NEW ISSUE—BOOK-ENTRY ONLY

Ratings:
S&P: "AAA"
Fitch: "AA"
See "RATINGS" herein

In the opinion of Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel, under existing statutes, regulations, rulings and court decisions, and assuming compliance with the tax covenants described herein, interest on the 2017 Series B Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 from the gross income of the owners thereof for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. It is also the opinion of Bond Counsel that under existing law interest on the 2017 Series B Bonds is exempt from personal income taxes of the State of California. See, "TAX MATTERS" herein.

$27,760,000
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
SALES TAX REVENUE REFUNDING BONDS
2017 SERIES B

Dated: Date of Delivery **Due: As shown on the inside cover**

The $27,760,000 Santa Clara Valley Transportation Authority Sales Tax Revenue Refunding Bonds, 2017 Series B (the "2017 Series B Bonds") are being issued by the Santa Clara Valley Transportation Authority (the "Authority") pursuant to an Indenture, dated as of November 1, 1997 (as supplemented, the "Indenture"), between the Authority and U.S. Bank National Association, as trustee (the "Trustee"), to advance refund all of the Santa Clara Valley Transportation Authority Sales Tax Revenue Refunding Bonds, 2011 Series A (the "Refunded Bonds"), which are currently outstanding in the aggregate principal amount of $31,445,000, and to pay certain costs of issuing the 2017 Series B Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" herein.

Interest on the 2017 Series B Bonds will be payable on June 1 and December 1 of each year, commencing June 1, 2018. The Bonds will be issued as fully registered bonds, without coupons, in the denomination of $5,000 or any integral multiple thereof. The 2017 Series B Bonds will be registered in the name of Cede & Co., as holder of the 2017 Series B Bonds and nominee for The Depository Trust Company, New York, New York ("DTC"). Purchasers will not receive physical certificates representing their interest in the 2017 Series B Bonds purchased. The principal of and interest on the 2017 Series B Bonds is payable by wire transfer to DTC which, in turn, will remit such principal or interest to the DTC Participants for subsequent disbursement to the beneficial owners of the 2017 Series B Bonds. See APPENDIX E – "BOOK-ENTRY SYSTEM" herein.

The 2017 Series B Bonds are not subject to redemption prior to maturity.

The 2017 Series B Bonds are limited obligations of the Authority secured solely by a pledge of sales tax revenues derived from the imposition in the County of Santa Clara (the "County") of a one-half of one percent retail transactions and use tax authorized in 1976 (the "1976 Sales Tax"), less certain administrative fees paid to the California Department of Tax and Fee Administration, as described herein, and certain amounts held by the Trustee under the Indenture. The 1976 Sales Tax was approved by the electorate of the County in 1976 and does not expire. The 2017 Series B Bonds are being issued on a parity with certain other bonds and obligations of the Authority. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2017 SERIES B BONDS" herein.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COUNTY OF SANTA CLARA, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION OR PUBLIC AGENCY THEREOF, OTHER THAN THE AUTHORITY, TO THE EXTENT OF THE PLEDGE OF THE SALES TAX REVENUES AND OTHER AMOUNTS HELD UNDER THE INDENTURE, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE 2017 SERIES B BONDS.

This cover page contains certain information for general reference only. It is not a summary of the security or terms of this issue. Investors must read the entire Official Statement to obtain information essential to make an informed investment decision with respect to the 2017 Series B Bonds.

The 2017 Series B Bonds are offered when, as and if issued and accepted by Underwriters, subject to the approval as to legality by Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel to the Authority. Certain legal matters will be passed on for the Authority by the Authority's General Counsel and by Norton Rose Fulbright US LLP, Los Angeles, California, as Disclosure Counsel. Certain matters will be passed on for the Underwriters by their counsel, Nixon Peabody LLP, Los Angeles, California. It is anticipated that the 2017 Series B Bonds will be available for delivery through the book-entry facilities of DTC on or about December 21, 2017.

Goldman Sachs & Co. LLC

J.P. Morgan **Morgan Stanley**

Dated: December 13, 2017

$27,760,000
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
SALES TAX REVENUE REFUNDING BONDS
2017 SERIES B

MATURITY SCHEDULE

Maturity Date (June 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP (Base No. 80168N)†
2018	$1,140,000	5.000%	1.120%	101.714	GY9
2019	2,155,000	5.000	1.320	105.247	GZ6
2020	2,250,000	5.000	1.400	108.620	HA0
2021	2,350,000	5.000	1.450	111.884	HB8
2022	2,315,000	5.000	1.540	114.807	HC6
2023	2,410,000	5.000	1.630	117.488	HD4
2024	2,520,000	5.000	1.710	119.993	HE2
2025	2,625,000	5.000	1.770	122.434	HF9
2026	2,745,000	5.000	1.850	124.520	HG7
2027	3,525,000	5.000	1.940	126.289	HH5
2028	3,725,000	5.000	2.060	127.500	HJ1

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

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

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 2017 Series B Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. This Official Statement is not to be construed as a contract with the purchasers of the 2017 Series B Bonds. Neither the delivery of this Official Statement nor the sale of any of the 2017 Series B Bonds implies that the information herein is correct as of any time subsequent to the date hereof. 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 the implication that there has been no change in the matters described herein since the date hereof. This Official Statement is submitted in connection with the sale of securities referred to herein and may not be reproduced or be used, as a whole or in part, for any other purpose.

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

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

In connection with the offering of the 2017 Series B Bonds, the Underwriters in connection with any reoffering may over-allot or effect transactions which stabilize or maintain the market price of the 2017 Series B Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriters in connection with any reoffering may offer and sell the 2017 Series B Bonds to certain dealers, institutional investors and others at prices lower than the public offering prices stated on the inside cover page hereof and such public offering prices may be changed from time to time by the Underwriters.

This Official Statement, including any supplement or amendment hereto, is intended to be deposited with the Municipal Securities Rulemaking Board through the Electronic Municipal Market Access ("EMMA") website at *http://emma.msrb.org/*. The Authority also maintains a website. However, the information presented therein is not incorporated into this Official Statement and must not be relied on in making an investment decision with respect to the 2017 Series B Bonds.

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such websites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in, SEC Rule 15c2-12.

FORWARD-LOOKING STATEMENTS

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Board of Directors

Jeannie Bruins, Chairperson
Cindy Chavez
Chappie Jones
Raul Peralez
Savita Vaidhyanathan
Lan Diep

Sam Liccardo, Vice Chairperson
Larry Carr
Glenn Hendricks
Johnny Khamis
Teresa O'Neill
Ken Yeager

Alternate Board Members

Dev Davis
Daniel Harney
Bob Nunez
David Cortese
John McAlister
Rob Rennie

Administrative Staff

Nuria Fernandez, General Manager
Robert Fabela, General Counsel
Elaine Baltao, Secretary of the Board
Chris Augenstein, Director of Planning & Programming
Inez P. Evans, Chief Operations Officer
Angelique Gaeta, Chief of Staff
Carolyn M. Gonot, Director, Engineering and Transportation Infrastructure Development
Alberto Lara, Director of Business Services
Jim Lawson, Director of Government Affairs
Raj Srinath, Chief Financial Officer

SPECIAL SERVICES

Municipal Advisor

Ross Financial
San Francisco, California

Bond Counsel and Disclosure Counsel

Norton Rose Fulbright US LLP
Los Angeles, California

Trustee

U.S. Bank National Association
San Francisco, California

Verification Agent

Samuel Klein and Company, Certified Public Accountants
New York, New York

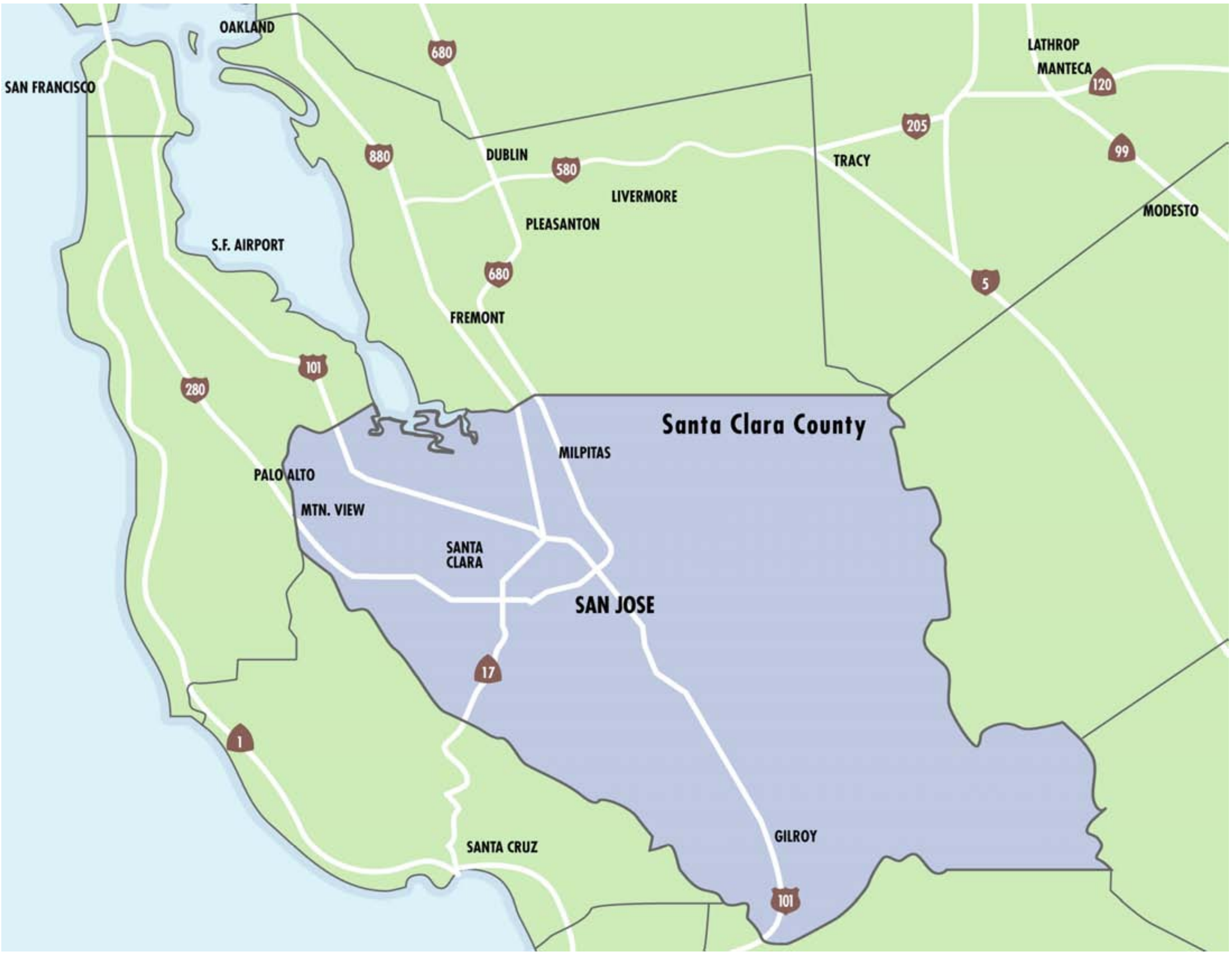

OAKLAND
SAN FRANCISCO
680
LATHROP
MANTECA
120
205
880
DUBLIN
580
TRACY
99
LIVERMORE
MODESTO
PLEASANTON
S.F. AIRPORT
680
5
FREMONT
101
280
Santa Clara County
MILPITAS
PALO ALTO
MTN. VIEW
SANTA
CLARA
SAN JOSE
17
1
GILROY
SANTA CRUZ
101

TABLE OF CONTENTS

TABLE OF CONTENTS
(continued)

OFFICIAL STATEMENT

$27,760,000
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
SALES TAX REVENUE REFUNDING BONDS
2017 SERIES B

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 $27,760,000 in aggregate principal amount of its Sales Tax Revenue Refunding Bonds, 2017 Series B (the "2017 Series B Bonds"). A full review should be made of the entire Official Statement, including the cover page and attached appendices. The offering of the 2017 Series B Bonds to potential investors is made only by means of the entire Official Statement.

Authority for Issuance

The 2017 Series B Bonds are being issued by the Authority under and pursuant to the Santa Clara Valley Transportation Authority Act, being Sections 100000 *et seq.* of the California Public Utilities Code, and the provisions of the Revenue Bond Law of 1941, being Section 54300 *et seq.* of the California Government Code as referenced in the Santa Clara Valley Transportation Authority Act (collectively, the "Act"), and the Indenture, dated as of November 1, 1997, between the Authority and U.S. Bank National Association, as successor to First Trust of California, National Association, as trustee (the "Trustee"), as supplemented by a First Supplemental Indenture, dated as of November 1, 1997, a Second Supplemental Indenture, dated as of May 1, 2001, a Third Supplemental Indenture, dated as of November 1, 2003, a Fourth Supplemental Indenture, dated as of July 1, 2005, a Fifth Supplemental Indenture, dated as of June 1, 2005, a Sixth Supplemental Indenture, dated as of May 1, 2007, a Seventh Supplemental Indenture, dated as of June 1, 2008, an Eighth Supplemental Indenture, dated as of October 1, 2011, a Ninth Supplemental Indenture, dated as of March 1, 2017, and a Tenth Supplemental Indenture, dated as of December 1, 2017 (collectively, the "Indenture"), between the Authority and the Trustee.

Purpose and Application of Proceeds

The 2017 Series B Bonds are being issued to (i) advance refund all of the Santa Clara Valley Transportation Authority Sales Tax Revenue Refunding Bonds, 2011 Series A (the "Refunded Bonds"), and (ii) pay certain costs of issuing the 2017 Series B Bonds. See "PLAN OF REFUNDING" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

Security

The 2017 Series B Bonds are limited obligations of the Authority secured by a pledge of sales tax revenues (the "1976 Sales Tax Revenues") derived from a one-half of one percent (0.5%) retail transactions and use tax (the "1976 Sales Tax"), imposed in accordance with the Act and the California Transactions and Use Tax Law (Revenue and Taxation Code Section 7251 *et seq.*), net of an administrative fee paid to the California Department of Tax and Fee Administration ("CDTFA") in connection with the collection and disbursement of the 1976 Sales Tax. The Taxpayer Transparency and

Fairness Act of 2017 restructured the California State Board of Equalization (the "Board of Equalization") into three separate entities: the State Board of Equalization, the CDTFA and the Office of Tax Appeals. The CDTFA handles most of the taxes and fees previously collected by the State Board of Equalization, including, as of July 1, 2017, the 1976 Sales Tax.

The 1976 Sales Tax was approved by a majority of the electorate of the County of Santa Clara (the "County") voting on the ballot measure by special election in 1976 and does not expire. The 2017 Series B Bonds are further secured by a pledge of certain amounts held by the Trustee under the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Pledge of 1976 Sales Tax Revenues and Certain Amounts Held by Trustee" herein.

The 2017 Series B Bonds will be secured by the 1976 Sales Tax Revenues on a parity basis with:

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

- the Santa Clara Valley Transportation Authority Sales Tax Revenue Refunding Bonds, 2017 Series A (the "2017 Series A Bonds"), $10,030,000 in aggregate principal amount of which are currently outstanding; and

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

The 2008 Series Bonds, the Refunded Bonds, the 2017 Series A Bonds and the Swap Agreements are hereinafter referred to as the "Existing 1976 Senior Lien Obligations." See "OUTSTANDING 1976 SALES TAX OBLIGATIONS" herein. All of the Refunded Bonds will be refunded with proceeds of the 2017 Series B Bonds. See "PLAN OF REFUNDING" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

Additional Bonds and other obligations secured by a pledge of the 1976 Sales Tax Revenues on a parity with the 2017 Series B Bonds and the Existing 1976 Senior Lien Obligations may hereafter be issued or incurred. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Additional Bonds and Parity Debt" herein. The Existing 1976 Senior Lien Obligations, the 2017 Series B Bonds and any additional bonds hereafter authorized by, and at any time Outstanding under, the Indenture are referred to collectively herein as the "Bonds."

Limited Obligations

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COUNTY, THE STATE OF CALIFORNIA (THE "STATE") OR ANY POLITICAL SUBDIVISION OR PUBLIC AGENCY THEREOF, OTHER THAN THE AUTHORITY, TO THE EXTENT OF THE PLEDGE OF THE 1976 SALES TAX REVENUES AND OTHER AMOUNTS HELD UNDER THE INDENTURE, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OR INTEREST ON THE 2017 SERIES B BONDS.

References

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

THE AUTHORITY

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

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

THE 2017 SERIES B BONDS

General

The 2017 Series B Bonds will be dated their date of delivery, will bear interest at the rates and will mature on the dates set forth on the inside cover of this Official Statement. Interest on the 2017 Series B Bonds shall be payable on June 1, 2018 and semiannually thereafter on June 1 and December 1 of each year by check mailed by first class mail or, as provided in Indenture and upon the written request of any Owner of $1,000,000 or more in aggregate principal amount of Bond Obligation who has provided the Trustee with wire transfer instructions, by wire transfer on each interest payment date to the Owner thereof as of the close of business on the fifteenth (15th) day of the calendar month immediately preceding such interest payment date. Interest on the 2017 Series B Bonds shall be computed on the basis of a 360-day year of twelve 30-day months. The 2017 Series B Bonds will be issued in fully registered form without coupons and will initially be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), as the securities depository for the 2017 Series B Bonds. The term "Owner" as used herein shall refer to DTC as the registered owner of the Bonds. Purchases of the 2017 Series B Bonds are to be made in book-entry only form in the principal amount of $5,000 or any integral multiple thereof. See APPENDIX F – "BOOK-ENTRY SYSTEM."

No Redemption

The 2017 Series B Bonds are not subject to redemption prior to their respective stated maturities.

PLAN OF REFUNDING

The Refunded Bonds were issued pursuant to the Indenture, including in particular the Eighth Supplemental Indenture. Pursuant to the terms of an Escrow Agreement, dated as of December 1, 2017 (the "Escrow Agreement"), by and between the City and U.S. Bank National Association, as escrow agent (the "Escrow Agent"), a portion of the proceeds of the 2017 Series B Bonds, together with other available moneys (collectively, the "Escrow Deposit"), will be deposited into the Escrow Fund established under the Escrow Agreement. The Escrow Deposit will be sufficient to purchase Investment Securities, the principal and interest of which when due will provide moneys that, together with uninvested moneys deposited with the Escrow Agent, will be sufficient to pay (i) the principal amount of the Refunded Bonds maturing on and prior to June 1, 2021 (the "Redemption Date") and to pay interest thereon to their respective maturity dates and (ii) the principal amount of the remaining Refunded Bonds plus accrued and unpaid interest thereon (the "Redemption Price") on the Redemption Date. The Refunded Bonds are listed in the table below.

Refunded Bonds
Santa Clara Valley Transportation Authority
Sales Tax Revenue Refunding Bonds
2011 Series A
Redemption Price: 100%

Maturity Date (June 1)	Par Amount Outstanding	CUSIP (Base No. 80168N)
2018	$2,310,000	FR5
2019	2,410,000	FS3
2020	2,520,000	FT1
2021	2,630,000	FU8
2022	2,610,000	FV6
2023	2,670,000	FW4
2024	2,790,000	FX2
2025	2,855,000	FY0
2026	2,985,000	FZ7
2027	3,745,000	GA1
2028	3,920,000	GB9

Samuel Klein and Company, Certified Public Accountants (the "Verification Agent"), will deliver a report stating that the firm has verified the accuracy of mathematical computations concerning the adequacy of the Escrow Deposit deposited in the Escrow Fund. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS."

ESTIMATED SOURCES AND USES OF FUNDS

The estimated proceeds of the 2017 Series B Bonds and certain other available amounts are expected to be applied as follows:

Sources of Funds:	
Principal Amount of 2017 Series B Bonds	$27,760,000.00
Premium	5,086,931.65
Release from Refunded Bonds	1,157,807.78
Total Sources:	$34,004,739.43
Uses of Funds:	
Deposit to Escrow Fund	$33,548,908.44
Deposit to Rebate Fund	157,683.22
Costs of Issuance[1]	219,290.34
Underwriters' Discount	78,857.43
Total Uses:	$34,004,739.43

(1) Includes fees and expenses of rating agencies, trustee, bond counsel, disclosure counsel, verification agent, and municipal advisor; printing costs; and other miscellaneous expenses.

DEBT SERVICE SCHEDULE

The following table shows the annual debt service requirements on the 2017 Series B Bonds and all existing Bonds supported by the 1976 Sales Tax.

Fiscal Year Ending June 30	2017 Series B Bonds Principal	2017 Series B Bonds Interest	Existing Bonds Annual Principal[1]	Existing Bonds Annual Interest[2][1]	Combined Debt Service[1]
2018	$1,140,000	$ 616,889	$13,182,000	$4,105,647	$20,202,344
2019	2,155,000	1,331,000	13,568,000	3,730,167	20,784,167
2020	2,250,000	1,223,250	13,963,000	3,343,834	20,780,084
2021	2,350,000	1,110,750	14,372,000	2,945,704	20,778,454
2022	2,315,000	993,250	15,115,000	2,536,128	20,959,378
2023	2,410,000	877,500	15,605,000	2,060,761	20,953,261
2024	2,520,000	757,000	16,110,000	1,569,984	20,956,984
2025	2,625,000	631,000	16,635,000	1,063,325	20,954,325
2026	2,745,000	499,750	17,175,000	540,154	20,959,904
2027	3,525,000	362,500	0	0	3,887,500
2028	3,725,000	186,250	0	0	3,911,250

(1) Fiscal Year ending June 30, 2018 Combined Debt Service includes current Refunded Bonds principal and interest. Combined Debt Service column otherwise excludes debt service for the Refunded Bonds. Totals may not add due to rounding.

(2) Consists of debt service for the 2008 Series Bonds and 2017 Series A Bonds. Debt service on the 2008 Series Bonds is calculated based on the fixed rate under the Swap Agreements of 3.145%.

SECURITY AND SOURCES OF PAYMENT FOR THE 2017 SERIES B BONDS

Limited Obligations

The Bonds are limited obligations of the Authority secured by a pledge of 1976 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 1976 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 of or interest on the Bonds or for any other purpose of the Indenture.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COUNTY, THE STATE OR ANY POLITICAL SUBDIVISION OR PUBLIC AGENCY THEREOF, OTHER THAN THE AUTHORITY, TO THE EXTENT OF THE PLEDGE OF THE 1976 SALES TAX REVENUES AND OTHER AMOUNTS HELD UNDER THE INDENTURE, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE 2008 SERIES BONDS. THE PLEDGE OF 1976 SALES TAX REVENUES DOES NOT SECURE PAYMENT OF THE PURCHASE PRICE OF THE 2008 SERIES BONDS.

Pledge of 1976 Sales Tax Revenues and Certain Amounts Held by Trustee

All 1976 Sales Tax Revenues are irrevocably pledged by the Authority on a senior lien basis to secure the punctual payment of the principal of, premium, if any, and interest on the Bonds and Parity Debt, each in accordance with their terms, and the 1976 Sales Tax Revenues shall not be used for any other purpose while any of the Bonds or Parity Debt 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. Notwithstanding the foregoing, payment of Purchase Price of the 2008 Series Bonds is not secured by a pledge of 1976 Sales Tax Revenues. Pursuant to the Indenture, the pledge of 1976 Sales Tax Revenues constitutes a first lien to secure the Bonds and Parity Debt and regularly scheduled payments on the Swap Agreements (hereinafter referred to as the "Parity Swap Payments"). The pledge of 1976 Sales Tax Revenues is irrevocable until all Bonds issued under the Indenture, including the 2008 Series Bonds, and all Parity Debt are no longer Outstanding.

The 1976 Sales Tax Revenues pledged to the payment of the Bonds and Parity Debt shall be applied without priority or distinction of one over the other and the 1976 Sales Tax Revenues shall constitute a trust fund for the security and payment of the Bonds and Parity Debt; but nevertheless out of 1976 Sales Tax Revenues certain amounts may be applied for other purposes as provided in the Indenture.

For a more detailed description of the 1976 Sales Tax and projected receipts of 1976 Sales Tax Revenues, see "1976 SALES TAX" herein.

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

Revenue Fund; Allocation of 1976 Sales Tax Revenues

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

In each month while Bonds remain Outstanding, the Trustee is required to set aside receipts of 1976 Sales Tax Revenues in the following respective funds, amounts and order of priority (provided that deficiencies in any previously required deposit may be made up prior to the deposit to a fund subsequent in priority and further provided that set asides or transfers required with respect to outstanding Parity Debt shall be made on a parity basis each month, as provided in the Indenture):

1. **Interest Fund.** The Indenture requires the Trustee to make monthly deposits in the Interest Fund in an amount equal to one-sixth of the aggregate half-yearly amount of interest (calculated at the rate of 12% per annum if the actual rate of interest is not known) becoming due and payable on Outstanding Bonds during the ensuing six-month period. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Allocation of 1976 Sales Tax Revenues."

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

After the allocations described above have been made on a monthly basis, any remaining funds are available to pay termination payments, if any, under the Swap Agreements.

Liquidity Facility Provider's fees and expenses are paid on a basis subordinate to the Bonds, but prior to any payments on the Junior Lien Obligations.

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

Bond Reserve Fund

The Bond Reserve Requirement as of any date of calculation shall be zero dollars ($0), except that if 1976 Sales Tax Revenues during the immediately preceding Fiscal Year do not cover Maximum Annual Debt Service by at least 3.00 times, the Authority shall be required to fund the Bond Reserve Fund in an amount equal to the amount specified in the definition of Bond Reserve Requirement set forth in the Indenture. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE

INDENTURE." Maximum Annual Debt Service is calculated assuming that the variable rate 2008 Series Bonds bear interest at the fixed rate under the Swap Agreements of 3.145%. See "OUTSTANDING 1976 SALES TAX OBLIGATIONS – Swap Agreements" herein.

If the Authority shall be required to fund the Bond Reserve Fund, the Bond Reserve Requirement with respect to any Series of Bonds bearing interest at a fixed rate, including the 2017 Series B Bonds, means an amount not less than the lesser of: (i) 10% of the aggregate original principal amount of such Series (less any original issue discount); (ii) 125% of Average Annual Debt Service for such Series; or (iii) 100% of Maximum Annual Debt Service for such Series as of any date of calculation. The Bond Reserve Requirement for any 2017 Series B Bonds shall have the same meaning.

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

Additional Bonds and Parity Debt

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

Issuance of Additional Series of Bonds. The Authority may by Supplemental Indenture establish one or more Series of Bonds payable from 1976 Sales Tax Revenues and secured by the pledge made under the Indenture equally and ratably with Bonds previously issued, but only upon compliance by the Authority with the provisions of the Indenture. Certain of the applicable provisions of the Indenture are described below:

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

(b) The Supplemental Indenture providing for the issuance of such Series of additional Bonds shall require that the balance in the Bond Reserve Fund, forthwith upon the receipt of the proceeds of the sale of Bonds of such Series, be increased, if necessary, to an amount at least equal to the Bond Reserve Requirement with respect to all Bonds to be considered Outstanding upon the issuance of Bonds of such Series. Said deposit may be made from the proceeds of the sale of Bonds of such Series or from other funds of the Authority or from both such sources or in the form of a letter of credit or surety bond or insurance policy as described under "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Funding and Application of Bond Reserve Fund."

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

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

Issuance of Refunding Bonds. Refunding Bonds may be authorized and issued by the Authority without compliance with the provisions of the Indenture summarized above under the subcaption "Issuance of Additional Series of Bonds"; provided, that Maximum Annual Debt Service on all Bonds and Parity Debt Outstanding following the issuance of such refunding Bonds is less than or equal to Maximum Annual Debt Service on all Bonds and Parity Debt Outstanding prior to the issuance of such refunding Bonds. The 2017 Series B Bonds are being issued under this provision of the Indenture.

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

Subordinate Obligations

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

OUTSTANDING 1976 SALES TAX OBLIGATIONS

Outstanding Bonds

As of the date hereof, the aggregate principal amount of Bonds Outstanding was $167,170,000, comprised of $125,695,000 aggregate principal amount of 2008 Series Bonds, $31,445,000 aggregate principal amount of the Refunded Bonds, and $10,030,000 aggregate principal amount of 2017 Series A Bonds. The Refunded Bonds will be refunded in full with a portion of the proceeds of the 2017 Series B Bonds and certain other available amounts. See "PLAN OF REFUNDING" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

2008 Series Bonds

Liquidity Facility. In connection with the issuance of the 2008 Series Bonds, the Authority entered into an Amended and Restated Standby Bond Purchase Agreement, dated as of April 1, 2014, as amended and supplemented by the First Amendment to Amended and Restated Standby Bond Purchase Agreement, dated December 20, 2016 (the "Liquidity Facility"), each between the Authority and State Street Bank and Trust Company (the "Liquidity Facility Provider"). Pursuant to the Liquidity Facility, the Liquidity Facility Provider will provide funds for the purchase of the 2008 Series Bonds that are tendered for optional or mandatory purchase but are not remarketed. The Liquidity Facility will expire on March 31, 2020, unless extended or earlier terminated upon the occurrence of certain events (in accordance with its terms) including termination at the direction of the Authority. The Liquidity Facility Provider will have the right upon an event of default under the Liquidity Facility to declare all obligations of the Authority to the Liquidity Provider thereunder immediately due and payable without demand.

Swap Agreements. In connection with the issuance of the 2008 Series Bonds, the Authority entered into three separate interest rate swap agreements outstanding in connection with the 2008 Series Bonds (each, a "Swap Agreement" and, collectively, the "Swap Agreements") with Goldman Sachs Mitsui Marine Derivative Products, L.P., Citibank, N.A., New York, and Morgan Stanley Capital Services Inc., respectively (each, a "Counterparty" and, collectively, the "Counterparties"). Each Swap Agreement took effect on the date of issuance of the series of the 2008 Series Bonds to which such Swap Agreement relates and is scheduled to terminate on June 1, 2026.

Pursuant to the terms of the Swap Agreements, the Authority agreed to pay to the Counterparties a fixed rate of interest of 3.145% and the Counterparties agreed to pay the Authority a floating rate of interest equal to the lower of 1-month London Interbank Offered Rate ("LIBOR") or a rate equal to the greatest of 63.5% of 1-month LIBOR or 55.5% of 1-month LIBOR plus 0.44%. The current notional amounts of the Swap Agreements are $50,325,000 with respect to the 2008 Series A Bonds, $37,685,000 with respect to the 2008 Series B Bonds and $37,685,000 with respect to the 2008 Series C Bonds, respectively. The Authority's obligation to make regularly scheduled payments of interest to the counterparties under the Swap Agreements is payable from and secured by 1976 Sales Tax Revenues on a parity basis with all Bonds issued under the Indenture. The fixed interest rate paid by the Authority pursuant to each of the Swap Agreements has been used in computing debt service on the 2008 Series Bonds.

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

Under certain circumstances, including a downgrade of the Authority's revenue bond ratings below investment grade, the Swap Agreements may be terminated, at which time the Authority may be required to make a termination payment to the applicable Counterparty. Any termination payments made pursuant to the Swap Agreements are secured by a lien on 1976 Sales Tax Revenues subordinate to the lien which secures the Bonds, Parity Obligations and Subordinate Obligations. The Authority is unable to predict what the amount of termination payments owed by the Authority in the future would be if any of the Swap Agreements actually were terminated; however, such termination payments could be substantial. To the extent that the Authority has insufficient funds on hand to make any such payment, the Authority may borrow such amounts through the issuance of additional Bonds or otherwise.

In addition, the Swap Agreements all contain provisions that require the Authority to post collateral at specific fair value amounts based on the Authority's unenhanced long-term credit ratings on the 2008 Series Bonds. Collateral generally consists of cash, U.S. government securities and U.S. agency securities. As of the date hereof, the Authority has no collateral posted pursuant to the Swap Agreements.

For a further discussion regarding the Authority's existing swaps (including swaps that have liens on the 1976 Sales Tax) and potential risks in connection therewith, see APPENDIX B – "AUTHORITY AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2017, Note 7(c)."

Future Refunding. The Authority expects to complete a partial refunding of the 2008 Series Bonds in the first quarter of 2018. In connection with such refunding, the Authority expects to terminate the existing Goldman Sachs Swap Agreement. No assurance can be provided that the partial refunding and swap termination will be completed during the first quarter or be completed at all.

THE 1976 SALES TAX

General

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

The 1976 Sales Tax is a retail transactions and use tax of one half of one percent (0.5%) of the gross receipts of retailers from the sale of all tangible personal property sold at retail in the County and a use tax at the same rate upon the storage, use or other consumption in the County of such property purchased from any retailer for storage, use or other consumption in the County. However, certain categories of transactions are exempt from the 1976 Sales Tax. The most important of these exemptions are: sales of food products for home consumption, prescription medicine, edible livestock and their feed, seed and fertilizer used in raising food for human consumption, and gas, electricity and water when delivered to consumers through mains, lines and pipes. In addition, "Occasional Sales" (i.e., sales of property not held or used by a seller in the course of activities for which he or she is required to hold a seller's permit) are generally exempt from the State Sales Tax and from the 1976 Sales Tax; however, the "Occasional Sales" exemption does not apply to the sale of an entire business or other sales of machinery and equipment used in a business. Sales of property to be used outside the County which are shipped to a point outside the County, pursuant to the contract of sale, by delivery to such point by the retailer, or by delivery by the retailer to a carrier for shipment to a consignee, at such point, are exempt from the 1976 Sales Tax.

1976 Sales Tax Revenues are net of an administrative fee paid to the California Department of Tax and Fee Administration ("CDTFA") for the collection and disbursement of the 1976 Sales Tax, which by statute cannot exceed 1.5% of collections. In the Fiscal Year ended June 30, 2017, the amount of the administrative fee was approximately $2,522,020.

For a summary of the 1976 Sales Tax Revenues reported by the Authority for the ten Fiscal Years ended June 30, 2017, see "THE 1976 SALES TAX – Historical Sales Tax Revenues" herein.

Collection

Collection of the 1976 Sales Tax is administered by CDTFA. The Authority and the California State Board of Equalization, predecessor to CDTFA, have entered into an agreement to authorize payment of 1976 Sales Tax Revenues directly to the Trustee. Pursuant to its procedures, CDTFA projects receipts of the 1976 Sales Tax on a quarterly basis and remits an advance of such receipts to the Trustee on a monthly basis based on such projection for the prior quarter. During the last month of each quarter, CDTFA adjusts the amount remitted to reflect the actual receipts of the 1976 Sales Tax for the prior quarter.

The Trustee is required to apply receipts of 1976 Sales Tax Revenues as provided in the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Revenue Fund; Allocation of 1976 Sales Tax Revenues" and APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Funds and Accounts; Allocation of Sales Tax Revenues." After such allocations, any remaining unapplied 1976 Sales Tax Revenues are transferred to the Authority for use for any lawful purpose.

Historical Sales Tax Revenues

The following table shows 1976 Sales Tax Revenues reported by the Authority during the ten Fiscal Years ended June 30, 2017.

Fiscal Years Ended June 30, 2008 – 2017
(In Thousands)

Fiscal Year Ended June 30	1976 Sales Tax Revenues[1]	Rate of Change[1]
2008	$163,038	(0.4)%
2009	137,642	(15.6)
2010	140,037	1.7
2011	153,602	9.7
2012	166,567	8.8
2013	176,716	6.1
2014	186,431	5.5
2015	199,221	6.9
2016	205,418	3.1
2017	209,005	1.7

Source: The Authority.
[1] Rounded.

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

Debt Service Coverage

The following table sets forth the Maximum Annual Debt Service coverage on the Bonds (excluding the Refunded Bonds) based on Sales Tax Revenues for the Fiscal Year ended June 30, 2017.

Sales Tax Revenues Fiscal Year Ended June 30, 2017 (In thousands)	Maximum Annual Debt Service on all Bonds[1] (In thousands)	Debt Service Coverage Ratio[1]
$209,005	$20,960	9.97x

[1] The Refunded Bonds are expected to be refunded in full with a portion of the proceeds of the 2017 Series B Bonds and other available amounts. See "PLAN OF REFUNDING." Interest on the 2008 Bonds is calculated assuming the interest rates are equal to the fixed rates on the Swap Agreements, without including any remarketing agent or liquidity provider fees and expenses. See "DEBT SERVICE SCHEDULE."

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, implementing a one-half of one percent (0.5%) sales tax that became effective that became effective on April 1, 2006 and is scheduled to expire on March 31, 2036 (the "2000 Measure A Sales Tax"). The 2000 Measure A Sales Tax is levied against the same sales tax base as the 1976 Sales Tax, and is dedicated to finance certain the transit projects and operations. Collection of the 2000 Measure A Sales Tax is administered by the Board of Equalization in virtually the same manner as the 1976 Sales Tax. **The 2000 Measure A Sales Tax Revenues do not secure the 2017 Series B Bonds.**

2008 Measure B Sales Tax

In November of 2008, over two-thirds of the voters in the County approved Measure B, implementing a one-eighth of one percent (0.125%) sales tax that became effective July 1, 2012 and continues for 30 years (the "2008 Measure B Sales Tax"). The 2008 Measure B Sales Tax is levied against the same sales tax base as the 1976 Sales Tax, and is dedicated to support the operation and maintenance of the BART to Silicon Valley Project. Collection of the 2008 Measure B Sales Tax is administered by the Board of Equalization in virtually the same manner as the 1976 Sales Tax. **The 2008 Measure B Sales Tax Revenues do not secure the 2017 Series B Bonds.**

2016 Sales Tax

In November of 2016, over two-thirds of the voters in the County approved Measure B, implementing a one-half of one percent (0.5%) sales tax (the "2016 Measure B Sales Tax") that became effective April 2017 and continues for 30 years (the "2016 Measure B Sales Tax"), expiring on March 31, 2047. The 2016 Measure B Sales Tax is levied against the same sales tax base as the 1976 Sales Tax, and will help fund a series of transportation related projects including local streets and roads repair, bicycle/pedestrian improvements, Caltrain grade separations, and Phase II of the BART extension. **The 2016 Measure B Sales Tax Revenues do not secure the 2017 Series B Bonds.**

In January 2017, a County resident individually filed a lawsuit against the Authority on the validity of the 2016 Measure B Sales Tax. (*Cheriel Jensen v. Santa Clara Transportation Authority, et al.*, Santa Clara County Superior Court Case No. 17-CV-304960). The Authority challenged the lawsuit as lacking merit and the court agreed and dismissed the case. However, the Plaintiff filed an appeal with the Sixth District Court of Appeal on August 17, 2017, Case No. H044974. As a result of the ongoing appeal, the Authority is required to keep all 2016 Measure B Sales Tax collections in an escrow account (which the Authority has been doing) “until the legality of the tax is finally resolved by a final and non-appealable decision…” Section 7270(c) of the California Revenue and Taxation Code.

State Sales Tax

The 1976 Sales Tax is generally imposed upon the same transactions and items subject to the 7.25% sales and use tax levied statewide by the State (the “State Sales Tax”), with generally the same exceptions. The most important of these exemptions are: sales of food products for home consumption, prescription medicine, edible livestock and their feed, seed and fertilizer used in raising food for human consumption, and gas, electricity and water when delivered to consumers through mains, lines and pipes. In addition, like the 1976 Sales Tax, Occasional Sales are generally exempt from the State Sales Tax. In general, the State Sales Tax applies to the gross receipts of retailers from the sale of tangible personal property. The State use tax is imposed on the storage, use or other consumption in the State of property purchased from a retailer for such storage, use or other consumption. Since the use tax does not apply to cases where the sale of the property is subject to the sales tax, the application of the use tax generally is to purchases made outside of the State for use within the State. The State Sales Tax does not secure the Bonds, including the 2017 Series B Bonds.

Action by the State Legislature or by voter initiative or judicial interpretation of state law could change the transactions and items upon which the State Sales Tax and the 1976 Sales Tax are imposed. Such changes or amendments could have either an adverse or beneficial effect on 1976 Sales Tax Revenues. The Authority is not aware of any proposed legislative change which would have a material adverse effect on 1976 Sales Tax Revenues. See also “RISK FACTORS – Proposition 218” herein.

Other Sales Taxes Levied within the County

In addition to the sales taxes described above, in November 2012, over two-thirds of the voters in the County approved a one-eighth of one percent (0.125%) sales tax for general purposes that became effective April 1, 2013 and continues for ten years. In addition, the cities of Campbell (“Campbell”), and San Jose (“San Jose”), each located within the County, approved a one-quarter of one percent (0.25%) sales tax. The Campbell sales tax does not expire. These sales taxes do not secure the Bonds, including the 2017 Series B Bonds.

Accounting for all the various sales taxes described above, transactions in the County are being taxed at an effective rate of 9.00% outside of Campbell and San Jose and 9.25% within Campbell and San Jose.

RISK FACTORS

Economy of the County and the State

The 2017 Series B Bonds are secured by a pledge of 1976 Sales Tax Revenues, which consist of the 1976 Sales Tax less an administrative fee paid to the CDTFA. The level of 1976 Sales Tax Revenues collected at any time is dependent upon the level of retail sales within the County, which is, in turn, dependent upon the level of economic activity in the County and in the State generally. As a result, any substantial deterioration in the level of economic activity within the County or in the State could have a material adverse impact upon the level of 1976 Sales Tax Revenues and therefore upon the ability of the Authority to pay principal of and interest on the 2017 Series B Bonds. See “THE 1976 SALES TAX – Historical Sales Tax Revenues” above.

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

Collection of 1976 Sales Tax

With limited exceptions, the 1976 Sales Tax is imposed upon the same transactions and items subject to the sales tax levied statewide by the State. The State Legislature or the voters within the State, through the initiative process, could change or limit the transactions and items upon which the statewide sales tax and the 1976 Sales Tax are imposed. Any such change or limitation could have an adverse impact on the 1976 Sales Tax Revenues collected. For a further description of the 1976 Sales Tax Revenues, see "THE 1976 SALES TAX" herein.

Impact of Bankruptcy of the Authority

The Authority may be authorized to file for Chapter 9 municipal bankruptcy under certain circumstances. Should the Authority file for bankruptcy, there could be adverse effects on the holders of the 2017 Series B Bonds.

If the 1976 Sales Tax Revenues are "special revenues" under the Bankruptcy Code, then 1976 Sales Tax Revenues collected after the date of the bankruptcy filing should be subject to the lien of the Indenture. "Special revenues" are defined to include taxes specifically levied to finance one or more projects or systems, excluding receipts from general property, sales, or income taxes levied to finance the general purposes of the governmental entity. The 1976 Sales Tax was levied to finance the Expenditure Plan, which includes a number of projects (collectively, the "Expenditure Plan Projects"), and some of these projects are described in broad terms. If a court determined that the 1976 Sales Tax was levied to finance the general purposes of the Authority, rather than specific Expenditure Plan Projects, then 1976 Sales Tax Revenues would not be special revenues. No assurance can be given that a court would not hold that the 1976 Sales Tax Revenues are not "special revenues" or are not subject to the lien of the Indenture. Were the 1976 Sales Tax Revenues determined not to be "special revenues," then 1976 Sales Tax Revenues collected after the commencement of a bankruptcy case would likely not be subject to the lien of the Indenture. The holders of the 2017 Series B Bonds may not be able to assert a claim against any property of the Authority other than the 1976 Sales Tax Revenues, and were these amounts no longer subject to the lien of the Indenture following commencement of a bankruptcy case, then there could thereafter be no amounts from which the holders of the 2017 Series B Bonds are entitled to be paid.

The Bankruptcy Code provides that special revenues can be applied to necessary operating expenses of the project or system from which the special revenues are derived, before they are applied to other obligations. This rule applies regardless of the provisions of the transaction documents. The law is not clear as to whether, or to what extent, 1976 Sales Tax Revenues would be considered to be "derived" from the Expenditure Plan Projects. To the extent that 1976 Sales Tax Revenues are determined to be derived from the Expenditure Plan Projects, the Authority may be able to use 1976 Sales Tax Revenues to pay necessary operating expenses of the Expenditure Plan Projects, before the remaining 1976 Sales Tax Revenues are turned over to the Trustee to pay amounts owed to the holders of the 2017 Series B Bonds. It is not clear precisely which expenses would constitute necessary operating expenses.

If the Authority is in bankruptcy, the parties (including the holders of the 2017 Series B Bonds) may be prohibited from taking any action to collect any amount from the Authority or to enforce any obligation of the Authority, unless the permission of the bankruptcy court is obtained. These restrictions may also prevent the Trustee from making payments to the holders of the 2017 Series B Bonds from funds in the Trustee's possession. The procedure pursuant to which 1976 Sales Tax Revenues are paid directly by the Board of Equalization to the Trustee may no longer be enforceable, and the Authority may be able to require the Board of Equalization to pay 1976 Sales Tax Revenues directly to the Authority.

The Authority as a debtor in bankruptcy may be able to borrow additional money that is secured by a lien on any of its property (including 1976 Sales Tax Revenues), which lien could have priority over the lien of the Indenture, or to cause some 1976 Sales Tax Revenues to be released to it, free and clear of lien of the Indenture, in each case provided that the bankruptcy court determines that the rights of the Trustee and the holders of the 2017 Series B Bonds will be adequately protected. The Authority may also be able, without the consent and over the objection of the Trustee and the holders of the 2017 Series B Bonds, to alter the priority, interest rate, payment terms, collateral, maturity dates, payment sources, covenants (including tax-related covenants), and other terms or provisions of the Indenture and the 2017 Series B Bonds, provided that the bankruptcy court determines that the alterations are "fair and equitable."

There may be delays in payments on the 2017 Series B Bonds while the court considers any of these issues. There may be other possible effects of a bankruptcy of the Authority that could result in delays or reductions in payments on the 2017 Series B Bonds, or result in losses to the holders of the 2017 Series B Bonds. Regardless of any specific adverse determinations in an Authority bankruptcy proceeding, the fact of an Authority bankruptcy proceeding could have an adverse effect on the liquidity and value of the 2017 Series B Bonds.

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 XIIIC and XIIID to the California Constitution. Article XIIIC 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. However, the voter approval requirements of Article XIIIC do not apply to the 1976 Sales Tax since the 1976 Sales Tax was approved by the voters prior to January 1, 1995. Article XIIIC also removes limitations that may have applied to the voter initiative power with regard to reducing or repealing previously authorized taxes, even previously voter-approved taxes like the 1976 Sales Tax. 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 1976 Sales Tax in a manner which would prevent the payment of debt service on the 2008 Series Bonds would violate the Contracts Clause of the United States Constitution and, accordingly, would be precluded. However, it is likely that the interpretation and application of Proposition 218 will ultimately be determined by the courts.

Further Initiatives

Proposition 218 was adopted as a measure that qualified for the ballot pursuant to California's initiative process. From time to time other initiative measures could be adopted, which may affect the Authority's ability to levy and collect the 1976 Sales Tax.

Ratings

The Authority has furnished to S&P Global Ratings ("S&P") and Fitch Ratings ("Fitch") certain information respecting the 2017 Series B Bonds and the Authority. See "RATINGS." Generally, rating agencies base their ratings on such information and materials and their own investigations, studies and assumptions. Such ratings are subject to revision or withdrawal at any time by the applicable rating agency, and there is no assurance that any rating will continue for any period of time or that they will not be lowered or withdrawn. Any reduction or withdrawal of any rating on the 2017 Series B Bonds may have an adverse effect on the market price of the 2017 Series B Bonds.

2008 Series Bonds

Acceleration by Liquidity Facility Provider. Except as provided in the Indenture, in each and every case during the continuance of an Event of Default under the Indenture, the Trustee or the holders of not less than a majority in aggregate principal amount of the Bonds at the time outstanding will be entitled, upon notice in writing to the Authority, to declare the principal of all of the Bonds then outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture other than as discussed in this provision or in the Bonds contained to the contrary notwithstanding. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Remedies; Acceleration; Rights of Bondholders." In addition, the Liquidity Facility Provider will have the right upon an event of default under the Liquidity Facility to declare all obligations of the Authority to the Liquidity Provider thereunder immediately due and payable without demand.

Investment Considerations Related to Variable Rate Bonds and Interest Rate Swaps. The 2008 Series Bonds were issued as variable rate bonds. Each Series of 2008 Series Bonds may be converted to a fixed interest rate. However, the Authority's protection against rising interest rates is limited because the Authority would be required to continue to pay interest at variable rates until such time as the Authority is permitted to convert the applicable 2008 Series Bonds to fixed rate bonds pursuant to the provisions of the Indenture.

The Authority has entered into the Swap Agreements to manage its interest rate exposure with respect to the 2008 Series Bonds. The total notional amount of the Swap Agreements is equal to the aggregate principal amount of the 2008 Series Bonds. In accordance with the provisions of the Swap Agreements, the Authority will pay a fixed rate of interest to the Counterparties and will receive a variable rate of interest from the Counterparties, the effect of which is intended to achieve a synthetic fixed interest rate.

The variable rate of interest received by the Authority on the Swap Agreements may be less than the variable rate of interest on the 2008 Series Bonds, which would effectively increase the borrowing costs of the Authority. Debt service on the 2008 Series Bonds shown in the debt service schedule set forth above under the caption, "Debt Service Schedule" has been calculated based on the fixed rate of interest payable by the Authority to the Counterparties established pursuant to the Swap Agreements. Actual debt service on the 2008 Series Bonds may be higher or lower than the debt service shown in the Debt Service Schedule. In addition, if one or more of the Swap Agreements were to be terminated for any reason, the Authority would have variable interest rate exposure.

FINANCIAL STATEMENTS

The financial statements of the Authority for the Fiscal Year ended June 30, 2017, included in APPENDIX B of this Official Statement have been audited by Vavrinek, Trine, Day & Co., LLP, independent auditors, as stated in their report therein. Vavrinek, Trine, Day & Co., LLP was not requested to consent to the inclusion of its report in APPENDIX B, nor has it undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by Vavrinek, Trine, Day & Co., LLP with respect to any event subsequent to the date of its report.

LITIGATION

There is not now pending or, to the knowledge of the Authority, threatened, any litigation concerning or affecting the validity or the original issuance of the 2017 Series B Bonds. Neither the creation, organization or existence of the Authority, nor the title of the present members of the Authority to their respective offices is being contested. See APPENDIX A – "THE SANTA CLARA VALLEY TRANSPORTATION AUTHORITY – Litigation."

TAX MATTERS

Tax Exemption. The Internal Revenue Code of 1986 (the "Code") imposes certain requirements that must be met subsequent to the issuance and delivery of the 2017 Series B Bonds for interest thereon to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause the interest on the 2017 Series B Bonds to be included in the gross income of the owners thereof for federal income tax purposes retroactive to the date of issuance of the 2017 Series B Bonds. The Authority has covenanted to maintain the exclusion of the interest on the 2017 Series B Bonds from the gross income of the owners thereof for federal income tax purposes.

In the opinion of Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel, under existing statutes, regulations, rulings and court decisions, interest on the 2017 Series B Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the covenants mentioned herein, interest on the 2017 Series B Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. It is the further opinion of Bond Counsel that, under existing statutes, regulations, rulings and court decisions, the 2017 Series B Bonds are not "specified private activity bonds" within the meaning of section 57(a)(5) of the Code and, therefore, that interest on the 2017 Series B Bonds will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. Receipt or accrual of interest on 2017 Series B Bonds owned by a corporation may affect the computation of the alternative minimum taxable income. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed.

Pursuant to the Indenture and in the Tax Certificate Pertaining to Arbitrage and Other Matters under Sections 103 and 141-150 of the Internal Revenue Code of 1986, to be delivered by the Authority in connection with the issuance of the 2017 Series B Bonds, the Authority will make representations relevant to the determination of, and will make certain covenants regarding or affecting, the exclusion pursuant to section 103(a) of the Code of interest on the 2017 Series B Bonds from the gross income of the owners thereof for federal income tax purposes. In reaching its opinions described in the immediately preceding paragraph, Bond Counsel will assume the accuracy of such representations and the present and future compliance by the Authority with its covenants.

Except as stated in this section above, Bond Counsel will express no opinion as to any federal or state tax consequence of the receipt of interest on, or the ownership or disposition of, the 2017 Series B Bonds. Furthermore, Bond Counsel will express no opinion as to any federal, state or local tax law consequence with respect to the 2017 Series B Bonds, or the interest thereon, if any action is taken with respect to the 2017 Series B Bonds or the proceeds thereof predicated or permitted upon the advice or approval of other counsel. Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the 2017 Series B Bonds may affect the tax status of interest on the 2017 Series B Bonds or the tax consequences of the ownership of the 2017 Series B Bonds.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the Authority described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of examining the tax-exempt status of the interest on municipal obligations. If an audit of the 2017 Series B Bonds is commenced, it is likely that under current procedures the Service would treat the Authority as the "taxpayer" and that the owners would have no right to participate in the examination process. In responding to or defending an examination of the tax-exempt status of the interest on the 2017 Series B Bonds, the Authority may have different or conflicting interests from the owners. Public awareness of any such examination of the 2017 Series B Bonds could adversely affect the value and liquidity of the 2017 Series B Bonds during the pendency of the examination, regardless of its ultimate outcome.

No assurance can be given that future legislation, if enacted into law, will not contain provisions that could directly or indirectly reduce the benefit of the exemption of interest on the 2017 Series B Bonds from personal income taxation by the State or of the exclusion of the interest on the 2017 Series B Bonds from the gross income of the owners thereof for federal income tax purposes.

Existing law may change to reduce or eliminate the benefit to bondholders of the exclusion of interest on the 2017 Series B Bonds from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the 2017 Series B Bonds. For example, legislation has been introduced in the United States Congress which, if enacted, would significantly change the income tax rates for individuals and corporations and would repeal the alternative minimum tax for tax years beginning after December 31, 2017. It is uncertain whether this legislation will be enacted and, if so, whether it will be enacted in its current form. Prospective purchasers of the 2017 Series B Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

A copy of the proposed form of opinion of Bond Counsel relating to the 2017 Series B Bonds is attached hereto as Appendix G.

Tax Accounting Treatment of Bond Premium and Original Issue Discount. To the extent that a purchaser of a 2017 Series B Bond acquires that 2017 Series B Bond at a price in excess of its "stated redemption price at maturity" (within the meaning of section 1273(a)(2) of the Code), such excess will constitute "bond premium" under the Code. Section 171 of the Code, and the Treasury Regulations promulgated thereunder, provide generally that bond premium on a tax-exempt obligation must be amortized over the remaining term of the obligation (or a shorter period in the case of certain callable obligations); the amount of premium so amortized will reduce the owner's basis in such obligation for federal income tax purposes, but such amortized premium will not be deductible for federal income tax purposes. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of the obligation. The amount of premium that is amortizable each year by a purchaser is determined by using such purchaser's yield to maturity. The rate and timing of the amortization of the bond premium and the corresponding basis reduction may result in an owner realizing a taxable gain when its 2017 Series B Bond is sold or disposed of for an amount equal to or in some circumstances even less than the original cost of the 2017 Series B Bond to the owner.

