tax for the Authority in the same manner as the Authority’s 2000 Measure A Sales Tax. After application for payment of the senior obligations and the junior obligations secured by the 1976 Sales Tax, (see “Authority Obligations-Obligations Secured by the 1976 Sales Tax”), 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. For a discussion of the Authority’s 1976 Sales Tax Revenues over the last ten years, see the information in the forepart of this Official Statement under the caption “Historical 1976 Sales Tax Revenues.”

The 1976 Sales Tax is a separate sales tax collected by the Authority and is not pledged as a source of repayment for the Measure A 2007 Series A Bonds.

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

TDA Revenues are apportioned, allocated and paid by the Metropolitan Transportation Commission (“MTC”), the regional planning organization for the nine-county San Francisco Bay Area. Under TDA regulations, MTC allocates approximately 11% of the TDA Revenues to fund community and paratransit service programs, facilities for the use of pedestrians and bicycles and the transportation planning and programming process. The remaining 89% of the TDA Revenues are allocated to operators who provide public transportation services in the County. As the only public transit service provider in the County, the Authority is eligible to receive the entire amount of the 89% allocation of TDA Revenues. TDA Revenues are available to the Authority in an amount up to 50% of the Authority’s operating budget, after deduction of the amount received from federal grants, provided that certain TDA eligibility requirements are met. The Santa Clara County Transit District, as predecessor to the Authority, began operations in 1972 and has complied with TDA eligibility requirements since it began receiving TDA funds in 1973. In accordance with procedures and eligibility requirements set forth in the TDA, the Authority submits a request for TDA Revenues to MTC on each April 1 for the next Fiscal Year. If MTC approves the request, MTC then directs the Controller of the County (in the case of the County, the County Treasurer) to release the TDA Revenues to the Authority. TDA Revenues are received by the County Treasurer and distributed to the Authority based on direction from MTC in substantially equal monthly installments.

The table set forth below shows the total amount of TDA Revenues for operations available from annual State of California sales tax collections in Santa Clara County during the five Fiscal Years ended June 30, 2007.

**Santa Clara Valley Transportation Authority
Historical TDA Revenues**

<u>Fiscal Year Ended June 30</u>	<u>TDA Revenues for Operations Distributed to the Authority</u>
2003	\$58,878,303 ⁽¹⁾
2004	\$64,993,308
2005	\$67,098,151
2006	\$71,044,484
2007	\$81,061,374 ⁽²⁾

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

⁽²⁾ Preliminary, unaudited.

State Transit Assistance Program. Pursuant to the State Transit Assistance Program (the “STA”), a portion of gasoline sales tax revenues is appropriated by the State Legislature to the State Public Transportation Account (the “STA Revenues”) for certain transit and energy-related purposes. These STA Revenues are allocated throughout the State based on population and operating revenues.

The Authority has been receiving STA Revenues since Fiscal Year 1980. STA Revenues have to be claimed by the Authority based on actual cash expenditures, normally on a quarterly basis. The table below reflects STA Revenues received by the Authority for the five Fiscal Years ended June 30, 2007.

**Santa Clara Valley Transportation Authority
Historical STA Revenues**

<u>Fiscal Year Ended June 30</u>	<u>STA Funds Received</u>
2003	\$6,429,687
2004	\$4,417,128
2005	\$7,285,035
2006	\$7,736,714
2007	\$22,320,559 ⁽¹⁾

⁽¹⁾ Preliminary, unaudited. Includes approximately \$12.1 million of one-time revenues representing a repayment of Proposition 42 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.

Proposition 42. Proposition 42 was approved by the voters of California on March 5, 2002, and is codified as Article XIXB of the California Constitution. Subject to certain exceptions, effective July 1, 2003, and each fiscal year thereafter, Proposition 42 requires that all sales and use tax revenues received by the State and derived from the sale, storage, use, or other consumption of motor vehicle fuel be deposited into the Transportation Investment Fund (the “TIF”). Through Fiscal Year 2008, the revenues are to be allocated to local transportation projects in accordance with Section 7104 of the California Revenue and Taxation Code, which includes allocations for Traffic Congestion Relief Program projects (the “TCRP projects”). Commencing with Fiscal Year 2009, Proposition 42 revenues must be allocated according to the formula spelled out in Article XIXB.

On November 7, 2006, the voters of California approved Proposition 1A, a constitutional amendment designed to protect Proposition 42 revenues from being loaned or diverted by the State to non-transportation purposes, thereby curbing a practice that the Governor and California State Legislature

used during the State's economic downturn earlier this decade. While Proposition 1A does not prevent the State from borrowing Proposition 42 revenues entirely, it does put restrictions on when and how often these revenues can be diverted to the State's General Fund, and when they must be paid back. Specifically, Proposition 1A includes the following:

1. The Governor must declare that the State faces a severe fiscal hardship, and the Legislature must enact a statute authorizing the borrowing of Proposition 42 revenues by a two-thirds vote. At the same time, the Legislature must pass a bill specifying how the loan will be repaid with interest within three years.

2. The State can borrow Proposition 42 revenues no more than twice within a 10-year period, and must repay a prior loan before borrowing a subsequent time. Furthermore, the State cannot borrow Proposition 42 revenues in two consecutive fiscal years.

3. Any Proposition 42 revenues that were borrowed by the State but not repaid as of July 1, 2007, must be repaid within a 10-year period (no later than June 30, 2016), with a payment of no less than one-tenth per year of the total amount owed.

The recently adopted State budget for Fiscal Year 2008 provides total expenditures of \$13.4 billion for transportation purposes from various funding sources. The amount is approximately \$2.2 billion higher in total than amounts spent for transportation in Fiscal Year 2007. The increase results primarily from expenditures related to transportation projects funded from bonds authorized by Proposition 1B, which was passed by the voters on November 7, 2006. Programs to be funded include:

- \$602 million for TCRP projects;
- \$702 million for STIP projects; and
- \$316 million for the STA.

The State budget for Fiscal Year 2008 reallocated approximately \$626 million, comprised of funds generated when gasoline prices increase at a faster rate than the price of other goods in the market, from the State Public Transportation Account to the State General Fund. However, the Authority did not include any of such funds as a funding source in its Adopted FY 2009 Budget. Therefore, the Authority does not anticipate any adverse impact as a result of such reallocation.

Ridership and Farebox and Advertising Revenues. The table set forth below shows the Authority's ridership and the amount of passenger fare 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, 2007.

**Santa Clara Valley Transportation Authority
Ridership ⁽¹⁾ and Farebox, Advertising and Other Revenues**

Fiscal Year Ended June 30	Number of Passengers ⁽¹⁾	Farebox, Advertising and Other Revenues Received (In Thousands)
2003	45,221,844	\$34,375
2004	38,375,374	\$33,421
2005	37,077,149	\$34,692
2006	39,217,851	\$36,926
2007	41,990,098	\$37,876 ⁽²⁾

⁽¹⁾ Directly operated services.

⁽²⁾ Preliminary, unaudited.

Bus ridership reached a peak in Fiscal Year 1999 of approximately 154,100 riders per day. Due to the economic downturn in the County culminating in the loss of approximately 200,000 jobs, bus ridership declined to 97,100 riders per day in Fiscal Year 2005. However, in Fiscal Years 2006 and 2007 bus ridership has increased and is currently estimated at 102,000 riders per day.

Light rail ridership increased from less than 1,000 riders per day when the system initially opened in December 1987, to a high of 30,400 riders per day in Fiscal Year 2001. Due to the severe downturn in the local economy, ridership fell to approximately 17,600 riders per day in Fiscal Year 2004 but rebounded to 21,400 riders per day in Fiscal Year 2005, 26,100 in Fiscal Year 2006 and 33,000 in Fiscal Year 2007. A portion of the increase in light rail ridership from Fiscal Year 2004 to the present is due to the opening of the Tasman East and Capitol Light Rail extensions in June 2004 and the Vasona Light Rail extension in October 2005.

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 hence improve its financial position. In addition to the above-described revenues, the Authority, from time to time, receives other state assistance that may be used to pay operating expenses; and receives interest on its operating funds.

Authority Budgeted Revenues and Expenditures

The Authority’s budget is prepared biennially. The Adopted Budget for FY 2008 and FY 2009 was approved by the Board of Directors on June 7, 2007 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 adopted budgets related to congestion management, highway improvements and countywide transportation planning is included in the Adopted FY 2008 and FY 2009 Budget, which may be obtained directly from the Authority. The remaining approved budgeted amounts are in support of transit-related transportation projects (2000 Measure A Program), and bus and rail operations in the County, regional commuter and inter-city rail

service, and ADA Paratransit service. For a description of the 2000 Measure A Program, see “The 2000 MEASURE A PROGRAM” in the forepart of this Official Statement.

2000 Measure A Program Budget

The following table summarizes the Authority’s 2000 Measure A Program Budget.

Santa Clara Valley Transportation Authority		
Fiscal Years 2008 and 2009 – 2000 Measure A Revenues and Expenses		
(In Thousands)		
	<u>FY 2008</u>	<u>FY 2009</u>
<u>2000 Measure A Program Funds Balance, July 1</u>	\$240,859 ⁽¹⁾	\$206,118
2000 Measure A Sales Tax	\$ 171,308	\$ 179,531
State Grants (TCRP Funds) ⁽²⁾	117,300	68,777
Prop 1B Funds ⁽³⁾		45,000
Local and Others	1,980	3,885
Investment Earnings	1,174	592
Other Income	<u>350</u>	<u>350</u>
Total Revenues	<u>\$292,112</u>	<u>\$298,135</u>
Total Available For 2000 Measure A Program Expenses	<u>\$532,971</u>	<u>\$504,253</u>
2000 Measure A Expenditures		
2000 Measure A Operating Expenses:		
Authority Operating Assistance ⁽⁴⁾	\$31,618	\$33,136
Professional Services and Special Services	500	500
Debt Service	23,470	21,675
Repayment Obligation ⁽⁵⁾	<u>11,160</u>	<u>11,057</u>
Total Operating Expenses	<u>\$66,748</u>	<u>\$66,368</u>
2000 Measure A Capital Expenses:		
Facilities and Equipment	\$5,250	\$15,250
Rail Facility Expansion	249,570	241,306
Miscellaneous	<u>5,285</u>	<u>3,460</u>
Total Capital Expenses⁽⁶⁾	<u>\$260,105</u>	<u>\$260,016</u>
Total 2000 Measure A Operating & Capital Expenses	<u>\$326,853</u>	<u>\$326,384</u>
Net Balance Forward of 2000 Measure A Program Funds	<u>\$206,118</u>	<u>\$177,869</u>

⁽¹⁾Preliminary, unaudited.

⁽²⁾The Transportation Congestion Relief Program (TCRP) was established in Fiscal Year 2000 pursuant to the Traffic Congestion Relief Act (Chapters 91 and 656, California Statute 2000). The California Transportation Commission, which oversees the implementation of TCRP, has approved allocation requests of \$401.5 million, of which the Authority has already received \$203.8 million.

⁽³⁾Proposition 1B: Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006. This measure authorizes the State to sell general obligation bonds to fund transportation projects to relieve congestion, improve the movement of goods, improve air quality and enhance the safety and security of the transportation system.

⁽⁴⁾Represents 18.5% of 2000 Measure A Sales Tax effective April 1, 2006, which is provided for support of operations through March 31, 2036.

⁽⁵⁾For an explanation of the Repayment Obligation, see Note 9 to the audited financial statements of the Authority attached hereto as Appendix B.

⁽⁶⁾These capital expenditures fund and augment a total of seventeen 2000 Measure A projects over the two year budget period. Such projects are part of an overall 30 year capital improvement program (see “Authority Capital Improvement Plan – Valley Transportation Plan,” herein). Funding for these projects consists of revenues obtained from 2000 Measure A Sales Tax Revenues, proceeds from the issuance of the Outstanding 2006 Bonds and the Prior Bonds, proceeds from the sale of real property owned by the Authority and other funding sources.

Transit System-Operating and Capital Budget

The following table summarizes the Authority’s Operating and Capital Budget, which supports activities related to the Authority’s Transit System--see “The Authority Transit System” herein. Capital expenses are 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 2008 and 2009 – Summary of Transit System Revenues and Expenses (In Thousands)

	<u>FY 2008</u>	<u>FY 2009</u>
Authority Enterprise Reserve⁽¹⁾ Balance, July 1	\$112,855 ⁽²⁾	\$90,592
Operating and Non-Operating Revenues ⁽³⁾	\$365,720	\$379,686
Federal Grants – Section 5307/5309	13,618	35,692
Transit Security Grant Program (TSGP) ⁽⁴⁾	1,014	-
Regional Measure 2 (RM2) ⁽⁵⁾	<u>2,755</u>	<u>-</u>
Total Revenues	<u>\$383,107</u>	<u>\$415,378</u>
Total Available for Transit System Expenses	<u>\$495,962</u>	<u>\$505,970</u>
Transit System Expenditures		
Transit System Operating Expenses:		
Directly Operated Transit Service	\$283,715	\$288,893
Other Expense	<u>80,476</u>	<u>82,841</u>
Total Transit System Operating Expense⁽⁶⁾	<u>\$364,191</u>	<u>\$371,734</u>
Transit System Capital Expenses:		
Revenue Vehicles and Equipment	\$ 2,972	\$ 15,601
Non-Revenue Vehicles	691	-
Operations Facilities and Equipment	13,746	11,914
Passenger Facilities	10,349	22,436
Information Systems and Technology	8,136	856
Miscellaneous	<u>5,285</u>	<u>3,460</u>
Total Transit Capital Expense⁽⁷⁾	<u>\$ 41,179</u>	<u>\$ 54,267</u>
Total Transit System Operating & Capital Expenses	<u>\$405,370</u>	<u>\$426,001</u>
Net Balance Forward of Transit System Funds	<u>\$ 90,592</u>	<u>\$ 79,969</u>

⁽¹⁾Includes \$16.7 million of funds set aside for debt service reserves and \$96.1 million of Operating Reserves.

⁽²⁾Preliminary, unaudited.

⁽³⁾For a general line item detail of operating and non-operating revenues, see the Adopted FY 2008 and FY 2009 Budget which may be obtained directly from the Authority.

⁽⁴⁾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.

⁽⁵⁾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.

⁽⁶⁾For general line item detail of Transit System Operating Expense, see the Adopted FY 2008 and FY 2009 Budget which may be obtained directly from the Authority.

⁽⁷⁾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 36 transit projects in an amount of \$94.9 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 “Short Range Transportation Plan” and “Valley Transportation Plan”.

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 the 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. In addition, the SRTP supports the activities and priorities contained in the Valley Transportation Plan described below. MTC utilizes the SRTP to develop regional transit capital programming documents that are the basis for State and Federal funding programs. Both the FTA and MTC use the SRTP as the detailed planning justification required for awarding operating and capital grants to the Authority.

The Capital Improvement Program (CIP) included in the SRTP assumes federal, state and local regional funding of projects that maintain and enhance services provided by the Authority. Revenues for the CIP also come from the Authority’s 1976 Sales Tax to match funding received from other sources.

The 10-year CIP includes routine bus replacement needs, essential facility rehabilitation, bus facilities, technology upgrades, and rehabilitation needs of the light rail system. The table set forth below summarizes costs for currently identified baseline capital projects for the 10-year period of the SRTP (Fiscal Years 2007-2016). The current SRTP does not include capital program expenditures that are funded from the 2000 Measure A Sales Tax.

Capital Improvement Program Summary
(In Thousands)

<u>Program Area</u>	<u>FY 2007-2016 Totals</u>
Revenue Vehicles and Equipment	\$197,136
Operations Facilities and Equipment	97,831
Light Rail Way, Power and Signal	40,510
Passenger Facilities	24,014
Information Systems and Technology	39,646
Miscellaneous Projects	<u>127,779</u>
Total Program Project Costs	<u>\$526,916</u>

The SRTP is currently being updated by the Authority with a projected completion date in December 2007.

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 2030, on February 3, 2005.

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 2030 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 Silicon Valley Rapid Transit Project (SVRT), consisting of the extension of the BART system to Milpitas, San Jose, 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 (see "2000 MEASURE A PROGRAM" in the forepart of the Official Statement).

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 – "AUTHORITY AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2006 – Note 2 – Summary of Significant Accounting Policies," which includes a more detailed explanation regarding the Authority's significant accounting policies.

Financial Results - GAAP Presentation

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, 2007. The summary statements are presented in accordance with generally accepted accounting principles ("GAAP"). Data for the Fiscal Years ended June 30, 2003 through June 30, 2006 is excerpted from the audited financial statements of the Authority and is qualified in its entirety by reference to such statements, including the notes thereto. For the audited financial statements of the Authority for the fiscal year ended June 30, 2006 see APPENDIX B – "AUTHORITY AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2006." Information for the Fiscal Year ended June 30, 2007 is preliminary and unaudited and, is subject to change. Totals may not add due to independent rounding.

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007⁽¹⁾</u>
Operating Revenues:					
Passenger fares	\$30,959	\$30,625	\$32,061	\$34,335	\$35,242
Advertising and other	<u>3,416</u>	<u>2,796</u>	<u>2,631</u>	<u>2,591</u>	<u>2,634</u>
Total operating revenues	<u>34,375</u>	<u>33,421</u>	<u>34,692</u>	<u>36,926</u>	<u>37,876</u>
Operating Expenses:					
Labor	134,524	127,044	120,402	123,941	126,387
Fringe benefits	92,001	95,349	108,921	114,056	116,723
Materials and supplies	20,698	16,169	19,996	27,777	27,988
Services	22,055	17,114	18,226	20,141	26,178
Utilities	5,735	5,064	5,795	6,186	6,638
Casualty and liability	4,119	3,413	3,763	6,114	3,856
Purchased transportation	31,553	27,242	25,538	27,395	28,132
Leases and rentals	605	569	580	205	112
Miscellaneous	3,154	2,609	1,773	2,000	1,820
Costs allocated to capital and other programs ⁽²⁾	<u>(20,201)</u>	<u>(29,698)</u>	<u>(29,346)</u>	<u>(26,239)</u>	<u>(33,048)</u>
Total operating expenses, excluding depreciation	<u>294,244</u>	<u>264,877</u>	<u>275,648</u>	<u>301,576</u>	<u>303,786</u>
Operating loss before depreciation	<u>(259,868)</u>	<u>(231,455)</u>	<u>(240,956)</u>	<u>(264,650)</u>	<u>(265,910)</u>
Depreciation Expense:					
Total depreciation expense	<u>41,516</u>	<u>46,552</u>	<u>56,557</u>	<u>63,766</u>	<u>51,023</u>
Operating loss	<u>(301,384)</u>	<u>(278,007)</u>	<u>(297,513)</u>	<u>(328,416)</u>	<u>(316,933)</u>
Non-operating revenues (expenses):					
1976 Sales Tax Revenue	132,632	138,917	145,008	157,283	163,462
2000 Measure A Sales Tax	-	-	-	38,173 ⁽³⁾	161,361 ⁽³⁾
Federal operating grants and reimbursements	33,176	38,143	34,416	33,565	35,514
State and local operating grants and reimbursements	70,956	73,433	79,509	81,199	104,917
Caltrain contributions ⁽⁴⁾	<u>(22,298)</u>	<u>(16,805)</u>	<u>(14,112)</u>	<u>(42,200)⁽⁵⁾</u>	<u>(22,509)</u>
Altamont Commuter Express Subsidy	<u>(2,715)</u>	<u>(2,392)</u>	<u>(2,470)</u>	<u>(2,470)</u>	<u>(2,542)</u>
Interest income	14,245	1,592	5,666	6,457	11,304
Interest expense	<u>(14,222)</u>	<u>(13,691)</u>	<u>(13,761)</u>	<u>(11,562)</u>	<u>(13,672)</u>
Other (expense)/Income, net ⁽⁶⁾	<u>(754)</u>	<u>(919)</u>	<u>(688)</u>	<u>2,186</u>	<u>(2,234)</u>
Total non-operating revenues, net	<u>211,020</u>	<u>218,279</u>	<u>233,568</u>	<u>262,628</u>	<u>435,601</u>
Net income (loss)⁽⁷⁾	<u>(\$90,363)</u>	<u>(\$59,728)</u>	<u>(\$63,945)</u>	<u>(\$65,788)</u>	<u>\$118,668</u>

⁽¹⁾ Preliminary, 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⁾ This category is comprised of “Caltrain subsidy” and “Capital contributions to other agencies” in the audited financial statements. The categories have been combined for all years shown for convenience of presentation.
- ⁽⁵⁾ Includes one-time transfer of assets to Caltrain Peninsula Corridor Joint Power Board (“PCJPB”) in the amount of \$27.4 million.
- ⁽⁶⁾ 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 remarking fees.
- ⁽⁷⁾ Net income (loss) is presented in accordance with GAAP. A loss is funded from Reserves. For an explanation of Reserves, see “Management’s Discussion of Financial Results and Certain Other Matters.”

Management’s Discussion of Financial Results and Certain Other Matters

The Authority experienced deficits of approximately \$90.4 million, \$59.7 million, \$63.9 million and \$65.8 million for the Fiscal Years ended June 30, 2003, 2004, 2005, and 2006, respectively. Such deficits include all relevant non-cash related expenses, including depreciation. The Authority projects a surplus of approximately \$116.8 million for the Fiscal Year ended June 30, 2007, the first full fiscal year of 2000 Measure A Sales Tax Revenue collection.

The Authority funds deficits from its Reserves. As of June 30, 2007, the Authority’s Reserves were \$375.0 million, of which \$96.1 million is designated as Operating Reserves, which is available to provide funds if, during the following fiscal year, the Authority experiences unanticipated revenue shortfalls or unavoidable expenditure needs. Remaining Reserves consist of funds held in debt service funds, the local share of approved capital projects, and funds set aside for the 2000 Measure A Program

Based on current revenues and expenses, the Authority anticipates being able to continue existing service, however, service increases will require additional revenue sources or the reallocation of existing resources.

In 1998, the Authority entered into two transactions to lease out 50 light rail vehicles with an appraised value of approximately \$106.8 million and to simultaneously sublease back those vehicles. In 2003, the Authority entered into four leases to service contract transactions covering 66 light rail vehicles with an appraised value of approximately \$291.2 million. Descriptions of certain aspects of these lease transactions appear in Note 20 to the Authority’s audited financial statements in Appendix B of this Official Statement.

On May 17, 2006, President Bush signed into law an act entitled the “Tax Increase Prevention and Reconciliation Act of 2005” (the “Prevention and Reconciliation Act”). Among other provisions, the Prevention and Reconciliation Act imposed an excise tax on certain types of leasing transactions entered into by tax-exempt entities, including states and their political subdivisions (including the Authority). Based on Notice 2007-18 published by the Internal Revenue Service, which provides clarifications to language included in the Prevention and Reconciliation Act, the Authority is not expected to incur an excise tax liability with respect to the Authority’s lease transactions.

On August 15, 2007, three state legislators whose districts are in the County requested that the Joint Legislative Audit Committee authorize an audit by the California State Auditor of the Authority’s governance structure, strategic planning and financial viability. The purpose of the audit is to provide an independent analysis of various aspects of the Authority’s activities, including strategic and project planning, financial reporting, long-term financial planning efforts and the level of oversight the Board and the Authority management exercise over the Authority’s operations and financial records. The California State Auditor has no rule making or enforcement authority with regard to the Authority but can make recommendations that could lead to changes in various aspects of Authority governance and operations. The Authority has not been advised as to whether the audit has commenced and has no information regarding any expected completion date. Although it is premature to predict the findings and recommendations of the audit, the Authority believes that the audit will have no adverse impact on its ability to repay the 2000 Measure A Series 2007 Series A Bonds.

Hay Group Organizational and Financial Assessment

In 2006, the Authority initiated a management assessment to evaluate its performance and identify opportunities for improvement. The Authority designed the assessment to emphasize a critical analysis of the Authority's flaws, weaknesses and gaps, rather than areas of strength and positive results. As part of this process, in April 2006 the Authority issued a Request for Proposal 06-11: Organization and Financial Assessment Consulting Services (the "RFP").

As a result of the RFP, in August 2006 the Authority engaged the Hay Group, a Philadelphia-based management consulting firm. In March 2007, the Hay Group released its report on the Organizational and Financial Assessment of the Authority (the "Assessment"). Among other things, the Assessment concluded that the Authority suffered from weaknesses in financial management processes and policies, including those relating to internal audit functions, cash management, budgeting and expenditure controls. The Assessment also made a number of specific organizational and financial management recommendations.

Since the release of the Hay Group report, the Authority has taken a number of specific actions to implement the recommendations. On April 5, 2007, the Authority's Board approved a contract to engage Jerry G. Mikolajczyk as Chief Financial Officer for an interim basis. Mr. Mikolajczyk was directed to prepare a work plan to address the financial management recommendations contained in the Assessment. Additionally, the Authority's Board approved a contract with Karen Antion Consulting LLC ("KAC"), to provide professional services in support of implementing primarily the Assessment's recommendations in the areas of governance and organizational structure. Subsequently, Mr. Mikolajczyk and KAC developed detailed work plans for their respective areas, which were reviewed and approved by the Administration and Finance Committee of the Board on May 23, 2007.

On June 1, 2007, the Authority's General Manager announced a transformation organization structure for the Authority that incorporates many of the recommendations from the Assessment. The new structure includes implementing clearly defined roles and responsibilities, a realignment of functions and positions, and an appropriate segregation of duties. The Authority appointed a transformation team to work with KAC to develop and implement the transformation plan.

The Assessment is not a financial audit, and the Hay Group's methodology was not intended or designed to comply with generally accepted government auditing standards. The Assessment makes no claims of material weaknesses as defined by government auditing standards. At no time have the Authority's present independent auditors, Vavrinek, Trine, Day & Co., LLP, or any of its former independent auditors advised the Authority of the existence of any material weaknesses in the Authority's internal controls over financial reporting or any other reportable condition that the auditors would be required to report to the Authority's Board pursuant to generally accepted government auditing standards. See APPENDIX B – "AUTHORITY AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY FOR THE FISCAL YEAR ENDED JUNE 30, 2006."

The completion of the Assessment or implementation of the recommendations made as a part of the Assessment do not have a material impact on the Authority's ability to make timely payments of principal of and interest on the Measure A 2007 Series A Bonds.

Authority Obligations

Obligations Secured by the 2000 Measure A Sales Tax. The following table sets forth the Authority's outstanding obligations as of the date of issuance of the Measure A 2007 Series A Bonds, which are secured by the Authority's 2000 Measure A Sales Tax Revenues.

	Original Principal Amount	Principal Amount Outstanding
2000 Measure A Sales Tax		
Sales Tax Revenue Refunding Bonds, 2007 Series A	\$120,095,000	\$120,095,000
Sales Tax Revenue Bonds, 2006 Series A-D ⁽¹⁾	\$235,875,000	\$235,875,000

⁽¹⁾ In connection with these Bonds, the Authority entered into four interest rate swap agreements under which regularly scheduled payments, secured by 2000 Measure A Sales Tax Revenues, are made by the Authority. A description of the swaps is included in note 21 of the Authority's audited financial statements attached hereto as Appendix B.

Obligations Secured by the 1976 Sales Tax. The following table sets forth the Authority's outstanding obligations as of the date of issuance of the Measure A 2007 Series A Bonds which are secured by the Authority's 1976 Sales Tax.

	Original Principal Amount	Principal Amount Outstanding
1976 Senior Lien Obligations		
Sales Tax Revenue Refunding Bonds, 2007 Series A	\$ 26,275,000	\$ 26,275,000
Sales Tax Revenue Refunding Bonds, 2005 Series A-C ⁽¹⁾	172,530,000	169,740,000
Sales Tax Revenue Bonds, 2001 Series A ⁽²⁾	200,000,000	13,770,000
Sales Tax Revenue Bonds, 1997 Series A ⁽³⁾	40,570,000	3,170,000
Adjustable Rate Refunding Equipment Trust Certificates, Series 1985A ⁽¹⁾	52,860,000	29,200,000
1976 Junior Lien Obligations		
Junior Lien Sales Tax Revenue Bonds, 2000 Series A	\$ 40,000,000	\$ 33,830,000
Junior Lien Sales Tax Revenue Bonds, 1998 Series A	50,000,000	41,430,000

⁽¹⁾ In connection with these bonds, the Authority entered into three interest rate swaps. 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 was refunded and defeased from proceeds of the Sales Tax Revenue Refunding Bonds, 2005 Series A-C.

⁽³⁾ A portion was refunded and defeased from proceeds of the Sales Tax Revenue Refunding Bonds, 2007 Series A.

Litigation

The Authority has accrued 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 May 3, 2007. 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:

<u>Investment</u>	<u>Maximum % of Portfolio</u>
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	15%
if weighted average maturity of all paper is less than 31 days	30%
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 (\$40 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 and 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 hereto as Appendix B.

Workers’ Compensation and General Liability. The claim processing function is performed by third-party administrators. The Authority’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.

An actuarial analysis as of December 31, 2005, dated February 13, 2007, disclosed that the present values of estimated outstanding losses, at 5% average discount rate using a 75% confidence level, projected for June 30, 2006, are \$42.6 million and \$9.0 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 California Assembly Bill 749 (“AB 749”), California Senate Bill 228 (“SB 228”) and California 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. The report is currently being evaluated by the Authority. 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 years ended June 30, 2006, are as follows:

	Workers’ Compensation (in thousands)	General Liability (in thousands)
Unpaid claims at June 30, 2004	\$46,757	\$6,368
Provision for claims and claims adjustment expense	18,948	2,684
Payment for claims	(15,494)	(2,684)
	<hr/>	<hr/>
Unpaid claims at June 30, 2005	50,211	6,368
Provision for claims and claims adjustment expense	19,751	5,164
Payment for claims	(27,372)	(2,565)
	<hr/>	<hr/>
Unpaid claims at June 30, 2006	<u>\$42,590</u>	<u>\$8,967</u>

Insurance. The Authority is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets, errors, and omissions; injuries to employees; injuries to the public; and natural disasters. For the past three Fiscal Years, settlement amounts have not exceeded commercial insurance coverage. 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, 2007, is shown below:

<u>Type of Coverage</u>	<u>Self-Insurance or Deductible</u>	<u>Excess Coverage (in aggregate)</u>
Workers’ compensation	Self-Insured	None
Employer’s Liability	\$3,000,000	\$20,000,000 per occurrence
Public Officials liability	Self-Insured \$3,000,000	\$22,000,000
Excess public entity liability	\$3,000,000	\$20,000,000
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
Buses	\$100,000	\$20,000,000/maximum loss limit per year
Vans and Mobile Equipment	\$25,000	Included in the \$20,000,000 with buses

Pension and Retirement Plans

Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan.

All Amalgamated Transit Union (“ATU”) employees are covered by the Santa Clara Valley Transportation Authority Amalgamated Transit Union 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, 2007, there were 2,540 members of the ATU Plan. 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 but at least five years of service are entitled to a reduced annual benefit at age 65 provided that the Pension Board approves such benefit. Employees with 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 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. The following actuarial methods and assumptions are based on a report dated January 1, 2007.

Actuarial Methods and Assumptions:

<u>Description</u>	<u>Methods/Assumptions</u>
Valuation Date	January 1, 2007
Actuarial cost method	Aggregate Entry Age Normal
Amortization method	Level dollar open
Remaining amortization period	20 years
Asset Valuation Method	Market value adjusted for 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 110% of market value
Actuarial Assumptions	
Investment Rate of Return	8.00% (includes inflation at 3.50%)
Projected Salary Increases	15% for the first three years of service, 0.75% thereafter
Consumer Price Index (CPI)	3.50% per year
Costs of living adjustments	Measured by CPI

The Authority provided several enhancements to pension benefits for ATU represented employees between February 1, 2001 and February 1, 2003 and further enhancements on February 2, 2004.

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:

<u>Asset Allocation</u>	<u>Range</u>	<u>Actual⁽¹⁾</u>	<u>Ongoing Target</u>
Domestic Fixed Income	35-45%	37%	39%
Domestic Large-Cap Value	15-25%	21%	20%
Domestic Large-Cap Index	10-20%	15%	15%
Domestic Small-Cap Value	5-15%	11%	10%
International Equity	10-20%	16%	15%
Cash	0-5%	0%	1%

⁽¹⁾ As of June 30, 2007, preliminary, unaudited.

The Authority contributes to the ATU Plan at actuarially determined rates applied to eligible payroll sufficient to maintain funding of vested benefits. Such contribution includes an amortized amount of the unfunded accrued actuarial liability (“UAAL”) as well as current year normal costs. Totals of the actual cost and the amortized cost of the UAAL equal the actuarial rate that would liquidate the UAAL over a period of years.

The Authority used a rate of 16.51% in Fiscal Year 2006, 15.62% in Fiscal Year 2007 and 15.60% in the Fiscal Year 2008 Budget, as required by the actuarial valuation reports for the corresponding periods. Actual contribution for Fiscal Year 2006 was \$15.3 million, and is estimated at \$14.9 million for Fiscal Year 2007.

The schedule of funding progress is as follows:

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (“AAL”)	Unfunded AAL	Funded Ratio	Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
12/31/02	\$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 ⁽²⁾	314,816,391	397,853,860	83,037,469	79%	93,985,560	88%

⁽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.

⁽²⁾ Preliminary, unaudited.

The following events affected the Schedule of Funding Progress set forth in the table above: (i) in the valuation as of December 31, 2002, liabilities and costs were recognized for benefit improvements effective July 1, 2002; and (ii) in the valuation as of December 31, 2003, benefit improvements effective February 2, 2004 were recognized in computing liabilities and costs.

For calendar year 2006, the Authority’s annual pension cost was approximately \$15.6 million, which was fully contributed. Based on a report prepared by EFI Asset/Liability Management Service, Inc., as actuary, dated January 1, 2007, the three-year trend information is as follows:

Year Ended	Annual Pension Cost (“APC”)	Percentage of APC Contributed	Net Pension Obligation
12/31/04	\$13,107,662	100%	-
12/31/05	14,779,229	100%	-
12/31/06	15,584,539	100%	-

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 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 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 Authority resolutions. The Authority contracts with CalPERS to administer these benefits. The following actuarial methods and assumptions are based on a report dated October 17, 2006. A new actuarial report is expected in October 2007.