Persons considering the purchase of 2017 Series B Bonds with initial bond premium should consult with their own tax advisors with respect to the determination of amortizable bond premium on such 2017 Series B Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of such 2017 Series B Bonds. Bond Counsel will express no opinion regarding any such tax consequence.

The excess, if any, of the stated redemption price at maturity of 2017 Series B Bonds of a maturity over the initial offering price to the public of the 2017 Series B Bonds of that maturity is "original issue discount." Original issue discount accruing on a 2017 Series B Bond is treated as interest excluded from the gross income of the owner thereof for federal income tax purposes and is exempt from California personal income tax to the same extent as would be stated interest on that 2017 Series B Bond. Original issue discount on any 2017 Series B Bond purchased at such initial offering price and pursuant to such initial offering will accrue on a semiannual basis over the term of the 2017 Series B Bond on the basis of a constant yield method and, within each semiannual period, will accrue on a ratable daily basis. The amount of original issue discount on such a 2017 Series B Bond accruing during each period is added to the adjusted basis of such 2017 Series B Bond to determine taxable gain upon disposition (including sale, redemption or payment on maturity) of such 2017 Series B Bond. The Code includes certain provisions relating to the accrual of original issue discount in the case of purchasers of 2017 Series B Bonds who purchase such 2017 Series B Bonds other than at the initial offering price and pursuant to the initial offering

Persons considering the purchase of 2017 Series B Bonds with original issue discount or initial bond premium should consult with their own tax advisors with respect to the determination of original issue discount or amortizable bond premium on such 2017 Series B Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of such 2017 Series B Bonds. Bond Counsel will express no opinion regarding any such tax consequence.

Other Tax Consequences. Although interest on the 2017 Series B Bonds may be exempt from California personal income tax and excluded from the gross income of the owners thereof for federal income tax purposes, an owner's federal, state or local tax liability may be otherwise affected by the ownership or disposition of the 2017 Series B Bonds. The nature and extent of these other tax consequences will depend upon the owner's other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the 2017 Series B Bonds should be aware that (i) section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the 2017 Series B Bonds and the Code contains additional limitations on interest deductions applicable to financial institutions that own tax-exempt obligations (such as the 2017 Series B Bonds), (ii) with respect to insurance companies subject to the tax imposed by section 831 of the Code, section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15% of the sum of certain items, including interest on the 2017 Series B Bonds, (iii) interest on the 2017 Series B Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by section 884 of the Code, (iv) passive investment income, including interest on the 2017 Series B Bonds, may be subject to federal income taxation under section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income, (v) section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest on the 2017 Series

B Bonds and (vi) under section 32(i) of the Code, receipt of investment income, including interest on the 2017 Series B Bonds, may disqualify the recipient thereof from obtaining the earned income credit. Bond Counsel will express no opinion regarding any such other tax consequence.

LEGAL MATTERS

Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel to the Authority, will render an opinion substantially in the form set forth in APPENDIX G hereto, with respect to the Indenture and the 2017 Series B Bonds. Bond Counsel expresses no opinion regarding the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Authority by the Authority's General Counsel and by Norton Rose Fulbright US LLP, as Disclosure Counsel. Compensation paid to Bond Counsel and Disclosure Counsel is contingent on the successful issuance of the 2017 Series B Bonds.

RATINGS

S&P has assigned a rating of "AAA" and Fitch has assigned a rating of "AA" to the 2017 Series B Bonds. Such ratings reflect only the views of S&P and Fitch, respectively, and do not constitute a recommendation to buy, sell or hold securities. The Authority has furnished to S&P and Fitch certain information respecting the 2017 Series B Bonds and the Authority. Generally, rating agencies base their ratings on such information and materials and their own investigations, studies and assumptions. Such ratings are subject to revision or withdrawal at any time by the applicable rating agency, and there is no assurance that any rating will continue for any period of time or that they will not be lowered or withdrawn. Any reduction or withdrawal of any rating on the 2017 Series B Bonds may have an adverse effect on the market price of the 2017 Series B Bonds.

UNDERWRITING

Goldman Sachs & Co. LLC, J.P. Morgan Securities LLC and Morgan Stanley & Co. LLC (collectively, the "Underwriters") have purchased the 2017 Series B Bonds from the Authority at a purchase price of $32,768,074.22 (representing $27,760,000 aggregate principal amount of 2017 Series B Bonds, plus a premium of $5,086,931.65, less an Underwriters' discount of $78,857.43). The bond purchase agreement pursuant to which the Underwriters have agreed to purchase the 2017 Series B Bonds provides that the Underwriters will purchase all of the 2017 Series B Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the bond purchase agreement, including the approval of certain legal matters by counsel and certain other conditions.

The Underwriters intend to offer the 2017 Series B Bonds to the public at the offering prices set forth on the inside cover page of this Official Statement. The Underwriters may offer and sell to certain dealers and others at a price lower than the offering prices stated on the inside cover page hereof. The offering price may be changed from time to time by the Underwriters.

Morgan Stanley & Co. LLC, an underwriter of the 2017 Series B Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the 2017 Series B Bonds.

J.P. Morgan Securities LLC ("JPMS"), one of the underwriters of the 2017 Series B Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co., Inc. ("CS&Co.") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL will purchase 2017 Series B Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any 2017 Series B Bonds that such firm sells.

MUNICIPAL ADVISOR

The Authority has retained Ross Financial, San Francisco, California, as Municipal Advisor (the "Municipal Advisor") in connection with the issuance and sale of the 2017 Series B Bonds. Compensation paid to the Municipal Advisor is contingent on the successful issuance of the 2017 Series B Bonds.

REGISTERED INVESTMENT ADVISOR

Raymond James & Associates, Inc. ("Raymond James") acted as registered investment adviser to the Authority in its capacity as bidding agent in conducting a competitive bid procurement for the purchase of open market securities to be held in the Escrow Fund. Raymond James will receive compensation for bidding agent services contingent on the sale and delivery of the 2017 Series B Bonds.

CONTINUING DISCLOSURE

The Authority has covenanted for the benefit of the owners and beneficial owners of the 2017 Series B 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 2017-18 Fiscal Year, and to provide notices of the occurrence of certain enumerated events. The Annual Report will be filed by Digital Assurance Certification, L.L.C. (the "Dissemination Agent") on behalf of the Authority with the Municipal Securities Rulemaking Board (the "MSRB"). Any notices of enumerated events will be filed by the Dissemination Agent on behalf of the Authority with the MSRB. The specific nature of the information to be contained in the Annual Report and the notices of enumerated events is set forth under the caption APPENDIX E – "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriters in complying with Rule 15c2-12 of the U.S. Securities and Exchange Commission promulgated under the Securities Exchange Act of 1934, as amended.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Samuel Klein and Company, Certified Public Accountants (the "Verification Agent"), will deliver to the Authority, on or before the date of delivery of the 2017 Series B Bonds, its verification report indicating that the Verification Agent has verified, in accordance with attestation standards established by the American Institute of Certified Public Accountants, the mathematical accuracy of computations prepared on behalf of the Authority relating to the sufficiency of amounts on deposit and expected investment earnings thereon with respect to the Escrow Fund and relating to the yield on the 2017 Series B Bonds for federal income tax purposes.

MISCELLANEOUS

The references herein to the Act and the Indenture are brief summaries of certain provisions thereof. Such summaries do not purport to be complete or definitive. For full and complete statements of such provisions reference is made to the Act or such documents, as the case may be. A copy of the Indenture is available for inspection at the Authority and following delivery of the 2017 Series B Bonds will be on file at the offices of the Trustee.

Any statement in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or Owners of any of the 2017 Series B Bonds.

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

By: /s/ Raj Srinath
Chief Financial Officer

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX A

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

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

Administration

VTA is an independent special district governed by its own Board of Directors (the "Board"). Board members are elected governing board officials appointed by the jurisdictions they represent, and all jurisdictions within the County of Santa Clara (the "County") have representation on the Board. The Board consists of 12 voting members, 6 alternates, and 3 ex-officio members, and membership is roughly based on population as follows:

Group 1 (San José)	5 Members, 1 Alternate
Group 2 (Northwest)	1 Member, 1 Alternate from the Cities of Los Altos, Mountain View, Palo Alto, and the Town of Los Altos Hills
Group 3 (West Valley)	1 Member, 1 Alternate from the Cities of Campbell, Cupertino, Monte Sereno, Saratoga, and the Town of Los Gatos
Group 4 (South County)	1 Member, 1 Alternate from the Cities of Gilroy and Morgan Hill
Group 5 (Northeast)	2 Members, 1 Alternate from the Cities of Milpitas, Sunnyvale and Santa Clara
Group 6	2 Members, 1 Alternate from the Santa Clara County Board of Supervisors
Ex-Officio	Santa Clara County's 3 representatives to the Metropolitan Transportation Commission (MTC): I Member representing the County of Santa Clara, I Member representing the cities of Santa Clara County, and I Member representing the City of San Jose. (Note: MTC commissioners serve as an Ex-Officio Member only when not serving as a regular or alternate member of the VTA Board of Directors.)

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

Jeannie Bruins, Chairperson
Sam Liccardo, Vice Chairperson

<u>GROUP 1</u> (San José)	
City of San José	Charles "Chappie" Jones
	Lan Diep
	Johnny Khamis
	Sam Liccardo*
	Raul Peralez
	Devora "Dev" Davis, Alternate
<u>GROUP 2</u> (Northwest)	
City of Los Altos	Jeannie Bruins*
Town of Los Altos Hills	
City of Mountain View	John McAlister, Alternate
City of Palo Alto	
<u>GROUP 3</u> (West Valley)	
City of Campbell	
City of Cupertino	Savita Vaidhyanathan
Town of Los Gatos	Rob Rennie, Alternate
City of Monte Sereno	
City of Saratoga	
<u>GROUP 4</u> (South County)	
City of Gilroy	Daniel Harney, Alternate
City of Morgan Hill	Larry Carr
<u>GROUP 5</u> (Northeast)	
City of Milpitas	Bob Nunez, Alternate
City of Santa Clara	Teresa O'Neill
City of Sunnyvale	Glenn Hendricks
<u>GROUP 6</u> (Santa Clara County)	
County of Santa Clara	Cindy Chavez
	Ken Yeager
	Dave Cortese*, Alternate
<u>Ex-Officio</u>	
Metropolitan Transportation Commission Representing Santa Clara County, certain cities of Santa Clara County, and City of San José	None**

*   These individuals also serve on the MTC.
**   There are no *Ex-Officio* Board Members for 2017 as the MTC representatives from Santa Clara County, certain cities of Santa Clara County and the City of San José are also Authority Board Members or Alternate Authority Board Members.

The Board has established five standing committees, each consisting of four Board members: Administration and Finance Committee, Governance and Audit Committee, Congestion Management Program and Planning Committee, Transit Planning and Operations Committee, and Silicon Valley Rapid Transit Program Working Committee. 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:

NURIA I. FERNANDEZ – General Manager since December 2013. Ms. Fernandez is a Senior Executive with over 30 years of experience in the transportation field and a professional career that includes, planning, design and construction of mass transit systems, airport operations and policy development of federal transportation programs. Ms. Fernandez previously served as Chief Operating Officer for the State of New York Metropolitan Transportation Authority ("MTA") where she was responsible for the overall security of the MTA system, development of its capital and environmental sustainability programs, federal and state government affairs and management oversight of the five operating agencies and its capital construction.

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

CHRIS AUGENSTEIN – Director of Planning & Programming since July 2017. Mr. Augenstein is a Senior Executive with over 28 years of planning experience in the public sector; he was most recently the Deputy Director of Planning at VTA. Prior to joining VTA in 1997, Mr. Augenstein served eight years as Project Manager/Transportation Planner at the Metropolitan Transit Development Board (MTDB) in San Diego, CA. He earned his Master's Degree in City Planning from San Diego University. Mr. Augenstein is a member of the American Planning Association (APA) and is certified by the American Institute of Certified Planners (AICP).

INEZ P. EVANS – Chief of Operations Officer since September 2015. Ms. Evans is a Senior Executive with over 20 years of experience in the transportation field that include mass transit operations, design and construction of transit system infrastructure and rail systems and planning. Ms. Evans previously served as Chief Operating Officer for the Southwest Ohio Regional Transit Authority ("SORTA") where she was responsible for the overall day to day operation of fixed-route and paratransit bus operations, fleet maintenance, facilities maintenance and rail services.

ANGELIQUE GAETA – Chief of Staff since October 2016. Ms. Gaeta is a Senior Executive with over 15 years of experience in the public sector which includes serving as an Interim Assistant City Manager for the City of Half Moon Bay and serving as both an Assistant to the City Manager and a Deputy City Attorney for the City of San Jose. In these roles, Ms. Gaeta has overseen complex regulatory programs and land development projects. She has also served as legal counsel for police departments, fire departments, departments of transportation, and public works departments.

CAROLYN M. GONOT – Director, Engineering and Transportation Infrastructure Development since October 2014. Prior to holding this position, Ms. Gonot served as Chief Silicon Valley Rapid Transit ("SVRT") Program Officer from June 2007 to October 2014. Prior to her appointment as Chief SVRT Program Officer, Ms. Gonot served as Chief Development Officer and as the Deputy Director of the Congestion Management Program. Ms. Gonot has been employed by the Authority since July 1996. Ms. Gonot worked for transportation consulting firms before joining the Authority.

ALBERTO LARA – Director of Business Services since September 2015. Alberto is a senior level executive with many years of experience in the public sector, mainly focused in Human Resources. Mr. Lara spent over 20 years in Washington State working in HR, Risk Management, Customer Service and Technology, primarily as a C-suite level executive. Most recently, Alberto worked for Pierce Transit in Lakewood, WA., as Chief Administrative Officer for the transit authority. Originally from Mexico City, Alberto is fluent in Spanish and English.

JIM LAWSON – Director, Government Affairs. Mr. Lawson joined the Authority as a staff member nine years ago after serving as a Board Member and Chair of the Board of Directors of the Authority. He served as Board Member and Chair of Caltrain, Board Member of Altamont Commuter Express and Capitol Corridor Commuter Rail. Mr. Lawson has over 25 years' experience in transportation and government affairs.

RAJ SRINATH – Chief Financial Officer since October 2014. Mr. Srinath is responsible for the Fiscal Resources division, which include capital program financing, debt administration, financial reporting, accounting, budgeting, investment services, fare-box revenue services, enterprise risk management, and property development. In addition, Mr. Srinath serves as a trustee on the defined benefit plan.

Prior to joining VTA, Mr. Srinath was the Treasurer of Washington Metropolitan Area Transit Authority, and was responsible for managing investments, debt management, custody and distribution of all fare media, and risk management. As the Treasurer of WMATA, Mr. Srinath successfully arranged over a $1.0 billion of financings for infrastructure improvements and railcar acquisition.

As the Associate Treasurer for the District of Columbia and prior to that as the Senior Director of Corporate Finance at Amtrak, he successfully executed over $3.0 billion of financings to fund infrastructure projects and acquisition of rail cars. Mr. Srinath holds a Bachelor of Science degree in Engineering from Bangalore (India) and a Master's degree in Business Administration from Clarion University of Pennsylvania.

Employees

The Authority has approximately 2,296 employees of which approximately 94% are represented by unions. The Amalgamated Transit Union, Division 265 (ATU), represents approximately 1,617 employees (70.4% of total Authority employees), including mechanics and maintenance personnel, bus and light rail operators, dispatchers, and customer service representatives. The current agreement between the ATU and the Authority was executed in 2015 and expires on September 30, 2018.

The remaining represented employees consist of: members of Service Employees International Union, Local 521 (SEIU), representing approximately 265 employees in technical, paraprofessional and administrative positions; members of American Federation of State, County and Municipal Employees, Local 101 (AFSCME), representing approximately 235 employees in managerial, supervisory and other professional level positions; and members of Transit Authority Engineers and Architects (TAEA), representing 38 employees in engineering and architect positions. The contract with AFSCME expires on June 19, 2019; SEIU expires on August 5, 2018; TAEA expires on June 30, 2019; and ATU expires on September 30, 2018. The Authority will begin negotiating the terms of a successor agreement with SEIU and ATU beginning April and June of 2018, respectively. The remaining number of employees are non-represented.

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

The Authority's Transit System

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

Bus Transit Service. The Authority presently operates a bus system providing service to the approximately 346-square-mile urbanized portion of the County, a county of 1,265 square miles with a population of approximately 1.9 million. The Authority currently maintains an active fleet of 460 buses, consisting of 253 diesel-powered and 207 hybrid-diesel-powered buses. The average age of these buses is 10.07 years

Buses are operated and maintained from three operating divisions and an Overhaul and Repair ("O&R") facility: Cerone Operating Division, Don Pedro Chaboya Operating Division, North Operating Division and Cerone O&R Division. Along the bus routes, there are approximately 3,861 bus stops, 814 of which have bus shelters. The Authority also maintains seven park and ride lots – two owned by the Authority and the rest provided under a lease, permit or joint use agreement with other agencies.

Light Rail Transit Service. The Authority currently operates and maintains a 42-mile light rail system (the "LRT System") connecting areas of Mountain View, Sunnyvale, Santa Clara, North San José and Milpitas to areas in South San José and Campbell. The Authority's fleet consists of 99 low floor light rail vehicles and four historic trolleys. Currently, the LRT System has 61 stations and 20 park and ride lots, which are fully integrated with the bus system.

Other Services. The Authority provides funding for a portion of the operating and capital costs of the Caltrain commuter rail service. This Caltrain 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-two trains (including 22 express trains) operate between San José Diridon Station and San Francisco each weekday, with 40 of these trains extended to the Tamien Station in San José. Connection to the Authority's light rail system can be made at the Mountain View, San José Diridon, and Tamien Stations. Six peak-hour weekday trains extend south of Tamien station to Gilroy, three in the a.m. and three in the p.m. Hourly weekend service with four additional Express trains is operated between San José Diridon Station and San Francisco. Currently the Authority is responsible for approximately 42.3% of such operating costs.

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

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

The Dumbarton Express is overseen by a consortium comprised of representatives from the Alameda-Contra Costa Transit District ("AC Transit"), BART, the City of Union City, SamTrans, and the Authority through a Cooperative Agreement. The Authority currently does not provide any funding for the service, a transbay express bus route operating between the Union City BART station and Stanford University/Stanford Research Park in Palo Alto. Currently Regional Measure 2 funds are used to pay for all operating expenses. AC Transit manages the service which is operated by a private contractor.

The Authority provides funding for a portion of the operating costs of the Highway 17 Express, an inter-county bus service, operating between Santa Cruz, Scotts Valley and downtown San José, through a cooperative arrangement between the Authority, the Santa Cruz Metropolitan Transit District ("Santa Cruz Metro"), the Capitol Corridor JPA and the California Department of Transportation ("Caltrans"). The Authority and Santa Cruz Metro share the majority of net operating costs. The Capitol Corridor JPA and Caltrans also provide funding for the service. Santa Cruz Metro manages and operates the service.

VTA operates paratransit service for eligible individuals who cannot use conventional public transit due to physical, visual or cognitive disabilities. The service, called ACCESS, provides door-to-door service via vehicles compliant with the Americans with Disabilities Act-compliant and driven by professional drivers. As an operator of bus and light rail service, VTA is required by the Americans with Disabilities Act to ensure that paratransit services is provided to areas within ¾ of a mile of where fixed-route transit service is provided while that service is in operation. VTA's Paratransit Policy exceeds the ¾-mile minimum, extending the service area an additional mile, though riders who are traveling to or from a location in the extended service area pay at a premium fare. In addition, VTA offers same-day service for a premium fare.The Authority, in partnership with the City of San José, provides free Airport Flyer bus service connecting the Norman Y. Mineta San José International Airport terminals with the Authority's Metro/Airport Light Rail Station and the Santa Clara Caltrain Station. The City of San José contributes approximately 19% to the net operating costs for this service with the Authority funding the remainder.

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

Authority Revenues

The Authority's primary revenue sources consist of (i) the 1976 Sales Tax; (ii) the 2000 Measure A Sales Tax; (iii) the 2008 Measure B Sales Tax; (iv) the 2016 Measure B Sales Tax; (v) the one-quarter of one percent (0.25%) sales tax imposed pursuant to the California Transportation Development Act of 1971, as amended, described herein under the caption "Transportation Development Act Revenues"; (vi) a portion of the revenues derived from the sales tax on diesel fuel purchases appropriated by the State Legislature to the State Transit Assistance Program ("STA") for public transportation purposes, described herein under the caption "State Transit Assistance Program"; and (vii) passenger fares charged by the Authority.

1976 Sales Tax Revenues

The 1976 Sales Tax is the Authority's single largest source of revenue for operations. The 1976 Sales Tax is 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. The tax is collected by the California Department of Tax and Fee Administration (the "CDTFA") and does not expire. Pursuant to an agreement between the Authority and the CDTFA, as successor to the State Board of Equalization, the CDTFA remits revenues from the 1976 Sales Tax to the trustee for senior lien obligations secured by the 1976 Sales Tax (the "1976 Sales Tax Bond Trustee") on a monthly basis. Pursuant to its procedures, the CDTFA projects receipts of the 1976 Sales Tax on a quarterly basis and remits an advance of such receipts to the Trustee each month based on such projection. During the last month of each quarter, the CDTFA adjusts the amount remitted to reflect the actual receipts of the 1976 Sales Tax for the previous quarter less administration costs. After application for payment of the senior lien obligations and junior lien obligations (if any) secured by the 1976 Sales Tax (herein referred to as the "1976 Sales Tax Obligations"), 1976 Sales Tax Revenues are remitted to the Authority and are available to pay operating expenses and capital expenditures.

2000 Measure A Sales Tax Revenues

In November of 2000, more than 70% of the voters in the County voting on such ballot measure approved Measure A ("2000 Measure A"), implementing a 30-year, half-cent sales tax that became effective on April 1, 2006 and is scheduled to expire on March 31, 2036 (the "2000 Measure A Sales Tax"). The 2000 Measure A Sales Tax is similar to the 1976 Sales Tax, both in terms of the tax base (County population) and tax rate (0.5%). 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. 20.75% of the annual 2000 Measure A Sales Tax Revenues are used to support operating expenses.

Collection of the 2000 Measure A Sales Tax is administered by the CDTFA in the same way as is done for the 1976 Sales Tax. The Authority has authorized the CDTFA to remit 2000 Measure A Sales Tax Revenues directly to the 2000 Measure A Sales Tax Bond Trustee. Pursuant to its procedures, the CDTFA projects receipts of the 2000 Measure A Sales Tax on a quarterly basis and remits an advance of such receipts to the 2000 Measure A Sales Tax Bond Trustee on a monthly basis based on such projection. During the last month of each quarter, the CDTFA 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 2000 Measure A Sales Tax Bond Trustee retains an amount necessary to meet debt service requirements and make the other deposits required by the Indenture and the balance is then forwarded to the Authority. The 2000 Measure A Sales Tax Revenues do not secure the 2017 Series B Bonds.

The following table shows the total amount of 1976 Sales Tax and 2000 Measure A Sales Tax received during the 15 fiscal years ended June 30, 2017.

Santa Clara Valley Transportation Authority
Historical Sales Tax Revenues
1976 Sales Tax Revenues and 2000 Measure A Revenues
Fiscal Years Ended June 30, 2003 – 2017

Fiscal Year Ended June 30	1976 Sales Tax Revenues	Rate of Change	2000 Measure A Sales Tax Revenues(1)	Rate of Change
2003	$132,632,377	-8.0%	-	-
2004	138,917,173	4.7	-	-
2005	145,008,106	4.4	-	-
2006	157,283,101	8.5	$38,169,934	-
2007	163,675,750	4.1	161,360,552	-
2008	163,037,594	-0.4	160,536,904	-0.5%
2009	137,641,999	-15.6	137,260,570	-14.5
2010	140,036,709	1.7	139,305,038	1.5
2011	153,601,839	9.7	152,855,102	9.7
2012	166,567,320	8.4	166,279,983	8.8
2013	176,715,771	6.1	176,533,671	6.2
2014	186,431,256	5.5	186,301,711	5.5
2015	199,220,925	6.9	199,652,765	7.2
2016	205,418,423	3.1	205,635,594	3.0
2017	209,005,407	1.7	208,671,692	1.5

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

2008 Measure B Sales Tax

In November of 2008, over two-thirds of the voters in the County approved Measure B, implementing a one-eighth of one percent (0.125%) sales tax that became effective July 1, 2012 and continues for 30 years (the "2008 Measure B Sales Tax"), expiring on June 30, 2042. The 2008 Measure B Sales Tax is levied against the same sales tax base as the 1976 Sales Tax, and is dedicated to support the operation and maintenance of the BART to Silicon Valley Project. Collection of the 2008 Measure B Sales Tax is administered by the CDTFA in the same manner as the 1976 Sales Tax. Expenditure of the 2008 Measure B Sales Tax Revenues will not commence until the start of revenue service for the BART extension to Berryessa, currently anticipated in late Spring 2018. The 2008 Measure B Sales Tax Revenues do not secure the 2017 Series B Bonds.

2016 Measure B Sales Tax

In November of 2016, over two-thirds of the voters in the County approved Measure B, implementing a one-half of one percent (0.5%) sales tax (the "2016 Measure B Sales Tax") that became effective April 1, 2017 and continues for 30 years (the "2016 Measure B Sales Tax"), expiring on March 31, 2047. The 2016 Measure B Sales Tax is levied against the same sales tax base as the 1976 Sales Tax, and will help fund a series of transportation related projects including local streets and roads repair, bicycle/pedestrian improvements, Caltrain grade separations, and Phase II of the BART extension. The 2016 Measure B Sales Tax Revenues do not secure the 2017 Series B Bonds.

In January 2017, a County resident individually filed a lawsuit against the Authority on the validity of the 2016 Measure B Sales Tax. (*Cheriel Jensen v. Santa Clara Valley Transportation Authority, et al.*, Santa Clara County Superior Court Case No. 17-CV-304960). The Authority challenged the lawsuit as lacking merit and the court agreed and dismissed the case. However, the Plaintiff filed an appeal with the Sixth District Court of Appeal on August 17, 2017, Case No. H044974. As a result of the ongoing appeal, the Authority is required to keep, and has been keeping, all 2016 Measure B Sales Tax collections in an escrow account "until the legality of the tax is finally resolved by a final and non-appealable decision…" (Section 7270(c) of the California Revenue and Taxation Code).

Other Revenues

Transportation Development Act Revenues. Transportation Development Act Revenues ("TDA Revenues") are a State subsidy consisting of an allocation of State sales tax revenue under the California Transportation Development Act of 1971, as amended (the "TDA"), whereby a 0.25% levy of the State's sales tax (net of collection costs) is made available for public transportation operating and capital expenses in the county in which the sales tax is collected. TDA Revenues are the Authority's second largest source of revenue for operations and are separate and distinct from revenues derived from the 1976 Sales Tax, the 2000 Measure A Sales Tax, the 2008 Measure B Sales Tax, and the 2016 Measure B Sales Tax.

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

The following table shows the total amount of TDA Revenues for operations available from annual State sales tax collections in the County during the five Fiscal Years ended June 30, 2017.

Santa Clara Valley Transportation Authority
Historical Transportation Development Act Revenues

Fiscal Year Ended June 30	TDA Revenues for Operations Distributed to the Authority
2013	$86,295,600
2014	89,517,914
2015	94,639,918
2016	98,519,146
2017	99,401,935

Source: Santa Clara Valley Transportation Authority CAFRs Fiscal Years 2013-2017.

State Transit Assistance Program; Restructuring of State Transportation Funding. A portion of the revenues derived from the sales tax on diesel fuel purchases is appropriated by the State Legislature to the State Transit Assistance Program ("STA") for public transportation purposes. These STA revenues are allocated to public transit agencies throughout the State based on population and operating revenues. STA Revenues must be claimed by the Authority based on actual cash expenditures, normally on a quarterly basis.

The Authority has received STA Revenues each year since Fiscal Year 1980, except for Fiscal Years 2009 and 2010, as explained below. The following table shows STA Revenues received by the Authority for the five Fiscal Years ended June 30, 2017.

Santa Clara Valley Transportation Authority
Historical State Transit Assistance Program Revenues

Fiscal Year Ended June 30	STA Revenues Received
2013	$14,906,558
2014	15,337,987
2015	13,949,506
2016	13,631,891
2017	9,024,212

Source: Santa Clara Valley Transportation Authority CAFRs Fiscal Years 2013-2017.

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

In March 2010, then-Governor Schwarzenegger signed into law a three-bill package, ABX8 6, ABX8 9 and SB 70, that implemented a complex swapping of state transportation funding sources that was intended to achieve roughly $1 billion in annual budget savings by relieving the State General Fund of the obligation to pay for transportation bond debt service. This restructuring of State transportation funding eliminated the State sales tax on gasoline, the sole revenue source for Proposition 42 (Transportation Congestion Improvement Act) and one of the revenue sources for the Public Transportation Account, and replaced it with a 17.3-cent per gallon increase in the gasoline excise tax. This transportation funding swap took effect on July 1, 2010. Pursuant to this swap, revenues from the gasoline excise tax increase were used to pay highway bond debt service and to provide money for the State Transportation Improvement Program ("STIP"), local streets and roads, and the State Highway Operation and Protection Program ("SHOPP"). The distribution of these revenues was structured to ensure that the STIP and local streets/roads would receive at least the same amount of money as under Proposition 42. Furthermore, the CDTFA was required to adjust the gasoline excise tax rate on an annual basis, if necessary, to ensure that the swap did not result in a tax increase for consumers at the pump.

In the case of public transit, the package retained the State sales tax on diesel fuel for the Public Transportation Account. A one-time appropriation of $400 million was made for STA to cover Fiscal Years ending June 30, 2010 and June 30, 2011.

Beginning in the Fiscal Year ending June 30, 2012, the State diesel sales tax rate was increased from 4.75 % to 6.75%, in conjunction with a corresponding decline in the per-gallon diesel fuel excise tax at the pump. Revenues from the sales tax were to be allocated first to pay high-speed rail/transit bond debt service, with remaining revenues from the 4.75% base rate split 50% to STA, and 50% to intercity rail and other miscellaneous State transit programs. All revenues above the base rate of 4.75% are dedicated to STA.

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

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

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

In June 2014, Governor Brown signed the Fiscal Year 2015 State budget into law. This budget provided roughly $13.9 million in STA revenues to VTA for Fiscal Year 2015.

In Fiscal Year 2015-16 the State Controller's Office implemented changes to the methodology used to calculate a public transit operator's share of STA revenue-based funds. These changes went into effect starting with the first quarter allocations for Fiscal Year 2016, and impacted all public transit operators in California to varying degrees. In response, the Legislature included in SB 838, the Fiscal Year 2017 transportation budget trailer bill, provisions that temporarily put implementation of these changes on hold by requiring the Controller's Office to use the same list of eligible recipients and the same proportional operator shares from the fourth quarter of Fiscal Year 2015 to distribute any unallocated Fiscal Year 2016, and all Fiscal Year 2017 and Fiscal Year 2018 STA revenue-based funds.

In the meantime, the California Transit Association formed a task force to work on developing a consensus on a follow-up policy bill to address any ambiguities in the current STA statutory and regulatory framework. The result was AB 1113 (Bloom), signed into law by Governor Brown in July, 2017. AB 1113 clarifies (1) who is eligible to receive STA revenue-based funds; (2) what revenue sources may be used to determine a public transit operator's revenue-based share; (3) how an individual operator's revenue-based share is to be calculated; and (4) how RTPAs and MPOs, which serve as the direct recipients of STA population- and revenue-based funds, would sub-allocate these dollars to public transit operators within their respective jurisdictions.

In April 2017, Governor Brown signed into law a landmark transportation funding package known as SB 1 (Beall), The Road Repair and Accountability Act of 2017, which increased and stabilized STA revenues in several ways. First, SB 1 provides a new diesel sales tax rate of 3.5 percent for the STA, effective November 1, 2017. Public transit agencies could use their formula shares for any eligible STA operating or capital expenditure.

Secondly, SB 1 establishes a transportation improvement fee, effective January 1, 2018, that would range from $25 to $175 based on the market value of an individual's vehicle and would be indexed to inflation on an annual basis. Of the revenues generated by this new fee, $350 million per year (adjusted annually for inflation) would be split with 70 percent going to the Transit and Intercity Rail Capital Program ($245 million), and 30 percent to STA ($105 million). In the case of the latter, SB 1 requires public transit agencies to expend their formula shares for activities related to: (1) repairing, maintaining, rehabilitating, or modernizing their existing vehicles or facilities; (2) designing, acquiring or constructing new vehicles or facilities that would improve existing services or allow for the implementation of future planned services; or (3) transit services that complement local efforts to repair and improve local transportation infrastructure.

In addition to raising new revenues for transportation purposes, SB 1 addresses the volatility of the variable portion of the state's gasoline excise tax by: (1) ending the CDTFA's annual adjustments, and converting the variable rate to a fix rate of 17.3 cents per gallon, effective July 1, 2019; and (2) indexing the fixed rate to inflation every year to maintain purchasing power. These revenues would continue to be allocated according to existing law, as follows: (1) 44 percent to the State Transportation Improvement Program (STIP); (2) 44 percent to cities/counties for local streets/roads; and (3) 12 percent to the SHOPP. The 44-44-12 split occurs after backfilling the State Highway Account for the loss of vehicle weight fee revenues to the General Fund for transportation bond debt service. SB 1 also requires the repayment of $706 million in prior-year loans made to the General Fund from various transportation accounts in equal installments over the next three fiscal years. The entire amount is required to be repaid no later than June 30, 2020.

Ridership and Farebox, Advertising and Toll Revenues. The following table shows the Authority's ridership, farebox revenues, revenues from advertisements placed on the Authority's vehicles and bus shelters and toll revenues received by the Authority for the five Fiscal Years ended June 30, 2017.

Santa Clara Valley Transportation Authority
Ridership and Farebox, Advertising and Toll Revenues

Fiscal Year Ended June 30	Number of Passengers[1]	Farebox, Advertising and Toll Revenues (In Thousands)
2013	43,146,890	$41,821
2014	43,428,485	42,420
2015	43,962,737	43,054
2016	42,918,436	42,316
2017	38,189,131	40,194[2]

(1) Directly operated services.
(2) Includes paratransit revenues of $1.064 million.
Source: Santa Clara Valley Transportation Authority CAFRs Fiscal Years 2013-2017.

Authority Budgeted Revenues and Expenditures

The Authority's budget is prepared biennially. The Adopted Budget for Fiscal Year ending June 30, 2018 and Fiscal Year ending June 30, 2019 (the "Budget") was approved by the Board of Directors on June 1, 2017 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, the budget generally is revised in January of each year. A detailed discussion of the Budget related to congestion management, highway improvements and countywide transportation planning (all of which are funded from sources of revenue other than those discussed herein) is included in the budget document, which is currently available at *http://www.vta.org/about-us/budgets/budget-disclosures-miscellaneous*. None of the information on such website is incorporated by reference herein. The remaining approved Budget amounts are in support of transit-related transportation projects, bus and rail operations in the County, and regional commuter and inter-city rail service. The Budget includes a 25% fare increase phased over two years starting January 1, 2018 and reflects a 2.4% increase from Fiscal Year 2017 in projected sales tax revenues for Fiscal Year 2018, followed by a 2.0% increase in Fiscal Year 2019.

Transit System Budget. The following table is derived from the Authority's Fiscal Year 2018-2019 Biennial Budget, adopted in June 2017, and summarizes the Authority's Adopted Operating and Capital Budget which supports activities related to the Authority's Transit System. Values for actual revenues and expenses shown in the table were estimated prior to the end of the fiscal year and vary slightly compared to final audited revenues and expenses.

Santa Clara Valley Transportation Authority
VTA Transit - Comparison of Revenues and Expenses
(In thousands)

Category	Fiscal Year 2016 Actual	Fiscal Year 2017 Adopted Budget[1]	Fiscal Year 2017 Projected Actual[2]	Fiscal Year 2018 Adopted Budget	Variance from Fiscal Year 2017 Actual	% Variance	Fiscal Year 2019 Adopted Budget	Variance from Fiscal Year 2018 Budget	% Variance
Fares-Transit	$37,663	$41,599	$33,718	**$35,742**	$2,024	6.0%	**$40,568**	$4,827	13.5%
Fares-Paratransit[3]	0	0	1,064	**2,328**	1,263	118.7	**2,723**	396	17.0
1976 Half-Cent Sales Tax	205,418	216,835	210,030	**215,343**	5,313	2.5	**219,650**	4,307	2.0
Transportation Development Act	98,519	101,912	99,402	**101,211**	1,809	1.8	**103,235**	2,024	2.0
Measure A Sales Tax-Oper. Asst.	37,954	40,021	38,677	**44,684**	6,007	15.5	**45,577**	894	2.0
2016 Measure B-Transit Operations	0	0	0	**14,060**	14,060	N/A	**14,500**	441	3.1
State Transit Assistance	13,632	14,765	9,024	**10,300**	1,276	14.1	**10,300**	0	0.0
Federal Operating Grants	4,105	3,704	4,232	**3,831**	(401)	-9.5	**3,910**	79	2.1
State Operating Grants	1,984	1,420	2,532	**1,373**	(1,159)	-45.8	**960**	(413)	-30.1
Investment Earnings	2,580	1,425	3,086	**3,584**	498	16.1	**4,526**	941	26.3
Advertising Income	2,515	2,258	2,623	**2,800**	177	6.7	**2,909**	109	3.9
Measure A Repayment Obligation	15,007	15,247	15,178	**15,596**	418	2.8	**15,499**	(97)	-0.6
Other Income	2,937	2,556	4,952	**4,173**	(778)	-15.7	**2,420**	(1,754)	-42.0
Transfer to Capital Reserve[4]	(13,635)	(21,907)	0	**0**	0	N/A	**0**	0	N/A
Total Revenue	**408,680**	**419,836**	**424,519**	**455,024**	**30,505**	**7.2**	**466,777**	**11,753**	**2.6**
Labor Cost	300,238	323,134	307,084	**329,982**	22,897	7.5	**339,746**	9,764	3.0
Materials & Supplies	22,949	19,398	29,217	**38,191**	8,974	30.7	**42,351**	4,160	10.9
Security	11,420	15,119	12,671	**17,409**	4,738	37.4	**17,880**	471	2.7
Professional & Special Services	5,829	6,615	7,363	**8,715**	1,352	18.4	**7,215**	(1,501)	-17.2
Other Services	7,748	7,590	8,524	**10,488**	1,963	23.0	**10,831**	343	3.3
Fuel	7,830	12,517	8,256	**10,716**	2,460	29.8	**12,022**	1,306	12.2
Traction Power	4,241	3,898	4,081	**5,312**	1,231	30.2	**6,189**	877	16.5
Tires	2,068	2,266	2,177	**2,387**	210	9.7	**2,524**	137	5.7
Utilities	3,105	2,895	3,074	**3,593**	519	16.9	**3,712**	119	3.3
Insurance	4,923	5,752	6,901	**6,467**	(434)	-6.3	**6,862**	394	6.1
Data Processing	3,916	4,746	4,783	**5,022**	239	5.0	**4,987**	(35)	-0.7
Office Expense	425	425	367	**425**	58	15.8	**412**	(13)	-2.9
Communications	1,562	1,606	1,692	**1,620**	(72)	-4.3	**1,644**	24	1.5
Employee Related Expense	1,048	1,023	686	**1,124**	438	63.9	**1,124**	0	0.0
Leases & Rents	919	791	678	**904**	227	33.5	**904**	0	0.0
Miscellaneous	911	713	895	**878**	(16)	-1.8	**860**	(19)	-2.1
Reimbursements	(36,374)	(38,769)	(33,917)	**(36,555)**	(2,638)	7.8	**(37,332)**	(777)	2.1
Subtotal Operating Expense	**342,758**	**369,718**	**364,533**	**406,679**	**42,146**	**11.6**	**421,928**	**15,249**	**3.7**
Paratransit[3]	19,805	26,184	23,551	**24,671**	1,120	4.8	**26,338**	1,667	6.8
Caltrain	8,414	8,390	8,390	**8,967**	577	6.9	**8,967**	0	0.0
Altamont Corridor Express	4,838	5,323	4,960	**5,177**	217	4.4	**5,307**	129	2.5
Highway 17 Express	270	384	333	**370**	37	11.0	**381**	11	3.0
Monterey-San Jose Express	35	35	35	**35**	0	0.0	**35**	0	0.0
Contribution to Other Agencies	890	1,772	2,591	**998**	(1,594)	-61.5	**1,006**	8	0.8
Debt Service	21,351	21,641	21,672	**21,581**	(92)	-0.4	**22,233**	652	3.0
Subtotal Other Expense	**55,603**	**63,729**	**61,533**	**61,799**	**266**	**0.4**	**64,267**	**2,468**	**4.0**
Operating and Other Expense	**398,361**	**433,447**	**426,066**	**468,478**	**42,412**	**10.0**	**486,195**	**17,717**	**3.8**
Transfer to Capital Reserve	0	0	0	**5,000**	5,000	N/A	**5,000**	0	0.0
Contingency	0	2,000	0	**2,000**	2,000	N/A	**2,000**	0	0.0
Total Expense/Contingency/Cap Trsf.	**398,361**	**435,447**	**426,066**	**475,478**	**49,412**	**11.6%**	**493,195**	**17,717**	**3.7**
Operating Balance	**$10,319**	**$(15,611)**	**$(1,547)**	**$(20,454)**			**$(26,418)**		

Note: Totals and percentages may not be precise due to independent rounding.

[1] Reflects Adopted Budget approved by the Board on June 4, 2015 and augmentations approved on October 1, 2015; October 6, 2016; and November 3, 2016.
[2] Projection as of August 1, 2017; Preliminary Unaudited.
[3] Beginning in November 2016, Paratransit Fares are reported separately. Previously these revenues were reported as a net against Paratransit expense.
[4] Beginning in FY 2018, Transfer to Capital Reserve is reflected as an expense instead of a reduction of revenues.

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

Valley Transportation Plan. As the designated Congestion Management Agency for the County, the Authority is responsible for preparing the County's long-range countywide transportation plan. In August 2000, the Authority's Board of Directors adopted the Valley Transportation Plan 2020 (as revised, from time to time, the "Valley Transportation Plan") to satisfy this requirement. The Board of Directors adopted the current revision of the Valley Transportation Plan, Valley Transportation Plan 2040 in October 2014. 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 2040 that offers improvements and manages the existing roadway network with local multimodal investments, 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 Authority's BART to Silicon Valley Program, consisting of the extension of the BART system to Milpitas, San José, and Santa Clara, a new light rail line that will serve Capitol Expressway, and a transit improvement (Bus Rapid Transit) 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. VTA expects to update the Valley Transportation Plan in 2018.

Short Range Transportation Plan. As a transit operator, the Authority prepares a Short Range Transit Plan ("SRTP") approximately every two to four years at the request of MTC. The SRTP is used as documentation to support projects included in the Regional Transportation Plan ("RTP") prepared by MTC. Both the FTA and MTC use the SRTP as the detailed planning justification required for awarding operating and capital grants to the Authority. The Authority's most recent SRTP for the Fiscal Years 2014-2023 was adopted by the Board of Directors in August 2014. The Authority anticipates to complete a new SRTP in 2018.

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

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

Core Capital Improvement Program Summary
(In Thousands)

Program Area	Fiscal Years 2014-2023
Revenue Vehicles and Equipment	$410,739
Operations Facilities and Equipment	45,709
Light Rail System Maintenance & Enhancement	151,661
Passenger Facilities	38,777
Information Systems and Technology	31,300
Security	14,413
Miscellaneous Projects	61,734
Total Program Project Costs	$754,331

Source: Santa Clara Valley Transportation Authority SRTP Fiscal Years 2014-2023.

Funding for the Core CIP includes grant (federal, State and regional) funding of $523 million with the remaining portion funded from Authority local funds. The 1976 Sales Tax does not provide funding for the Core CIP.

The most significant capital project not part of the Core CIP is the BART Silicon Valley Project (a 2000 Measure A project) described below.

Bay Area Rapid Transit ("BART") Silicon Valley Project.

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

The cost of the Berryessa Extension is approximately $2.4 billion. Funding for the Berryessa Extension includes $900 million in federal assistance, $350 million in State funding and $1.171 billion from the 2000 Measure A Sales Tax. In March 2012, VTA received a $900 million grant commitment from the FTA for the project, along with the first $100 million appropriation, as provided for in a Full Funding Grant Agreement (the "FFGA"). The FFGA is a multi-year contractual agreement with the Federal Transit Administration that formally defines the project scope, cost and schedule, and establishes the terms of the federal financial assistance.

The first major design and construction contract, valued at $772 million for the line, track, systems and stations, was awarded in December 2011 to Skanska-Shimmick-Herzog, a Joint Venture. Major civil construction of the 10-mile, two station project is nearly complete, with system testing now underway.

Significant Accounting Policies

The Authority follows the accrual basis of accounting and the economic resources exchange measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. See APPENDIX B – "AUDITED FINANCIAL STATEMENTS OF THE SANTA CLARA VALLEY TRANSPORTATION AUTHORITY FOR FISCAL YEAR ENDED JUNE 30, 2017 – Note 2 – Summary of Significant Accounting Policies," which includes a more detailed explanation regarding the Authority's significant accounting policies.

Financial Results

The table on the following page summarizes the Statement of Revenues, Expenses and Changes in Fund Net Assets for the Enterprise Funds of the Authority for the five most recent fiscal years, through June 30, 2017. The summary statements are presented in accordance with generally accepted accounting principles ("GAAP"), are excerpted from the audited financial statements of the Authority and are qualified in their entirety by reference to such statements, including the notes thereto. For the audited financial statements of the Authority for the Fiscal Year ended June 30, 2017, see APPENDIX B – "AUDITED FINANCIAL STATEMENTS OF THE SANTA CLARA VALLEY TRANSPORTATION AUTHORITY FOR FISCAL YEAR ENDED JUNE 30, 2017." Totals may not add due to independent rounding.

[Remainder of page intentionally left blank.]

Santa Clara Valley Transportation Authority
Statements of Revenues, Expenses and Changes in Fund Net Position
Enterprise Funds
Fiscal Years Ended June 30, 2013 through 2017
(In Thousands)

	2013	2014	2015	2016	2017
OPERATING REVENUES:					
Passenger Fares	$ 38,331	$ 38,372	$ 39,108	$ 37,663	$ 34,783
Toll revenues collected	1,049	1,222	1,157	1,274	1,258
Advertising and other	2,441	2,826	2,789	3,379	3,478
Charges for services	-	-	-	-	675
Total Operating Revenues	41,821	42,420	43,054	42,316	40,194
OPERATING EXPENSES:					
Labor cost	272,552	280,690	286,689	309,510	321,824
Materials and supplies	30,677	32,806	32,407	32,005	38,656
Services	20,361	28,488	28,883	33,447	36,725
Utilities	7,251	7,585	8,316	8,921	8,854
Casualty and liability	3,415	13,813	5,238	4,923	6,901
Purchased transportation	18,179	18,493	19,241	21,477	25,241
Leases and rentals	953	1,334	714	919	678
Miscellaneous	1,451	1,616	1,735	2,111	1,732
Depreciation expense	59,863	59,445	65,677	62,386	68,539
Costs allocated to capital and other programs	(32,879)	(34,864)	(32,441)	(32,039)	(27,641)
Total Operating Expense	381,823	409,406	416,459	443,660	481,509
Operating Income/(Loss)	(340,002)	(366,986)	(373,405)	(401,344)	(441,315)
NON-OPERATING REVENUES (EXPENSES):					
Sales tax revenue	395,163	417,486	446,374	460,316	467,701
Federal operating assistance and other grants	39,364	42,230	24,553	4,105	4,232
Federal subsidy for Build America Bonds	9,126	8,755	8,715	8,748	8,753
State and local operating assistance grants	103,213	106,439	110,243	114,135	110,959
Caltrain subsidy	(13,700)	(7,291)	(8,390)	(8,414)	(8,390)
Capital expense on behalf of, and contribution to other agencies	(138,794)	(93,952)	(61,445)	(53,094)	(86,084)
Altamont Corridor Express subsidy	(2,939)	(3,019)	(3,097)	(3,166)	(3,270)
Investment earnings	292	9,555	9,118	18,493	4,356
Interest expense	(31,655)	(27,088)	(15,204)	(11,330)	(15,254)
Other non-operating income	6,616	6,835	20,371	2,913	5,016
Other non-operating expense	(5,865)	(11,096)	(5,734)	(4,177)	(2,928)
Total Non-operating Revenues (Expenses)	360,821	448,854	525,504	528,529	485,091
Income (loss) before capital contributions	20,819	81,868	152,099	127,185	43,776
Capital grants and contributions	272,950	193,899	277,421	271,057	188,856
Change in net position	293,769	275,767	429,520	398,242	232,632
Net Position, beginning of year	3,167,978	3,461,747	3,737,514	3,978,040	4,376,282
Adjustment to Net Position due to GASB 68 Implementation	-	-	(188,994)	-	-
Net position, beginning of year, (as restated)	3,167,978	3,461,747	3,548,520	3,978,040	4,376,282
Net Position, end of year	$3,461,747	$3,737,514	$3,978,040	$4,376,282	$4,608,914

Source: Santa Clara Valley Transportation Authority CAFRs Fiscal Years 2013-2017.

Management's Discussion of Financial Results

With the exception of one quarter the Authority has experienced 29 consecutive quarters of sales tax growth. Sales tax revenues from the Authority's 1976 Sales Tax (which subsidize operations) have increased more than 52% since Fiscal Year 2009 and, in Fiscal Year 2017, reached their highest levels, exceeding the revenues of the "dot.com" boom in Fiscal Year 2001. Coupled with VTA's strategies to address the budgetary impacts from the recent financial crisis, VTA has ended the last five fiscal years with overall revenues exceeding transit operating costs. As part of its financial management strategy to deal with potential adversity, the Authority maintains reserves as described below

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

The purpose of the Operating Reserve Fund is to ensure that sufficient funds are always available in the event of either unanticipated revenue shortfalls (other than sales tax revenues) or unavoidable expenditure needs. The Authority Board policy goal is a funding level equal to 15% of the subsequent year's final operating budget in the VTA Transit Enterprise Fund. These funds are to remain unappropriated for any operating or capital use except to meet emergency needs that cannot be funded from any other source. As of June 30, 2017, the Operating Reserve Fund was at \$66.7 million, as compared to Fiscal Year 2016 funding of \$64.1 million.

The Authority's Debt Reduction Fund provides reserves against unfunded obligations and long-term liabilities and funding for transit-related capital improvements and capital replacement in lieu of financing. As of June 30, 2017, the Debt Reduction Fund was at \$49.5 million compared to Fiscal Year 2016 funding of \$76.4 million.

The Transit Sales Tax Stabilization Fund serves to mitigate the impact of sales tax receipt volatility on service levels and the VTA Transit Fund Operating Budget. Sales tax-based revenues for the Transit Sales Tax Stabilization Fund include the 1976 Sales Tax, a quarter-cent State sales tax (from the Transportation Development Act or TDA), and 2000 Measure A Sales Tax – Operating Assistance which is derived from 18.5% of 2000 Measure A Sales Tax Revenues. As of June 30, 2017, the Transit Sales Tax Stabilization Fund was funded at \$35.0 million, the capped limit authorized by the Board, unchanged from Fiscal Year 2016 funding.

The Authority's SWAP/Lease Collateral Fund reserves against contingent liabilities arising from the Authority's interest rate swaps and leveraged lease arrangements. As of June 30, 2017, the SWAP/Lease Collateral Fund was at \$82.8 million compared to Fiscal Year 2016 funding of \$119.1 million, as a result of the Authority's lower liabilities associated with the swaps.

The Adopted Fiscal Year 2018 and Fiscal Year 2019 Biennial Budget anticipates the potential for a reduction in reserves over the period of the budget as a result of a projected imbalance of operating revenues and operating cost. The projections are subject to numerous assumptions regarding the amounts and timing of increases in revenues and expenditures as further detailed below, along with strategies for addressing any shortfall.

The Adopted Fiscal Year 2018 and Fiscal Year 2019 Biennial Budget includes a net increase in annual bus and light rail service hours of 10.3% over the two-year period. This increase represents the culmination of an 18-month process undertaken to completely redesign VTA's transit network in order to connect to BART at the Milpitas and Berryessa Stations, increase overall ridership, and improve cost-effectiveness. The resulting development of a more extensive and more frequent core network, and new connecting services to BART, is anticipated to increase bus ridership by 8-10%. Light rail ridership is estimated to increase by 15-20% from the improved and additional services. These projected increases are anticipated to be phased in over time as existing riders develop new travel patterns and new riders start using the services. The implementation of the new service plan for both bus and light rail will be coordinated with the opening of the BART extension. While the Adopted Budget assumed that BART passenger service to Milpitas and Berryessa would begin in December 2017, the current projected start is June 2018, in line with the baseline schedule.

The primary source of funding for the VTA Transit Fund, responsible for delivery of the bus and light rail service in the county, is sales tax. Sales tax based revenues, including the 1976 Sales Tax, a quarter-cent state sales tax, and a portion of the 2000 Measure A half-cent sales tax, account for roughly 79% of the VTA Transit Fund's budgeted operative revenues for Fiscal Year 2018 and Fiscal Year 2019. While sales tax receipts have continued to show positive growth over prior year receipts, the rate of growth has slowed. Meanwhile, operating expenses continue to increase.

In addition to normal inflationary and contractual increases, the Adopted Budget includes increased expenditures related to the enhanced service discussed above and increased maintenance costs related to the mid-life overhaul of VTA's light rail vehicle fleet. The resulting imbalance is reflected in the $20.4 million and $26.4 million operating deficits in the Fiscal Year 2018 and Fiscal Year 2019 Adopted Budgets, respectively. While the Adopted Budget assumes these deficits would be funded 100% from reserves, it is anticipated that a combination of potential additional revenues and moderated expenditures would serve to reduce the deficits. Any remaining deficit would then be funded from a combination of reserves and financing related to the mid-life overhaul expenditures, if required. VTA is currently analyzing the appropriate mix of the use of reserves and financing to close the deficit which it expects to finalize sometime in the spring of 2018.