Actuarial Methods and Assumptions:

<u>Description</u>	<u>Methods/Assumptions</u>
Valuation Date	June 30, 2006
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level percent of Payroll
Average Remaining Period	28 years as of the Valuation Date
Asset Valuation Method	15 years smoothed market
Actuarial Assumptions	
Investment Rate of Return	7.75% compounded annually (net of investment expense)
Projected Salary Increases	3.25 to 14.45% depending on Age, Service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.00% and an annual production growth of 0.25%

Active members in the Authority's CalPERS Plan ("CalPERS Plan") are not required to contribute to the CalPERS Plan. The Authority elected to contribute the actuarially determined amount necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required contribution rate in Fiscal Year 2006 was 11.925% which was subsequently increased to 13.029% of payroll for the employer. The required contribution rate in Fiscal Year 2006 was 7% for employees, which is also paid by the Authority. The employer required contribution rate includes payments for the UAAL. Based on the latest actuarial valuation dated October 17, 2006, the employer contribution used in Fiscal Year 2007 budget was 11.852% and the employer contribution used in Fiscal Year 2008 budget was 12.014%. The required employee contribution is paid by the Authority. The contribution requirements of the CalPERS Plan are established by State statute and the employer contribution is established and may be amended by CalPERS. CalPERS provides the Authority with a required contribution rate as a percentage of payroll as part of their annual or biennial evaluation of the CalPERS program financial status. Because of time lags in data availability and CalPERS evaluation, the rate quoted by CalPERS for Fiscal Year 2008 is based on data as of June, 2005, while the CalPERS evaluation itself is dated October 2006.

The schedule of funding progress is as follows:

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

Actuarial Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/2000	\$74,228,216	\$88,459,322	(\$14,231,106)	119.2%	\$40,000,651	(35.6%)
6/30/2001	87,012,005	97,221,500	(10,209,495)	111.7%	48,235,128	(21.2%)
6/30/2002	103,253,419	98,352,244	4,901,175	95.3%	56,796,212	8.6%
6/30/2003	126,069,247	107,060,545	19,008,702	84.9%	56,006,441	33.9%
6/30/2004	142,662,507	119,708,580	22,953,927	83.9%	50,876,724	45.1%
6/30/2005	160,103,833	135,508,064	24,595,769	84.6%	50,193,561	49.0%

For Fiscal Year 2006, the Authority's annual pension cost was approximately \$6.5 million, which was fully contributed. Three-year trend information follows:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/03	\$3,052,000	100%	-
6/30/04	3,750,000	100%	-
6/30/05	5,171,000	100%	-
6/30/06	6,501,000	100%	-

On April 20, 2005, the CalPERS board adopted a new policy that spread CalPERS' market value asset gains and losses over 15 years rather than the current three years. CalPERS also adopted a policy of widening the "corridor" limits for establishing the actuarial value of assets from 90-110 percent at market value to 80-120 percent of market value. Since the changes were designed to reduce fluctuations in employer contributions over time, the Authority currently anticipates that the new policy changes will stabilize Authority contributions to the CalPERS Plan.

Retiree Health Care Program. The Authority provides an ATU Retiree Health Care Program (ATU Program), a post-employment benefit, 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 15 years of service, or if an employee becomes disabled and has completed at least 10 years of service. As of July 1, 2006, which is the date when the most current actuarial analysis of Retiree Health Benefits was prepared, 771 retirees met the eligibility requirements. The Authority pays medical premiums for its eligible retirees. Effective September 1, 2004 ATU members pay \$25 per month toward medical premiums.

All non-ATU employees upon retirement with at least five years of service and attaining age 50 are also covered under a Retiree Health Care Program (Non-ATU Program). As of July 1, 2006, 254 retirees met the eligibility requirements. Effective January 1, 2005 all non-ATU members pay \$25 per month toward medical premiums.

An actuarial analysis of Retiree Health Benefits as of July 1, 2006 disclosed that the actuarial liability, which is the present value of benefits attributed to past service, is \$200 million. The unfunded

actuarial accrued liability of the Authority as of July 1, 2006 is \$120.4 million. The Authority contributions are advance funded on an actuarially determined basis. For the year ended June 30, 2006, the Authority made contributions to both the ATU and Non-ATU programs, which were expensed, of approximately \$11.3 million. Benefits paid to participants of the program were approximately \$5.3 million.

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

In 2004, the Government Accounting Standards Board (“GASB”) issued Statement No. 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions (“GASB 45”). GASB 45 requires governmental agencies to change their accounting for other post employment benefits from pay-as-you-go to an accrual basis. However, the Authority has been making funding contributions on an actuarially determined basis since prior to its legal separation from the County of Santa Clara in 1995. As of July 1, 2006, the Authority has restricted assets of \$79.3 million to cover cost of the ATU and Non-ATU Programs. (see “Audited Financial Statements of the Authority for the Fiscal Year Ended June 30, 2006, pages 2-56 & 2-57, attached hereto as Appendix B). The Authority implemented the requirements of GASB 45, including financial statement reporting and disclosures, by July 1, 2007, the results of which will be included in financial statements as of June 30, 2008.

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APPENDIX B

**AUTHORITY AUDITED FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006**

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the business-type activity, the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Clara Valley Transportation Authority (VTA), as of and for the year ended June 30, 2006, which collectively comprise VTA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of VTA's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity, the governmental activities, each major fund, and the aggregate remaining fund information of VTA as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2(m) to the financial statements, VTA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section—an amendment of NCGA Statement 1*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation—an amendment of GASB Statement No. 34* and GASB Statement No. 47, *Accounting for Termination Benefits*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2006, 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 2-14 and 2-65 through 2-68 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the VTA's basic financial statements. The introductory section, combining and 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. The VTA's financial statements for the year ended June 30, 2005, which are not presented with the accompanying financial statements, were audited by other auditors whose report thereon dated November 10, 2005, expressed unqualified opinions on the respective financial statements of the business-type activity, the governmental activities, each major fund, and the aggregate remaining fund information. Their report on the 2005 combining and individual fund financial statements and schedules stated that, in their opinion, such information was fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Vawrinek Trime Day + Co. LLP

Palo Alto, California
November 16, 2006

Management's Discussion and Analysis

This Section of the Santa Clara Valley Transportation Authority's (VTA) CAFR presents a narrative overview and analysis of the financial activities of VTA for FY2006. Please read this document in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

Financial Highlights

- As of June 30, 2006, VTA's assets exceeded liabilities by approximately \$2.1 billion. Business-type activity (Transit Operations) and governmental activity (Congestion Management) net assets were approximately \$2.1 billion and \$1.9 million, respectively. Of the \$2.1 billion in net assets, approximately \$1.8 billion was invested in capital assets net of related debt which was associated with our capital expansion program.
- As of June 30, 2006, VTA had issued bonds in the amount of \$700 million compared to \$708.7 million the previous fiscal year. The decrease was due to the principal pay-off during FY2006.
- The Statement of Revenues, Expenses and Changes in Fund Net Assets reports that VTA's Enterprise Funds had a net operating loss of \$328.4 million. With an addition of \$262.6 million of non-operating revenues and a capital contribution of \$22.5 million, net assets decreased by \$43.3 million, mainly as a result of depreciation expense of \$63.8 million. This can be seen on the Statement of Revenues, Expenses and Changes in Fund Net Assets, page 2-19.
- Internal Service Funds had a net operating gain of \$13.9 million. With an addition of \$4.1 million in non-operating revenues, net assets increased by \$18.1 million to \$95.4 million in FY2006. This can be seen on the Statement of Revenues, Expenses and Changes in Fund Net Assets, page 2-19.
- 1976 Sales Tax revenues increased \$12.3 million or 8.5% in FY2006 compared to FY2005.
- 2000 Measure A Sales Tax revenues were \$38.2 million. The collection of this voter-approved sales tax revenue started in the 4th Quarter of FY2006.
- Net assets for the Governmental Funds decreased \$163 thousand primarily due to the increase in Congestion Management Program (CMP) costs and higher labor costs incurred for the CMP projects.

Overview of the Financial Statements

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

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

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

The *statement of activities* presents information showing how VTA's net assets changed during the most

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

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

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

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

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

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

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

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

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

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 2-26 to 2-64 of this report.

Other information. In addition to the basic financial statements and notes, *required supplementary information* is also being presented. The required supplementary information shows VTA's progress in funding its obligation to provide employees with pension benefits and also shows the Congestion Management Program Budgetary Schedule. These schedules can be found on pages 2-65 to 2-68.

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

Government-wide Financial Analysis

The Entity-Wide Statement of Net Assets and the Statement of Activities report \$25.4 million decrease in net assets. Of this, \$25.2 million was in the VTA's Business-Type activities and the remaining \$163 thousand was in the government-type activities. The business-type net asset decrease was primarily due to increased expenditures on transit operations and operating projects. During FY2006, VTA acquired capital assets of approximately \$121.3 million (note 6). These capital assets were funded by a variety of sources such as capital contributions, federal and state grants, and local funding.

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

	Business-type activity		Governmental activity		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 429,749	\$ 504,632	\$ 42,439	\$ 36,180	\$ 472,188	\$ 540,812
Capital assets, net	2,500,211	2,470,374	-	-	2,500,211	2,470,374
Total assets	<u>2,929,960</u>	<u>2,975,006</u>	<u>42,439</u>	<u>36,180</u>	<u>2,972,399</u>	<u>3,011,186</u>
Current liabilities	51,279	66,198	40,509	33,996	91,788	100,194
Long-term liabilities outstanding	781,034	785,922	-	-	781,034	785,922
Total liabilities	<u>832,313</u>	<u>852,120</u>	<u>40,509</u>	<u>33,996</u>	<u>872,822</u>	<u>886,116</u>
Net assets:						
Invested in capital assets, net of related debt	1,817,396	1,867,513	-	-	1,817,396	1,867,513
Restricted	35,153	44,400	-	-	35,153	44,400
Unrestricted	245,098	210,973	1,930	2,184	247,028	213,157
Total net assets	<u>\$ 2,097,647</u>	<u>\$ 2,122,886</u>	<u>\$ 1,930</u>	<u>\$ 2,184</u>	<u>\$ 2,099,577</u>	<u>\$ 2,125,070</u>

The largest portion of VTA's net assets (approximately 87%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment), less any related outstanding debt used to acquire those assets. VTA uses these capital assets to provide services to its customers. Consequently, these assets are not available for future spending. Although VTA's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot reasonably be used to liquidate these liabilities.

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

	Business-type activity		Governmental activity		Total	
	2006	2005	2006	2005	2006	2005
Expenses:						
Operations and operating projects	\$ 339,857	\$ 300,430	\$ 5,982	\$ 4,735	\$ 345,839	\$ 305,165
Caltrain subsidy & capital contribution	42,200	14,112	-	-	42,200	14,112
Altamont Commuter Express subsidy	2,470	2,470	-	-	2,470	2,470
Interest Expense	11,562	13,761	-	-	11,562	13,761
Other non-operating expenses	6,972	3,316	-	-	6,972	3,316
Benefit payments	11,538	21,370	-	-	11,538	21,370
Capital projects for the benefit of other agencies	-	-	80,763	94,146	80,763	94,146
Total expenses	<u>414,599</u>	<u>355,459</u>	<u>86,745</u>	<u>98,881</u>	<u>501,344</u>	<u>454,340</u>
Program revenues:						
Charges for services	36,926	34,692	2,290	2,231	39,216	36,923
Operating grants	114,764	113,925	850	1,190	115,614	115,115
Capital grants	22,522	96,860	83,207	95,746	105,729	192,606
Total program revenues	<u>174,212</u>	<u>245,477</u>	<u>86,347</u>	<u>99,167</u>	<u>260,559</u>	<u>344,644</u>
Net program revenues	<u>(240,387)</u>	<u>(109,982)</u>	<u>(398)</u>	<u>286</u>	<u>(240,785)</u>	<u>(109,696)</u>
General revenues:						
Sales tax revenue	195,453	145,008	-	-	195,453	145,008
Investment income	10,537	11,206	207	174	10,744	11,380
Other income	9,158	2,628	28	19	9,186	2,647
Total general revenues	<u>215,148</u>	<u>158,842</u>	<u>235</u>	<u>193</u>	<u>215,383</u>	<u>159,035</u>
Special items:						
Loss from sublease of vehicles	-	(7,773)	-	-	-	(7,773)
Change in net assets	<u>(25,239)</u>	<u>41,087</u>	<u>(163)</u>	<u>479</u>	<u>(25,402)</u>	<u>41,566</u>
Net assets beginning of year	<u>2,122,886</u>	<u>2,081,799</u>	<u>2,093</u>	<u>1,705</u>	<u>2,124,979</u>	<u>2,083,504</u>
Net assets, end of year	<u>\$2,097,647</u>	<u>\$2,122,886</u>	<u>\$ 1,930</u>	<u>\$ 2,184</u>	<u>\$2,099,577</u>	<u>\$2,125,070</u>

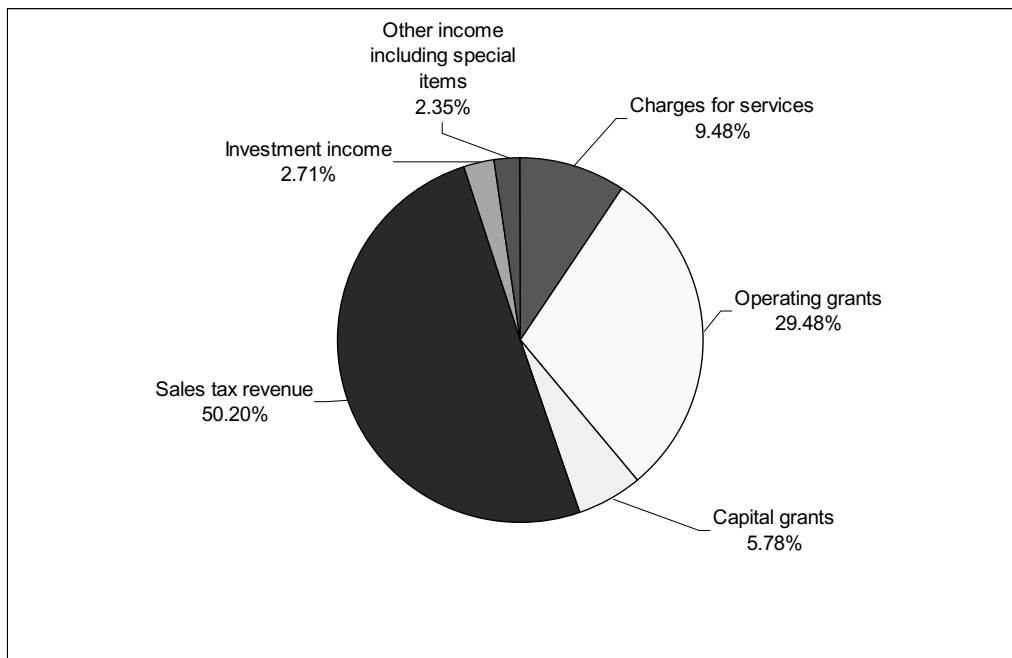
Business-type activity. Despite an additional \$50.4 million in sales tax receipts in FY2006, there was a decrease in total revenue of \$15 million in comparison to FY2005 due to a drop in capital grants as a result of the completion of various Measure B projects. Total net assets decreased by \$25.2 million due to lower capital grants and increased expenditures in operations due to higher depreciation expenses as a number of capital projects were capitalized in FY2006. In addition, VTA's capital contribution to Caltrain was higher as a large capital project was placed in service and handed over to Caltrain.

Comparison of Business-Type Activity Revenue for FY2006 and FY2005

(In thousands)	2006	2005	Change	
			Amount	Percent
Charges for services	\$ 36,926	\$ 34,692	\$ 2,234	6.4%
Operating grants	114,764	113,925	839	0.7%
Capital grants	22,522	96,860	(74,338)	-76.7%
Sales tax revenue	195,453	145,008	50,445	34.8%
Investment income	10,537	11,206	(669)	-6.0%
Other income	9,158	2,628	6,530	248.5%
TOTAL	\$ 389,360	\$ 404,319	\$ (14,959)	-3.7%

- Business-type activity (Transit Operations) net assets were \$2.1 billion. Approximately \$1.8 billion of the net assets were invested in capital assets net of related debt.
- Charges for services, derived from bus fare box receipts, light rail ticket vending machine receipts, the sale of monthly passes (including ECO Pass & tokens) and the sale of advertising space, were up \$2.2 million (6.4%) compared to FY2005. This was mainly due to an increase in ridership with the opening of Vasona Light Rail service in FY2006.
- Operating grants include the one-quarter of one percent of State sales tax from the California Transportation Development Act (TDA), State Transit Assistance (STA) funding, federal grants converted to operating assistance under the Federal Transit Administration Preventative Maintenance Program, State vehicle license fees (AB434), and federal planning grants. In FY2006, they increased by \$839 thousand or 0.7% to \$114.8 million.
- The half-cent local sales tax and the quarter-cent state sales tax (TDA) are driven by the local economy and are the two most important revenue sources to VTA for funding operations. The 1976 Sales Tax revenues increased \$12.3 million or 8.5% in FY2006 compared to FY2005. The 2000 Measure A Sales Tax revenues were \$38.2 million. The collection of this voter-approved sales tax revenue started in the 4th Quarter of FY2006. TDA funds rose by \$3.9 million or 5.9% to \$71 million in FY2006. STA funds, which are allocated to VTA from the State sales tax on gasoline and diesel fuel, increased by approximately \$452 thousand (6.2%) to a total of \$7.7 million.
- Capital grants decreased \$74.3 million or 76.7% compared to FY2005. The decrease is a result of completion of two major capital projects - Capitol Corridor and Vasona light rail extension. Federal grant project revenues were \$7 million, State capital grants were \$3.9 million, and 1996 Measure B and other local funding consisted of \$11.6 million.
- Investment income decreased by \$669 thousand or 6% compared to FY2005 due primarily to unrealized investments losses, the result of mark to market activities.
- Other income increased by \$6.5 million in FY2006 due primarily to a one-time refund of capital contributions made to Peninsula Corridor Joint Powers Board in prior fiscal years.

Revenues By Source – Business-type Activity



Comparison of Business-Type Activity Expenses for FY2006 and FY2005

(In thousands)	2006	2005	Change	
			Amount	Percent
Operations and operating projects	\$ 339,857	\$ 300,430	\$ 39,427	13.1%
Caltrain subsidy & capital contribution	42,200	14,112	28,088	199.0%
Altamont Commuter Express subsidy	2,470	2,470	-	0.0%
Interest expense	11,562	13,761	(2,199)	-16.0%
Other non-operating expenses including special items	6,972	11,089	(4,117)	-37.1%
Benefit payments	11,538	21,370	(9,832)	-46.0%
TOTALS	\$ 414,599	\$ 363,232	\$ 51,367	14.1%

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

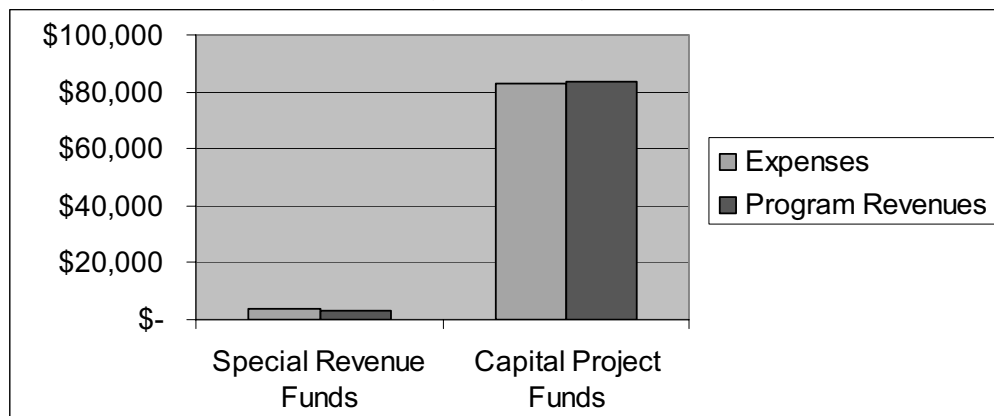
Expenses in FY2006 increased by \$51.4 million or 14.1% compared to the prior fiscal year. The higher expenses reflect an increase in labor costs and higher operating expenses with the opening of Vasona

light rail extension. The decreases in non-operating expenses during FY2006, namely interest expense and payments for workers compensation (benefit payments) and general liability claims, helped to offset the overall increase in operating expenses.

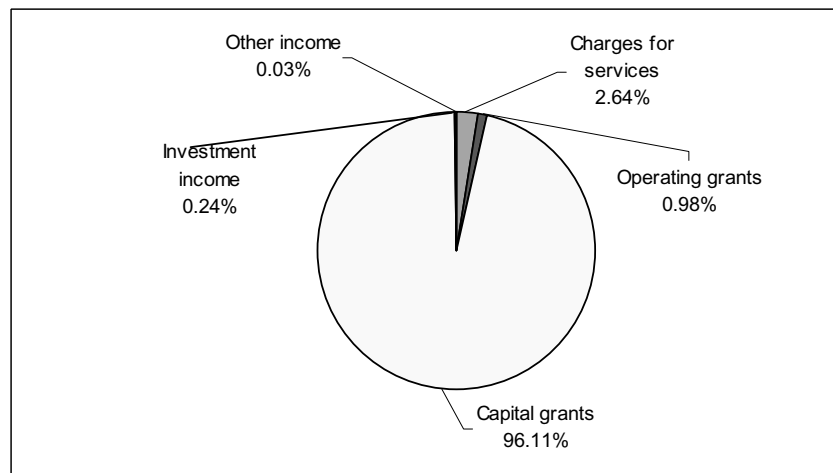
Governmental activity. The governmental activity net assets decreased by \$163 thousand in FY2006, with an ending balance of \$1.9 million. Elements of this decrease are as follows:

- Local grant revenues were \$12.5 million lower with the completion of major highway projects.
- Federal operating assistance grant decreased \$415 thousand compared to prior fiscal year.
- Labor costs were \$1 million or 24% higher compared to prior fiscal year resulting mainly from reorganization of Development and Congestion Management Division.
- Capital project expenses were \$13.3 million lower in FY2006 due to the completion of various highway projects.

Expenses and Program Revenues – Governmental Activity
(In thousands)



Revenues By Source – Governmental Activity



Financial Analysis of VTA's Funds

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

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

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

VTA uses the Enterprise Fund to account for its transit service operation. For FY2006, operating revenues were \$36.9 million, up \$2.2 million or 6.4% from prior fiscal year resulting from higher ridership in its transit service. Operating expenses were \$33.1 million or 10% higher than FY2005 mainly due to higher labor, material, supplies and services, and depreciation costs. Net non-operating revenues totaled \$262.6 million during this fiscal year. Total Enterprise Fund net assets were \$2 billion, a decrease of approximately \$43.3 million compared to FY2005.

Internal service fund. VTA also maintains an Internal Service Fund to account for the activities related to Retiree Health, Workers' Compensation, General Liability, and Compensated Absences. The cost of these activities are accounted for in this fund and then charged to other VTA funds. As of June 30, 2006, total net assets for this fund were \$95.4 million which reflect an increase of \$18 million over prior fiscal year.

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

Special revenue fund. This fund accounts for the activities of the Congestion Management Agency. Total fund revenues, which mainly include member assessments and federal grants, were \$3.2 million in FY2006, \$237 thousand lower than prior year. Total expenses were \$3.6 million, an increase of \$830 thousand due to staff reorganization within the Development and Congestion Management Agency. The ending fund balance was \$1.9 million.

Capital project fund. This fund accounts for VTA's two major capital programs – Congestion Management Highway Program and Measure B Highway Program. As of June 30, 2006, total revenues were \$83.4 million which represent the total amount expended on the projects during the fiscal year and billed to other governmental agencies. There is no fund balance in this fund.

Capital Assets and Debt Administration

Capital assets. VTA’s investment in capital assets for its business-type activity as of June 30, 2006, amounts to \$2.5 billion net of accumulated depreciation. VTA has no capital assets invested in the governmental activities. This investment in capital assets includes: Land and Right-of-Way, Buildings, Improvements, Equipment & Furniture, Vehicles, the Caltrain-Gilroy Extension, Light Rail Tracks/Electrification, and Other Operating Equipment

Some of the significant changes in the capital assets during FY2006 are as follows:

- The \$305 million Vasona Corridor Light Rail Project was completed and put in service during FY2006.
- The North Yard Reconstruction, Cerone Improvement, and the Cerone Rehabilitation and Expansion Projects (\$110 million) were completed in FY2006.
- The preliminary engineering phase of the BART project continued in FY2006 with \$91 million in capital expenditures.

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

(In thousands)	Business-type Activity	
	2006	2005
Land and Right-of-way	\$ 1,131,579	\$ 761,818
Construction in Progress	380,776	775,711
Buildings & Improvements		
Equipment & Furniture	309,931	211,901
Vehicles	344,318	386,054
Caltrain-Gilroy Extension	45,580	46,082
Light Rail Tracks/Electrification	277,317	275,929
Other Operating Equipment	10,710	12,879
Total	\$ 2,500,211	\$ 2,470,374

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

Long-term debt. At the end of the current fiscal year, VTA had total bonded debt outstanding of \$700 million. Of this amount, \$390 million represents bonds secured solely by the 2000 Measure A Sales Tax revenues.

Outstanding Debt

(In thousands)	Business-type activity	
	2006	2005
Jr. Lien Sales Tax Revenue Bonds	\$ 77,720	\$ 80,100
Sr. Lien Sales Tax Revenue Bonds (1976 Tax)	202,599	208,658
Sr. Lien Sales Tax Revenue Bonds (2000 Tax)	390,036	390,309
Equipment Trust Certificates	29,660	29,660
Total	<u>\$ 700,015</u>	<u>\$ 708,727</u>

VTA maintains uninsured ratings of “AAA” from Standard & Poor’s (S&P), an “A+” rating from Fitch, and an “Aa3” rating from Moody’s for its Senior Lien Sales Revenue Bonds secured by 1976 Sales Tax.

The ratings for the Senior Lien Sales Tax Revenue Bonds secured by the 2000 Measure A sales tax are “Aa3” from Moody’s and “AA+” from S&P. Ambac Financial Group, Inc. insures these bonds. Ambac is rated “AAA/Aaa.”

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

Additional information on VTA’s long-term debt can be found in note 7 starting on page 2-40 of this report.

Economic Factors

The economic outlook for the County has brightened since this region saw one of the worst economic downturns in recent history. Studies show that consumer confidence has improved. The unemployment rate in the County was 5% in June 2006 compared to 5.7% a year earlier. Housing prices stabilized after double-digit gains in recent years. Commercial real estate is also recovering after years of high vacancy rates, with office vacancy rates in Silicon Valley dipping below 12.5 percent for the first quarter of 2006 compared to 14 percent during the second quarter of 2005.

Lower unemployment and higher consumer confidence are helping to improve VTA’s revenue base. VTA’s major revenue sources are dependent upon taxable sales activity in the County. After taking a major hit after the dot.com crash, taxable sales have improved in recent quarters. According to State Board of Equalization, County’s taxable sales increased 9.1 percent in the 3rd Quarter of 2005 compared to the same period a year earlier. VTA’s major revenue source, 1976 half-cent sales tax, increased \$12.3 million or 8.5 percent to \$157.3 million in FY 2006. However, this revenue source is still well below the \$184 million VTA received in FY 2001. Fares is another improving revenue source, due in part to increasing ridership on both existing service as well as due to the opening of new light rail extensions.

VTA also started collecting 2000 Measure A sales tax revenue, approved by county voters in 2000. In June 2006, the VTA Board approved a long-term Revenue and Expenditure Plan for the 30-year 2000

Measure A Sales Tax Program. Currently, the Plan is reflecting a deficit to complete all projects included in the Plan. VTA staff is working with the Board to determine possible options to address this deficit.

FY2006 was the first year of the Biennial Budget adopted by the Board in June 2005. Since its initial adoption, the Board revised the FY 2006 Budget on April 6, 2006, increasing expenditure appropriations by \$3.5 million and revenue estimations by \$6.5 million.

Requests for Information

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Net Assets
June 30, 2006
(In thousands)

	<u>Business-Type Activity</u>	<u>Governmental Activity</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 195,628	\$ 2,749	\$ 198,377
Receivables, net	3,081	-	3,081
Internal balances	862	(862)	-
Due from fiduciary funds	1,152	-	1,152
Due from other governmental agencies	68,270	915	69,185
Inventories	20,361	-	20,361
Other current assets	790	-	790
Restricted assets:			
Cash and investments	92,893	23,399	116,292
Receivables, net	76	-	76
Due from other governmental agencies	30,189	16,238	46,427
Deferred charges	16,447	-	16,447
Capital assets:			
Nondepreciable	1,512,355	-	1,512,355
Depreciable, net of accumulated depreciation	987,856	-	987,856
Total assets	2,929,960	42,439	2,972,399
LIABILITIES			
Accounts payable	12,368	170	12,538
Other accrued liabilities	14,730	156	14,886
Due to other governmental agencies	10	1,383	1,393
Liabilities payable from restricted assets:			
Accounts payable	12,849	13,691	26,540
Other accrued liabilities	4,409	-	4,409
Due to other government agencies	6,913	25,109	32,022
Long term debt payable from restricted assets	43,182	-	43,182
Long-term liabilities:			
Due within one year	33,858	-	33,858
Debt due in more than one year	703,994	-	703,994
Total liabilities	832,313	40,509	872,822
NET ASSETS			
Invested in capital assets, net of related debt	1,817,396	-	1,817,396
Restricted for capital projects	35,153	-	35,153
Unrestricted	245,098	1,930	247,028
Total net assets	\$ 2,097,647	\$ 1,930	\$ 2,099,577

See accompanying notes to basic financial statements

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Statement of Activities

For the Year Ended June 30, 2006

(In thousands)

	<u>Business-Type Activity</u>	<u>Governmental Activity</u>	
	<u>Transit</u>	<u>Congestion Management</u>	<u>Total</u>
Expenses:			
Operations and operating projects	\$ 339,857	\$ 5,982	\$ 345,839
Caltrain subsidy & capital contribution	42,200	-	42,200
Altamont Commuter Express subsidy	2,470	-	2,470
Interest expense	11,562	-	11,562
Other non-operating expenses	6,972	-	6,972
Benefit payments	11,538	-	11,538
Capital projects for the benefit of other agencies	-	80,763	80,763
	<u>414,599</u>	<u>86,745</u>	<u>501,344</u>
Program revenues:			
Charges for services	36,926	2,290	39,216
Operating grants	114,764	850	115,614
Capital grants	22,522	83,207	105,729
	<u>174,212</u>	<u>86,347</u>	<u>260,559</u>
Net program revenues (expenses)	<u>(240,387)</u>	<u>(398)</u>	<u>(240,785)</u>
General revenues:			
Sales tax revenue	195,453	-	195,453
Investment income	10,537	207	10,744
Other income	9,158	28	9,186
	<u>215,148</u>	<u>235</u>	<u>215,383</u>
Change in net assets	(25,239)	(163)	(25,402)
Net assets beginning of year	<u>2,122,886</u>	<u>2,093</u>	<u>2,124,979</u>
Net assets, end of year	\$ <u><u>2,097,647</u></u>	\$ <u><u>1,930</u></u>	\$ <u><u>2,099,577</u></u>
Net assets before deferred revenue 6/30/2005		\$ 2,184	
Less deferred revenue on 6/30/2005		<u>91</u>	
Net assets beginning of year		\$ <u><u>2,093</u></u>	

See accompanying notes to basic financial statements

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Fund Net Assets
Proprietary Funds (Business-type Activity)
June 30, 2006
(In thousands)

	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,424	\$ 155
Investments	17,093	175,956
Receivables, net	2,765	316
Due from other funds	2,014	-
Due from other governmental agencies	68,270	-
Inventories	20,361	-
Other current assets	790	-
Restricted assets:		
Cash and cash equivalents	6,255	-
Cash and investments with fiscal agent	51,485	-
Investments	35,153	-
Receivables	76	-
Due from other governmental agencies	30,189	-
Total current assets	<u>236,875</u>	<u>176,427</u>
Noncurrent assets:		
Deferred charges	16,447	-
Capital Assets		
Non-depreciable:		
Land and right of way	1,131,579	-
Construction in progress	380,776	-
Depreciable:		
CalTrain - Gilroy extension	52,990	-
Buildings, improvements, furniture, and fixtures	462,448	-
Vehicles	457,616	-
Light-rail tracks and electrification	384,435	-
Other	29,002	-
Less accumulated depreciation	(398,635)	-
Net capital assets	<u>2,500,211</u>	<u>-</u>
Total noncurrent assets	<u>16,447</u>	<u>-</u>
Total assets	<u>2,753,533</u>	<u>176,427</u>

See accompanying notes to basic financial statements

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Fund Net Assets (Continued)
Proprietary Funds (Business-type Activity)
June 30, 2006
(In thousands)

	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	10,855	-
Accounts payable	12,368	-
Other accrued liabilities	14,712	16,618
Due to other governmental agencies	10	-
Liabilities payable from restricted assets:		
Current portion of long-term debt	6,385	-
Accounts payable	12,849	-
Other accrued liabilities	4,409	-
Due to other governmental agencies	6,913	-
Long term debt, excluding current portion	43,182	-
Total current liabilities	111,683	16,618
Non-current liabilities		
Long-term debt, excluding current portion	639,593	-
Other accrued liabilities	18	64,401
Total non-current liabilities	639,611	64,401
Total liabilities	751,294	81,019
NET ASSETS		
Invested in capital assets, net of related debt	1,817,396	-
Restricted for capital projects	35,153	-
Unrestricted	149,690	95,408
Total net assets	\$ 2,002,239	\$ 95,408
Reconciliation of the Statement of Net Assets to the Statement of Fund Net Assets:		
Net Assets of Enterprise Fund	\$	2,002,239
Net Assets of Internal Service Fund, which benefits Business-type Activity		95,408
Net Assets (page 2-16)	\$	<u>2,097,647</u>

See accompanying notes to basic financial statements

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds (Business-type Activity)
For the Year Ended June 30, 2006
(In thousands)

	Enterprise Fund	Internal Service Fund
Operating revenues:		
Passenger fares	\$ 34,335	\$ -
Advertising and other	2,591	-
Charges for services	-	28,402
Total operating revenues	36,926	28,402
Operating expense:		
Labor cost	237,997	
Materials and supplies	27,777	-
Services	20,141	-
Utilities	6,186	-
Casualty and liability	6,114	-
Purchased transportation	27,395	-
Leases and rentals	205	-
Miscellaneous	2,000	2,917
Depreciation expense	63,766	-
Costs allocated to capital and other programs	(26,239)	-
Benefit payments	-	11,538
Total operating expense	365,342	14,455
Operating income/(loss)	(328,416)	13,947
Non-operating revenues (expenses):		
Sales tax revenue	195,453	-
Federal operating assistance grants	33,565	-
State and local operating assistance grants	81,199	-
CalTrain subsidy	(14,801)	-
CalTrain capital contribution	(27,399)	-
Altamont Commuter Express subsidy	(2,470)	-
Investment earnings	6,457	4,080
Interest expense	(11,562)	-
Other income	9,158	-
Other expense	(6,972)	-
Non-operating revenues, net	262,628	4,080
Change in net assets before capital contributions	(65,788)	18,027
Capital contributions	22,522	-
Change in net assets	(43,266)	18,027
Net assets, beginning of year	2,045,505	77,381
Net assets, end of year	\$ 2,002,239	\$ 95,408

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

Change in net assets of the Enterprise Fund	\$ (43,266)
Change in net assets of the Internal Service Fund, which benefits Business-type Activity	18,027
Change in net assets of the Business-type Activity (page 2-16)	\$ (25,239)

See accompanying notes to basic financial statements

Santa Clara Valley Transportation Authority
Statement of Cash Flows
Proprietary Funds (Business-type Activity)
For the Year Ended June 30, 2006
(In thousands)

	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from passenger fares	\$ 34,335	\$ -
Cash received from advertising	2,591	-
Cash paid to employees	(211,758)	-
Cash paid to suppliers	(62,730)	-
Cash paid for purchased transportation	(27,395)	-
Cash received from contributions	-	28,402
Payments made to beneficiaries	-	(11,067)
Payments made to third party contractors	-	(2,917)
Net cash provided by/(used in) operating activities	<u>(264,957)</u>	<u>14,418</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	114,764	-
Sales tax received	195,453	-
Caltrain subsidy and contribution	(18,836)	-
Altamont Commuter Express subsidy	(2,470)	-
Receipts for services provided to other agencies	220	-
Contributions to other agencies	(1,860)	-
	<u>287,271</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payment of long-term debt	(10,955)	-
Proceeds from issuance of bonds	172,530	-
Payoff of 2001 Series A Bonds	(171,000)	-
Interest paid on long-term debt	(11,562)	-
Cost of bond issuance	(1,527)	-
Acquisition and construction of capital assets	(121,321)	-
Capital contribution from other governments	22,522	-
Proceeds from sale of capital assets	214	-
	<u>(121,099)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	521,436	12,623
Purchases in investments	(518,996)	(33,522)
Interest income received	3,351	6,143
	<u>5,791</u>	<u>(14,756)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(92,994)	(338)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>153,158</u>	<u>493</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 60,164</u>	<u>\$ 155</u>
Reconciliation to Statement of Fund Net Assets:		
Unrestricted:		
Cash and cash equivalents	\$ 2,424	\$ 155
Restricted:		
Cash and cash equivalents	6,255	-
Cash and investments with fiscal agent	51,485	-
	<u>\$ 60,164</u>	<u>\$ 155</u>

See accompanying notes to basic financial statements

Santa Clara Valley Transportation Authority
Statement of Cash Flows (Continued)
Proprietary Funds (Business-type Activity)
For the Year Ended June 30, 2006
(In thousands)

	Enterprise Fund	Internal Service Fund
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES:		
Operating income/(loss)	\$ (328,416)	\$ 13,947
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Depreciation	63,766	-
Changes in operating assets and liabilities:		
Receivables	3,879	97
Due from other governmental agencies	(5,037)	-
Inventories	(1,648)	-
Accounts payable	523	-
Other accrued liabilities	2,761	374
Other Current assets	(399)	-
Due to other funds	(386)	-
Net cash provided by/(used in) operating activities	\$ (264,957)	\$ 14,418
NONCASH INVESTING ACTIVITIES:		
(Decrease) in fair value of investments	\$ (474)	\$ (1,982)

See accompanying notes to basic financial statements

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
 Balance Sheet
 Governmental Funds
 June 30, 2006
 (In thousands)

	Special Revenue Fund	Capital Projects Funds		
	Congestion Management Program	Congestion Management & Highway Program	Measure B Highway Program	Total
ASSETS				
Investments	\$ 2,749	\$ -	\$ -	\$ 2,749
Due from other governmental agencies	915	-	-	915
Restricted assets:				
Cash and cash equivalents	-	10,853	-	10,853
Cash and investments with fiscal agent	-	2,187	10,359	12,546
Due from other governmental agencies	-	15,557	681	16,238
Total assets	\$ 3,664	\$ 28,597	\$ 11,040	\$ 43,301
LIABILITIES				
Accounts payable	\$ 170	\$ -	\$ -	170
Other accrued liabilities	156	-	-	156
Due to other funds	25	-	-	25
Due to other government agencies	1,383	-	-	1,383
Liabilities payable from restricted assets:				
Accounts payable	-	7,785	5,906	13,691
Due to other funds	-	527	310	837
Due to other governmental agencies	-	20,285	4,824	25,109
Total liabilities	1,734	28,597	11,040	41,371
FUND BALANCES				
Unreserved, reported in special revenue fund	1,930	-	-	1,930
Unreserved deficit	-	-	-	-
Total fund balances	1,930	-	-	1,930
Total liabilities and fund balances	\$ 3,664	\$ 28,597	\$ 11,040	\$ 43,301

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, 2006
(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	\$ 2,250	\$ -	\$ -	\$ 2,250
Federal technical studies operating assistance grants	621	-	-	621
Administrative fees	40	-	-	40
State operating assistance grants	229	-	-	229
Local grant revenue	-	41,438	41,769	83,207
Other revenues	28	-	-	28
Investment earnings	39	168	-	207
	<u>3,207</u>	<u>41,606</u>	<u>41,769</u>	<u>86,582</u>
EXPENDITURES:				
Current:				
Congestion management:				
Salaries and benefits	2,823	2,356	-	5,179
Services	803	-	-	803
Capital outlay:				
Capital improvement projects	2	38,992	41,769	80,763
	<u>3,628</u>	<u>41,348</u>	<u>41,769</u>	<u>86,745</u>
CHANGE IN FUND BALANCES	(421)	258	-	(163)
FUND BALANCES, BEGINNING OF YEAR	<u>2,351</u>	<u>(258)</u>	<u>-</u>	<u>2,093</u>
FUND BALANCES, END OF YEAR	<u>\$ 1,930</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,930</u>

See accompanying notes to basic financial statements

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2006

(In thousands)

	<u>Pension Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Restricted assets:		
Commingled Index	\$ 109,629	\$ -
Fixed Income	104,285	-
Money Market	4,617	4,066
Equity Securities	98,014	-
Cash with fiscal agent	-	4,798
Receivables	1,073	-
Due from other funds	-	25
	<u>317,618</u>	<u>8,889</u>
Total assets		
	<u>317,618</u>	<u>8,889</u>
LIABILITIES		
Liabilities payable from restricted assets:		
Accounts payable	203	3,983
Due to other funds	1,177	-
Due to other governmental agencies	-	4,906
Other accrued liabilities - noncurrent	-	-
	<u>1,380</u>	<u>8,889</u>
Total liabilities		
	<u>\$ 1,380</u>	<u>\$ 8,889</u>
NET ASSETS		
Net assets held in trust for:		
Pension benefits	304,904	
Spousal medical benefits	8,696	
Retiree dental and vision benefits	2,638	
	<u>316,238</u>	
Total net assets		
	<u>\$ 316,238</u>	

See accompanying notes to basic financial statements

SANTA CLARA VALLEY TRANSPORTATION AGENCY
Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
For the Year Ended June 30, 2006
(In thousands)

ADDITIONS	
Employer Contributions	\$ <u>16,453</u>
Investment earnings:	
Investment income	7,530
Net appreciation in the fair value of investments	19,884
Investment expense	<u>(1,114)</u>
Net investment income	<u>26,300</u>
Other revenue	<u>220</u>
Total additions	<u>42,973</u>
DEDUCTIONS	
Benefit payments	17,077
Other benefits paid to participants	<u>59</u>
Total deductions	<u>17,136</u>
Net increase	25,837
NET ASSETS HELD IN TRUST	
Beginning of year	<u>290,401</u>
End of year	\$ <u><u>316,238</u></u>

See accompanying notes to financial statements

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements
For the Year Ended June 30, 2006

NOTE 1 – THE FINANCIAL REPORTING ENTITY

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

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

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

Complete financial statements for the Congestion Management Program can be obtained from Fiscal Resources Division, Santa Clara Valley Transportation Authority, 3331 North First Street Building C, Second Floor, San Jose, CA 95134-1927.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) *Basis of Presentation*

Government-wide Financial Statements

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

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

Fund Financial Statements

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

VTA reports the following major funds:

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2006

- The *Governmental Funds* are used to account for VTA's general governmental activities where the proceeds of specific revenue sources are legally restricted to expenditures for specific purposes and for the acquisition of capital assets or construction of major capital projects (other than those financed by the Enterprise Fund).
 - The *Congestion Management Program Special Revenue Fund* is used to account for the congestion management planning, programming, and development services for Santa Clara County.
 - The *Congestion Management and Highway Program Capital Projects Fund* is used to account for the acquisition of capital assets and construction of highway projects administered on behalf of State and other local governments (other than those accounted for in the Measure B Highway Program Capital Projects Fund).
 - The *Measure B Highway Program Capital Projects Fund* is used to account for acquisition of capital assets or construction of Measure B Highway projects.

VTA reports the following additional funds:

- The *Proprietary Fund (Internal Service Fund)* is used to account for activities that provide goods or services to other funds, departments or to other governments, on a cost-reimbursement basis. General Liability, Workers' Compensation, Retiree Health, and Compensated Absences are accounted for in the Internal Service Fund.
- The *Fiduciary Funds* are used to account for assets held by VTA as a trustee or as an agent for others and which assets cannot be used to support its own programs. VTA's trust and agency funds include the VTA/ATU Pension Plan, ATU Medical Trust, the Bay Area Air Quality Management District (BAAQMD) Program, and the Measure B Ancillary Program. The VTA/ATU Pension Plan and the ATU Medical Trust are reported as pension (other employees benefit) trust funds. The BAAQMD and the Measure B Ancillary Programs are reported as agency funds. The BAAQMD agency fund accounts for the activities that relate to the Transportation Fund for Clean Air (TFCA) Program. The Measure B Ancillary Program agency fund was established to administer the 1996 Measure B funds.

(b) Basis of Accounting

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued) For the Year Ended June 30, 2006

subsequent to that time. Revenues from grants are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements for the purchase of right-of-way are considered met once the acquisition has settled.

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

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Interest, certain State and federal grants, and charges for services are accrued if their receipt occurs within 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. However, compensated absences are recorded only when payment is due.

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

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

(c) *Cash and Investments*

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

The remaining cash balances in certain VTA funds are invested in the State Pool of California (LAIF) and the County Treasury. Unless there are specific legal or contractual requirements for specific allocations, income earned or losses arising from investments are allocated on a monthly basis (except for the local agency investment fund (LAIF) which is quarterly) to the appropriate fund(s) based on their average daily balances.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2006

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

VTA has reported its investments at fair value based on quoted market information obtained from Bloomberg Pricing Service, from its fiscal agent for actively managed accounts and from management firms for commingled accounts.

The fair value of VTA's investments commingled in County Treasury and LAIF State Pool are based on VTA's cash positions in the commingled accounts as of the end of the fiscal year.

(d) Inventories

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

(e) Restricted Assets

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

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

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

(g) Capital Assets

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2006

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

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

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

Interest is capitalized on construction in progress. Accordingly, interest capitalized is the total interest cost from the date of the borrowing until the specified asset is ready for its intended use. In the current year, VTA capitalized total interest expense of \$21.8 million relating to the BART and Downtown East Valley projects.

(h) Vacation and Sick Leave Benefits

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

(i) Self-Insurance

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

(j) Net Assets

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

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* – This category consists of VTA's local contribution to capital projects, debt reserve funds, bond proceeds for future capital projects, and net assets pertaining to Measure B Transit and 2000 Measure A.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued) For the Year Ended June 30, 2006

- *Unrestricted Net Assets* – This category represents net assets of VTA, not restricted for any project or other purpose.

The business-type statement of net assets reports \$2,097,647,000 of total net assets, of which \$14,563,000 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) *Cost Allocated to Capital and Other Programs*

On the Statement of Revenues, Expenses and Changes in Fund Net Assets, the Enterprise Fund reports \$26.2 million as costs allocated to capital and other programs. This amount represents a credit for direct and indirect labor and associated fringe benefits, reproduction and mileage costs, and other costs that were capitalized as construction in progress.

(l) *Estimates*

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

(m) *New GASB Pronouncements*

During FY2006, VTA implemented the Government Accounting Standard Board (GASB) Statement Number 44, "*Economical Condition Reporting: The Statistical Section*," which provides guidance on the tables and narrative explanations in the statistical section, and Statement No. 42, "*Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*." This Statement establishes accounting and financial reporting standards for impairment of capital assets. In addition, VTA implemented Statement No. 46, "*Net Assets Restricted by Enabling Legislation*," which requires that any constraints on the use of net assets as a result of enabling legislation be reported as restricted net assets, and Statement No. 47, "*Accounting for Termination Benefits*," which requires an employer to establish an accounting standard of recognizing a liability and expense for voluntary termination benefits.

GASB also requires Statements No. 43, "*Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*," and No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions*." As required by GASB, VTA will implement GASB 43 and 45 statements by no later than the FY08 CAFR.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2006

NOTE 3 - CASH AND INVESTMENTS

Total cash and investments as of June 30, 2006, are reported in the accompanying basic financial statements as follows (in thousands):

	Business-type Activity		Governmental	Fiduciary Funds		Total
	Enterprise Fund	Internal Service Fund	Governmental Funds	Pension Trust Funds	Agency Funds	
Unrestricted:						
Cash and cash equivalents	\$ 2,424	\$ 155	\$ -	\$ -	\$ -	\$ 2,579
Investments	17,093	175,956	2,749	-	-	195,798
Total unrestricted	<u>19,517</u>	<u>176,111</u>	<u>2,749</u>	<u>-</u>	<u>-</u>	<u>198,377</u>
Restricted:						
Cash and cash equivalents	6,255	-	10,853	-	-	17,108
Cash and cash equivalents with fiscal agents	51,485	-	12,546	-	4,798	68,829
Investments	35,153	-	-	316,545	4,066	355,764
Total restricted	<u>92,893</u>	<u>-</u>	<u>23,399</u>	<u>316,545</u>	<u>8,864</u>	<u>441,701</u>
Total cash and investments	<u>\$ 112,410</u>	<u>\$ 176,111</u>	<u>\$ 26,148</u>	<u>\$ 316,545</u>	<u>\$ 8,864</u>	<u>\$ 640,078</u>

As of June 30, 2006, total cash and investments among all funds consisted of the following (in thousands):

Cash and equivalents	\$ 19,687
Cash and cash equivalents with fiscal agents	68,829
Investments	<u>551,562</u>
	<u>\$ 640,078</u>

Cash and Equivalents

VTA maintains checking accounts for unrestricted operations, the Congestion Management and Highway Programs (CM&HP) and the Measure B Transportation Improvement Program (Measure B account). These checking accounts earn interest based on the bank's monthly sweep average repurchase agreement rate. At June 30, 2006, the carrying amount of these cash balances are shown below (in thousands):

Unrestricted operations account	\$ 2,580
CM&HP account	10,852
Measure B account (Enterprise Fund)	<u>6,255</u>
Total deposits	<u>\$ 19,687</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2006

Investments

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

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

Specific restrictions of investment are noted below:

VTA's investment policies (Unrestricted/Restricted Funds and ATU Pension Plan) conform to State statutes, and provide written investment guidance regarding the types of investments that may be made and amounts which may be invested in any one financial institution or amounts which may be invested in any one long-term instrument. VTA's permissible investments include 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 County Treasury commingled pool is subject to the County's Investment Policy and State law and is reviewed by the County's Investment Committee. The value of the pool shares in the commingled pool which may be withdrawn is determined on an amortized cost basis, which is different than the fair value of VTA's position in the pool.

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

VTA's portfolio includes asset-backed securities, which are invested directly by VTA and structured notes which are invested indirectly through LAIF. At June 30, 2006, investment in LAIF is \$29.2 million. LAIF is part of the State of California Pooled Money Investment Account (PMIA), whose balance at June 30, 2006 is \$63.3 billion. Of that amount, 2.6% is in structured notes and asset-backed securities. 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, 2006 was 152 days. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued) For the Year Ended June 30, 2006

The value of the pool shares in investment earnings are paid quarterly based on the average daily balance. Withdrawals from LAIF are completed on a dollar for dollar basis.

Interest rate risk – This is the risk of loss due to the fair value of an investment falling due to interest rates rising. Of VTA's (Unrestricted/Restricted Funds and ATU Pension Plan) \$552 million in investments, over 59% of the investments have a maturity of less than 1 year. Of the remainder, only 14% have a maturity of more than 10 years. Long-term securities of more than five years are limited to 40% of the portfolio.

Credit risk – VTA is permitted to hold investments in commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record. Negotiable certificates of deposit are restricted to those rated B or better by the Thompson Bankwatch Rating, Inc. rating service. 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.

Custodial Credit Risk - Deposits - For deposits, custodial credit risk is the risk that in the event of a bank failure, VTA's deposits may not be returned to it. The California Government Code Section 53652 requires California banks and savings and loan associations to secure governmental deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of VTA's deposits. California law also allows financial institutions to secure governmental deposits by pledging first trust deed mortgage notes having a value of 150% of the VTA's total deposits. At June 30, 2006, VTA's deposits were collateralized by securities held by the financial institutions, but not in VTA's name.

Custodial Credit Risk – Investments – For investments, custodial credit risk is the risk that in the event of a failure of the counter-party, the VTA may not be able to recover the value of its investments. 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. All securities are received and delivered using the standard deliver versus payment procedure. At year-end, 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. About 36% 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, 2006, VTA had \$36.8M and \$57.5M, representing 6.03% and 9.41% of VTA's portfolio invested in debt securities issued by the Federal Home Loan Mortgage Corporation (FHLM) and the Federal National Mortgage Association (FNMA), respectively. Of the 17.8% of the portfolio invested in equities, no investment in a single issuer exceeds 5%. The investments in guaranteed investment contracts include one agreement with FSA Capital Management Services, in the amount of \$26.4 million, which is approximately 5% of the investment portfolio and represents money held by a fiscal agent to pay debt service when due, in accordance with bond indentures.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2006

The following schedules indicate the interest rate and credit risk at June 30, 2006. Certain investments such as obligations, which are backed by full faith and credit of the United States Treasury, are not subjected to credit rating.

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

Type of Investment	Maturity				Market Value
	Less than 1 year	1-5 Years	6-10 Years	Over 10 Years	
Commercial Paper Payden	\$ 1,298	\$ -	\$ -	\$ -	\$ 1,298
Corporate Bonds – Operations	2,809	20,488	-	-	23,297
Corporate Bonds - Pension Plan	-	4,409	13,751	13,245	31,405
Corporate Bonds - Retiree Health	250	1,326	4,049	3,710	9,335
US Government Agency Bonds:					
Operations	15,008	25,217	-	-	40,225
Pension Plan	172	863	4,583	45,019	50,637
Retiree Health	45	265	1,219	13,447	14,976
U.S. Treasury:					
Operations	9,260	35,932	17,432	-	62,624
Pension Plan	5,657	12,597	3,990	-	22,244
Retiree Health	149	6,212	249	-	6,610
SUBTOTAL	34,648	107,309	45,273	75,421	262,651
Money Market Funds - Operations	1,046	-	-	-	1,046
Money Market Funds - Pension	4,088	-	-	-	4,088
Cash with Fiscal Agents - GIC	8,066	23,280	-	7,461	38,807
Cash with Fiscal Agents- Money Market Funds	9,424	-	-	-	9,424
TOTAL INVESTMENTS with Money Managers	57,292	130,589	45,273	82,882	316,016
LAIF	29,227	-	-	-	29,227
TOTAL INVESTMENTS	\$ 86,499	\$ 130,589	\$ 45,273	\$ 82,882	345,243
Investment commingled in County					1,837
Equity-based investments					254,551
Retention fund at escrow agents (deposits)					18,760
Cash deposits					19,687
					<u>\$ 640,078</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2006

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

Ratings	Fair Value (In Thousands)	Percentage of Portfolio
Unrated	\$ 343,236	53.63%
Not Applicable	217,004	33.90%
BB	2,424	0.38%
BB-	2,556	0.40%
BBB-	1,320	0.21%
BBB	7,188	1.12%
BBB+	9,275	1.45%
A-	4,824	0.75%
A-1	1,298	0.20%
A	15,926	2.49%
A+	10,518	1.64%
AA-	1,250	0.20%
AA	633	0.10%
AAA	22,626	3.53%
Total	\$ 640,078	100.00%

As of June 30, 2006, the Pension Trust fund's restricted investments consisted of the following (in thousands):

ATU Pension Plan investments	\$ 305,211
ATU Medical – investment	10,805
Pooled investments with VTA	<u>529</u>
Total	<u>\$ 316,545</u>

NOTE 4 – INTERFUND TRANSACTIONS

The composition of interfund balances as of June 30, 2006 is as follows (in thousands):

<u>Due from</u>	<u>Due to</u>	<u>Amount</u>	
VTA Transit	Congestion Management & Highway Program	\$ 527	(a)
VTA Transit	Measure B Highway Program	310	(a)
VTA Transit	ATU Pension Program	1,177	(b)
Measure B Ancillary Program	Congestion Management Program	<u>25</u>	(c)
		<u>\$ 2,039</u>	

- (a) represents labor and internal charges for the program
- (b) represents the investment management fee
- (c) represents the swap project cost under CMP program

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2006

NOTE 5 – DUE FROM AND DUE TO OTHER GOVERNMENTAL AGENCIES

Due from other governmental agencies as of June 30, 2006 consisted of the following (in thousands):

	Business- Type Activity	Governmental Activity			Total
	Enterprise Fund	Congestion Management Program	Congestion Management and Highway Program	Measure B Highway Program	
Current:					
Federal government	\$ 34,625	\$ -	\$ -	\$ -	\$ 34,625
State government	61,346	915	11,469	641	74,371
County of Santa Clara					
Court deposits:					
Measure B Highway	-	-	-	-	-
Measure B Transit	-	-	-	40	40
Total court deposits	-	-	-	40	40
Measure B Ancillary Program - SWAP	302	-	1,796	-	2,098
Others	11	-	-	-	11
Total County of Santa Clara	313	-	1,796	40	2,149
Others	2,175	-	2,292	-	4,467
Total	\$ 98,459	\$ 915	\$ 15,557	\$ 681	\$ 115,612

Due from other governmental agencies as of June 30, 2006, is reported in the accompanying basic financial statements as follows (in thousands):

	Business- Type Activity	Governmental Activity			Total
	Enterprise Fund	Congestion Management Program	Congestion Management and Highway Program	Measure B Highway Program	
Current assets (unrestricted)	\$ 68,270	\$ 915	\$ -	\$ -	\$ 69,185
Restricted assets	30,189	-	15,557	681	46,427
Total	\$ 98,459	\$ 915	\$ 15,557	\$ 681	\$ 115,612

Due to other governmental and other agencies as of June 30, 2006, consisted of the following (in thousands):

	Business-Type Activity	Governmental Activity				Total
	Enterprise Fund	Congestion Management Program	Congestion Management and Highway Program	Measure B Highway Program	Agency Fund	
State government	\$ 10	\$ -	\$ -	\$ -	\$ -	\$ 10
County of Santa Clara	6,913	1,383	-	4,824	4,906	18,026
City of Santa Clara	-	-	380	-	-	380
City of Sunnyvale	-	-	500	-	-	500
City of San Jose	-	-	2,005	-	-	2,005
City of Milpitas	-	-	200	-	-	200
City of Mountain View	-	-	250	-	-	250
Yerba Buena Opco, Inc.	-	-	300	-	-	300
Measure B Ancillary Program	-	-	16,650	-	-	16,650
Total	\$ 6,923	\$ 1,383	\$ 20,285	\$ 4,824	\$ 4,906	\$ 38,321

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Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2006

Due to other governmental agencies as of June 30, 2006, is reported in the accompanying basic financial statements as follows (in thousands):

	Business-type	Governmental Activity				Total
	Activity	Congestion Management Program	Congestion Management and Highway Program	Measure B Highway Program	Agency Fund	
	Enterprise Fund					
Current Liabilities	\$ 10	\$ 1,383	\$ -	\$ -	\$ -	\$ 1,393
Liabilities payable from restricted assets	6,913	-	20,285	4,824	4,906	36,928
Total	<u>\$ 6,923</u>	<u>\$ 1,383</u>	<u>\$ 20,285</u>	<u>\$ 4,824</u>	<u>\$ 4,906</u>	<u>\$ 38,321</u>

NOTE 6 – CAPITAL ASSETS

Capital asset changes for VTA's business-type activity for the year ended June 30, 2006 were as follows (in thousands):

	July 1, 2005	Additions	Retirements	Transfers	June 30, 2006
<i>Capital assets, not being depreciated:</i>					
Land and right of way	\$ 761,818	\$ -	\$ -	\$ 369,761	\$ 1,131,579
Construction in progress	775,711	121,321	-	(516,256)	380,776
Total capital assets, not being depreciated	<u>1,537,529</u>	<u>121,321</u>	<u>-</u>	<u>(146,495)</u>	<u>1,512,355</u>
<i>Capital assets, being depreciated:</i>					
Buildings, improvements, furniture and fixtures	340,546	-	-	121,902	462,448
Vehicles	480,174	-	(535)	(22,023)	457,616
Light-rail tracks and electrification	365,505	-	-	18,930	384,435
Caltrain – Gilroy extension	52,990	-	-	-	52,990
Other operating equipment	28,830	-	(27,514)	27,686	29,002
Total capital assets, being depreciated	<u>1,268,045</u>	<u>-</u>	<u>(28,049)</u>	<u>146,495</u>	<u>1,386,491</u>
<i>Less accumulated depreciation for:</i>					
Buildings, improvements, furniture and fixtures	(128,645)	(23,872)	-	-	(152,517)
Vehicles	(94,120)	(19,508)	330	-	(113,298)
Light-rail tracks and electrification	(89,576)	(17,542)	-	-	(107,118)
Caltrain – Gilroy extension	(6,908)	(502)	-	-	(7,410)
Other operating equipment	(15,951)	(2,341)	-	-	(18,292)
Total accumulated depreciation	<u>(335,200)</u>	<u>(63,765)</u>	<u>330</u>	<u>-</u>	<u>(398,635)</u>
Total capital assets, being depreciated, net	<u>932,845</u>	<u>(63,765)</u>	<u>(27,719)</u>	<u>146,495</u>	<u>987,856</u>
Total capital assets, net	<u>\$ 2,470,374</u>	<u>\$ 57,556</u>	<u>\$ (27,719)</u>	<u>\$ -</u>	<u>\$ 2,500,211</u>

Construction in progress (CIP), includes capitalized costs and right-of-way acquisitions associated with the following projects as of June 30, 2006 (in thousands):

Silicon Valley Rapid Transit Corridor	\$ 326,000
Facilities Modifications	17,680
Guadalupe Corridor	1,044
Capitol Corridor Projects	14,281
Study Projects	10,142
Caltrain Service Improvements	7,569
New Rail Vehicles	1,930
Coach and Vehicle Replacements	1,360
Vasona Corridor Projects	33
Software Development	19
Tasman Corridor Project Extensions	718
Total project costs expended to date	<u>\$ 380,776</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2006

Additional information regarding projects in progress as of June 30, 2006 is as follows (in thousands):

Total Board approved project budget	\$ 533,794
Expended to date	<u>(380,776)</u>
Remaining budget available for CIP	<u>\$ 153,018</u>
Anticipated funding sources are as follows:	
Federal, State, and other local assistance (Note 10)	\$ 40,414
Local contributions (Note 10)	<u>112,604*</u>
Total funding sources	<u>\$ 153,018</u>

*Includes approximately \$77.5 million in 2000 Measure A Bond Proceeds

VTA has outstanding commitments of about \$51 million as of June 30, 2006, related to the above capital projects.

NOTE 7 - LONG-TERM LIABILITIES

Long-term debt as of June 30, 2006, consisted of the following (in thousands):

Secured by VTA's 1976 ½ Cent Sales Tax

Series 1985A Equipment Trust Certificates	\$ 29,660
1997 Series A Refunding (\$31,440, less unamortized discount of \$249 and unamortized deferred amount on refunding of \$2,286)	28,905
1998 Series A Junior Lien	42,780
2000 Series A Junior Lien	34,940
2001 Series A Senior Lien (\$19,145 less unamortized discount of \$128)	19,017
2005 Series A-C Refunding (\$170,860 less unamortized discount and deferred amount on refunding of \$16,183)	154,677

Secured by VTA's 2000 Measure A ½ Cent Sales Tax

2003 Series A Senior Lien (\$131,240, plus unamortized premium of \$6,681)	137,921
2004 Series A Senior Lien (\$104,710, plus unamortized premium of \$6,795)	111,505
2004 Series B Senior Lien (\$135,165, plus unamortized premium of \$5,445)	<u>140,610</u>
Total long-term debt	700,015
Less current portion of long-term debt	<u>(16,890)</u>
Long-term debt, excluding current portion	683,125
Less portion of long-term debt payable from restricted assets	<u>(43,182)</u>
Long-term debt, excluding current & restricted portion	<u>\$ 639,943</u>

(a) Equipment Trust Certificates

- \$52.5 million 1985A Certificates (1985 ETC's) were issued to finance the retirement of the Series 1984A Equipment Trust Certificates, originally issued to finance the acquisition of light-rail vehicles. The 1985 ETC's bear interest at a weekly rate, which is determined by the Remarketing Agent to be the rate necessary to remarket the 1985 ETC's at par value. The 1985 ETC's are subject to mandatory redemption before their maturity date on each June 1 on or after June 1, 2007, in part or by lot, solely from sinking fund payments and interest

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)

For the Year Ended June 30, 2006

earnings deposited in the 1985 ETC Sinking Fund Account. In August 1998, VTA entered into an interest rate swap agreement. Pursuant to the terms of the swap agreement, VTA owes interest at a fixed rate of 4.355% to the counterparty to the swap. In return, the counterparty owes VTA interest based on the actual variable rate of the 1985 ETC's. The outstanding 1985 ETC principal is used as the basis on which the interest payments are calculated. Under certain circumstances, the agreement is subject to termination before maturity of the 1985 ETC's. A termination of the swap agreement may result in VTA making or receiving a termination payment.

(b) Sales Tax Revenue Bonds, secured by 1976 ½ Cent Sales Tax Revenues

- In November 1997, VTA issued \$40.6 million of 1997 Series A Sales Tax Revenue Refunding Bonds (1997 Bonds), at a true interest cost of 5.17%, to advance refund \$33.3 million of the outstanding principal amount of its 1991 Series A Bonds, advance refund \$4 million of the outstanding principal amount of its Series C Certificates, and to pay for certain capital expenditures. Their maturities extend to June 1, 2015 and are subject to mandatory and optional redemption provisions.
- In March 1998, through the California Transit Variable Rate Program of the California Transit Finance Authority (CTFA) (Note 19d), VTA issued \$50 million of 1998 Series A Junior Lien Sales Tax Revenues Bonds (1998 Bonds) 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.
- In November 2000, through the California Transit Variable Rate Program of the California Transit Finance Authority (CTFA) (Note 19d), VTA issued \$40 million of 2000 Series A Junior Lien Sales Tax Revenue Bonds 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.
- In June 2001, VTA issued \$200 million of 2001 Series A Senior Lien Sales Tax Revenue Bonds (2001 Bonds), 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. However, maturities from June 1, 2012 through June 1, 2026 are subject to optional redemption and will be redeemed on June 1, 2012 from proceeds of refunding bonds.
- In July 2005, VTA issued Sales Tax Revenue Refunding Bonds, 2005 Series A, B & C, at variable rates, in an aggregate amount of \$172.5 million (2005 Bonds) to advance refund \$155.3 million of VTA's Sales Tax Revenue Bonds, 2001 Series A that mature on June 1, 2012 through June 1, 2026 (Defeased Bonds). Their maturities extend to June 1, 2026 and are subject to optional and mandatory redemption and optional and mandatory tender for purchase before maturity. Proceeds of the 2005 Bonds were placed in an escrow account held by a

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Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2006

Trustee to provide for future debt service payments on the Defeased Bonds. 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 the liabilities from the Defeased Bonds are not included in VTA's financial statements. The amount outstanding on the Defeased Bonds was \$155.3 million as of June 30, 2006. VTA would realize debt service savings of approximately \$16.9 million in net present value by refunding the 2001 Series A Bonds. Concurrent with the issuance and sale of the 2005 Bonds, VTA entered into three separate interest rate swap agreements. Pursuant to the terms of the swap agreements, VTA owes interest at a fixed rate of 3.033% to the counterparties to the swaps. In return, the counterparties owe VTA interest based on a percentage of LIBOR¹. 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 2005 Bonds. A termination of the swap agreement may result in VTA making or receiving a termination payment.