Lastly, with the adoption of the Fiscal Year 2018/19 Budget, the Board directed VTA's General Manager to provide to the Board, by June 2018, or six months after the commencement of the Next Network service, whichever comes later, an analysis of ridership and revenues relative to budgeted estimates. If that analysis reveals a substantial negative gap in revenues, the General Manager is required to present options including, but not limited to, a list of proposed reductions of service or other cost savings that will enable VTA to operate in a fiscally sustainable manner.

Authority Obligations

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

	Original Principal Amount	Principal Amount Outstanding as of June 30, 2017
Sales Tax Revenue Refunding Bonds, 2017 Series A	$10,030,000	$10,030,000
Sales Tax Revenue Refunding Bonds, 2011 Series A	47,485,000	31,445,000[(2)]
Sales Tax Revenue Refunding Bonds, 2008 Series A, Series B and Series C[(1)]	168,585,000	125,695,000

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

(2) 2011 Series A Bonds will be refunded with a portion of the proceeds of the 2017 Series Bonds.

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

	Original Principal Amount	Principal Amount Outstanding as of June 30, 2017
Sales Tax Revenue Bonds, 2015 Series A and B	$ 89,980,000	$89,980,000
Sales Tax Revenue Bonds, 2010 Series A and 2010 Series B	645,890,000	522,260,000
Sales Tax Revenue Refunding Bonds, 2008 Series A, Series B, Series C and Series D[(1)]	236,730,000	235,875,000

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

Leveraged Lease Transactions. The Authority has outstanding two tax-advantaged leveraged lease transactions encumbering certain light rail vehicles (the "Leases"). These transactions involve a lease of the Authority's interest in these vehicles to special purpose trusts formed by equity investors and a leaseback to the Authority. These transactions involve rail vehicles with an aggregate value of $88 million were entered into in 2003 and have a purchase option date of 2034.

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

Under the Leases, the Authority was initially required to replace the payment undertakers and surety providers if their credit ratings fell below certain thresholds. Failure to replace such undertakers and surety providers within specified time frames could have triggered a technical default which, if uncured, could cause an early termination at a substantial penalty to the Authority. This requirement was amended for both of the Leases.

The Leases involve American International Group Inc. ("AIG") and Ambac Assurance Corp. ("Ambac") as surety providers, whose ratings have fallen below the required minimum ratings. With respect to the Lease involving Ambac, the Authority entered into a collateral delivery and pledge agreement with the equity investor and statutory trust whereby the Authority's obligation to replace Ambac was waived, assuming the Authority continues to post collateral in the form of marketable securities for the benefit of the equity investor and statutory trust in accordance with that agreement. That agreement allows the Authority to hold the collateral on its books and provides for the Authority to receive the income from that collateral. With respect to the Leases involving AIG, the equity investor has permanently waived the requirement to replace AIG as a surety coverage provider in two of the transactions.

All payments with respect to the Leases have been made in full and on a timely basis.

See APPENDIX B – "AUDITED FINANCIAL STATEMENTS OF THE SANTA CLARA VALLEY TRANSPORTATION AUTHORITY FOR FISCAL YEAR ENDED JUNE 30, 2017 – Note 21."

Litigation

The Authority has reserved amounts that its management believes are adequate to provide for claims and litigation which have arisen during the normal course of business. There may be other claims and litigation that outstanding for which the Authority is unable to or has yet to determine the ultimate outcome and resulting liability, if any. However, the Authority's management believes the ultimate outcome of these claims and lawsuits will not significantly impact the Authority's financial position.

Investments and Investment Policy

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

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

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

1. **Safety**. Safety of principal is the foremost objective of the Investment Policy. The Authority's investments shall be undertaken in a manner that seeks to ensure the preservation of capital.

2. **Liquidity**. The Authority's investment portfolio shall remain sufficiently liquid to enable the Authority to meet its cash flow requirements.

3. **Return on Investment**. The Authority's investment portfolio shall be designed with the objective of attaining a market rate of return on its investments consistent with the constraints imposed by its safety objective and cash flow considerations.

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

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

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

Pension and Retirement Plans

Santa Clara Valley Transportation Authority Amalgamated Transit Union, Local 265 Pension Plan. All ATU employees are covered by the Santa Clara Valley Transportation Authority Amalgamated Transit Union, Local 265 Pension Plan ("ATU Plan"). The ATU Plan is a contributory single-employer defined benefit pension plan. The ATU Plan provides retirement, disability, and death benefits based on the employees' years of service, age, and final compensation. As of June 30, 2017, there were 3,106 members of the ATU Plan. Employees with ten (10) or more years of eligibility service are entitled to full annual pension benefits beginning at age 65. Employees with less than ten (10) but more than five (5) years of eligibility service are entitled to a reduced annual benefit at age 65 provided that the Board of Pensions approves such benefit. Employees with fifteen (15) or more years of eligibility service are entitled to full annual pension benefits beginning at age 55. The ATU Plan permits early retirement if an employee becomes disabled after ten (10) or more years of eligibility service, and deferred vested retirement upon employee termination after ten (10) or more years of eligibility service, with benefits payable at age 65. Employees may elect to receive their benefits, excluding disability and deferred vested, in the form of a joint or survivor annuity. These benefit provisions and all other requirements are established by State statute and the labor agreement with the ATU. For employees hired on or after January 1, 2016, benefit provisions and all other requirements are established by the California Public Employees' Pension Reform Act of 2013 ("PEPRA").

On October 1, 2015, the Authority's Board of Directors approved a labor contract with ATU Local 265 ("ATU"). The terms of the contract called for employees to contribute 0.95% toward the ATU Plan effective October 2016 and an additional 0.95% effective October 2017.

On October 6, 2016, the Board approved ATU Plan amendment language to reflect the negotiated employee contributions in the labor agreement as well as employee contributions for employees hired on or after January 1, 2016 as mandated by the PEPRA.

The following actuarial methods and assumptions are based on a report dated January 1, 2017.

Actuarial Methods and Assumptions:

Description	**Methods/Assumptions**
Valuation Date	January 1, 2017
Actuarial cost method	Individual Entry Age Normal to Final Decrement
Amortization method	Level dollar open
Remaining amortization period	Rolling 20-year
Asset Valuation Method	Market value adjusted to reflect investment earnings greater than (or less than) the assumed rate over a five-year period.
Actuarial Assumptions	
Investment Rate of Return	7.00%
Projected Salary Increases	3.00% depending on service (includes inflation at CPI rate of 2.75%)
Consumer Price Index (CPI)	2.75% per year
Costs of living adjustments	None

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

Asset Allocation	Range	Actual[(1)]	Ongoing Target
Domestic Fixed Income	15-30%	26%	27%
Domestic Large-Cap Value	10-20	16	15
Domestic Large-Cap Index	5-15	10	10
Domestic Small-Cap Value	5-15	10	10
International Equity Developing Markets	8-18	14	13
International Emerging Markets	0-10	6	5
US Core Real Estate	5-15	9	10
Absolute Return	4-14	8	9
Cash	0-5	1	1

(1) As of September 30, 2017.

The Authority contributes to the ATU Plan at actuarially determined rates applied to eligible payroll sufficient to maintain funding of vested benefits. Actuarial rates are determined on the basis of the previous calendar year data for implementation in the following fiscal year, beginning on July 1 of that year. Such contribution includes an amortized amount of the unfunded accrued actuarial liability ("UAAL") as well as current year normal costs. Totals of the actual cost and the amortized cost of the UAAL equal the actuarial rate that would liquidate the UAAL over the remaining amortization period (20 years). The actuarial review and analysis as of January 1, 2017 resulted in an increase in the Authority's contributions to $28.5 million, or 22.08% as a percentage of covered payroll. The Authority pre-funded its Fiscal Year 2018 contribution to the ATU Pension plan at $28.5 million. The schedules of funding progress using Actuarial Value of Assets ("AVA") and Market Value of Assets ("MVA") for the most recent 10 years of available data are as follows:

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/07	$344,521,552	$423,739,213	$79,217,661	81%	$98,722,453	80%
12/31/08	325,247,483	442,830,578	117,583,095	73	100,877,989	117
12/31/09	354,785,095	462,912,195	108,127,100	77	102,625,557	105
12/31/10	368,134,113	474,252,147	118,636,425	76	97,569,124	122
12/31/11	373,170,465	517,200,475	144,030,010	72	100,376,441	143
12/31/12	386,347,400	543,942,719	157,595,319	71	102,040,657	154
12/31/13	426,675,205	572,244,808	145,569,603	75	110,682,869	132
12/31/14	464,966,165	600,568,463	135,602,298	77	118,270,653	115
12/31/15	489,759,064	638,565,651	148,806,587	77	128,815,705	116
12/31/16	516,591,148	685,588,515	168,997,367	75	131,640,230	128

Source: The Authority.

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

Actuarial Valuation Date	Market Value of Assets	Actuarial Accrued Liability	MVA - UAAL	MVA – UAAL Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/07	$347,417,595	$423,739,213	$76,321,618	82%	$98,722,453	77%
12/31/08	271,039,569	442,830,578	171,791,009	61	100,877,989	170
12/31/09	327,447,278	462,912,195	135,464,917	71	102,625,557	132
12/31/10	361,181,295	474,252,147	113,070,852	76	97,569,124	116
12/31/11	356,289,950	517,200,475	160,910,525	69	100,376,441	160
12/31/12	401,661,601	543,942,719	142,281,118	74	102,040,657	139
12/31/13	459,423,208	572,244,808	112,821,600	80	110,682,869	102
12/31/14	483,457,612	600,568,463	135,602,298	80	118,270,653	115
12/31/15	471,900,016	638,565,651	148,806,587	74	128,815,705	116
12/31/16	501,850,792	685,588,515	168,997,367	73	131,640,230	128

Source: The Authority.

Based on the Authority's Comprehensive Annual Financial Report, the annual pension costs and contributions for the past ten fiscal years have been as follows:

Fiscal Year Ended	Annual Pension Cost ("APC")	Percentage of APC Contributed
6/30/08	$16,137,000	100
6/30/09	14,843,000	100
6/30/10	17,905,000	100
6/30/11	17,807,000	100
6/30/12	19,148,000	100
6/30/13	24,412,835	100
6/30/14	25,787,000	100
6/30/15	25,549,000	100
6/30/16	25,720,000	100
6/30/17	27,385,000	100

Source: The Authority.

The funding ratio for termination liability, which is an estimate of the obligation the ATU Plan would have to meet if it was terminated as of January 1, 2017, was 75.4%. This estimate is based on pay and years of service of all covered employees and uses the actuarial methods and assumptions above.

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

CalPERS is an agent multiple-employer defined benefit retirement plan that acts as a common investment and administrative agent for various local and state governmental agencies within California. CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Employees vest after five (5) years of service and may receive retirement benefits at age 50 or age 52 for New Members with statutorily reduced benefits. These benefit provisions and all other requirements are established by state statute and Authority resolutions. The Authority contracts with CalPERS to administer these benefits. The actuarial methods and assumptions are based on a report dated August 2016, for data as of June 30, 2015.

Actuarial Methods and Assumptions*:*

Description	**Methods/Assumptions**
Valuation Date	June 30, 2015
Actuarial cost method	Entry Age - Normal
Amortization method	Level percent of Payroll
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Discount Rate	7.50% (net of administrative expense; includes inflation)
Projected Salary Increases	Varies by entry age and service
Inflation	2.75%
Payroll Growth	3.00%

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

The required employer contribution rate is 16.908% of payroll for the Fiscal Year ended June 30, 2017. The employee contribution rate for the pension benefit is 7.0%. The Authority has budgeted its contributions at the required rates. For the Fiscal Year ended June 30, 2017, the Authority's annual CalPERS pension cost was $11.5 million.

On September 1, 2011, the Authority's Board of Directors approved labor contracts with AFSCME Local 101 ("AFSCME"), SEIU Local 521 ("SEIU") and TAEA Local 21 ("TAEA"). The terms of the contracts called for employees hired prior to January 9, 2012 to pay 1% and 3% toward the employee's required contribution to CalPERS, effective January 2012 and January 2013, respectively and employees hired on or after January 9, 2012 to pay 6% and 7% toward the employee's required contribution to CalPERS, also effective January 2012 and January 2013, respectively.

Subsequent contracts with AFSCME and TAEA approved by the Board, called for increased employees' pension contributions, with an additional 1% in each of January 2014, 2015 and 2016. The contract with SEIU called for similar additional contributions, but due to the shorter length of the contract, 1% increments were agreed to for January 2014 and 2015 and 0.5% increments for August 2016 and 2017. The Authority implemented the same terms as AFSCME and TAEA employees to non-represented employees.

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

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities	UAAL	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/07	$170,836,697	$195,098,516	$ 24,261,819	88	$49,681,839	49%
6/30/08	188,897,985	214,450,572	25,552,587	88	51,043,339	50
6/30/09	203,338,247	238,083,095	34,744,848	85	54,589,177	64
6/30/10	217,334,996	252,655,448	35,320,452	86	53,230,543	66
6/30/11	233,515,530	274,924,477	41,408,947	85	51,626,152	80
6/30/12	248,962,798	295,109,856	46,147,058	84	53,949,689	86
6/30/13	236,908,826	317,711,068	80,802,242	75	52,712,593	153
6/30/14	277,805,292	354,975,715	77,170,423	78	54,294,000	142
6/30/15	282,947,012	375,918,847	92,971,835	75	60,375,000	154
6/30/16[1]	282,534,706	401,463,904	118,929,198	70	61,209,000	194

Source: The Authority.
[1] Data as of June 30, 2016 from CalPERS Annual Valuation Report dated July 2017.

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

Actuarial Valuation Date	Market Value of Assets	Actuarial Value of Liabilities	MVA - UAAL	MVA – UAAL Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/07	$196,452,892	$195,098,516	$(1,354,376)	101%	$49,681,839	(3)%
6/30/08	190,976,832	214,450,572	23,473,740	89	51,043,339	46
6/30/09	148,423,875	238,083,095	89,659,220	62	54,589,177	164
6/30/10	170,928,494	252,655,448	81,726,954	68	53,230,543	154
6/30/11	208,802,014	274,924,477	66,122,463	76	51,626,152	128
6/30/12	209,208,442	295,109,856	85,901,414	71	53,949,689	159
6/30/13	236,908,826	317,711,068	80,802,242	75	52,712,593	153
6/30/14	277,805,292	354,975,715	77,170,423	78	58,616,218	153
6/30/15	282,947,012	375,918,847	92,971,835	75	59,426,664	156
6/30/16[1]	282,534,706	401,463,904	118,929,198	70	63,924,112	186

Source: The Authority.
[1] Data as of June 30, 2016 from CalPERS Annual Valuation Report dated July 2017.

Based on the Authority's Comprehensive Annual Financial Reports, the annual CalPERS pension costs and Authority contributions for the past ten years is as follows:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed
6/30/05	$5,171,000	100%
6/30/06	6,501,000	100
6/30/07	5,929,000	100
6/30/08	6,278,000	100
6/30/09	6,507,000	100
6/30/10	6,167,000	100
6/30/11	6,090,000	100
6/30/12	7,159,000	100
6/30/13	7,497,000	100
6/30/14	8,845,000	100
6/30/15	8,965,000	100
6/30/16	10,567,000	100
6/30/17	11,516,000	100

Source: The Authority.

On April 17, 2013, the CalPERS Board approved changes to the amortization and smoothing policies to spread all gains and losses over a fixed 30-year period from a rolling 30-year period, and to recognize increases or decreases in investment returns over a 5-year period versus a 15-year period. These changes will result in higher employer contribution rates in the near term but lower rates in the long-term. The new policies will be effective for fiscal year 2015-16 and could increase the fiscal year 2015-16 rate by 2.0 percent.

Despite recent investment gains, CalPERS still faces a large accrued unfunded liability. There can be no assurances that the Authority's contributions to CalPERS will not significantly increase in the future. The actual amount of any increases will depend on a variety of factors, including but not limited to investment returns, actuarial assumptions, experience and retirement benefit adjustments. Recent action by CalPERS to lower the assumed rate of return on investments may cause an increase in the Authority's contributions to CalPERS. However, the Authority does not believe any such increases would have a material impact on its operations, Sales Tax Revenues, or the Authority's ability to pay the principal of, premium, if any, and interest on its bonded indebtedness when due.

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

GASB Statement 68. In June 2012, the Governmental Accounting Standards Board ("GASB") issued Statement 68: Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27 ("Statement 68"). Statement 68 applies to both ATU and non-ATU plans and requires, commencing for the Fiscal Year ending June 30, 2015, that the net pension liability for both plans be reflected on the balance sheet of the Authority. As a result of Statement 68, the Authority recorded a net pension liability on its balance sheet as of Fiscal Year 2017 of approximately $278 million ($170 million for the ATU Plan and $108 million for CalPERS).

California Public Employees' Pension Reform Act of 2013. The Governor signed the California Public Employee's Pension Reform Act of 2013 (the "PEPRA") into law on September 12, 2012. PEPRA affects CalPERS most substantially as it relates to new employees hired after January 1, 2013. A classic CalPERS member or PEPRA Safety member becomes eligible for service retirement at age 50 with at least 5 years of credited service (total service across all CalPERS employers, and with certain other retirement systems with which CalPERS has reciprocity agreements). For employees hired into a plan with the 1.5% at 65 formula, eligibility for service retirement is age 55 with at least 5 years of service. PEPRA miscellaneous members become eligible for service retirement at age 52 with at least 5 years of service.

Several unions representing certain public transit employees in the State have asserted to the U.S. Department of Labor ("DOL") that PEPRA is inconsistent with the collective bargaining provisions described under the former Section 13(c), now Section 5333(b) of the Urban Mass Transportation Act. Section 5333 requires that employee protective arrangements must be certified by the DOL as being compliant with Section 5333 before Federal transit funds can be released to a mass transit provider. In response to the unions' assertions, the California Legislature passed Assembly Bill 1222 in September 2013. This Bill temporarily exempted transit workers from PEPRA so California transit agencies could continue to receive federal grants while the United States District Court for the Eastern District of California (the "District Court") in *State of California et al. v. United States Department of Labor et al.* (Civ. No. 2:13-cv-2069 KJM DAD) considered the matter. Assembly Bill 1783, approved by the Governor on September 28, 2014, which took effect immediately as an urgency statute, extended the PEPRA exemption for transit workers until January 1, 2016. On December 30, 2014, the District Court found that DOL acted in violation of the federal Administrative Procedures Act in its application of Section 5333(b) to PEPRA. Thus, PEPRA now applies to employees of public transit systems otherwise subject to Section 5333. The Authority cannot predict whether DOL will appeal the District Court's decision or the final outcome of this litigation.

Retiree Health Care Program. Employees who retire directly from the Authority are eligible for retiree health benefits if they meet certain requirements relating to age and service. For ATU retirees, 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 Classic ATU represented employees who retire from VTA on or after attaining the age of 55 with at least 15 years of eligibility service, or age 65 with 10 years of eligibility service, or upon Board of Pensions' approval age 65 with 5 years of eligibility service, or if an employee becomes disabled and has completed at least 10 years of eligibility service and to all New ATU represented employees who retire from VTA under PEPRA and its mandated provisions. ATU retirees can select from retiree health plans offered under the CalPERS program. For ATU retirees living in California: VTA will contribute up to $100 per month above the Kaiser Bay Area Single Party rate for CalPERS medical plans, regardless of Medicare status. ATU retirees will pay the excess above the VTA contribution of up to $100 per month above the Kaiser Bay Area Single Party rate. For ATU retirees living outside of California: VTA will contribute up to $100 per month above the Kaiser Out of State Single Party rate for CalPERS medical plans, regardless of Medicare status. ATU retirees will pay the excess above the VTA contribution of up to $100 per month above the Kaiser Out of State Single Party rate. ATU retirees who are eligible for Medicare are reimbursed for the Medicare Part B premium, excluding penalties/late enrollment fees. As of June 30, 2017, 1,075 retirees met the eligibility requirements for the ATU program. For surviving spouses of ATU retirees: VTA will pay the required Public Employees' Medical & Hospital Care Act (PEMHCA) minimum employer premium contribution, $128 and $133/per month in 2017 and 2018, respectively.

Non-ATU employees who retire directly from VTA on or after attaining the age of 50 years (Classic members) or 52 years (New members) with at least 5 years of CalPERS service are also covered under a Retiree Health Care Program (the administrative retiree program). Non-ATU retirees can select from retiree health plans offered under the CalPERS program. For Non-ATU retirees living in California: VTA will contribute up to the Kaiser Bay Area Employee Only rate. Non-ATU retirees pay any premium in excess of the CalPERS Kaiser Bay Area Employee Only rate. For Non-ATU retirees living outside of California: VTA will contribute up to the Kaiser Out of State Single Party rate. Non-ATU retirees pay any premium in excess of the CalPERS Kaiser Out of State Single Party rate. Non-ATU retirees who are eligible for Medicare are reimbursed for the Medicare Part B premium, excluding penalties/late enrollment fees. As of June 30, 2017, 507 retirees met the eligibility requirements for the Non-ATU Program. For surviving spouses of non-ATU retirees who elect a pension option with survivor benefits: as required by PEMHCA, VTA will contribute the same amount as it contributes for non-ATU retirees.

As of July 1, 2016, the most recent actuarial valuation date, the plan was 118% funded. The actuarial accrued liability was $233.2 million and the actuarial value of assets was $275.6 million with $42.4 million in an overfunded actuarial accrued liability. The covered payroll was $168.9 million which resulted in a 25% overfunded actuarial accrued liability as a percent of covered payroll.

The actuarial cost method used for determining the benefit obligations is the entry age normal method. The significant economic assumptions used were: (1) a discount rate of 7.00%; (2) a projected salary increase of 3.25% per year plus those due to longevity and promotion; and (3) a healthcare inflation assumption (non-Part B) of 6.75% in 2017, declining gradually to 4.0% in 2028 and remaining at that level thereafter.

APPENDIX B

AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY FOR THE FISCAL YEAR ENDED JUNE 30, 2017

[THIS PAGE INTENTIONALLY LEFT BLANK]

Santa Clara Valley Transportation Authority

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2017

Santa Clara County, California

Santa Clara Valley Transportation Authority

Solutions that move you

VTA rolled out the new logo and brand in January 2017 – "Solutions that move you"

Elevated trackway at VTA's Berryessa/San Jose BART Station

Pedestrian Overcrossing leading to VTA's Milpitas BART Station

New bus rapid transit stations featuring community artwork along Santa Clara Street, Alum Rock and Capitol Avenues

Award Winning Mountain View Double Track Project

VTA's new solar-powered real-time information (RTI) signs

SANTA CLARA VALLEY
TRANSPORTATION AUTHORITY

SAN JOSE, CALIFORNIA

Comprehensive Annual Financial Report (CAFR)
For Fiscal Year Ended June 30, 2017

Prepared by:
Finance and Budget Division

THIS PAGE IS INTENTIONALLY LEFT BLANK

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Comprehensive Annual Financial Report
For the Year Ended June 30, 2017

Table of Contents

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Comprehensive Annual Financial Report
For the Year Ended June 30, 2017

Table of Contents (continued)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Comprehensive Annual Financial Report
For the Year Ended June 30, 2017

Table of Contents (continued)

THIS PAGE IS INTENTIONALLY LEFT BLANK

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Santa Clara Valley Transportation Authority California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2016

Jeffrey R. Emer

Executive Director/CEO

THIS PAGE IS INTENTIONALLY LEFT BLANK

SECTION 1 - **INTRODUCTION**

THIS PAGE IS INTENTIONALLY LEFT BLANK

LETTER OF TRANSMITTAL

THIS PAGE IS INTENTIONALLY LEFT BLANK

October 27, 2017

Board of Directors
Santa Clara Valley Transportation Authority

Subject: Comprehensive Annual Financial Report

It is a pleasure to submit to you the Comprehensive Annual Financial Report (CAFR) of the Santa Clara Valley Transportation Authority (VTA) for the year ended June 30, 2017. The CAFR was prepared in accordance with the guidelines recommended by the Government Finance Officers Association of the United States and Canada (GFOA). VTA Management assumes responsibility for the accuracy and completeness of the data and the clarity of the presentation, including all disclosures. To the best of our knowledge, the enclosed report is presented in conformity with Generally Accepted Accounting Principles (GAAP), and is complete and reliable in all material respects.

Vavrinek, Trine, Day & Company LLP, a firm of licensed Certified Public Accountants, has audited the financial statements. The goal of the audit is to obtain a reasonable assurance that the financial statements are free of material misstatements. Vavrinek, Trine, Day & Company LLP concluded, based on the audit, that there was a reasonable basis for rendering an unmodified opinion on the financial statements for the fiscal year ended June 30, 2017, and that the financial statements are fairly stated, in all material respects, in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

In addition, Vavrinek, Trine, Day & Company LLP also conducts the federally mandated "Single Audit" designed to meet requirements of federal grantor agencies. The standards governing the Single Audit require the independent auditor to report on the fair presentation of the financial statements, the agency's internal controls over compliance, and certain federal compliance requirements.

Generally Accepted Accounting Principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The VTA's MD&A can be found immediately following the Independent Auditor's Report.

PROFILE OF THE GOVERNMENT

VTA is an independent special district and political subdivision of the State of California. VTA was created in 1972 and was known as the Santa Clara County Transit District (District). The District served Santa Clara County (County) which is situated in the southern portion of the San Francisco Bay Area and is bordered by the counties of Alameda, San Mateo, Santa Cruz, San Benito, Merced, and Stanislaus. In 1976, Santa Clara County voters approved a half-cent Measure A sales tax proposal to fund the District. In 1995, the District merged with the County's congestion management agency and operated under the governance of its own Board of Directors. On January 1, 2000, VTA's name was officially changed to the Santa Clara Valley Transportation Authority.

Today, VTA provides bus, light rail, and paratransit services, as well as participates as a funding partner in regional rail service including Caltrain, Capitol Corridor, and the Altamont Corridor Express. As the County's congestion management agency, VTA is responsible for countywide transportation planning, including congestion management, design and construction of specific highway, pedestrian, and bicycle improvement projects, as well as promotion of transit oriented development. VTA continually builds partnerships to deliver transportation solutions that meet the evolving mobility needs of Santa Clara County.

VTA is governed by a 12-member Board of Directors (the Board or the Board of Directors) consisting of elected officials appointed by the jurisdictions they represent. Five members of the Board and one alternate are appointed by the San Jose City Council. One member of the Board and one alternate are appointed from among the city councils of the cities of Los Altos, Mountain View, Palo Alto, and the Town of Los Altos Hills. One Board member and one alternate are appointed from among the city councils of the cities of Campbell, Cupertino, Monte Sereno, 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 and Morgan Hill. Two members of the Board and one alternate are appointed from among the city councils of the cities of Milpitas, Santa Clara, and Sunnyvale. The final two seats on the Board and one alternate are appointed by the Santa Clara County Board of Supervisors. The allocation of Board representation is generally based on population. A chart depicting the current membership of the Board and the jurisdictions they represent is located on page 1-10 of this report.

ECONOMIC ENVIRONMENT

Knowledge of the specific environment in which the government operates is important to understanding and interpreting the information presented in the financial statements. The County of Santa Clara is located at the southern end of the San Francisco Bay and encompasses an area of approximately 1,300 square miles. The County's population of nearly 1.8 million is one of the largest in the state, and the largest of the nine Bay Area counties.[1] The northwest portion of the County, known as Silicon Valley, is home to many leading computer and electronic companies such as Google, Cisco, Hewlett-Packard, Yahoo, eBay, Facebook, and Apple among others. Santa Clara County has enjoyed diverse employment and revenue base.

San Jose Mercury News recently reported that Santa Clara County accounted for almost 50% of the bay area tech jobs in 2016. Government labor agencies and analysts define tech employment as a combination of professional scientific and technical services; information services and products, and computer and electronic manufacturing. Other major industry groups posting substantial job gains over the year included leisure and hospitality; private educational and health services; and construction.[2]

In June 2017, the County's unemployment rate dropped to 3.5% from 4% the prior year.[3] Santa Clara County's overall economy remains in good shape. Unemployment rates throughout the Bay Area are among the lowest in the state.[4] Creation of new jobs and hikes in wages translate to people having more income to afford housing. Supply of housing is not keeping up with the demand causing prices and rents to soar. The County continues to see construction of higher density housing units near transit hubs in anticipation of long-term challenges affecting housing and transportation.

According to the US Department of Labor report in June 2017, the national unemployment rate dropped to 4.4% and the number of unemployed persons was 7 million. Prior year's statistics during the same period reported unemployment rate of 4.9% and the number of unemployed persons at 7.8 million. At the close of the quarter March 2017, economic experts indicate that the nation's economy is showing signs of picking up momentum after a year of slow growth in 2016.

The state's unemployment rate fell to its lowest in 10 years at 4.7% in May and June 2017, from 5.4% in June of the prior year.[5] The state has continued to experience steady but somewhat slower job growth in early 2017. The letter of the State Governor in January 2017 disclosed that the surging tide of revenue increases that the state enjoyed in the past appear to have turned. The 2018 State Budget proposes to roll back on one-time spending commitments made in last year's budget and temper anticipated spending increases. This action prioritizes on the state's more important objectives such as steady growth for

[1]Population Demographics for Santa Clara County in 2016 and 2017.

[2]State of California Employment Development Department. April 21, 2017.

[3]California Labor MarketInfo. August 7, 2017.

[4]Business. "San Jose and Oakland area Job Markets". March 24, 2017.

[5]Bureau of Labor Statistics Data. August 2017.

education, creation of earned income tax credit for working families, rising minimum wage, expansion of health care coverage and pay down of long-term liabilities.

While the Transportation Development Act (TDA) revenue increased by $0.9 million in line with the improved sales tax activity, the State Transportation Assistance (STA) revenue decreased by $4.6 million in FY 2017. The decline was prompted by the continued low diesel prices causing revenues flowing into the STA program to decline significantly. Both revenues are state programs that provide funds to operate bus and rail systems in California.

FY 2017 witnessed positive economic conditions leading to higher consumer and business spending. This contributed to the growth in VTA's major revenue sources for operations and capital activity, i.e. 1976 Half-Cent, 2000 Measure A, and BART Operating sales taxes. These sales tax revenues are dependent upon taxable sales activity in the county. For FY 2017, the 1976 Half-Cent sales tax grew by 1.7%, while the 2000 Measure A and BART Operating sales tax revenues increased separately by 1.5%. A new tax measure was approved by the Santa Clara County voters in November 2016 (referred to as the 2016 Measure B). This is a 30-year half-cent sales tax to enhance transit, highways, expressways and active transportation. Tax collection began in April 2017. The sales tax apportionment for the first quarter ended June 30, 2017 amounted to $50.1 million. This was reported under a special revenue fund and formed part of the liability as the tax measure faces legal challenge.

ENTERPRISE NET POSITION OVERVIEW

Total FY 2017 Net Position is provided below (in thousands):

Net Investment in Capital Assets		$ 3,715,082
Restricted:		
2000 Measure A projects	$ 368,455	
SWAP collateral	82,764	
BART Operating	238,006	
Debt service	50,108	
Retention	89	
1996 Measure B projects	976	740,398
Unrestricted:		
Debt reduction	$ 49,540	
Operating reserve	66,659	
Sales tax stabilization	35,000	
Local share of capital projects	135,330	
Inventory and prepaid expenses	36,688	
Irrevocable transfer made to OPEB trust fund	15,865	
Joint Development	21,887	
Express Lanes	2,769	
Unrestricted before GASB 68 adjustment	363,738	
Net Position Liability (GASB 68)*	(210,304)	153,434
Total Net Position		$ 4,608,914

*This is a decrease of the Unrestricted Net Position to set aside amount for Net Pension Liability to comply with GASB 68 requirements. The breakdown consists of $83 million and $127.3 million for CALPERS and ATU, respectively.

SIGNIFICANT FINANCIAL POLICIES

Long-Range Planning

VTA, in its role as the Congestion Management Agency (CMA) for Santa Clara County, is responsible for preparing and updating the Valley Transportation Plan (VTP). This document identifies long-term programs, projects, and policies that VTA plans to pursue over the next 25 years. It considers all travel modes and addresses the links between transportation and land use planning, air quality, energy use, and community livability. VTA annually updates and incorporates the VTA Financial Forecasting Model as part of its long-range planning process. As a transit operator, VTA generally prepares the Short Range Transit Plan (SRTP) every two years. The SRTP is used as documentation to support projects included in the Regional Transportation Plan prepared by Metropolitan Transportation Commission (MTC) and activities contained in the county's long-range transportation plan.

Biennial Budget and Budgetary Controls

The State of California and the VTA Administrative Code require that VTA management recommend and Board of Directors adopt an operating budget at the fund level and a capital budget on a project basis. The General Manager may reallocate appropriations between budget types and budget units within each fund up to the limits of each fund's annual appropriation. Any net increase in authorized appropriations to any fund (including any allocation from reserves) requires an affirmative vote of at least eight Directors. Capital appropriations, which are not expended during the fiscal year, are carried over to successive fiscal years until the projects are completed or otherwise terminated.

Funds with appropriated budget are categorized as follows:

Proprietary Funds	Governmental Funds
• VTA Transit	• Congestion Management Program
• 2000 Measure A Transit	• 2016 Measure B Program
• Joint Development	• Congestion Management and Highway Program
• Express Lanes	
• BART Operating	

Note: There is no additional appropriation for the 1996 Measure B Program due to the program nearing its completion.

Internal Control

VTA management is responsible for establishing and maintaining an internal control system designed to ensure that its assets are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with Generally Accepted

Accounting Principles (GAAP). The internal control system is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the costs of control should not exceed benefits likely to be derived from its implementation. The valuation of costs and benefits requires estimates and judgments by management. VTA's management believes its internal controls are adequate.

Reserves

The following is a summary of VTA Transit Reserves established by the Board of Directors. The Net Pension Liability (inclusive of the related deferrals) resulting from the GASB 68 implementation may reduce any or all of these reserves.

Reserve	Balance as of June 30, 2017 (in millions)	Remarks
Operating Reserve	$ 66.659	The operating reserve goal is 15% of the subsequent year's final operating budget in the VTA Transit Enterprise Fund. These funds are to remain unappropriated for any operating or capital use except to meet emergency needs that cannot be funded from any other source. The purpose of this reserve is to ensure that sufficient funds are always available in the event of either unanticipated shortfalls or unavoidable expenditure needs. FY 2017 balance is less than the goal by $4.7 million. Detailed calculation and information on the operating reserve is shown in Table 7 of the Statistical Section.
Sales Tax Stabilization	$ 35.000	This reserve mitigates the impact of sales tax receipt volatility on service levels and the operating budget. VTA Transit Sales Tax Stabilization reserve is at its current ceiling
Debt Reduction	$ 49.540	This reserve may be used to reduce long-term liabilities or provide funding for approved transit-related capital improvements and replacement of capital assets. This reserve is used to fund local portion of the VTA Transit capital program in order to keep assets in a state of good repair

Financial Stability Policy

The following activities serve as guidance in the prioritization of VTA operating expenses. This is necessary when there are budget reductions to keep spending consistent with available revenues, and when increases in operating revenues permit VTA to add resources to its transit related activities.

1. Preservation of the level of fixed route transit service and paratransit service provided to VTA riders to the extent possible. This includes developing a service plan that is in accordance with VTA's Transit Sustainability Policy and service design guidelines and in the best interest of the public.
2. Direct support for the provision of transit service, i.e., only those core operating, management

and administrative functions that are necessary and essential to providing the existing level of transit service, both in terms of the types of functions required and level of resources needed to support service. This is measured against industry standards and best practices with consideration of efficiencies achieved by reducing layers of management.

3. Support for Regional Partnerships (e.g., Caltrain, ACE, Dumbarton Express, etc.) provided by VTA in consideration of other partners' contributions.
4. Activities that clearly contribute to increasing and diversifying VTA's operating funding (e.g., fare programs, joint development, advertising, and other opportunities for earned income).
5. Activities that provide information to riders, employees, stakeholders and the public (e.g., VTA Ambassador Program).
6. Activities that would prudently and strategically expand VTA transit service, when sustainable revenues are available to support the service growth (e.g., VTA's recent expansion of bus and light rail service to Levi's Stadium).

MAJOR INITIATIVE

VTA's BART Silicon Valley Project

The VTA's BART Silicon Valley Project is a 16-mile extension of the existing BART system to San Jose, Milpitas, and Santa Clara, which will be delivered through a phased approach. The first phase, the Silicon Valley Berryessa Extension (SVBX), is a 10-mile, two-station extension, beginning in Fremont south of the BART Warm Springs Station and proceeding on the former Union Pacific railroad right-of-way through Milpitas, the location of the first station, and then to the Berryessa area of north San Jose, at the second station.

The cost of the SVBX Project is approximately $2.4 billion, which includes $900 million in federal assistance, $388.2 million in state and other local funding, and $1.133 billion from 2000 Measure A sales tax. In March 2012, VTA received a $900 million grant commitment from the FTA for the project, along with the first $100 million allocation, as provided for in the Full Funding Grant Agreement (FFGA). The FFGA is a multi-year contractual agreement that formally defines the project scope, cost, and schedule, and establishes the terms of the federal financial assistance. Execution of the FFGA allowed the commencement of construction of the 10-mile, two-station BART extension. As of June 2017, $668.6 million of the total $702.6 million grant award, has been expended and received.

In August 2014, VTA received the Traffic Congestion Relief Program (TCRP) funds in the amount of $39 million which constitutes the final installment of the State of California's $649 million TCRP allocation plan adopted by the California Transportation Commission (CTC) in 2008. As of June 2017, remaining undisbursed amount from this allocation is $6.0 million.

The project scope includes BART vehicles, VTA feeder buses, double-track grade-separated guideway, traction power substations, high voltage substations, a communication system, passenger drop-off facilities, surface and structured parking facilities, bus transit centers, a pedestrian bridge, real estate acquisition, drainage improvements, environmental mitigation, financing, startup and revenue testing, and other elements necessary for project delivery. The project also includes facility additions to the existing BART Hayward Yard to provide fleet management operations for the revenue vehicles procured by BART for the extension, as well as the purchase of 40 BART vehicles. Track installation was completed and building interior, including mechanical/electrical/plumbing installation and elevator testing, is underway at Milpitas and Berryessa stations. The parking structures were substantially completed. Work on the building interior and mechanical/electrical continued at the Police Zone Facility and Ancillary Building. Systems and communications installation and testing took place along the entire SVBX alignment. BART has received all ten pilot vehicles, and qualification testing as well as train operator training are in progress. Revenue service of Phase 1 is anticipated in mid-2018.

VTA continues project development activities for the second 6-mile phase of the project. This includes four stations, with a five-mile-long subway tunnel through downtown San Jose, and ends at grade in Santa Clara near the Caltrain Station. The project also includes the construction of a maintenance facility at the current Newhall Yard, the Newhall Maintenance Facility, as well as the purchase of 48 BART vehicles. The single-bore tunnel technical study is underway focusing on areas such as station configurations, ventilation and emergency egress. The draft Supplemental Environmental Impact Statement/Subsequent Environmental Impact Report (SEIS/SEIR) was released in December 2016. This document reflects revisions based on FTA and BART comments, as well as new options for the station location at Diridon and a single-bore tunnel. Phase II Working Group meetings continue to be held. The cost of the Santa Clara Extension is approximately $4.7 billion, which will include 2000 Measure A, 2016 Measure B sales tax funding along with Federal New Starts and state funds. Revenue service for Phase 2 is anticipated to occur in mid-2026.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to VTA for its FY 2016 Comprehensive Annual Financial Report. This is the 21st consecutive year that VTA achieved this prestigious award.

In order to receive the award, a government agency must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this CAFR required a concerted team effort throughout VTA, including staff from Accounting, Disbursements, Revenue Services, Contracts and Purchasing, Risk Management, Budget and Analysis, Investment Services, Retirement Services, and Finance departments. The Copy Center, Creative Services, Office of the Board Secretary, and Marketing departments also made significant contributions to the form, content, and production of the report. The team members demonstrated a commendable degree of personal dedication and determination in producing this document.

In addition, recognition is given to Vavrinek, Trine, Day & Company LLP, for their contribution, as well as all other VTA staff for responding positively and promptly to the request for information that occurs with each annual audit.

Nuria I. Fernandez
General Manager/CEO

Raj Srinath
Chief Financial Officer

THIS PAGE IS INTENTIONALLY LEFT BLANK

VTA is an independent special district governed by its own Board of Directors. The VTA Board of Directors consists of elected governing board officials from the cities within Santa Clara County as well as the County of Santa Clara. Board members are appointed by the jurisdictions they represent, and all jurisdictions within the county have representation on the Board. The Board consists of 12 voting members, 6 alternates, and 3 ex-officio members, and membership is roughly based on population as follows:

Group 1 (San Jose)	5 Members, 1 Alternate
Group 2 (Northwest)	1 Member, 1 Alternate from the Cities of Los Altos, Mountain View, Palo Alto, and the Town of Los Altos Hills
Group 3 (West Valley)	1 Member, 1 Alternate from the Cities of Campbell, Cupertino, Monte Sereno, Saratoga, and the Town of Los Gatos
Group 4 (South County)	1 Member, 1 Alternate from the Cities of Gilroy and Morgan Hill
Group 5 (Northeast)	2 Members, 1 Alternate from the Cities of Milpitas, Santa Clara, and Sunnyvale
Group 6	2 Members, 1 Alternate from the Santa Clara County Board of Supervisors (County of Santa Clara)
Ex-Officio	Santa Clara County's 3 representatives to the Metropolitan Transportation Commission (MTC): 1 Member representing the County of Santa Clara, 1 Member representing the cities of Santa Clara County, and 1 Member representing the City of San Jose. (Note: MTC commissioners serve as an Ex-Officio Member only when not serving as a regular or alternate member of the VTA Board of Directors.)

The Board of Directors generally meets on the first Thursday of each month.

Jeannie Bruins, Chairperson
Sam Liccardo, Vice Chairperson
as of June 30, 2017

GROUP 1

City of San Jose	Charles "Chappie" Jones Lan Diep Johnny Khamis Sam Liccardo* Raul Peralez Devora "Dev" Davis, Alternate

GROUP 2

City of Los Altos	Jeannie Bruins*
Town of Los Altos Hills	
City of Mountain View	John McAlister, Alternate
City of Palo Alto	

GROUP 3

City of Campbell	
City of Cupertino	Savita Vaidhyanathan
Town of Los Gatos	Rob Rennie, Alternate
City of Monte Sereno	
City of Saratoga	

GROUP 4

City of Gilroy	Daniel Harney, Alternate
City of Morgan Hill	Larry Carr

GROUP 5

City of Milpitas	Bob Nuñez, Alternate
City of Santa Clara	Teresa O'Neill
City of Sunnyvale	Glenn Hendricks

GROUP 6

County of Santa Clara	Cindy Chavez Ken Yeager David Cortese,* Alternate

Ex-Officio **

Metropolitan Transportation Commission (MTC) Commissioners Representing Santa Clara County, Cities of Santa Clara County, and City of San Jose	None

* *These individuals serve on the MTC.*

** *There are no Ex-Officio Board Members for 2017 as the MTC representatives from Santa Clara County, cities of Santa Clara County and City of San Jose are also VTA Board Members or Alternate VTA Board Members.*

VTA Board of Directors' Standing Committees

1. **Administration and Finance Committee (A & F)** reviews and recommends policies pertaining to the general administration and financial management of VTA, including administrative policies and procedures, legislative affairs, human resources, budget, financing, and fiscal issues.

2. **Governance & Audit Committee** reviews and recommends policy decisions required to fulfill the Board's oversight responsibilities for: (1) the integrity of VTA financial statements, (2) compliance with legal and regulatory requirements, and (3) assuring an effective system of internal management and financial controls. It reviews and recommends policy decisions pertaining to Board and organizational goal setting andprioritization, strategic initiative framework development, budget development, and Board and committee processes. It also oversees the activities of the auditor general, the internal audit function, and the public accounting firm that conducts VTA's financial audit.

3. **Congestion Management Program and Planning Committee (CMPP)** reviews and recommends policies related to the Congestion Management Agency and the countywide transportation plan, including the integration of transportation, land-use, and air-quality planning.

4. **Safety, Security, and Transit Planning and Operations Committee (SSTPO)** reviews and recommends policies related to system safety and security planning, monitoring and reporting, transit planning, transit capital projects, transit operations, and marketing.

5. **Capital Projects Oversight Committee (CPOC)** reviews and recommends policies related to the activities and imminent issues of VTA capital projects with major resource, multi-jurisdictional coordination, public perception and/or community impact factors. The CPOC provides focused oversight to promote the efficient delivery of quality major transportation projects safely, on time, within scope and budget, while minimizing community impact.

VTA Board of Directors' Advisory Committees

1. **Committee for Transportation Mobility & Accessibility (CTMA)** provides advice to the VTA Board and staff on bus and rail system accessibility issues, as well as on paratransit service. Many of these issues are related to VTA's efforts to comply with the federal Americans with Disabilities Act (ADA). It consists of 17 voting members comprised of individuals from the disabled community and representatives from human services agencies, as well as two ex-officio, non-voting members, one each representing VTA's paratransit service provider and the VTA Board of Directors.

2. **Citizens Advisory Committee (CAC) / 2000 Measure A Citizens Watchdog Committee (CWC)** is a 17 voting member committee representing the residents of Santa Clara County, as well as specified community stakeholder groups, including business and labor, with an interest in transportation. The CAC advises the Board and VTA administration on issues impacting the communities and organizations they represent. It ***also serves as the independent Citizens Watchdog Committee*** for the 2000 Measure A Transit Improvement Program, and as the 2008 Measure D ballot-specified advisory body that reviews and comments on VTA's comprehensive transit program as part of the countywide transportation plan.

3. **Bicycle and Pedestrian Advisory Committee (BPAC)** consists of 16 voting members comprised of one member appointed by each of the 15 cities within Santa Clara County and one member appointed by the County of Santa Clara. In addition, the Silicon Valley Bicycle Coalition appoints one ex-officio, non-voting representative. The BPAC advises the VTA Board of Directors on planning and funding issues related to bicycle and pedestrian mobility and access. The BPAC also serves as the bicycle and pedestrian advisory committee for the County of Santa Clara.

4. **Technical Advisory Committee (TAC)** is a 16 voting member committee comprised of one staff member (usually a public works, planning, transportation or community development director) from each of the 15 cities within the county and the County of Santa Clara. In addition, the California Department of Transportation (Caltrans), Metropolitan Transportation Commission (MTC), and Santa Clara Valley Water District appoint one non-voting representative each to the TAC. The TAC provides in-depth analysis, technical expertise and timely recommendations regarding transportation projects, programs, funding, and other policy matters, while giving voice to and reconciling local and regional perspectives.

5. **Policy Advisory Committee (PAC)** is a 16 voting member committee comprised of one city council member from each of the 15 cities within Santa Clara County and one member from the Santa Clara County Board of Supervisors. The PAC ensures that all local jurisdictions have an opportunity to participate in the development of VTA's policies.

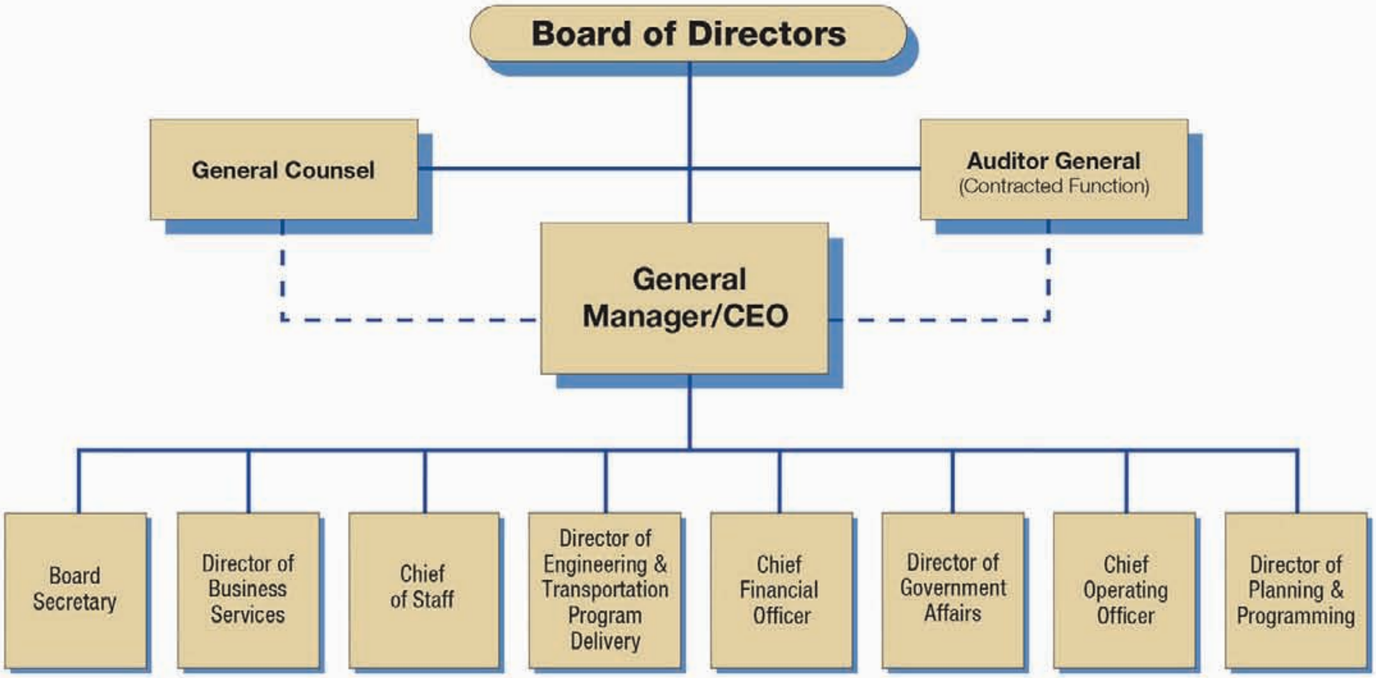
VTA Board of Directors' Policy Advisory Boards

These Policy Advisory Boards (PAB) ensure the local jurisdictions affected by major transportation improvement projects are involved in the planning, design, and construction. Membership for each PAB varies. There are currently six active PABs:

- **Diridon Station Joint Powers Policy Advisory Board**
- **Eastridge to BART Regional Connector Policy Advisory Board** *(formerly Downtown East Valley Policy Advisory Board)*
- **El Camino Real Rapid Transit Policy Advisory Board**
- **Mobility Partnership**
- **Silicon Valley Rapid Transit Corridor and BART Warm Springs Extension Policy Advisory Board**
- **State Route (SR) 85 Corridor Policy Advisory Board**

Santa Clara Valley Transportation Authority

June 30, 2017



Principal Officials

June 30, 2017

General Manager/CEO .... Nuria I. Fernandez

General Counsel .... Robert Fabela

Auditor General (Contracted Function) .... Bill Eggert

Board Secretary .... Elaine Baltao

Director of Business Services .... Alberto Lara

Chief of Staff .... Angelique M. Gaeta

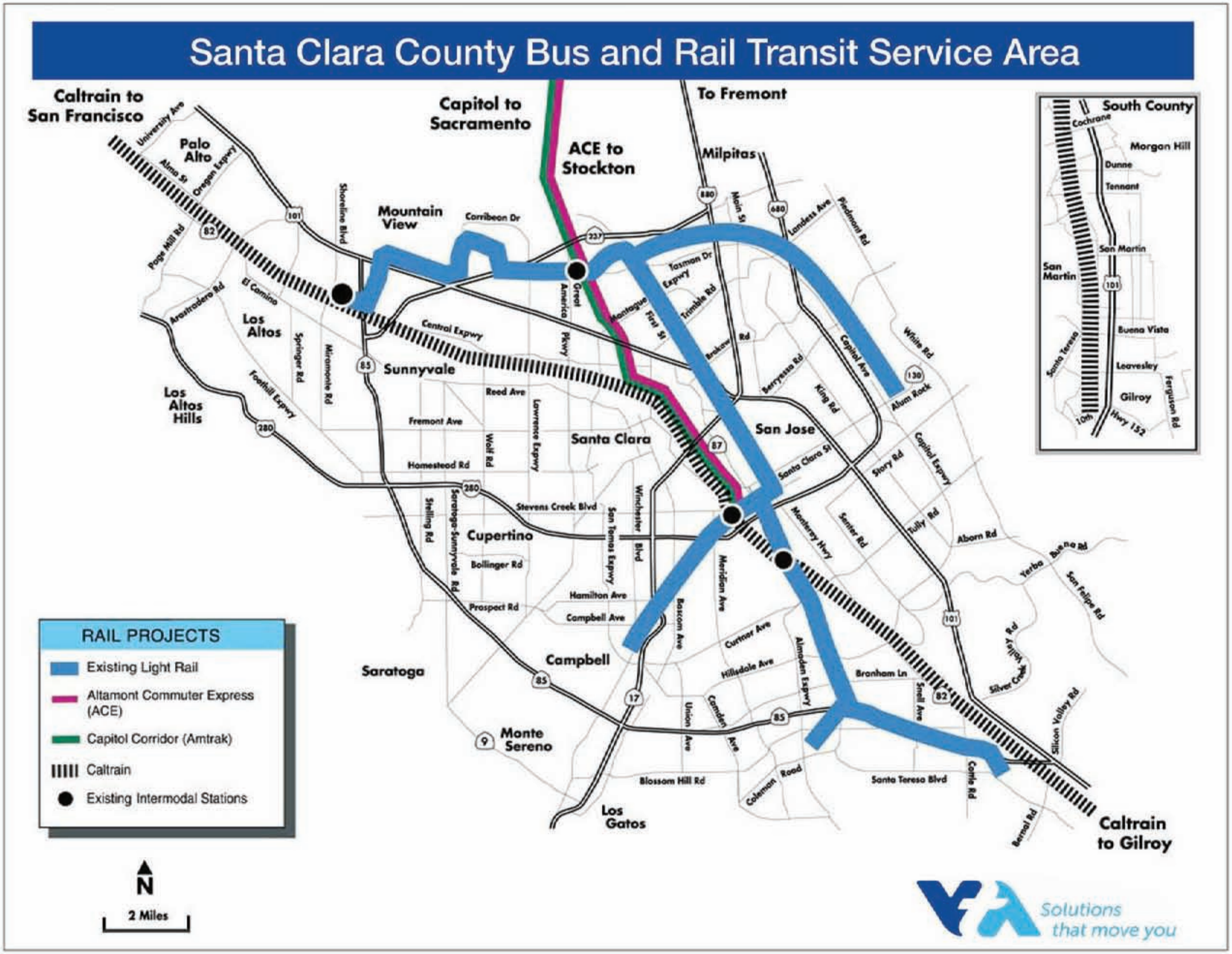
Director of Engineering & Transportation Program Delivery .... Carolyn Gonot

Chief Financial Officer .... Raj Srinath

Director of Government Affairs .... James Lawson

Chief Operating Officer .... Inez P. Evans

Director of Planning & Programming .... VACANT


Santa Clara County Bus and Rail Transit Service Area
Caltrain to San Francisco
Capitol to Sacramento
ACE to Stockton
To Fremont
Milpitas
Palo Alto
Mountain View
Los Altos
Los Altos Hills
Sunnyvale
Santa Clara
San Jose
Cupertino
Saratoga
Campbell
Monte Sereno
Los Gatos
Caltrain to Gilroy
South County
Morgan Hill
San Martin
Gilroy
RAIL PROJECTS
Existing Light Rail
Altamont Commuter Express (ACE)
Capitol Corridor (Amtrak)
Caltrain
Existing Intermodal Stations
N
2 Miles
Solutions that move you

THIS PAGE IS INTENTIONALLY LEFT BLANK

SECTION 2 - **FINANCIAL SECTION**

THIS PAGE IS INTENTIONALLY LEFT BLANK

INDEPENDENT AUDITOR'S REPORT

THIS PAGE IS INTENTIONALLY LEFT BLANK

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, 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, 2017, and the related notes to the financial statements, which collectively comprise the VTA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

260 Sheridan Avenue, Suite 440, Palo Alto, CA 94306 Tel: 650.462.0400 Fax: 650.462.0500 www.vtdcpa.com

FRESNO • LAGUNA • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • RIVERSIDE • SACRAMENTO

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, governmental activities, each major fund, and the aggregate remaining fund information of the VTA, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the VTA's basic financial statements. The enterprise and fiduciary fund supplementary information, the introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The enterprise and fiduciary funds supplementary information as listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole for the year ended June 30, 2017.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of VTA as of and for the year ended June 30, 2016 (not presented herein), and have issued our report thereon dated October 21, 2016, which contained unmodified opinions on the respective financial statements of the business-type activities, the governmental activities, each major fund, and the aggregate remaining fund information. The enterprise fund supplementary information as of and for the year ended June 30, 2016 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the June 30, 2016 financial statements. The enterprise fund supplementary information as of and for the year ended June 30, 2016 have been subjected to the auditing procedures applied in the audit of the 2016 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those financial statements or to those financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the enterprise fund supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2016.