(c) Sales Tax Revenue Bonds, Secured by 2000 Measure A ½ Cent Sales Tax

- In November 2003, VTA issued \$131.2 million of 2003 Measure A Sales Tax Revenue Bonds (2003 Bonds) to: 1) finance the repayment of the 2002 Bonds and Grant Anticipation Notes that matured on December 4, 2003, 2) reimburse VTA for certain debt service payments made in connection with the 2001 Bonds, and 3) finance capitalized interest payments through October 2006. The 2003 Bonds were issued as long-term variable rate bonds, with an initial fixed rate term through October 2, 2006, at which time there is a mandatory tender for purchase of the 2003 Bonds. If the 2003 Bonds are not remarketed or refunded by the mandatory tender date, the bonds will continue to be owned by current bondholders and will commence to pay an interest rate of 150% of one year LIBOR for successive periods of one year until VTA elects to adjust the interest rate mode to weekly adjustable, auction rate security or fixed rate and there is a successful remarketing of the bonds.
- In May 2004, VTA issued \$104.7 million of Measure A Sales Tax Revenue Bonds (2004A Bonds) to pay certain working capital and capital expenditures and to finance capitalized interest payment through October 2006. The 2004A Bonds were issued as long-term variable rate bonds, with an initial fixed rate term through October 2, 2006, at which time there is a mandatory tender for purchase of the 2004A Bonds. If the 2004A Bonds are not remarketed or refunded by the mandatory tender date, the bonds will continue to be owned by current bondholders and will commence to pay an interest rate of 150% of one year LIBOR for successive periods of one year until VTA elects to adjust the interest rate mode to weekly adjustable, auction rate security or fixed rate and there is a successful remarketing of the bonds.
- In December 2004, VTA issued \$135.2 million of Measure A Senior Lien Sales Tax Revenue Bonds (2004B Bonds) to pay certain working capital and capital expenditures and to finance capitalized interest payment through October 2006. The 2004A Bonds were issued as long-

¹ London Interbank Offered Rate
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Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2006

term variable rate bonds, with an initial fixed rate term through October 2, 2006, at which time there is a mandatory tender for purchase of the 2004A Bonds. If the 2004B Bonds are not remarketed or refunded by the mandatory tender date, the bonds will continue to be owned by current bondholders and will commence to pay an interest rate of 150% of one year LIBOR for successive periods of one year until VTA elects to adjust the interest rate mode to weekly adjustable, auction rate security, or fixed rate and there is a successful remarketing of the bonds.

(d) Interest Rate Swaps

VTA has entered into four interest rate swap agreements. Of the agreements, one requires VTA pay a fixed interest rate and receive interest at the actual variable interest rate of the underlying bonds; and three require that VTA pay fixed interest rates and receive interest at a percentage of LIBOR.

Objective of the Swaps: The objective of the swaps was to take advantage of low interest rates in the marketplace at costs anticipated to be less than what VTA otherwise would have paid to issue fixed rate debt in the tax-exempt municipal bond market.

Summary: The terms, fair values, and credit ratings of the outstanding swaps as of June 30, 2006 were as follows:

(Dollars in thousands)

Associated Bonds	Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Value ²	Swap Termination Date	Counterparty Credit Rating ³
1985 ETC	\$ 29,660	9/11/98	4.355%	1985 ETC	\$(768)	6/01/15	Aa1, AAA, AA+
STRRB ⁴ 2005A	68,490	7/07/05	3.033%	Cal-E ⁵	4,182	6/01/26	Aaa, AAA, ---
STRRB 2005B	51,185	7/07/05	3.033%	Cal-E	3,085	6/01/26	Aa1, AA, AA+
STRRB 2005C	51,185	7/07/05	3.033%	Cal-E	3,090	6/01/26	Aa3, A+, AA-
	\$200,520				\$9,589 ⁶		

Terms: The notional amounts of swaps match the principal amounts of the associated debt in total. VTA's swap agreements contain scheduled reductions to outstanding notional amounts that follow scheduled reductions in the associated long-term debt.

Fair Values: At June 30, 2006, the swap associated with the 1985 ETCs had a negative fair value. This is because interest rates have declined since the execution of the swap in 1998. The swaps associated with the 2005 Series A, B, and C bonds (2005 Bonds) have a positive fair value, resulting in an aggregate fair value of the swap portfolio of \$9.6 million. The fair values include

² Includes accrued interest

³ Moody's, Standard and Poor's and Fitch, respectively

⁴ Sales Tax Revenue Refunding Bonds

⁵ Lower of 1 month LIBOR (London Interbank Offered Rate) or a rate equal to the greater of 63.5% of 1 month LIBOR or 55.5% of 1 month LIBOR plus 0.44%

⁶ Total may not add due to rounding

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Notes to the Basic Financial Statements (Continued) For the Year Ended June 30, 2006

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.

Credit Risks: As of June 30, 2006, VTA was not exposed to credit risk on the swap associated with the 1985 ETC's because the swap had a negative fair value. As of June 30, 2006, VTA was exposed to \$10.4 million of credit risk, spread among the three counterparties to the swaps associated with the 2005 Bonds. All swap agreements, with the exception of the swap associated with the 1985 ETC's, contain specific collateral levels based on credit ratings and the fair value of the swap. Generally, the fair value threshold levels are reduced as credit ratings are reduced. The swap agreement associated with the 1985 ETC's requires the counterparty to post collateral in the event that ratings are suspended, withdrawn or falls below "Aa3" in the case of Moody's and "AA-" in the case of S&P. Collateral on all swaps must be in the form of US government securities and, in the case of the swap associated with the 1985 ETC's, must be held by a third party collateral agent; otherwise, collateral posted pursuant to all other swap agreements, may be held by the counterparty.

Each swap contains cross-default provisions that allow the non-defaulting party to accelerate and terminate all outstanding transactions and to net the transactions' fair values into a single sum to be owed by, or owed to, the non-defaulting party.

Basis Risk: VTA has no basis risk for the swap associated with the 1985 ETC's, as the interest rate received from the counterparty is equal to the interest paid to the 1985 ETC bondholders. For the other swaps, the interest rate on VTA's variable rate bonds are expected to be equivalent, but not necessarily equal to the variable rate payments received from counterparties. To the extent these variable payments differ, VTA is exposed to basis risk. As of June 30, 2006, the interest rates of the variable rate debt associated with these swap transactions were 3.90%, 3.88%, and 3.90%. However, VTA's variable rate payments received from the counterparties of these swaps was 3.41%. For the year ended June 30, 2006, basis risk represented a cost of approximately \$16,420 to VTA.

Termination Risk: VTA has the right to terminate any swap if the counterparty fails to post any collateral that may be required under the swap agreements in the event of ratings downgrade, or, if the counterparty's ratings are downgraded below investment grade. Each counterparty has the right to terminate the swap if VTA's bond insurer's (who has insured VTA's swap payments) financial strength rating falls below Aa3 by Moody's Investors Service, its claims paying ability rating falls below AA- by Standard and Poor's, it fails to maintain a rating of AA- by Fitch Ratings, or, if VTA's long-term debt obligations fall below "Baa2" by Moody's Investors Service, "BBB" by Standard and Poor's or "BBB" by Fitch Ratings. If the swaps were terminated, the associated variable rate bonds would no longer carry a synthetic fixed interest rate. Also, if at the time of termination the swap has a negative fair value, VTA would be liable to the counterparty for payment equal to the swap's fair value.

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

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Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2006

the swap counterparties, due particularly to reduced federal or state income tax rates, over the term of the swaps.

(e) Swap Payments and Associated Debt

Using rates as of June 30, 2006, 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 Swap, Net	Total
	Principal	Interest		
Year Ending June 30:				
2007	\$ 1,580	\$ 7,816	\$ 956	\$ 10,352
2008	3,855	7,754	949	12,558
2009	4,095	7,604	931	12,630
2010	4,335	7,443	913	12,691
2011	4,675	7,274	893	12,842
2012-2016	45,820	32,030	3,958	81,808
2017-2021	55,520	22,313	2,773	80,606
2022-2026	80,640	9,621	1,196	91,457
	\$ 200,520	\$ 101,855	\$ 12,569	\$ 314,944

(f) Long-term Debt Obligation Summary

Interest Rates on all outstanding fixed-rate obligations range from 3.85% to 5.25%. Interest on the variable rate debt is reset weekly based upon market conditions. Future principal and interest obligations as of June 30, 2006 are as follows:

(Dollars in thousands)	Principal	Interest ⁷	Total
Year ending June 30:			
2007	\$ 17,240	\$ 32,927	\$ 50,167
2008	16,990	32,097	49,087
2009	17,760	31,324	49,084
2010	18,555	30,513	49,068
2011	19,385	29,664	49,049
2012-2016	110,545	134,243	244,788
2017-2021	135,825	107,138	242,963
2022-2026	165,910	74,088	239,998
2027-2031	91,830	41,913	133,743
2032-2036	105,900	17,307	123,207
	\$ 699,940	\$ 531,214	\$ 1,231,154
Unamortized bond discount, premium and deferred amount on refunding, net	\$ 75		
Total debt	\$ 700,015		
Less current portion	\$ (16,890)		
Long-term portion of debt	\$ 683,125		

⁷ Rates as of 6/30/06 were used to determine variable rate interest expense.

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Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2006

(g) 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 significant restrictions and limitations.

(h) Long-term Liabilities

Long-term liability activity for fiscal years ending June 30, 2006 and 2005 is shown on the following table.

Changes in long-term liabilities for the business-type activity are shown below (in thousands):

	July 1, 2005	Additions	Retirements	June 30, 2006	Amounts Due Within One Year
Equipment Trust Certificates:	\$29,660	\$ -	\$ -	\$29,660	\$ 460
Sales Tax Revenue Bonds Secured by VTA's					
1976 ½ Cent Sales Tax:					
1998 Series A Junior Lien	44,085	-	(1,305)	42,780	1,350
2000 Series A Junior Lien	36,015	-	(1,075)	34,940	1,110
2001 Series A	179,990	-	(160,845)	19,145	5,375
Sales Tax Revenue Refunding Bonds Secured					
by 1976 ½ Cent Sales Tax:					
1997 Series A	32,800	-	(1,360)	31,440	1,440
2005 Series A-C	-	172,530	(1,670)	170,860	1,120
Sales Tax Revenue Bonds Secured by VTA's					
2000 Measure A ½ Cent Sales Tax:					
2003 Series A	131,240	-	-	131,240	2,705
2004 Series A	104,710	-	-	104,710	1,395
2004 Series	135,165	-	-	135,165	2,285
Total outstanding debt	693,665	172,530	(166,255)	699,940	17,240
Plus (less) premiums, deferred amount on refundings and discounts	15,062	(15,700)	713	75	(350)
Outstanding debt, net	708,727	156,830	(165,542)	700,015	16,890
Claims liability:					
General liability, worker's compensation & Compensated absences	77,194	18,280	(14,455)	81,019	16,618
Total long-term liabilities	<u>\$785,921</u>	<u>\$175,110</u>	<u>\$(179,997)</u>	<u>\$781,034</u>	<u>\$33,508</u>

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Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2006

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, collect 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. Collection fees charged by the State Board of Equalization were approximately \$1.5 million in FY2006. The amount of the 1976 Sales Tax and 2000 Measure A Sales Tax earned during FY2006 was \$157.3 million and \$38.2 million respectively, totaling \$195.5 million.

NOTE 9 – VTA PROGRAMS FUNDED THROUGH LOCAL SALES TAX MEASURES

Measure B Transportation Improvement Program (MBTIP)

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

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

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

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

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Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2006

projects, the Vasona Light Rail Project was programmed for \$51.6 million with the same amount being available for other local projects, and the Routes 237/880 Interchange Highway Project was programmed for \$22.5 million with the same amount being available for other local projects.

A third agreement provided for a simultaneous exchange of funds. VTA secured 2001 Series A Senior Lien Sales Tax Revenue Bonds to reimburse the County approximately \$184.1 million of 1996 MBTIP project costs, namely the Tasman East, Vasona and Capitol Corridor Light Rail Projects. The reimbursement of 1996 MBTIP project costs made \$184.1 million available for the acquisition of low floor vehicles. On February 15, 2002, amendment #1 to the agreement was executed to increase the amount of reimbursement to \$198.3 million. As of June 30, 2002, full reimbursement of the \$198.3 million was made to the Measure B Ancillary Program Agency Fund. As of June 30, 2006 approximately \$198.3 million have been expended for the acquisition of low floor vehicles, which includes \$17.3 million in current year additions.

During the year, VTA paid approximately \$66.8 million for current year costs for the program. Of this amount, the County contributed approximately \$59.5 million; namely \$8 million (\$8.8 million Measure B funding and (\$0.8 million) Measure B swap fund) for transit projects in the Enterprise Fund; \$38.1 million (\$33 million Measure B fund & \$5.1 million Measure B swap fund) for highway projects in the Measure B Highway Capital Projects Fund; and \$13.4 million for the Ancillary Program (Measure B Projects, Pavement and Bikeways). The remaining balance was received from various Federal, State and local fund sources.

2000 Measure A Program

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

The MAP is funded by the half-cent sales tax to be imposed for a period of 30 years and to take effect upon expiration of the current County of Santa Clara 1996 Measure B half-cent sales tax, April 1, 2006. During FY06, VTA received \$38.2 million in sales tax for 2000 Measure A Program.

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.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2006

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, 2006 are summarized as follows (in thousands):

	Business-type Activity	Governmental Activity
	Enterprise Fund	Congestion Management Program
Operating assistance grants:		
FTA Section 9	\$ 33,021	\$ -
Job Access and Reverse Commute Program	488	-
Federal Technical Studies	56	621
Total Operating Assistance Grants	33,565	621
Capital Grants		
FTA Section 3	2,552	-
FTA Section 9	4,491	-
Total Capital Grants	7,043	-
Total Operating Assistance and Capital Grants	\$ 40,608	\$ 621

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

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2006

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:

- MTC-TLC represents funds received from the Metropolitan Transportation Commission – Transportation for Livable Communities program capital grants for the San Fernando Station Plaza/Los Gatos Creek Trail Improvement Project. Funds for this program come from the federal transportation funds pursuant to TEA-21 Restoration Act.
- TransLink® fees are funds received from the Metropolitan Transportation Commission in accordance with the TransLink® Phase II site preparation fund agreement whereby VTA is to perform site preparation on its premises for the implementation of TransLink® Phase II project. The agreement is funded in whole or in part from the proceeds of a grant from the United States Department of Transportation.
- Intelligent Transportation System (ITS) fees are received from the California Department of Transportation pursuant to TEA-21, Section 5208 Funding for California ITS Integration Projects with VTA being the implementing agency for ITS integration activities in Santa Clara County and the Silicon Valley.

(b) State and Local Grants and Assistance

State and local grants for the year ended June 30, 2006, are summarized as follows (in thousands):

	Business-type Activity	Governmental Activity
	Enterprise Fund	Congestion Management Program
Operating assistance grants:		
Transportation Development Act	\$ 71,044	\$ -
State Operating Assistance Grants AB434	8,814	229
Total operating assistance grants	\$ 81,199	\$ 229
Capital grants:		
Traffic Congestion Relief Program	3,213	-
State of California, General Fund AB434	652	-
Other Local Grants:	117	-
Santa Clara County (Measure B Program) – (Note 9)	8,844	-
Santa Clara County (Fund Swap Program)		
VTA Transit	\$2,806	
Measure B Transit Program	(785)	-
Various cities, counties and others	632	-
Total capital grants	15,479	-
Total state and local grants	\$ 96,678	\$ 229

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued) For the Year Ended June 30, 2006

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

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

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

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

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

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

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

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

(a) *Plan Description*

All ATU employees are covered by the Plan. The Plan is 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, with benefits payable permitted at age 65. Employees may elect to receive their

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2006

benefits in the form of a joint or survivor annuity. These benefit provisions and all other requirements are established by California statute and the labor agreement with the ATU.

VTA enhanced the Pension benefits for ATU represented employees effective February 1, 2001 and they were enhanced again on February 1, 2003. The enhancement scheduled for February 1, 2004 was accelerated to July 1, 2002.

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

The current membership of the Plan as of June 30, 2006, is comprised of the following:

Retirees and beneficiaries currently receiving benefits	852
Terminated vested members not yet receiving benefits	181
Active members	<u>1,394</u>
Total	<u><u>2,427</u></u>

(b) Basis of Accounting

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

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

(c) Actuarial Methods and Assumptions

<i>Description</i>	<i>Methods/Assumptions</i>	
Valuation date	January 1, 2006	
Actuarial cost method	Aggregate entry age normal	
Amortization method	Level dollar open method	
Remaining amortization period	20 years (Level dollar open method)	
Actuarial asset valuation method	Market value less unrecognized investment gain or losses during the prior four years, phased in at 20% per year, subject to a minimum of 80% and a maximum of 110% of market value.	
Actuarial assumptions	Investment rate of return	8.00%
	Projected salary increases	19.03% for the first three years of service, 4.28% thereafter.
	Inflation rate	3.50%
	Cost of living adjustments	NONE

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2006

(d) Concentration

Investments in the commingled State Street Bank and Trust Company, S&P 500 Conservative Index Fund and commingled Fidelity Fund represented 14.37% and 18.1%, respectively, of the Plan's net assets as of June 30, 2006.

(e) Funding Policy

VTA contributes to the Plan at actuarially determined rates applied to eligible payroll sufficient to maintain funding of vesting benefits. VTA's contributions to the Plan for the year ended June 30, 2006 were made in accordance with actuarially determined requirements computed as of January 1, 2005. VTA's contribution rate as a percentage of payroll was 16.51% for fiscal year FY2006. The schedule of funding progress can be found on page 2-65.

(f) Net Pension Obligation

VTA's net pension obligation to the Plan was zero as of June 30, 2006. The three-year trend information is shown below (in thousands):

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/04	\$12,071	100%	\$ -
6/30/05	14,292	100%	-
6/30/06	15,278	100%	-

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.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2006

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

<i>Description</i>	<i>Methods/Assumptions</i>
Valuation date	June 30, 2003
Actuarial cost method	Entry Age Actuarial Cost Method
Amortization method	Level percent of Payroll
Average Remaining Period	17 years as of the Valuation Date
Asset Valuation Method	3 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 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%

(c) Funding Policy

Active members in VTA's CalPERS Plan are not required to contribute to the CalPERS Plan. VTA elected to contribute the actuarially determined amount necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required contribution rate from July 1, 2005 through August 14, 2005, was 11.925% and for August 15, 2005 through June 30, 2006 was 13.029% for the employer and 7.0% for employees. The required employee contribution was paid by VTA. The contribution requirements of the CalPERS Plan are established by State statute and the employer contribution is established and may be amended by CalPERS. The amortization period used is closed which means that amortization periods for initial unfunded liability, benefit change, and assumption change decline every year. The schedule of funding progress can be found on page 2-66.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2006

(d) Net Pension Obligation

VTA's net pension obligation to the CalPERS Plan was zero as of June 30, 2006. For FY2006, VTA's annual pension cost was approximately \$6.5 million, which was fully contributed. The required contribution for FY2006 was determined as part of the June 30, 2003, 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
6/30/04	\$ 3,750	100%	\$ -
6/30/05	5,171	100%	-
6/30/06	6,501	100%	-

NOTE 13 – ATU SPOUSAL MEDICAL AND VISION/DENTAL TRUST

VTA had assets and related liabilities as of June 30, 2006 of approximately \$8.7 million for the ATU Spousal Medical Trust and \$2.6 million for the Retiree Vision and Dental Trust.

The Spousal Medical Trust is a medical insurance benefit for eligible pensioners' spouses. Pursuant to a collective bargaining agreement, contribution to the Spousal Trust was changed from \$.20 to \$.25 per hour worked by all ATU employees, effective February 4, 2002. As of June 30, 2006, there were 215 participating spouses who were eligible for benefits from the Spousal Medical Trust. Contributions, which were expensed by VTA, were approximately \$840 thousand. Benefit payments made by the Trust for FY2006 were approximately \$1 million.

The Retiree Vision and Dental Trust is a vision and dental benefit for eligible pensioners. Effective February 8, 1999 and pursuant to a collective bargaining agreement, VTA is required to contribute \$0.10 per hour worked by ATU employees. As of June 30, 2006, there were 730 eligible participants. Contributions, which were expensed by VTA, were approximately \$336 thousand for the Retiree Vision and Dental Trust.

NOTE 14 – INTERNAL SERVICE FUND

As of June 30, 2006, the composition of assets and liabilities by individual components of the Internal Service Fund were as follows (in thousands)

	Workers' Compensation	General Liability	Retiree Health	Compensated Absences	Total
Assets	\$ 66,334	\$ 8,967	\$ 79,285	\$ 21,841	\$ 176,427
Liabilities	(50,211)	(8,967)	-	(21,841)	(81,019)
Net assets (reserve)	\$ 16,123	\$ -	\$ 79,285	\$ -	\$ 95,408

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2006

Workers' Compensation and General Liability

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

Actuarial Information

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

Changes in the balance of Workers' Compensation and General Claims Liabilities for the two years ended June 30, 2006, are as follows (in thousands):

	<u>Workers'</u> <u>Compensation</u>	<u>General</u> <u>Liability</u>
Unpaid claims at June 30, 2004	\$ 46,757	\$ 6,368
Provision for claims and claims adjustment expense	18,948	2,684
Payment for claims	<u>(15,494)</u>	<u>(2,684)</u>
Unpaid claims at June 30, 2005	50,211	6,368
Provision for claims and claims adjustment expense	19,751	5,164
Payment for claims	<u>(19,751)</u>	<u>(2,565)</u>
Unpaid claims at June 30, 2006	<u>\$ 50,211</u>	<u>\$ 8,967</u>

Retiree Health

(a) ATU

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 if an employee becomes disabled and has completed at least 10 years of service. As of June 30, 2006, 771 retirees met the eligibility requirements. VTA pays medical premiums for its eligible retirees.

(b) Non-ATU

All non-ATU represented employees upon retirement with at least five years of service and attaining age 50 are also covered under a Retiree Health Care Program (the Non-ATU Program). As of June 30, 2006, 254 retirees met the eligibility requirements.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2006

(c) Actuarial Information

An actuarial study as of July 1, 2006 projected that the present value of future VTA paid retiree medical benefits for the current group of active employees, retirees, and terminated vested employees (excluding new employees) was approximately \$172.3 million and \$69 million, for the ATU and Non-ATU Programs, respectively. VTA's contributions are advance funded on an actuarial determined basis. For the year ended June 30, 2006, VTA made contributions to both the ATU and Non-ATU programs, which were expensed, of approximately \$11.3 million. Benefits paid to participants of the program were approximately \$5.3 million.

The actuarial cost method used for determining the benefit obligations is the projected unit benefit cost method. The significant economic assumptions used were as follows: 1) a discount rate of 7.0%, 2) a projected salary increase of 5.0%, and 3) a health cost inflation assumption of 8.0% pre-65 and 11.0% post-65 in the first year (increase from 2006 to 2007), 10.0% from 2007-2008 and then graded down 1.0% per year for the next 5 years, and 5.0% thereafter.

As of June 30, 2006, VTA had assets of \$79.3 million to cover costs of the ATU and Non-ATU Programs.

Compensated Absences

This represents the amount charged each month to accrue the estimated increase in unused vacation and sick leave. This account is adjusted annually to reflect the year-end value of unused vacation and sick leave. Compensated absences are limited to leaves that are attributable to services already rendered and are not contingent on a specific event that is outside the control of the employer and employee. At June 30, 2006, the outstanding balance of compensated absence liability was \$21.8 million.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2006

NOTE 15 – INSURANCE

VTA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors, and omissions; injuries to employees; injuries to the public; and natural disasters. For the past three fiscal years, settlement amounts have not exceeded commercial insurance coverage. For additional information on workers’ compensation and general liability, see Note 14. Coverage provided by self-insurance/insurance and excess coverage as of June 30, 2006, is shown below:

Type of Coverage	Self-Insurance/Deductible	Excess Coverage (in aggregate)
Workers’ compensation	Self-Insured	None
Employer’s liability	\$3,000,000	\$23,000,000 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 include spare parts coverage, no earthquake coverage	\$250,000	\$20,000,000
Buses	\$100,000	\$20,000,000
Vans and mobile equipment	\$25,000	Included in the \$20,000,000 with buses
Owner-controlled insurance programs:		
Highway construction projects	\$-0-	\$52,000,000
Builder’s risk	\$25,000 - Highway	\$200,000,000 - Highway
Public officials liability	Self-Insured \$3,000,000	\$22,000,000

NOTE 16 – LEASES

VTA leases various properties for use as transfer facilities, parking lots, information centers, and warehouses under lease agreements that expire at various dates through 2030. These agreements are accounted for as operating leases. Rent expense was approximately \$560 thousand in FY2006. The future lease payments under noncancellable lease agreements are as follows (in thousands):

Year ending June 30,	
2007	\$ 268
2008	194
2009	198
2010	203
2011	207
2012-2016	989
2017-2021	1,051
2022-2026	1,129
2027-2030	1,070
Total	<u>\$5,309</u>

NOTE 17 – LITIGATION

The projected costs which would settle by June 30, 2007 are approximately \$687 thousand. VTA’s management believes its actuarially determined reserves and excess insurance coverage will adequately cover estimated potential material adverse losses as of June 30, 2006.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2006

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

The County provides support services to VTA for protection (Office of the Sheriff), fuel for vehicles and vehicle maintenance and repairs. Amounts paid to the County for such services were approximately \$4.7 million during FY2006.

NOTE 19 – JOINT VENTURES

(a) Peninsula Corridor Joint Powers Board

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

The net operating costs and administrative expenses of the PCJPB, for services provided between San Francisco and San Jose are reimbursed by the member agencies. In FY2006, VTA, SamTrans, and CCSF are responsible for 40.24%, 41.70%, and 18.06%, respectively, of the member agencies' total reimbursement for such expenses. During the year ended June 30, 2006, VTA paid \$14.8 million to the PCJPB for operating costs.

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

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

Summary financial information (not included in VTA's financial statements) for the PCJPB as of and for the year ended June 30, 2005, is as follows^(a):

	(in thousands)
Total assets	\$982,021
Total liabilities	(62,364)
Total net assets	\$ 919,657
Operating revenues	\$ 26,092
Operating expenses	(70,098)
Non-operating revenues, net	14,030
Capital contributions	69,828
Change in net assets	\$ 39,852

^(a) Latest audited information available.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2006

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

(b) Altamont Commuter Express

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

ACE commenced operations in October 1998, and now provides three daily round trip commuter rail service from San Joaquin County through the Tri-Valley Area of Alameda County to Santa Clara County. The operating maintenance and management costs of the service is reimbursed by the members at a rate of approximately 42% from VTA, 28% from San Joaquin Regional Rail Commission and 30% from the Alameda County Congestion Management Agency. In June 2003, VTA entered into a Cooperative Service Agreement with the San Joaquin Regional Rail Commission (SJRRRC) and the Alameda County Congestion Management Agency (ACCMA) for continued VTA funding of Altamont Commuter Express (ACE) commuter rail service. The cooperative agreement replaced the ACE Joint Powers Agreement (JPA) executed by the ACE member agencies – VTA, SJRRRC and ACCMA. During the year ended June 30, 2006, VTA contributed approximately \$2.5 million for operating costs.

Complete financial statements for ACE can be obtained from the San Joaquin Regional Rail Commission at 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 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 1998 through a joint powers agreement for the purpose of establishing the California Transit Variable Rate Finance Program (Program). The Program makes low-cost, variable

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2006

rate financing available to the members of the California Transit Association for the acquisition of transit equipment and facilities. Through the Program, VTA issued \$50,000,000 of Junior Lien Sales Tax Revenues Bonds in March 1998 and \$40,000,000 in November 2000 (Note 7).

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

NOTE 20 – OTHER FINANCING TRANSACTIONS

(a) Lease-Leaseback

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

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

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

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

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

(b) Japanese Operating Lease

In June 2000, VTA had entered into a Japanese Operating Lease (JOL) transaction covering 285 buses of various vintages manufactured by Gillig and Flexible (Buses). VTA received payments totaling \$55.4 million and VTA is obligated to make semi-annual rental payments

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2006

throughout the term of the lease. VTA paid \$53.4 million to financial institutions to assume the rental obligations. As a result of the JOL transaction, VTA realized a financial benefit of \$2,022,000.

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

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

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

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

Per the sublease agreement, VTA would ship 29 LRV cars to UTA and 21 LRV cars to Sacramento. The UTA/RT Agreements provide that UTA and RT would 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 FY06, 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.

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

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

The basic sublease term is approximately 13 years with a sublease renewal term of 9 years thereafter. The sublease transaction was recorded as a capital lease during FY2004. The net book value of assets amounting to \$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.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2006

(d) Lease to Service Contracts

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

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

(e) Excise Tax on Lease/Leaseback Transactions

On May 17, 2006, President Bush signed into law the Tax Increase Prevention and Reconciliation Act of 2005 (the “2005 Tax Act”). Pursuant to the 2005 Tax Act, a new Section 4965 was added to the Internal Revenue Code of 1986, as amended (the “Code”). Section 4965 imposes a federal excise tax (the “New Excise Tax”) on the net income or proceeds of certain types of leasing transactions entered into by tax-exempt entities, including states and their political subdivisions, such as the VTA. Some of the VTA’s leasing transactions described in Note 20 could be subject to the New Excise Tax.

The U.S. Treasury Department and the IRS are in the process of drafting regulations that will further clarify which transactions are subject to the New Excise Tax and the calculation of the New Excise Tax. The VTA is evaluating the New Excise Tax and is awaiting these regulations. At this time, the magnitude of the VTA’s liability, if any, under the New Excise Tax is unclear. Accordingly, the VTA is unable to determine at this time whether the imposition of the New Excise Tax will have a material adverse effect on its financial results or condition.

NOTE 21 – SUBSEQUENT EVENT

On August 10, 2006, VTA issued the 2006 Measure A Sales Tax Revenue Bonds, Series A-G, aggregating to \$428,375,000 (2006 Bonds). The proceeds were used to refund on a current basis \$131,240,000 of Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds, Series 2003, \$104,710,000 of Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds, Series 2004 A and \$135,165,000 Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds, Series 2004 B. In addition, a portion of the proceeds of the 2006 Bonds will be applied to finance a

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued) For the Year Ended June 30, 2006

portion of the costs associated with the 2000 Measure A Program, debt service reserve funds for Series F and G, and to pay the costs of issuance of the 2006 Bonds.

The 2006 Bonds are limited obligations of the VTA secured by a pledge of 2000 Measure A sales tax revenues. The 2006 Bonds were structured as auction rate securities (ARS) insured by Ambac Assurance Corporation. Series A-E were structured as 7 day ARS with initial auction dates of September 8-11, 2006; Series F&G were structured as three month ARS, with an initial auction date of August 3 and 6, 2007.

The 2006 Bonds were rated Aaa by Moody's and AAA by Standard & Poor's, with underlying ratings of "Aa3" and "AA", respectively.

On August 1, 2006, VTA entered into variable to fixed interest rate swaps on Series A-D of the 2006 Bonds, to effectively change VTA's variable interest rate for these series to a synthetic fixed rate of 3.765%. For a discussion regarding associated risks on VTA swaps, see Note 7. On August 1, 2006, VTA entered into an interest rate cap agreement on Series E of the 2006 Bonds. Pursuant to the terms of the interest rate cap agreement, which will expire August 10, 2011, the variable interest rate on Series E of the 2006 Bonds is capped at 8%. Series F and G will remain unhedged.

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

Credit Risk. VTA bears the risk that the swap providers will not be able to make its offsetting payments to VTA. VTA has mitigated this potential risk in three ways. First, VTA has diversified credit exposure by entering into interest rate swaps with four counterparties. Second, each counterparty carries credit ratings at or above "Aa3" and/or "AA-" by at least two nationally recognized rating agencies (i.e. Moody's, Standard & Poor's or Fitch). Third, in the event of ratings downgrade, each counterparty is required to post collateral in an amount at least equal to the loss in market value between the par value of the swap (or its "notional value") and current valuation.

Termination Risk. VTA bears the risk that one of its swap counterparties will terminate the interest rate swap prior to maturity at a time when there would be a cost to VTA -- i.e., rates have declined from the time the swap was executed. VTA has mitigated this risk through bond insurance from Ambac Assurance Corporation. The counterparties are not given the right to terminate the swap absent (a) an event of VTA default or (b) downgrade of VTA below investment grade and the bond insurer below "A3" from Moody's Investors Service, Inc. (or an equivalent rating determined by a nationally-recognized ratings service acceptable to VTA).