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 do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2017, on our consideration of the 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the VTA's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
October 27, 2017

THIS PAGE IS INTENTIONALLY LEFT BLANK

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Required Supplementary Information)

THIS PAGE IS INTENTIONALLY LEFT BLANK

Management’s Discussion and Analysis

Management’s Discussion and Analysis (MD&A) provides a narrative overview and analysis of the financial activities of VTA for FY 2017. To obtain a complete understanding of VTA’s financial condition, this document should be read in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

Financial Highlights

- As of June 30, 2017, VTA’s net position amounted to approximately $4.6 billion. Of this amount, approximately $3.7 billion consisted of net investment in capital assets which is associated with VTA’s capital program.
- Enterprise Funds operating revenues were $40.2 million, derived mainly from passenger fares. This is a decrease of $2.6 million or 6.1% from FY 2016.
- As of June 30, 2017, VTA had total outstanding bonds in the amount of $1.1 billion.
- VTA Transit Fund net position decreased by $43.8 million to $1.9 billion. This includes a $976 thousand transfer from 1996 Measure B in an effort to consolidate the activities of the fund which is approaching completion.
- The three board-designated reserves; i.e., Transit Operating Reserve, Debt Reduction Reserve, and Sales Tax Stabilization Reserve were $66.7 million, $49.5 million, and $35 million, respectively. Any of these reserves may be reduced by the amount of set aside for Net Pension Liability established in compliance with GASB 68 in the amount of $210.3 million. This represents the net amount owed by VTA to employees for benefits provided through a defined benefit pension plan that is attributed to employees’ past period of service.
- The 2000 Measure A Fund net position in FY 2017 added $226.8 million to a total of $2.4 billion. This amount is restricted for the Measure A Transit Improvement Program per the Measure A Ballot.
- The 1976 Sales Tax revenue, reflecting an improvement in taxable sales activity in the County, increased $3.6 million, or 1.7% from FY 2016 level to $209.0 million in FY 2017.
- The 2000 Measure A Sales Tax revenue increased $3 million or 1.5% to $208.7 million in FY 2017.
- Federal, state, and local operating grants were $3.0 million or 2.4% lower in FY 2017. The decline was largely a result of a decline in State Transit Assistance of $4.6 million in FY 2017 which is caused by reduced State budget for State Transit Assistance. This was offset in part by a net increase of $883 thousand in the Transportation Development Act (TDA) revenue and $675 thousand in other operating assistance.

- Capital grants decreased by $82.2 million from the FY 2016 level, due to the decline in grant-funded activities relating to Silicon Valley Berryessa Extension (SVBX), Northern Light Rail Express, and Alum Rock/Santa Clara Bus Rapid Transit (BRT) projects. The decrease was partially offset by recognition of grant revenues pertaining to Montague Reconstruction Project, Procurement of Hybrid Vehicles, and Santa Clara Station Underpass projects.
- As of June 30, 2017, the net position of Express Lanes and Joint Development funds amounted to $2.8 million and $28.9 million, respectively. The Express Lanes Fund recorded toll collection from SR 237/I-880 Express Connector. The Joint Development Fund reported property rental revenues and other proceeds generated from VTA's Joint Development Program.
- In FY 2017, BART operating fund's net position was $238.0 million. The BART Operating Sales Tax increased by $762.0 thousand or 1.5%, to $50.0 million in FY 2017.
- In FY 2017, as a result of 1996 Measure B winding down its affairs, the activities of the 1996 Measure B Transit were consolidated in the VTA Transit and its related net position of $976 thousand was reflected as an adjustment to VTA Transit's beginning net position. The activities of the 1996 Measure B Highways were also reported as part of the Congestion Management and Highway Program.
- The 2016 Measure B Special Revenue Fund was established in FY 2017 as a result of the Santa Clara County voters approving the 30-year half-cent sales tax to enhance transit, highways, expressways and active transportation. Tax collection began in April 2017. The sales tax apportionment for the first quarter ended June 30, 2017 amounted to $50.1 million. This was reported under a special revenue fund and formed part of the liability as the tax measure is undergoing legal challenge.

Overview of the Financial Statements

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

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

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

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

The government-wide statements distinguish functions of VTA that are principally supported by sales tax and intergovernmental revenues. The VTA business-type activity is transit, which includes bus/light rail operations, joint development, express lanes, BART operating, and capital project activity. Although the transit operation's primary function is intended to recover its costs through charges for services (business-type activities), the recovery is not significant. The governmental activities of VTA consist of congestion management and highway programs, which include planning, programming, and construction of highway projects. Governmental activities also include the 2016 Measure B Program which focuses on enhancing transit, highways, expressways and active transportation (bicycles, pedestrians and complete streets).

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

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

    VTA maintains three major governmental funds to account for the financial activities of VTA's Congestion Management Program, 2016 Measure B Program, and the Congestion Management and Highway Program.

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

The enterprise funds and the internal service fund provide the same type of information as the government-wide financial statements within the business-type activities, only in more detail.

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

The activities of the VTA Amalgamated Transit Union (ATU) Pension Plan, the ATU Spousal Medical and Retiree Vision and Dental Funds and the Retirees' Other Post Employment Benefits (OPEB) Trust are reported in the retiree trust funds. Pension trust funds are used to account for assets held by VTA as a trustee for individuals and other organizations, such as ATU.

Senate Bill 83 Vehicle Registration Fee (SB 83 VRF), and the Bay Area Air Quality Management District (BAAQMD) are accounted for in an agency fund, a fund that accounts for assets held solely in a custodial capacity.

3. **Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 2-33 through 2-97 of this report.

   In addition to the basic financial statements and notes, *Required Supplementary Information* is presented as required by GASB. The required supplementary information shows Net Pension Liabilities and Pension Contributions pertaining to ATU and CalPERS, VTA's funding progress relative to Other Post Employment Benefits as well as the Congestion Management Program and 2016 Measure B Program Budgetary Schedules. Required supplementary information can be found on pages 2-98 through 2-105 of this report.

   Other supplementary information such as the combining statements and other individual schedules found immediately following the required supplementary information present individual fund statements and schedules for the Enterprise and Fiduciary Funds. Other supplementary information can be found on pages 2-106 through 2-116 of this report.

4. **Government-wide Financial Analysis**. The Government-Wide Statement of Net Position and the Statement of Activities report a $228.4 million increase in net position. The Business-Type activities were the major source of the growth as the Government-type activities' net position decreased by $2.2 million. The increase in the business-type net position was due primarily to sales tax receipts, TDA, and capital grants related primarily to VTA's BART Silicon Valley Extension Project. The 1976

sales tax, 2000 Measure A sales tax, and BART operating sales tax collections for the fiscal year were $209.0 million, $208.7 million, and $50.0 million, respectively. During FY 2017, VTA enterprise funds acquired or built total capital assets of approximately $345.1 million (see Note 6). These capital assets were funded by a variety of sources such as federal and state grants, bond proceeds as well as local 2000 Measure A sales tax revenues.

Santa Clara Valley Transportation Authority

Condensed Schedule of Net Position

FY 2017 and FY 2016

(In thousands)

	Business -Type Activities		Governmental Activities		Total	
	2017	2016	2017	2016	2017	2016
Asset:						
Current and other Assets	$ 1,307,737	$ 1,441,236	$ 67,406	$ 19,057	$ 1,375,143	$ 1,460,293
Capital assets, net	4,776,477	4,497,706	—	—	4,776,477	4,497,706
Total assets	6,084,214	5,938,942	67,406	19,057	6,151,620	5,957,999
Deferred outflows of resources	166,427	208,206	—	—	166,427	208,206
Liabilities:						
Current Liabilities	215,984	268,286	68,458	17,900	284,442	286,186
Long-term liabilities outstanding	1,427,263	1,498,314	—	—	1,427,263	1,498,314
Total liabilities	1,643,247	1,766,600	68,458	17,900	1,711,705	1,784,500
Deferred inflows of resources	7,246	10,959	—	—	7,246	10,959
Net Position:						
Net Investment In Capital Assets	3,715,082	3,394,540	—	—	3,715,082	3,394,540
Restricted	740,398	789,000	611	1,157	741,009	790,157
Unrestricted	144,668	186,049	(1,663)	—	143,005	186,049
Total Net Position	$ 4,600,148	$ 4,369,589	$ (1,052)	$ 1,157	$ 4,599,096	$ 4,370,746

The largest portion of VTA's net position (approximately 81%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment), less any related outstanding debt used to acquire those assets. VTA uses these capital assets to provide services to its customers. Consequently, these assets are not available for future spending. Although VTA's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot reasonably be used to liquidate these liabilities. The restricted net position represents mainly the funds set aside for the 2000 Measure A Transit Improvement Programs, BART operating, 1996 Measure B Program, debt service collateral with the bond trustees, retention, and Swap collateral. The unrestricted categories include funds set aside by Board policies and for funding of local share of capital projects; inventory and prepaid expenses; VTA transit operating reserve, debt reduction, express lanes and joint development program funds, sales tax stabilization, irrevocable transfer made to the OPEB Trust, and a deficit in compensated absences. The irrevocable transfer made to OPEB Trust, although unrestricted, is earmarked for OPEB Trust Fund's future operating needs. The unrestricted net position is generally available for appropriation with Board approval. The details of net position categories are shown in Note 2(j).

Governmental Accounting Standards Board (GASB) Statement 68 requires public employees to comply with new accounting and professional reporting standards. Under this standard, employers that participate in a defined benefit pension plan, administered as a trust or equivalent arrangement, are required to record the net pension liability, pension contributions, and deferred outflows/inflows of resources related to pensions in their financial statements. Net Pension Liability is the amount owed by VTA to its employees for benefits provided through a defined benefit pension plan. This consists of $83 million for CalPERS and $127.3 million for ATU, net of related deferrals.

Business-Type Activities – The total net position of $4.6 billion was up by $230.6 million in FY 2017. The current fiscal year reported unfavorable changes affecting operating expenses, as well as program and general expenses. Net program expenses (total expenses minus program revenues) increased by $164 million in FY 2017, mainly due to the increase in total expenses of $76 million and decrease in program revenues of $88 million.

The total program expense was up primarily due to the increase in operations and support services. These expenses include labor cost, net of costs allocated to capital and other programs, of $17 million. During the year, labor rates were incrementally adjusted based on the provisions of the collective bargaining agreements. Although no contribution was made to the Retiree Medical Plan, the GASB 68-required pension expense pertaining to CALPERS increased this year as a result of lesser investment gain recognition when calculating the actuarial estimate. The growth of $7 million in materials and supplies is a result of increase in usage of parts associated with the major overhaul rebuild program at Light Rail. Service also reported a $3 million increase resulting from a security contract amendment with the Santa Clara County Sheriff's Office to augment staffing. General liability insurance was up by $2 million to provide the actuarially-required reserves as of June 30, 2017. Aside from the start up costs incurred related to hiring a new paratransit provider, there was a $4 million increase in Purchased Transportation attributed mainly to the difference in reporting paratransit costs from one year to the next. The previous year reported paratransit costs net of fare revenue while FY 2017 reported paratransit costs at gross. Depreciation and other costs reported a net increase of $7 million due primarily to a change in accounting estimate brought about by changing the life of light rail vehicles from 45 to 30 years.

Other program expenses include Contribution to other agencies which increased by $33 million as a result of increased activities in projects that are generating assets which will end up being owned by other entities (such as Hayward Maintenance Center, Caltrain Electrification, and Montague Reconstruction Project). Interest expense was up by $3.9 million in FY 2017 as the capitalizable interest declined. This was caused by interests incurred, specifically relating to 2010 Bonds, that were allocated to closed or completed projects which ultimately ended up being expensed. The unfavorable variances in the expense were offset by the decline in other non-operating expenses. FY 2017 did not report any losses on disposal of vehicles but the prior year recognized a loss on disposal of three zero-emission buses of $1.2 million.

In the program revenue category, charges for services were down $2.6 million. Despite the first year of paratransit fare recognition, total passenger fares were still lower by $2.9 million. The low gas price, wet winter with record level of precipitation, and increasing popularity of on-demand private car/taxi companies, contributed to the negative effect on the ridership. Advertising and other revenues reported a net increase of $99 thousand as a result of more favorable terms negotiated with the bus advertising vendor and increase in reported net revenues by the shelter advertising contractor. The increase of $200 thousand in the other income of the joint development was brought about primarily by receipts arising from new property rental agreements.

The decline in operating grants of $3.0 million was largely a result of a lesser State Transit Assistance of $4.6 million in FY 2017. The State revised the STA revenue forecast downwards over the last year and a half due to continued low diesel price. This was offset by a net increase in the Transportation Development Act (TDA) revenue of $883 thousand; Transportation for Clean Air of $413 thousand; and Security Plan Revision and other operating assistance of $304 thousand.

Capital grants decreased by $82.2 million as a result of reduced activities mainly in the grant-funded Silicon Valley Berryessa Extension (SVBX), Northern Light Rail Express, and Alum Rock/Santa Clara Bus Rapid Transit. The decrease was partially offset by recognition of grant revenues for Procurement of Hybrid Vehicles, Montague Reconstruction, and Santa Clara Station Underpass projects.

In the general revenue category, the upswing of $7.4 million in sales taxes and $2.7 million in other income, offset by a decrease of $14.6 million in investment income, resulted in an unfavorable outcome of $4.5 million. In contrast with the prior year's mark to market gain performance, FY 2017 reported a mark to market loss caused by modestly higher interest rates. Other income included primarily a $1.6 million proceeds from Comerica lease termination, a $512 thousand receipt of donated land at Whisman Station Park-and-Ride lot, a $236 thousand insurance proceeds for a bus that was involved in an accident and a $259 thousand reimbursement relating to Underground Tank Storage.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Condensed Schedule of Activities

FY 2017 and FY 2016

(In thousands)

	Business-Type Activities		Governmental Activities		Total	
	2017	2016	2017	2016	2017	2016
Expenses:						
Operations, support services, CMP and 2016 Measure B programs	$ 471,655	$ 431,212	$ 8,868	$ 8,228	$ 480,523	$ 439,440
Caltrain subsidy & capital expense, on behalf of, and contribution to other agencies	94,474	61,508	—	—	94,474	61,508
Altamont Corridor Express subsidy	3,270	3,166	—	—	3,270	3,166
Interest expense	15,254	11,330	—	—	15,254	11,330
Other expenses	2,928	4,177	—	—	2,928	4,177
Claims and change in future claim estimates	12,654	12,999	—	—	12,654	12,999
Contribution to agencies	—	—	83	210	83	210
Capital outlay on behalf of other agencies	—	—	9,886	11,189	9,886	11,189
Total expenses	600,235	524,392	18,837	19,627	619,072	544,019
Program revenues:						
Charges for services	40,194	42,791	2,549	2,529	42,743	45,320
Operating grants	123,944	126,988	13,948	16,585	137,892	143,573
Capital grants	188,856	271,057	—	—	188,856	271,057
Total program revenues	352,994	440,836	16,497	19,114	369,491	459,950
Net program revenues (expenses)	(247,241)	(83,556)	(2,340)	(513)	(249,581)	(84,069)
General revenues:						
Sales tax revenue	467,701	460,316	—	—	467,701	460,316
Investment income	4,459	19,102	7	16	4,466	19,118
Other Income	5,640	2,860	124	155	5,764	3,015
Total general revenues	477,800	482,278	131	171	477,931	482,449
Change in net position	230,559	398,722	(2,209)	(342)	228,350	398,380
Net position, beginning of year	4,369,589	3,970,867	1,157	1,499	4,370,746	3,972,366
Net position, end of year	$ 4,600,148	$ 4,369,589	$ (1,052)	$ 1,157	$ 4,599,096	$ 4,370,746

Governmental Activities – The net position of governmental activities decreased $2.2 million, with a negative ending balance of $1.1 million; all arising from the Special Revenue Fund. Major elements of changes in fund balance were as follows:

- In the Congestion Management and Highway Program (CMHP) Capital Projects Funds, total grant revenues and capital expenditures were $11.8 million. Starting in FY 2017, 1996 Measure B Highway Fund, for purposes of winding down its affairs, formed part of the CMHP Fund. Despite the merge, CMHP still reported a decrease in grant revenues due to reduced activities on certain projects (such as I880/I280/Stevens Creek Improvement, Final Design on SR237 Express Lanes - Phase II Extension, Combined Landscaping & Maintenance Project relative to 880/HOV, 101 Auxiliary, 101 Yerba Buena, and 237/McCarthy). The decrease was partially offset by increase in activities on projects such as 101/SR85 Express Lanes, US101/Zanker Rd/Skyport Dr/North 4th Street Interchange, and I280/Wolfe Rd Interchange Improvement.

- In the Congestion Management Program (CMP) Special Revenue Fund, total revenue sources were $4.9 million, a decrease of $421 thousand from the $5.3 million in FY 2016. This is primarily due to the decline in eligible activities funded by the Surface Transportation Program grant. Total expenditures were $5.4 million, a decrease of $217 thousand from FY 2016 due primarily to a decline in professional services rendered by the iTEAM (a partnership with Caltrans with efforts focused on local assistance, project delivery, and traffic engineering/innovative transportation solutions) during the year. The decline in Contribution to Other Agencies was caused by reduced activities in projects that are availing of CMP funding (such as Multimodal Trip Data Collector/ Planner App, Integrated Land Use/Transportation Model, and Countywide Bicycle Plan Update). The change in fund balance was a decrease of $546 thousand. CMP projects were funded from member assessments and various federal, state, and local grants.

- 2016 Measure B Program Special Revenue Fund was created, upon approval of the Santa Clara County voters in November 2016, to record a 30-year half cent countywide sales tax transactions in support of enhancing transit, highways, expressway and active transportation (bicycles, pedestrians and streets). For FY 2017, expenses of $1.7 million include fees associated with the election and establishment of escrow fund. The collection of the sales tax started in April 2017. The initial quarter's sales tax apportionment formed part of the liability as the Measure is presently facing legal challenge.

Financial Analysis of VTA's Funds – VTA uses funds to account for its various activities. This is to ensure and demonstrate compliance with finance-related legal requirements.

Enterprise Funds – VTA's enterprise funds report the activities of its transit operations, 2000 Measure A Transit Improvement Program, BART Operating, Express Lanes Program, and the Joint Development Program. The 1996 Measure B Transit was reflected as part of VTA Transit Fund starting in FY 2017.

Enterprise Funds Revenue	2017	2016	Change Favorable/(Unfavorable) Amount	Percent
Charges for services	$ 40,194	$ 42,791	$ (2,597)	(6.07)%
Operating grants	123,944	126,988	(3,044)	(2.40)%
Capital grants	188,856	271,057	(82,201)	(30.33)%
1976 half-cent sales tax	209,005	205,418	3,587	1.75 %
2000 Measure A half-cent sales tax	208,672	205,636	3,036	1.48 %
BART Operating Sales Tax	50,024	49,262	762	1.55 %
Investment earnings	4,356	18,493	(14,137)	(76.45)%
Other income	5,016	2,438	2,578	105.74 %
Total	$ 830,067	$ 922,083	$ (92,016)	(9.98)%

Charges for Services – In the VTA Transit and Express Lanes funds, charges for services which were derived from bus farebox receipts, light rail ticket sales, paratransit fares, toll fees, sale of monthly passes (including Eco Pass, tokens, and convention passes), advertising income, and joint development rent were, $40.2 million in FY 2017. Despite the first year of paratransit fare recognition, there was still a $2.6 million or 6.07% drop from FY 2016 largely due to decrease in passenger fare revenues attributed to various factors such as low gas price, wet winter with record level of precipitation, and increased competition with on-demand private cars/taxi companies.

Operating Grants – VTA Transit Operating grants include Transportation Development Act (TDA), State Transit Assistance (STA), Federal Section 5307 Urbanized Formula Program Grants, state vehicle license fees (AB434), and Federal Section 5311 Formula Grants for Other than Urbanized Areas. In FY 2017, total operating grants decreased $3.0 million or 2.4% from the FY 2016 level. There was a decrease in State Transit Assistance (STA) revenue of $4.6 million. This was offset in part by net increases of $883 thousand in the Transportation Development Act (TDA) revenue, $413 thousand in Transportation for Clean Air Act; and $304 thousand in Security Plan Revision and other operating assistance.

TDA funds are derived from a quarter-cent sales tax levied by the state on taxable transactions occurring in the Santa Clara County. The Metropolitan Transportation Commission (MTC) retains a portion of these funds for administration and approximately 94.58% is returned to the source county (i.e., Santa Clara). After sales tax derived from local measures, TDA revenue is VTA's second largest source of revenue for operations. For FY 2017, the actual TDA receipts were $99.4 million. This is $883 thousand or 0.9% increase over the prior fiscal year as the taxable sales activity in the county improved in FY 2017.

STA funds are derived from state sales tax on diesel fuel. STA apportionments are made to regional transportation planning agencies (Metropolitan Transportation Commission in the San Francisco Bay

Area Region) based on a formula that allocates 50% of the funds according to population and 50% according to the transit operator's qualified revenues in the region from the prior fiscal year. In FY 2017, VTA received $9.0 million compared to the $13.6 million in FY 2016. The reduced STA apportionment was largely a result of the State revising its STA revenue forecast downwards over the last year and a half. This was prompted by the continued low diesel prices causing revenues flowing into the STA program to decrease significantly.

Federal Section 5307 consists of Americans with Disabilities Act (ADA) Operating Assistance. ADA Operating set aside funds are used for paratransit activities, a mandated service that VTA provides to residents of Santa Clara County. This federal assistance grant remained generally constant at $3.7 million.

Capital Grants – Capital grants include FTA NewStarts FFGA, Federal Sections 5307, 5337, 5339 and Federal Security, other federal pass-through, various State transit-related capital grants, capital contribution from local agencies, and reimbursements received by VTA for capital expenses undertaken on behalf of other agencies. These were reported under the VTA Transit, and 2000 Measure A funds. Total capital grants decreased $82.2 million or 30.3% to $189 million. This is primarily due to reduced activities in the federal and state funded Silicon Valley Berryessa Extension (SVBX), Northern Light Rail Express and Alum Rock/Santa Clara Bus Rapid Transit. The decrease was partially offset by recognition of grant revenues pertaining to Procurement of Hybrid Vehicles, Montague Reconstruction, and Santa Clara Station Underpass projects.

1976 Half-Cent Sales Tax Revenues – The 1976 Sales Tax is VTA's single largest source of revenue for operations under the VTA Transit Fund. The State Board of Equalization (SBOE) collects the 1976 Sales Tax for VTA. The 1976 Sales Tax Revenues pay the operating expenses and capital expenditures, where state or federal capital assistance programs require that the recipient of assistance contribute locally- derived revenues. For FY 2017, total sales tax revenues were $209.0 million, a $3.6 million or 1.7% growth compared to the prior fiscal year's sales tax revenue.

2000 Measure A Half-Cent Sales Tax Revenues – The 2000 Measure A Half-Cent Sales Tax is collected by the SBOE for VTA in the same manner as the 1976 Measure B Sales Tax. The 2000 Measure A Sales Tax revenues are reported in the 2000 Measure A fund and restricted for projects and operational activities included in the 2000 Measure A ballot. The collection of this tax occurred after the expiration of the 1996 Half-Cent Measure B Sales Tax on March 31, 2006. For FY 2017, total sales tax revenues were $208.7 million, a $3.0 million or 1.5% growth compared to the prior fiscal year's sales tax revenue.

BART Operating – In November 2008, county residents passed 1/8-cent sales tax to fund the operating and maintenance costs of the BART Extension. Collection of the tax which will be for a period not to exceed 30 years, took effect on July 1, 2012. In FY 2017, total sales tax revenue under the BART Operating Fund was $50.0 million, a $762 thousand or 1.5% growth compared to last year.

Investment Earnings – The investment earnings are derived from three primary sources: short, mid, and long-term investment portfolios. Investment earnings were primarily recorded under 2000 Measure A Fund. Pursuant to VTA's adopted investment policy and California Government Code, 100% of surplus assets are invested in domestic fixed income investments. The decrease in investment income of $14.1 million in FY 2017 was largely a result of a mark-to-market loss caused by modestly higher interest rates. The mark-to-market loss was more than the interest income earned during the year.

Federal Subsidy for Build America Bonds (BABs) – In FY 2011, VTA issued 2010 Measure A Sales Tax Bonds which are taxable to the bond holders and recorded under 2000 Measure A Fund. The bonds were issued under the federal BABs program which provides a 35% interest cost subsidy to VTA. In compliance with Governmental Accounting Standards Board (GASB), VTA recognizes the BABs subsidy as an income item in its financial statements. Starting with FY 2016, this item was presented as Program Revenues under Operating grants. In FY 2017, 2000 Measure A Fund reported BABs subsidy of $8.8 million. This remained generally constant with what was received in FY 2016.

Other income - The increase was accounted for mainly by $1.6 million proceeds from Comerica lease termination and receipt of donated land at Whisman Station Park-and-Ride lot stated at acquisition value of $512 thousand. This also includes reimbursements of $236 thousand from an insurance company for a bus that was involved in an accident and $259 thousand from the State for a grant relating to Underground Tank Storage.

Comparison of
Enterprise Funds Expenses
FY 2017 and FY 2016
(In thousands)

			Change Favorable/(Unfavorable)	
Enterprise Funds Expenses	**2017**	**2016**	**Amount**	**Percent**
Operations and support services	$ 481,509	$ 443,660	$ (37,849)	(8.53)%
Caltrain and ACE subsidy	11,660	11,580	(80)	(0.69)%
Capital contributions to/or expenses on-behalf of other agencies	86,084	53,094	(32,990)	(62.14)%
Interest expense and other bond charges	15,254	11,330	(3,924)	(34.63)%
Other Expenses	2,928	4,177	1,249	29.90 %
Total	$ 597,435	$ 523,841	$ (73,594)	(14.05)%

Operations and Support Services – This includes labor and fringe, materials, support services, insurance, purchased transportation and other overhead costs incurred primarily for bus and light rail operations, services and support programs in VTA Transit, Express Lanes, BART Operating and Joint Development funds. For FY 2017, operations and support services expense was $38 million or 8.5% higher compared to that of FY 2016. Labor and fringe benefits, net of costs allocated to capital and other programs, increased by $16.7 million. During the year, labor rates were incrementally adjusted based on the provisions of the collective bargaining agreements. Although no contribution was made to the Retiree Medical Plan, the GASB 68-required pension expense pertaining to CALPERS increased this year as a result of lesser investment gain recognition in the calculation of the actuarial estimate. The $6.6 million growth in materials and supplies is a result of increased usage of parts associated with the major overhaul rebuild program at Light Rail. Service also reported a $3 million increase resulting from a security contract amendment with the Santa Clara County Sheriff's Office to augment staffing. General liability insurance was up by $2 million to provide the actuarially-required reserves as of June 30, 2017. Aside from the start up costs incurred related to hiring a new paratransit provider, there was a $4 million increase in Purchased Transportation due to a change in reporting presentation. FY 2017 reported paratransit costs at gross, while the prior year reported paratransit costs net of fare revenue. Depreciation reported a net increase of $6 million associated mainly with the change in accounting estimate affecting light rail vehicle life from 45 to 30 years. The purpose of which is to align the life of the vehicles with industry norm.

Caltrain and Altamont Corridor Express (ACE) Subsidy – Caltrain is a commuter rail service, provided by the Peninsula Corridor Joint Powers Board (PCJPB), which consists of 3 member agencies: VTA, San Mateo County Transit District (SamTrans) and City and County of San Francisco. VTA contributes a portion of Caltrain operating and maintenance costs for commuter train service from Santa Clara County to San Francisco. Operating subsidy to Caltrain under the VTA Transit Fund was $8.4 million in FY 2017; $24 thousand less than the contribution in FY 2016.

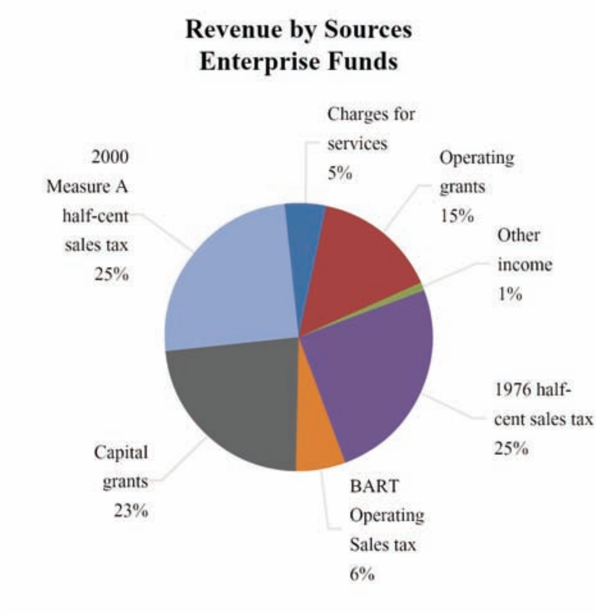
The ACE is administered by and funded under a cooperative agreement among VTA, the Alameda County Congestion Management Agency and the San Joaquin Regional Rail Commission (SJRRC). VTA's subsidy to ACE commuter rail service under the VTA Transit Fund totaled $3.3 million in FY 2017; $104 thousand more than the contribution in FY 2016. The annual subsidy was based on the joint power agreement with these agencies.

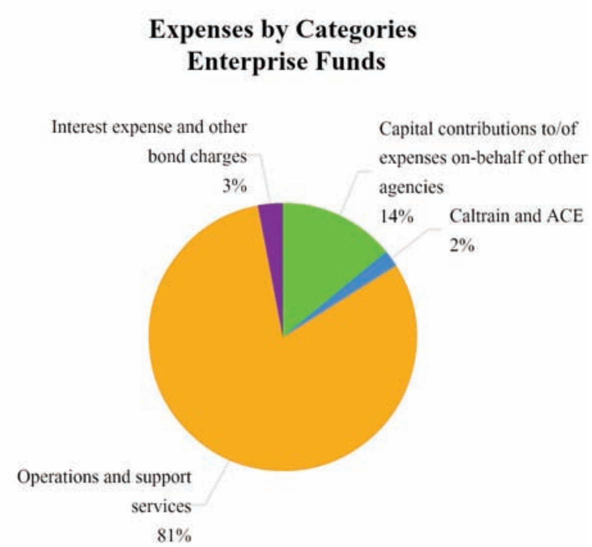
Capital Contributions to/or Expenses on Behalf of Other Agencies – As part of its capital program, VTA makes capital contribution to or undertakes capital projects jointly with other agencies. As the ownership of these capital assets does not rest with VTA, these capital expenses are reported as non-operating expenses on its financial statements. In FY 2017, total capital contributions to/or on behalf of other agencies were $86.1 million ($6.5 million in VTA Transit Fund, and $79.6 million in 2000

Measure A Fund), or $33.0 million more compared to the preceding year's level. This is largely due to an increase in capital activities relating to projects such as Hayward Maintenance Center, Caltrain Electrification, and Montague Reconstruction Project.

Interest Expense and other Bond Charges – Interest expense and other bond charges were $15.3 million; $3.9 million more compared to prior year. Interest relating to 2010 bonds which were initially capitalized ended up being expensed as projects closed or reached completion.

Other Expenses - This accounts for losses from disposal of assets and costs incurred for project studies and analyses, as well as other professional services relating to 2000 Measure A Program such as custodial fees, audit fees and other investment consulting charges. Other expenses declined as FY 2017 did not report any losses from disposal of vehicles, unlike the prior year which reported a loss from retirement of zero-emission buses of $1.2 million.





Internal Service Funds – VTA maintains Internal Service Funds to account for the activities related to Workers' Compensation, General Liability, and Compensated Absences programs. The costs of these activities are accounted for in these funds and then charged to other VTA funds. As of June 30, 2017, the total deficit for this fund category, associated entirely from the Compensated Absences program, was $8.8 million and funded by VTA Transit's FY 2018 operating budget.

Governmental Funds – The focus of VTA's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing VTA's financing requirements. VTA maintains two governmental fund types – *Special Revenue Fund* and *Capital Projects Fund*.

Special Revenue Fund – This fund accounts for the activities of the Congestion Management Program and the 2016 Measure B program. The table that follows shows the details of changes in fund balance between the current and prior fiscal year:

Comparison of Special Revenue Fund
FY 2017 and FY 2016
(In thousands)

			Change	
			Favorable/ (Unfavorable)	
Special Revenue Fund	**2017**	**2016**	**Amount**	**Percent**
Assessment to member agencies	$ 2,407	$ 2,407	$ —	0.00 %
Federal grant revenues	1,219	1,887	(668)	(35.40)%
State and local operating grants	966	699	267	38.20 %
Other revenues	124	155	(31)	(20.00)%
Administrative fees	142	122	20	16.39 %
Investment earnings	7	16	(9)	(56.25)%
Total Revenues	4,865	5,286	(421)	(7.96)%
Salaries and benefits	(4,251)	(4,221)	(30)	(0.71)%
Professional services	(2,721)	(1,176)	(1,545)	(131.38)%
Contribution to agencies	(83)	(210)	127	60.48 %
Material and Services	(19)	(21)	2	9.52 %
Total Expenses	(7,074)	(5,628)	(1,446)	(25.69)%
Change in fund balances	(2,209)	(342)	(1,867)	(545.91)%
Fund balances, beginning of year	1,157	1,499	(342)	(22.82)%
Fund balances, end of year	$ (1,052)	$ 1,157	$ (2,209)	(190.92)%

Total revenues under the Special Revenue Fund include primarily member assessments and grants. This was reported at $4.9 million in FY 2017, a decrease of $421.0 thousand from the preceding year. This is largely a result of lesser eligible activities reimbursed by the Surface Transportation Program grant revenue under the Congestion Management Program. Total expenditures were $7.1 million, an increase of $1.4 million from FY 2016. The increase is primarily a result of expenditures incurred by the 2016 Measure B Program during its initial year, which include professional fees paid to Santa Clara County for election cost, as well as the State Board of Equalization and the bank for the establishment of escrow fund. The overall decrease in fund balance amounted to $1.9 million.

CMP projects were funded from member assessments and various federal, state, and local grants. The 2016 Measure B Program Fund was created in FY 2017, upon approval of the Santa Clara County voters in November 2016, to record a 30-year half cent countywide sales tax transactions in support of enhancing transit, highways, expressway and active transportation (bicycles, pedestrians and streets). For FY 2017, sales tax advances formed of the liability as the Measure is undergoing a legal challenge.

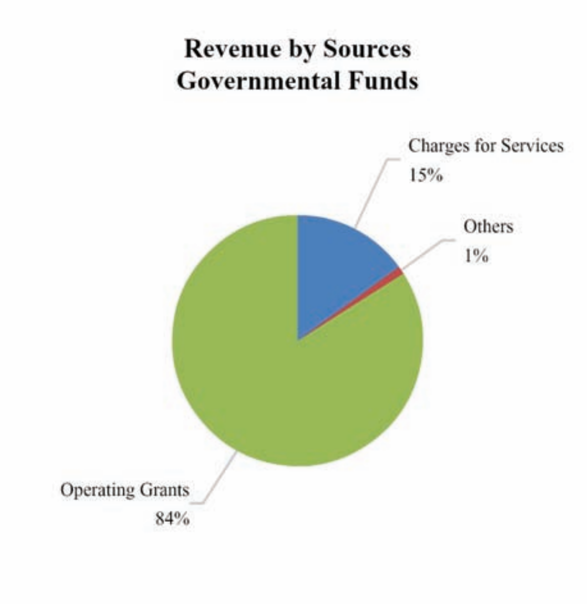
Capital Projects Fund – This fund accounts for Congestion Management and Highway Program. The following table shows the breakdown of changes in fund balance between the current and prior fiscal years.

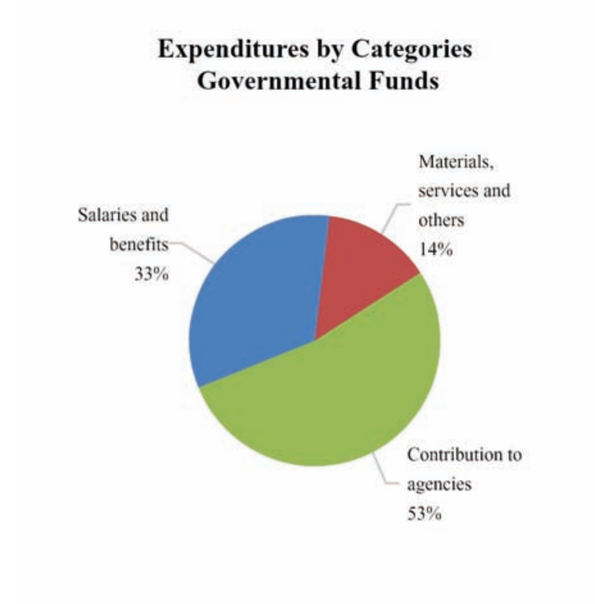
Comparison of
Capital Project Funds
FY 2017 and FY 2016
(In thousands)

			Change	
			Favorable/(Unfavorable)	
Capital Projects Funds	**2017**	**2016**	**Amount**	**Percent**
Federal, State, and local capital grant revenues	$ 11,763	$ 13,999	$ (2,236)	(15.97)%
VTA labor and overhead costs	(1,877)	(2,810)	933	33.20 %
Capital expenditures on behalf of other agencies	(9,886)	(11,189)	1,303	11.65 %
Change in fund balances	$ —	$ —	$ —	

For FY 2017, total revenues were $11.8 million which represent the total amount expended on the projects and fully funded by other governmental agencies. Starting in FY 2017, activities for the year of the 1996 Measure B Highways formed part of the Congestion Management and Highway Program Fund. The incorporation is a result of the effort to close out the affairs of the 1996 Measure B Highways Program.

The VTA labor and overhead costs primarily from Congestion Management and Highway Program were $933 thousand lower in FY 2017. Capital expenditures on behalf of other agencies were $9.9 million in FY 2017, a $1.3 million decline largely attributed to less activities on projects nearing completion such as I880/I280/Stevens Creek Improvement, Final Design on SR237 Express Lanes - Phase II Extension, Combined Landscaping & Maintenance Project relative to 880/HOV, 101 Auxiliary, 101 Yerba Buena, and 237/McCarthy). The decrease was partially offset by increase in activities on projects such as 101/SR85 Express Lanes, US101/Zanker Rd/Skyport Dr/North 4th Street Interchange, and I280/Wolfe Rd Interchange Improvement.





Capital Assets and Debt Administration

Capital assets – VTA's investment in capital assets is entirely in its business-type activity since VTA has no capital assets invested in the governmental activities. As of June 30, 2017 investment in capital assets net of accumulated depreciation, amounts to $4.8 billion. This investment in capital assets includes Land and Right-of-Way, Buildings, Improvements, Equipment & Furniture, Vehicles, Caltrain Access, the Caltrain-Gilroy Extension, Light Rail Tracks/Electrification, Leasehold Improvements, and Other Operating Equipment. During FY 2017, VTA expended $345.1 million on acquisition and construction of capital assets.

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

	2017	2016
Land and Right-of-way	$ 1,126,872	$ 1,126,359
Construction in Progress	2,906,098	2,611,823
Caltrain Access	2,203	3,085
Buildings & Improvements Equipment & Fixtures	264,406	266,990
Vehicles with Leased Vehicles	316,847	311,848
Caltrain-Gilroy Extension	26,460	27,770
Light Rail Tracks/Electrification	124,313	141,317
Other Operating Equipment	3,831	5,710
Leasehold Improvements	5,447	5,889
Total	$ 4,776,477	$ 4,500,791

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

Long-term debt – At year end, VTA has $1.1 billion bonds outstanding. For FY 2017, the total debt payment made was approximately $52.9 million while the total amortization of the bond premium was $2.9 million.

Outstanding Debt
Proprietary Funds
(In thousands)

	2017	**2016**
Sr. Lien Sales Tax Revenue Bonds (1976 Tax)	$ 168,877	$ 184,116
Sr. Lien Sales Tax Revenue Bonds (2000 Tax)	901,545	932,049
Total	**$ 1,070,422**	**$ 1,116,165**

More information on these transactions is included in Note 7g – Long-Term Debt and Liabilities.

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

For Sales Tax Revenue Bonds secured by 2000 Measure A sales tax revenues, VTA maintains uninsured ratings of "Aa2" from Moody's and "AA+" from S&P.

Each of the two liens listed above has a separate series of 2007 bonds and each series has a bond insurance policy issued by Ambac Assurance Corporation insuring the timely payment of debt service. Since the credit ratings for Ambac Assurance Corporation are currently lower than ratings for the VTA's bond liens, 2007 bonds bear the rating of the respective sales tax bond liens as listed above.

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

Requests for Information

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

BASIC FINANCIAL STATEMENTS

THIS PAGE IS INTENTIONALLY LEFT BLANK

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Net Position
June 30, 2017
(In thousands)

	Business-Type Activities	Governmental Activities	Total
ASSETS			
Cash and investments	$ 341,673	$ —	$ 341,673
Receivables, net	4,334	—	4,334
Internal balances	2,003	(2,003)	—
Due from other agencies	49,247	—	49,247
Inventories	35,452	—	35,452
Other current assets	1,236	—	1,236
Restricted assets:			
Cash and investments	767,634	25,026	792,660
Receivables, net	5	—	5
Due from other agencies	90,249	44,383	134,632
Other current assets	39	—	39
Net OPEB asset	15,865	—	15,865
Capital assets:			
Capital assets - nondepreciable	4,032,970	—	4,032,970
Capital assets - depreciable, net of accumulated depreciation	743,507	—	743,507
Total assets	6,084,214	67,406	6,151,620
DEFERRED OUTFLOWS OF RESOURCES			
Hedging derivative instruments	82,764	—	82,764
Refunding amounts	12,697	—	12,697
Pension-related	70,966	—	70,966
Total deferred outflows of resources	166,427	—	166,427
LIABILITIES			
Accounts payable and accrued expenses	25,708	—	25,708
Deposits	379	—	379
Accrued payroll and related liabilities	10,536	—	10,536
Bond interest and other fees payable	409	—	409
Unearned revenues	3,521	—	3,521
Other accrued expenses	36	—	36
Liabilities payable from restricted assets:			
Accounts payable and accrued expenses	40,089	2,501	42,590
Bond interest and other fees payable	11,039	—	11,039
Unearned revenues	12	50,127	50,139
Due to other agencies	67,484	15,830	83,314
Long-term liabilities:			
Due within one year	56,771	—	56,771
Due in more than one year	1,066,805	—	1,066,805
Derivative instruments	82,764	—	82,764
Net Pension Liability	277,694	—	277,694
Total liabilities	1,643,247	68,458	1,711,705
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows-pension related	3,576	—	3,576
Deferred amount on refunding	3,670	—	3,670
Total deferred inflows of resources	7,246	—	7,246
NET POSITION			
Net investment in capital assets	3,715,082	—	3,715,082
Restricted:			
Swap collateral	82,764	—	82,764
Debt Service	50,108	—	50,108
Retention	89	—	89
2000 Measure A projects	368,455	—	368,455
1996 Measure B projects	976	—	976
BART Operating	238,006	—	238,006
Congestion management program	—	611	611
Unrestricted (Note 2j)	144,668	(1,663)	143,005
Total Net Position	$ 4,600,148	$ (1,052)	$ 4,599,096

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Activities
For the Year ended June 30, 2017
(In thousands)

	Business-Type Activities	Governmental Activities	Total
	Transit	Congestion Management	
EXPENSES:			
Operations, support services, and CMP program and 2016 Measure B program	$ 471,655	$ 8,868	$ 480,523
Caltrain subsidy & capital expenses on behalf of, and contribution to other agencies	94,474	—	94,474
Altamont Corridor Express subsidy	3,270	—	3,270
Interest expense	15,254	—	15,254
Other expenses	2,928	—	2,928
Claims and change in future claim estimates	12,654	—	12,654
Contribution to agencies	—	83	83
Capital outlay on behalf of other agencies	—	9,886	9,886
Total expenses	600,235	18,837	619,072
PROGRAM REVENUES:			
Charges for services	40,194	2,549	42,743
Operating grants	123,944	13,948	137,892
Capital grants	188,856	—	188,856
Total program revenues	352,994	16,497	369,491
Net program revenues (expenses)	(247,241)	(2,340)	(249,581)
GENERAL REVENUES:			
Sales tax revenue	467,701	—	467,701
Investment income	4,459	7	4,466
Other income	5,640	124	5,764
Total general revenues	477,800	131	477,931
Change in Net Position	230,559	(2,209)	228,350
NET POSITION, BEGINNING OF YEAR	4,369,589	1,157	4,370,746
NET POSITION, END OF YEAR	$ 4,600,148	$ (1,052)	4,599,096

See Accompanying Notes to Basic Financial Statements

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Fund Net Position
Proprietary Funds
June 30, 2017
(In Thousands)

	Enterprise Funds							
	VTA Transit	1996 Meas B Transit	Express Lanes	2000 Measure A	BART Operating	Joint Development	Total Enterprise	Internal Service Fund
ASSETS								
Current assets:								
Cash and cash equivalents	$ 32,831	$ —	$ 397	$ —	$ —	$ 319	$ 33,547	$ 2,936
Investments	232,964	—	2,408	—	—	28,206	263,578	41,612
Receivables, net	4,295	—	39	—	—	—	4,334	—
Due from other agencies	49,247	—	—	—	—	—	49,247	—
Inventories	35,452	—	—	—	—	—	35,452	—
Other current assets	1,236	—	—	—	—	—	1,236	—
Restricted assets:								
Cash and cash equivalents	—	—	—	1,077	497	—	1,574	—
Cash and cash equivalents with fiscal agent	2,265	—	—	58,717	—	—	60,982	—
Investments	56,308	—	—	420,439	228,331	—	705,078	—
Receivables, net	2	—	—	3	—	—	5	—
Due from other funds	1,887	—	—	121	—	—	2,008	—
Due from other agencies	—	—	—	81,019	9,230	—	90,249	—
Other current assets	—	—	—	39	—	—	39	—
TOTAL CURRENT ASSETS	416,487	—	2,844	561,415	238,058	28,525	1,247,329	44,548
Noncurrent assets:								
Net OPEB Asset	15,865	—	—	—	—	—	15,865	—
Capital assets - Non-depreciable:								
Land and right of way	1,126,872	—	—	—	—	—	1,126,872	—
Construction in progress	89,827	—	—	2,815,587	—	684	2,906,098	—
Capital assets - Depreciable:								
Intangible Assets	—	—	—	3,085	—	—	3,085	—
Caltrain - Gilroy extension	43,072	—	—	—	—	—	43,072	—
Buildings, improvements, furniture, and fixtures	586,041	—	—	—	—	—	586,041	—
Vehicles	586,754	—	—	—	—	—	586,754	—
Light-rail tracks and electrification	418,195	—	—	—	—	—	418,195	—
Leasehold Improvements	9,686	—	—	—	—	—	9,686	—
Others	47,561	—	—	—	—	—	47,561	—
Less accumulated depreciation	(950,005)	—	—	(882)	—	—	(950,887)	—
Net capital assets	1,958,003	—	—	2,817,790	—	684	4,776,477	—
TOTAL NONCURRENT ASSETS	1,973,868	—	—	2,817,790	—	684	4,792,342	—
TOTAL ASSETS	2,390,355	—	2,844	3,379,205	238,058	29,209	6,039,671	44,548
DEFERRED OUTFLOWS OF RESOURCES								
Hedging derivative instruments	10,507	—	—	72,257	—	—	82,764	—
Refunding amounts	8,663	—	—	4,034	—	—	12,697	—
Pension related	70,966	—	—	—	—	—	70,966	—
TOTAL DEFERRED OUTFLOWS OF RESOURCES	90,136	—	—	76,291	—	—	166,427	—

(continued on next page)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Statement of Fund Net Position *(continued)*
Proprietary Funds
June 30, 2017
(In Thousands)

	Enterprise Funds							
	VTA Transit	1996 Meas B Transit	Express Lanes	2000 Measure A	BART Operating	Joint Development	Total Enterprise	Internal Service Fund
LIABILITIES								
Current liabilities:								
Current portion of long-term debt	15,492	—	—	—	—	—	15,492	—
Accounts payable and accrued expenses	25,278	—	75	—	—	195	25,548	160
Deposits	283	—	—	—	—	96	379	—
Accrued payroll and related liabilities	10,536	—	—	—	—	—	10,536	—
Bond interest and other fees payable	409	—	—	—	—	—	409	—
Unearned revenues	3,488	—	—	—	—	33	3,521	—
Other accrued expenses	36	—	—	—	—	—	36	—
Claims liability	—	—	—	—	—	—	—	3,349
Compensated absences	—	—	—	—	—	—	—	8,400
Liabilities payable from restricted assets:								
Current portion of long-term debt	—	—	—	29,530	—	—	29,530	—
Accounts payable and accrued expenses	—	—	—	40,037	52	—	40,089	—
Bond interest and other fees payable	—	—	—	11,039	—	—	11,039	—
Unearned revenues	—	—	—	12	—	—	12	—
Due to other funds	—	—	—	—	—	5	5	—
Due to other agencies	45,801	—	—	21,683	—	—	67,484	—
TOTAL CURRENT LIABILITIES	101,323	—	75	102,301	52	329	204,080	11,909
Non-current liabilities:								
Long-term debt, excluding current portion	153,385	—	—	872,015	—	—	1,025,400	—
Derivative instruments	10,507	—	—	72,257	—	—	82,764	—
Claims liability	—	—	—	—	—	—	—	20,314
Compensated absences	—	—	—	—	—	—	—	21,091
Net Pension Liability	277,694	—	—	—	—	—	277,694	—
TOTAL NON-CURRENT LIABILITIES	441,586	—	—	944,272	—	—	1,385,858	41,405
TOTAL LIABILITIES	542,909	—	75	1,046,573	52	329	1,589,938	53,314
DEFERRED INFLOWS OF RESOURCES								
Deferred Inflows-Pension Related	3,576	—	—	—	—	—	3,576	—
Deferred Amount on Refunding	—	—	—	3,670	—	—	3,670	—
TOTAL DEFERRED INFLOWS OF RESOURCES	3,576	—	—	3,670	—	—	7,246	—
NET POSITION								
Net Investment in Capital Assets	1,797,789	—	—	1,916,609	—	684	3,715,082	—
Restricted:								
BART Operating	—	—	—	—	238,006	—	238,006	—
Swap collateral	10,507	—	—	72,257	—	—	82,764	—
Debt service	2,176	—	—	47,932	—	—	50,108	—
Retention	89	—	—	—	—	—	89	
2000 Measure A projects	—	—	—	368,455	—	—	368,455	—
1996 Measure B projects	976		—	—	—	—	976	—
Unrestricted (Note 2j)	122,469	—	2,769	—	—	28,196	153,434	(8,766)
TOTAL NET POSITION	$1,934,006	$ —	$ 2,769	$ 2,405,253	$ 238,006	$ 28,880	$ 4,608,914	$ (8,766)

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

Net Position of Enterprise Funds	$ 4,608,914
Net Position of Internal Service Funds, which benefits Business-type Activities	(8,766)
Net Position of Business-Type Activities (Page 2-22)	$ 4,600,148

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year ended June 30, 2017
(In thousands)

	Enterprise Funds							
	VTA Transit	1996 Meas B Transit	Express Lanes	2000 Measure A	BART Operating	Joint Development	Total	Internal Service Fund
OPERATING REVENUES:								
Fares - Transit	$ 33,719	$ —	$ —	$ —	$ —	$ —	$ 33,719	$ —
Fares - Paratransit	1,064	—	—	—	—	—	1,064	—
Toll revenues collected	—	—	1,258	—	—	—	1,258	—
Advertising and others	3,478	—	—	—	—	—	3,478	—
Charges for services	—	—	—	—	—	675	675	11,845
Total Operating Revenues	38,261	—	1,258	—	—	675	40,194	11,845
OPERATING EXPENSES:								
Labor cost	321,824	—	—	—	—	—	321,824	—
Materials and supplies	38,656	—	—	—	—	—	38,656	—
Services	34,537	—	862	—	203	1,123	36,725	—
Utilities	8,851	—	3	—	—	—	8,854	—
Casualty and liability	6,901	—	—	—	—	—	6,901	—
Purchased transportation	25,241	—	—	—	—	—	25,241	—
Leases and rentals	678	—	—	—	—	—	678	—
Miscellaneous	1,722	—	—	—	—	10	1,732	1,991
Depreciation expense	68,539	—	—	—	—	—	68,539	—
Costs allocated to capital and other programs	(27,641)	—	—	—	—	—	(27,641)	—
Claims and change in future claims estimates	—	—	—	—	—	—	—	12,654
Total Operating Expense	479,308	—	865	—	203	1,133	481,509	14,645
Operating Income/(Loss)	(441,047)	—	393	—	(203)	(458)	(441,315)	(2,800)
NON-OPERATING REVENUES(EXPENSES):								
Sales tax revenue	209,005	—	—	208,672	50,024	—	467,701	—
2000 Measure A operating assistance	38,515	—	—	(38,515)	—	—	—	—
Federal operating assistance and other grants	4,232	—	—	—	—	—	4,232	—
Federal subsidy for Build America Bonds	—	—	—	8,753	—	—	8,753	—
State and local operating assistance grants	110,959	—	—	—	—	—	110,959	—
Caltrain subsidy	(8,390)	—	—	—	—	—	(8,390)	—
Capital expense on behalf of, and contribution to other agencies	(6,497)	—	—	(79,587)	—	—	(86,084)	—
Altamont Corridor Express subsidy	(3,270)	—	—	—	—	—	(3,270)	—
Investment earnings	1,141	—	12	2,404	670	129	4,356	103
Interest expense	(7,326)	—	—	(7,928)	—	—	(15,254)	—
2000 Measure A repayment obligations	15,178	—	—	(15,178)	—	—	—	—
Other non-operating income	4,609	—	—	407	—	—	5,016	624
Other non-operating expense	(576)	—	—	(2,352)		—	(2,928)	—
Total Non-operating Revenue (Expenses)	357,580	—	12	76,676	50,694	129	485,091	727
Income (loss) before capital contributions	(83,467)	—	405	76,676	50,491	(329)	43,776	(2,073)
Transfer from 1996 Measure B Transit	976	(976)	—	—	—	—	—	—
Capital grants and contributions	38,713	—	—	150,143	—	—	188,856	—
Change in net position	(43,778)	(976)	405	226,819	50,491	(329)	232,632	(2,073)
Net Position, beginning of year	1,977,784	976	2,364	2,178,434	187,515	29,209	4,376,282	(6,693)
Net Position, end of year	$1,934,006	$ —	$ 2,769	$2,405,253	$ 238,006	$ 28,880	$ 4,608,914	$ (8,766)

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

Change in net position of the Enterprise Funds	$ 232,632
Change in net position of the Internal Service Fund, which benefits Business-type Activities	(2,073)
Change in net position of Business-type Activities (Page 2-23)	$ 230,559

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2017
(In thousands)

	VTA Transit	1996 Meas B Transit	Express Lanes	2000 Measure A	BART Operating	Joint Development	Total Enterprise Funds	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES								
Cash received from transit fares	$ 34,788	$ —	$ —	$ —	$ —	$ —	$ 34,788	$ —
Cash received from paratransit fares	1,064	—	—	—	—	—	1,064	—
Cash received from Tolls	—	—	1,257	—	—	—	1,257	—
Cash received from advertising	3,739	—	—	—	—	—	3,739	—
Cash paid for labor costs	(278,713)	—	—	—	—	—	(278,713)	—
Cash paid to suppliers	(88,524)	—	(866)	—	(153)	(1,133)	(90,676)	—
Cash paid for purchased transportation	(25,241)	—	—	—	—	—	(25,241)	—
Cash received from contributions	—	—	—	—	—	—	—	11,845
Payments made to beneficiaries	—	—	—	—	—	—	—	(13,698)
Payments made to third party contractors	—	—	—	—	—	—	—	(802)
Other receipts/(payments)	—	—	(126)	—	(37)	804	641	—
Net cash provided by/(used in) operating activities	(352,887)	—	265	—	(190)	(329)	(353,141)	(2,655)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES								
Operating grants received	116,626	—	—	8,753	—	—	125,379	—
Sales tax received	207,237	—	—	207,139	49,645	—	464,021	—
2000 Measure A operating assistance	38,232	—	—	(38,232)	—	—	—	—
2000 Measure A repayment obligations	15,178	—	—	(15,178)	—	—	—	—
Caltrain subsidy	(8,390)	—	—	—	—	—	(8,390)	—
Altamont Corridor Express subsidy	(3,270)	—	—	—	—	—	(3,270)	—
Capital contributions to other agencies	(8,148)	—	—	(79,961)	—	—	(88,109)	—
Net cash provided by/(used in) non-capital financing activities	357,465	—	—	82,521	49,645	—	489,631	—
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES								
Payment of long-term debt	(24,735)	—	—	(28,160)	—	—	(52,895)	—
Proceeds from issuance of long term debt	10,030	—	—	—	—	—	10,030	—
Advance (to)/from other governments	(1,577)	(593)	—	(29,438)	—	—	(31,608)	—
Interest and other fees paid on long-term debt	(7,966)	—	—	(10,721)	—	—	(18,687)	—
Acquisition and construction of capital assets	(55,928)	(5)	—	(304,073)	—	(190)	(360,196)	—
Capital contribution from other entities	43,114	—	—	196,864	—	—	239,978	670
Transfer in from 1996 Measure B transit	976	—	—	—	—	—	976	—
Transfer out to VTA transit	—	(976)	—	—	—	—	(976)	—
Net cash provided by/(used in) capital and related financing activities	(36,086)	(1,574)	—	(175,528)	—	(190)	(213,378)	670
CASH FLOWS FROM INVESTING ACTIVITIES								
Proceeds from sale of investments	665,346	—	6,026	1,107,308	456,317	66,124	2,301,121	114,766
Purchase of investments	(661,338)	—	(6,062)	(1,032,697)	(513,684)	(65,944)	(2,279,725)	(110,648)
Interest income received	3,100	—	36	6,936	2,890	427	13,389	346
Net cash provided by/(used in) investment activities	7,108	—	—	81,547	(54,477)	607	34,785	4,464
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(24,400)	(1,574)	265	(11,460)	(5,022)	88	(42,103)	2,479
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	59,496	1,574	132	71,254	5,519	231	138,206	457
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 35,096	$ —	$ 397	$ 59,794	$ 497	$ 319	$ 96,103	$ 2,936

(continued on next page)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Statement of Cash Flows
Proprietary Funds *(continued)*
For the Year Ended June 30, 2017
(In thousands)

	VTA Transit	1996 Meas B Transit	Express Lanes	2000 Measure A	BART Operating	Joint Development	Total Enterprise Funds	Internal Service Fund
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY/ (USED IN) OPERATING ACTIVITIES								
Operating income/(loss)	$ (441,047)	$ —	$ 393	$ —	$ (203)	$ (458)	$ (441,315)	$ (2,800)
Adjustments to reconcile operating income (loss) to net cash provided by/(used in) operating activities:								
Depreciation	68,539	—	—	—	—	—	68,539	—
Changes in operating assets and liabilities:								
Other current assets	14,988	—	—	—	—	—	14,988	—
Receivables	345	—	(2)	—	—	—	343	—
Inventories	(3,412)	—	—	—	—	—	(3,412)	—
Accounts Payable	6,324	—	(126)	—	13	—	6,211	—
Other accrued liabilities	495	—	—	—	—	—	495	145
Deposits from others	(104)	—	—	—	—	—	(104)	—
Unearned Revenue	985	—	—	—	—	129	1,114	—
Net cash provided by/(used in) operating activities	$ (352,887)	$ —	$ 265	$ —	$ (190)	$ (329)	$ (353,141)	$ (2,655)
Reconciliation of cash and cash equivalents to the Statement of Fund Net Position:								
Unrestricted:								
Cash and cash equivalents	$ 32,831	$ —	$ 397	$ —	$ —	$ 319	$ 33,547	$ 2,936
Restricted:								
Cash and cash equivalents	—	—	—	1,077	497	—	1,574	—
Cash and cash equivalents with fiscal agent	2,265	—	—	58,717	—	—	60,982	—
	$ 35,096	$ —	$ 397	$ 59,794	$ 497	$ 319	$ 96,103	$ 2,936
NONCASH ACTIVITIES:								
Increase/(Decrease) in fair value of investments	$ (2,197)	$ —	$ (21)	$ (3,862)	$ (1,937)	$ (255)	$ (8,272)	$ (243)
Noncash capital contributions	1,198	—	—	51,403	—	—	52,601	—
Amortization expense of Caltrain Access Fee	—	—	—	(882)	—	—	(882)	—
Total non-cash activities	$ (999)	$ —	$ (21)	$ 46,659	$ (1,937)	$ (255)	$ 43,447	$ (243)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Balance Sheet
Governmental Funds
June 30, 2017
(In thousands)

	Special Revenue Funds		Capital Projects Fund	
	2016 Measure B Program	Congestion Management Program	Congestion Management & Highway Program	Total Governmental Funds
ASSETS				
Restricted assets:				
Cash and cash equivalents	$ 12,106	$ —	$ 12,920	$ 25,026
Due from other agencies	38,021	841	5,521	44,383
TOTAL ASSETS	$ 50,127	$ 841	$ 18,441	$ 69,409
LIABILITIES				
Liabilities payable from restricted assets:				
Accounts payable	$ 7	$ 2	$ 2,492	$ 2,501
Unearned revenue	50,127	—	—	50,127
Due to other funds	1,656	124	223	2,003
Due to other agencies	—	104	15,726	15,830
TOTAL LIABILITIES	51,790	230	18,441	70,461
FUND BALANCES				
Restricted	—	611	—	611
Unassigned	(1,663)	—	—	(1,663)
TOTAL FUND BALANCES	(1,663)	611	—	(1,052)
TOTAL LIABILITIES AND FUND BALANCES	$ 50,127	$ 841	$ 18,441	$ 69,409

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year ended June 30, 2017
(In thousands)

	Special Revenue Funds		Capital Projects Fund	
	2016 Measure B Program	Congestion Management Program	Congestion Management & Highway Program	Total Governmental Funds
REVENUES:				
Assessment to member agencies	$ —	$ 2,407	$ —	$ 2,407
Federal grant revenues	—	1,219	2,739	3,958
Administrative fees	—	142	—	142
State and local grants	—	966	9,024	9,990
Other revenues	—	124	—	124
Investment earnings	—	7	—	7
TOTAL REVENUES - CURRENT	—	4,865	11,763	16,628
EXPENDITURES:				
Congestion Management:				
VTA labor and overhead costs	—	4,251	1,877	6,128
Professional services	1,663	1,058	—	2,721
Material and services	—	19	—	19
Contribution to agencies	—	83	—	83
Capital expenditures on behalf of other agencies	—	—	9,886	9,886
TOTAL EXPENDITURES	1,663	5,411	11,763	18,837
NET CHANGE IN FUND BALANCES	(1,663)	(546)	—	(2,209)
FUND BALANCES, BEGINNING OF YEAR	—	1,157	—	1,157
FUND BALANCES, END OF YEAR	$ (1,663)	$ 611	$ —	$ (1,052)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2017
(In thousands)

	ATU Pension, ATU Medical & OPEB Trust Funds	Agency Funds
ASSETS		
Cash and investments:		
Cash and Cash Equivalents	$ 1,827	$ 592
Corporate Bond	96,103	—
U.S. Government Securities	33,229	—
U.S. Agency notes	63,314	—
Equity Based	127,505	—
Mutual Funds	526,109	—
Money Market Funds	7,599	—
Investment Pool	547	31,328
Receivables	1,371	—
Prepaid Expenses	861	—
Due from other agencies	10	—
TOTAL ASSETS	$ 858,475	$ 31,920
LIABILITIES		
Accounts payable	$ 241	$ 47
Program payable	—	31,873
TOTAL LIABILITIES	241	$ 31,920
NET POSITION		
Restricted for:		
ATU Pension benefits	531,467	
Retiree medical benefits	299,894	
ATU Retiree spousal medical benefits	15,887	
ATU Retiree dental and vision benefits	10,986	
TOTAL NET POSITION	$ 858,234	

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Changes in Fiduciary Net Position
for the Year ended June 30, 2017
(In thousands)

	ATU Pension, ATU Medical & OPEB Trust Funds
ADDITIONS	
Employee Contributions	$ 1,070
Employer Contributions	33,381
Total Contributions	34,451
Investment earnings:	
Investment income	34,426
Net appreciation in the fair value of investments	64,689
Investment expense	(2,471)
Net investment income	96,644
TOTAL ADDITIONS	131,095
DEDUCTIONS	
Benefit payments	53,076
Administrative expenses	349
TOTAL DEDUCTIONS	53,425
CHANGE IN NET POSITION	77,670
Net Position, Beginning of year	780,564
Net Position, End of year	$ 858,234

THIS PAGE IS INTENTIONALLY LEFT BLANK

NOTES TO THE BASIC FINANCIAL STATEMENTS

THIS PAGE IS INTENTIONALLY LEFT BLANK

NOTE 1 – THE FINANCIAL REPORTING ENTITY

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

The accompanying basic financial statements also include the financial activities of the Santa Clara Valley Transportation Authority Amalgamated Transit Union (ATU) Pension Plan and the Other Post Employment Benefit Plan (the Plans) in the Trust Funds. The financial activities of the Plans are included in the basic financial statements because they exclusively serve the employees of VTA. Due to the fact that the Plans are fiscally dependent on VTA, they are considered trust funds by VTA.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

Government-wide Financial Statements - The Statement of Net Position 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; are, therefore, 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.

The *Proprietary Funds* are used to account for activities for which a fee is charged to external or internal users for goods or services. VTA reports the following *Enterprise Funds:*

- The *VTA Transit Fund* accounts for the transit operations of VTA. The primary sources of funding for transit operations are the TDA, one-half cent sales tax, farebox collections, and federal/state grants. Starting in FY 2017, the 1996 Measure B Transit activities were incorporated in VTA Transit Fund as the affairs of the program continue to wind down. The 1996 Measure B Transit used to account for sales tax collected from all the 1996 Measure B Transit Improvement Program.
- The *2000 Measure A Fund* is used to account for the 2000 Measure A Transit Improvement Program funded through one-half cent sales tax as approved in an election by voters of County of Santa Clara requiring that sales tax revenues be expended on projects included in the scope of 2000 Measure A.
- The *BART Operating Fund* is used to account for the 1/8-cent sales tax approved in an election by voters of County of Santa Clara requiring that sales tax revenues be expended on operations, maintenance, improvement and future capital needs of the 16.1 mile VTA's BART Silicon Valley Extension.
- The *Express Lanes Fund* is used to account for operations of the 237/880 Express Lanes. The primary source of funding for the operations is toll revenues.
- The *Joint Development Fund* is used to set aside the proceeds generated from VTA's Joint Development Program, whose mission is to maximize the economic value of the agency's real estate assets through site-appropriate development. The aggregated funds may be appropriated for the continued operation and development of VTA through formal action by the VTA Board of Directors.

Additionally, VTA reports on *Internal Service Fund.* The fund is used to account for compensated absences and risk management activities of VTA, which are managed through a combination of purchased insurance and self-insurance.

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

- The *2016 Measure B Special Revenue Fund* is used to account for the 2016 Measure B Program funded through one-half cent sales tax approved in an election by voters of County of Santa Clara requiring that sales tax revenues be expended on enhancing transit, highways, expressways and active transportation (bicycles, pedestrians and complete streets).
- The *Congestion Management Program Special Revenue Fund* is used to account for the congestion management planning, programming, and development services for Santa Clara County. Major sources of revenue for this fund are member agency assessments, and federal and state grants.
- The *Congestion Management and Highway Program Capital Projects Fund (CMHP)* 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 1996 Measure B Highway Program Capital Projects Fund). Starting in FY 2017, CMHP Fund incorporated the activities of 1996 Measure B Highway Program Capital Projects as the program continues to wind down.

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. This includes VTA's trust and agency funds as follows:

- VTA *Trust Funds* include retiree funds namely VTA/ATU Pension Plan, Other Post-Employment Benefits Trust (OPEB), ATU Spousal Medical, and Retiree Dental/Vision Plan.
- VTA *Agency Funds* include:
    - *Bay Area Air Quality Management District* (BAAQMD) which accounts for the activities that relate to the Transportation Fund for Clean Air (TFCA) program.
    - *Senate Bill (SB) 83 Vehicle Registration Fund* (VRF) was established to administer the vehicle registration fee collected under SB 83 and approved by voters in 2010.

(b) Basis of Accounting and Measurement Focus

The government-wide, business-type activities, proprietary funds, and fiduciary trust funds financial statements are reported using the accrual basis of accounting and the economic resources measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions in which VTA gives (or receives) value without directly receiving (or giving) equal value in exchange, include sales tax and grants. Revenues from sales tax are recognized when the underlying transactions take place. Therefore, recorded sales taxes include an accrual for amounts collected by the State Board of Equalization but not remitted to VTA at the end of the fiscal year. Revenues from grants are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements for the purchase of right-of-way are considered met once the acquisition has settled. Fiduciary trust funds are also reported using accrual basis of accounting and the economic resources measurement focus. Agency funds have no measurement focus but utilizes the accrual basis of accounting for reporting assets and liabilities.

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, VTA considers revenues to be available if they are collected within 180 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financial sources.

Sales taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual; and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 180 days of year end). Expenditure-driven grants are recognized as revenue source when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 180 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the government.

(c) Cash and Investments

VTA contracts with money management firms to manage most of its investment portfolio. VTA's investment program manager has oversight responsibility for investments managed by these firms. The securities are held by a third-party custodial bank. Purchases and sales of securities are reflected on the trade date. The remaining cash balances in certain VTA funds are invested in the Local Agency Investment Fund (LAIF). Unless there are specific legal or contractual requirements for specific allocations, income earned or losses arising from investments are allocated on a monthly basis to the appropriate fund(s) based on their average daily balances.

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

VTA has reported its investments at fair value based on quoted market information, from its fiscal agent for actively managed accounts and from management firms for commingled accounts. The fair value of VTA's investments commingled in LAIF state pool is based on VTA's cash positions in the commingled accounts as of the end of the fiscal year.

(d) Inventories

Inventories are valued at cost using the weighted average method, which approximates market. They are charged to expense at the time individual items are withdrawn from inventory (consumption method). Inventory consists primarily of parts and supplies relating to the maintenance of transportation vehicles and facilities.

(e) Restricted Assets

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

(f) Bond Discounts, Premiums, and Bond Refunding Gains/Losses

Bond refunding gains/losses for the government-wide statement of net position and the proprietary funds are reported as deferred inflows/outflows of resources and amortized on a straight line basis over a period equal to the term of the related bond. The discounts and premiums are amortized using the effective interest rate method. Bond discounts and premiums in the government-wide and proprietary funds are presented as a reduction and addition, respectively, of the face amount of bonds payable.

(g) Capital Assets

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

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

Asset being Depreciated	Useful Life
Buildings, improvements, furniture, and fixtures	5 to 50 years
Vehicles (excluding light-rail vehicles)	5 to 12 years
Light-rail tracks, electrification, and light-rail vehicles	25 to 30 years
Leasehold improvements	10 to 35 years
Other operating equipment	5 to 10 years

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

Interest is capitalized on construction in progress. Accordingly, interest that is capitalized is the total interest cost from the date of the borrowing until the specified asset is ready for its intended use. In the current year, VTA capitalized total interest expense and other bond charges of $44 million relating to the 2000 Measure A Transit Improvement Projects.

(h) Vacation and Sick Leave Benefits

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

(i) Self-Insurance

VTA retains $3 million in self-insurance for general liability and completely self-insures workers' compensation claims. Estimated losses on claims other than workers' compensation claims are charged to expense in the period the loss is determinable. Estimated losses for workers' compensation claims are charged to expense as a percentage of labor in each accounting period. The costs incurred for workers' compensation and general liability (including estimates for claims incurred but not yet reported) are reported in the Internal Service Fund based on an actuarial determination of the present value of estimated future cash payments (see Notes 14 and 16).

(j) Net Position

The government-wide and proprietary funds financial statements utilize a net position presentation. Net Position is categorized as net investment in capital assets, restricted, and unrestricted.

- *Net Investment in Capital Assets* - This category groups all capital assets, including infrastructure and intangibles, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance of this category.

  The Statement of Fund Net Position as of June 30, 2017, on pages 2-24 and 2-25 reports that enterprise fund net position invested in capital assets (net of related debt) is $3.7 billion.

- *Restricted Net Position* - This category consists of debt service collateral, Swap collateral, retention, amounts restricted for 1996 Measure B Transit, 2000 Measure A capital programs, BART Operating, 2016 Measure B Program and Congestion Management Program.

  The Statement of Fund Net Position on pages 2-24 and 2-25 reports that enterprise funds restricted net position amount to $740 million as of June 30, 2017, of which $488.6 million and $238.0 million are restricted by enabling legislation for the 2000 Measure A Sales Tax and BART Operating Sales Tax programs, respectively. The 2000 Measure A half-cent sales tax was approved by Santa Clara County voters to fund certain transportation-related projects. The BART Operating 1/8-cent sales tax is dedicated to the operation, maintenance, improvement, and future capital needs of the BART Silicon Valley Extension. When both restricted and unrestricted net positions are available, unrestricted resources are used only after the restricted resources are depleted.

The balance sheet of the Governmental Funds reports fund balance for CMP and 2016 Measure B programs of $611 thousand surplus and $1.7 million deficit, respectively. The 2016 Measure B is a half-cent sales tax to fund activities on enhancing transit, highways, expressways, and other active transportation. Tax collection began in April 2017 and VTA received initial allocation of $12.1 million in June 2017. The initial allocation was reported as a liability due to the Measure undergoing legal challenge.

- <u>*Unrestricted Net Position*</u> The remaining unrestricted net position, although not legally restricted, have been earmarked for future capital and operating needs, as well as for other purposes in accordance with Board directives. Unrestricted Net Position earmarks within proprietary funds consist of the following (in thousands):

	Proprietary Funds				
	VTA Transit Fund	Express Lanes Fund	Joint Development Fund	Total Enterprise Funds	Internal Service Fund
Local share of capital projects	$ 129,021	$ —	$ 6,309	$ 135,330	$ —
Debt reduction	49,540	—	—	49,540	—
Express Lane	—	2,769	—	2,769	—
Joint Development	—	—	21,887	21,887	—
Irrevocable transfer made to OPEB trust fund	15,865	—	—	15,865	—
Sales tax stabilization	35,000	—	—	35,000	—
Operating reserve	66,659	—	—	66,659	—
Inventory and prepaid expenses	36,688	—	—	36,688	—
Workers' Compensation, General Liability& Compensated Absences	—	—	—	—	(8,766)
Net Pension Liability (GASB 68)*	(210,304)	—	—	(210,304)	—
Total	$ 122,469	$ 2,769	$ 28,196	$ 153,434	$ (8,766)

*Represents amount owed by VTA for benefits provided through a defined benefit pension plan (net of related deferred inflows/outflows). This consists of $83 million for CalPERS and $127.3 million for ATU.

(k) Cost Allocated to Capital and Other Programs

On the Statement of Revenues, Expenses, and Changes in Fund Net Position, the VTA Transit Fund reports $28 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, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, expenses, and certain disclosures to prepare the basic financial statements in conformity with GAAP. Actual results could differ from those estimates.

(m) Fund Balance - Governmental Funds

The Congestion Management Program and the 2016 Measure B Program Fund balances are classified as restricted. These are amounts that can be spent only for specific purposes because of enabling legislation or constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments. VTA's governmental funds reports only restricted Fund balances except when the residual amount is negative which is then reported as unassigned Fund balance.

(n) Spending Order Policy

When expenses are incurred for purposes for which both restricted and unassigned fund balances are available, VTA considers restricted funds to have been spent first.

(o) Intangible Assets

These refer to the $10 million payment made to Union Pacific railroad in January 2005 for Caltrain right-of-way access right. This asset is amortized over 15-year period using the straight line method.

(p) Transfers In/(Out)

The Transfers represent the interfund transactions between funds. During FY 2017, there was a transfer of $976 thousand from 1996 Measure B Transit Fund to VTA Transit Fund as the 1996 Measure B program approaches completion.

(q) New Accounting Pronouncements

GASB Statement No. 73 - In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68.* The objective of this statement establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria. The requirements of the Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, or the FY 2017. This statement did not have an impact on VTA's financial statement.

GASB Statement No. 74 - In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of the Statement is to address the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. The Statement requires more extensive note disclosures and RSI related to the measurement of the OPEB liabilities for which assets have been accumulated. The Statement is effective for periods beginning after June 15, 2016, or the FY 2017. The pronouncement is applicable to OPEB plans. This statement did not have an impact on VTA's financial statement.

GASB Statement No. 75 - In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The objective of the Statement is to replace the requirements of GASB Statement No. 45. In addition, the Statement requires governments to report a liability on the face of the financial statements for the OPEB provided and requires governments to present more extensive note disclosures and required supplementary information about their OPEB liabilities. The Statement is effective for the periods beginning June 15, 2017, or the FY 2018. VTA has not determined the effect of the statement.

GASB Statement No. 77 - In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures.* The objective of this Statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs. This GASB statement is effective with Fiscal Year Ending June 30, 2017. This statement did not have an impact on VTA's financial statement.

GASB Statement No. 79 - In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. The Statement addresses accounting and financial reporting for certain external investment pools and pool participants. The Statement establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The Statement establishes additional note disclosure requirements for qualifying external investment pools that require measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Both the qualifying external investment pools and their participants are required to disclose information about any limitations or restrictions on participant withdrawals. The Statement is effective for the periods beginning after June 15, 2016, or the FY 2017, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. This statement did not have an impact on VTA's financial statement.

GASB Statement No. 80 - In January 2016, GASB issued Statement No. 80, Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14. The objective of the Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, The Financial Reporting Entity, as amended. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The Statement is effective for the reporting periods beginning after June 15, 2016, or the FY 2017. This statement did not have an impact on VTA's financial statement.

GASB Statement No. 81 - In March 2016, GASB issued Statement No. 81, Irrevocable Split-Interest Agreements. The objective of the Statement is to improve financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, the Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. The Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The Statement is effective for the reporting periods beginning after December 15, 2016, or the FY 2018. VTA has not determined the effect of the statement.

GASB Statement No. 83 - In November 2016, GASB issued Statement No. 83, Certain Asset Retirement Obligations (AROs). The objective of the Statement is to establish criteria for determining the timing and pattern of recognition and a corresponding deferred outflows of resources for AROs. The Statement requires ARO measurement to be based on best estimate of the current value of outlays expected to be incurred, and updated annually for inflation/deflation and all relevant factors. In addition, a government is required to measure the deferred outflows of resources associated with the ARO at the amount of the corresponding liability upon initial measurement and expensed in a systematic and rational manner over the estimated useful life of the tangible capital asset. The Statement is effective for the reporting periods beginning after June 15, 2018, or the FY 2019. VTA has not determined the effect of the statement.

GASB Statement No. 84 - In January 2017, GASB issued Statement No. 84, Fiduciary Activities. The objective of the Statement is to provide guidance over (a) fiduciary components, (b) Pension and OPEB arrangements that are not component units if they control the assets, and, if they are Pension and OPEB plans that are trusts, or assets that are not pension and OPEB trusts, but are accumulated for pension and OPEB, as described in Statements 73 and 74, (c) a government controlling the asset of an activity if it holds the assets or has the ability to direct use, exchange, or employment of the assets, (d) other fiduciary activities defining private-purpose trust funds and custodial funds, (e) the financial reporting of fiduciary funds in the basic financial statements. The Statement is effective for the reporting periods beginning after December 15, 2018, or the FY 2020. VTA has not determined the effect of the statement.

GASB Statement No. 85 - In March 2017, GASB issued Statement No. 85, Omnibus 2017. The issuance of the Statement addresses a wide variety of topics covering various practice issues arising from implementation and application of certain GASB statements, as follows: (a) blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation, (b) reporting amounts previously reported as goodwill and "negative" goodwill, (c) classifying real estate held by insurance entities, (d) measuring certain money market investment contracts at amortized cost, (e) timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus, (f) recognizing on-behalf payments for pensions or OPEB in employer financial statements, (g) presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB, (h) classifying employer-paid member contributions for OPEB, (i) accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans. The Statement is effective for the reporting periods beginning after June 15, 2017, or the FY 2018. VTA has not determined the effect of the statement.

GASB Statement No. 86 - In May 2017, GASB issued Statement No. 86, Certain Debt Extinguishment Issues. The Statement is to provide guidance over In-substance defeasance of debt using only "existing" resources to fund an irrevocable trust to satisfy scheduled payments of the defeased debt (i.e., resources other than proceeds of refunding debt). The Statement is effective for the reporting periods beginning after June 15, 2017, or the FY 2018. VTA has not determined the effect of the statement.

NOTE 3 - CASH AND INVESTMENTS

Total cash and investments as of June 30, 2017, are reported in the accompanying basic financial statements as follows (in thousands):

	Enterprise Funds	Internal Service Fund	Governmental Funds	Retiree Trust Funds	Agency Funds	Total
Unrestricted:						
Cash and Cash Equivalents	$ 33,547	$ 2,936	$ —	$ —	$ —	$ 36,483
Investment	263,578	41,612	—	—	—	305,190
Total unrestricted	297,125	44,548	—	—	—	341,673
Restricted:						
Cash and Cash Equivalents	1,574	—	12,920	1,827	592	16,913
Cash and Cash Equivalents with Fiscal Agents	60,982	—	12,106	—	—	73,088
Investments	705,078	—	—	854,406	31,328	1,590,812
Total restricted	767,634	—	25,026	856,233	31,920	1,680,813
Total Cash and Investments	$ 1,064,759	$ 44,548	$ 25,026	$ 856,233	$ 31,920	$ 2,022,486

As of June 30, 2017 total cash and investments among all funds consisted of the following (in thousands):

Cash & Cash Equivalents	$ 53,396
Cash & Cash Equivalents with Fiscal Agents	73,088
Investments	1,896,002
Total	$ 2,022,486

Cash and Cash Equivalents

VTA maintains several checking accounts related to its operations. These checking accounts earn interest based on the bank's sweep rate. At June 30, 2017, the carrying amounts of these cash balances are shown below (in thousands):

Operation Account	$ 40,476
CM&HP Account	12,920
Total Deposits	$ 53,396

Investments

VTA's investments fall into two categories, i.e. investments related to: (1) government-wide and agency funds, and (2) trust funds. The first includes investments of operating and other funds which may be restricted or unrestricted depending on the source of the funds. The second includes trust funds investments that are held in trust to pay retirement benefits of ATU, Local 265 Pension Plan, ATU Medical/Dental, and the VTA Retirees' Other Post-Employment Benefits trust.

Investment within the government-wide

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. Furthermore, the intent of the government code is to minimize risk of loss on held investments from:

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

VTA's investment policy covering non-trust funds conforms to state statutes, and provides written investment guidance regarding the types of investments that may be made and the amounts which may be invested in any one financial institution or any one long-term instrument. VTA's permissible investments include U.S. treasury obligations, obligations of federal agencies and U.S. government sponsored enterprises, state of California obligations, local agency obligations, bonds issued by VTA except BABs, bankers' acceptances, commercial paper, repurchase and reverse repurchase agreements, medium-term corporate notes, insured savings/money market accounts, negotiable certificates of deposit, mortgage and asset-back obligations, State of California's local agency agreements, qualified structured investments, and shares of beneficial interest i.e., mutual funds) investing in these permissible investments.

VTA's non-trust portfolio includes asset-backed securities that are invested and managed by money managers, and includes structured notes that are invested indirectly through the State Treasurer's Office Local Agency Investment Fund (LAIF). At June 30, 2017, the investment in LAIF is $30 million. LAIF is voluntarily commingled within the state of California Pooled Money Investment Account (PMIA), whose balance at June 30, 2017, was approximately $77.6 billion. If cash reserves of the state of California are exhausted, then participation by the State's General Fund in the PMIA is zero. There is no correlation between the state's general fund cash reserves and VTA's funds on deposit in the LAIF. None of this amount was invested in derivative instruments. PMIA is not a Securities and Exchange Commission (SEC) registered pool, but it is required to invest in accordance with the guidelines established by the California Government Code. The weighted average maturity of the investments in PMIA on June 30, 2017, was 194 days. The value of the pool shares investment earnings are paid quarterly based on the average daily balance. Withdrawals from LAIF are completed on a dollar for dollar basis.

Interest Rate Risk – Interest rate risk is the risk that changes in market interest rates may adversely affect the fair value of an investment. The longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. Of VTA's $1.042 billion in non-pension or OPEB investments, 19.12% of the investments are fixed income investments with a maturity of less than 1 year and 4.04% are fixed income investments with a maturity greater than 5 years. VTA's Investment Policy allows up to 40% of the operating funds portfolio to be invested in maturities longer than five years.

The following schedule indicates the maturity of investments at June 30, 2017 (in thousands):

	Maturity				
Investment Type	**1 Year or Less**	**2-5 Years**	**6-10 Years**	**Over 10 Years**	**Fair Value**
Corporate Bonds - Commingled[1]	$ 109,278	$ 400,592	$ 6,635	$ —	$ 516,505
Corporate Bonds - Pension Plan	1,736	15,440	22,271	24,829	64,276
Corporate Bonds - OPEB Trust	1,358	6,487	10,885	13,097	31,827
US Government Agency Bonds					
Commingled	33,896	138,911	11,949	—	184,756
Pension Plan	8	190	2,306	40,438	42,942
OPEB Trust	1	148	3,481	16,742	20,372
US Treasury					
Commingled	26,122	252,917	23,519	—	302,558
Pension Plan	1,704	22,039	—	—	23,743
OPEB Trust	6,223	3,263	—	—	9,486
Subtotal	**180,326**	**839,987**	**81,046**	**95,106**	**1,196,465**
Money Market Funds - Commingled	8,323	—	—	—	8,323
Money Market Funds - Pension	6,430	—	—	—	6,430
Money Market Funds - OPEB Trust	1,169	—	—	—	1,169
Cash with Fiscal Agents - Commercial Paper/CD	58,209	—	—	—	58,209
TOTAL INVESTMENTS with Money Managers	**254,457**	**839,987**	**81,046**	**95,106**	**1,270,596**
LAIF	30,000	—	—	—	30,000
Subtotal	**$ 284,457**	**$ 839,987**	**$ 81,046**	**$ 95,106**	**1,300,596**
Equity-Based Investments					653,614
Retention Fund at Escrow Agents (Deposits)					14,880
Cash Deposits[1]					53,396
TOTAL					**$ 2,022,486**

[1]$2.4 million in Retirees, ATU, ATU Spousal Medical Plan are included in these line items.

Credit Risk – Credit risk is the risk of non-payment by the issuer of a bond or other debt instrument. Even an increase in the perception of risk of non-payment can adversely affect the value of such an investment. For investment grade fixed income securities, credit strength is often gauged using credit ratings assigned by one or more nationally recognized statistical rating organization. VTA's investment policy governing investment of operating funds seeks to limit exposure to credit risk by following the California Government Code and specifying the permitted investments, minimum credit ratings, maximum maturities, and maximum concentrations. The table below shows the credit quality of VTA's investments as of June 30, 2017.

Certain investments, such as obligations that are backed by the full faith and credit of the United States Treasury are not subject to credit ratings criteria in VTA's Investment Policy. The following is a summary of the credit quality distribution for investments with credit exposure as a percentage of total investments as rated by Standard and Poor's:

Ratings	Fair Value (In Thousands)	Percentages of Portfolios
AAA	$ 122,879	6.08%
AA+	602,465	29.79%
AA-	50,200	2.48%
AA	46,059	2.28%
A+	47,376	2.34%
A-	59,137	2.92%
A	77,802	3.85%
A-1+	2,483	0.12%
A-1	44,068	2.18%
AAAm	50,109	2.48%
BBB+	80,354	3.97%
BBB-	20,336	1.01%
BBB	25,679	1.27%
BB+	7,505	0.37%
BB-	2,906	0.14%
BB	2,574	0.13%
B+	1,606	0.08%
CCC	3,035	0.15%
Unrated*	775,913	38.36%
TOTAL	**$ 2,022,486**	**100%**

*Unrated consists of money market, LAIF pooled investments, and equity securities.

<u>Custodial Credit Risk – Deposits</u> - For deposits, custodial credit risk is the risk that in the event of a bank failure, some or all of VTA's deposits might not be returned. To mitigate this risk, State law requires all deposits to be either insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized with pledged securities held in the trust department of the financial institutions. VTA does not have a specific policy with respect to deposits' custodial credit risk.

Custodial Credit Risk – Investments – The custodial credit risk for investments is the risk that, in the event of a failure of the custodian (e.g. broker-dealer), VTA may not be able to recover the value of its investments or collateral securities that are in the possession of another party. VTA's Investment Policy limits exposure to counterparty credit risk by requiring that all securities owned by VTA be held with "perfected interest" in the name of VTA by an independent custodian that is a bank trust department and is unrelated to any other involved counterparty. As of June 30, 2017, VTA believes its counterparty credit risk exposure is minimal.

Concentration of Credit Risk – Concentration of credit risk is the risk that the failure of any one issuer or type of investment would place an undue financial burden on VTA. To mitigate this risk, both the State Government Code and VTA's Investment Policy places percentage portfolio concentration limits on many instruments as well as limits on holding individual issuer names. Under the Investment Policy certain investments are exempt from these concentration limits, including investments issued by or explicitly guaranteed by the U.S. Government, investments in mutual funds, external investment pools, and other pooled investments.

Other than investments in mutual funds, external investment pools or securities issued by U.S. Government, VTA had investments in any one issuer that exceeded 5% or more. Major holdings and their portfolio percentage are presented in the table below.

Major Portfolio Holdings

	Operating		Trusts	
Investment Type	Fair Value (In Thousands)	Percentages of Portfolios	Fair Value (In Thousands)	Percentages of Portfolios
Treasury Notes	$ 302,558	25.94%	$ 33,229	3.88%
Federal Home Loan Mortgage Corp. (FHLM)	42,667	3.66%	23,730	2.77%
Federal National Mortgage Association (FNMA)	51,346	4.4%	—	0.00%
Federal Home Loan Bank (FHLB)	40,113	3.44%	38,879	4.54%
Other Investments*	596,586	51.15%	750,968	87.71%
Cash/funds with fiscal agents	132,983	11.41%	9,427	1.1%
Total portfolio holdings	$ 1,166,253	100.00%	$ 856,233	100.00%

*Includes $51.3 million of US Government Agency Bonds

Fair Value Measurement – The following schedule indicates the fair value hierarchy and fair value amounts (in thousands) for both VTA's operating fund investments and the trust investments at June 30, 2017:

Investment Type	Fair Value Hierarchy Level 1	Level 2	Level 3	Fair Value
Corporate Bonds - Commingled[1]	$ —	$ 516,505	$ —	$ 516,505
Corporate Bonds - Pension Plan	1,136	61,777	1,363	64,276
Corporate Bonds - OPEB Trust	—	31,419	408	31,827
US Government Agency Bonds				
Commingled	—	184,756	—	184,756
Pension Plan	—	42,942	—	42,942
OPEB Trust	—	20,372	—	20,372
US Treasury				
Commingled	302,558	—	—	302,558
Pension Plan	23,743	—	—	23,743
OPEB Trust	9,486	—	—	9,486
Subtotal	336,923	857,771	1,771	1,196,465
TOTAL INVESTMENTS with Money Managers	336,923	857,771	1,771	1,196,465
Mutual Funds and Equity-Based Investments	559,841	—	93,773	653,614
Leveled Investment Total	$ 896,764	$ 857,771	$ 95,544	1,850,079
Money Market Funds - Commingled				8,323
Money Market Funds - Pension				6,430
Money Market Funds - OPEB Trust				1,169
Cash with Fiscal Agents - Commercial Paper/CD				58,209
Retention Fund at Escrow Agents (Deposits)				14,880
LAIF				30,000
Cash Deposits[1]				53,396
TOTAL				$ 2,022,486

[1]$2.4 million in Retirees, ATU, ATU Spousal Medical Plan are included in these line items

VTA categorizes the fair value measurement of its investments based on hierarchy established by generally accepted accounting principles. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices that are directly observable in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority when pricing inputs are unobservable (Level 3 measurements). The three levels of the fair value hierarchy above are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the VTA has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect VTA's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on best information in the circumstances and may include VTA's own data.

Deposits and withdrawals in governmental investment pools, such as LAIF are made on the basis of $1 and not fair value. Accordingly, VTA's proportional share in these types of investments is an uncategorized input not defined as Level 1, Level 2, or Level 3 input.

Trust Funds Investments

The ATU, Local 265 Pension Plan (Pension Plan), ATU Medical/Dental, and VTA Retiree Health are administered in accordance with Article XVI, Section 17 of the Constitution of the State of California. Funds are invested in diversified investment portfolios structured to minimize risk and maximize return. Each trust has an investment policy adopted by its respective board.

NOTE 4 – INTERFUND TRANSACTIONS

The composition of interfund balances as of June 30, 2017, is as follows (in thousands):

Due from other funds	Due to other funds		Amount
VTA Transit Fund	Congestion Management Program		$ 124 [1]
VTA Transit Fund	Joint Development Fund		5 [1]
VTA Transit Fund	Congestion Management & Highway Program Fund	$ 263 [2]	
Congestion Management & Highway Program Fund	2000 Measure A Program	(40) [3]	223
VTA Transit Fund	2016 Measure B Program		1,656 [2]
			$ 2,008

[1]Represents mainly labor cost transfer

[2]Represents mainly expenses paid on behalf of fund e.g. Election expenses of $1.6 million for 2016 Measure B Program

[3]Represents mainly vendor invoices related to the 2000 Measure A Program paid initially by CMHP

NOTE 5 – DUE FROM AND DUE TO OTHER AGENCIES

Due from other agencies as of June 30, 2017, consisted of the following (in thousands):

DUE FROM OTHER AGENCIES	Enterprise Funds	Fiduciary Funds	Congestion Management Program	2016 Measure B Program	Congestion Management & Highway Program	Total
Federal Government	$ 24,186	$ —	$ 30	$ —	$ 1,190	$ 25,406
State Government	95,868	—	781	38,021	640	135,310
Cities and other local agencies	19,442	10	30	—	3,691	23,173
	$ 139,496	$ 10	$ 841	$ 38,021	$ 5,521	$ 183,889

Due from other agencies as of June 30, 2017, is reported in the accompanying basic financial statements as follows (in thousands):

ASSETS	Enterprise Funds	Fiduciary Funds	Congestion Management Program	2016 Measure B Program	Congestion Management & Highway Program	Total
Current Assets (Unrestricted)	$ 49,247	$ —	$ —	$ —	$ —	$ 49,247
Current Assets (Restricted)	90,249	10	841	38,021	5,521	134,642
	$ 139,496	$ 10	$ 841	$ 38,021	$ 5,521	$ 183,889

Due to other agencies as of June 30, 2017, consisted of the following (in thousands):

DUE TO OTHER AGENCIES	Enterprise Funds	Congestion Management Program	Congestion Management & Highway Program	Total
Federal	$ 1,007	$ —	$ —	$ 1,007
State	51,410	—	—	51,410
Caltrain	50	—	—	50
County of Santa Clara	5,559	104	9,361	15,024
City of Milpitas	2,838	—	393	3,231
City of San Jose	1,925	—	4,462	6,387
City of Sunnyvale	—	—	406	406
City of Fremont	18	—	—	18
City of Cupertino	—	—	964	964
Outreach	446	—	—	446
Santa Clara Valley Water District	4,231	—	—	4,231
Various	—	—	140	140
Total	$ 67,484	$ 104	$ 15,726	$ 83,314

Due to other agencies as of June 30, 2017, is reported in the accompanying basic financial statements as follows (in thousands):

LIABILITIES	Enterprise Funds	Congestion Management Program	Congestion Management & Highway Program	Total
Liabilities payable from restricted assets	$ 67,484	$ 104	$ 15,726	$ 83,314

NOTE 6 – CAPITAL ASSETS

Capital asset changes for VTA's business-type activities for the year ended June 30, 2017, were as follows (in thousands):

	July 1, 2016	Additions	Retirements	Transfers	June 30, 2017
Capital assets, not being depreciated					
Land and right-of-way	$ 1,126,359	$ 513	$ —	$ —	$ 1,126,872
Construction in progress	2,611,823	344,392	—	(50,117)	2,906,098
Total capital assets, not being depreciated	3,738,182	344,905	—	(50,117)	4,032,970
Capital assets, being depreciated					
Caltrain Access	3,966	—	—	—	3,966
Caltrain - Gilroy extension	43,072	—	—	—	43,072
Buildings improvements, furniture and fixtures	569,079	177	(17)	16,802	586,041
Vehicles	553,886	—	(175)	33,043	586,754
Light rail tracks and electrification	418,195	—	—	—	418,195
Leasehold improvement	9,686	—	—	—	9,686
Other operating equipment	47,289	—	—	272	47,561
Total capital assets, being depreciated	1,645,173	177	(192)	50,117	1,695,275
Accumulated Depreciation					
Caltrain Access	(881)	(882)	—	—	(1,763)
Caltrain - Gilroy extension	(15,302)	(1,310)	—	—	(16,612)
Buildings, improvements, furniture and fixtures	(302,089)	(19,561)	15	—	(321,635)
Vehicles	(242,038)	(28,044)	175	—	(269,907)
Light rail tracks and electrification	(276,878)	(17,004)	—	—	(293,882)
Leasehold improvement	(3,797)	(442)	—	—	(4,239)
Other operating equipment	(41,579)	(2,151)	—	—	(43,730)
Total accumulated depreciation	(882,564)	(69,394)	190	—	(951,768)
Total capital assets, being depreciated, net	761,727	(68,335)	(2)	50,117	743,507
Total capital assets, net	$ 4,499,909	$ 276,570	$ (2)	$ —	$ 4,776,477

Construction in Progress (CIP) includes capitalized costs and right-of-way acquisitions associated with the following projects as of June 30, 2017, (in thousands):

Bus Program	$ 143,800
Commuter Rail Program	9,442
Information Systems Technology	14,784
Light Rail - Way, Power & Signal	22,024
Light Rail Program	209,104
Non-Revenue Vehicle	121
Operating Facilities & Equipment	29,622
Passenger Facilities	3,441
Revenue Vehicles & Equipment	18,267
Silicon Valley Rapid Transit	2,454,787
Vasona Corridor Projects	8
Joint Development	684
Others	14
Total	$ 2,906,098

Additional information regarding projects in progress as of June 30, 2017, is as follows (in thousands):

Information Regarding Capital Expenditures:	Costs
Total Board approved capital budget	$ 4,820,302
Capital expenditures settling to CIP	(2,906,098)
Capital expenditures settling to capital assets	(50,117)
Capital expenditures settling to expense	(717,713)
Remaining capital budget available	$ 1,146,374
Anticipated funding sources are as follows:	
Federal, state, and other local assistance	$ 375,369
Local contributions	771,005
Total funding sources	$ 1,146,374

VTA has outstanding commitments of about $501.7 million as of June 30, 2017, related to the above capital projects.

NOTE 7 - LONG-TERM DEBT & LIABILITIES

Long-term debt as of June 30, 2017, consisted of the following (in thousands):

Secured by VTA's 1976 Measure A 1/2 Cent Sales Tax:	
2008 Series A-C Refunding	$ 125,695
2011 Series A ($31,445 plus unamortized premium of $1,707)	33,152
2017 Series A Refunding	10,030
Sales tax revenue bonds secured by VTA'S 2000 Measure A 1/2-cent sales tax:	
2008 Series A-D Measure A Refunding	235,875
2010 Series A-B Refunding ($552,260 plus unamortized premium of $3,156)	555,416
2015 Series A-B Refunding ($89,980 plus unamortized premium of $20,274)	110,254
Total Long Term Debt	1,070,422
Less: Current portion of long-term debt	(45,022)
Long term debt, excluding current portion	$ 1,025,400

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

- $168.6 million of 2008 Series A-C Sales Tax Revenue Refunding Bonds (2008 VTA Bonds) were issued to implement a current refunding and completely pay off the 2005 Sales Tax Revenue Refunding Bonds originally issued to finance the retirement of a portion of 2001 Bonds. There is no escrow fund nor are there 2005 Sales Tax Revenue Refunding Bonds outstanding. The 2008 VTA Bonds were issued as variable rate demand bonds and bear interest at a weekly rate, which is determined by the Remarketing Agent to be the rate necessary to remarket the 2008 VTA Bonds at par value. The maturities of the 2008 VTA Bonds extend to June 1, 2026, and are subject to optional and mandatory redemption and optional and mandatory tender for purchase before maturity.

- Concurrent with the issuance and sale of the 2008 VTA Bonds, VTA transferred interest rate swap agreements (originally entered into concurrent with the issuance of the retired 2005 Sales Tax Revenue Refunding Bonds). Pursuant to the terms of the swap agreements, VTA pays interest at a fixed rate of 3.145% to the counterparties to the swaps. In return, the counterparties pay VTA interest based on a formula (lower of 1 Month LIBOR[1] or a rate equal to the greater of 63.5% of 1 Month LIBOR, or 55.5% of 1 Month LIBOR plus 0.44%). The outstanding

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

principal on the 2008 VTA Bonds is used as the basis on which the interest payments are calculated. Under certain circumstances, the agreements are subject to termination before maturity of the 2008 VTA Bonds.

- $47.5 million of 2011 Series A Sales Tax Revenue Refunding Bonds (2011 Bonds) were issued, at a true interest cost of 2.73%, to refund the 1998 Series A Sales Tax Revenue Bonds and the 2000 Series A Sales Tax Revenue Bonds (collectively, the "Refunded Bonds"), maturing in series on each June 1st from 2012 – 2028. The Refunded Bonds were variable rate bonds, which were issued through the California Transit Finance Authority. The bonds were refunded in order to reduce bank and interest rate risk associated with variable rate demand bonds. Proceeds of the 2011 Bonds were deposited into an escrow account held by a Trustee, and were used to pay the principal and accrued interest on the refunded bonds on the redemption date of October 5, 2011. There are no 1998 Series A Sales Tax Revenue Bonds or 2000 Series A Sales Tax Revenue Bonds outstanding, and no funds remaining in escrow. 2011 Series A Bonds maturing on or before June 1, 2021, are not subject to redemption prior to their respective stated maturities. The 2011 Bonds maturing on or after June 1, 2022, are subject to redemption prior to their stated maturities any time on or after June 1, 2021.

- In March 2017, $10.03 million of 2017 Series A Sales Tax Revenue Refunding Bonds were issued to current refund $12.05 million principal amount of the 2007 Series A bonds maturing on June 1, 2017, or later. The refunding was done in order to take advantage of the lower interest cost of the refunding bonds. The refunding bonds were issued at an all-in true interest cost of 2.00%. The economic gain, which is calculated by comparing the present value of the debt service requirements of new to the old debt, is $636.76 thousand. The 2017 Bonds were issued as traditional fixed rate bonds in a direct purchase by Bank of the West. The 2017 bonds were unrated, did not carry a CUSIP and were issued as a physical, non-book entry security. The initial deferred refunding loss related to the 2017 Series A Sales Tax Revenue Refunding Bonds was $813.7 thousand.

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

- $236.7 million of 2008 Series A-D Measure A Sales Tax Revenue Refunding Bonds (2008 Measure A Bonds) were issued to current refund Series A-D of the 2006 Measure A Sales Tax Revenue Bonds, none of which remain outstanding. The 2008 Measure A Bonds were issued as variable rate demand bonds and bear interest at a weekly rate, which is determined by the Remarketing Agent to be the rate necessary to remarket the 2008 Measure A Bonds at par value. The maturities of the 2008 Measure A Bonds extend to April 1, 2036, and are subject to optional and mandatory redemption and optional and mandatory tender for purchase before maturity.

- Concurrent with the issuance and sale of the 2008 Measure A Bonds, four interest rate swap agreements (originally entered into concurrent with the issuance of the Series A-D of the 2006 Measure A Sales Tax Revenue Bonds, none of which remain outstanding) were reassigned to the 2008 Measure A Bonds. Pursuant to the terms of the swap agreements, VTA pays interest at a fixed rate of 3.765% to the counterparties to the swaps. In return, the counterparties pay VTA a variable rate of interest equal to 65% of three-month LIBOR. The outstanding principal is used as the basis on which the interest payments are calculated. Under certain circumstances, the agreements are subject to termination before maturity of the 2008 Measure A Bonds.

- $645.9 million of 2010 Measure A Bonds were issued, at a true interest cost of 3.54%, to fund certain 2000 Measure A transit capital improvement projects, most notably the BART Extension to Berryessa. The bonds were issued as a combination of taxable, Build America Bonds (Series A), and traditional tax-exempt bonds (Series B). Related to the Series A Build America Bonds, VTA is entitled to receive a federal subsidy of 35% on its interest cost for the Build America Bonds. However, as a result of the Federal budget impasse and resulting sequestration of funding, the subsidy has been reduced by various amounts beginning in 2013 and has most recently provided a subsidy of about 32.6%. Both bond series are fixed interest bonds. The bonds have a final maturity date of April 2, 2032. The 2010 Measure A Bonds, Series A (taxable Build America Bonds) are subject to mandatory and optional redemption provisions prior to their stated maturity dates. The 2010 Measure A Bonds Series B (tax-exempt) are not subject to redemption prior to their maturity date.

- $89.98 million of 2015 Measure A Series A-B were issued to current refund the 2007 Measure A Series A bonds maturing on April 1, 2018, or later. The refunding was done in order to take advantage of the lower interest cost of the refunding bonds. The refunding bonds were issued at an all-in true interest cost of 2.92%. The economic gain, which is calculated by comparing the present value of the original issue debt service to the present value of the refunded issue debt service, is $14.5 million.

(c) Interest Rate Swaps

VTA has seven interest rate swap agreements outstanding as of year-end. Three swaps hedging the 1976 sales tax 2008 bonds require that VTA pay fixed interest rates and receive variable interest at the lower of: 1)1 month LIBOR or, 2) greater of (A) a rate equal to 63.5% of 1 month LIBOR or (B) 55.5% of 1 month LIBOR plus 0.44%. Four swaps hedging the 2000 Measure A 2008 bonds agreements require that VTA pay fixed interest rates and receive interest at 65% of three-month LIBOR.