VTA has the ability to terminate, at market value, any of the interest rate swaps at any time.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Required Supplementary Information
Schedule of Funding Progress ^(a)

Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan

(Unaudited)

(In thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
1/1/2004	247,694	325,530	77,836	76%	91,255	85%
1/1/2005	268,429	350,895	82,466	76%	88,449	93%
1/1/2006	288,829	363,114	74,285	80%	92,663	80%

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Required Supplementary Information
Schedule of Funding Progress

Santa Clara Valley Transportation Authority CalPERS Plan

(Unaudited)

	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Actuarial Accrued Liability (AAL)	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) AAL as a Percentage of Covered Payroll
6/30/2002	\$ 103,253	\$ 98,352	\$ 4,901	95.3%	\$56,796	8.6%
6/30/2003	126,069	107,061	19,009	84.9%	56,006	33.9%
6/30/2004	142,663	119,709	22,954	83.9%	50,877	45.1%

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Required Supplementary Information
Budgetary Comparison Schedule
Congestion Management Program Special Revenue Fund
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Positive (Negative) Variance
Revenues:				
Assessments to member agencies	\$ 2,250	\$ 2,250	\$ 2,250	\$ -
Federal grant revenues	686	686	621	(65)
Administrative fees	115	115	40	(75)
State operating assistance grants	229	229	229	-
Other revenues	15	15	28	13
Total revenues	<u>3,295</u>	<u>3,295</u>	<u>3,168</u>	<u>(127)</u>
Expenditures:				
VTA labor and overhead costs	2,680	2,680	2,823	(143)
Services and other:				
Materials and supplies	2	2	-	2
Professional services	875	875	525	350
Other services	215	215	61	154
Data processing	45	45	84	(39)
Office expense	15	15	67	(52)
Communication and telephone services	3	3	2	1
Employee related expense	40	40	22	18
Lease and rentals	8	8	5	3
Miscellaneous	133	133	37	96
Other expenses	12	12	2	10
Total expenditures	<u>4,028</u>	<u>4,028</u>	<u>3,628</u>	<u>400</u>
Change in fund balance, on a budgetary basis	<u>\$ (733)</u>	<u>\$ (733)</u>	(460)	<u>\$ 273</u>
Revenues not budgeted:				
Investment earnings			39	
Change in fund balance, on a GAAP basis			(421)	
Fund balance, beginning of year			<u>2,351</u>	
Fund balance, end of year			<u>\$ 1,930</u>	

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Note to Required Supplementary Information
For the Year Ended June 30, 2006

Budgetary Basis of Accounting

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

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

Santa Clara Valley Transportation Authority
Comparative Statement of Fund Net Assets
Enterprise Fund
June 30, 2006 and 2005

	2006	2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,424	\$ 484
Investments	17,093	31,278
Receivables, net	2,765	6,644
Due from other funds	2,014	1,628
Due from other governmental agencies	68,270	67,506
Inventories	20,361	18,713
Other current assets	790	391
Total current assets	113,717	126,644
Restricted assets:		
Cash and cash equivalents	6,255	6,580
Cash and equity with fiscal agent	51,485	146,094
Investments	35,153	42,956
Receivables, net	76	583
Due from other governmental agencies	30,189	11,123
Total other non-current assets	123,158	207,336
Other non-current assets:		
Deferred charges	16,447	16,161
Capital Assets		
Nondepreciable:		
Land and right-of-way	1,131,579	761,818
Construction in progress	380,776	775,709
Depreciable		
Buildings, improvements, furniture, and fixtures	462,448	340,546
Vehicles	457,616	480,174
Light-rail tracks and electrification	384,435	365,506
CalTrain - Gilroy extension	52,990	52,990
Other	29,002	28,830
Less: Accumulated depreciation	(398,635)	(335,199)
Net capital assets	2,500,211	2,470,374
Total assets	\$ 2,753,533	\$ 2,820,515

Santa Clara Valley Transportation Authority
Comparative Statement of Fund Net Assets (Continued)
Enterprise Fund
June 30, 2006 and 2005

	2006	2005
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	\$ 10,855	\$ 9,683
Accounts payable	12,368	11,845
Other accrued liabilities	14,712	11,951
Due to other governmental agencies	10	4,283
Total current liabilities	37,945	37,762
Liabilities payable from restricted assets:		
Current portion of long-term debt	6,385	-
Accounts payable	12,849	20,885
Other accrued liabilities-current	4,409	6,002
Due to other funds	-	85
Due to other governmental agencies	6,913	11,209
Restricted portion of long-term debt	43,182	124,755
Total liabilities payable from restricted assets	73,738	162,936
Non-current liabilities		
Long-term debt, excluding current portion	639,593	574,289
Other accrued liabilities	18	23
Total non-current liabilities	639,611	574,312
Total liabilities	751,294	775,010
NET ASSETS		
Investment in capital assets, net of related debt	1,817,396	1,867,513
Restricted capital projects	35,153	44,400
Unrestricted	149,690	133,592
Total net assets	\$ 2,002,239	\$ 2,045,505

Santa Clara Valley Transportation Authority
Statement of Revenues, Expenses and Changes in Fund Net Assets
Enterprise Fund
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES:		
Passenger fares	\$ 34,335	\$ 32,061
Advertising and other	<u>2,591</u>	<u>2,631</u>
Total operating revenues	<u>36,926</u>	<u>34,692</u>
OPERATING EXPENSES:		
Labor cost	237,997	229,323
Materials and supplies	27,777	19,996
Services	20,141	18,226
Utilities	6,186	5,795
Casualty and Liability	6,114	3,763
Purchased transportation	27,395	25,538
Leases and rentals	205	580
Miscellaneous	2,000	1,773
Depreciation expense	63,766	56,557
Costs Allocated to Capital and Other Programs	<u>(26,239)</u>	<u>(29,346)</u>
Total operating expense	<u>365,342</u>	<u>332,205</u>
Operating loss	<u>(328,416)</u>	<u>(297,513)</u>
NON-OPERATING REVENUES (EXPENSES)		
Sales tax revenue	195,453	145,008
Federal operating assistance grants	33,565	34,416
State and local operating assistance grants	81,199	79,509
Caltrain subsidy	(14,801)	(14,112)
Caltrain capital contribution	(27,399)	-
Altamont Commuter Express subsidy	(2,470)	(2,470)
Investment earnings	6,457	5,666
Interest expense	(11,562)	(13,761)
Other income	9,158	2,628
Other expense	<u>(6,972)</u>	<u>(3,316)</u>
Non-operating revenue, net	<u>262,628</u>	<u>233,568</u>
Change in net assets before capital contributions and special items	(65,788)	(63,945)
Capital contributions	22,522	96,860
Special items	<u>-</u>	<u>(7,773)</u>
Change in net assets	(43,266)	25,142
Net assets, beginning of year	<u>2,045,505</u>	<u>2,020,363</u>
Net assets, end of year	<u>\$ 2,002,239</u>	<u>\$ 2,045,505</u>

Santa Clara Valley Transportation Authority
Comparative Statement of Cash Flows
Proprietary Funds (Business-type Activity)
For the Years Ended June 30, 2006 and 2005
(In thousands)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from passenger fares	\$ 34,335	\$ 28,318
Cash received from advertising	2,591	2,631
Cash paid to employees	(211,758)	(199,980)
Cash paid to suppliers	(62,730)	(67,632)
Cash paid for purchased transportation	(27,395)	(25,538)
Net cash provided by/(used in) operating activities	(264,957)	(262,201)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	114,764	113,925
Sales tax received	195,453	143,784
Caltrain subsidy and contribution	(18,836)	(14,112)
Altamont Commuter Express subsidy	(2,470)	(2,470)
Receipts for services provided to other agencies	220	2,630
Contributions to other agencies	(1,860)	(12,101)
	287,271	231,656
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payment of long-term debt	(10,955)	(9,290)
Proceeds from issuance of bonds	172,530	140,900
Payoff of 2001 Series A Bonds	(171,000)	(13,762)
Interest paid on long-term debt	(11,562)	-
Cost of bond issuance	(1,527)	(985)
Acquisition and construction of capital assets	(121,321)	(228,782)
Capital contribution from other governments	22,522	106,674
Proceeds from sale of capital assets	214	224
Proceeds from sublease of vehicles	-	2,290
	(121,099)	(2,731)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	521,436	667,584
Purchases in investments	(518,996)	(669,989)
Interest income received	3,351	1,091
	5,791	(1,314)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(92,994)	(34,590)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	153,158	187,748
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 60,164	\$ 153,158

Santa Clara Valley Transportation Authority
Comparative Statement of Cash flows (Continued)
Proprietary Funds (Business-type Activity)
For the Years Ended June 30, 2006 and 2005
(In thousands)

	2006	2005
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES:		
Operating income/(loss)	\$ (328,416)	\$ (297,513)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Depreciation	63,766	56,557
Changes in operating assets and liabilities:		
Receivables	3,879	(3,743)
Due from other governmental agencies	(5,037)	-
Inventories	(1,648)	6,230
Accounts payable	523	(12,445)
Other accrued liabilities	2,761	(3,542)
Other Current assets	(399)	(7,745)
Due to other funds	(386)	-
Net cash provided by/(used in) operating activities	\$ (264,957)	\$ (262,201)
 Reconciliation of cash and cash equivalents to the Statement of Fund Net Assets:		
Cash and cash equivalents, end of year:		
Unrestricted	\$ 2,424	\$ 484
Restricted	57,740	152,674
	\$ 60,164	\$ 153,158
 NONCASH INVESTING ACTIVITIES:		
Increase/(Decrease) in fair value of investments	\$ (474)	\$ 454
 OTHER NONCASH ACTIVITIES:		
Net book value of subleased vehicles	\$ -	\$ -

Santa Clara Valley Transportation Authority
 Budgetary Comparison Schedule
 Enterprise Fund
 For the year ended June 30, 2006
 (In thousands)

	FY06 Adopted Budget	Final Budget	Actual	Favorable (Unfavorable)
REVENUES				
Fares	\$ 36,732	\$ 35,120	34,335	(785)
1976 1/2 Cent Sales Tax	148,865	150,765	157,283	6,518
Transportation Development Act funds	71,044	71,044	71,044	-
2000 Measure A Sales Tax	6,869	6,869	7,045	176
State Transit Assistance funds	6,331	8,909	7,737	(1,172)
Federal Operating Grants	33,381	33,381	33,565	184
State Operating Grants	1,100	1,100	1,518	418
Local Operating Assistance	474	500	900	400
Investment Earnings	2,425	2,920	3,351	431
Advertising Income	1,921	1,921	1,899	(22)
Other Income	16,345	19,496	23,058	3,562
Total revenues	325,487	332,025	341,735	9,710
OPERATING EXPENSES				
Labor Costs	238,612	238,854	237,997	857
Materials & Supplies	12,783	11,947	12,615	(668)
Security	7,880	7,360	6,730	630
Professional & Special Services	5,807	5,676	3,745	1,931
Other Services	7,567	7,408	7,787	(379)
Fuel	9,976	11,476	10,907	569
Traction Power	3,441	3,441	2,802	639
Tires	1,050	1,292	1,172	120
Utilities	2,321	2,321	2,387	(66)
Insurance	3,899	3,813	6,114	(2,301)
Data Processing	2,708	2,708	2,493	215
Office Expense	422	404	392	12
Communications	1,138	1,033	997	36
Employee Related Expense	1,017	990	777	213
Leases & Rents	638	638	482	156
Miscellaneous	1,258	1,152	1,322	(170)
Reimbursements	(35,710)	(34,717)	(33,180)	(1,537)
Total operating expenses	264,807	265,796	265,539	257
OTHER EXPENSES				
Americans with Disability Act programs	26,661	26,527	26,309	218
Caltrain Subsidy	15,461	15,461	15,485	(24)
Light Rail Shuttles	906	1,551	1,732	(181)
Altamont Commuter Express subsidy	3,842	3,842	3,785	57
Highway 17 Express	427	427	353	74
Dumbarton Express	449	449	411	38
Contribution to Other Agencies	567	567	508	59
Debt Service	23,336	24,566	23,449	1,117
Miscellaneous expenses	219	219	14	205
Contingencies	2,000	2,000	-	2,000
Total other expenses	73,868	75,609	72,046	3,563
Total operating and other expenses	338,675	341,405	337,585	3,820
Net income, on a budgetary basis	\$ (13,188)	(9,380)	4,150	\$ 13,530
Reconciliation of net income on a budgetary basis to net income on a GAAP Basis:				
Project Revenue - VTA Enterprise			7,008	
Capital Contributions to Caltrain			(26,258)	
Project Expenditures			(7,611)	
Bond Principal Payment			10,955	
Measure A Repayment Obligation			(13,410)	
Unrealized Loss in investment			(474)	
Cost of Parts Sold			(240)	
Depreciation			(63,766)	
Surplus of Measure B Transit			10,469	
Surplus of Measure A Program			35,911	
Net Income, on a GAAP Basis			\$ (43,266)	

Santa Clara Valley Transportation Authority
Schedule of Restricted Assets and Related Liabilities
Enterprise Fund
June 30, 2006
(In thousands)

	Capital & Operating	Debt Service	Total Enterprise
Restricted assets:			
Cash and cash equivalents	\$ 6,255	\$ -	\$ 6,255
Cash and equity with fiscal agent	1,918	49,567	51,485
Investments	35,153	-	35,153
Receivable	76	-	76
Due from other gov agencies	30,189	-	30,189
Total assets	<u>\$ 73,591</u>	<u>\$ 49,567</u>	<u>\$ 123,158</u>
Liabilities payable from restricted assets:			
Accounts payable	\$ 12,849	\$ -	\$ 12,849
Other accr liab - current	4,409	-	4,409
Due to other fund	-	-	-
Due to other gov agencies	6,913	-	6,913
Long-term debt	-	49,567	49,567
Total liabilities	<u>\$ 24,171</u>	<u>\$ 49,567</u>	<u>\$ 73,738</u>

Santa Clara Valley Transportation Authority
Combining Statement of Fiduciary Net Assets
Pension Trust Funds
June 30, 2006
(In thousands)

	ATU Pension	ATU Medical		Total ATU Medical	Total
		Spousal Medical	Retiree Vision/Dental		
ASSETS					
Restricted assets:					
Investments	\$ 305,211	\$ 8,696	\$ 2,638	\$ 11,334	\$ 316,545
Receivables	1,073	-	-	-	1,073
Total assets	<u>306,284</u>	<u>8,696</u>	<u>2,638</u>	<u>11,334</u>	<u>317,618</u>
LIABILITIES					
Restricted liabilities:					
Accounts payable	203	-	-	-	203
Due to other funds	1,177	-	-	-	1,177
Total liabilities payable from restricted assets	<u>1,380</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,380</u>
Total liabilities	<u>1,380</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,380</u>
NET ASSETS					
Net assets held in trust for:					
Pension benefits	304,904	-	-	-	304,904
Spousal medical benefits	-	8,696	-	8,696	8,696
Retiree dental and vision benefits	-	-	2,638	2,638	2,638
Total net assets	<u>\$ 304,904</u>	<u>\$ 8,696</u>	<u>\$ 2,638</u>	<u>\$ 11,334</u>	<u>\$ 316,238</u>

Santa Clara Valley Transportation Authority
Combining Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
For the Year Ended June 30, 2006
(In thousands)

	ATU Pension Trust	ATU Medical Trust			Total
		Spousal Medical	Vision/ Dental	Total Medical Trust	
ADDITIONS					
Contributions	\$ 15,278	\$ 839	\$ 336	\$ 1,175	\$ 16,453
Investment earnings:					
Investment income	7,513	15	2	17	7,530
Net appreciation in the fair value of investments	19,416	470	(2)	468	19,884
Investment expense	(1,114)	-	-	-	(1,114)
Net investment income	25,815	485	-	485	26,300
Other revenue	220	-	-	-	220
Total additions	41,313	1,324	336	1,660	42,973
DEDUCTIONS					
Benefit payments	16,069	1,008	-	1,008	17,077
Other benefits paid to participants	59	-	-	-	59
Total deductions	16,128	1,008	-	1,008	17,136
Net increase	25,185	316	336	652	25,837
NET ASSETS HELD IN TRUST					
Beginning of year	279,719	8,380	2,302	10,682	290,401
End of year	\$ 304,904	\$ 8,696	\$ 2,638	\$ 11,334	\$ 316,238

Santa Clara Valley Transportation Authority
Combining Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2006

(In thousands)

	BAAQMD Program	Measure B Ancillary Program	Total
Assets			
Restricted assets:			
Cash and equity with fiscal agent	\$ -	\$ 4,798	\$ 4,798
Investments	3,983	83	4,066
Due from other funds	-	25	25
Total assets	3,983	4,906	8,889
Liabilities			
Liabilities payable from restricted assets:			
Accounts payable	3,983	-	3,983
Due to other governmental agencies	-	4,906	4,906
Total liabilities payable from restricted assets	\$ 3,983	\$ 4,906	\$ 8,889

Santa Clara Valley Transportation Authority
Combining Statement of Changes in Fiduciary Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2006

(In thousands)

	Balance 30-Jun-05	Increase	Decrease	Balance 30-Jun-06
BAAQMD Program				
Restricted assets:				
Investments	\$ 5,779	\$ -	\$ 1,796	\$ 3,983
	<u>5,779</u>	<u>-</u>	<u>1,796</u>	<u>3,983</u>
Liabilities payable from restricted assets:				
Accounts payable	5,779		1,796	3,983
Due to other governmental agencies	-	-	-	-
Total liabilities payable from restricted assets	<u>5,779</u>	<u>-</u>	<u>1,796</u>	<u>3,983</u>
Measure B Ancillary Program				
Restricted assets:				
Cash with fiscal agent	1,008	3,790	-	4,798
Investments	2,649	-	2,566	83
Due from other funds	-	25	-	25
Total restricted assets	<u>3,657</u>	<u>3,815</u>	<u>2,566</u>	<u>4,906</u>
Liabilities payable from restricted assets:				
Due to other funds	-	-	-	-
Due to other governmental agencies	3,657	1,249	-	4,906
Other accrued liabilities-noncurrent	-	-	-	-
Total liabilities payable from restricted assets	<u>\$ 3,657</u>	<u>\$ 1,249</u>	<u>-</u>	<u>4,906</u>
Total - All Agency Funds				
Restricted assets:				
Cash with fiscal agent	\$ 1,008	\$ 3,790	\$ -	\$ 4,798
Investments	8,428	-	4,362	4,066
Due from other funds	-	25	-	25
Total restricted assets	<u>9,436</u>	<u>3,815</u>	<u>4,362</u>	<u>8,889</u>
Liabilities payable from restricted assets:				
Accounts payable	5,779		1,796	3,983
Due to other funds	-	-	-	-
Due to other governmental agencies	3,657	1,249	-	4,906
Other accrued liabilities	-	-	-	-
Total liabilities payable from restricted assets	<u>\$ 9,436</u>	<u>\$ 1,249</u>	<u>\$ 1,796</u>	<u>\$ 8,889</u>

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APPENDIX C

COUNTY DEMOGRAPHIC AND ECONOMIC INFORMATION

General Information

The County of Santa Clara (the “County”) lies immediately south of San Francisco Bay and is the sixth most populous county in the State of California (the “State”). It encompasses an area of approximately 1,300 square miles. The County was incorporated in 1850 as one of the original 27 counties of the State and operates under a home rule charter adopted by County voters in 1950 and amended in 1976.

The southern portion of the County has retained the agricultural base which once existed throughout the area and has two cities, separated by roughly 10 miles. The northern portion of the County is densely populated, extensively urbanized and heavily industrialized. The County contains 15 cities, the largest of which is the City of San Jose, the third largest city in the State and the County seat. The uppermost northwestern portion of the County, with its concentration of high-technology, electronics-oriented industry, is popularly referred to as the “Silicon Valley.” Large employers include Hewlett-Packard, Intel Corp., National Semiconductor Corp., Lockheed Martin Space Systems Co., and IBM Corp.

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

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

Population

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

According to U.S. Census figures, the number of County residents grew by 66 percent 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 percent with every major city as well as the unincorporated areas experiencing huge increases. The County also recorded the incorporation of four new cities during the 1950s, raising the total number of cities to its current level of fifteen.

The County's population growth subsided somewhat during the 1960s, although the 66 percent growth rate was over four times the 15.4 percent statewide increase. The population of San Jose doubled for the second decade in a row, while the cities of Mountain View, Santa Clara, and Sunnyvale added at least 23,000 residents each. As a result of the incorporation of four cities, the unincorporated area of the County posted its first decline in the 1960s, setting the stage for further drops in each of the subsequent three decades.

The County population growth rate fell to 21.5 percent during the 1970s. San Jose continued to add more residents (183,621) than any other city, while two of the larger cities (Palo Alto and Santa Clara) recorded small population declines and residents in the unincorporated area fell by 25,160. The slower growth of the 1970's 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 94.4%, 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 Performances. Between 2000 and 2006 the County of Santa Clara experienced a population growth of 5.4%. All of the cities in the County, except the City of Los Altos, experienced growth. The City of Gilroy posted the fastest growth (17.0%) during that period. From 2005 to 2006, Gilroy and Morgan Hill were the fastest growing cities in the County, growing at a rate of 2.2%. The number of residents living in the unincorporated areas of the County actually increased slightly, by 0.5% from 2000 to 2006. Currently, approximately 5.6% of the County residents live in unincorporated areas, but the number has steadily decreased over time as the population continues to migrate toward the cities.

By the year 2020, the State Department of Finance predicts that the County's population will grow to approximately 2.0 million residents, a 13.2% increase from 2006.⁽¹⁾ The following table provides a historical summary of population in the County and its incorporated cities.

⁽¹⁾ State of California, Department of Finance, Demographic Research Unit (Report P-1).

County of Santa Clara Population

	1970	1980	1990	2000	2005 ⁽¹⁾	2006 ⁽¹⁾	2007 ⁽¹⁾
Campbell	24,731	26,843	36,088	38,138	38,262	38,408	39,784
Cupertino	18,216	34,297	39,967	50,602	53,238	53,840	55,162
Gilroy	12,665	21,641	31,487	41,464	47,482	48,527	49,649
Los Altos	24,872	25,769	26,599	27,693	27,505	27,608	28,104
Los Altos Hills	6,862	7,421	7,514	8,025	8,417	8,482	8,607
Los Gatos	23,466	26,906	27,357	28,592	28,863	28,989	29,407
Milpitas	27,149	37,820	50,690	62,698	64,751	65,276	66,568
Monte Sereno	3,074	3,434	3,287	3,483	3,491	3,512	3,565
Morgan Hill	6,485	17,060	23,928	33,586	36,279	37,091	38,418
Mountain View	54,206	58,655	67,365	70,708	71,747	71,995	73,262
Palo Alto	55,999	55,225	55,900	58,598	61,431	62,148	62,615
San Jose	445,779	629,400	782,224	895,131	941,116	953,679	973,672
Santa Clara	87,717	87,700	93,613	102,361	108,680	110,771	114,238
Saratoga	27,199	29,261	28,061	29,849	30,729	30,835	31,401
Sunnyvale	95,408	106,618	117,324	131,844	132,555	133,544	135,721
Unincorporated	152,181	127,021	106,173	99,813	98,107	98,553	97,919
County Total ⁽²⁾	<u>1,066,009</u>	<u>1,295,071</u>	<u>1,497,577</u>	<u>1,682,585</u>	<u>1,752,653</u>	<u>1,773,258</u>	<u>1,808,056</u>
California	18,136,045	23,668,145	29,760,021	33,873,086	36,728,196	37,172,015	37,662,518

⁽¹⁾ As of January 1.

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

Source: U.S. Census; State of California, Department of Finance, Demographic Research Unit (E-1 City/County Population).

Employment and Industry

The County is home to a highly skilled and diverse work force, a situation that has traditionally translated into lower unemployment rates in the County when compared to State and national average unemployment rates. From 1997 through 2000, job growth in Silicon Valley was extraordinary, with the addition of more than 103,300 jobs. However, the County's unemployment rate rose sharply between 2000 and 2003 as a result of the retraction in the communications and high technology industries that dominate the County's employment base. From December 2000 to January 2004, over 200,000 jobs were lost in Santa Clara County. However, since 2003, as economic recovery started to take hold, the county unemployment rate has steadily declined, and averaged 4.5% for 2006 compared to 8.1% in 2003.

At the end of 2006 the County had 898,000 wage and salary jobs. Three major industry sectors comprise approximately percent of the County's employment: Manufacturing (18.7%), Professional & Business Activities (18.5%) and Trade, Transportation & Utilities (15.5%).

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

The following table lists wage and salary employment in the County by Industry.

County of Santa Clara
Average Annual Employment by Industry⁽¹⁾
(thousands)

	2001	2002	2003	2004	2005	2006
Civilian Labor Force ⁽²⁾	967.0	918.0	876.8	854.8	850.0	859.3
Employment	917.6	841.0	803.2	798.9	804.0	820.3
County Unemployment	49.4	77.0	73.6	55.9	46.0	39.0
Unemployment Rate:						
County	5.1%	8.4%	8.4%	6.5%	5.4%	4.5%
State of California	5.4%	6.7%	6.8%	6.2%	5.4%	4.9%
Industry Employment ⁽³⁾						
Total, All Industries	1024.9	924.1	876.9	868.7	876.3	898.6
Total Farm	7.0	6.9	6.6	6.7	6.3	6.1
Total Nonfarm	1017.9	917.2	870.3	862.0	869.9	892.4
Goods Producing	297.8	253.2	224.5	217.3	215.7	218.3
Natural Resources and						
Mining	0.2	0.2	0.2	0.1	0.2	0.3
Construction	49.9	44.4	41.6	43.0	44.5	47.0
Manufacturing	247.6	208.5	182.8	174.2	170.9	171.0
Service Providing	720.2	664.0	645.7	644.7	654.3	674.1
Trade, Transportation &	148.8	137.4	132.0	130.9	132.8	135.8
Utilities						
Information	42.0	34.3	31.4	32.6	35.3	38.5
Financial Activities	35.7	35.6	35.1	35.4	36.3	37.1
Professional & Business	204.5	167.3	160.3	158.6	159.8	164.7
Activities						
Education & Health	90.4	91.7	93.5	95.0	96.8	101.3
Services						
Leisure & Hospitality	73.3	68.8	69.0	70.9	72.8	75.5
Other Services	26.7	26.4	25.3	25.0	24.6	25.0
Government	98.8	102.5	99.2	96.3	95.9	96.4

⁽¹⁾ Data in this table is for Santa Clara and San Benito Counties combined (San Jose-Santa Clara-Sunnyvale MSA), where Santa Clara County employment share is approximately 98.3% of the total. Industry classification is using the North American Industry Classification System (NAICS).

⁽²⁾ Labor force data are based upon place of residence. Employment includes self-employed, unpaid family workers, domestics, and workers involved in labor-management disputes. Data are benchmarked to March 2006.

⁽³⁾ Industry employment is reported by place of work. Data are benchmarked to March 2006.

Source: Employment Development Department ([http://www.calmis.ca.gov/file/indhist/sjos\\$haw.xls](http://www.calmis.ca.gov/file/indhist/sjos$haw.xls)).

Major Employers

The County, which is centered in the heart of Silicon Valley, is home to numerous high technology and computer software and hardware manufacturing companies. Public-sector employers continue to top the list of the largest employers in Silicon Valley. The County ranks as number one, employing over 15,000 workers. In addition, the City of San Jose has over 6,500 full-time employees. Although there have been hiring freezes and cut-backs that have impacted public-sector organizations, such organizations typically tend to remain more stable in a volatile job market.

The tables below list the 15 largest private-sector and public-sector employers in the Silicon Valley, which encompasses the County and surrounding areas.

15 Largest Private-Sector Employers Silicon Valley

Employer Name	Employees	Nature of Operations
Cisco Systems	13,860	Computer networking for the internet
Stanford University	12,000	Academic research institution, hospital, medical research
Hewlett-Packard	9,000	Technology solutions provider
Lockheed Martin Space Systems Co.	7,780	Aerospace systems
Oracle Corp.	7,400	Software
IBM Corp.	7,000	Computer hardware, software and business solutions
Intel Corp.	6,878	Microprocessors manufacturer
AT&T Inc. (formerly SBC California)	6,400	Voice, data, networking, e-business, directory publishing and advertising services
New United Motor Manufacturing, Inc.	5,440	Automotive manufacturing
Applied Materials Inc.	4,230	Semi-conductor manufacturing equipment and services
Yahoo Inc.	4,000	Internet Services
Ebay Inc.	3,200	Online Global Trading Platform
Fujitsu America Inc.	3,000	Software/services, computing/communications platforms, electronic devices
Google, Inc.	2,882	Web search engine and advertising
Adobe Systems Inc.	2,400	Software

Source: Silicon Valley/San Jose Business Journal, *Book of Lists 2006* (Vol. 24, No. 13), July 28, 2006. Note: most current data available.

15 Largest Public-Sector Employers Silicon Valley

Employer Name	Employees	Nature of Operations
Santa Clara County	15,279	County government
State of California	7,536 ⁽¹⁾	State government
City of San Jose	6,672	Municipal government
San Jose Unified School District	2,793	School district
San Jose State University	2,533	Higher education
Valley Transportation Authority	2,092	Public transportation and congestion management
Santa Clara Unified School District	1,477	School district
Santa Clara County Office of Education	1,200	Resource for school districts, children and community
City of Palo Alto	1,091	Municipal government
Oak Grove Elementary School District	1,034	School district
City of Santa Clara	953	Municipal government
West Valley-Mission Community College District	890	Community college district
Gilroy Unified School District	853	School district
City of Sunnyvale	853	Municipal government
City of Fremont	845	Municipal government

⁽¹⁾ Full-time employees in Santa Clara, San Mateo, Santa Cruz, San Benito and Monterey Counties.

Source: Silicon Valley/San Jose Business Journal, *Book of Lists 2006* (Vol. 24, No. 13), July 28, 2006. Note: most current data available.

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 Santa Clara County as having the 10th highest median household income in the United States, and the highest among California counties, at \$76,810 (2005 inflation adjusted).⁽²⁾

Commercial Activity

Ranking first among San Francisco Bay Area counties and fourth among all California counties in terms of retail activity through 2004, the County is an important center of commercial activity. Taxable sales activity at business and personal service outlets, as well as at other non-retail commercial establishments, are a significant component of the County's commercial activity. The following table sets forth the amount of taxable transactions from 2001 through 2005, which is the last full calendar year for which information is available.

⁽²⁾ U.S. Census Bureau, Factsheet, Santa Clara County, California.

County of Santa Clara
Taxable Transactions by Sector
2001 through 2006*
(in millions)

	2001	2002	2003	2004	2005	2006*
Apparel Stores	\$ 883.4	\$ 881.9	\$ 929.5	\$ 1,051.0	\$1,169.1	\$ 564.8
General Merchandise Stores	2,720.4	2,569.6	2,589.3	2,718.4	2,839.9	1,335.8
Specialty Stores	3,489.3	2,952.5	2,908.6	3,059.4	3,377.9	1,740.0
Food Stores	860.8	833.9	819.9	819.6	830.5	407.0
Eating and Drinking Places	2,239.0	2,136.9	2,139.3	2,283.2	2,440.4	1,295.4
Home Furnishings and Appliances	968.2	851.5	798.6	830.5	850.6	416.0
Building Materials	1,316.6	1,278.0	1,314.7	1,539.7	1,577.2	791.4
Automotive	4,948.9	4,440.3	4,556.4	4,936.5	5,289.9	2,722.3
Other Retail Stores	510.1	480.6	458.7	485.8	528.1	263.3
Total Retail Stores	\$17,936.7	\$16,425.2	\$16,515.1	\$17,724.1	\$18,903.5	9,536.1
Business and Personal Services	1,897.5	1,577.2	1,335.6	1,190.6	1,214.6	611.5
All Other Outlets	12,299.1	9,451.5	9,211.9	9,576.9	10,075.7	5,350.5
Total All Outlets ⁽¹⁾	\$32,133.2	\$27,453.9	\$27,062.7	\$28,491.6	\$30,193.8	\$15,498.1

⁽¹⁾ Totals may not add due to independent rounding.

* Through Second Quarter of 2006.

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

Construction Activity and Home Sales

Construction data for the County indicates that the value of new residential permits in 2006 is above the 2000 level, but the value of non-residential permits in 2006 is still significantly below the 2000 level. The number of new single family dwelling units in the County for 2006 is also below the 2000 level, but has increased by 37.6% from 2001. New multiple-family dwelling units in 2006 have decreased from the 2000 level by 6.9%. The valuations of new residential building permit activity have increased from the 2000 level by 22.4%. The total valuation of new residential and non-residential construction permits issued in the County was approximately \$3.19 billion in 2006, representing a decrease of \$1.029 billion (24.4%) from the 2000 total valuation.

The following tables provide a summary of building permit valuations and the number of new dwelling units authorized in the County since 1997.

**County of Santa Clara
Building Permit Valuations
1997 to 2006
(in millions of dollars)**

Year	New Residential	New Non-Residential	Total
1997	\$1,329.6	\$1,914.7	\$3,244.4
1998	1,294.6	1,882.0	3,176.5
1999	1,306.0	1,855.9	3,162.0
2000	1,348.8	2,865.9	4,214.6
2001	1,051.5	2,254.8	3,306.3
2002	1,087.3	1,330.6	2,417.9
2003	1,466.4	972.9	2,439.3
2004	1,406.2	915.8	2,322.0
2005	1,557.0	1,285.7	2,842.7
2006	1,651.5	1,534.3	3,185.8

Source: Construction Industry Research Board.

**County of Santa Clara
Number of New Dwelling Units
1997 to 2006**

Year	Single Family	Multiple Family	Total
1997	4,367	4,443	8,810
1998	3,911	3,615	7,526
1999	3,333	3,677	7,010
2000	2,834	4,220	7,054
2001	1,641	4,319	5,960
2002	2,057	2,456	4,513
2003	2,320	5,170	7,490
2004	2,688	2,816	5,504
2005	2,577	3,295	5,872
2006	2,258	3,928	6,186

Source: Construction Industry Research Board.

Existing home sales in the County continued the decrease that began at the start of 2005. Sales of single-family homes fell 22.8% for the calendar year 2006 compared to calendar year 2005, but the median price for a single-family home in the County was up 4.9% for the calendar year 2006 compared to calendar year 2005.⁽¹⁾

⁽¹⁾ Source: 2006 RE Report, The Real Estate Report for Santa Clara County, California (www.rereport.com).

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APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a brief summary of certain provisions of the Indenture, dated as of August 1, 2006, between the Santa Clara Valley Transportation Authority (the “Issuer”) and Deutsche Bank National Trust Company, as trustee (the “Trustee”), as supplemented and amended by the First Supplemental Indenture, dated as of August 1, 2006, and as further supplemented by the Second Supplemental Indenture, dated as of September 1, 2007 (hereinafter collectively referred to as the “Indenture”), between the Issuer and the Trustee. Such summary is not intended to be complete or definitive, is supplemental to the summary of other provisions of the Indenture contained elsewhere in this Official Statement, and is qualified in its entirety by reference to the full terms of the Indenture. All capitalized terms used and not otherwise defined in this Official Statement shall have the meanings assigned to such terms in the Indenture.

Definitions

Accreted Value means, with respect to any Capital Appreciation Bond, the principal amount thereof plus the interest accrued thereon, compounded at the approximate interest rate thereon on each date specified therein. The Accreted Value at any date shall be the amounts set forth in the Accreted Value Table as of such date, if such date is a compounding date, and if not, as of the immediately preceding compounding date.

Accreted Value Table means the table denominated as such which appears as an exhibit to, and to which reference is made in, a Supplemental Indenture providing for a Series of Capital Appreciation Bonds issued pursuant to such Supplemental Indenture.

Act means the Santa Clara Valley Transportation Authority Act, Part 12 of Division 10 (Section 100000 et seq.) of the Public Utilities Code of the State of California and Chapter 6 of Part 1 of Division 2 of Title 5 (Section 54300 et seq.) of the Government Code of the State of California as referenced in the Santa Clara Valley Transportation Authority Act.

Alternate Liquidity Facility means, with respect to a Series of Bonds, a line of credit, letter of credit, standby purchase agreement or similar liquidity facility, issued by a commercial bank or other financial institution, and delivered or made available to the Trustee, as a replacement or substitute for any Liquidity Facility then in effect.

Annual Debt Service means, for any Fiscal Year, the aggregate amount (without duplication) of principal and interest on all Bonds and Parity Obligations becoming due and payable during such Fiscal Year calculated using the principles and assumptions set forth under the definition of Debt Service.

Assumed Debt Service means for any Fiscal Year the aggregate amount of principal and interest which would be payable on all Bonds if each Excluded Principal Payment were amortized on a substantially level debt service basis for a period commencing on the date of calculation of such Assumed Debt Service and ending on the earlier of (i) the date specified by the Issuer, which date may be the final maturity date of such Bonds or (ii) the Tax Expiration Date, such Assumed Debt Service to be calculated based on a fixed interest rate equal to the rate at which the Issuer could borrow for such period, as set forth in a certificate of a financial advisor or investment banker, delivered to the Trustee, who may rely

conclusively on such certificate, such certificate to be delivered within thirty (30) days of the date of calculation.

Authority or Issuer means the Santa Clara Valley Transportation Authority, a public transit district duly established and existing under the laws of the State of California.

Authorized Representative means the Chairperson of the Board, the General Manager, the Chief Financial Officer or such other person as may be designated to act on behalf of the Issuer by a written certificate furnished to the Trustee containing the specimen signature of such person and signed on behalf of the Issuer by an Authorized Representative.

Beneficial Owner means any Person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of any Bond, including, without limitation, any Person holding Bonds through nominees or depositories, including the Securities Depository.

Board means the Board of Directors of the Issuer.

Bond Obligation means, as of any given date of calculation, (1) with respect to any Outstanding Current Interest Bond, the principal amount of such Bond, and (2) with respect to any Outstanding Capital Appreciation Bond, the Accreted Value thereof.

Bond Reserve Fund means any fund by that name established with respect to one or more Series of Bonds pursuant to the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

Bond Reserve Requirement with respect to a Series of Bonds for which the Issuer shall have established a Bond Reserve Fund shall have the meaning specified in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

Bondholder or Holder or Owner, whenever used in the Indenture or in this Official Statement with respect to a Bond, means the person in whose name such Bond is registered.

Bonds means the Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds authorized by, and at any time Outstanding pursuant to, the Indenture.

Business Day means, except as is otherwise provided in the Supplemental Indenture pursuant to which a Series of Bonds are issued, any day other than (1) a Saturday, Sunday, or a day on which banking institutions in the State or the State of New York are authorized or obligated by law or executive order to be closed, (2) for purposes of payments and other actions relating to Bonds secured by a Credit Enhancement or supported by a Liquidity Facility, a day upon which commercial banks in the city in which is located the office of the issuing bank at which demands for payment under the Credit Enhancement or Liquidity Facility, as applicable, are to be presented are authorized or obligated by law or executive order to be closed, and (3) a day on which the New York Stock Exchange is closed.

Capital Appreciation Bonds means the Bonds of any Series designated as Capital Appreciation Bonds in the Supplemental Indenture providing for the issuance of such Series of Bonds and on which interest is compounded and paid at maturity or on prior redemption.

Certificate, Statement, Request, Requisition and Order of the Issuer mean, respectively, a written certificate, statement, request, requisition or order signed in the name of the Issuer by an Authorized Representative.

Code means the Internal Revenue Code of 1986, and the regulations applicable thereto or issued thereunder, or any successor to the Internal Revenue Code of 1986. Reference to any particular Code section shall, in the event of such a successor Code, be deemed to be reference to the successor to such Code section.

Continuing Disclosure Certificate means, with respect to each Series of Bonds requiring an undertaking regarding disclosure under Rule 15c2-12, the Continuing Disclosure Certificate, dated the date of issuance of such Series of Bonds, executed by the Issuer, as the same may be supplemented, modified or amended in accordance with its terms.

Corporate Trust Office or **corporate trust office** means the corporate trust office of the Trustee at 101 California Street, 46th Floor, San Francisco, California 94111, Attention: Corporate Trust, or such other or additional offices as may be designated by the Trustee from time to time.

Costs of Issuance means all items of expense directly or indirectly payable by or reimbursable to the Issuer and related to the authorization, execution, sale and delivery of a Series of Bonds, including but not limited to advertising and printing costs, costs of preparation and reproduction of documents, filing and recording fees, travel expenses and costs relating to rating agency meetings and other meetings concerning such Series of Bonds, initial fees and charges of the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, financial advisor fees and expenses, rating agency fees, fees and charges for preparation, execution, transportation and safekeeping of Bonds, surety, insurance, credit enhancement and liquidity costs, and any other cost, charge or fee in connection with the initial delivery of a Series of Bonds or any Parity Obligations delivered in connection with a Series of Bonds.

Costs of Issuance Fund means a fund by that name established pursuant to the provisions of a Supplemental Indenture to pay Costs of Issuance with respect to a Series of Bonds being issued pursuant to such Supplemental Indenture.

Counterparty means an entity which has entered into an Interest Rate Swap Agreement with the Issuer.

Credit Enhancement means, with respect to a Series of Bonds, any Insurance, letter of credit, line of credit, surety bond or other instrument, if any, which secures or guarantees the payment of principal of and interest on a Series of Bonds, issued by an insurance company, commercial bank or other financial institution, and delivered or made available to the Trustee, as from time to time supplemented or amended pursuant to its terms, or, in the event of the delivery or availability of an Alternate Credit Enhancement, such Alternate Credit Enhancement.

Credit Enhancement Provider means, with respect to a Series of Bonds, the Insurer, commercial bank or other financial institution issuing (or having primary obligation, or acting as agent for the financial institutions obligated, under) a Credit Enhancement then in effect with respect to such Series of Bonds.

Current Interest Bonds means the Bonds of any Series designated as Current Interest Bonds in the Supplemental Indenture providing for the issuance of such Series of Bonds and which pay interest at least semiannually to the Holders thereof excluding the first payment of interest thereon.

Debt Service, when used with respect to any Bonds, means, as of any date of calculation and with respect to any Fiscal Year, the sum of (1) the interest falling due on such Bonds during such Fiscal Year and (2) the principal or mandatory sinking account payments required with respect to such Bonds during such Fiscal Year; computed on the assumption that no portion of such Bonds shall cease to be

Outstanding during such Fiscal Year except by reason of the application of such scheduled payments; provided, however, that for purposes of such computation:

(a) Excluded Principal Payments and the interest related thereto, provided such interest is being paid by the same source as the Excluded Principal Payments, shall be excluded from such calculation and Assumed Debt Service shall be included in such calculation;

(b) in determining the principal amount due in each Fiscal Year, payment shall (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made in accordance with any amortization schedule established for such Bonds, including any Mandatory Sinking Account Payments or any scheduled redemption or payment of Bonds on the basis of Accreted Value, and for such purpose, the redemption payment or payment of Accreted Value shall be deemed a principal payment and interest that is compounded and paid as Accreted Value shall be deemed due on the scheduled redemption or payment date of such Capital Appreciation Bond;

(c) if any Bonds bear, or if any Bonds proposed to be issued will bear, interest at a variable interest rate for which an Interest Rate Swap Agreement is not in place and the interest on which is excluded or expected to be excluded from gross income for federal income tax purposes, the interest rate on such variable interest rate Bonds shall be calculated at an interest rate listed in The Bond Buyer "25 Revenue Bond Index" published on a date selected by the Issuer, which date shall be no earlier than the first day of the calendar month preceding the date of sale of such Bonds and no later than the date of sale of such Bonds plus twenty-five (25) basis points or if such index is not published on the date of sale such Bonds, at the interest rate listed in such index published immediately prior to the date of sale such Bonds plus twenty-five (25) basis points (provided, however, that if such index is no longer published, the interest rate on such Bonds shall be calculated based upon such index as the Issuer shall designate in writing to the Trustee);

(d) if any Bonds bear, or if any Bonds proposed to be issued will bear, interest at a variable interest rate for which an Interest Rate Swap Agreement is not in place and the interest on which is included or expected to be included in gross income for federal income tax purposes, the interest rate on such Bonds shall be calculated at an interest rate equal to 110% of the average One Month USD LIBOR Rate during the three (3) months preceding the month of sale of such Bonds, or if the One Month USD LIBOR Rate is no longer available, such similar rate as the Issuer shall designate in writing to the Trustee;

(e) with respect to any Bonds bearing interest, or expected to bear interest, at a variable interest rate for which an Interest Rate Swap Agreement is in place, if (i) the interest rate on such Bonds, plus (ii) the payments received and made by the Issuer under an Interest Rate Swap Agreement with respect to such Bonds, are expected to produce a synthetic fixed rate to be paid by the Issuer (e.g., an interest rate swap under which the Issuer pays a fixed rate and receives a variable rate that is expected to equal or approximate the rate of interest on such Bonds), such Bonds shall be treated as bearing such synthetic fixed rate for the duration of the synthetic fixed rate;

(f) if any Bonds bear, or are expected to bear, a fixed interest rate and an Interest Rate Swap Agreement is entered into with respect to such Bonds, if (i) the interest rate on such fixed interest rate Bonds, plus (ii) the payments received and made by the Issuer under an Interest Rate Swap Agreement with respect to such fixed interest rate Bonds, are expected to produce a synthetic variable rate to be paid by the Issuer (e.g., an interest rate swap under which the Issuer pays a variable rate and receives a fixed rate that is expected to equal or approximate the rate of interest on such fixed interest rate Bonds), the fixed interest rate Bonds, shall be treated as bearing such synthetic variable rate for the

duration of the Interest Rate Swap Agreement calculated as provided in subparagraph (c) or subparagraph (d), as applicable, above; and

(g) principal and interest payments on Bonds shall be excluded to the extent such payments are to be paid from amounts on deposit with the Trustee or other fiduciary in escrow specifically therefor and interest payments shall be excluded to the extent that such interest payments are to be paid from the proceeds of Bonds held by the Trustee or other fiduciary as capitalized interest specifically to pay such interest or are to be paid from Revenues then held on deposit by the Trustee.

Escrow Agreement means the Escrow Agreement, dated as of September 1, 2007, between the Santa Clara Valley Transportation Authority and Deutsche Bank National Trust Company, as trustee and escrow agent, as originally executed or as it may from time to time be supplemented or amended pursuant to its terms.

Event of Default means any of the events of default specified in the Indenture.

Excluded Principal Payments means each payment of principal of Bonds which the Issuer determines (in the Supplemental Indenture) that the Issuer intends to pay with moneys which are not Revenues (such as commercial paper, balloon indebtedness or bond anticipation notes) but from future debt obligations of the Issuer, grants from the State or federal government, or any agency or instrumentality thereof, or any other source of funds of the Issuer, upon which determination of the Issuer the Trustee may conclusively rely. No such determination shall affect the security for such Bonds or the obligation of the Issuer to pay such payments from Revenues. No payment of principal of Bonds may be determined to be an Excluded Principal Payment unless it is due on or prior to the later of April 1, 2036 or the Tax Expiration Date.

Fees and Expenses Fund means the fund by that name established pursuant to the Indenture.

Fiscal Year means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other 12-month period hereafter selected and designated as the official fiscal year period of the Issuer, which designation shall be provided to the Trustee in a Certificate delivered by the Issuer.

Fitch means Fitch Inc., and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency selected by the Issuer.

Holder or Bondholder, whenever used in the Indenture with respect to a Bond, means the person in whose name such Bond is registered.

Indenture means the Indenture, dated as of August 1, 2006, between the Trustee and the Issuer, as originally executed or as it may from time to time be supplemented or amended by any Supplemental Indenture delivered pursuant to the provisions of the Indenture.

Insurance means any financial guaranty insurance policy or municipal bond insurance policy issued by an Insurer insuring the payment when due of principal of and interest on a Series of Bonds as provided in such financial guaranty insurance policy or municipal bond insurance policy. The 2007 Series A Insurance is the financial guaranty insurance policy issued in connection with the 2007 Series A Bonds.

Insurer means any provider of Insurance with respect to a Series of Bonds. The Insurer of the 2007 Series A Bonds is the 2007 Series A Insurer.

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

Interest Payment Date, with respect to each Series of Bonds, shall have the meaning specified in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

Interest Rate Swap Agreement or Swap means an interest rate swap, cap, collar, option, floor, forward, derivative or other hedging agreement, arrangement or security, however denominated, entered into between the Issuer and a Counterparty, in connection with, or incidental to, the issuance or carrying of Bonds including, without limitation, an interest rate swap, cap, collar, option, floor, forward, derivative or other hedging agreement, arrangement or security entered into in advance of the issuance of Bonds.

Investment Policy means the investment policy adopted by the Board on April 4, 1996 and reaffirmed by the Board on May 3, 2007, as heretofore modified, amended and supplemented, and as such investment policy may be further modified, amended or supplemented from time to time by action of the Board.

Investment Securities means any of the following to the extent such Investment Securities are permitted pursuant to the Investment Policy:

(A) The following obligations may be used as Investment Securities for all purposes, including defeasance investments in refunding escrow accounts:

(1) Cash (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with obligations described in paragraph (2) below);

(2) Direct obligations of (including obligations issued or held in book entry form on the books of) the Department of the Treasury of the United States of America;

(3) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including

- Export-Import Bank
- Farm Credit System Financial Assistance Corporation
- Rural Economic Community Development Administration (formerly the Farmers Home Administration)
- General Services Administration
- U.S. Maritime Administration
- Small Business Administration
- Government National Mortgage Association (GNMA)
- U.S. Department of Housing & Urban Development (PHA's)
- Federal Housing Administration
- Federal Financing Bank; and

(4) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- Senior debt obligations rated “Aaa” by Moody’s and “AAA” by Standard & Poor’s issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC)
- Obligations of the Resolution Funding Corporation (REFCORP)
- Senior debt obligations of the Federal Home Loan Bank System
- Senior debt obligations of other Government Sponsored Agencies approved by each Credit Enhancement Provider then providing Credit Enhancement for a Series of Bonds.

(B) The following obligations may be used as Investment Securities for all purposes other than defeasance investments in refunding escrow accounts:

(1) U.S. dollar denominated deposit accounts, federal funds and bankers’ acceptances with domestic commercial banks (including the Trustee and its affiliates) which have a rating (ratings on holding companies are not considered as the rating of the banks) on their short-term certificates of deposit on the date of purchase of “A-1” or “A-1+” by Standard & Poor’s and “P-1” by Moody’s and maturing no more than three hundred sixty (360) days after the date of purchase;

(2) Commercial paper which is rated at the time of purchase in the single highest classification, “A-1” by Standard & Poor’s or “P-1” by Moody’s and which matures not more than two hundred seventy (270) days after the date of purchase;

(3) Investments in a money market fund rated “AAAm” or “AAAm-G” or better by Standard & Poor’s including funds for which the Trustee or an affiliate provides investment advice or other services;

(4) Pre-refunded Municipal Obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(A) which are rated, based on an irrevocable escrow account or fund (the “escrow”), in the highest rating category of Standard & Poor’s and Moody’s or any successors thereto; or

(B) (i) which are fully secured as to principal and interest and prepayment premium, if any, by an escrow consisting only of cash or obligations described in paragraph A(2) above, which escrow may be applied only to the payment of such principal of and interest and prepayment premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified prepayment date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and prepayment premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(5) General obligations of states with a rating of at least “A2/A” or higher by both Moody’s and Standard & Poor’s;

(6) Any investment agreement with a financial institution or insurance company which has at the date of execution thereof an outstanding issue of unsecured, uninsured and unguaranteed debt obligations or a claims paying ability rated (or the parent company or guarantor of which is rated) in either of the two highest long-term Rating Categories by Moody's and Standard & Poor's;

(7) The Local Agency Investment Fund managed by the Treasurer of the State of California, as referred to in Section 16429.1 of the Government Code of the State but only to the extent such investment is registered in the name of the Trustee;

(8) Shares in a common law trust established pursuant to Title 1, Division 7, Charter 5 of the Government Code of the State which invests exclusively in investments permitted by Section 53601 of Title 5 Division 2, Chapter 4 of the Government Code of the State, as it may be amended ("CAMP");

(9) The commingled investment fund of the County of Santa Clara, California, which is administered in accordance with the investment policy of said County as established by the Director of Finance thereof, as permitted by Section 53601 of the Government Code of the State, copies of which policy are available upon written request to said Director of Finance; and

(10) Any other forms of investments, including repurchase agreements, approved in writing by each Credit Enhancement Provider then providing Credit Enhancement for a Series of Bonds.

Issuer or Authority means the Santa Clara Valley Transportation Authority, a public transit district duly established and existing under the laws of the State of California.

Liquidity Facility means, with respect to a Series of Bonds, a line of credit, letter of credit, standby purchase agreement or similar liquidity facility, issued by a commercial bank, insurance company, pension fund or other financial institution, and delivered or made available to the Trustee, as from time to time supplemented or amended pursuant to its terms, or, in the event of the delivery or availability of an Alternate Liquidity Facility, such Alternate Liquidity Facility.

Liquidity Facility Bonds means any Bonds purchased with moneys drawn under (or otherwise obtained pursuant to the terms of) a Liquidity Facility, but excluding any Bonds no longer considered to be Liquidity Facility Bonds in accordance with the terms of the applicable Liquidity Facility.

Liquidity Facility Provider means, with respect to a Series of Bonds, the commercial bank, insurance company, pension fund or other financial institution issuing (or having primary obligation, or acting as agent for the financial institutions obligated, under) a Liquidity Facility then in effect with respect to such Series of Bonds.

Liquidity Facility Rate means, with respect to a Series of Bonds, the interest rate per annum, if any, specified in the Liquidity Facility delivered in connection with such Series of Bonds as applicable to Liquidity Facility Bonds.

Mandatory Sinking Account Payment means, with respect to Bonds of any Series and maturity, the amount required by the Supplemental Indenture establishing the terms and provisions of such Series of Bonds to be deposited by the Issuer in a Sinking Account for the payment of Term Bonds of such Series and maturity.

Maturity Date means, with respect to a Series of Bonds, the date of maturity or maturities specified in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

Maximum Annual Debt Service means the maximum amount of Annual Debt Service becoming due and payable on all Bonds Outstanding and all Parity Obligations outstanding during the period from the date of such calculation through the final maturity date of the Bonds and Parity Obligations, calculated utilizing the assumptions set forth under the definition of Debt Service.

Maximum Rate means the lesser of (i) twelve percent (12%) and (ii) the maximum rate of interest that may legally be paid on the Bonds from time to time.

Moody's means Moody's Investors Service, a corporation duly organized and existing under the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the Issuer.

Notice Parties means, as and to the extent applicable, the Issuer, the Trustee, the Credit Enhancement Provider, if any, for the Series of Bonds to which the notice being given relates, the Auction Agent, if any, for the Series of Bonds to which the notice being given relates, the Broker-Dealer, if any, for the Series of Bonds to which the notice being given relates, the Liquidity Facility Provider, if any, for the Series of Bonds to which the notice being given relates, and the Remarketing Agent, if any, for the Series of Bonds to which the notice being given relates.

One Month USD LIBOR Rate means the British Banker's Association average of interbank offered rates in the London market for deposits in U. S. dollars for a one month period as reported in The Wall Street Journal or, if not reported in such newspaper, as reported in such other source as may be selected by the Issuer.

Opinion of Bond Counsel means a written opinion of a law firm of national standing in the field of public finance selected by the Issuer.

Ordinance means Ordinance No. 01.1 adopted by the Board on March 1, 2001, pursuant to the provisions of Article 9 of Chapter 5 of the Act, as now in effect and as it may from time to time hereafter be amended or supplemented.

Outstanding, when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except: (1) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (2) Bonds with respect to which all liability of the Issuer shall have been discharged in accordance with the provisions of the Indenture described below under the caption "Discharge of Liability on Bonds," and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture; provided, however, that in the event the principal of or interest due on any Bonds shall be paid by the Credit Enhancement Provider pursuant to the Credit Enhancement issued in connection with such Bonds, such Bonds shall remain Outstanding for all purposes and shall not be considered defeased or otherwise satisfied or paid by the Issuer and the pledge of 2000 Measure A Sales Tax Revenues and all covenants, agreements and other obligations of the Issuer to the Holders shall continue to exist and shall run to the benefit of such Credit Enhancement Provider and such Credit Enhancement Provider shall be subrogated to the rights of such Holders.

Parity Obligations means (i) any indebtedness, installment sale obligation, lease obligation or other obligation of the Issuer for borrowed money or (ii) any Interest Rate Swap Agreement (excluding fees and expenses and termination payments on Interest Rate Swap Agreements which fees and expenses and termination payments shall be secured by a lien and charge on the 2000 Measure A Sales Tax Revenues subordinate to the lien and charge upon the 2000 Measure A Sales Tax Revenues which secures the Bonds, Parity Obligations and payment of principal and interest on Subordinate Obligations) entered into in connection with a Series of Bonds, in each case incurred in accordance with the Indenture and having an equal lien and charge upon the 2000 Measure A Sales Tax Revenues and therefore payable on a parity with the Bonds (whether or not any Bonds are Outstanding).

Participating Underwriter means any of the original underwriters of a Series of Bonds required to comply with Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission, under the Securities Act of 1934, as the same may be amended from time to time.

Person means an association, corporation, firm, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

Prior Bonds means the Santa Clara Valley Transportation Authority Measure A Sales Tax Revenue Bonds, 2006 Series F and the Santa Clara Valley Transportation Authority Measure A Sales Tax Revenue Bonds, 2006 Series G.

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

Project means the acquisition, construction improvement or equipping of any or all real and personal and intellectual property, equipment, computers, information services, software rights or interests to be owned, held or used for transit purposes, including, but not limited to, rights-of-way, rail lines, bus lines, stations, platforms, switches, yards, terminals, parking lots and any and all facilities necessary or convenient for transit service within or partly without the County as permitted under the Ordinance, and the payment and/or reimbursement of all costs incidental to or connected with the accomplishment of such purpose including, without limitation, engineering, inspection, legal, fiscal agents, financial consultant and other fees, bond and other reserve funds, working capital, bond interest estimated to accrue during construction and for a period not to exceed one (1) year thereafter or such greater period as shall be specified in the Tax Certificate delivered in connection with a Series of Bonds. As and to the extent permitted pursuant to 2000 Measure A and the Ordinance, Project shall also include the payment of operating expenses relating to increased bus, light rail and paratransit services.

Project Fund means, with respect to any Series of Bonds, a fund by that name established pursuant to the provisions of a Supplemental Indenture to hold the proceeds of a Series of Bonds or a portion thereof prior to expenditure on the portion of the Project being financed with the proceeds of such Series of Bonds.

Proportionate Basis, when used with respect to the redemption of Bonds, means that the amount of Bonds of each maturity to be redeemed shall be determined as nearly as practicable by multiplying the total amount of funds available for redemption by the ratio which the amount of Bond Obligation of Bonds of such maturity bears to the amount of all Bond Obligation of Bonds to be redeemed, provided, however that, any Bond may only be redeemed in an authorized denomination. For purposes of the foregoing, Term Bonds shall be deemed to mature in the years and in the amounts of the Mandatory Sinking Account Payments, and Capital Appreciation Bonds and Current Interest Bonds maturing or subject to Mandatory Sinking Account Payments in the same year shall be treated as separate maturities. When used with respect to the payment or purchase of Bonds, "Proportionate Basis" shall have the same

meaning set forth above except that “pay” or “purchase” shall be substituted for “redeem” or “redemption” and “paid” or “purchased” shall be substituted for “redeemed.”

Purchase Fund means a fund by that name established to hold funds to be applied to pay the purchase price of a Series of Bonds, which fund shall be established pursuant to the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

Rating Agency means, as and to the extent applicable to a Series of Bonds, each of Fitch, Moody’s and Standard & Poor’s then maintaining a rating on such Series of Bonds at the request of the Issuer.

Rating Category means: (i) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier; and (ii) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

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

Rebate Instructions means, with respect to any Series of Bonds, those calculations and directions required to be delivered to the Trustee by the Issuer pursuant to the Tax Certificate delivered in connection with such Series of Bonds.

Rebate Requirement means, with respect to any Series of Bonds, the Rebate Requirement determined in accordance with the Tax Certificate delivered in connection with such Series of Bonds.

Record Date, with respect to each Series of Bonds, shall have the meaning specified in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

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

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

Refunding Bonds means a Series of Bonds or a portion of a Series of Bonds issued pursuant to the provisions of the Indenture described below under the caption “Issuance of Refunding Bonds.”

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

Reserve Facility means any insurance policy, letter of credit or surety bond issued by a Reserve Facility Provider, meeting the requirements set forth in the Indenture described below under the caption “Funding and Application of Bond Reserve Funds,” and delivered to the Trustee in satisfaction of all or a portion of the Bond Reserve Requirement applicable to one or more Series of Bonds.

Reserve Facility Provider means any issuer of a Reserve Facility.

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

Revenues means: (i) all 2000 Measure A Sales Tax Revenues; and (ii) all investment earnings on amounts held by the Trustee in the funds and accounts established under the Indenture, excluding amounts deposited to the Rebate Fund and any Purchase Fund. Revenues does not include any funds or assets of the Issuer except 2000 Measure A Sales Tax Revenues and investment earnings on amounts held by the Trustee in the funds and accounts established under the Indenture, excluding amounts deposited to the Rebate Fund and any Purchase Fund; provided, however, that in accordance with the provisions of the Indenture described below under the caption “Issuance of Additional Bonds,” the Issuer by Supplemental Indenture may provide for additional revenues or assets of the Issuer to be included in the definition of Revenues.

Rule 15c2-12 means Securities and Exchange Commission Rule 15c2-12, as supplemented and amended from time to time.

Sales Tax Revenues or **2000 Measure A Sales Tax Revenues** means the amounts available for distribution to the Issuer after the date of issuance of the 2006 Series Bonds on account of the 2000 Measure A Sales Tax after deducting amounts payable by the Issuer to the State Board of Equalization for costs and expenses for its services in connection with the 2000 Measure A Sales Tax collected pursuant Section 100250 et seq. of the Act and levied pursuant to the Ordinance.

Securities Depository means The Depository Trust Company, or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depository, or no such depositories, as the Issuer may designate in a Request of the Issuer delivered to the Trustee.

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

Series, whenever used in the Indenture with respect to Bonds, means all of the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction regardless of variations in maturity, interest rate, redemption and other provisions, and any Bonds thereafter authenticated and delivered upon transfer or exchange or in lieu of or in substitution for (but not to refund) such Bonds as in the Indenture provided.

Sinking Account means an account by that name established in the Principal Fund for the payment of Term Bonds.

Standard & Poor’s or **S&P** means Standard & Poor’s, a division of The McGraw-Hill Companies, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “Standard & Poor’s” shall be deemed to refer to any other nationally recognized securities rating agency selected by the Issuer.

State means the State of California.

State Board of Equalization means the California State Board of Equalization.

Subordinate Obligations means any obligations issued or incurred in accordance with the provisions of the Indenture described in paragraph (D) under the caption “Limitations on the Issuance of Obligations Payable from 2000 Measure A Sales Tax Revenues; Parity Obligations; Subordinate Obligations” set forth below.

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

Supplemental Indenture means any indenture duly executed and delivered, supplementing, modifying or amending the Indenture, but only if and to the extent that such supplemental indenture is specifically authorized under the Indenture.

Tax Certificate means each Tax Certificate delivered by the Issuer at the time of issuance and delivery of a Series of Bonds, as the same may be amended or supplemented in accordance with its terms.

Tax Expiration Date means March 31, 2036 or such later date to which the levy of the 2000 Measure A Sales Tax is extended in accordance with the Act.

Term Bonds means Bonds payable at or before their specified maturity date or dates from Mandatory Sinking Account Payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

Trustee means Deutsche Bank National Trust Company, a national banking association duly organized and existing under and by virtue of the laws of the United States of America, or its successor, as Trustee as provided in the Indenture.

2000 Measure A means the ballot measure which authorized the 2000 Measure A Sales Tax.

2000 Measure A Sales Tax means the retail transactions and use tax authorized by 2000 Measure A.

2000 Measure A Sales Tax Revenues or **Sales Tax Revenues** means the amounts available for distribution to the Issuer after the date of issuance of the 2006 Series Bonds on account of the 2000 Measure A Sales Tax after deducting amounts payable by the Issuer to the State Board of Equalization for costs and expenses for its services in connection with the 2000 Measure A Sales Tax collected pursuant Section 100250 et seq. of the Act and levied pursuant to the Ordinance.

2006 Series Bonds means the Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds, 2006 Series A, 2006 Series B, 2006 Series C, 2006 Series D, 2006 Series E, 2006 Series F and 2006 Series G authorized by, and at any time Outstanding pursuant to, the Indenture. Upon the issuance of the 2007 Series A Bonds, Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds, 2006 Series A, 2006 Series B, 2006 Series C, and 2006 Series D will remain Outstanding.

2007 Series A Insurance means the financial guaranty insurance policy issued by the 2007 Series A Insurer insuring the scheduled payment when due of the principal of and interest on the 2007 Series A Bonds as provided therein.

2007 Series A Insurer means Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company or any successor thereto.

Variable Rate Indebtedness means any indebtedness the interest rate on which is not fixed at the time of incurrence of such indebtedness, and has not at some subsequent date been fixed, at a numerical rate or rates for the entire term of such indebtedness.

Pledge of 2000 Measure A Sales Tax Revenues; Sales Tax Revenue Fund

The Bonds are limited obligations of the Issuer and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from the 2000 Measure A Sales Tax Revenues and other funds pledged under the Indenture. All 2000 Measure A Sales Tax Revenues are pledged to secure the punctual payment of the principal of, redemption premium, if any, and interest on the Bonds and any Parity Obligations in accordance with their terms, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and provisions set forth in the Indenture. All amounts (including proceeds of the Bonds) held by the Trustee under the Indenture (except for amounts held in the Rebate Fund and any Purchase Fund) are pledged to secure the payment of the principal of and redemption premium, if any, and interest on the Bonds in accordance with their terms, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. Said pledge shall constitute a first lien on the 2000 Measure A Sales Tax Revenues and on the amounts in such funds and shall be valid and binding from and after delivery by the Trustee of the 2006 Series Bonds or Parity Obligations incurred in connection with the 2006 Series Bonds, without any physical delivery thereof or further act.

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

Out of 2000 Measure A Sales Tax Revenues there shall be applied as hereinafter described all sums required for the payment of the principal of (including any premium thereon) and interest on the Bonds and all Parity Obligations, together with any sinking fund payments of Bonds and Parity Obligations and reserve requirements with respect thereto and fees and expenses and similar charges payable in connection with the Bonds and Parity Obligations. All remaining 2000 Measure A Sales Tax Revenues, after making the foregoing allocation, shall be available to the Issuer for all lawful Issuer purposes. The pledge of 2000 Measure A Sales Tax Revenues made in the Indenture shall be irrevocable until all of the Bonds, all Parity Obligations and amounts owed in connection with the Bonds and Parity Obligations are no longer outstanding.

The 2000 Measure A Sales Tax Revenues shall be received and held in trust by the Trustee for the benefit of the Holders of the Bonds and the Parity Obligations and shall be disbursed, allocated and applied solely for the uses and purposes set forth in the Indenture and described below under the caption "Allocation of Revenues." As long as any Bonds are Outstanding or any Parity Obligations remain unpaid, the Issuer assigns and shall cause 2000 Measure A Sales Tax Revenues to be transmitted by the California State Board of Equalization directly to the Trustee. The Trustee shall forthwith deposit in a trust fund, designated as the "Sales Tax Revenue Fund," which fund the Trustee shall establish and maintain, all 2000 Measure A Sales Tax Revenues, when and as received by the Trustee. Investment income on amounts held by the Trustee under the Indenture (other than amounts held in the Rebate Fund or for which particular instructions (such as with respect to a Project Fund or a Purchase Fund) are provided in a Supplemental Indenture) shall also be deposited in the Revenue Fund. All moneys at any time held in the Revenue Fund shall be held in trust for the benefit of the Holders of the Bonds and the holders of Parity Obligations and shall be disbursed, allocated and applied solely for the uses and purposes set forth in the Indenture and described below under the caption "Allocation of Revenues."

Allocation of 2000 Measure A Sales Tax Revenues

So long as any Bonds are Outstanding, the Trustee shall set aside in each month following receipt of the 2000 Measure A Sales Tax Revenues the moneys in the Revenue Fund in the following respective funds (each of which the Trustee shall establish, maintain and hold in trust for the benefit of the Holders of the Bonds and, as and to the extent applicable, the holders of Parity Obligations) in the following amounts, in the following order of priority, the requirements of each such fund (including the making up of any deficiencies in any such fund resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any fund subsequent in priority; provided that on a parity with such deposits the Trustee may set aside or transfer amounts with respect to any outstanding Parity Obligations as provided in the proceedings for such Parity Obligations delivered to the Trustee (which shall be proportionate in the event such amounts are insufficient to provide for all deposits required as of any date to be made with respect to the Bonds and such Parity Obligations):

Interest Fund. Following receipt of the 2000 Measure A Sales Tax Revenues in each month, the Trustee shall set aside in the Interest Fund as soon as practicable in such month an amount equal to (a) one-sixth of the aggregate half-yearly amount of interest becoming due and payable on the Outstanding Current Interest Bonds (except for Bonds constituting Variable Rate Indebtedness which shall be governed by subparagraph (b) below) during the next ensuing six (6) months (excluding any interest for which there are moneys deposited in the Interest Fund from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay such interest during said next ensuing six (6) months), until the requisite half-yearly amount of interest on all such Outstanding Current Interest Bonds (except for Bonds constituting Variable Rate Indebtedness which shall be governed by subparagraph (b) below) is on deposit in such fund; provided that, from the date of delivery of a Series of Current Interest Bonds until the first interest payment date with respect to such Series of Bonds, the amounts set aside in such fund with respect to such Series of Bonds shall be sufficient on a monthly pro rata basis to pay the aggregate amount of interest becoming due and payable on said interest payment date with respect to such Series of Bonds, plus (b) the aggregate amount of interest to accrue during that month on Outstanding Variable Rate Indebtedness, calculated, if the actual rate of interest is not known, at the interest rate specified in writing by the Issuer, or if the Issuer shall not have specified an interest rate in writing, calculated at the maximum interest rate borne by such Variable Rate Indebtedness during the month prior to month of deposit plus one hundred (100) basis points (provided, however, that the amount of such deposit into the Interest Fund for any month may be reduced by the amount by which the deposit in the prior month exceeded the actual amount of interest accrued during that month on said Outstanding Variable Rate Indebtedness and provided further that the amount of such deposit into the Interest Fund for any month shall be increased by the amount by which the deposit in the prior month was less than the actual amount of interest accruing during that month on said Outstanding Variable Rate Indebtedness). No deposit need be made into the Interest Fund if the amount contained therein is at least equal to the interest to become due and payable on the Interest Payment Dates falling within the next six (6) months upon all of the Bonds issued under the Indenture and then Outstanding and on April 1 of each year any excess amounts in the Interest Fund not needed to pay interest on such date (and not held to pay interest on Bonds having interest payment dates other than April 1 and October 1) shall be transferred to the Issuer (but excluding, in each case, any moneys on deposit in the Interest Fund from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay interest on any future interest payment dates following such interest payment dates).