Summary

The terms, fair values, and credit ratings of the outstanding swaps as of June 30, 2017, were as follows (dollars in thousands):

Associated Bonds	Current Notional	Effective Date	Fixed Rate Paid	Variable Received	Fair Value*	Termination Date	Counterparty Credit Rating[CR]	Fair Value Measurement Level
2008 A	$ 50,325	7/7/2005[ED]	3.145%	CAL-E[VR]	$ (4,207)	6/1/2026	Aa2/AA-/ NR[†]	2
2008 B	37,685	7/7/2005[ED]	3.145%	CAL-E[VR]	(3,150)	6/1/2026	A1/A+/A+	2
2008 C	37,685	7/7/2005[ED]	3.145%	CAL-E[VR]	(3,150)	6/1/2026	A3/BBB+/A	2
MA 2008A	85,875	8/10/2006	3.765%	65% 3 Mo LIBOR	(26,196)	4/1/2036	A1/A+/A+	2
MA 2008B	50,000	8/10/2006	3.765%	65% 3 Mo LIBOR	(15,253)	4/1/2036	A1/A+/A+	2
MA 2008C	50,000	8/10/2006	3.765%	65% 3 Mo LIBOR	(15,555)	4/1/2036	Aa2/AA-/ NR[†]	2
MA 2008D	50,000	8/10/2006	3.765%	65% 3 Mo LIBOR	(15,253)	4/1/2036	A3/BBB+/A	2
Total	$361,570				$ (82,764)			

[CR] Moody’s, Standard and Poor’s and Fitch, respectively.
[ED] Amended June 26, 2008 to reflect on-market fixed rate to be paid of 3.145%.
[VR] Lower of 1 month LIBOR; or a rate equal to 63.5% of 1 month LIBOR or 55.5% of 1 month LIBOR plus 0.44%, whichever is greater.
[†] NR - No rating for Fitch
*This represents the fair value of the base amount without the accrued interest of $2.2 million.

Objective of the Swaps: The objective of the swaps is to hedge VTA’s exposure to variable interest rate risk by synthetically fixing its fixed rate interest costs at rates anticipated to be less than what VTA otherwise would have paid in 2005 and 2006 respectively, to issue fixed rate debt in the tax-exempt municipal bond market.

Hedge Effectiveness and Fair Value Hierarchy

The swaps were tested using regression analysis to ensure a high degree of correlation and were determined to be effective hedging derivative instruments and therefore were recorded as deferred outflows of resources in the assets section and as a derivative instrument liability in the liability section of the statement of net position. The fair values of the interest rate swaps were estimated using the zero-coupon method. As of June 30, 2017, the swaps had a negative fair value of $82.8 million. The fair values of the interest rate swaps were estimated using the zero-coupon method.

Hedging derivative instruments are classified as Level 2 and are valued using a discounted cash flow technique which calculates the future net settlement payment, assuming that current forward rates implied by the yield curve correctly anticipates future spot interest rates (LIBOR or SIFMA). The payments are then discounted using the spot rates (LIBOR or SIFMA) implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Credit Risks: Credit risk is the risk of non-payment by the issuer of an obligation such as a bond, other debt instrument, or non-payment by the counterparty to an interest rate swap. Even an increase in the risk of non-payment can adversely affect the value of such an instrument. VTA's Interest Rate Swap Policy seeks to limit credit exposure by requiring counterparties to initially have strong credit ratings of "AA" at the point the swap is entered into and also require collateral posting by the counterparty based on its credit ratings and market value of the swap. Currently the value of the swaps are negative, no counterparties are posting collateral, and VTA is posting collateral on several swaps.

Although VTA's counterparties have experienced declines in their ratings since inception of the swaps, their S&P and Moody's ratings remain at investment grade levels. All payments due from counterparties continue to be made on time and are current as of June 30, 2017. When the swaps have a positive market value, VTA manages any credit risk associated with termination of swaps by requiring counterparties to post collateral based on the swap's fair value, less a threshold amount that ranges from zero to $25 million as determined based on the counterparty's credit ratings. The following table lists the threshold amounts that would be applicable:

Swap	Counterparty Credit Rating as of 6/30/17[CR]	Collateral Threshold	Credit Rating for Threshold of Zero
VTA 2008A	Aa2/AA-	$15,000,000	Baa1/BBB+
VTA 2008B	A1/A+	10,000,000	A3/A-
VTA 2008C	A3/BBB+	2,000,000	Baa3/BBB-
MA 2008A	A1/A+	10,000,000	A3/A-
MA 2008B	A1/A+	10,000,000	A3/A-
MA 2008C	Aa2/AA-	15,000,000	Baa1/BBB+
MA 2008D	A3/BBB+	—	Baa1/BBB+

[CR]Moody's and Standard and Poor's, respectively.

Collateral generally consists of cash, U.S. Government securities, and U.S. Agency securities, held by a third party custodian. VTA has utilized three to four swap counterparties in each of its two transactions in order to limit the concentration of credit risk. Currently, VTA has interest rate swaps with four counterparties and no counterparty accounts for more than 34% of outstanding notional. VTA monitors counterparty credit risk on an ongoing basis.

Basis Risk: Is the risk that the variable rate payment received by VTA under the swaps does not closely match the variable interest rate paid by VTA to bondholders. The variable rate debt hedged by VTA's interest rate swaps are variable rate demand obligation (VRDO) bonds that are remarketed weekly. VTA is exposed to basis risk because the variable rate receipts from the swaps are based on a rate or index other than the interest rates VTA pays on the VRDO bonds. VTA is exposed to basis risk to the extent that variable interest rate payments paid to bondholders on the bonds are not precisely offset by the variable rate amounts received from the swap. On June 30, 2017, there was a slightly favorable basis variance of 0.3% for the swaps related to the bonds secured by the 1976 sales tax and 0.02% for the swaps related to the bonds secured by the 2000 Measure A sales tax.

Interest Rate Risk: – Interest rate risk is the risk that changes in market interest rates may adversely affect the fair value of an investment, or in this instance the fair value of the interest rate swaps. The longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. Changes in interest rates, up or down, will result in positive or negative changes, respectively, to the fair value of the interest rate swaps.

Rollover Risk: Rollover risk is the risk that a derivative instrument serving as a hedge has a shorter maturity than the underlying risk that is being hedged and therefore a portion of the term of the underlying risk may be unhedged or an additional hedge may need to be acquired at a future date, possibly under less favorable terms. As of June 30, 2017, VTA did not have any exposure to rollover risk.

Termination Risk: Is the risk that one or more interest rate swap agreements could be terminated unexpectedly. Under certain conditions, one or more swap agreements could be terminated and depending on current market interest rates, either VTA or the counterparty could be required to make a termination payment. VTA’s swap agreements only permit the counterparty to terminate if an Event of Default or a Termination Event has occurred. Events of Default include non-payment, false or misleading representations, and the bankruptcy of VTA or the counterparty. Termination Events include, a downgrade of VTA’s rating to below “BBB-minus,” an event of taxability, or conversion of bonds to a fixed rate.

Tax Risk: Is the risk of increased interest cost to VTA from a reduction or loss of investors’ ability to exclude bond interest from their Federal and possibly state income tax. Tax risk can result from either anticipated or actual changes to Federal or state income tax laws that would reduce or eliminate the current exemption of tax-exempt bond interest from taxable income.

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

Commitments: Each of the swap agreements contain provisions that require collateral posting by VTA when the negative swap fair value exceeds a specified threshold. The amount of collateral posted is based on the fair value of the swap, less a threshold amount. The threshold amount is determined based on the unenhanced credit ratings of VTA bonds secured by the 1976 sales tax. Based on the "AA/Aa2" credit ratings assigned to the bonds the threshold for each swap is currently $20 million. If VTA's bond ratings were below "A or A2", the threshold amount would be zero and VTA would be required to post collateral based on the fair market value with no threshold adjustment.

Collateral generally consists of cash, U.S. Government securities and U.S. Agency securities. As of June 30, 2017, VTA had $8.1 million of cash collateral posted with Citibank, related to the swaps associated with the long-term variable rate bonds secured by 2000 Measure A Sales Tax Revenues.

Swap Payments and Associated Debt

The table below presents net swap payments using rates as of June 30, 2017, debt service requirements on VTA's seven interest rate swaps and swap-related variable rate debt. As rates vary, variable rate bond interest payments and net swap payments will vary (dollars in thousands).

Year Ending June 30,	Principal Total	Remarketing Interest Total	Interest Rate Swap-Net Total	Debt Service Total
2018	$ 10,775	$ 3,188	$ 9,489	$ 23,452
2019	11,095	3,092	9,268	23,455
2020	11,425	2,994	9,040	23,459
2021	11,760	2,893	8,806	23,459
2022	15,115	2,787	8,560	26,462
2023-2027	65,525	11,857	37,974	115,356
2028-2032	—	10,437	34,681	45,118
2033-2036	235,875	4,794	15,926	256,595
	$ 361,570	$ 42,042	$ 133,744	$ 537,356

(d) Long-Term Debt Obligation Summary

The table below presents all long-term debt. Interest Rates on all outstanding fixed-rate obligations range from 1.5% - 5.00%. Interest on the variable rate debt is reset weekly based upon market conditions. Projected principal and interest obligations as of June 30, 2017, are on the next page (in thousands).

	Principal	Interest	Total
Year ending June 30:			
2018	$ 45,022	$ 49,288	$ 94,310
2019	46,553	47,412	93,965
2020	48,563	45,376	93,939
2021	50,682	43,253	93,935
2022	52,740	41,098	93,838
2023-2027	281,255	165,282	446,537
2028-2032	258,315	92,985	351,300
2033-2036	262,155	23,428	285,583
	1,045,285	$ 508,122	$ 1,553,407
Unamortized bond premium	25,137		
Total debt	1,070,422		
Less current portion	(45,022)		
Long-term portion of debt	$ 1,025,400		

(e) Restrictions and Limitations

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

(f) Long Term Liabilities

(Dollars in thousands)	July 1, 2016	Additions	Reductions	June 30, 2017	Amounts Due Within One Year
Sales Tax revenue Bonds					
Secured by 1976 1/2 Cent Sales Tax					
2007 Series A	$ 12,045	$ —	$ 12,045	$ —	$ —
2008 Series A-C	136,160	—	10,465	125,695	10,775
2011 Series A	33,670	—	2,225	31,445	2,310
2017 Series A	—	10,030	—	10,030	2,407
Sales Tax Revenue Bonds Secured by 2000 Measure A 1/2 Cent Sales Tax					
2007 Series A	3,170	—	3,170	—	—
2008 Series A-D	235,875	—	—	235,875	—
2010 Series A-B	577,250	—	24,990	552,260	26,190
2015 Series A-B	89,980	—	—	89,980	3,340
Total Outstanding Debt	1,088,150	10,030	52,895	1,045,285	45,022
Plus (less) premium/discounts	28,015	—	2,878	25,137	—
Outstanding Debt, Net	1,116,165	10,030	55,773	1,070,422	45,022
Derivative Instruments Liability	119,076	(36,311)	—	82,764	—
Claims Liability:					
General Liability:	7,025	5,054	5,718	6,361	1,586
Worker's Compensation	17,290	4,247	4,235	17,302	1,763
Compensated Absences	28,696	2,765	1,970	29,491	8,400
Total Long-Term Liabilities	$ 1,288,252	$ (14,215)	$ 67,696	$ 1,206,340	$ 56,771

VTA's Transit Fund reports a deferred amount on refunding in the amount of $8.7 million related to the 2008 and 2017 bonds as a deferred outflows of resources. The 2000 Measure A Fund reflects deferred amounts on bond refunding related to the 2015 bond of $4 million as deferred outflows of resources, and 2008 bonds of $3.7 million as deferred inflows of resources.

NOTE 8 – SALES TAX REVENUES

Sales tax revenue represents sales tax receipts from the California State Board of Equalization, which, under voter-approved 1976 and 2000 Sales Tax Measures, collects a half-cent for each taxable sales dollar spent in the County. These amounts are available to fund both operations and capital expenses except that portion which is to be used to repay long-term debt as described in Note 7. In November 2008, county residents passed a 1/8-cent sales tax to fund the operating and maintenance costs of the BART Extension. In November 2016, county residents passed a 1/2-cent sales tax to fund activities on enhancing transit, highways, expressways and active transportation (bicycles, pedestrians and complete streets). Tax collection started in April 2017 and VTA received the first allocation of $12.1 million in June 2017. The initial receipt was recognized as a liability in FY 2017 as the 2016 Measure B is undergoing legal challenge.

The amount of the 1976 Sales Tax, 2000 Measure A Sales Tax, and BART Operating Sales Tax recognized during FY 2017 was $209.0 million, $208.7 million, $50.0 million, respectively, totaling $467.7 million.

NOTE 9 – VTA PROGRAMS FUNDED THROUGH LOCAL SALES TAX MEASURES

1996 Measure B Transportation Improvement Program (MBTIP)

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

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

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

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

Starting in FY 2017, the activities of Measure B Transit and Measure B Highways were consolidated in VTA Transit, and Congestion Management and Highway Program, respectively, in an effort to wind down its affairs due to the program nearing completion.

2000 Measure A Program

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

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

- Extend San Francisco Bay Area Rapid Transit District service ("BART") from Fremont through Milpitas to Downtown San Jose and the Santa Clara Caltrain Station (the "Silicon Valley Rapid Transit Project" or "SVRT");
- Provide connections from the San Jose International Airport to BART, Caltrain commuter rail service ("Caltrain") and VTA's light rail system;
- Extend VTA's light rail system from Downtown San Jose to the East Valley portion of Santa Clara County ("DTEV Extension");
- Purchase low floor light rail vehicles to better serve the disabled, senior, and other segments of the ridership;
- Improve Caltrain by extending the system's double track to Gilroy and providing funds to electrify the system;

- Increase Caltrain service;
- Construct a new Palo Alto Intermodal Transit Center;
- Improve bus service in major bus corridors;
- Upgrade the Altamont Commuter Express ("ACE") services;
- Improve the Highway 17 express bus service;
- Connect Caltrain with the Dumbarton Rail Corridor (serving Alameda and San Mateo County);
- Purchase zero emission buses and construct service facilities;
- Provide funds to develop new light rail corridors;
- Fund operating and maintenance costs associated with increased bus, rail, and paratransit service.

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

- Completed the purchase of low floor light rail vehicles;
- Completed the Zero Emission Bus Demonstration project;
- All major construction of the Alum Rock Santa Clara Bus Rapid Transit (BRT) has been completed. Revenue service officially started in May 2017. The El Camino Real Rapid Transit Policy Advisory Board is exploring new project alternatives to identify a project design that will attract widespread support from the corridor cities. Construction contract for the Stevens Creek Rapid 523 was awarded in April 2017. Construction is planned for completion by November 2017, Modifications at Chaboya/North Division Phase I were completed in March 2015. RFP for design services for Phase II involving modification to the Chaboya Yard is planned for early 2018;
- Received $900 million grant commitment from the FTA for the Silicon Valley Berryessa Extension (SVBX) Project in March 2012. In December 2012, the project received $50 million in State Transportation Improvement Program (STIP) funding to help expand and improve BART's Hayward Maintenance complex to accommodate the operation of the Berryessa Extension. Work continues on a range of elements at both the Milpitas and Berryessa stations including installation of the exterior metal panels and station finishes. The parking structures were substantially completed. Systems testing is underway at the Police Zone Facility. Systems/communications installation and testing took place along the entire SVBX alignment. Fiber optics backbone installation was completed. BART has received all ten pilot vehicles, and qualification testing of the pilot vehicles continues on the BART's mainline during non-revenue hours;
- Received Traffic Congestion Relief Program (TCRP) fund as reimbursement for the preliminary engineering and construction phase on the VTA's BART Silicon Valley Extension. This fund is designated for construction of a 10-mile segment project. As of June 2017, remaining available balance of TCRP is $6.0 million;

- Relocated and constructed utilities in the freight rail corridor in Fremont and Milpitas. The Berryessa Creek crossing, Abel Street Seismic Retrofit, and Railroad Relocation contracts are complete. The Kato Grade Separation was opened to traffic in April 2013. The Montague Expressway Reconstruction Project is underway. The pedestrian overcrossing that spans Montague Expressway which connects to the new Milipitas BART station is in the design stage. Major construction elements of the Upper Penitencia Creek Trail have been completed;
- The construction of the pedestrian improvements (sidewalk and landscaping) along Capitol Expressway was completed in the spring 2013. Construction of the transit center was completed in May 2015. In June 2016, the funding of Phase II of the Capitol Expressway Light Rail Extension to Eastridge was approved by the Board. A revised draft supplemental Environment Impact Statement was submitted to FTA. Record of decision is expected in early 2018. Right of Way Acquisition is expected to be completed by 2018; and Utility Relocation is expected to be completed in mid 2019. Construction is expected to begin in early 2019. Construction phase is dependent on securing funding;
- Completed the Light Rail Systems Analysis, which was adopted by the VTA Board in May 2010. The Systems Analysis provides an evaluation of infrastructure and operational shortcomings of the existing light rail system as well as improvement plan for immediate action. The initial projects recommended from the Systems Analysis began planning, design and construction in fall 2011. Vasona LRT Extension project was re-evaluated and in June 2016, the Board approved funding to complete design, acquire right-of way, and relocate utilities. Similar status applies to Winchester LR Double Track and Platform Extension. Construction phase is dependent on securing funding;
- Santa Clara Pocket Track constructions started in February 2014 and was completed in early 2015. Phase 1 interlocking from Reamwood Station to Old Ironsides Stations will be completed by early 2018; Two construction contracts under the Northern Light Rail Express project was completed in December 2015. Project closeout is ongoing. VTA local bus network service plan for BART Extension is complete. Express Bus Service Plan will be developed by mid-2018 under the BART Transit Integration Analysis project;
- Santa Clara Caltrain Station Pedestrian Underpass Extension project provides an extended pedestrian tunnel under the UPRR tracks to Brokaw Road at the Santa Clara Station. Construction contract was completed in June 2017;
- Completed safety improvements to 15 crossings along the Joint Powers Board (JPB) segment. Design for next phase is complete, construction is pending High Speed Rail Project;
- Completed construction for the Blossom Hill Pedestrian Grade Separation in September 2012;
- The Bike Share Pilot Program opened in August 2013 at Caltrain stations and downtown areas in San Jose, Mountain View, and Palo Alto. The grant-funded pilot concluded in June 2016;
- The environmental process for electrification and new electric trains was completed in January 2015. In July 2016, Caltrain Board approved contract awards to begin work on the Peninsula Corridor Electrification Project. The FTA approved the Full Funding Grant Agreement and

Caltrain released the Notice to Proceed in June 2017. VTA continues to reimburse Caltrain for project related cost.

BART Operating Fund Sales Tax Ordinance

At the election held on November 4, 2008, the voters passed 2008 Measure B supporting the tax that would be dedicated to the operation, maintenance, improvement, and future capital needs of the 16.1 mile Santa Clara Bay Area Rapid Transit (BART) extension. The BART extension includes stations in Milpitas, San Jose, and Santa Clara, connecting with Caltrain from Gilroy to San Francisco and an Airport People Mover. In November 2011, the Board of Directors approved a retail transaction and use tax ordinance which imposes a tax for the privilege of selling tangible personal property upon a retailer in Santa Clara County, at the rate of one-eighth of one percent on the gross receipts of the retailer. Collection of the tax took effect on July 1, 2012, for a period not to exceed 30 years. This ordinance is also known as the Santa Clara Valley Transportation Authority BART Operating and Maintenance Transactions and Use Tax Ordinance.

2016 Measure B

In November 2016, Santa Clara County voters approved 2016 Measure B, a 30-year half-cent countywide sales tax to enhance transit, highways, expressways and active transportation (bicycles, pedestrians and complete streets). Tax collections began April 2017 and VTA received the first advance payment in June 2017. As of June 30, 2017, VTA has not recognized the tax revenue as the Measure is undergoing legal challenge. The transportation programs to be funded by 2016 Measure B are: (1) VTA's BART Silicon Valley Phase II; (2) Bicycle/Pedestrian Program; (3) Caltrain Corridor Capacity Improvements; (4) Caltrain Grade Separation; (5) County Expressways; (6) Highway Interchanges; (7) Local Streets and Roads; (8) State Route 85 Corridor, and (9) Transit Operations.

NOTE 10 – FEDERAL, STATE, AND LOCAL ASSISTANCE

VTA is dependent upon the receipt of funds from several sources to meet its operating, maintenance, and capital requirements. The receipt of such revenues is controlled by federal, state, and local laws, the provisions of various grant contracts and regulatory approvals and, in some instances, is dependent on the availability of grant funds and the availability of local matching funds. A summary of the various governmental funding sources is as follows:

(a) Federal Grants

Federal grants are approved principally by the Federal Transit Administration (FTA) and the Federal Highway Administration (FHWA). Federal grants for the year ended June 30, 2017, are summarized as follows (in thousands):

	Enterprise Funds	Special Revenue Funds	Capital Projects Funds
Operating Assistance Grants:			
FTA Section 9 (49 USC 5307)	$ 3,755	$ —	$ —
Job Access Reverse Commute Fed Grant	19	—	—
Peninsula Family Services	169	—	—
Section 5311	76	—	—
Discover Opportunities In Transit	45	—	—
Security Plan Revision	168	—	—
Federal Technical Studies	—	1,219	—
Pass-through Operating Grants	—	—	2,739
Total Operating Assistance Grants	4,232	1,219	2,739
Capital Grants:			
FTA NewStarts FFGA	106,839	—	—
FTA Section 5307, 5337, 5339 and Federal Security	32,972	—	—
Pass-through Capital Grants	262	—	—
Total Capital Grants	140,073	—	—
Total operating assistance & capital grants	$ 144,305	$ 1,219	$ 2,739

FTA Section 5307 operating grants represent ADA Operating Set Aside funds that will be used for Paratransit activities. Paratransit service is a specialized form of transportation operated for persons with disabilities who cannot use fixed route public transit service. As an operator of bus and light rail service, VTA is required under the Americans with Disabilities Act to ensure that paratransit service is provided to eligible individuals with disabilities within Santa Clara County.

The Job Access and Reverse Commute was authorized in Section 5316 of the Transportation Equity Act of 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.

Through the DriveForward program in Santa Clara County, Peninsula Family Services provides low-interest auto loans to individuals who are unable to access consumer loan financing. These loans allow for the purchase or repair of a car to qualified families and individuals.

The Section 5311 program is the FTA non-urbanized area formula grant. The program provides funding for public transportation projects serving areas outside of an urban boundary with a population of 50,000 or less. Funds may be used for capital, operating, planning, or technical assistance projects.

The objective of the Discover Opportunities - In Transit Program is to prepare and direct underserved, underemployed, and/or minority groups into the Transportation Planner career path. VTA has identified through recent recruiting attempts that the Transportation Planner series is underrepresented within the agency, and is committed to work with strategic partners to develop training materials geared to enhance the minimum qualifications of targeted student groups to prepare them for an entry level position in this field.

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

Federal technical studies grant under the Special Revenue Fund represents interagency agreement with the Metropolitan Transportation Commission (MTC) for the purpose of conducting specific planning and programming activities to assist MTC in meeting the requirements of federal legislation and related State and regional planning and programming policies and guidelines.

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

In March 2012, FTA awarded VTA a full funding grant agreement (FFGA) for the SVBX project with a maximum federal New Starts financial contribution of $900 million. The FFGA is being amended through yearly increment of New Starts fund up to 2018. SVBX project scope includes 40 BART revenue vehicles, 10.15 miles of double-track grade separated electrified third-rail guideway, traction power substations, high voltage substations, communication system, passenger drop-off facilities, parking spaces real estate acquisition, utility relocation, drainage improvements, environmental mitigation, financing, startup and revenue testing, and other elements necessary for project delivery. The project includes facility additions to the existing BART Hayward Yard located in the city of Hayward approximately 14 miles north of Santa Clara County for maintenance of BART vehicles.

FTA Section 5307 capital grants represent the federal program, 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. This includes funds for transit enhancements and Congestion Mitigation and Air Quality (CMAQ) award for transportation projects or programs that will contribute to the attainment or maintenance of the National Ambient Air Quality Standards (NAAQS) for ozone and carbon monoxide. The State of Good Repairs Grants under FTA Section 5337 provides capital assistance for maintenance, replacement, and rehabilitation projects of high-intensity fixed guideway and bus systems to help transit agencies maintain assets in a state of good repair. The bus and bus facilities infrastructure investment program under FTA Section 5339 makes federal resources available to states and direct recipients to replace, rehabilitate and purchase buses and related equipment.

The pass-through federal grants under the Enterprise Funds include Demonstration Projects. These projects are provided as part of the transportation appropriation acts. Grade separations, widening and demolition of bridges, new crossing configurations are examples of projects funded with Demonstration funds. The pass-through federal grants under the Capital Project Funds represent fund agreements covering highway projects with various government agencies of the State of California.

(b) *State and Local Grants and Assistance*

State and local grants for the year ended June 30, 2017, are summarized as follows (in thousands):

	Enterprise Funds	Congestion Management Program	Capital Projects Funds
Operating assistance grants:			
Transportation Development Act	$ 99,402	$ —	$ —
State Transit Assistance	9,024	—	—
Transit Assistance Program	421	—	—
State Operating Assistance Grants	326	966	—
AB 434	1,786	—	—
Congestion Management & Highway Program-State Grants	—	—	(423)
Congestion Management & Highway Program-2000 Measure A Swap	—	—	3,338
Other Local Grants:			
Santa Clara County (Fund Swap Program)	—	—	139
Various cities, counties and others	—	—	5,970
Total operating assistance grants	110,959	966	9,024
Capital grants:			
Traffic Congestion Relief Program	3,149	—	—
PTMISEA	17,060	—	—
Highway-Railroad Crossing Safety Account	74	—	—
Proposition 1B Fund	4,203	—	—
Cal-Recycle Tire-Derived Aggregate	296	—	—
High-Speed Rail	117	—	—
Transportation Fund Clean Air	229	—	—
Other Local Grants:			
Santa Clara County (1996 Measure B Program)	506	—	—
Various cities, counties and others	23,149	—	—
Total Capital Grants	48,783	—	—
Total State and Local Grants	$ 159,742	$ 966	$ 9,024

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

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

The Transit Assistance Program (TAP) provides transit passes to low income and disadvantaged communities through the social services agencies within Santa Clara County. The program provides free or low cost local transit service passes for qualifying low income residents of Santa Clara County not currently receiving other forms of transportation assistance. VTA provides the passes to Santa Clara County, who in turn provides the passes to eligible residents.

State Operating Assistance Grants under the Enterprise funds represent reimbursement, in partnership with local community college, for Transit Apprenticeship for Professional Career Advancement (TAPCA). The purpose is to respond to two challenges: the explosive growth of Silicon Valley jobs that drives demand for expanded public transit infrastructure; and an aging workforce, coupled with the need to fill increasingly technical job classifications requiring specialized training.

State Operating Assistance Grants under the Congestion Management Program represent grant receipts from the California Department of Transportation for project planning, programming and monitoring activities related to development of the Regional Transportation Improvement Program.

AB 434 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.

Capital Projects revenues consist of state and local grant revenues pertaining to Congestion Management and Highway Program (CMHP) of $9.0 million. The CMHP state grants consist primarily of corridor Mobility Improvement Account (CMIA) grant. The scope of this grant includes performance improvements on the state highway system and major access routes to the state highway system. The CMHP-State grant was a negative $423 thousand as a result of reclassification adjustment of American Recovery and Reinvestment Act (ARRA) grant from state to federal in 2017.

There are projects within the Congestion Management and Highway Program that avail of 2000 Measure A swap funds. This represents a swap of 2000 Measure A Sales Tax Revenues for grant funding from the State Transportation Improvement Program (STIP). The 2000 Measure A Swap program was established to fund a number of highway projects.

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

Public Transportation Modernization Improvement and Service Enhancement Act (PTMISEA) Grant is part of a comprehensive voter-approved bond investment package designed to help advance important goals and policies, including protecting the environment and public health, conserving energy, reducing congestion, and providing alternative mobility and access choices for Californians. The projects approved by the Department of Transportation included building pedestrian overcrossings, updating ticket vending machines, constructing bus rapid transit, substation rehabilitation, and procurement of vehicles and equipment. PTMISEA activities are presented in the following table (in thousands):

	June 30, 2017	From Inception To 6/30/2017 Cumulative Balance
Proceeds received	$ 696	$ 210,233
Total expenditures paid and accrued	(17,060)	(177,208)
Current year unused proceeds	(16,364)	33,025
Prior year unused proceeds	54,648	—
Total proceeds available	38,284	33,025
Interest earned	559	5,818
Total proceeds available plus interest earned	$ 38,843	$ 38,843

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

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

CalRecycle Tire-derived Aggregates represents a grant awarded in 2015 on the SVBX line, Track, Stations and System Design Build Contract. Tire Derived Aggregate is made from shredded scrap tires and is used in a wide range of construction projects. These uses include retaining wall backfill, lightweight embankment fill, landslide stabilization, vibration mitigation, and various landfill applications

The California High-Speed Rail Authority is responsible for the planning, design, construction and operation of the high-speed rail system in the nation. The System will connect the mega-regions of the State, contribute to economic development and a cleaner environment, create jobs and preserve agricultural and protected lands.

The Transportation Fund for Clean Air (TFCA) is generated by a $4.00 surcharge on vehicle registrations in the nine-county Bay Area. The Bay Area Air Quality Management District (BAAQMD) administers the funds: money is available for allocation to alternative fuels, arterial management, bicycle, and trip-reduction projects that reduce vehicle emissions.

Santa Clara County 1996 Measure B Program includes both transit and highway projects. Santa Clara County Fund Swap is 1996 Measure B revenue received by VTA for local projects in exchange for federal and/or State grant funds. These funds are programmed for certain 1996 Measure B Transportation Improvement Program (MBTIP) Projects. Additional information on the 1996 MBTIP can be found in Note 9.

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

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

(a) Plan Description and Benefits Provided

All ATU represented employees are covered by the Plan, which is a 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.

Classic Employees

Employees with 10 or more years of eligibility service are entitled to full annual pension benefits beginning at normal retirement age of 65. Employees with less than 10 years but more than 5 years of eligibility service are entitled to an annual benefit at age 65 provided the Board of Pensions approves such benefit. Employees with 15 or more years of eligibility 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 eligibility service, and deferred vested retirement upon employee termination after 10 or more years of eligibility service, with benefits payable at age 65. Employees may elect to receive their benefits in the form of a joint or survivor annuity. These benefit provisions and all other requirements are established by California statute and the labor agreement with the ATU Local 265. Benefit terms do not provide for annual cost-of-living adjustment subsequent to retirement date. Employees contribute 0.95% effective 10/10/2016 and 1.90% effective 10/9/2017.

New Employees

Plan benefit provisions and all other requirements are established by California Public Employees' Pension Reform Act of 2013 (PEPRA) and Plan amendments as approved by the VTA Board at its October 6, 2016 meeting. Employees hired on or after January 1, 2016 contribute at least 50%, rounded to the nearest quarter of one percent, of the normal cost rate for the Plan for all active Plan Members, as determined by the Plan's actuary. Employees contributed 5.75% effective 10/10/2016. This rate was reduced to 5.5% effective 10/24/2016.

Separately issued audited GAAP basis financial statements of the Plan are available and can be obtained from Santa Clara Valley Transportation Authority, Finance and Budget, 3331 North First Street, Building C-2, San Jose, California 95134-1927. The membership of the Plan as of June 30, 2017, is as follows:

Membership Status	No. of Members
Retirees and beneficiaries currently receiving benefits	1,395
Terminated vested members not yet receiving benefits	148
Active Members	1,563
Total	3,106

(b) Basis of Accounting

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pension, and pension expense, information about the fiduciary net position of the ATU plan and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan.

Contributions are recognized as revenue when due, pursuant to formal commitments, as well as statutory or contractual requirements. Benefits (distributions to participants) and refunds of prior contributions are recognized when due and payable in accordance with the terms of the Plan.

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

(c) Contribution Requirements

For FY 2017, the actuarially-determined contribution was $27.4 million. As the Plan elected to use June 30, 2017 as its measurement date, employer contributions for FY 2017 will have an impact on the changes in the Plan's Net Position as of the end of the reporting year. The contribution requirements are established by the Board based on actuarially determined rate recommended by an actuary. The rate is the estimated amount necessary to finance the cost of the benefits earned by employees during the year with an additional amount to finance the unfunded accrued liability.

(d) Changes in Net Pension Liability

The Plan's net pension liability was $170.1 million as of June 30, 2017. The following table shows the changes in net pension liability recognized over the measurement period (in thousands).

	Increase/(Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (c) = (a) - (b)
Balance at June 30, 2016	$ 658,313	$ 481,318	$ 176,995
Changes Recognized for the Measurement Period:			
Service cost	16,024	—	16,024
Interest (includes interest on service cost)	46,152	—	46,152
Differences between expected and actual experience	6,440	—	6,440
Changes of assumptions	13,105	—	13,105
Contributions - Employer	—	27,385	(27,385)
Contributions - Member	—	1,070	(1,070)
Net investment income	—	60,472	(60,472)
Benefit Payments, including Refunds of Employee Contributions	(38,454)	(38,454)	—
Administrative expense	—	(324)	324
Net changes during FY 2017	43,267	50,149	(6,882)
Balance at June 30, 2017	$ 701,580	$ 531,467	$ 170,113

Sensitivity of the Net Pension Liability to Change in Discount Rate:

The table below shows the sensitivity of the Net Pension Liability to the discount rate. A one percent decrease in the discount rate increases the Total Pension Liability by approximately 11% and increases the Net Pension Liability by approximately 45%. A one percent increase in the discount rate decreases the Total Pension Liability and Net Pension Liability by approximately 9% and 38%, respectively.

	Discount rate -1% 5.94%	Discount rate 6.94%	Discount rate + 1% 7.94%
	(Amounts in thousands)		
Total Pension Liability	$ 777,577	$ 701,580	$ 636,791
Plan Fiduciary Net Position	531,467	531,467	531,467
Net Pension Liability	$ 246,110	$ 170,113	$ 105,324
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.3%	75.8%	83.5%

(e) *Actuarial Assumptions*

The Total Pension Liability (TPL) at the beginning of the measurement year is measured as of a valuation date of January 1, 2016, and projected forward to the beginning of the measurement year of June 30, 2016. The TPL at the end of the measurement year, June 30, 2017, is measured as of a valuation date of January 1, 2017, and projected forward to June 30, 2017.

A summary of key assumptions is as follows:

Actuarial cost method:	Entry Age to Final Decrement Cost Method
Inflation:	2.75% (reduced from 3.00% in the 2016 valuation)
Salary increases:	3.00% plus merit component
COLA increases:	0.00%
Investment rate of return:	7.00%, net of investment expense (reduced from 7.25% in the FY 2016 valuation)
Post-retirement Mortality:	Sex distinct RP-2000 Combined Healthy Blue Collar Mortality, projected to 2025 using 50% of Scale BB, with ages set back one year for female members.

(f) *Discount Rate*

The discount rate used to measure the Total Pension Liability was reduced from 7.13% to 6.94%. The projection of cash flows used to determine the discount rate assumed that VTA will continue to contribute to the Plan based on an actuarially determined contribution, reflecting a payment equal to the employer's share of the annual Normal Cost, the expected Administrative Expenses, and an amount necessary to amortize the remaining Unfunded Actuarial Liability as a level dollar amount over an open (rolling) 20-year period.

The long-term expected return was based on 30-year asset class geometric return and correlation assumptions. These assumptions were based on forward looking building block analyses and historical data for each of the asset classes.

Based on the assumptions used, the Plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current Plan members until at least 2075 when only a portion of the projected benefit payments are expected to be made from the projected Fiduciary Net Position. Projected benefit payments are discounted at the long-term expected return on assets of 7.00% to the extent the Fiduciary Net Position is available to make the payments and the municipal bond rate of 3.58% to the extent they are not available. The single equivalent rate used to determine the Total Pension Liability as of June 30, 2017 is 6.94%.

The following is the assumed asset allocation and expected rate of return for each major asset class:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return[1,2]
Domestic Equity-Large Cap Active	15%	4.75%
Domestic Equity-Large Cap Index	10%	4.75%
Domestic Equity-Small Cap	10%	5.00%
International Equity	13%	5.00%
Emerging Markets Equity	5%	6.75%
Domestic Fixed Income	27%	1.25%
Absolute Return	9%	3.75%
Real Estate	10%	3.75%
Cash	1%	0.25%

[1] The expected rate of inflation for this period is 2.75%

[2] Source: NEPC, LLC as of June 30, 2017; All assumptions based on 30-year forecast

(g) Plan's Fiduciary Net Position

This refers to the fair or market value of assets. As of June 30, 2017, the Plan's Fiduciary Net Position amounts to $531.5 million. Detailed information about the pension plans, fiduciary position is available in a separate financial report.

(h) Pension Expense and Deferred Inflows or Outflows of Resources Related to Pensions

For the measurement period ending June 30, 2017, VTA incurred pension expense of $12.4 million. This is the change in the Net Pension Liability plus the changes in deferred amounts plus employer contributions.

	Amount (In thousands)
Service cost	$ 16,024
Employee contributions	(1,070)
Employer contributions	(27,385)
Administrative expenses	324
Interest cost	46,152
Expected return on assets	(35,538)
Recognition of assumption changes	4,614
Recognition of liability gains and losses	3,118
Recognition of investment gains and losses	6,159
Pension expense	$ 12,398

As of June 30, 2017, VTA's deferred outflows related to the ATU pensions are as follows:

	Deferred Outflows of Resources (In thousands)
Differences between expected and actual experience	$ 12,790
Changes in assumptions	20,639
Net difference between projected and actual earnings on pension plan investments	9,356
Total	$ 42,785

Amounts reported as deferred outflows of resources will be recognized in pension expense as follows (in thousands):

Fiscal Year	Measurement Period and Fiscal Years Ended June 30:	Deferred Outflows of Resources
2017	2018	$ 13,890
2018	2019	13,890
2019	2020	9,755
2020	2021	1,992
2021	2022	3,258
Thereafter	Thereafter	—

(i) Summary of Pension-related accounts

The following table breaks down the pension-related accounts. Since these accounts are common to both ATU Pension and the CalPERS pension (Note 12), only the totals show in the financial statements.

	ATU	CalPERS	Total
Deferred Outflows of Resources (Pension-related)	$ 42,785	$ 28,181	$ 70,966
Deferred Inflows (Pension-related)	—	3,576	3,576
Net Pension Liability	170,113	107,580	277,693
Pension Expense GASB 68	12,398	13,858	26,256

NOTE 12 – PUBLIC EMPLOYEES' RETIREMENT PLAN

(a) Plan Description and Benefits Provided

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 $52.3 million was completed by CalPERS in FY 1999.

CalPERS is an agent multiple-employer defined benefit retirement plan that acts as a common investment and administrative agent for various local and state governmental agencies within California. CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 or age 52 for New Members with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 5 years of service credit. The death benefit is one of the following: the Basic Death Benefit or the 1957 Survivor Benefit. These benefit provisions and all other requirements are established by state statute and VTA resolutions. VTA contracts with CalPERS to administer these benefits. The normal retirement benefit is equal to 2% of final compensation for each year of credited services.

Retirement and survivor allowances are adjusted each year in May for cost of living, beginning the second calendar year after the year of retirement. The contracted cost-of-living allowance (COLA) provision is 2%.

Based on census data, VTA membership in the Plan as of June 30, 2016 (date of the most recent actuarial valuation), is as follows:

Retirees and beneficiaries receiving benefits	623
Terminated and vested members not yet receiving benefits	445
Active members	574
Total	1,642

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

(b) Summary of Significant Accounting Policies

For purposes of measuring the net pension liability, the following have been determined on the same basis as they are reported by the CalPERS Financial Office:

- Deferred outflows/inflows of resources related to pensions;
- Pension expense;
- Information about the fiduciary net position of the Plan, and
- Additions to/deductions from the Plan's fiduciary net position.

Benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

(c) Contribution Requirements

Active members in VTA's CalPERS Plan pay a portion or all (depending on hire date) of the employee contribution to the CalPERS Plan. In FY2017, employees hired prior to January 2012 paid 6 percent (excluding SEIU-represented employees who paid 5.5% and will pay 6.0% effective August 14, 2017) toward the required employee share and VTA paid the remaining portion of the employee contribution. Employees hired in or after the first full pay period in January 2012 paid the employee contribution of 7%. The CalPERS-designated PEPRA (Public Employees' Pension Reform Act) rate is 6.5%. However, due to collective bargaining agreements, the current employee contributions for employees considered New Members is 7%. The 0.5% difference is reported in a liability account until the PEPRA issue is resolved.

The employer's contribution rate from July 1, 2016, through June 30, 2017, was 16.908%. The employee contribution requirements of the CalPERS Plan are established by state statute and the employer contribution is established and may be amended by CalPERS.

The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. For FY 2017, VTA contributed $11.5 million, which is equal to the actuarially-determined contributions. The required contribution for FY 2017 was based on the actuarial valuation report as of June 30, 2014 using the entry age normal cost method with the contributions determined as a percent of pay. VTA's annual pension contribution of $11.5 million in FY 2017 was deferred as VTA opted for June 30, 2016, to be its measurement date.

(d) Net Pension Liability

VTA's net pension liability to the CalPERS Plan was $107.6 million as of June 30, 2017 . The net pension liability was measured using an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The following table shows the changes in net pension liability recognized over the measurement period (in thousands).

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (c) = (a) - (b)
Balance at June 30, 2016	$ 370,217	$ 283,391	$ 86,826
Changes Recognized for the Measurement Period:			
Service cost	9,488	—	9,488
Interest on the Total Pension Liability	27,998	—	27,998
Changes of Assumptions	—	—	—
Differences between Expected and Actual Experience	(1,007)	—	(1,007)
Plan to Plan Resource Movement	—	(40)	40
Contributions from the Employer	—	10,248	(10,248)
Contributions from Employees	—	4,260	(4,260)
Net investment income	—	1,430	(1,430)
Benefit Payments, including Refunds of Employee Contributions	(15,940)	(15,940)	—
Administrative Expense	—	(173)	173
Net changes during FY 2017	20,539	(215)	20,754
Balance at June 30, 2017	$ 390,756	$ 283,176	$ 107,580

Sensitivity of the Net Pension Liability to Changes in the Discount Rate:

The following presents the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65%) or 1 percentage-point higher (8.65%) than the current rate:

	Discount Rate -1% 6.65%	Current Discount Rate 7.65%	Discount Rate +1% 8.65%
	(Amounts in thousands)		
Plan's Net Pension Liability	$ 158,897	$ 107,580	$ 64,892

(e) Actuarial Methods and Assumptions Used to Determine Pension Liability

For the measurement period ended June 30, 2016, the total pension liability was determined by rolling forward the June 30, 2015 total pension liability. The June 30, 2015, and the June 30, 2016, total pension liabilities were based on the following actuarial methods and assumptions:

Valuation date	June 30, 2015
Actuarial cost method	Entry Age - Normal
Actuarial Assumptions	
Discount rate	7.65%
Inflation	2.75%
Salary increases	Varies by entry age and service
Payroll growth	3.00%
Investment rate of return	7.65% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Post retirement benefit increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter
Mortality	Probabilities for mortality are based on the 2014 CalPERS mortality experiences study for the period 1997 to 2011

(f) Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. CalPERS concluded, based on the results of the stress test, that the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary.

The long-term expected return on pension plan investments was determined using building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, both short-term and long-term market return expectations, as well as the expected pension fund cash flows, were taken into account.

Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected geometric returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective on July 1, 2015.

Asset Class	Target Allocation	Real Return Years 1-10[1]	Real Return Years 11+[2]
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure & Forestland	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.05%

[1] An expected inflation of 2.5% used for this period
[2] An expected inflation of 3.0% used for this period

(g) *Pension Plan's Fiduciary Net Position*

The Plan Fiduciary Net Position includes receivables for employee service buybacks, deficiency reserves, fiduciary self-insurance and OPEB expense. The Plan's Fiduciary Net Position as of June 30, 2016 is $283.2 million.

(h) *Pension Expense and Deferred Inflows/Outflows of Resources Related to Pensions*

For the year ended June 30, 2017, VTA incurred a pension expense of $13.8 million for the Plan.

	Amount (In thousands)
Service cost	$ 9,488
Interest on the Total Pension Liability	27,998
Recognized changes in assumptions	(1,791)
Recognized changes between expected and actual experience	395
Plan to Plan resource movement	40
Employee contributions	(4,260)
Employee contribution adjustment from prior year	1,105
Projected earnings on Pension Plan investments[1]	(21,562)
Recognized differences between projected and actual earnings on Plan investments	2,272
Administrative Expense	173
Pension Expense	$ 13,858

[1] Net of administrative expenses

As of June 30, 2017, VTA's deferred inflows/outflows of resources related to the CalPERS pension plan are as follows, in thousands:

	Deferred Outflows/(Inflows) of Resources
Net differences between Projected and Actual Earnings on Pension Plan investments	$ 15,558
Changes of Assumptions	(3,576)
Differences between Expected and Actual Experiences	1,107
Pension Contributions subsequent to measurement date	11,516

Deferred outflows of resources resulting from contributions, made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Amounts reported as deferred inflows of resources related to differences in projected and actual investment savings will be recognized in future pension expense over 5 years using the straight-line method. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retirees) as of the beginning of the measurement period. Schedule is as follows, in thousands:

Fiscal Year	Measurement Period Fiscal Years June 30,	Deferred Outflows/(Inflows) of Resources	
2018	2017	$	876
2019	2018		1,316
2020	2019		6,870
2021	2020		4,027
Thereafter	Thereafter		—

(i) Summary of Pension-related accounts

A summary table of Net Pension Liability, Deferred outflows/inflows, and Pension Expense for ATU Pension and CalPERS is provided in Note 11(i).

NOTE 13 – ATU SPOUSAL MEDICAL AND VISION/DENTAL FUND

VTA administers the ATU Spousal Medical and Retiree Vision and Dental Fund. Both are considered to be employee-funded defined contribution plans. As of June 30, 2017, VTA had net position of approximately $15.9 million for the ATU Spousal Medical Fund and $11 million for the Retiree Vision and Dental Fund.

The Spousal Medical Fund is a medical insurance benefit for eligible pensioners' spouses. Pursuant to a collective bargaining agreement with ATU, represented employees are required to contribute $0.40 per hour to the Spousal Medical Fund. As of June 30, 2017, there were 371 participating spouses who were eligible for benefits from the Spousal Medical Fund. FY 2017 contributions were approximately $1.6 million while benefit payments made by the Fund were approximately $1.3 million and investment earnings were $1.7 million.

The Retiree Vision and Dental Fund is a vision and dental benefit for eligible pensioners. Effective 1999 and pursuant to a collective bargaining agreement, ATU represented employees are required to contribute $0.10 per hour. As of June 30, 2017, there were 1,061 eligible participants. Contributions and investment earnings for the fiscal year were approximately $389 thousand and $1.2 million respectively, while benefit payments were approximately $312 thousand.

A separate audited GAAP-basis postemployment benefit plan report is not available for ATU Spousal Medical and Vision/Dental Fund.

NOTE 14 – INTERNAL SERVICE FUND

As of June 30, 2017, the assets and liabilities by individual components of the Internal Service Fund by program are as follows (in thousands):

	Workers' Compensation	General Liability	Compensated Absence	Total
Assets	$ 17,415	$ 6,408	$ 20,725	$ 44,548
Liabilities*	17,415	6,408	29,491	53,314
Net Position	$ —	$ —	$ (8,766)	$ (8,766)

*includes short-term liabilities

Workers' Compensation and General Liability

VTA contracts with third-party administrators to process claims for both Workers' Compensation and General Liability programs. VTA's annual contribution to General Liability program is based upon quarterly internal reviews of frequency and severity claims experience. Workers' Compensation fund contributions occur each pay period. Internally, the Workers' Compensation fund balance is reviewed quarterly to ensure it is appropriate given the claims history. In addition, both funds are evaluated and reconciled based on year-end actuarial valuations.

Actuarial Information

An actuarial analysis as of June 30, 2017 disclosed that the present values of estimated outstanding losses, at 2% average discount rate using a 60% confidence level, are $17.4 million and $6.4 million for Workers' Compensation and General Liability, respectively. Changes in the balance of Workers' Compensation and General Liability claims for the two years ended June 30, 2016, and June 30, 2017, are as follows (in thousands):

	Workers' Compensation	General Liability
Unpaid claims at June 30, 2015	$ 18,434	$ 11,972
Provision for claims and claims adjustment expense	6,606	2,752
Changes in estimates for provision for future claims	(3,515)	35
Payment for claims and other adjustments	(4,235)	(7,734)
Unpaid claims at June 30, 2016	17,290	7,025
Provision for claims and claims adjustment expense	6,250	2,830
Changes in estimates for provision for future claims	(1,991)	1,560
Payment for claims and other adjustments	(4,247)	(5,054)
Unpaid claims at June 30, 2017	$ 17,302	$ 6,361

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, 2017, the outstanding balance of compensated absences liability is $29.5 million.

NOTE 15 - SANTA CLARA VALLEY TRANSPORTATION AUTHORITY OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST

(a) Plan Description and Benefits Provided

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

Employees who retire directly from VTA are eligible for retiree health benefits if they meet certain requirements related to age and service. For ATU retirees, VTA provides an ATU Retiree Health Care Program (the ATU Program), a post-employment benefit, in accordance with the agreement between VTA and the ATU, to all Classic ATU represented employees who retire from VTA on or after attaining the age of 55 with at least 15 years of eligibility service, or age 65 with 10 years of eligibility service, or upon Board of Pensions' approval age 65 with 5 years of eligibility service, or if an employee becomes disabled and has completed at least 10 years of eligibility service and to all New ATU represented employees who retire from VTA under PEPRA and its mandated provisions. ATU retirees can select from retiree health plans offered under the CalPERS program. For ATU retirees living in California: VTA contributes up to $100 per month above the Kaiser Bay Area Single Party rate for CalPERS medical plans, regardless of Medicare status. ATU retirees pay the excess above the VTA contribution of up to $100 per month above the Kaiser Bay Area Single Party rate. For ATU retirees living outside of California: VTA contributes up to $100 per month above the Kaiser Out of State Single Party rate for CalPERS medical plans, regardless of Medicare status. ATU retirees pay the excess above the VTA contribution of up to $100 per month above the Kaiser Out of State Single Party rate. ATU retirees who are eligible for Medicare are reimbursed for the Medicare Part B premium, excluding penalties/late enrollment fees.

For surviving spouses of ATU retirees: VTA pays the PEMHCA minimum employer premium contribution of $128 per month in 2017 and $133 per month in 2018.

Non-ATU employees who retire directly from VTA on or after attaining the age of 50 years (Classic members) or 52 years (New members) with at least 5 years of CalPERS service are also covered under a Retiree Health Care Program (the administrative retiree program). Non-ATU retirees can select from retiree health plans offered under the CalPERS program.

For Non-ATU retirees living in California: VTA will contribute up to the Kaiser Bay Area Employee Only rate. Non-ATU retirees pay any premium in excess of the CalPERS Kaiser Bay Area Employee Only rate.

For Non-ATU retirees living outside of California: VTA will contribute up to the Kaiser Out of State Single Party rate. Non-ATU retirees pay any premium in excess of the CalPERS Kaiser Out of State Single Party rate.

Non-ATU retirees who are eligible for Medicare are reimbursed for the Medicare Part B premium, excluding penalties/late enrollment fees.

For surviving spouses of non-ATU retirees who elect a pension option with survivor benefits: VTA will contribute the same amount as it contributes for non-ATU retirees.

VTA also provides life insurance benefits for all ATU retirees and Executive Management retirees. ATU retirees who retired prior to January 1, 2010, receive $5,000 in life insurance coverage and those who retired on or after January 1, 2010, receive $7,000 in life insurance coverage. Executive Management retirees receive $50,000 in life insurance coverage for the first year of retirement, decreasing by $10,000 each year until its expiration in the sixth year.

As of June 30, 2017, the number of retirees and active employees who met the eligibility requirements for the ATU Program and non-ATU are as follows:

OPEB Eligible	ATU	Non-ATU	Total
Retirees	1,075	507	1,582
Active (Vested)	731	460	1,191

(b) Basis of Accounting

Contributions are recognized as revenue when due, pursuant to formal commitments, as well as statutory or contractual requirements. Benefits (distributions to participants) and refunds of prior contributions are recognized when due and payable in accordance with the terms of the Plan.

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

(c) Funding Policy

Benefit allowance provisions are established through agreements and memorandums of understanding (MOU) between VTA and unions representing its employees. VTA's contributions to the plans are based on Annual Required Contribution (ARC) as determined by an actuarial valuation study. In FY 2008, VTA established an irrevocable trust to fund the ARC in accordance with the provisions of GASB Statement 45.

As of June 30, 2017, VTA had assets of $299.9 million to cover costs of the ATU and Non-ATU Programs. The Plan is presented in these financial statements as the OPEB Trust Fund. Separate financial statements are also prepared for the Trust and can be obtained from Santa Clara Valley Transportation Authority, Finance and Budget, 3331 North First Street, Building C-2, San Jose, California 95134-1927.

(d) Annual OPEB Cost and Net OPEB Obligations

VTA's Annual Plan Cost (Expense) is calculated based on the Annual Required Contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed twenty years, using a closed amortization methodology. OPEB activities during FY 2017 are as follows (in thousands):

Annual Required Contributions[1]	$ (4,047)
Interest on Net Plan Asset[2]	—
Annual Plan Cost (Expense)	(4,047)
Contributions Made[1]	4,047
Net OPEB Asset, Beginning of Year	15,865
Net OPEB Asset, End of Year	$ 15,865

[1] Implicit subsidy offset by contributions made are for GASB 43/45 presentation purposes only. No actual contribution was made.

[2] VTA's adjustment to the ARC was offset by interest requiring no adjustment

In FY 2013, VTA Transit Fund made a one-time irrevocable transfer of $20.65 million to OPEB Trust Fund. This was included in VTA Transit unrestricted net position earmarked for future operational needs of OPEB Trust Fund. OPEB Trust Fund reflected this as a contribution during FY 2013. Plan cost, contribution made, the percentage of annual cost contributed to the Plan, and the net Plan assets for the years ended June 30, 2015 through 2017 are presented as follows (in thousands):

Net OPEB Obligation/Asset

Fiscal Year Ended	Annual OPEB Cost	VTA Contribution		Percentage of Annual OPEB Cost Contributed	Net OPEB Asset
6/30/2017	$ 4,047	$ 4,047		100%	$ 15,865
6/30/2016	4,785	4,785	*	100%	15,865
6/30/2015	12,000	12,000		100%	20,650

* FY2016 contribution was offset by the reduction of Net OPEB Asset

(e) Funding Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

As of July 1, 2016, the most recent actuarial valuation date, the plan was 118% funded. The actuarial accrued liability was $233.2 million and the actuarial value of assets was $275.6 million with $42.4 million in an overfunded actuarial accrued liability. The covered payroll was $168.9 million which resulted in a 25% overfunded actuarial accrued liability as a percent of covered payroll.

The schedule of funding progress is presented on page 2-102, in the required supplementary information following the notes to the financial statements.

(f) Actuarial Methods and Assumptions

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

Description	Methods/Assumptions
Valuation date	June 30, 2016
Actuarial Cost Method	Individual Entry Age
Amortization Method	Level dollar closed
Asset valuation method	Market value
Remaining Amortization Period	12 years
Actuarial assumptions:	
Discount rate	7%
Payroll growth rate	3.25%
Ultimate rate of medical inflation	4.5%

NOTE 16 – CLAIMS, COMMITMENTS, AND CONTINGENCIES

VTA is exposed to liability for personal injury, bodily injury and property damage claims. Claims alleging liability and financial loss for injury or property damage suffered by employees, passengers, the general public and others may involve various risk exposures inherent to public transportation services and congestion management oversight.

VTA self-insures and contracts third party adjustment services for:

(a) Third party personal injury, bodily injury, and property damage liability claims up to $3 million per occurrence.
(b) Workers' Compensation claims through self-insurance.
(c) Public Officials and Employment Practices Liability claims up to $3 million per occurrence.
(d) First party property damage with various deductible ranging from $100,000 to $250,000 for rail cars and equipment, buses, and real property.

For liability, VTA is self-insured for $3 million per occurrence. Excess Liability insurance is purchased from several insurers through VTA's insurance broker up to $97 million per occurrence and in the aggregate. The program consists of a $7 million primary layer and an excess layer of $90 million.

VTA purchases Public Officials Liability & Employment Practices Liability Insurance with an annual aggregate of $2 million per occurrence in excess of a $3 million self-insured retention.

VTA purchases first party property insurance for loss or damage to its property arising out of various risk perils (excluding earthquake) and damage from bus and rail transit collisions, overturn or derailment. Coverage provides stated value/replacement cost per occurrence with various deductibles not exceeding $250,000.

Type of Coverage	Self-Retention	Excess Coverage
Workers' Compensation	Self-Insured	None
General Liability	$ 3,000,000	$ 97,000,000
Property, Boiler & Machinery	100,000	80,000,000
Flood	5,000	500,000
Light Rail Vehicles	250,000	100,000,000
Light Rail Spare Parts	25,000	Stated Value
Buses	150,000 & lower	50,000,000
Bus Spare Parts	25,000	Stated Value
Non-Revenue Trucks & Equipment	25,000	50,000,000
Express Lane Toll Road Equipment & Signs	25,000	50,000,000
Public Officials Liability	3,000,000	2,000,000
Crime	2,500	1,000,000
Premises Pollution Liability	100,000	5,000,000
Storage Tank Liability	25,000	1,000,000
Cyber Risk	10,000	2,000,000
Blanket Railroad Protective Liability	—	2,000,000

NOTE 17 – LEASES

VTA leases various properties for use as transfer facilities, parking lots, information centers, office buildings, and warehouses under lease agreements that expire at various dates through 2023. VTA may renew the leases after their expiration. Some of these agreements were accounted for as operating leases in VTA Transit Fund for approximately $349 thousand in FY 2017. Other leases were charged to capital project expenditures and were capitalized in FY 2017 for approximately $1 million. The future lease payments under non-cancellable lease agreements are as follows (in thousands):

Years ending June 30,	Future Lease Payments
2018	$ 1,081
2019	369
2020	178
2021	121
2022	125
2023	63
Total	$ 1,937

NOTE 18 – LITIGATION

In November 2016, the voters of Santa Clara County overwhelmingly passed Measure B, a 30-year half-cent sales tax that would help VTA fund a series of transportation-related projects including local streets and roads repair, bicycle/pedestrian improvements, Caltrain grade separations, and Phase II of the BART extension. Collection of the half-cent sales tax began in April 2017.

In January 2017, a Santa Clara County resident individually filed a lawsuit against VTA on the validity of the 2016 Measure B. (*Cheriel Jensen v. Santa Clara Transportation Authority*, *et al*., Santa Clara County Superior Court case No. 17-CV-304960). VTA challenged the lawsuit as lacking merit and the court agreed and dismissed the case. However, the Plaintiff filed an appeal with the Sixth District Court of Appeal on August 17, 2017, Case No. H044974.

As a result of the ongoing appeal, VTA is required to keep all 2016 Measure B tax collections in an escrow account (which VTA has been doing) "until the legality of the tax is finally resolved by a final and non-appealable decision…" (California Revenue and Taxation Code, Rev. & Tax. Code § 7270(c).) Therefore, the court process will impede VTA from distributing any 2016 Measure B funds unless and until the lawsuit is finally resolved in favor of VTA.

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

The County provides support services to VTA for protection (Office of the Sheriff), vehicle maintenance and fuel, and contributions for retiree medical for County public safety staff assigned to VTA. As of June 30, 2017, the support services totaled $10.7 million and are included in Operating Expenses.

NOTE 20 – JOINT VENTURES

(a) Peninsula Corridor Joint Powers Board

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

The net operating costs and administrative expenses of the PCJPB for services provided between San Francisco and San Jose are reimbursed by the member agencies. In FY 2017, VTA, SamTrans, and CCSF were responsible for 40.3%, 41.9%, and 17.8%, respectively, of the member agencies' total reimbursement for such expenses. During the year ended June 30, 2017, VTA paid $8.4 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.

The following is a summary financial information (not included in VTA's financial statements) for the PCJPB for the years ended June 30, 2016 and 2015 (in thousands). FY 2016 is the most recent audited financial information.

PCJPB Financial Information	2016	2015
Total assets	$ 1,495,016	$ 1,452,213
Total liabilities	(136,381)	(135,238)
Total net position	$ 1,358,635	$ 1,316,975
Operating revenues	$ 95,433	$ 90,763
Operating expenses	(211,383)	(195,410)
Non-operating revenues, net	26,281	29,397
Capital contributions	131,329	115,225
Change in net position	$ 41,660	$ 39,975

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

(b) Altamont Corridor Express

The Altamont Corridor Express (ACE) is a commuter rail service covering over 85 miles between Stockton and San Jose with stops in Manteca, Tracy, Livermore, Pleasanton, Fremont, Santa Clara, and San Jose. ACE is funded by VTA, the Alameda County Congestion Management Agency, and the San Joaquin Regional Rail Commission which also serves as the managing agency. ACE commenced operations in October 1998, and now provides four daily round trips commuter rail service from San Joaquin County through the Tri-Valley Area of Alameda County to Santa Clara County. In June 2003, VTA entered into a Cooperative Service Agreement with the San Joaquin Regional Rail Commission (SJRRC) and the Alameda County Transportation Commission (Alameda CTC) for continued VTA funding of ACE commuter rail service. The cooperative agreement replaced the ACE Joint Powers Agreement (JPA) executed by the ACE member agencies – VTA, SJRRC, and Alameda CTC. Per the cooperative agreement, VTA's financial subsidy is the amount paid in FY 2003, increased annually by the consumer price index (CPI). During the year ended June 30, 2017, VTA contributed approximately $3.3 million for operating costs.

The summary financial information (not included in VTA's financial statements) for the Altamont Corridor Express for the years ended June 30, 2016, and 2015 (in thousands), appear as follows. FY 2016 is the most recent audited financial information.

ACE Financial Information	2016	2015
Total assets	$ 183,530	$ 181,021
Total liabilities	(57,738)	(58,983)
Total net position	$ 125,792	$ 122,038
Operating revenues	$ 8,558	$ 7,991
Operating expenses	(24,227)	(23,802)
Non-operating revenues, net	10,580	12,842
Capital contributions	9,914	14,050
Transfer in/(out)	—	88
Extraordinary item	(1,071)	—
Change in net position	$ 3,754	$ 11,169

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 San Francisco Bay Area Rapid Transit District (BART). BART is the managing agency for the Capitol Corridor Service and Amtrak operates the trains on tracks owned by Union Pacific railroad. 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.

NOTE 21 – OTHER FINANCING TRANSACTIONS

(a) Lease/Leaseback

In 1998 and 2003 VTA entered into a total of six lease/leaseback transactions with five investors: KBC Bank N.V., Firth Third Leasing Company, Comerica Leasing Corporation, US Bancorp, and First Hawaiian Leasing Inc. The leases involved a total of 116 light rail vehicles. The light rail vehicles were leased using statutory trusts (the "Trusts") formed on behalf of the parties to the transactions. In each case, pursuant to a head-lease agreement, VTA leased rail vehicles to an investor and in turn received a prepayment of the future headlease rents that would be due through the purchase option date. Pursuant to a sublease, each investor then leased the rail vehicles to the VTA. Sufficient monies from prepayment of the headlease rents were invested in highly rated securities to fund all sublease rents and the purchase option payments. Remaining monies were used to pay transaction costs, with the balance then going to VTA as an upfront cash benefit. Highly rated insurance companies were used to provide guaranties for certain aspects of the transactions. Subsequent to the closing of the leases, the Internal Revenue Service disallowed the tax benefits the investors were anticipating, also as a result of the 2008 financial crisis the credit ratings of the insurance providers were dramatically lowered below thresholds required in the lease documents, resulting in the possibility of a default.

Subsequent to these adverse developments KBC Bank N.V.,US Bancorp and Comerica Leasing Corporation were each willing to terminate their transactions on favorable terms. With First Hawaiian Leasing Corporation the VTA exercised its purchase option on January 2, 2017. The purchase option was funded from the maturing securities invested at the outset of the lease. The remaining two leases are with Fifth Third Leasing Company, and have purchase option dates of January 1, 2034.

(b) Sublease Agreement with Utah Transit Authority (UTA)

In May 2003, VTA entered into a further sub-lease agreement with the Utah Transit Authority (UTA) to lease 29 rail vehicles related to VTA's sublease with First Hawaiian Leasing Corporation. On January 2, 2017, VTA exercised its purchase option with First Hawaiian Leasing Corporation. Upon completion of VTA's purchase option with First Hawaiian Leasing Corporation and pursuant to the agreement with UTA, UTA exercised its purchase option.

NOTE 22 – SUBSEQUENT EVENT

Federal Funding Grant Agreement

The 2017 Federal Section 5309 New Starts funding for the VTA's Silicon Valley Berryessa Extension Project of $100 million was awarded in September 2017. Of the $900 million grant commitment from the FTA for the project, $802.6 million has been awarded to date.

THIS PAGE IS INTENTIONALLY LEFT BLANK

REQUIRED SUPPLEMENTARY INFORMATION
(Other than MD&A)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Required Supplementary Information

Schedule of Changes in Net Pension Liability and Related Ratios

For the Years ended June 30, 2014 to 2017

Amalgamated Transit Union Pension Plan

(Unaudited)

(In thousands)

	2017*	2016	2015	2014
Total Pension Liability				
Service cost	$ 16,024	$ 14,788	$ 13,468	$ 12,094
Interest (includes interest on service cost)	46,152	45,110	43,069	41,417
Difference between expected and actual experience	6,440	7,748	4,517	—
Changes in assumptions	13,105	14,577	—	—
Benefit payments, including refunds of member contributions	(38,454)	(35,588)	(33,418)	(30,967)
Net change in total pension liability	43,267	46,635	27,636	22,544
Total Pension Liability, beginning	658,313	611,678	584,042	561,498
Total Pension Liability, ending	701,580	658,313	611,678	584,042
Plan Fiduciary Net Position				
Contributions - employer	27,385	25,751	25,590	25,787
Contributions - member	1,070	—	—	—
Net investment income	60,472	2,245	16,094	64,139
Benefit payments, including refunds of member contributions	(38,454)	(35,588)	(33,418)	(30,967)
Administrative expense	(324)	(281)	(301)	(313)
Net change in Plan Fiduciary Net Position	50,149	(7,873)	7,965	58,646
Plan Fiduciary Net Position, beginning	481,318	489,191	481,226	422,580
Plan Fiduciary Net Position, ending	531,467	481,318	489,191	481,226
Net Pension Liability, ending	$170,113	$176,995	$122,487	$102,816
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	75.75%	73.11%	79.98%	82.40%
Covered Payroll	$131,544	$126,796	$115,914	$107,880
Net Pension Liability as a percentage of covered payroll	129.32%	139.59%	105.67%	95.31%

*__Notes to schedule__

Change in assumptions:

1) Investment rate of return: Reduced from 7.5% in 2015 to 7.25% in 2016 and to 7.00% in 2017, net of investment expense
2) Inflation: reduced from 3.25% in 2015 to 3.00% in 2016 and to 2.75% in 2017.

Benefit changes: There were no changes in the benefit during the year.

Information not available prior to FY 2014.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Required Supplementary Information
Schedule of Employer Contributions
For the Years ending June 30, 2008 to 2017

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

	2017*	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially-determined Contribution	$ 27,385	$ 25,720	$ 25,549	$ 25,787	$ 24,413	$ 19,148	$17,807	$17,905	$14,843	$16,137
Contributions in Relation to the Actuarially-determined Contribution	27,385	25,751	25,590	25,787	24,413	19,148	17,807	17,905	14,843	16,137
Contributions Deficiency/ (Excess)	$ —	$ (31)	$ (41)	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Covered Payroll	$131,544	$126,796	$115,914	$107,880	$104,136	$104,726	$98,741	$98,036	$99,775	$99,408
Contributions as a Percentage of Covered Payroll	20.82%	20.31%	22.08%	23.90%	23.44%	18.28%	18.03%	18.26%	14.88%	16.23%

***Notes to schedule:**

Timing	Actuarially-determined contribution rates are calculated based on the actuarial valuation six months prior to the beginning of the fiscal year

Key Methods and Assumptions Used to Determine Contribution Rate:

Actuarial cost method	Entry Age
Asset valuation method	5-year smoothed market, subject to 80%/120% corridor
Amortization method	All unfunded liability charges are amortized over a rolling 20-year period as a level dollar amount
Discount rate	7.25%
Amortization growth rate	0.00%
Price inflation	3.00%
Salary increases	3.00% plus merit component based on years of service
Mortality	Sex distinct RP-2000 Combined Blue Collar Mortality, (setback one year for females) projected to 2025 using 50% of Scale BB

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Required Supplementary Information

Schedule of Changes in Net Pension Liability and Related Ratios

For the Years ended June 30, 2015 to 2017

California Public Employees' Retirement System (CalPERS)

(Unaudited)

(In thousands)

	2017*	2016	2015
TOTAL PENSION LIABILITY			
Service cost	$ 9,488	$ 9,551	$ 9,055
Interest	27,998	26,479	24,724
Changes in Assumptions	—	(6,447)	—
Difference between Expect and Actual Experience	(1,007)	2,488	—
Benefit payments, including refunds of employee contributions	(15,940)	(14,341)	(12,834)
Net Change in Total Pension Liability	20,539	17,730	20,945
Total Pension Liability - Beginning	370,217	352,487	331,542
Total Pension Liability - Ending (a)	390,756	370,217	352,487
PLAN FIDUCIARY NET POSITION			
Contributions - Employer	10,248	8,684	8,845
Contributions - Employee	4,259	4,075	4,482
Net Investment Income [1]	1,430	6,042	41,263
Benefit payments, including refunds of employee contributions	(15,940)	(14,341)	(12,834)
Plan to Plan Resource Movement	(40)	656	—
Administrative Expense	(173)	—	—
Net Change in Fiduciary Net Position	(216)	5,116	41,756
Plan Fiduciary Net Position - Beginning	283,391	278,275	236,519
Plan Fiduciary Net Position - Ending (b)	283,175	283,391	278,275
Plan Net Pension Liability/(Asset) - Ending (a) - (b)	$ 107,581	$ 86,826	$ 74,212
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.47%	76.55%	78.95%
Covered Payroll	$ 61,209	$ 60,375	$ 54,294
Plan Net Pension Liability/(Asset) as a Percentage of Covered Payroll	175.76%	143.81%	136.69%

[1] Net of administrative expenses in 2016 and 2015.

***Notes to schedule:**

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2015 valuation date. This applies for voluntary changes as well as any offers of Two Years Additional Service Credit.

Changes of assumptions: In 2017, there were no changes. In 2016, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense).

Information not available prior to FY 2015.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Required Supplementary Information

Schedule of Employer Contributions

For the Years ending June 30, 2008 to 2017

California Public Employees' Retirement System (CalPERS)

(Unaudited)

(In thousands)

	2017[a]	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually Required Contribution	$11,516	$10,567	$ 8,965	$ 8,845	$ 7,497	$ 7,159	$ 6,090	$ 6,167	$ 6,507	$ 6,728
Contributions in Relation to the Contractually Required	11,516	10,567	8,965	8,845	7,497	7,159	6,090	6,167	6,507	6,728
Contributions Deficiency/(Excess)	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Covered Payroll	$68,156	$61,209	$60,375	$54,294	$52,712	$53,950	$51,626	$53,231	$54,589	$51,043
Contributions as a Percentage of Covered Payroll	16.90%	17.26%	14.85%	16.29%	14.22%	13.27%	11.80%	11.59%	11.92%	13.18%

Notes to schedule:

[a] The actuarial methods and assumptions used to set the actuarially-determined contributions were based on valuation reports three years prior.

Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Payroll
Asset valuation method	Market value of assets
Inflation	2.75%
Salary increases	Varies by entry age and service
Payroll growth	3.00%
Investment rate of	7.65% Net of Pension Plan Investment expenses; includes inflation.
Retirement age	The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period 1997 to 2007. Pre-retirement and Post-retirement rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Required Supplementary Information
Schedule of Funding Progress [1]
As of June 30, 2017

Retirees' Other Post Employment Benefits (OPEB) Trust
(Unaudited)
(In thousands)

Actuarial Valuation Date		Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Liability (UAL)	Funded Ratio	Covered Payroll	UAL as a Percentage of Covered Payroll
6/30/2016	[1]	$ 275,600	$ 233,161	$ (42,439)	118.2%	$ 168,869	-25.1%
6/30/2015		275,427	253,331	(22,096)	108.7%	167,124	-13.2%
6/30/2014		260,310	296,970	36,660	87.7%	162,902	22.5%

[1] The schedule of funding progress presents the most recent actuarial information regarding the OPEB funding progress of the Santa Clara Valley Transportation Authority.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Required Supplementary Information
Budgetary Comparison Schedule
Congestion Management Program Special Revenue Fund
For the Year ended June 30, 2017
(In thousands)

	Original Budget	Final Budget	Actual	Variance Final to Actual Positive/ (Negative)
Revenue:				
Assessments to member agencies	$ 2,407	$ 2,407	$ 2,407	$ —
Federal grant revenues	1,765	1,765	1,219	(546)
Administrative fees	115	115	142	27
State and local operating assistance grants	1,053	1,053	966	(87)
Other revenues	220	220	124	(96)
Investment earnings	12	12	7	(5)
Total Revenue	5,572	5,572	4,865	(707)
Expenditures:				
VTA labor and overhead costs	4,138	4,338	4,251	87
Services and other:				
Professional services	1,569	1,369	1,058	311
Other services	12	12	14	(2)
Data processing	13	13	5	8
Contribution to Other Agencies	86	86	83	3
Total Expenditures	5,818	5,818	5,411	407
Change in fund balance, on a budgetary basis	$ (246)	$ (246)	(546)	$ (300)
Change in fund balance, on a GAAP basis			(546)	
Fund Balance, Beginning of Year			1,157	
Fund Balance, End of Year			$ 611	

See Note accompanying this schedule

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Required Supplementary Information
Budgetary Comparison Schedule
2016 Measure B Program Special Revenue Fund
For the Year ended June 30, 2017
(In thousands)

	Original Budget	Final Budget	Actual	Variance Final to Actual Positive/ (Negative)
Expenditures:				
Professional services	$ —	$ 175	$ 11	$ 164
Total Expenditures	—	175	11	164
Change in fund balance, on a budgetary basis	$ —	$ (175)	(11)	$ 164
Reconciliation of net income on a budgetary basis to net income on a GAAP Basis:				
Election cost*			(1,652)	
Change in fund balance, on a GAAP basis			(1,663)	
Fund Balance, Beginning of Year			—	
Fund Balance, End of Year			$ (1,663)	

* Election cost of $1.65 million budgeted and disbursed in the VTA Transit Fund. This was moved to the 2016 Measure B Program Special Revenue and reflected as expense of the fund.

See Note accompanying this schedule

Budgetary Basis of Accounting

State law requires the adoption of an annual budget, which must be approved by the VTA's Board of Directors. The VTA Board adopts a biennial budget for its Congestion Management Program and 2016 Measure B Program Special Revenue Funds. As the 2016 Measure B Program Fund was only created in FY 2017, related appropriation was provided in FY 2017, and included in the FYs 2018 and 2019 Biennial Budget. The budget for the Special Revenue Fund is prepared on a modified accrual basis but excludes unrealized gains and losses on investments and amortization of premiums and discounts.

Budgetary control is maintained at the fund level. The Division Chief must authorize line item reclassification amendments to the budget. Managers are assigned the responsibility for controlling their budgets and monitoring operating expenses. Annual appropriations for the operating budget lapse at the end of the fiscal year to the extent that they have not been expended. The unexpended capital budget at fiscal year- end is carried forward from year to year until the project is completed.

SUPPLEMENTARY INFORMATION
(Combining and Individual Fund Information)

THIS PAGE IS INTENTIONALLY LEFT BLANK

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Comparative Schedule of Fund Net Position

Enterprise Funds

June 30,

(In thousands)

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 33,547	$ 57,966
Investments	263,578	259,379
Receivables, net	4,334	4,071
Due from other agencies	49,247	50,070
Inventories	35,452	32,040
Other current assets	1,236	1,575
Total current assets	387,394	405,101
Restricted assets:		
Cash and cash equivalents	1,574	7,565
Cash and investments with fiscal agent	60,982	72,675
Investments	705,078	740,309
Receivables, net	5	4
Due from other funds	2,008	274
Due from other agencies	90,249	149,685
Other current assets	39	248
Total restricted current assets	859,935	970,760
Non-current assets:		
Net OPEB Asset	15,865	15,865
Capital Assets		
Nondepreciable:		
Land and right-of-way	1,126,872	1,126,359
Construction in progress	2,906,098	2,611,823
Depreciable:		
Intangible Assets	3,085	3,966
Caltrain - Gilroy extension	43,072	43,072
Buildings, improvements, furniture, and fixtures	586,041	569,079
Vehicles	586,754	553,886
Light-rail tracks and electrification	418,195	418,195
Leasehold improvement	9,686	9,686
Others	47,561	47,289
Less: Accumulated depreciation	(950,887)	(882,564)
Net capital assets	4,776,477	4,500,791
Total Assets	6,039,671	5,892,517
DEFERRED OUTFLOWS OF RESOURCES		
Hedging derivative instruments	82,764	119,076
Refunding amounts	12,697	13,916
Pension-related	70,966	75,214
TOTAL DEFERRED OUTFLOWS OF RESOURCES	166,427	208,206

(Continued)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Comparative Schedule of Fund Net Position *(Continued)*
Enterprise Funds
June 30,
(In thousands)

	2017	2016
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	15,492	14,820
Accounts payable and accrued expenses	25,548	19,252
Deposits	379	333
Accrued payroll and related liabilities	10,536	9,805
Bond interest and other fees payable	409	515
Unearned revenues	3,521	2,560
Other accrued liabilities	36	271
Total current liabilities	55,921	47,556
Liabilities payable from restricted assets:		
Current portion of long-term debt	29,530	28,160
Accounts payable and accrued expenses	40,089	72,183
Bond interest and other fees payable	11,039	11,368
Unearned revenues	12	7
Due to other funds	5	5
Due to other governmental agencies	67,484	98,120
Total current liabilities payable from restricted assets	148,159	209,843
Non-current liabilities		
Long-term debt, excluding current portion	1,025,400	1,073,185
Derivative instruments	82,764	119,076
Net pension liability*	277,694	263,822
Total non-current liabilities	1,385,858	1,456,083
TOTAL LIABILITIES	1,589,938	1,713,482
DEFERRED AMOUNT ON BOND REFUNDING & DEFERRED INFLOWS RELATED TO PENSION	7,246	10,959
NET POSITION	$ 4,608,914	$ 4,376,282

*Resulting from GASB 68 implementation. In FY 2017, this consists of $107.6 million for CalPERS and $170.1 million for ATU

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Comparative Schedule of Revenues, Expenses, and Changes in Fund Net Position

Enterprise Fund

For the Years ended June 30,

(In thousands)

	2017	2016
OPERATING REVENUES:		
Fares - Transit	$ 33,719	$ 37,663
Fares - Paratransit	1,064	—
Toll revenues collected	1,258	1,274
Advertising and others	3,478	3,379
Charges for services	675	475
TOTAL OPERATING REVENUES	40,194	42,791
OPERATING EXPENSES:		
Labor cost	321,824	309,510
Materials and supplies	38,656	32,005
Services	36,725	33,447
Utilities	8,854	8,921
Casualty and Liability	6,901	4,923
Purchased transportation	25,241	21,477
Leases and rentals	678	919
Miscellaneous	1,732	2,111
Depreciation expense	68,539	62,386
Costs allocated to capital and other programs	(27,641)	(32,039)
TOTAL OPERATING EXPENSE	481,509	443,660
OPERATING LOSS	(441,315)	(400,869)
NON-OPERATING REVENUES (EXPENSES)		
Sales tax revenue	467,701	460,316
Federal operating assistance and other grants	4,232	4,105
Federal subsidy for Build America Bonds	8,753	8,748
State and local operating assistance grants	110,959	114,135
Caltrain subsidy	(8,390)	(8,414)
Capital expenses on behalf of, and contribution to other agencies	(86,084)	(53,094)
Altamont Corridor Express subsidy	(3,270)	(3,166)
Investment earnings	4,356	18,493
Interest expense	(15,254)	(11,330)
Other non-operating income	5,016	2,438
Other non-operating expense	(2,928)	(4,177)
NON-OPERATING REVENUE, NET	485,091	528,054
INCOME (LOSS) BEFORE CONTRIBUTIONS	43,776	127,185
CAPITAL CONTRIBUTIONS	188,856	271,057
CHANGE IN NET POSITION	232,632	398,242
NET POSITION, BEGINNING OF YEAR	4,376,282	3,978,040
NET POSITION, END OF YEAR	$ 4,608,914	$ 4,376,282

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Comparative Schedule of Cash Flows

Enterprise Funds

For the Years Ended June 30,

(In thousands)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from transit fares	$ 34,788	$ 36,939
Cash received from paratransit fares	1,064	—
Cash received from toll revenues collected	1,257	1,238
Cash received from advertising	3,739	2,896
Cash paid for labor costs	(278,713)	(260,259)
Cash paid to suppliers	(90,676)	(88,350)
Cash paid for purchased transportation	(25,241)	(21,477)
Other receipts/(payments)	641	105
Net cash provided by/(used in) operating activities	(353,141)	(328,908)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	125,379	146,389
Sales tax received	464,021	462,254
Caltrain subsidy	(8,390)	(8,414)
Altamont Corridor Express subsidy	(3,270)	(3,166)
Capital contribution to other agencies	(88,109)	(48,671)
Net cash provided by/(used in) non-capital financing activities	489,631	548,392
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payment of long-term debt	(52,895)	(41,275)
Proceeds from issuance of long-term debt	10,030	—
Advance (to)/from other governments	(31,608)	19,229
Interest and other fees paid on long-term debt	(18,687)	(15,067)
Acquisition and construction of capital assets	(360,196)	(489,366)
Capital contribution from other entities	239,978	255,244
Net cash provided by/(used in) capital and related financing activities	(213,378)	(271,235)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	2,301,121	2,632,607
Purchases of investments	(2,279,725)	(2,567,983)
Interest income received	13,389	12,697
Net cash provided by/(used in) investing activities	34,785	77,321
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(42,103)	25,570
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	138,206	112,636
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 96,103	$ 138,206

(continued on next page)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Comparative Schedule of Cash Flows *(Continued)*

Enterprise Funds

For the Years Ended June 30,

(In thousands)

	2017	2016
RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES:		
Operating income/(loss)	$ (441,315)	$ (401,344)
Adjustments to reconcile operating income/(loss) to net cash provided by/(used in) operating activities:		
Depreciation	68,539	62,386
Changes in operating assets and liabilities:		
Other current assets	14,988	910
Receivables	343	(588)
Inventories	(3,412)	(9,970)
Accounts payable	6,211	2,817
Other accrued liabilities	495	17,455
Deposits from others	(104)	82
Unearned revenue	1,114	(656)
Net cash provided by/(used in) operating activities	$ (353,141)	$ (328,908)
Reconciliation of cash and cash equivalents to the Statement of Fund Net Position:		
Cash and cash equivalents, end of year:		
Unrestricted	$ 33,547	$ 57,966
Restricted	62,556	80,240
	$ 96,103	$ 138,206
NONCASH ACTIVITIES:		
Increase/(Decrease) in fair value of investments	$ (8,272)	$ 7,598
Noncash capital contributions	52,601	2,165
Amortization expense of Caltrain Access Fee	(882)	(881)
Total non-cash activities	$ 43,447	$ 8,882

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Budgetary Comparison Schedule - Enterprise Fund

VTA Transit Fund

For the year ended June 30, 2017

(In thousands)

	FY 2017 Adopted Budget	Final Budget	Actual	Positive (Negative)
REVENUES				
Fares - Transit	$ 41,599	$ 41,599	$ 33,718	$ (7,881)
Fares - Paratransit	—	—	1,064	1,064
1976 1/2 Cent Sales Tax	216,835	216,835	209,005	(7,830)
Transportation Development Act funds	101,912	101,912	99,402	(2,511)
2000 Measure A Sales Tax Operating Assistance	40,021	40,021	38,515	(1,507)
STA	14,765	14,765	9,024	(5,741)
Federal Operating Grants	3,704	3,704	4,232	528
State Operating Grants	1,420	1,420	2,532	1,112
Investment Earnings	1,425	1,425	3,086	1,661
Advertising Income	2,258	2,258	2,623	365
Transfer for Capital	(33,600)	(33,600)	—	33,600
Debt Reduction Fund Contribution	11,693	11,693	—	(11,693)
Other Income	17,803	17,803	20,129	2,327
Total revenues	**419,836**	**419,836**	**423,332**	**3,496**
OPERATING EXPENSES				
Labor Costs	319,134	314,817	307,084	7,733
Materials & Supplies	19,398	27,274	29,217	(1,943)
Security	12,619	15,119	12,671	2,448
Professional & Special Services	6,615	7,627	7,363	264
Other Services	7,590	8,204	8,524	(321)
Fuel	12,517	12,372	8,256	4,115
Traction Power	3,898	3,898	4,081	(183)
Tires	2,266	2,266	2,177	89
Utilities	2,895	2,895	3,074	(179)
Insurance	5,752	6,752	6,901	(149)
Data Processing	4,746	4,746	4,783	(38)
Office Expense	425	425	367	58
Communications	1,606	1,606	1,692	(86)
Employee Related Expense	1,023	1,031	686	345
Leases & Rents	791	791	678	113
Miscellaneous	712	859	895	(36)
Reimbursements	(38,769)	(38,769)	(33,917)	(4,852)
Total operating expenses	**363,218**	**371,911**	**364,533**	**7,378**

NOTE: Totals and subtotals may not be precise due to independent rounding

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Budgetary Comparison Schedule - Enterprise Fund (*continued*)
VTA Transit Fund
For the year ended June 30, 2017
(In thousands)

	FY 2017 Adopted Budget	Final Budget	Actual	Positive (Negative)
OTHER EXPENSES				
Paratransit	20,884	24,684	23,551	1,133
Caltrain	8,390	8,390	8,390	—
Altamont Corridor Express	5,323	5,323	4,960	363
Highway 17 Express	384	384	333	51
Monterey-San Jose Express Service	35	35	35	—
Contribution to Other Agencies	1,772	2,624	2,591	33
Debt Service	21,641	21,731	21,672	59
Contingencies	2,000	365	—	365
Total other expenses	**60,429**	**63,536**	**61,533**	**2,002**
Total operating and other expenses	**423,647**	**435,447**	**426,066**	**9,381**
Change in net position, on a budgetary basis	**$ (3,811)**	**$ (15,611)**	**(2,734)**	**$ 12,876**
Reconciliation of net income on a budgetary basis to net income on a GAAP Basis:				
Capital Contributions			38,713	
Project Expenditure			(6,276)	
Capital Contributions to Other Agencies			(5,557)	
Bond Principal Payment			14,820	
Amortization of bond premium and deferred loss			(473)	
Unrealized loss on investment			(2,563)	
Debt Reduction Fund Interest Earnings			618	
Other non-operating income (gain on disposal)			25	
Other non-budgetary revenues/(expenses)			(212)	
Transfer from 1996 Measure B Transit			976	
Pension expense related to GASB 68			(14,740)	
Land donation receipt (Whisman Station)			512	
Election cost related to 2016 Measure B*			1,652	
Depreciation			(68,539)	
Net change in net position, on a GAAP Basis			$ (43,778)	

* Election cost of $1.65 million budgeted and disbursed in the VTA Transit Fund was moved to the 2016 Measure B Program.

NOTE: Totals and subtotals may not be precise due to independent rounding

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Combining Statement of Fiduciary Net Position

Retiree Trust Funds

June 30, 2017

(In thousands)

	ATU Pension Trust	OPEB Trust	ATU Medical Trusts: Spousal Medical	ATU Medical Trusts: Vision/ Medical	ATU Medical Trusts: Total Medical Trusts	Total
ASSETS						
Cash and cash equivalents	$ 573	$ 817	$ 259	$ 178	$ 437	$ 1,827
Investments	530,196	297,772	15,629	10,809	26,438	854,406
Receivables	899	472	—	—	—	1,371
Due from other agencies	—	10	—	—	—	10
Other asset	—	861	—	—	—	861
Total assets	531,668	299,932	15,888	10,987	26,875	858,475
LIABILITIES						
Accounts payable	201	38	1	1	2	241
NET POSITION						
Restricted for:						
Pension benefits	531,467	—	—	—	—	531,467
Other post-employment benefits	—	299,894	—	—	—	299,894
Spousal medical benefits	—	—	15,887	—	15,887	15,887
Retiree dental and vision benefits	—	—	—	10,986	10,986	10,986
TOTAL NET POSITION	$ 531,467	$ 299,894	$ 15,887	$ 10,986	$ 26,873	$ 858,234

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Combining Statement of Changes in Fiduciary Net Position

Retiree Trust Funds

For the Year ended June 30, 2017

(In thousands)

	ATU Pension Trust	OPEB Trust	ATU Medical Trusts: Spousal Medical	ATU Medical Trusts: Vision/ Dental	ATU Medical Trusts: Total Medical Trusts	Total
ADDITIONS						
Employee contributions	$ 1,070	$ —	$ —	$ —	$ —	$ 1,070
Employer contributions	27,385	4,047	1,560	389	1,949	33,381
Total contributions	28,455	4,047	1,560	389	1,949	34,451
Investment earnings:						
Investment income	27,616	6,802	5	3	8	34,426
Net appreciation/(depreciation) in the fair value of investments	34,873	26,974	1,677	1,165	2,842	64,689
Investment expense	(2,017)	(449)	(4)	(1)	(5)	(2,471)
Net investment income	60,472	33,327	1,678	1,167	2,845	96,644
TOTAL ADDITIONS	88,927	37,374	3,238	1,556	4,794	131,095
DEDUCTIONS						
Benefit payments	38,454	13,055	1,255	312	1,567	53,076
Administrative expenses	324	25	—	—	—	349
TOTAL DEDUCTIONS	38,778	13,080	1,255	312	1,567	53,425
CHANGE IN NET POSITION	50,149	24,294	1,983	1,244	3,227	77,670
NET POSITION, BEGINNING OF YEAR	481,318	275,600	13,904	9,742	23,646	780,564
NET POSITION, END OF YEAR	$ 531,467	$ 299,894	$ 15,887	$ 10,986	$ 26,873	$ 858,234

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Combining Statement of Fiduciary Assets and Liabilities

Agency Funds

June 30, 2017

(In thousands)

	BAAQMD Program	SB83 VRF Agency	Total
Assets			
Cash and cash equivalents	$ 280	$ 312	$ 592
Investments	3,608	27,720	31,328
Total Assets	3,888	28,032	31,920
Liabilities			
Accounts Payable	20	27	47
Program payable	3,868	28,005	31,873
Total Liabilities	$ 3,888	$ 28,032	$ 31,920

Note: 1996 Measure B Ancillary Program closed in FY 2016.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Combining Statement of Changes in Fiduciary Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2017
(In thousands)

BAAQMD Program	Balance July 1, 2016	Increase	Decrease	Balance June 30, 2017
Assets				
Cash and cash equivalents	$ 1,103	$ —	$ 823	$ 280
Investments	4,240	—	632	3,608
Total assets	$ 5,343	$ —	$ 1,455	$ 3,888
Liabilities				
Accounts Payable	$ 313	$ —	$ 293	$ 20
Program payable	5,030	—	1,162	3,868
Total liabilities	$ 5,343	$ —	$ 1,455	$ 3,888
SB83 VRF Program				—
Assets				
Cash and cash equivalents	$ 1,639	$ —	$ 1,327	$ 312
Investments	23,928	3,792	—	27,720
Total assets	$ 25,567	$ 3,792	$ 1,327	$ 28,032
Liabilities				
Accounts Payable	$ 28	$ —	$ 1	$ 27
Program payable	25,539	2,466	—	28,005
Total liabilities	$ 25,567	$ 2,466	$ 1	$ 28,032
Total - All Agency Funds				—
Assets				
Cash and cash equivalents	$ 2,742	$ —	$ 2,150	$ 592
Investments	28,168	3,792	632	31,328
Total assets	$ 30,910	$ 3,792	$ 2,782	$ 31,920
Liabilities				
Accounts Payable	$ 341	$ —	$ 294	$ 47
Program payable	30,569	2,466	1,162	31,873
Total liabilities	$ 30,910	$ 2,466	$ 1,456	$ 31,920

THIS PAGE IS INTENTIONALLY LEFT BLANK

SECTION 3 - STATISTICAL SECTION

FINANCIAL TRENDS:

These schedules contain trend information to help the reader understand how VTA's financial performance and financial condition changed over time:

Table 1 - Changes in Net Position

Table 2 - Net Position by Components

Table 3 - Fund Balances and Changes in Fund Balances, Governmental Funds

Table 4 - Current Ratio

Table 5 - Operating Revenues and Operating Expenses

Table 6 - Non-operating Assistance and Interest Income

Table 7 - Targeted Operating Reserves

REVENUE CAPACITY:

These schedules contain information to help the reader assess VTA's most significant local revenue source, the sales tax:

Table 8 - Revenue Base and Revenue Rates

Table 9 - Overlapping Revenue

Table 10 - Principal Sales Tax Payers in Santa Clara County by Segments

DEBT CAPACITY:

These schedules present information to help the reader assess the affordability of VTA's current levels of outstanding debt and VTA's ability to issue additional debt in the future:

Table 11 - Total Outstanding Debt by Type

Table 12 - Ratios of Outstanding Debt

Table 13 - Direct and Overlapping Debt and Debt Limitation

Table 14 - Pledged Revenue Coverage - 1976 Half-Cent Sales Tax Revenue Bonds

Table 15 - Pledged Revenue Coverage - 2000 Measure A Half-Cent Sales Tax Revenue Bonds

Table 16 - Projected Pledged Revenue Coverage

DEMOGRAPHIC AND ECONOMIC INFORMATION:

These schedules offer demographic and economic indicators to help the reader understand the environment within which VTA's financial activities take place:

Table 17 - Population Trends

Table 18 - Income and Unemployment Rates

Table 19 - Wage and Salary Employment by Industry (Annual Average)

Table 20 - Silicon Valley Major Employers

OPERATING INFORMATION:

Table 21 - Operating Indicators

Table 22 - Farebox Recovery Ratio

Table 23 - Revenue Miles

Table 24 - Passenger Miles

Table 25 - Selected Statistical Data

Table 26 - System Data

Table 27 - Employees

Table 28 - Capital Assets

Source: Unless otherwise indicated, the source of information presented in the Statistical Section is VTA's current or prior years' CAFR.

THIS PAGE IS INTENTIONALLY LEFT BLANK

Table 1
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Financial Trend - Changes in Net Position
Ten Years Ended June 30, 2017
(In thousands)

	Fiscal Years									
	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
EXPENSES										
Business-type activities:										
Transit										
Operations and Operating Projects	$ 344,469	$ 343,973	$ 338,771	$ 343,302	$ 364,723	$ 375,086	$ 392,042	$ 407,618	$ 431,212	$ 471,655
Caltrain Subsidy	15,416	15,878	15,878	14,135	10,207	13,700	7,291	8,390	8,414	8,390
Capital Expenses on behalf of, and contribution to other agencies	19,331	42,626	81,714	66,782	80,083	138,794	93,952	61,445	53,094	86,084
Altamont Corridor Express Subsidy	2,621	2,707	2,707	2,706	2,707	2,939	3,019	3,097	3,166	3,270
Interest Expense	12,214	11,651	20,583	23,536	31,307	31,655	27,088	15,204	11,330	15,254
Other Expenses	3,280	5,446	7,268	15,434	8,059	5,865	11,096	5,734	4,177	2,928
Benefit Payments	10,513	9,826	7,693	8,410	11,419	10,689	17,947	8,881	12,999	12,654
Total Business-Type Activities Expenses	407,844	432,107	474,614	474,305	508,505	578,728	552,435	510,369	524,392	600,235
Governmental activities:										
Congestion Management										
Operations and operating projects	6,450	8,840	7,164	7,196	6,692	7,622	7,544	8,071	8,228	8,868
Contribution to agencies	—	—	—	867	37	25	68	168	210	83
Capital projects for the benefit of other agencies	43,798	26,398	19,402	21,091	19,052	34,245	36,184	20,127	11,189	9,886
Total governmental activities expenses	50,248	35,238	26,566	29,154	25,781	41,892	43,796	28,366	19,627	18,837
Total primary government expenses	$ 458,092	$ 467,345	$ 501,180	$ 503,459	$ 534,286	$ 620,620	$ 596,231	$ 538,735	$ 544,019	$ 619,072
PROGRAM REVENUES										
Business-type activities:										
Charges for services	$ 38,053	$ 38,439	$ 38,830	$ 40,014	$ 40,070	$ 41,821	$ 42,420	$ 43,054	$ 42,316	$ 40,194
Operating grants	126,505	114,937	126,934	137,804	140,419	142,577	148,669	134,796	126,988	123,944 [1]
Capital grants	153,443	82,175	92,594	148,303	115,584	272,950	193,899	277,421	271,057	188,856
Total business-type activities program revenues	318,001	235,551	258,358	326,121	296,073	457,348	384,988	455,271	440,361	352,994
Governmental activities:										
Charges for services	2,475	2,618	2,606	2,520	2,503	2,520	2,519	2,526	2,529	2,549
Operating grants	2,193	1,496	1,854	2,127	2,110	1,775	2,424	2,096	16,585	13,948 [2]
Capital grants	45,109	29,479	22,314	24,051	21,530	37,612	38,989	22,964	—	—
Total governmental activities program revenues	49,777	33,593	26,774	28,698	26,143	41,907	43,932	27,586	19,114	16,497
Total primary government revenues	$ 367,778	$ 269,144	$ 285,132	$ 354,819	$ 322,216	$ 499,255	$ 428,920	$ 482,857	$ 459,475	$ 369,491
NET PROGRAM (EXPENSES)/REVENUES										
Business-type activities	$ (89,843)	$(196,556)	$(216,256)	$(148,184)	$(212,432)	$(121,380)	$(167,447)	$ (55,098)	$ (84,031)	$(247,241)
Governmental activities	(471)	(1,645)	208	(456)	362	15	136	(780)	(513)	(2,340)
Total primary government net program (expenses)/revenues	$ (90,314)	$(198,201)	$(216,048)	$(148,640)	$(212,070)	$(121,365)	$(167,311)	$ (55,878)	$ (84,544)	$(249,581)

[1]Starting with FY 2016, BABs subsidy was reported under Program Revenues-Operating Grants.
[2]Capital Grants under governmental activities were reported under Operating Grants starting with FY 2016. These grants will operate assets that will be owned by other entities.

Table 1
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Financial Trend - Changes in Net Position *(continued)*
Ten Years Ended June 30, 2017
(In thousands)

	Fiscal Years									
	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
GENERAL REVENUES AND OTHER CHANGES IN NET POSITION										
Business-type activities:										
Sales tax revenue	$ 323,575	$ 274,903	$ 279,342	$ 306,456	$ 332,847	$ 395,163	$ 417,486	$ 446,374	$ 460,316	$ 467,701
Investment income	22,511	16,862	7,352	11,039	19,289	316	9,861	9,420	19,102	4,459
Proceed from sale of land	—	—	—	642	6,300	4,052	—	16,732	—	—
Federal subsidy for Build America Bonds	—	—	—	5,848	9,399	9,126	8,755	8,715	—	—
Other income	3,523	3,385	3,241	6,865	6,007	3,254	7,325	4,261	3,335	5,640
Special items:										
Transfer to OPEB Trust	(101,738)	—	—	—	—	—	—	—	—	—
Change in provisions for workers' compensation claims	4,662	3,500	—	5,716	—	—	—	—	—	—
Total business-type activities	252,533	298,650	289,935	336,566	373,842	411,911	443,427	485,502	482,753	477,800
Governmental activities:										
Investment income	349	41	12	10	31	8	23	9	16	7
Other income	151	161	15	1,106	104	115	279	250	155	124
Total governmental activities	500	202	27	1,116	135	123	302	259	171	131
TOTAL PRIMARY GOVERNMENT	253,033	298,852	289,962	337,682	373,977	412,034	443,729	485,761	482,924	477,931
CHANGE IN NET POSITION										
Business-type activities	162,690	102,094	73,679	188,382	161,410	290,531	275,980	430,404	398,722	230,559
Governmental activities	29	(1,443)	235	660	497	138	438	(521)	(342)	(2,209)
Total primary government	$ 162,719	$ 100,651	$ 73,914	$ 189,042	$ 161,907	$ 290,669	$ 276,418	$ 429,883	$ 398,380	$ 228,350

Table 2
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Financial Trends - Net Position by Component
Ten Years Ended June 30, 2017
(In thousands)

	Fiscal Years									
	2008	2009 [1]	2010	2011	2012	2013	2014	2015	2016	2017
BUSINESS-TYPE ACTIVITIES										
Net Investment in Capital Assets	$2,056,769	$2,180,768	$2,195,790	$2,220,118	$2,351,676	$2,481,805	$2,613,290	$2,950,181	$3,394,540	$3,715,082
Restricted	141,764	362,079	449,096	572,054	548,367	649,724	759,608	822,834	789,000	740,398
Unrestricted	438,848	196,628	168,268	209,364	262,903	321,948	356,559	197,852	186,049	144,668
Total Business-Type Activities Net Position	2,637,381	2,739,475	2,813,154	3,001,536	3,162,946	3,453,477	3,729,457	3,970,867	4,369,589	4,600,148
GOVERNMENTAL ACTIVITIES										
Restricted	1,495	52	287	947	1,444	1,582	2,020	1,499	1,157	611
Unrestricted	—	—	—	—	—	—	—	—	—	(1,663)
Total Governmental-Type Activities Fund Balance	1,495	52	287	947	1,444	1,582	2,020	1,499	1,157	(1,052)
PRIMARY GOVERNMENT										
Net investment in Capital Assets	2,056,769	2,180,768	2,195,790	2,220,118	2,351,676	2,481,805	2,613,290	2,950,181	3,394,540	3,715,082
Restricted	143,259	362,131	449,383	573,001	549,811	651,306	761,628	824,333	790,157	741,009
Unrestricted	438,848	196,628	168,268	209,364	262,903	321,948	356,559	197,852	186,049	143,005
Total Primary Governmental Net Position	$2,638,876	$2,739,527	$2,813,441	$3,002,483	$3,164,390	$3,455,059	$3,731,477	$3,972,366	$4,370,746	$4,599,096

[1] Business-type amount reclassified to match 2010 presentation

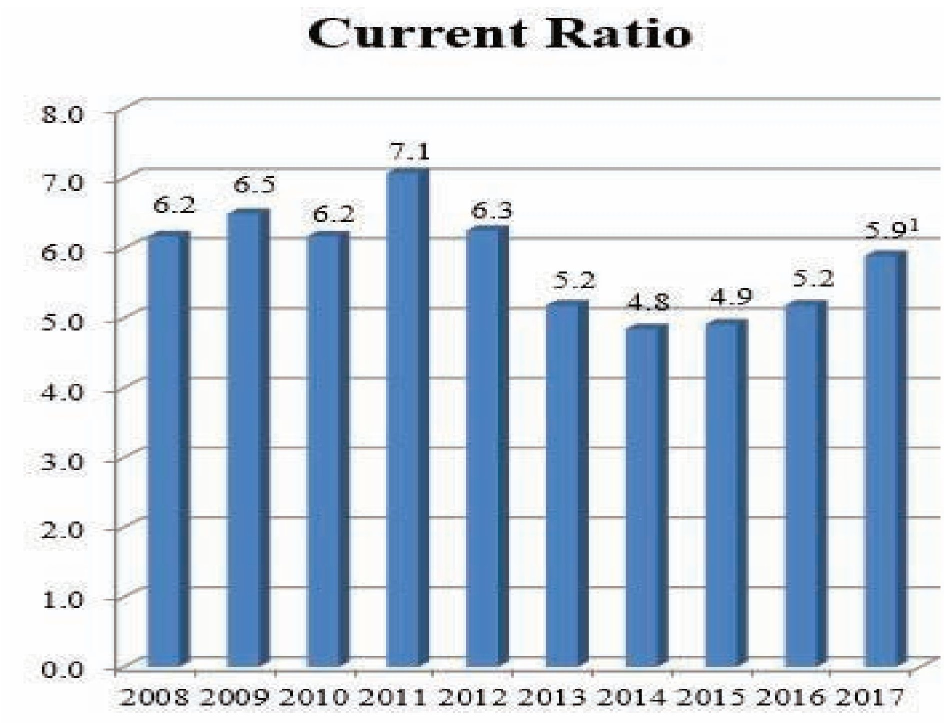
Table 3
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Financial Trends – Fund Balances and Changes in Fund Balances, Governmental Funds
Ten Years Ended June 30, 2017
(Modified Accrual Basis of Accounting)
(In thousands)

	Fiscal Years									
	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
REVENUES										
Member Agency Assessment Revenue	$ 2,410	$ 2,495	$ 2,495	$ 2,407	$ 2,407	$ 2,407	$ 2,407	$ 2,407	$ 2,407	$ 2,407
Federal Technical Studies Operating Assistance Grants	1,102	915	1,235	1,398	1,367	1,014	1,728	1,371	1,887	1,219
Administrative Fees	65	123	111	113	96	113	112	119	122	142
Federal, State and Local Grant Revenues	46,200	30,060	22,933	24,780	22,273	38,373	39,685	23,689	14,698 [1]	12,729
Other Revenues	151	161	15	1,106	104	115	279	250	155	124
Investment Earnings	349	41	12	10	31	8	23	9	16	7
Total Revenues	50,277	33,795	26,801	29,814	26,278	42,030	44,234	27,845	19,285	16,628
EXPENDITURES										
Current:										
Congestion Management:										
VTA Labor and Overhead Costs	5,680	8,006	6,606	6,814	6,245	7,044	7,160	6,826	7,031	6,128
Professional Services	770	793	541	374	436	563	359	1,225	1,176	2,721
Program Expenditures	—	41	17	8	11	15	25	19	21	19
Miscellaneous	—	—	—	—	—	—	—	1	—	—
Contribution to agencies	—	—	—	867	37	25	68	168	210	83
Capital Improvement Projects	43,798	26,398	19,402	21,091	19,052	34,245	36,184	20,127	11,189	9,886
Total Expenditures	50,248	35,238	26,566	29,154	25,781	41,892	43,796	28,366	19,627	18,837
Excess (Deficiency) of Revenues Over Expenditures	29	(1,443)	235	660	497	138	438	(521)	(342)	(2,209)
OTHER FINANCING SOURCES (USES):										
Net Change in Fund Balances	$ 29	$ (1,443)	$ 235	$ 660	$ 497	$ 138	$ 438	$ (521)	$ (342)	$ (2,209)
TOTAL GOVERNMENTAL FUNDS										
Restricted – Special Revenue Funds	1,495	52	287	947	1,444	1,582	2,020	1,499	1,157	611
Unassigned – Special Revenue Funds	—	—	—	—	—	—	—	—	—	(1,663)
Total Governmental Funds	$ 1,495	$ 52	$ 287	$ 947	$ 1,444	$ 1,582	$ 2,020	$ 1,499	$ 1,157	$ (1,052)

[1] Starting with FY 2016, capital grants under governmental funds were reported under Operating Grants as guaranteed assets will be owned by other entities.

Table 4
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Financial Trends – Current Ratio
Enterprise Funds
Ten Years Ended June 30, 2017

The Current Ratio indicates VTA's ability to meet all of its short-term liabilities with liquid assets and is determined by dividing total current assets and restricted assets by all current liabilities and liabilities payable from restricted assets. A Current Ratio of 1 or higher is an indication of financial strength.

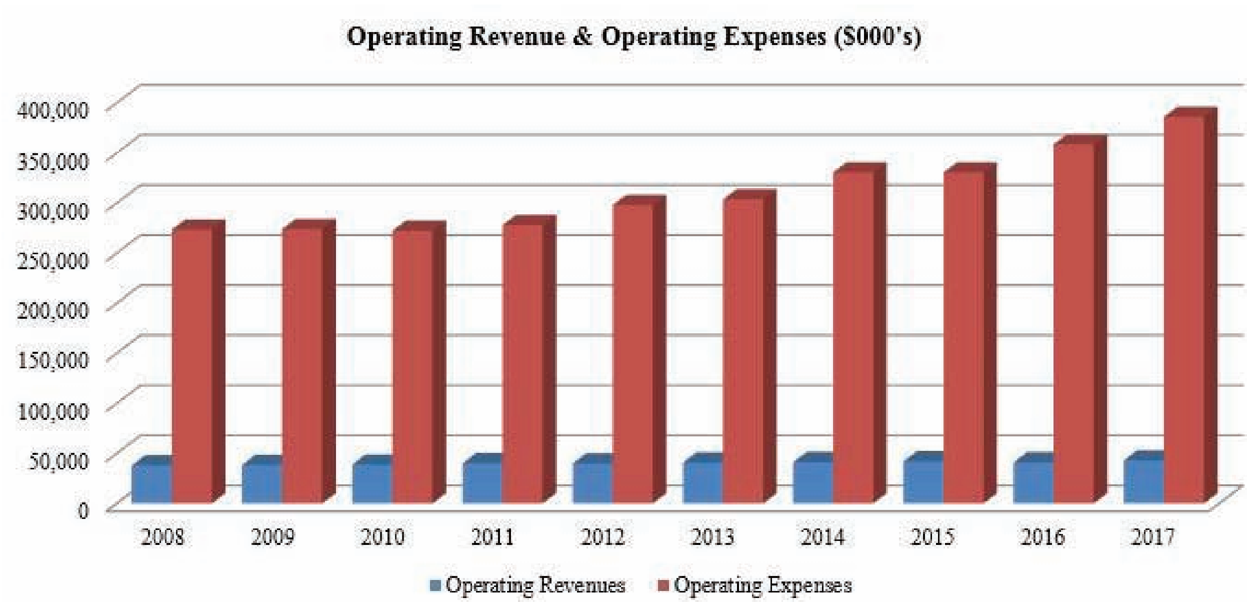


---

[1] Current assets exclude 2010 Measure A bond proceeds of $42.9 million. Although bond proceeds are with fiscal agent and categorized as current, these are restricted for 2000 Measure A projects.