Principal Fund; Sinking Accounts. Following receipt of the 2000 Measure A Sales Tax Revenues in each month, the Trustee shall deposit in the Principal Fund as soon as practicable in such month an amount equal to at least (a) one-sixth of the aggregate semiannual amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds of all Series having semiannual maturity

dates within the next six (6) months, plus (b) one-twelfth of the aggregate yearly amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds of all Series having annual maturity dates within the next twelve (12) months, plus (c) one-sixth of the aggregate of the Mandatory Sinking Account Payments to be paid during the next six-month period into the respective Sinking Accounts for the Term Bonds of all Series for which Sinking Accounts have been created and for which semiannual mandatory redemption is required from said Sinking Accounts, plus (d) one-twelfth of the aggregate of the Mandatory Sinking Account Payments to be paid during the next 12-month period into the respective Sinking Accounts for the Term Bonds of all Series for which Sinking Accounts shall have been created and for which annual mandatory redemption is required from such Sinking Accounts; provided that if the Issuer certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from amounts on deposit in a Bond Reserve Fund that would be in excess of the Bond Reserve Requirement applicable to such Bond Reserve Fund upon such payment, no amounts need be set aside towards such principal to be so refunded or paid. All of the aforesaid deposits made in connection with future Mandatory Sinking Account Payments shall be made without priority of any payment into any one such Sinking Account over any other such payment.

In the event that the 2000 Measure A Sales Tax Revenues shall not be sufficient to make the required deposits so that moneys in the Principal Fund on any principal or mandatory redemption date are equal to the amount of Bond Obligation to become due and payable on the Outstanding Serial Bonds of all Series plus the Bond Obligation amount of and redemption premium on the Outstanding Term Bonds required to be redeemed or paid at maturity on such date, then such moneys shall be applied on a Proportionate Basis and in such proportion as said Serial Bonds and said Term Bonds shall bear to each other, after first deducting for such purposes from said Term Bonds any of said Term Bonds required to be redeemed annually as shall have been redeemed or purchased during the preceding 12-month period and any of said Term Bonds required to be redeemed semiannually as shall have been redeemed or purchased during the six-month period ending on such date or the immediately preceding six month period. In the event that the 2000 Measure A Sales Tax Revenues shall not be sufficient to pay in full all Mandatory Sinking Account Payments required to be paid at any one time into all such Sinking Accounts, then payments into all such Sinking Accounts shall be made on a Proportionate Basis, in proportion that the respective Mandatory Sinking Account Payments required to be made into each Sinking Account during the then current 12-month period bear to the aggregate of all of the Mandatory Sinking Account Payments required to be made into all such Sinking Accounts during such 12-month period.

No deposit need be made into the Principal Fund so long as there shall be in such fund (i) moneys sufficient to pay the Bond Obligations of all Serial Bonds issued under the Indenture and then Outstanding and maturing by their terms within the next twelve (12) months plus (ii) the aggregate of all Mandatory Sinking Account Payments required to be made in such 12-month period, but less any amounts deposited into the Principal Fund during such 12-month period and theretofore paid from the Principal Fund to redeem or purchase Term Bonds during such 12-month period; provided that if the Issuer certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from amounts on deposit in a Bond Reserve Fund that would be in excess of the Bond Reserve Requirement applicable to such Bond Reserve Fund upon such payment, no amounts need be on deposit with respect to such principal payments. At the beginning of each Fiscal Year and in any event not later than April 1 of each year, the Trustee shall request from the Issuer a Certificate of the Issuer setting forth the principal payments for which deposits will not be necessary pursuant to the preceding sentence and the reason therefor. On April 1 of each year any excess amounts in the Principal Fund not needed to pay principal on such date (and not held to pay principal on Bonds having principal payment dates other than April 1) shall be transferred to the Issuer.

Bond Reserve Fund. Upon the occurrence of any deficiency in any Bond Reserve Fund, the Trustee shall make such deposit to such Bond Reserve Fund as is required pursuant to the provisions of

the Indenture described below under the caption “Funding and Application of Bond Reserve Funds,” each such deposit to be made as soon as possible in each month, until the balance therein is at least equal to the applicable Bond Reserve Requirement.

Subordinate Obligations Fund. Upon the written direction of the Issuer, the Trustee shall establish, maintain and hold in trust a separate fund designated as the “Subordinate Obligations Fund.” Upon the establishment of the Subordinate Obligations Fund at the direction of the Issuer, after the transfers to the Interest Fund, the Principal Fund and the Bond Reserve Funds described above have been made, the Trustee shall deposit in the Subordinate Obligations Fund in each month such amount as the Issuer shall specify in writing is necessary to pay principal of and interest due and payable during the following month with respect to Subordinate Obligations then outstanding.

Fees and Expenses Fund. After the transfers to the Interest Fund, the Principal Fund, the Bond Reserve Funds and the Subordinate Obligations Fund described above have been made if Issuer shall have instructed the Trustee to establish a Subordinate Obligations Fund or after the transfers described above to Interest Fund, Principal Fund, and Bond Reserve Funds have been made if no Subordinate Obligations Funds shall have been established, the Trustee shall deposit as soon as practicable in each month in the Fees and Expenses Fund (which fund the Trustee hereby agrees to establish, maintain and hold in trust) amounts necessary for payment of fees, expenses and similar charges owing in such month or the following month by the Issuer in connection with the Bonds or any Parity Obligations (excluding termination payments on Interest Rate Swap Agreements). The Issuer shall inform the Trustee of such amounts, in writing, at the beginning of each month.

Any Revenues remaining in the Revenue Fund after the foregoing transfers in the funds and accounts described above, except as the Issuer shall otherwise direct in writing or as is otherwise provided in a Supplemental Indenture, shall be transferred to the Issuer on the same Business Day or as soon as is practicable thereafter. The Issuer may use and apply the Revenues when received by it for any lawful purpose of the Issuer, including the redemption of Bonds upon the terms and conditions set forth in the Supplemental Indenture relating to such Bonds and the purchase of Bonds as and when and at such prices as it may determine.

If five (5) days prior to any principal payment date, interest payment date or mandatory redemption date the amounts on deposit in the Interest Fund, the Principal Fund, including the Sinking Accounts therein, and, as and to the extent applicable, any Bond Reserve Fund established in connection with a Series of Bonds with respect to the payments to be made on such upcoming date are insufficient to make such payments, the Trustee shall immediately notify the Issuer, in writing, of such deficiency and direct that the Issuer transfer the amount of such deficiency to the Trustee on or prior to such payment date. The Issuer covenants and agrees to transfer to the Trustee from any Revenues in its possession the amount of such deficiency on or prior to the principal, interest or mandatory redemption date referenced in such notice.

Establishment and Application of Funds and Accounts

Each of the funds and accounts described below is established pursuant to the Indenture.

Interest Fund. All amounts in the Interest Fund shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture) and making periodic payments on Interest Rate Swap Agreements, as provided pursuant to the provisions of the Indenture described below under the caption “Payment Provisions Applicable to Interest Rate Swap Agreements.”

Principal Fund. All amounts in the Principal Fund shall be used and withdrawn by the Trustee solely for the purposes of paying the Bond Obligation of the Bonds when due and payable, except that all amounts in the Sinking Accounts shall be used and withdrawn by the Trustee solely to purchase or redeem or pay at maturity Term Bonds, as provided in the Indenture.

The Trustee shall establish and maintain within the Principal Fund a separate account for the Term Bonds of each Series and maturity, designated as the “_____ Sinking Account,” inserting therein the Series and maturity designation of such Bonds. On or before the Business Day prior to any date upon which a Mandatory Sinking Account Payment is due, the Trustee shall transfer the amount of such Mandatory Sinking Account Payment (being the principal thereof, in the case of Current Interest Bonds, and the Accreted Value, in the case of Capital Appreciation Bonds) from the Principal Fund to the applicable Sinking Account. With respect to each Sinking Account, on each Mandatory Sinking Account Payment date established for such Sinking Account, the Trustee shall apply the Mandatory Sinking Account Payment required on that date to the redemption (or payment at maturity, as the case may be) of Term Bonds of such Series and maturity for which such Sinking Account was established, in the manner provided in the Indenture or the Supplemental Indenture pursuant to which such Series of Bonds was created; provided that, at any time prior to giving such notice of such redemption, the Trustee shall, upon receipt of a Request of the Issuer, apply moneys in such Sinking Account to the purchase of Term Bonds of such Series and maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Fund) as is directed by the Issuer, except that the purchase price (excluding accrued interest, in the case of Current Interest Bonds) shall not exceed the principal amount or Accreted Value thereof. If, during the 12-month period (or six-month period with respect to Bonds having semi-annual Mandatory Sinking Account Payments) immediately preceding said Mandatory Sinking Account Payment date, the Trustee has purchased Term Bonds of such Series and maturity with moneys in such Sinking Account, or, during said period and prior to giving said notice of redemption, the Issuer has deposited Term Bonds of such Series and maturity with the Trustee, or Term Bonds of such Series and maturity were at any time purchased or redeemed by the Trustee from the Redemption Fund and allocable to said Mandatory Sinking Account Payment, such Term Bonds so purchased or deposited or redeemed shall be applied, to the extent of the full principal amount thereof, to reduce said Mandatory Sinking Account Payment. All Term Bonds purchased or deposited pursuant to the provisions of the Indenture described herein shall be cancelled by the Trustee and destroyed by the Trustee and a certificate of destruction shall be delivered to the Issuer by the Trustee. Any amounts remaining in a Sinking Account on April 1 of each year following the redemption as of such date of the Term Bonds for which such account was established shall be withdrawn by the Trustee and transferred as soon as is practicable to the Issuer to be used for any lawful purpose. All Term Bonds purchased from a Sinking Account or deposited by the Issuer with the Trustee in a twelve month period ending March 31 (or in a six-month period ending March 31 or September 30 with respect to Bonds having semi-annual Mandatory Sinking Account Payments) and prior to the giving of notice by the Trustee for redemption from Mandatory Sinking Account Payments for such period shall be allocated first to the next succeeding Mandatory Sinking Account Payment for such Series and maturity of Term Bonds, if any, occurring on the next April 1 or October 1, then as a credit against such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of the Issuer. All Term Bonds redeemed by the Trustee from the Redemption Fund shall be credited to such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of the Issuer.

Funding and Application of Bond Reserve Funds. The Issuer may at its sole discretion at the time of issuance of any Series of Bonds or at any time thereafter by Supplemental Indenture provide for the establishment of a Bond Reserve Fund as additional security for a Series of Bonds. Any Bond Reserve Fund so established by the Issuer shall be available to secure one or more Series of Bonds as the Issuer shall determine and shall specify in the Supplemental Indenture establishing such Bond Reserve

Fund. Any Bond Reserve Fund established by the Issuer shall be held by the Trustee and shall comply with the requirements of the Indenture described under this caption.

In lieu of making the Bond Reserve Requirement deposit applicable to one or more Series of Bonds in cash or in replacement of moneys then on deposit in any Bond Reserve Fund (which shall be transferred by the Trustee to the Issuer), or in substitution of any Reserve Facility comprising part of the Bond Reserve Requirement relating to one or more Series of Bonds, the Issuer may, at any time and from time to time, deliver to the Trustee an irrevocable letter of credit issued by a financial institution having unsecured debt obligations rated at the time of delivery of such letter of credit in one of the two highest Rating Categories of Moody's and Standard & Poor's, in an amount, which, together with cash, Investment Securities or other Reserve Facilities, as described in the paragraph below, then on deposit in such Bond Reserve Fund, will equal the Bond Reserve Requirement relating to the Bonds to which such Bond Reserve Fund relates. Such letter of credit shall have a term no less than three (3) years or, if less, the final maturity of the Bonds in connection with which such letter of credit was obtained and shall provide by its terms that it may be drawn upon as provided in this caption. At least one (1) year prior to the stated expiration of such letter of credit, the Issuer shall either (i) deliver a replacement letter of credit, (ii) deliver an extension of the letter of credit for at least one (1) additional year or, if less, the final maturity of the Bonds in connection with which such letter of credit was obtained, or (iii) deliver to the Trustee a Reserve Facility satisfying the requirements of the Indenture described in the paragraph below. Upon delivery of such replacement Reserve Facility, the Trustee shall deliver the then-effective letter of credit to or upon the order of the Issuer. If the Issuer shall fail to deposit a replacement Reserve Facility with the Trustee, the Issuer shall immediately commence to make monthly deposits with the Trustee so that an amount equal to the Bond Reserve Requirement relating to the Bonds to which such Bond Reserve Fund relates will be on deposit in such Bond Reserve Fund no later than the stated expiration date of the letter of credit. If an amount equal to the Bond Reserve Requirement relating to the Bonds to which such Bond Reserve Fund relates as of the date following the expiration of the letter of credit is not on deposit in such Bond Reserve Fund one (1) week prior to the expiration date of the letter of credit (excluding from such determination the letter of credit), the Trustee shall draw on the letter of credit to fund the deficiency resulting therefrom in such Bond Reserve Fund.

In lieu of making a Bond Reserve Requirement deposit in cash or in replacement of moneys then on deposit in a Bond Reserve Fund (which shall be transferred by the Trustee to the Issuer) or in substitution of any Reserve Facility comprising part of a Bond Reserve Requirement for any Bonds, the Issuer may, at any time and from time to time, deliver to the Trustee a surety bond or an insurance policy securing an amount which, together with moneys, Investment Securities, or other Reserve Facilities then on deposit in a Bond Reserve Fund, is no less than the Bond Reserve Requirement relating to the Bonds to which such Bond Reserve Fund relates. Such surety bond or insurance policy shall be issued by an insurance company whose unsecured debt obligations (or for which obligations secured by such insurance company's insurance policies) are rated at the time of delivery in one of the two highest Rating Categories of Moody's and Standard & Poor's. Such surety bond or insurance policy shall have a term of no less than the final maturity of the Bonds in connection with which such surety bond or insurance policy is obtained. In the event that such surety bond or insurance policy for any reason lapses or expires, the Issuer shall immediately implement (i) or (iii) of the preceding paragraph or make the required deposits to such Bond Reserve Fund.

Subject to the provisions of the Indenture described in the final paragraph under this caption, all amounts in any Bond Reserve Fund (including all amounts which may be obtained from Reserve Facilities on deposit in such Bond Reserve Fund) shall be used and withdrawn by the Trustee, as hereinafter described for the purpose of making up any deficiency in the Interest Fund or the Principal Fund relating to the Bonds to which such Bond Reserve Fund relates, or (together with any other moneys available therefor) for the payment or redemption of all Bonds then Outstanding to which such Bond

Reserve Fund relates or, for the payment of the final principal and interest payment of such Bonds. Unless otherwise directed in a Supplemental Indenture establishing the terms and provisions of a Series of Bonds, the Trustee shall apply amounts held in cash or Investment Securities in any Bond Reserve Fund prior to applying amounts held in the form of Reserve Facilities in any Bond Reserve Fund, and if there is more than one Reserve Facility being held on deposit in any Bond Reserve Fund, shall on a pro rata basis with respect to the portion of a Bond Reserve Fund held in the form of a Reserve Facility (calculated by reference to the maximum amount of such Reserve Facility), draw under each Reserve Facility issued with respect to such Bond Reserve Fund, in a timely manner and pursuant to the terms of such Reserve Facility to the extent necessary in order to obtain sufficient funds on or prior to the date such funds are needed to pay the Bond Obligation of, Mandatory Sinking Account Payments with respect to, and interest on the Bonds to which such Bond Reserve Fund relates when due. In the event that the Trustee has notice that any payment of principal of or interest on a Bond has been recovered from a Holder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee, pursuant to and provided that the terms of the Reserve Facility, if any, securing the Bonds so provide, shall so notify the issuer thereof and draw on such Reserve Facility to the lesser of the extent required or the maximum amount of such Reserve Facility in order to pay to such Holders the principal of and interest so recovered.

The Trustee shall notify the Issuer of any deficiency in any Bond Reserve Fund (i) due to a withdrawal from such Bond Reserve Fund for purposes of making up any deficiency in the Interest Fund or the Principal Fund relating to the Bonds to which such Bond Reserve Fund relates or (ii) resulting from a valuation of Investment Securities held on deposit in such Bond Reserve Fund pursuant to the provisions of the Indenture described below under the caption “Investment in Funds and Accounts” and shall request that the Issuer replenish such deficiency or repay any and all obligations due and payable under the terms of any Reserve Facility comprising part of any Bond Reserve Requirement. Upon receipt of such notification from the Trustee, the Issuer shall instruct the Trustee to commence setting aside in each month following receipt of 2000 Measure A Sales Tax Revenues for deposit in the applicable Bond Reserve Fund an amount equal to one-twelfth (1/12th) of the aggregate amount of each unreplenished prior withdrawal from such Bond Reserve Fund or decrease resulting from a valuation of Investment Securities and shall further instruct the Trustee to transfer to each Reserve Facility Provider providing a Reserve Facility satisfying a portion of the Bond Reserve Requirement relating to the Bonds to which such Bond Reserve Fund relates, an amount equal to one-twelfth (1/12th) of the aggregate amount of any unreplenished prior withdrawal on such Reserve Facility, such amount to be transferred by the Trustee as promptly as possible after receipt of the 2000 Measure A Sales Tax Revenues each month, commencing with the month following the Issuer’s receipt of notification from the Trustee of withdrawal or decrease resulting from a valuation, as applicable, until the balance on deposit in such Bond Reserve Fund is at least equal to the Bond Reserve Requirement relating to the Series of Bonds to which such Bond Reserve Fund relates.

Unless the Issuer shall otherwise direct in writing, amounts in any Bond Reserve Fund in excess of the Bond Reserve Requirement relating to the Bonds to which such Bond Reserve Fund relates shall be transferred by the Trustee to the Issuer on the Business Day following April 1 of each year; provided that such amounts shall be transferred only from the portion of such Bond Reserve Fund held in the form of cash or Investment Securities. In addition, amounts on deposit in any Bond Reserve Fund shall be transferred by the Trustee to the Issuer upon the defeasance, retirement or refunding of Bonds of the Series to which such Bond Reserve Fund relates or upon the replacement of cash on deposit in such Bond Reserve Fund with one or more Reserve Facilities in accordance with the provisions of the Indenture described above.

Subordinate Obligations Fund. All moneys in the Subordinate Obligations Fund shall be applied to the payment of principal of and interest on Subordinate Obligations in accordance with, and upon the written directions of, the Issuer.

Fees and Expenses Fund. All amounts in the Fees and Expenses Fund shall be used and withdrawn by the Trustee solely for the purpose of paying fees, expenses and similar charges owed by the Issuer in connection with the Bonds or any Parity Obligations (excluding termination payments on any Interest Rate Swap Agreement) as such amounts shall become due and payable.

Redemption Fund. The Trustee shall establish, maintain and hold in trust a special fund designated as the “Redemption Fund.” All moneys deposited by the Issuer with the Trustee for the purpose of optionally redeeming Bonds of any Series shall, unless otherwise directed by the Issuer, be deposited in the Redemption Fund. All amounts deposited in the Redemption Fund shall be used and withdrawn by the Trustee solely for the purpose of redeeming Bonds of such Series and maturity as shall be specified by the Issuer in a Request to the Trustee, in the manner, at the times and upon the terms and conditions specified in the Supplemental Indenture pursuant to which the Series of Bonds was created; provided that, at any time prior to giving such notice of redemption, the Trustee shall, upon receipt of a Request of the Issuer, apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding, in the case of Current Interest Bonds, accrued interest, which is payable from the Interest Fund) as is directed by the Issuer, except that the purchase price (exclusive of any accrued interest) may not exceed the Redemption Price or Accreted Value then applicable to such Bonds. All Term Bonds purchased or redeemed from the Redemption Fund shall be allocated to Mandatory Sinking Account Payments applicable to such Series and maturity of Term Bonds as may be specified in a Request of the Issuer.

Rebate Fund. Upon receipt of funds to be applied to the Rebate Requirement, the Trustee shall establish and maintain a fund separate from any other fund established and maintained under the Indenture designated as the Rebate Fund. Within the Rebate Fund, the Trustee shall maintain such accounts as shall be necessary in order to comply with the terms and requirements of each Tax Certificate as directed in writing by the Issuer. Subject to the transfer provisions provided in the Indenture, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement, for payment to the federal government of the United States of America, and neither the Trustee nor any Holder nor any other Person shall have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by the Indenture and by each of the Tax Certificates. The Issuer covenants to comply with the directions contained in each Tax Certificate and the Trustee covenants to comply with all written instructions of the Issuer delivered to the Trustee pursuant to each Tax Certificate (which instructions shall state the actual amounts to be deposited in or withdrawn from the Rebate Fund and shall not require the Trustee to make any calculations with respect thereto).

Payment Provisions Applicable to Interest Rate Swap Agreements

In the event the Issuer shall enter into an Interest Rate Swap Agreement in connection with a Series of Bonds, the amounts received by the Issuer, if any, pursuant to such Interest Rate Swap Agreement may be applied to the deposits required under the Indenture. If the Issuer so designates in a Supplemental Indenture establishing the terms and provisions of such Series of Bonds (or if such Interest Rate Swap Agreement is issued subsequent to the issuance of such Series of Bonds, if the Issuer so designates in a Certificate of the Issuer delivered to the Trustee concurrently with the execution of such Interest Rate Swap Agreement) amounts payable under such Interest Rate Swap Agreement (excluding termination payments and payments of fees and expenses which shall in all cases be payable from, and secured by, 2000 Measure A Sales Tax Revenues on a subordinate basis to Bonds, Parity Obligations and

payment of principal and interest on Subordinate Obligations) shall constitute Parity Obligations under the Indenture, and, in such event, the Issuer shall pay or cause to be paid to the Trustee for deposit in the Interest Fund, at the times and in the manner provided in the Indenture, the amounts to be paid pursuant to such Interest Rate Swap Agreement, as if such amounts were additional interest due on the Series of Bonds to which such Interest Rate Swap Agreement relates, and the Trustee shall pay to the Counterparty to such Interest Rate Swap Agreement, to the extent required thereunder, amounts deposited in the Interest Fund for the payment of interest on the Series of Bonds with respect to which such Interest Rate Swap Agreement was entered into.

Investment in Funds and Accounts

All moneys in any of the funds and accounts held by the Trustee and established pursuant to the Indenture shall be invested, as directed by the Issuer, solely in Investment Securities, subject to the limitations set forth in the Indenture. If and to the extent the Trustee does not receive investment instructions from the Issuer with respect to the moneys in the funds and accounts held by the Trustee pursuant to the Indenture, such moneys shall be invested in Investment Securities described in clause (B)(3) of the definition thereof and the Trustee shall thereupon request investment instructions from the Issuer for such moneys.

Moneys in any Bond Reserve Fund shall be invested in Investment Securities available on demand for the purpose of payment of the Bonds to which such Bond Reserve Fund relates as provided in the Indenture. Moneys in the remaining funds and accounts shall be invested in Investment Securities maturing or available on demand not later than the date on which it is estimated that such moneys will be required by the Trustee.

Unless otherwise provided in a Supplemental Indenture establishing the terms and provisions of a Series of Bonds: (i) all interest, profits and other income received from the investment of moneys in the Interest Fund representing accrued interest or capitalized interest shall be retained in the Interest Fund; (ii) all interest, profits and other income received from the investment of moneys in a Bond Reserve Fund shall be retained in such Bond Reserve Fund to the extent of any deficiency therein, and otherwise shall be transferred to the Revenue Fund; (iii) all interest, profits and other income received from the investment of moneys in a Project Fund shall be retained in such Project Fund, unless the Issuer shall direct that such earnings be transferred to the Rebate Fund; (iv) all interest, profits and other income received from the investment of moneys in the Rebate Fund shall be retained in the Rebate Fund, except as otherwise provided in the Indenture; and (v) all interest, profits and other income received from the investment of moneys in any other fund or account shall be transferred to the Revenue Fund.

All Investment Securities credited to any Bond Reserve Fund shall be valued (at market value) as of March 1 of each year (or the next succeeding Business Day if such day is not a Business Day), such market value to be determined by the Trustee in the manner then currently employed by the Trustee or in any other manner consistent with corporate trust industry standards. Notwithstanding anything to the contrary in the Indenture, in making any valuations of investments under the Indenture, the Trustee may utilize and rely on computerized securities pricing services that may be available to it, including those available through its regular accounting system.

The Trustee may commingle any of the funds or accounts established pursuant to the Indenture (except the Rebate Fund and any Purchase Fund) into a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Trustee under the Indenture shall be accounted for separately as required by the Indenture. The Trustee may act as principal or agent in the making or disposing of any investment and, with the prior written consent of the Issuer may impose its customary charge therefor. The Trustee may sell at the best price obtainable, or present for redemption, any

Investment Securities so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Investment Security is credited. The Trustee shall not be liable or responsible for any loss resulting from any investment made in accordance with the provisions of the Indenture.

Issuance of Additional Bonds and Other Obligations

Issuance of Additional Bonds. The Issuer may by Supplemental Indenture establish one or more additional Series of Bonds, payable from 2000 Measure A Sales Tax Revenues and secured by the pledge made under the Indenture equally and ratably with Bonds previously issued, and the Issuer may issue, and the Trustee may authenticate and deliver to the purchasers thereof, Bonds of any Series so established, in such principal amount as shall be determined by the Issuer, but only upon compliance by the Issuer with the provisions of the Indenture described below under the caption "Proceedings for Issuance of Additional Bonds" and any additional requirements set forth in said Supplemental Indenture and subject to the specific conditions set forth below, each of which is hereby made a condition precedent to the issuance of any such additional Series of Bonds.

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

(B) Subject to the provisions of the Indenture described above under the caption "Funding and Application of Bond Reserve Funds," in the event a Supplemental Indenture providing for the issuance of such Series of Bonds shall require either (i) the establishment of a Bond Reserve Fund to provide additional security for such Series of Bonds or (ii) that the balance on deposit in an existing Bond Reserve Fund be increased, forthwith upon the receipt of the proceeds of the sale of such Series, to an amount at least equal to the Bond Reserve Requirement with respect to such Series of Bonds and all other Bonds secured by such Bond Reserve Fund to be considered Outstanding upon the issuance of such additional Series of Bonds, the Supplemental Indenture providing for the issuance of such additional Series of Bonds shall require deposit of the amount necessary. Said deposit shall be made as provided in the Supplemental Indenture providing for the issuance of such additional Series of Bonds and may be made from the proceeds of the sale of such Series of Bonds or from other funds of the Issuer or from both such sources or may be made in the form of a letter of credit, surety bond or insurance policy as provided in the provisions of the Indenture described above under the caption "Funding and Application of Bond Reserve Funds."

(C) The aggregate principal amount of Bonds issued under the Indenture shall not exceed any limitation imposed by law or by any Supplemental Indenture.

(D) The Issuer shall place on file with the Trustee a Certificate of the Issuer certifying that the lesser of (i) the amounts of 2000 Measure A Sales Tax Revenues for a period of twelve (12) consecutive months (selected by the Issuer) during the eighteen (18) months immediately preceding the date on which such additional Series of Bonds will become Outstanding, or (ii) the estimated 2000 Measure A Sales Tax Revenues for the Fiscal Year in which such Series of Bonds are to be issued, shall have been, or will be, as applicable, at least equal to 1.3 times Maximum Annual Debt Service, on all Series of Bonds and Parity Obligations then Outstanding and the additional Series of Bonds then proposed to be issued, which Certificate shall also set forth the computations upon which such Certificate is based.

(E) Principal payments of each additional Series of Bonds shall be due on April 1 in each year in which principal is to be paid if and to the extent deemed practical in the reasonable judgment of the Issuer with regard to the type of Bond to be issued, and, if the interest on such Series of Bonds is to be paid semiannually, such interest payments shall be due on April 1 and October 1 in each year to the extent deemed practical in the reasonable judgment of the Issuer with regard to the type of Bond to be issued.

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

In the event additional assets or revenues are included within the definition of “Revenues” by a Supplemental Indenture, such additional assets or revenues shall be included in the calculations to be provided pursuant to the provisions of the Indenture described in paragraph (D) above as if such additional assets or revenues had always been included in “Revenues.”

Proceedings for Issuance of Additional Bonds. Before any additional Series of Bonds shall be issued and delivered, the Issuer shall file each of the documents identified below with the Trustee (upon which documents the Trustee may conclusively rely in determining whether the conditions precedent to the issuance of such Series of Bonds have been satisfied).

(A) A Supplemental Indenture authorizing such Series executed by the Issuer.

(B) A Certificate of the Issuer certifying: (i) that no Event of Default has occurred and is then continuing; and (ii) that the requirements of the Indenture described in paragraphs (B) and (C) under the caption “Issuance of Additional Bonds” have been satisfied by the Issuer.

(C) A Certificate of the Issuer certifying (on the basis of calculations made no later than the date of sale of such Series of Bonds) that the requirement of the Indenture described in paragraph (D) under the caption “Issuance of Additional Bonds” is satisfied.

(D) An Opinion of Bond Counsel to the effect that the Supplemental Indenture is being entered into in accordance with the Indenture and that such Series of Bonds, when duly executed by the Issuer and authenticated and delivered by the Trustee, will be valid and binding obligations of the Issuer.

Issuance of Refunding Bonds. Refunding Bonds may be authorized and issued by the Issuer without compliance with the provisions of the Indenture described above under the captions “Issuance of Additional Bonds” and “Proceedings for Issuance of Additional Bonds;” provided that Maximum Annual Debt Service on all Bonds Outstanding and all Parity Obligations outstanding following the issuance of such Refunding Bonds is less than or equal to Maximum Annual Debt Service on all Bonds Outstanding and all Parity Obligations outstanding prior to the issuance of such Refunding Bonds. Such Refunding Bonds may be issued in an aggregate principal amount sufficient (together with any additional funds available or to become available) to provide funds for the payment of all or a portion of the following:

(1) the principal or Redemption Price of the Outstanding Bonds or outstanding Parity Obligations to be refunded;

(2) all expenses incident to the calling, retiring or paying of such Outstanding Bonds or outstanding Parity Obligations and the Costs of Issuance of such Refunding Bonds;

(3) interest on all Outstanding Bonds or outstanding Parity Obligations to be refunded to the date such Bonds or Parity Obligations will be called for redemption or paid at maturity;

(4) interest on the Refunding Bonds from the date thereof to the date of payment or redemption of the Bonds or Parity Obligations to be refunded; and

- (5) funding a Bond Reserve Fund for the Refunding Bonds, if required.

Before such Series of Refunding Bonds shall be issued and delivered pursuant to the provisions of the Indenture described under this caption, the Issuer shall file each of the documents identified below with the Trustee (upon which documents the Trustee may conclusively rely in determining whether the conditions precedent to the issuance of such Series of Refunding Bonds have been satisfied).

- (1) A Supplemental Indenture authorizing such Series of Refunding Bonds executed by the Issuer.

- (2) A Certificate of the Issuer certifying: (i) that Maximum Annual Debt Service on all Bonds and Parity Obligations which will be outstanding following the issuance of such Series of Refunding Bonds is less than or equal to Maximum Annual Debt Service on all Bonds Outstanding and Parity Obligations outstanding prior to the issuance of such Refunding Bonds; and (ii) that the requirements of the Indenture described in paragraphs (A), (B), and (C) under the caption "Issuance of Additional Bonds" are satisfied.

- (3) If any of the Bonds to be refunded are to be redeemed prior to their stated maturity dates, irrevocable instructions to the Trustee to give the applicable notice of redemption or a waiver of the notice of redemption signed by the Holders of all or the portion of the Bonds or Parity Obligations to be redeemed, or proof that such notice has been given by the Issuer; provided, however, that in lieu of such instructions or waiver or proof of notice of redemption, the Issuer may cause to be deposited with the Trustee all of the Bonds and Parity Obligations proposed to be redeemed (whether canceled or uncanceled) with irrevocable instructions to the Trustee to cancel said Bonds or Parity Obligations so to be redeemed upon the exchange and delivery of said Refunding Bonds.

- (4) An Opinion of Bond Counsel to the effect that the Supplemental Indenture is being entered into in accordance with the Indenture and that such Series of Refunding Bonds, when duly executed by the Issuer and authenticated and delivered by the Trustee, will be valid and binding obligations of the Issuer.

Limitations on the Issuance of Obligations Payable from 2000 Measure A Sales Tax Revenues; Parity Obligations; Subordinate Obligations. The Issuer will not, so long as any of the Bonds are Outstanding, issue any obligations or securities, howsoever denominated, payable in whole or in part from 2000 Measure A Sales Tax Revenues except the following:

- (A) Bonds authorized pursuant to provisions in the Indenture described above under the caption "Issuance of Additional Bonds;"

- (B) Refunding Bonds authorized pursuant to the provisions of the Indenture described above under the caption "Issuance of Refunding Bonds;"

- (C) Parity Obligations, provided that the following conditions to the issuance or incurrence of such Parity Obligations are satisfied:

- (1) Such Parity Obligations have been duly and legally authorized for any lawful purpose;

(2) No Event of Default shall have occurred and then be continuing, as evidenced by the delivery of a Certificate of the Issuer to that effect, which Certificate of the Issuer shall be filed with the Trustee;

(3) Such Parity Obligations are being issued or incurred either (i) for purposes of refunding in compliance with the requirements for the issuance of Refunding Bonds set forth in the Indenture and described above under the caption "Issuance of Refunding Bonds" or (ii) the Issuer shall have placed on file with the Trustee a Certificate of the Issuer, upon which the Trustee may conclusively rely certifying (on the basis of calculations made no later than the date of sale or incurrence of such Parity Obligations, as applicable) that the requirements of the Indenture described in paragraph (D) under the caption "Issuance of Additional Bonds" relating to the issuance of an additional Series of Bonds have been satisfied with respect to such Parity Obligations, which Certificate shall also set forth the computations upon which such Certificate is based evidencing compliance with the requirements set forth in subsection (ii) of this paragraph;

(4) As and to the extent applicable, the Trustee shall be designated as paying agent or trustee for such Parity Obligations and the Issuer shall deliver to the Trustee a transcript of the proceedings providing for the issuance of such Parity Obligations (but the Trustee shall not be responsible for the validity or sufficiency of such proceedings or such Parity Obligations).

Notwithstanding any other provision of the Indenture to the contrary, the execution and delivery of an Interest Rate Swap Agreement shall not be subject to compliance with the provisions of the Indenture described in paragraphs (C)(3) or (C)(4) above.

(D) Subordinate Obligations which are payable as to principal, premium, interest and reserve fund requirements, if any, only out of 2000 Measure A Sales Tax Revenues after the prior payment of all amounts then required to be paid under the Indenture from 2000 Measure A Sales Tax Revenues for principal, premium, interest and reserve fund requirements, if any, for all Bonds Outstanding, and all Parity Obligations outstanding, as the same become due and payable and at the times and in the manner as required in the Indenture and in the instrument or instruments pursuant to which any Parity Obligations were issued or incurred.

(E) Termination payments and fees and expenses on Interest Rate Swap Agreements and other obligations which shall be secured by a lien and charge on the 2000 Measure A Sales Tax Revenues subordinate to the lien and charge upon the 2000 Measure A Sales Tax Revenues which secures the Bonds, Parity Obligations and payment of principal and interest on Subordinate Obligations.

Calculation of Maximum Annual Debt Service with Respect to Parity Obligations. For purposes of the Indenture, Maximum Annual Debt Service with respect to Parity Obligations shall be determined no later than the date of incurrence of such Parity Obligations utilizing the assumptions set forth in the definition of Debt Service; provided, however, that if a Parity Obligation is contingent upon funds being provided pursuant to such Parity Obligation to pay principal, or purchase price of, or interest on a Bond, such Parity Obligations shall not be considered outstanding until such payment is made thereunder.

Certain Covenants of the Issuer

Punctual Payments. The Issuer will punctually pay or cause to be paid the principal or Redemption Price of and interest on all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, and shall punctually pay or cause to be

paid all Mandatory Sinking Account Payments, but in each case only out of 2000 Measure A Sales Tax Revenues as provided in the Indenture.

Against Encumbrances. The Issuer will not create any pledge, lien or charge upon any of the 2000 Measure A Sales Tax Revenues having priority over or having parity with the lien of the Bonds except only as permitted in the caption “Limitations on the Issuance of Obligations Payable from 2000 Measure A Sales Tax Revenues; Parity Obligations; Subordinate Obligations” above.

Accounting Records and Financial Statements. The Issuer will at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with generally accepted accounting principles, in which complete and accurate entries shall be made of all transactions relating to the Revenues. Such books of record and account shall be available for inspection by the Trustee at reasonable hours and under reasonable circumstances.

The Issuer will furnish the Trustee, within two hundred ten (210) days after the end of each Fiscal Year, the financial statements of the Issuer for such Fiscal Year, together with the report and opinion of an independent certified public accountant stating that the financial statements have been prepared in accordance with generally accepted accounting principles and that such accountant’s examination of the financial statements was performed in accordance with generally accepted auditing standards and a Certificate of the Chief Financial Officer of the Issuer stating that no event which constitutes an Event of Default or which with the giving of notice or the passage of time or both would constitute an Event of Default has occurred and is continuing as of the end of such Fiscal Year, or specifying the nature of such event and the actions taken and proposed to be taken by the Issuer to cure such default. Thereafter, a copy of such financial statements will be furnished to any Holder upon written request to the Issuer, which copy of the financial statements may, at the sole discretion of the Issuer, be provided by means of posting such financial statements on an internet site that provides access to the Holders.

Collection of 2000 Measure A Sales Tax Revenues. The Issuer covenants and agrees that it has duly levied the 2000 Measure A Sales Tax in accordance with the Act, pursuant to and in accordance with the Ordinance, duly passed and adopted by the Issuer. Said Ordinance has not and will not be amended, modified or altered so long as any of the Bonds are Outstanding in any manner which would reduce the amount of or timing of receipt of 2000 Measure A Sales Tax Revenues, and the Issuer will continue to levy and collect the 2000 Measure A Sales Tax to the full amount permitted by law. The Issuer further covenants that the Issuer has entered into an agreement with the State Board of Equalization under and pursuant to which the State Board of Equalization will process and supervise collection of the 2000 Measure A Sales Tax and will transmit 2000 Measure A Sales Tax Revenues directly to the Trustee. Said agreement will be continued in effect so long as any of any Bonds are Outstanding and shall not be amended, modified or altered without the written consent of the Trustee so long as any of the Bonds are Outstanding. The Issuer will receive and hold in trust for (and remit immediately to) the Trustee any 2000 Measure A Sales Tax Revenues paid to the Issuer by the State Board of Equalization.

2000 Measure A Sales Tax Revenues received by the Trustee shall be transmitted to the Issuer pursuant to the caption “Allocation of Revenues” above; provided that, during the continuance of an Event of Default, any 2000 Measure A Sales Tax Revenues received by the Trustee shall be applied first to the payment of the fees, costs and expenses of the Trustee in declaring such Event of Default and pursuing remedies, including reasonable compensation of its agents, attorneys and counsel, which costs and expenses shall be paid from the Revenue Fund, and second, to deposit into the Interest Fund and Principal Fund and to the payment of Parity Obligations as more fully set forth in the caption “Application of Revenues and Other Funds After Default” below.

The Issuer covenants and agrees to separately account for all Revenues and to provide to the Trustee access to such accounting records at reasonable hours and under reasonable circumstances.

The Issuer covenants that so long as the Bonds are Outstanding, it will not, to the best of its ability, suffer or permit any change, modification or alteration to be made to the Act which would materially and adversely affect the rights of Bondholders.

Tax Covenants. The Issuer covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on the Bonds under Section 103 of the Code; provided that, prior to the issuance of any Series of Bonds, the Issuer may exclude the application of the covenants contained in this caption “Tax Covenant” and the caption “Rebate Fund” above to such Series of Bonds. The Issuer will not directly or indirectly use or permit the use of any proceeds of the Bonds or any other funds of the Issuer, or take or omit to take any action that would cause the Bonds to be “arbitrage bonds” within the meaning of Section 148(a) of the Code. To that end, the Issuer will comply with all requirements of the Tax Certificate relating to each Series of the Bonds. In the event that at any time the Issuer is of the opinion that for purposes of this caption “Tax Covenants” it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture, the Issuer shall so instruct the Trustee in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

Without limiting the generality of the foregoing, the Issuer agrees that there shall be paid from time to time all amounts required to be rebated to the federal government of the United States of America pursuant to Section 148(f) of the Code and any temporary, proposed or final Treasury Regulations as may be applicable to the Bonds from time to time. The Issuer specifically covenants to pay or cause to be paid to the federal government of the United States of America the Rebate Requirement with respect to each Series of Bonds at the times and in the amounts determined under and as described in the Tax Certificate executed and delivered in connection with such Series of Bonds.

Notwithstanding any provision of this caption “Tax Covenant” and the caption “Rebate Fund” above and the Tax Certificate, if the Issuer shall receive an Opinion of Bond Counsel to the effect that any action required under this caption “Tax Covenant” and the caption “Rebate Fund” above or any Tax Certificate is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on the Bonds pursuant to Section 103 of the Code, the Issuer and the Trustee may rely conclusively on such opinion in complying with the provisions of the Indenture, and the covenants under the Indenture shall be deemed to be modified to that extent.

Notwithstanding any provisions of the Indenture, including particularly Article X, the covenants and obligations set forth in this caption shall survive the defeasance of the Bonds or any Series thereof.

Continuing Disclosure. Upon the issuance of any Series of Bonds requiring an undertaking regarding continuing disclosure under Rule 15c2-12, the Issuer hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate executed and delivered in connection with such Series of Bonds. Notwithstanding any other provision of the Indenture, failure of the Issuer to comply with the provisions of any Continuing Disclosure Certificate shall not be considered an Event of Default; however, the Trustee shall, at the written request of any Participating Underwriter or of the Holders of at least twenty-five (25%) aggregate principal amount of any Series of Bonds then Outstanding (but only to the extent funds in an amount satisfactory to the Trustee have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges and fees of the Trustee whatsoever, including, without limitation, reasonable fees and expenses of its attorneys), or any Holder or beneficial owner may, take such actions as may be necessary

and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under this caption “Continuing Disclosure.”

Events of Default and Remedies

Events of Default. The following are Events of Default:

(A) default in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise, or default in the redemption from any Sinking Account of any Bonds in the amounts and at the times provided therefor;

(B) default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(C) if the Issuer shall fail to observe or perform any covenant, condition, agreement or provision in the Indenture on its part to be observed or performed, other than as referred to in subsection (A) or (B) above, for a period of sixty (60) days after written notice, specifying such failure and requesting that it be remedied, has been given to the Issuer by the Trustee or by any Credit Enhancement Provider; except that, if such failure can be remedied but not within such sixty (60) day period and if the Issuer has taken all action reasonably possible to remedy such failure within such sixty (60) day period, such failure shall not become an Event of Default for so long as the Issuer shall diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time established by the Trustee;

(D) if any payment default shall exist under any agreement governing any Parity Obligations and such default shall continue beyond the grace period, if any, provided for with respect to such default;

(E) if the Issuer files a petition in voluntary bankruptcy, for the composition of its affairs or for its corporate reorganization under any state or federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or admits in writing to its insolvency or inability to pay debts as they mature, or consents in writing to the appointment of a trustee or receiver for itself;

(F) if a court of competent jurisdiction shall enter an order, judgment or decree declaring the Issuer insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of the Issuer, or approving a petition filed against the Issuer seeking reorganization of the Issuer under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within sixty (60) days from the date of the entry thereof;

(G) if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Issuer or of the Revenues, and such custody or control shall not be terminated within sixty (60) days from the date of assumption of such custody or control; or

(H) if the Legislature of the State shall repeal or amend all or any portion of the provisions of the Act relating to the 2000 Measure A Sales Tax, being Sections 100250 to 100256, inclusive, of the Act, unless the Issuer has determined that said repeal or amendment does not materially and adversely affect the rights of Bondholders.

No Acceleration of Maturities. If an Event of Default occurs, the Trustee shall not have the right to declare the principal of and the interest on the Bonds then Outstanding to be due and payable immediately. Acceleration of the Bonds is not a remedy granted to the Trustee or to the Holders.

Application of Revenues and Other Funds After Default. If an Event of Default shall occur and be continuing, the Issuer shall immediately transfer to the Trustee all Revenues held by it and the Trustee shall apply all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture (excluding the Rebate Fund and any Purchase Fund and except as otherwise provided in the Indenture) as follows and in the following order:

(1) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Holders of the Bonds and Parity Obligations, including the costs and expenses of the Trustee and the Bondholders in declaring such Event of Default, and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel and other agents) incurred in and about the performance of its powers and duties under the Indenture;

(2) to the payment of the whole amount of Bond Obligation then due on the Bonds and Parity Obligations (upon presentation of the Bonds and Parity Obligations to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, with interest on such Bond Obligation, at the rate or rates of interest borne by the respective Bonds and on Parity Obligations, to the payment to the persons entitled thereto of all installments of interest then due and the unpaid principal or Redemption Price of any Bonds and Parity Obligations which shall have become due, whether at maturity, by call for redemption or otherwise, in the order of their due dates, with interest on the overdue Bond Obligation and Parity Obligations at the rate borne by the respective Bonds and Parity Obligations, and, if the amount available shall not be sufficient to pay in full all the Bonds and Parity Obligations due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or Accreted Value (plus accrued interest) due on such date to the persons entitled thereto, without any discrimination or preference.

Trustee to Represent Bondholders. The Trustee is hereby irrevocably appointed (and the successive respective Holders of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Holders of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Holders under the provisions of the Bonds, the Indenture, the Act and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bondholders, the Trustee in its discretion may, and, with respect to any Series of Bonds for which a Credit Enhancement has been provided, upon the written request of the Credit Enhancement Provider providing such Credit Enhancement, or if such Credit Enhancement Provider is then failing to make a payment required pursuant to such Credit Enhancement, upon the written request of the Holders of not less than a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power in the Indenture granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Holders under the Indenture, the Act or any other law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the 2000 Measure A Sales Tax Revenues and other assets pledged under the Indenture, pending such proceedings; provided, however, that, with respect to

any Series of Bonds for which a Credit Enhancement has been provided, the Trustee may only act with the consent of the Credit Enhancement Provider providing such Credit Enhancement. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Holders of such Bonds, subject to the provisions of the Indenture.

Bondholders' Direction of Proceedings. Anything in the Indenture to the contrary (except provisions relating to the rights of a Credit Enhancement Provider to direct proceedings as set forth in the caption "Credit Enhancement Provider Directs Remedies Upon Event of Default" below), the Holders of a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee and upon furnishing the Trustee with indemnification satisfactory to it, to direct the method of conducting all remedial proceedings taken by the Trustee under the Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, that the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders or holders of Parity Obligations not parties to such direction.

Limitation on Bondholders' Right to Sue. No Holder of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Act or any other applicable law with respect to such Bond, unless: (1) such Holder shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Holders of not less than a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; (3) such Holder or said Holders shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; provided, however, that the written consent of a Credit Enhancement Provider providing a Credit Enhancement with respect to a Series of Bonds shall be required if the Credit Enhancement with respect to such Series of Bonds is in full force and effect and if the Credit Enhancement Provider providing such Credit Enhancement is not then failing to make a payment as required in connection therewith.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Holder of Bands of any remedy under the Indenture or under law; it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Holders of Bonds, or to enforce any right under the Indenture, the Act or other applicable law with respect to the Bonds, except in the manner in the Indenture provided, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner in the Indenture provided and for the benefit and protection of all Holders of the Outstanding Bonds, subject to the provisions of the Indenture.

Credit Enhancement Provider Directs Remedies Upon Event of Default. Anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default, the Credit Enhancement Provider then providing Credit Enhancement for any Series of Bonds shall be entitled to control and direct the enforcement of all rights and remedies granted to the Holders of the Bonds secured by such Credit Enhancement or granted to the Trustee for the benefit of the Holders of the

Bonds secured by such Credit Enhancement, provided that the Credit Enhancement Provider's consent shall not be required as otherwise provided in the Indenture if such Credit Enhancement Provider is in default of any of its payment obligations as set forth in the Credit Enhancement provided by such Credit Enhancement Provider.

Modification or Amendment of the Indenture

Amendments Permitted. The Indenture and the rights and obligations of the Issuer, the Holders of the Bonds and the Trustee may be modified or amended from time to time and at any time by a Supplemental Indenture, which the Issuer and the Trustee may enter into when the written consent of: (i) each Credit Enhancement Provider then providing a Credit Enhancement for any Series of Bonds, provided that the Credit Enhancement provided by such Credit Enhancement Provider is in full force and effect and the Credit Enhancement Provider is not then failing to make a payment as required in connection therewith; or (ii) the Holders of a majority in aggregate amount of Bond Obligation of the Bonds (or, if such Supplemental Indenture is only applicable to a Series of Bonds, such Series of Bonds) then Outstanding shall have been filed with the Trustee; provided that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any particular maturity remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding under the Indenture; and provided, further, that if the Credit Enhancement provided for any Series of Bonds is in full force and effect and if the Credit Enhancement Provider providing such Credit Enhancement is not failing to make a payment as required in connection therewith, such Credit Enhancement Provider shall also consent in writing to such modification or amendment, which consent shall not be unreasonably withheld.

No such modification or amendment shall (a) extend the fixed maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment provided for the payment of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Holder of each Bond so affected, or (b) reduce the aforesaid percentage of Bond Obligation the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture, or deprive the Holders of the Bonds of the lien created by the Indenture on such Revenues and other assets (in each case, except as expressly provided in the Indenture), without the consent of the Holders of all of the Bonds then Outstanding. It shall not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof.

The Indenture and the rights and obligations of the Issuer, of the Trustee and of the Holders of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the Issuer may adopt without the consent of any Bondholders, but with the written consent of each Credit Enhancement Provider then providing a Credit Enhancement for any Series of Bonds which shall be materially and adversely affected by such amendment, which consent shall not be unreasonably withheld; provided, however, that such written consent shall be required only if the Credit Enhancement provided by such Credit Enhancement Provider is in full force and effect and if the Credit Enhancement Provider is not then failing to make a payment as required in connection therewith, but only to the extent permitted by law and only for any one or more of the following purposes:

- (1) to add to the covenants and agreements of the Issuer in the Indenture contained other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power in the Indenture reserved to or conferred upon the Issuer;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Issuer may deem necessary or desirable, and which shall not materially and adversely affect the interests of the Holders of the Bonds;

(3) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially and adversely affect the interests of the Holders of the Bonds;

(4) to provide for the issuance of an additional Series of Bonds pursuant to the provisions of the Indenture described above under the caption "Issuance of Additional Bonds."

(5) to make modifications or adjustments necessary appropriate or desirable to provide for the issuance or incurrence, as applicable, of Capital Appreciation Bonds, Parity Obligations, Subordinate Obligations or Variable Rate Indebtedness, with such interest rate, payment, maturity and other terms as the Issuer may deem desirable; subject to the provisions of the Indenture described above under the captions "Issuance of Additional Bonds," "Proceedings for Issuance of Additional Bonds," and "Limitations on the Issuance of Obligations Payable from 2000 Measure A Sales Tax Revenues; Parity Obligations; Subordinate Obligations;"

(6) to make modifications or adjustments necessary, appropriate or desirable to provide for change from one interest rate mode to another in connection with any Series of Bonds;

(7) to make modifications or adjustments necessary, appropriate or desirable to accommodate Credit Enhancements, Liquidity Facilities and Reserve Facilities;

(8) to make modifications or adjustments necessary, appropriate or desirable to provide for the appointment of an auction agent, a broker-dealer, a remarketing agent, a tender agent and/or a paying agent in connection with any Series of Bonds;

(9) to modify the auction provisions applicable to any Series of Bonds in accordance with the terms and provisions set forth in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds;

(10) to provide for any additional covenants or agreements necessary to maintain the tax-exempt status of interest on any Series of Bonds;

(11) if the Issuer agrees in a Supplemental Indenture to maintain the exclusion of interest on a Series of Bonds from gross income for purposes of federal income taxation, to make such provisions as are necessary or appropriate to ensure such exclusion;

(12) to provide for the issuance of Bonds in book-entry form or bearer form and/or to modify or eliminate the book-entry registration system for any Series of Bonds;

(13) to modify, alter, amend or supplement the Indenture in any other respect, including amendments which would otherwise be described in the first two paragraphs under this caption, if the effective date of such amendments is a date on which all Bonds affected thereby are subject to mandatory tender for purchase pursuant to the provisions of the Indenture; or if notice of the proposed amendments is given to Holders of the affected Bonds at least thirty (30) days before the proposed effective date of such amendments and, on or before such effective date, such Holders have the right to demand purchase of their Bonds pursuant to the provisions of the Indenture or if all Bonds affected thereby are in an auction mode and a successful auction is held following notice of such amendment; and

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

Any Supplemental Indenture entered into pursuant to the provisions of the Indenture described under this caption shall be deemed not to materially adversely affect the interest of the Holders so long as (i) all Bonds are secured by a Credit Enhancement and (ii) each Credit Enhancement Provider shall have given its written consent to such Supplemental Indenture in accordance with the provisions of the Indenture.

Effect of Supplemental Indenture. From and after the time any Supplemental Indenture becomes effective, the Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Issuer, the Trustee and all Holders of Bonds Outstanding shall thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Defeasance

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

(A) by paying or causing to be paid the Bond Obligations of and interest on such Outstanding Bonds, as and when become due and payable;

(B) by depositing with the Trustee, an escrow agent or other fiduciary, in trust, at or before maturity, money or securities in the necessary amount (as provided pursuant to the provisions of the Indenture described below under the caption "Deposit of Money or Securities") to pay or redeem such Outstanding Bonds; or

(C) by delivering to the Trustee, for cancellation by it, such Outstanding Bonds.

If the Issuer shall pay all Series for which any Bonds are Outstanding and also pay or cause to be paid all other sums payable under the Indenture by the Issuer, then and in that case, at the election of the Issuer (evidenced by a Certificate of the Issuer, filed with the Trustee, signifying the intention of the Issuer to discharge all such indebtedness and the Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, the Indenture and the pledge of 2000 Measure A Sales Tax Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the Issuer under the Indenture shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon Request of the Issuer, the Trustee shall cause an accounting for such period or periods as may be requested by the Issuer to be prepared and filed with the Issuer and shall execute and

deliver to the Issuer all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, a sign or deliver to the Issuer all moneys or securities or other property held by it pursuant to the Indenture which, as evidenced by a verification report, upon which the Trustee may conclusively rely, from a firm of certified public accountants or other independent consulting firm, are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

Discharge of Liability on Bonds. Upon the deposit with the Trustee, escrow agent or other fiduciary, in trust, at or before maturity, of money or securities in the necessary amount (as provided pursuant to the provisions of the Indenture described below under the caption “Deposit of Money or Securities”) to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption shall have been given as in the Indenture provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the Issuer in respect of such Bond shall cease, terminate and be completely discharged, provided that the Holder thereof shall thereafter be entitled to the payment of the principal of and premium, if any, and interest on the Bonds, and the Issuer shall remain liable for such payment, but only out of such money or securities deposited with the Trustee as aforesaid for their payment.

Deposit of Money or Securities. Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and shall be:

(A) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as in the Indenture provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or

(B) Investment Securities described in clause (A) of the definition thereof the principal of and interest on which when due will, in the opinion of an independent certified public accountant delivered to the Trustee (as confirmed by a verification report upon which verification report the Trustee may conclusively rely), provide money sufficient to pay the principal or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or Redemption Price and interest become due, provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in the Indenture provided or provision satisfactory to the Trustee shall have been made for the giving of such notice; provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of the Indenture or by Request of the Issuer) to apply such money to the payment of such principal or Redemption Price and interest with respect to such Bonds.

Payment of Bonds After Discharge of Indenture. Any moneys held by the Trustee in trust for the payment of the principal, Redemption Price, or interest on any Bond and remaining unclaimed for one (1) year after such principal, Redemption Price, or interest has become due and payable (whether at maturity or upon call for redemption as provided in this Indenture), if such moneys were so held at such date, or one (1) year after the date of deposit of such principal, Redemption Price or interest on any Bond if such moneys were deposited after the date when such Bond became due and payable, shall be repaid to the Issuer free from the trusts created by this Indenture, and all liability of the Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the Issuer

as aforesaid, the Trustee may (at the cost of the Issuer) first mail to the Holders of any Bonds remaining unpaid at the addresses shown on the registration books maintained by the Trustee a notice, in such form as may be deemed appropriate by the Trustee, with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Issuer of the moneys held for the payment thereof. All moneys held by or on behalf of the Trustee for the payment of principal or Accreted Value of or interest or premium on Bonds, whether at redemption or maturity, shall be held in trust for the account of the Holders thereof and the Trustee shall not be required to pay Holders any interest on, or be liable to the Holders or any other person (other than the Issuer) interest earned on, moneys so held. Any interest earned thereon shall belong to the Issuer and shall be deposited upon receipt by the Trustee into the Revenue Fund.

Additional Requirements and Covenants Required by 2007 Series A Insurer

The Second Supplemental Indenture contains a number of additional requirements, including additional covenants, applicable so long as the 2007 Series A Insurance is in full force and effect, which the 2007 Series A Insurer required as a condition to the issuance of the 2007 Series A Insurance. These provisions impose additional requirements on the Issuer which are more restrictive than the requirements and covenants set forth in the Indenture and described herein. Each of such requirements and covenants may be waived or modified by the 2007 Series A Insurer in its sole discretion and are not summarized in this Official Statement.

APPENDIX E

BOOK ENTRY ONLY SYSTEM

THE INFORMATION HEREIN CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE AUTHORITY, THE TRUSTEE AND THE UNDERWRITERS BELIEVE TO BE RELIABLE, BUT THE AUTHORITY, THE TRUSTEE AND THE UNDERWRITERS TAKE NO RESPONSIBILITY FOR THE ACCURACY THEREOF. THE BENEFICIAL OWNERS SHOULD CONFIRM THE FOLLOWING INFORMATION WITH DTC OR THE DTC PARTICIPANTS (AS DEFINED HEREIN). ALL DEFINED TERMS USED AND NOT OTHERWISE DEFINED HEREIN SHALL HAVE THE MEANINGS ASSIGNED TO SUCH TERMS IN THE FRONT PORTION OF THIS OFFICIAL STATEMENT.

The Depository Trust Company ("DTC") will act as securities depository for the Measure A 2007 Series A Bonds. The Measure A 2007 Series A 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 the Measure A 2007 Series A Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC 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 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 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 Foundation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Measure A 2007 Series A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Measure A 2007 Series A Bonds on DTC's records. The ownership interest of each actual purchaser of each Measure A 2007

Series A 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 Measure A 2007 Series A 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 Measure A 2007 Series A Bonds, except in the event that use of the book-entry system for the Measure A 2007 Series A Bonds is discontinued.

To facilitate subsequent transfers, all Measure A 2007 Series A 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 Measure A 2007 Series A 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 Measure A 2007 Series A Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Measure A 2007 Series A 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.

Redemption notices shall be sent to DTC. If less than all of the Measure A 2007 Series A Bonds within an issue are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Measure A 2007 Series A Bonds unless authorized by a Direct Participant in accordance with DTC’s Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority 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 Measure A 2007 Series A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Measure A 2007 Series A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of the Authority, DTC, or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend

payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Measure A 2007 Series A 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.

The foregoing description of the procedures and record-keeping with respect to beneficial ownership interests in the Measure A 2007 Series A Bonds, payment of the principal, purchase price, interest and other payments on the Measure A 2007 Series A Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such Measure A 2007 Series A Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

The Authority and the Underwriters cannot and do not give any assurances that DTC will distribute to DTC Participants, or that DTC Participants or others will distribute to the Beneficial Owners, payments of principal, interest and premium, if any, with respect to the Measure A 2007 Series A Bonds paid or any redemption or other notices or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The Authority is not responsible or liable for the failure of DTC or any DTC Participant or Indirect Participant to make any payments or give any notice to a Beneficial Owner with respect to the Measure A 2007 Series A Bonds or any error or delay relating thereto.

So long as Cede & Co. is the registered owner of the Measure A 2007 Series A Bonds, as nominee of DTC, references herein to the Holders, Owners or registered owners of the Measure A 2007 Series A Bonds, shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Measure A 2007 Series A Bonds.

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APPENDIX F

PROPOSED FORM OF BOND COUNSEL OPINION

[Closing Date]

Santa Clara Valley
Transportation Authority
San Jose, California

Santa Clara Valley Transportation Authority
2000 Measure A Sales Tax Revenue Refunding Bonds,
2007 Series A

 (Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Santa Clara Valley Transportation Authority (the “Authority”) in connection with the issuance by the Authority of \$120,095,000 aggregate principal amount of Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Refunding Bonds 2007 Series A (the “Bonds”), issued pursuant to the provisions of the Santa Clara Valley Transportation Authority Act, being Part 12 of Division 10 of the Public Utilities Code of the State of California, and the Revenue Bond Law of 1941, being Chapter 6 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California, as referenced in said Santa Clara Valley Transportation Authority Act, and an Indenture, dated as of August 1, 2006, as supplemented and amended by a First Supplemental Indenture, dated as of August 1, 2006, as further supplemented and amended by a Second Supplemental Indenture, dated as of September 1, 2007 (hereinafter collectively referred to as the “Indenture”), between the Authority and Deutsche Bank National Trust Company, as trustee (the “Trustee”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Tax Certificate, dated the date hereof (the “Tax Certificate”), certificates of the Authority, the Trustee, and others, opinions of counsel to the Authority and the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this opinion. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify the accuracy of the factual matters represented, warranted or certified in the documents, and of the

legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture and the Tax Certificate, including, without limitation, covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public entities similar to the Authority in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement, dated September 18, 2007, or other offering material relating to the Bonds and express no opinion with respect thereto.

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

1. The Bonds constitute the valid and binding special obligations of the Authority payable from and secured by a pledge of Sales Tax Revenues.

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority.

3. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that interest on the Bonds is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX G

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

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Financial Guaranty Insurance Policy

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

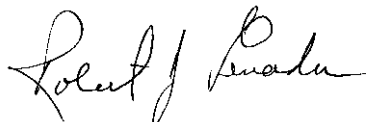
In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.



President

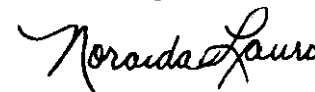


Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.



Authorized Officer of Insurance Trustee

Endorsement

Policy for:

Attached to and forming part of Policy No.:

Effective Date of Endorsement:

In the event that Ambac Assurance Corporation were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In ~~Witness Whereof~~, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Ambac Assurance Corporation



President



Secretary

Authorized Representative

APPENDIX H

PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this "Disclosure Certificate"), dated September 27, 2007, is executed and delivered by the Santa Clara Valley Transportation Authority (the "Authority") in connection with the issuance of \$120,095,000 Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Refunding Bonds, 2007 Series A (hereinafter collectively referred to as the "Bonds"). The Bonds are being issued pursuant to an Indenture, dated as of August 1, 2006, as supplemented and amended by a First Supplemental Indenture thereto, dated as of August 1, 2006, and by a Second Supplemental Indenture thereto, dated as of September 1, 2007 (hereinafter collectively referred to as the "Indenture"), between the Authority and Deutsche Bank National Trust Company, as trustee. Pursuant to Section 6.09 of the Indenture, the Authority covenants and agrees as follows:

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

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

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

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

Central Post Office means the DisclosureUSA website maintained by the Municipal Advisory Council of Texas or any successor thereto, or any other organization or method approved by the staff or members of the Commission as an intermediary through which issuers may, in compliance with the Rule, make filings required by this Disclosure Certificate.

Commission means the Securities and Exchange Commission.

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

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

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

National Repository shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories approved by the Securities and Exchange Commission as of the date of this Disclosure Certificate are currently set forth at the following website: <http://www.sec.gov/info/municipal/nrmsir.htm>.

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

Repository shall mean each National Repository and each State Repository.

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

State shall mean the State of California.

State Repository shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

2007 Series A Insurer shall mean Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company and its successors and assigns.

SECTION 3. Provision of Annual Reports.

(a) The Authority shall provide to each Repository and the 2007 Series A Insurer, or shall cause the Dissemination Agent to provide to each Repository and the 2007 Series A Insurer, not later than two hundred ten (210) days after the end of the Authority's fiscal year, commencing with the fiscal year ending June 30, 2007, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. 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 one (1) Business Day prior to said date, the Authority shall provide the Annual Report to the Dissemination Agent. The Authority shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the Authority hereunder. The Dissemination Agent may conclusively rely upon such certification of the Authority.

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

(c) If the Dissemination Agent has not received an Annual Report by the date required in the first sentence of subsection (a), the Dissemination Agent shall send a notice to the Municipal Securities Rulemaking Board in substantially the form attached as Exhibit A, a copy of which shall be provided to the 2007 Series A Insurer.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; 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, listing all the Repositories to which it was provided and confirming that the Annual Report was also provided to the 2007 Series A Insurer.

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

(a) The audited financial statements of the Authority for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Authority's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, dated September 18, 2007, relating to the Bonds (the "Official Statement"), and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

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

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

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. modifications to rights of Holders;
4. optional, contingent or unscheduled Bond calls;
5. defeasances;
6. rating changes;
7. adverse tax opinions or events affecting the tax-exempt status of the Bonds;
8. unscheduled draws on the debt service reserves, if any, reflecting financial difficulties;

9. unscheduled draws on credit enhancements, if any, reflecting financial difficulties;
10. substitution of credit or liquidity providers, if any, or their failure to perform; and
11. release, substitution, or sale of property, if any, securing repayment of the Bonds.

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

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

(d) If the Dissemination Agent has been instructed by the Authority to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Repository, the Municipal Securities Rulemaking Board and the 2007 Series A Insurer. Notwithstanding the foregoing:

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

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

(e) 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(f) hereof.

SECTION 6. Dissemination Agent; Use of Central Post Office; Use of Internet Site.

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

(b) The Authority reserves the right to make any filing with a Repository which is required by this Disclosure Certificate by submitting such filing information to the Central Post Office.

(c) Notwithstanding any other provision of 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 7. 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 8. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Authority from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Authority chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Certificate, the Authority shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 9. Default. In the event of a failure of the Authority to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions, as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Authority to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the Authority to comply with this Disclosure Certificate shall be an action to compel performance. The Authority hereby represents and warrants that it is currently not in default under any other continuing disclosure arrangement entered into in connection with the Rule.

SECTION 10. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Authority agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their respective powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Authority for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the Authority, the Holders, or any other party. The obligations of the Authority under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 11. 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.

SECTION 12. Notices. All notices or communications herein required or permitted to be given shall be in writing and shall be delivered in such manner and to such addresses as are specified in the Indenture.

SANTA CLARA VALLEY
TRANSPORTATION AUTHORITY

By: _____
Chief Financial Officer

Receipt Acknowledged By:

DIGITAL ASSURANCE CERTIFICATION LLC,
as Dissemination Agent

By: _____
Authorized Signatory

Exhibit A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Santa Clara Valley Transportation Authority
Name of Bond Issue: \$120,095,000 Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Refunding Bonds, 2007 Series A
Date of Issuance: September 27, 2007

NOTICE IS HEREBY GIVEN that the Santa Clara Valley Transportation Authority (the "Authority") has not provided an Annual Report with respect to the above-referenced Bonds as required by Section 6.09 of that certain Indenture, dated as of August 1, 2006, as supplemented and amended, by a First Supplemental Indenture thereto, dated as of August 1, 2006, and by a Second Supplemental Indenture thereto, dated as of September 1, 2007, between the Authority and Deutsche Bank National Trust Company, as trustee. The Authority anticipates that the Annual Report will be filed by _____.

Dated:

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

By: _____
Its: _____

cc: Santa Clara Valley Transportation Authority
2007 Series A Insurer

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