Table 5
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Financial Trends - Operating Revenues & Operating Expenses
VTA Transit
Ten Years Ended June 30, 2017

The chart below shows a comparison of operating revenue to expenses. Operating expenses are exclusive of purchased transportation and depreciation to more accurately reflect operating expenses related to direct operating service.

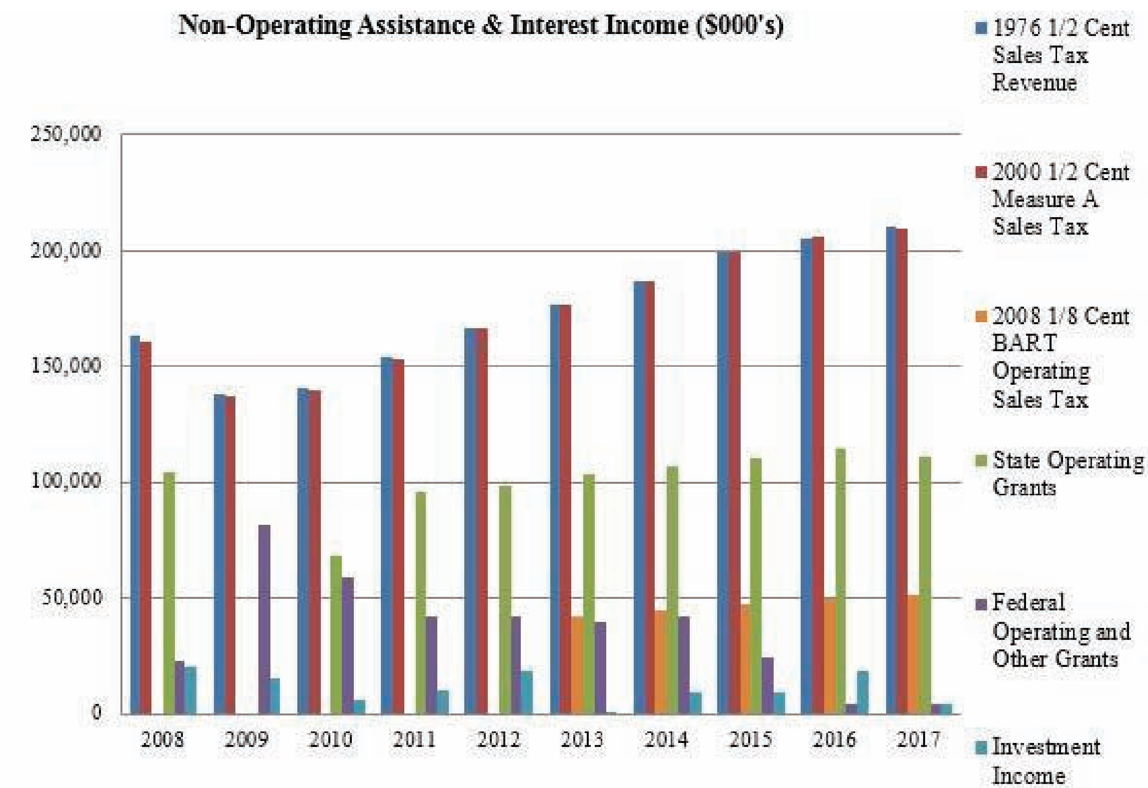


Operating Revenues and Operating Expenses
(In thousands)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Operating Revenues	$ 38,053	$ 38,439	$ 38,830	$ 40,014	$ 39,852	$ 40,772	$ 41,198	$ 41,897	$ 41,042	$ 38,261
Operating Expenses	273,495	273,979	272,196	277,984	297,988	303,622	330,614	330,466	358,538	385,528

Table 6
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Financial Trends - Non-Operating Assistance and Interest Income
Enterprise Funds
Ten Years Ended June 30, 2017
(In thousands)

The following chart illustrates trends in selected non-operating revenue sources. Sales tax revenue is the largest non-operating revenue source shown in the following graph. This is the fifth year of collection for 2008 Measure B Eighth-Cent BART Operating Sales Tax revenue and the twelfth year of collection for 2000 Measure A Half-Cent Sales Tax.



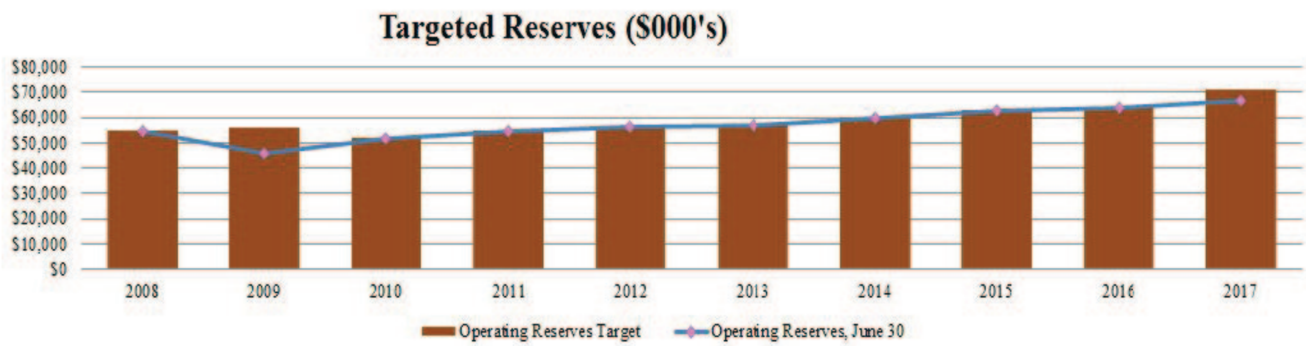
Non-Operating Assistance and Interest Income
(In thousands)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1976 1/2 Cent Sales Tax Revenue	$163,038	$137,642	$140,037	$153,601	$166,567	$176,716	$186,431	$199,221	$205,418	$209,005
2000 1/2 Cent Measure A Sales Tax Revenue [1]	160,537	137,261	139,305	152,855	166,280	176,533	186,302	199,653	205,636	208,672
2008 1/8 Cent BART Operating Sales Tax Revenue [2]	—	—	—	—	—	41,914	44,753	47,500	49,262	50,024
State & Local Operating Grants	104,080	—	67,834	95,579	98,133	103,213	106,439	110,243	114,135	110,959
Federal Operating Grants	22,425	81,488	59,100	42,225	42,286	39,364	42,230	24,553	4,105	4,232
Investment Income	20,370	15,341	5,764	10,067	18,594	292	9,555	9,118	18,493	4,356

[1] The collection of VTA's 2000 Measure A Sales Tax started on April 1, 2006.
[2] The collection of 1/8 cent sales tax for BART Operating started on July 1, 2012.

Table 7
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Financial Trends - Targeted Operating Reserves
VTA Transit Fund
Ten Years Ended June 30, 2017

The policy adopted by the VTA Board established an operating reserve goal of 15% of final operating budget. To calculate the actual reserve at fiscal year-end, total current assets are reduced by total current liabilities (except current portion of long-term debt). Current Net Position is then reduced by inventory and other current assets to reach a current operating reserve total.



	2008	2009	2010 [1]	2011 [2]	2012 [3]	2013	2014	2015	2016	2017
					(In thousands)					
Current Assets, excluding restricted asset	$120,374	$103,697	$104,933	$108,396	$106,085	$101,726	$110,906	$124,284	$130,096	$143,377
Total Current Liabilities, excluding restricted liability	(44,953)	(33,716)	(30,950)	(33,484)	(29,547)	(24,329)	(29,790)	(36,878)	(32,334)	(40,030)
Current Net Position	$ 75,421	$ 69,981	$ 73,983	$ 74,912	$ 76,538	$ 77,397	$ 81,116	$ 87,406	$ 97,762	$103,347
Less: Inventory & Other Current Assets[4]	(20,791)	(23,936)	(22,126)	(20,317)	(20,270)	(20,373)	(21,289)	(24,469)	(33,615)	(36,688)
Operating Reserves, June 30	$ 54,630	$ 46,045	$ 51,857	$ 54,595	$ 56,268	$ 57,024	$ 59,827	$ 62,937	$ 64,147	$ 66,659
Operating Reserves Target (15% of Budgeted Expenses)	$ 54,630	$ 55,760	$ 51,857	$ 54,595	$ 56,268	$ 57,024	$ 59,827	$ 62,937	$ 64,147	$ 71,322

[1] In FY 2010, the operating reserve target is 15% of final operating budget at June 30. In Prior years, it was based on 15% of adopted operating budget.
[2] Starting FY 2011, the operating reserve target is based on 15% of subsequent year's operating budget.
[3] Starting FY 2012, the current assets balance includes a transfer to the following reserve accounts: local share of capital projects, debt reduction, and sales tax stabilization.
[4] Starting FY2008, this includes inventory and other current assets; prior years included inventory only.

Table 8
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Revenue Capacity – Revenue Base and Revenue Rates
Ten Year Ended June 30, 2017

	Fiscal Years									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Passenger Fares[1] (In thousands)	$ 35,830	$ 36,184	$ 36,857	$ 38,106	$ 37,744	$ 38,331	$ 38,372	$ 39,108	$ 37,663	$ 34,783
Percentage Increase/(Decrease) from Prior Year	1.7 %	1.0 %	1.9 %	3.4 %	(0.9)%	1.6%	0.1%	1.9%	(3.7)%	(7.6)%
Revenue Base										
Number of Passengers[2]	43,555,049	45,264,434	41,733,376	41,409,630	42,426,797	43,174,646	43,428,492	43,944,096	42,918,436	38,189,131
Percentage Increase/(Decrease) from Prior Year	3.7 %	3.9 %	(7.8)%	(0.8)%	2.5 %	1.8%	0.6%	1.2%	(2.3)%	(11.0)%
Fare Structure										
Adult Local Fare	$ 1.75	$ 1.75	$ 2.00	$ 2.00	$ 2.00	$ 2.00	$ 2.00	$ 2.00	$ 2.00	$ 2.00
Youth Local Fare	1.50	1.50	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
Senior/Disabled Local Fare	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Sales Tax Revenues (In thousands)										
1976 1/2Cent Sales Tax[3]	$ 163,038	$ 137,642	$ 140,037	$ 153,601	$ 166,567	$ 176,716	$ 186,431	$ 199,221	$ 205,418	$ 209,005
2000 Measure A 1/2Cent Sales Tax[4]	160,537	137,261	139,305	152,855	166,280	176,533	186,302	199,653	205,636	208,672
2008 1/8 Cent BART Operating Sales Tax[5]	—	—	—	—	—	41,914	44,753	47,500	49,262	50,024
Total Sales Tax Revenue Receipts[6]	$ 323,575	$ 274,903	$ 279,342	$ 306,456	$ 332,847	$ 395,163	$ 417,486	$ 446,374	$ 460,316	$ 467,701
Percentage Increase/(Decrease) from Prior Year										
1976 1/2 Cent Sales Tax	(0.4)%	(15.6)%	1.7 %	9.7 %	8.4 %	6.1%	5.5%	6.9%	3.1 %	1.7 %
2000 Measure A 1/2 Cent Sales Tax	(0.5)%	(14.5)%	1.5 %	9.7 %	8.8 %	6.2%	5.5%	7.2%	3.0 %	1.5 %
2008 1/8 Cent BART Operating Sales Tax	N/A	N/A	N/A	N/A	N/A	N/A	6.8%	6.1%	3.7 %	1.5 %

[1] Includes fares for directly operated transit services such as bus, light rail and shuttle services; FY 2017 includes paratransit.

[2] Represents system ridership total boarding. Source: VTA Operations Division.

[3] The 1976 half-cent sales tax was approved by County voters in 1976 to fund VTA's transit operations and transportation improvement.

[4] The 2000 Measure A half-cent sales tax was approved by County voters in 2000 to fund specific transportation improvement projects. The collection of this half-cent tax measure started in April 2006.

[5] The 2008 1/8 cent Sales Tax was approved by County voters in 2008 to fund BART operating activities. The collection of this 1/8 cent tax measure started in July 2012.

[6] VTA receives sales tax based on the total taxable sales activity in the County. Although initial collection of 2016 Measure B half-cent sales tax occurred in April 2017, VTA recognized the receipt as a liability due to the legal challenge that the Measure is currently undergoing.

Table 9
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Revenue Capacity – Overlapping Revenue
Sales Tax Rates
Ten Years Ended June 30, 2017

Fiscal Year	State	City	VTA[1]	Total
2008	6.25%	1.00%	1.00%	8.25%
2009[2]	7.25%	1.00%	1.00%	9.25%
2010	7.25%	1.00%	1.00%	9.25%
2011	7.25%	1.00%	1.00%	9.25%
2012[3]	6.25%	1.00%	1.00%	8.25%
2013[4]	6.63%	1.00%	1.12%	8.75%
2014	6.63%	1.00%	1.12%	8.75%
2015	6.63%	1.00%	1.12%	8.75%
2016[5]	6.38%	1.25%	1.12%	8.75%
2017[6]	6.12%	1.25%	1.63%	9.00%

[1] VTA has four specific sales tax measures approved by the voters. The 1976 half-cent sales tax measure was approved by voters in 1976 and does not have a sunset clause. The 2000 Measure A half-cent sales tax was approved in the 2000 General Election and became effective on April 1, 2006. This 30-year sales tax measure will sunset on March 31, 2036. The 2008 1/8-cent sales tax was approved by County voters in 2008 to fund BART Operating and maintenance. The collection of this 1/8-cent tax measure started in July 2012. The 2016 Measure B sales tax was approved by voters in 2016. The collection of this half-cent tax measure started in April, 2017.

[2] California state legislature approved a 1% sales tax increase effective July 1, 2009.

[3] The 1% sales tax increase approved by the California state legislature in 2009 expired on July 1, 2011.

[4] There was a 0.125% increase for Bart Operation and Maintenance tax effective July 1, 2012. Due to the approval of Proposition 30, the statewide base sales and use tax rate increased by 0.25% effective January 1, 2013. The higher tax rate will apply for four years- January 1, 2013 through December 31, 2016. Effective 4/1/2013, there was a 0.125% increase for Retail Transactions and Use tax.

[5] Effective January 1, 2016, statewide base sales and use tax rate decreased by 0.25% to 6.38%, local sales and use tax under Bradley-Burns Uniform local Sales and Use Tax law increase to 1.25%

[6] Beginning April 1, 2017, Santa Clara Transportation Solution Tax also known as 2016 Measure B Sales tax became effective. Tax collection began April 2017 and VTA received the first advance payment in June 2017. As of June 30, 2017, the Measure is facing legal challenge.

Source: California Board of Equalization

Table 10
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Revenue Capacity - Principal Sales Tax Payers in Santa Clara County by Segments
(In millions)

	Fiscal Year 2016[1]			Fiscal Year 2007		
Principal Revenue Payers	**Rank**	**Percentage of Taxable Sales**	**Taxable Sales Amount**	**Rank**	**Percentage of Taxable Sales**	**Amount**
Total all Other Outlets[2]	1	37.4%	$ 15,422	1	37.9%	$ 12,566
Food Services & Drinking Places	2	10.9%	4,495	4	8.3%	2,737
Motor Vehicle & Parts Dealers	3	10.3%	4,245	2	10.4%	3,459
Miscellaneous Store Retailers	4	9.9%	4,041	3	10.2%	3,436
General Merchandise Stores	5	6.1%	2,524	5	8.2%	2,703
Clothing & Clothing Accessories	6	5.9%	2,429	8	4.7%	1,546
Bldg. Matrl. & Garden Equip. & Suppl.	7	5.8%	2,402	7	5.6%	1,831
Gasoline Stations	8	5.0%	2,070	6	6.6%	2,189
Food & Beverage Stores	9	3.5%	1,448	9	3.1%	1,021
Electronics & Appliance Stores	10	2.0%	824	13	0.8%	266
Furniture & Home Furnishing Stores	11	1.2%	490	10	2.0%	659
Health & Personal Care Stores	12	1.0%	411	12	1.1%	357
Sport Goods, Hobby, Book & Music	13	1.0%	402	11	1.1%	363
Total		100.0%	$ 41,203		100.0%	$ 33,133

[1] 2017 data is not available at the time of printing
[2] This category is made up of diverse manufacturers and wholesalers, construction contractors, petroleum producer, and a multitude of professional services.

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

Table 11
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Debt Capacity – Total Outstanding Debt by Type
Ten Years Ended June 30, 2017
(In thousands)

Fiscal Year	Series 1985 A Equipment Trust Certificates[1]	1976 Sales Tax Revenue Bonds	2000 Sales Tax Revenue Bonds	Total Outstanding Debt
2008	$ 26,500	$ 279,600	$ 356,825	$ 662,925
2009	—	270,710	355,970	626,680
2010	—	246,298	369,775	616,073
2011	—	237,817	1,036,892	1,274,709
2012	—	219,399	1,029,105	1,248,504
2013	—	209,007	1,021,127	1,230,134
2014	—	210,536	983,255	1,193,791
2015	—	199,054	961,711	1,160,765
2016	—	184,116	932,049	1,116,165
2017	—	168,877	901,545	1,070,422

[1] $26.5 million redeemed in FY2009.

Table 12
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Debt Capacity - Ratios of Outstanding Debt
Ten Years Ended June 30, 2017

Fiscal Year	Total Outstanding Debt (In thousands)	Total County Taxable Sales[1] (In thousands)	Total Debt as a % of Taxable Sales	Personal Income[2] (In thousands)	Total Debt as a % of Personal Income	Santa Clara County Population (In thousands)	Total Debt per Capita
2008	$ 662,925	$ 33,476,000	1.98%	$ 104,331,553	0.64%	1,837	$ 361
2009	626,680	29,009,000	2.16%	96,315,176	0.63%	1,858	337
2010	616,073	28,720,000	2.15%	103,636,350	0.59%	1,880	328
2011	1,274,709	32,238,000	3.95%	111,880,131	1.14%	1,782	715
2012	1,248,504	34,698,000	3.60%	122,259,021	1.02%	1,816	688
2013	1,230,134	37,013,000	3.32%	130,624,491	1.08%	1,842	668
2014	1,193,791	38,318,000	3.12%	141,873,705	0.84%	1,894	630
2015	1,160,765	40,617,475	2.86%	158,728,715	0.73%	1,918	605
2016	1,116,165	41,202,462	2.71%	160,316,002	0.70%	1,923	580
2017	1,070,422	41,614,487	2.57%	161,919,162	0.66%	1,938	552

[1] Taxable sales information is available through FY 2015. FY 2016 and FY 2017 assume a 1% increase over the previous year’s number.
[2] Actual personal income is available through FY 2015. FY 2016 and FY 2017 assume a 1% increase over the prior year's number.

The total outstanding debt is pledged by VTA’s sales tax revenues which were approved by Santa Clara County voters as follows: The 1976 ½-cent Sales Tax Measure and the 2000 Measure A ½-cent Sales Tax. Collection of the 2000 Measure A ½-cent Sales Tax began in April 2006.

Table 13
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Debt Capacity – Direct and Overlapping Debt and Debt Limitation

Santa Clara Valley Transportation Authority does not have overlapping debt with other governments.

Santa Clara Valley Transportation Authority does not have a legal debt limit.

Table 14
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Debt Capacity – Pledged Revenue Coverage – 1976 Half-Cent Sales Tax Revenue Bonds
Ten Years Ended June 30, 2017
(In thousands)

	Available Revenue	Annual Debt Service[1]			
Fiscal Year	Sales Tax Revenue	Principal	Interest[2]	Total	Coverage
2008	$ 163,038	$ 11,315	$ 12,214	$ 23,529	6.9
2009	137,642	8,890	11,651	20,541	6.7
2010	140,037	9,180 [3]	7,025	16,205	8.6
2011	152,050	9,370	6,748	16,118	9.4
2012	166,567	10,215	8,153	18,368	9.1
2013	176,716	10,400	9,194	19,594	9
2014	186,431	10,435	9,766	20,201	9.2
2015	199,221	10,705	7,965	18,670	10.7
2016	205,418	14,310	7,485	21,795	9.4
2017	209,005	24,735	7,325	32,060	6.5

[1] This schedule includes Junior and Senior Lien debts.
[2] Interest is exclusive of interest earned from bond proceeds.
[3] This does not include regular principal of $2.9 million due for 1985 Equipment Trust Certificates as this debt was redeemed in FY 2009.

Table 15
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Debt Capacity – Pledged Revenue Coverage – 2000 Measure A Half-Cent Sales Tax Revenue Bonds
Ten Years Ended June 30, 2017
(In thousands)

	Available Revenue	Annual Debt Service			
Fiscal Year	**Sales Tax Revenue**	**Principal**	**Interest[1]**	**Total**	**Coverage[2]**
2008	$ 160,537	$ —	$ 14,943	$ 14,943	10.7
2009	137,261	855	12,321	13,176	10.4
2010	139,305	—	14,156	14,156	9.8
2011	151,518	2,430	33,490	35,920	4.2
2012	166,280	2,525	44,337	46,862	3.5
2013	176,533	2,625	44,262	46,887	3.8
2014	186,302	24,595	45,577	70,172	2.7
2015	199,653	25,775	45,086	70,861	2.8
2016	205,636	26,965	44,118	71,083	2.9
2017	208,672	28,160	43,783	71,943	2.9

[1] This is exclusive of interest earned from bond proceeds.
[2] Bond indenture requires VTA to maintain coverage ratio of at least 1.3.

Table 16
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Debt Capacity - Projected Pledged Revenue Coverage
(Proforma and Unaudited)

The table below presents a five-year projection of debt service coverage based on estimates of the 1976 Sales Tax Revenues for the five years ending June 30, 2018 through 2022.

1976 Sales Tax Revenues and Senior Lien Debt Service Coverage
Fiscal Years Ending June 30, 2018 – 2022 (Proforma and Unaudited)
($ In thousands)

Fiscal Year Ending June 30	Projected Sales Tax Revenue	Percent Increase[1*]	Aggregate Debt Service[2]	Projected Coverage[3]
2018	$ 221,948	3.53%	$ 21,079	10.53
2019	229,658	3.47%	21,075	10.90
2020	237,671	3.49%	21,075	11.28
2021	245,944	3.48%	21,068	11.67
2022	234,690	2.06%	21,079	11.13

The table below presents a five-year projection of debt service coverage for the Measure A Bonds, based on estimates of the 2000 Measure A Sales Tax Revenues for the five years ending June 30, 2018 through 2022.

2000 Measure A Sales Tax Revenues and Debt Service Coverage
Fiscal Years Ending June 30, 2018 – 2022 (Proforma and Unaudited)
($ In thousands)

Fiscal Year Ending June 30	Projected Sales Tax Revenue	Percent Increase[1*]	Aggregate Debt Service[4]	Projected Coverage[3]
2018	$ 221,948	3.53%	$ 73,395	3.02
2019	229,658	3.47%	73,057	3.14
2020	237,671	3.49%	73,034	3.25
2021	245,944	3.48%	73,036	3.37
2022	234,771	2.15%	72,759	3.23

[1] Source: Growth rates provided by outside economists.
[2] Includes actual debt service on the 2011 and 2017 Bonds. Debt Service on the 2008 Bonds is calculated based on the rate established pursuant to the 2008 Swap Agreement, 3.145%.
[3] Does not include any additional parity debt.
[4] Includes actual debt service on the 2010 and 2015 Bonds. Debt Service on the 2008 Bonds is calculated based on the rate established pursuant to the 2008 Swap Agreement, 3.765%.
*No assurance is given that actual results will meet the forecasts of VTA in any way.

TABLE 17
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Demographic and Economic Data - Population Trends

According to population estimates provided by the State of California, the number of residents in Santa Clara County is increasing gradually on a yearly basis. The County's population increased by approximately 8.79 % in 2017 Census compared to the 2010 Census.

A historical summary of population in the County and its incorporated cities is provided in the following table:

County of Santa Clara Population

	1960	1970	1980	1990	2000	2010	2017
Campbell	11,863	24,731	26,843	36,048	38,138	39,349	42,726
Cupertino	3,664	18,216	34,297	40,263	50,546	58,302	58,917
Gilroy	7,348	12,665	21,641	31,487	41,464	48,821	55,936
Los Altos	19,696	24,872	25,769	26,303	27,693	28,976	31,402
Los Altos Hills	3,412	6,862	7,421	7,514	7,902	7,922	8,634
Los Gatos	9,036	23,466	26,906	27,357	28,592	29,413	31,314
Milpitas	6,572	27,149	37,820	50,686	62,698	66,790	75,410
Monte Sereno	1,506	3,074	3,434	3,287	3,483	3,341	3,501
Morgan Hill	3,151	6,485	17,060	23,928	33,556	37,882	44,145
Mountain View	30,889	54,206	58,655	67,460	70,708	74,066	79,278
Palo Alto	52,475	55,999	55,225	55,900	58,598	64,403	68,691
San Jose	204,196	445,779	629,400	782,248	894,943	945,942	1,046,079
Santa Clara	58,880	87,717	87,700	93,613	102,361	116,468	123,983
Saratoga	14,861	27,199	29,261	28,061	29,843	29,926	30,569
Sunnyvale	51,898	95,408	106,618	117,229	131,760	140,081	149,831
Unincorporated	162,056	152,181	127,021	106,193	100,300	89,960	87,764
County Total[1]	641,503	1,066,009	1,295,071	1,497,577	1,682,585	1,781,642	1,938,180
California	15,717,204	18,136,045	23,668,145	29,760,021	33,871,648	37,253,956	39,524,000

[1]Totals may not be precise due to independent rounding.

Source: U.S. Census; State of California, Department of Finance, Demographic Research Unit.

Table 18
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Demographic and Economic Data - Income and Unemployment Rates
Ten Years Ending June 30, 2017

Year	Santa Clara County Personal Income (In thousands)[1&2]	Santa Clara County Per Capita Personal Income [1&2]	Unemployment Rate[3]
2008	$ 104,331,553	$ 59,227	5.1%
2009	96,315,176	55,781	11.8%
2010	103,636,350	58,018	11.3%
2011	111,880,131	61,833	10.3%
2012	122,259,021	66,535	8.7%
2013	130,624,491	70,151	6.8%
2014	141,873,705	74,883	5.2%
2015	158,728,715	82,756	3.9%
2016	160,316,002	83,584	4.0%
2017	161,919,162	84,420	3.5%

[1]Bureau of Economic Analysis U.S. Department of Commerce.
[2]Actual data is available through 2015. Years 2016 and 2017 data are preliminary and assume a 1% increase over prior year.
[3]California Employment Development Department. Not seasonally adjusted.

Table 19
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Demographic and Economic Data - Wage and Salary Employment by Industry (Annual Average)
Ten Years Ending June 30, 2016
(In thousands)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Civilian Labor Force [1] (In thousands)	855.2	876.8	879.8	871.6	894.8	910.9	924.0	993.7	1,018.4	1,026.5
Civilian Employment	814.7	825.2	777.5	774.0	804.6	830.6	857.5	942.3	976.1	987.9
Civilian Unemployment	40.5	51.7	102.2	97.6	90.2	80.3	66.5	51.4	42.3	38.6
Civilian Unemployment Rate										
County	4.7%	5.9%	11.6%	11.2%	10.1%	8.8%	7.2%	5.2%	4.2%	3.8%
State of California	5.4%	7%	11.6%	12.2%	12%	10.6%	8.5%	7.4%	6.2%	5.7%
Wage and Salary Employment [2] (In thousands)										
Total Farm Agriculture	3.7	4.6	3.6	3.6	3.4	3.5	5.1	3.6	3.6	3.9
Construction and Mining	49.5	50.1	32.9	32.3	30.9	35.6	37.6	38.6	42.3	47.9
Manufacturing	163.7	166.3	153.5	150.7	154.6	155.1	156.3	156.6	159.4	161.3
Transportation & Public Utilities	13.1	13.8	11.7	11.9	11.8	12.7	13.9	14.7	15.0	14.8
Wholesale Trade	39.1	39.9	36.0	34.7	35.0	34.4	36.2	36.2	36.0	37.4
Retail Trade	86.2	88.2	77.4	75.6	77.5	80.3	84.2	82.3	84.9	85.0
Finance, Insurance & Real Estate	38.2	39.5	31.5	30.8	31.2	33.6	33.9	35.1	35.0	35.2
Services	416.7	424.1	404.4	418.5	432.8	455.4	450.0	469.1	491.4	509.3
Government	90.2	92.7	95.0	93.4	88.6	90.2	93.5	92.4	89.9	91.2
Information	N/A	N/A	N/A	N/A	N/A	N/A	N/A	66.2	74.7	74.5
Total [3]	900.4	919.2	846.0	851.5	865.8	900.8	910.7	994.8	1,032.2	1,060.5

[1] 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 2016. FY 2016 is the most recent available data.
[2] Wage and salary employment is reported by place of work. Data are benchmarked to 2016.
[3] Totals may not be precise due to independent rounding.

Sources: State of California, Employment Development Department
Labor Market Information Division.
www.labormarketinfo.edd.ca.gov, August 19, 2016

Table 20
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Demographic and Economic Data - Silicon Valley Major Employers
Current Year and Nine Years Ago

		FY 2017		FY 2008	
Company Name	Nature of Operations	Number of Employees*	Rank	Number of Employees	Rank
Apple Inc.	Computer electronics	25,000	1		
Alphabet Inc./Google Inc.	Search, advertising and web software	20,000	2		
County of Santa Clara	County government	18,244	3	15,000	3
Stanford University	Research university	16,919	4	16,600	2
Cisco System Inc.	Computer network equipment manufacturer	15,700	5	17,200	1
Kaiser Permanente Northern California	Integrated healthcare delivery plan	12,500	6		
Stanford Health Care	Health System	10,034	7		
Tesla Motors Inc.	Electric Vehicle Designer & Manufacturer	10,000	8		
Facebook Inc.	Online Social Networking Service	9,385	9		
Intel Corp.	Semiconductor	8,500	10	6,720	7
University of California Santa Cruz	Public University	8,463	11	2,879	18
Gilead Sciences Inc.	Biotechnology Company	6,949	12		
Oracle Corp.	Hardware and software,cloud	6,781	13	6,532	9
Sutter Health	Not-for-profit health system in Northern California	6,650	14		
Santa clara Valley Medical Center	Hospital	6,105	15	4,063	15
City of San Jose	City Government	5,500	16	6,187	11
San Mateo County	County Government	5,500	16		
County of Monterey	County Government	5,278	18		
Lockheed Martin Space Systems Co.	Aerospace	5,045	19	8,000	4
U.S. Postal Service	Federal Government Agency provides postal service	4,902	20		
Nvidia Corp.	Graphics and digital media Processors	4,500	21	2,330	25
Stanford Children's Health	specializes in the care of babies, children, adolescents, and expectant mothers	4,115	22		
Vmware Inc.	Cloud computing and Platform virtualization Software and services	3,901	23		
Applied materials Inc.	Semiconductor equipment manufacturer	3,850	24	4,000	16
Yahoo Inc.	Search, advertising and news web software	3,800	25		

Source: Silicon Valley/San Jose Business Journal. July 21, 2017
*Estimate provided by the most recent city and county financial reports because the employer did not provide local employment figure.
Ranking is based on low end of range.

The concentration of Santa Clara County's productivity is derived primarily from numerous high-technology and bioscience companies. Public-sector employers continue to rank high among the largest employers in Silicon Valley. As depicted in the chart above, as an employer, Santa Clara County itself, continues to have the largest public-sector employee base with 18,244 workers.

The table above lists the largest employers in the Silicon Valley, which encompasses the County and surrounding areas.

Table 21
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Operating Information – Operating Indicators
Ten Years Ended June 30, 2017

BUS

Fiscal Year	Total Ridership	Average Weekday Ridership	Scheduled Miles	Scheduled Hours	Vehicle Revenue Miles	Passenger Miles (000's)	Peak Buses	Active Buses	Bus Fleet
2008	33,103,495	106,673	18,784,524	1,389,344	16,013,930	143,102	343	456	535
2009	34,510,273	111,820	18,500,655	1,379,428	15,800,214	152,856	336	424	448
2010	31,983,494	103,575	17,739,605	1,322,661	15,130,519	142,754	333	412	424
2011	31,395,126	102,187	16,990,315	1,269,071	14,376,811	148,225	333	434	494
2012	32,053,755	104,583	17,099,227	1,191,992	14,374,343	169,321	345	426	445
2013	32,432,354	106,161	17,491,993	1,213,571	14,582,508	166,576	358	426	443
2014	32,475,527	105,969	17,835,921	1,367,433	14,817,700	173,539	371	432	443
2015	32,623,599	106,214	18,435,525	1,427,554	15,247,087	174,863	384	495	540
2016	32,195,504	104,009	18,629,140	1,461,553	15,517,448	190,321	388	499	500
2017	29,057,047	94,740	18,882,700	1,480,467	15,712,674	150,429	389	460	460

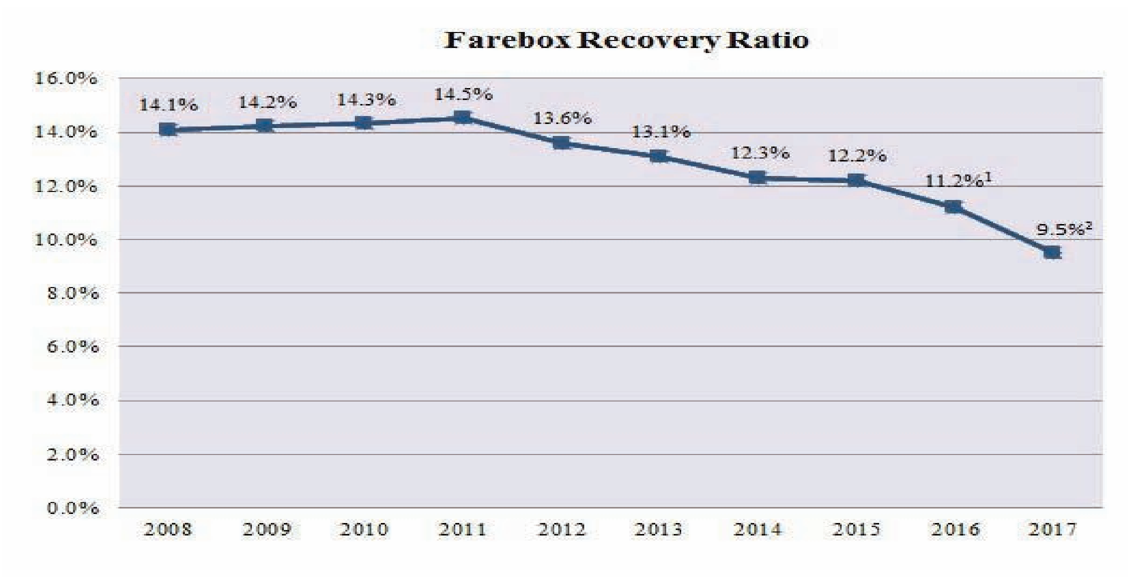
LIGHT RAIL

Fiscal Year	Total Ridership	Average Weekday Ridership	Scheduled Miles	Scheduled Hours	Train Revenue Miles	Passenger Miles (000's)	Peak Cars	Light Rail Fleet
2008	10,451,136	33,043	2,223,823	143,576	2,112,080	54,475	53	100
2009	10,754,161	34,305	2,216,957	143,533	2,105,555	58,709	54	99
2010	9,749,882	31,555	2,182,849	141,095	2,062,832	50,000	46	99
2011	10,014,504	31,871	2,190,140	132,452	2,055,872	54,048	49	99
2012	10,373,042	32,716	2,209,233	137,495	2,065,099	55,337	55	99
2013	10,742,292	34,242	2,199,018	137,134	2,055,418	58,116	57	99
2014	10,952,965	35,102	2,205,492	139,021	2,057,106	61,631	57	99
2015	11,320,497	34,935	2,232,077	152,821	2,081,092	60,717	59	99
2016	10,722,932	33,301	2,235,167	140,000	2,077,964	54,655	59	99
2017	9,132,084	29,262	2,243,377	139,489	2,081,289	47,937	59	99

Source: VTA Operations Division.

Table 22
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Operating Information - Farebox Recovery Ratio
Ten Years Ended June 30, 2017

The farebox recovery ratio is a measure capturing the percentage of system operated expenses recovered by fare revenue. This ratio is calculated by fare revenue generated from directly operated service (motor bus and light rail) divided by expenses for these same services. Operating expenses consist of bus and light rail modal operating expenses reported annually in the National Transit Database.



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Farebox Recovery Ratio	14.1%	14.2%	14.3%	14.5%	13.6%	13.1%	12.3%	12.2%	11.2%	9.5%
Farebox Revenue (In thousands)	$ 35,830	$ 36,184	$ 36,857	$ 38,106	$ 37,744	$ 38,331	$ 38,372	$ 39,108	$ 37,663	$ 33,719
Operating Expenses (In thousands)	254,619	254,286	257,954	263,322	278,532	293,447	311,287	319,978	335,140	354,492

[1]Updated with audited NTD data.
[2]Based on proforma and unaudited NTD data.

Table 23
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Operating Information – Revenue Miles
Ten Years Ended June 30, 2017

The following chart shows total vehicle miles in revenue service.

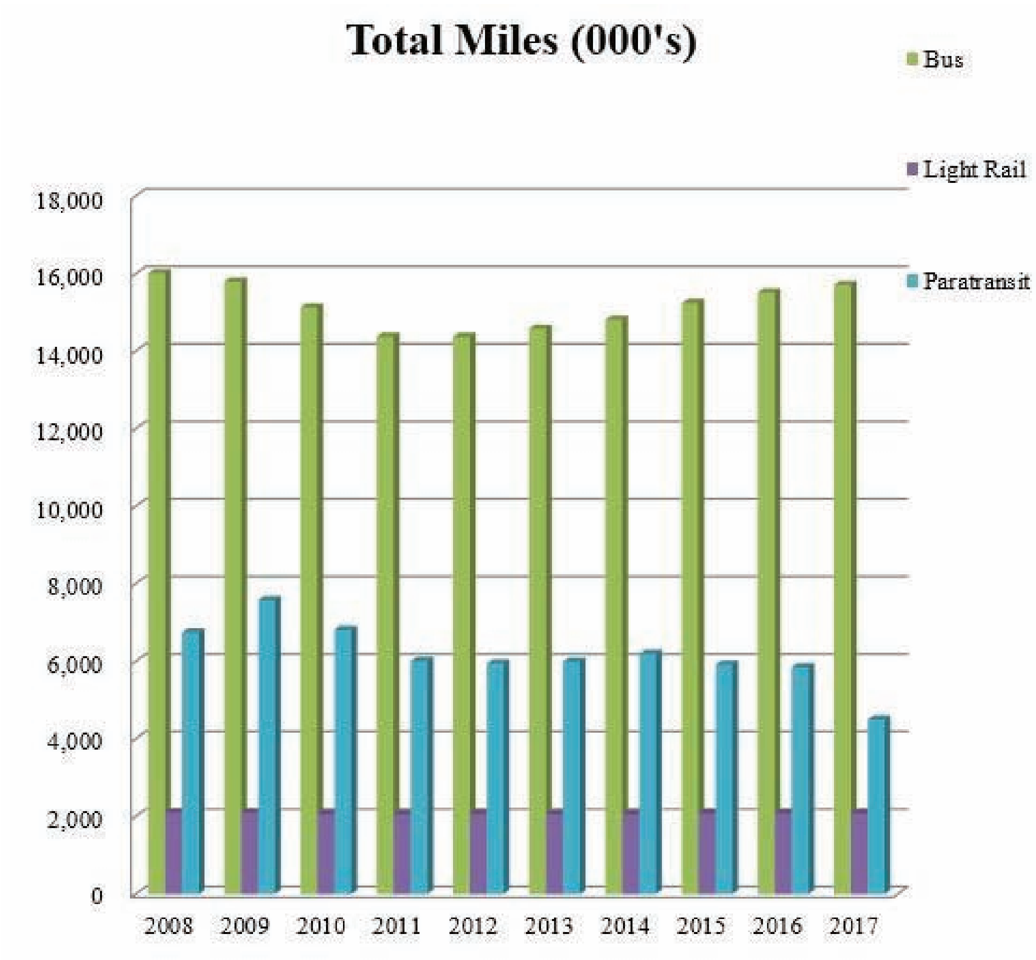
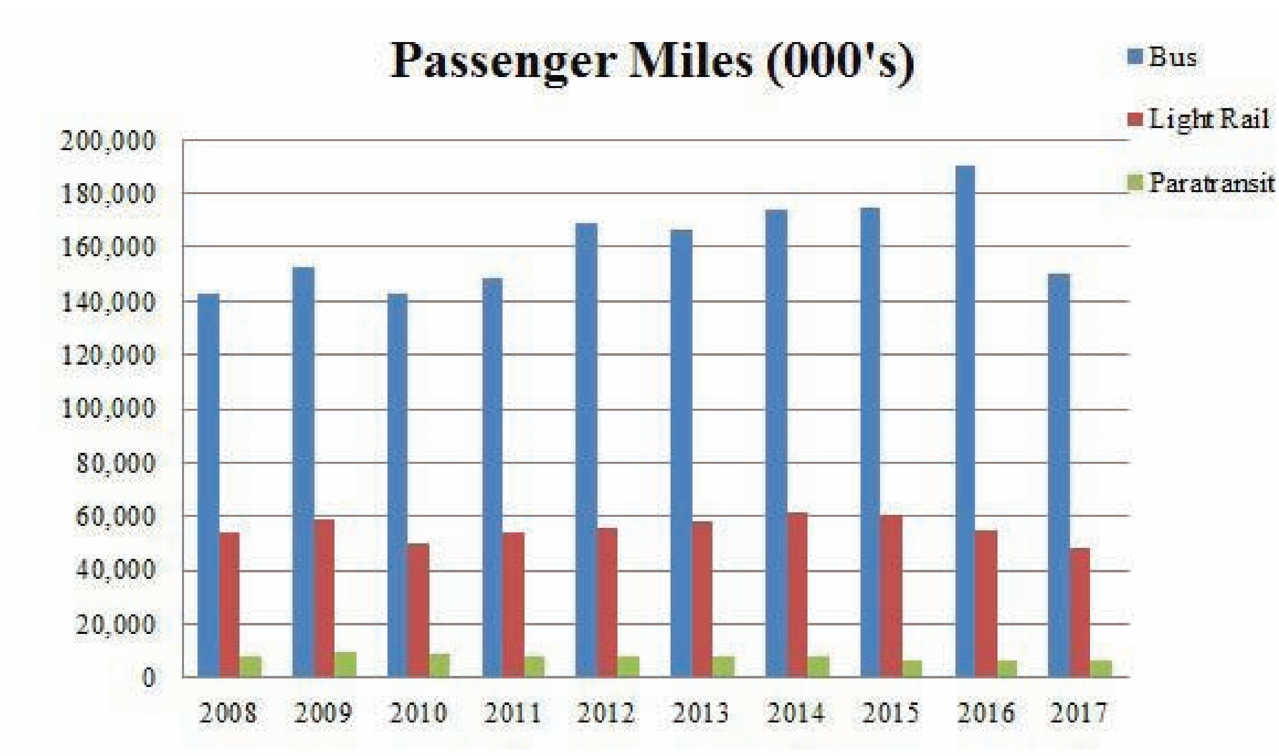


Table 24
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Operating Information – Passenger Miles
Ten Years Ended June 30, 2017

Passenger mile statistics are presented in the chart below. In FY 2017 the total passenger miles have decreased by 19% from FY 2016[1].



[1] Calculated based on revised data reported to NTD in FY 2016.

Table 25
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Operating Information – Selected Statistical Data
Ten Years Ended June 30, 2017

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
FAREBOX REVENUE ($000'S)[1]	$ 35,830	$ 36,184	$ 36,857	$ 38,106	$ 37,744	$ 38,331	$ 38,372	$ 39,108	$ 37,663	$ 34,783
VEHICLE REVENUE MILES (000's)										
BUS	15,951	15,800	15,131	14,377	14,374	14,583	14,818	15,247	15,517	15,713
LIGHT RAIL	2,112	2,106	2,063	2,056	2,065	2,056	2,057	2,081	2,078	2,081
PARATRANSIT	6,746	7,582	6,816	6,011	5,948	5,995	6,196	5,922	5,851	4,503
PASSENGER MILES (000's)										
BUS	143,102	152,856	142,754	148,225	169,321	166,576	173,539	174,863	190,321	150,429
LIGHT RAIL	54,475	58,708	50,000	54,048	55,337	58,116	61,632	60,717	54,980	47,937
PARATRANSIT	8,486	9,908	9,005	8,017	8,133	8,205	8,097	6,827	6,493	5,318
FLEET SIZE										
BUS	480	448	424	494	445	443	443	540	500	460
LIGHT RAIL	100	99	99	99	99	99	99	99	99	99
CASH FARE SINGLE RIDE										
ADULT	$ 1.75	$ 1.75	$ 2.00	$ 2.00	$ 2.00	$ 2.00	$ 2.00	$ 2.00	$ 2.00	$ 2.00
YOUTH	$ 1.50	$ 1.50	$ 1.75	$ 1.75	$ 1.75	$ 1.75	$ 1.75	$ 1.75	$ 1.75	$ 1.75
SENIOR	$ 0.75	$ 0.75	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00

[1] Includes fare revenue from motor bus, light rail and shuttle services; FY 2017 includes paratransit.

Table 26
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Operating Information - System Data
As of June 30, 2017

URBANIZED AREA (UZA):
346 Square Miles

ROUTES

Type of Route	Number of Routes
Local	17
Limited Stop	4
Express	13
Rapid	18
Community	18
Light Rail	3
Special Event	4
Total	77

HOURS OF OPERATION

Monday-Sunday	24 hours

PARK AND RIDE LOTS:

	Number of Lots	Number of Parking Spaces
Bus	7	573
Light Rail	20	6,389
Caltrain	15	4,667
Total	42	11,629

FACILITIES

Type of Facility	Number of Facilities
Bus Stops	3,856
Shelters	814
Benches	1,929
Trash Receptacles	824
Transit Centers	23

Table 27
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Operating Information – Full-time Equivalent Employees[1]
Ten Years Ended June 30, 2017

Fiscal Year	Operations	Planning & Programming[2]	Finance & Budget[3]	Engineering & Transportation Program Delivery[4]	SVRT Program[4]	Government Affairs[5]	Business Services[6]	Safety & Compliance[7]	Office of the Chief of Staff[8]	General Counsel	General Manager	Total
2008	1628	48	103	98	4	70	92	NA	NA	10	4	2057
2009	1649	51	97	99	4	74	102	NA	NA	8	4	2088
2010	1588	50	95	97	4	57	100	NA	NA	8	18	2017
2011	1576	50	90	90	5	53	102	NA	NA	8	11	1985
2012	1599	52	93	86	6	51	103	NA	NA	9	13	2012
2013	1614	51	88	90	6	55	99	NA	NA	11	13	2027
2014	1687	42	69	79	6	37	138	NA	25	12	5	2100
2015	1724	43	74	81	NA	4	135	30	55	13	5	2164
2016	1758	50	75	74	NA	26	192	33	NA	13	11	2232
2017	1761	50	76	74	NA	30	196	NA	41	14	2	2244

[1] A full-time employee is scheduled to work 2,080 hours per year (including vacation and sick leave). Full-time equivalent employment is calculated by dividing total labor hours by 2,080. The table shows the total full-time equivalent by division.

[2] Previously referred to as Congestion Management Division. Renamed to Planning and Programming as a result of the reorganization in FY2014.

[3] Previously referred to as Fiscal Resources Division. Renamed to Finance and Budget as a result of the reorganization in FY 2014.

[4] In FY 2015, Engineering & Construction Program merged with SVRT Program to form Engineering & Transportation Infrastructure Development. In FY 2017, the latter was renamed to Engineering & Transportation Program Delivery.

[5] In 2017, Government& Public Relations became Government Affairs.

[6] Previously referred to as Administrative Service Division, as a result of the reorganization in FY 2014. In September 2015 reorganization,some personnel from the Chief of Staff Division and Operation Division were transferred to Business Services.

[7] Office of Safety & Compliance reports directly to the Chief of Staff in FY 2017.

[8] As a result of the reorganization in FY2017, Office of the Chief of Staff was designated to be responsible for managing Communications and Marketing, Office of Security and Protective Services, and the Office of Safety and Compliance.

Table 28
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Operating Information - Capital Assets
Ten Years Ended June 30, 2017
(In thousands)

	Fiscal Years									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Capital assets, not being depreciated:										
Land and right of way	$ 1,118,212	$ 1,119,217	$ 1,123,321	$ 1,122,805	$ 1,122,495	$ 1,122,368	$ 1,126,373	$ 1,124,646	$ 1,126,359	$ 1,126,872
Construction in Progress	639,708	781,381	814,241	902,026	1,107,386	1,347,410	1,728,066	2,177,750	2,611,823	2,906,098
Total capital assets, not being depreciated	1,757,920	1,900,598	1,937,562	2,024,831	2,229,881	2,469,778	2,854,439	3,302,396	3,738,182	4,032,970
Capital assets, being depreciated:										
Buildings, improvements, furniture and fixtures	487,116	488,156	495,436	504,531	511,853	508,345	516,184	548,139	569,079	586,041
Vehicles	462,027	442,771	435,652	485,590	481,014	486,460	488,229	566,821	553,886	586,754
Light-rail tracks and electrification	399,824	399,824	402,622	403,831	403,394	413,674	415,905	415,905	418,195	418,195
Caltrain – Gilroy extension	53,155	53,155	53,307	53,307	53,307	43,072	43,072	43,072	43,072	43,072
Other operating equipment	39,770	32,044	42,610	46,065	46,152	45,876	46,062	47,156	47,289	47,561
Leasehold Improvement	9,686	9,686	9,686	9,686	9,686	9,686	9,686	9,686	9,686	9,686
Total capital assets, being depreciated	1,451,578	1,425,636	1,439,313	1,503,010	1,505,406	1,507,113	1,519,138	1,630,779	1,641,207	1,691,309
Less accumulated depreciation										
Total accumulated depreciation	(493,895)	(519,886)	(565,012)	(618,061)	(657,113)	(706,428)	(768,364)	(833,095)	(881,683)	(950,887)
Total capital assets, being depreciated, net	957,683	905,750	874,301	884,949	848,293	800,685	750,774	797,684	759,524	740,422
Total capital assets, net	$ 2,715,603	$ 2,806,348	$ 2,811,863	$ 2,909,780	$ 3,078,174	$ 3,270,463	$ 3,605,213	$ 4,100,080	$ 4,497,706	$ 4,773,392

Source: Comprehensive Annual Financial Report

END OF DOCUMENT

APPENDIX C

COUNTY OF SANTA CLARA DEMOGRAPHIC AND ECONOMIC INFORMATION

General Information

The County of Santa Clara (the "County") lies immediately south of San Francisco Bay and is the sixth most populous county in the State of California (the "State"). It encompasses an area of approximately 1,316 square miles. The County was incorporated in 1850 as one of the original 28 counties of the State and operates under a home rule charter adopted by County voters in 1950 and amended in 1976.

The southern portion of the County has retained the agricultural base which once existed throughout the area and has two cities, separated by roughly 10 miles. The northern portion of the County is densely populated, extensively urbanized and heavily industrialized. The County contains 15 cities, the largest of which is the City of San Jose, the third largest city in the State and the County seat. The uppermost northwestern portion of the County, with its concentration of high-technology, electronics-oriented industry, is popularly referred to as the "Silicon Valley." Large employers include Alphabet Inc./Google Inc., Apple Inc., Cisco Systems, Inc., Facebook Inc., Intel Corp., Hewlett-Packard Company and Oracle Corporation.

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

Population

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

According to U.S. Census figures, the number of County residents grew by 66% between 1940 and 1950, with most of the increase concentrated in the unincorporated areas and in the largest cities of San Jose, Palo Alto and Santa Clara. In the next decade, from 1950 to 1960, population grew by 121% with every major city as well as the unincorporated areas experiencing huge increases. The County also recorded the incorporation of four new cities during the 1950s, raising the total number of cities to its current level of fifteen.

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

The County population growth rate fell to 21.5% during the 1970s. San Jose continued to add more residents (183,621) than any other city, while two of the larger cities (Palo Alto and Santa Clara) recorded small population declines and residents in the unincorporated area fell by 25,160. The slower growth of the 1970s reflected a slowing urbanization, due in part to policies adopted by the County to preserve agricultural areas.

The data from the 2010 U.S. Census indicate that the County's population reached 1,781,642, representing a 37.6% overall increase from the population base in 1980, an average rate of 11.2% per Census count. Over the same period, statewide population grew more rapidly at a rate of 16.3%. San Jose surpassed San Francisco as the largest city in the Bay Area, with a population of 957,369. According to the 2010 census data, over one-half of the County's residents live in San Jose.

The proportion of residents living in cities is currently approximately 95.0%, in contrast to the County's makeup in 1940 when urban residents made up only 6.5% of the County's population. Since the 1940s, the increasing maturation of the County's employment and economic sectors has resulted in the incorporation of new cities as well as the expansion of city boundaries, resulting in a shrinking fraction (currently 5.6%) of residents living in unincorporated areas.

Recent Annual Population Performance. Between 2015 and 2016, the County population grew another 1.3%. All of the cities in the County experienced growth during this period, with Morgan Hill posting the fastest growth (3.0%). Currently, approximately 4.5% of the County residents live in unincorporated areas, a percentage which has steadily decreased over time as the population continues to migrate toward the cities.

County of Santa Clara Population

City	1970	1980	1990	2000	2010	2013	2014	2015	2016	2017
Campbell	24,731	26,843	36,088	38,138	39,349	40,373	41,935	41,986	42,584	42,726
Cupertino	18,216	34,297	39,967	50,602	58,302	59,575	58,153	58,038	58,185	58,917
Gilroy	12,665	21,641	31,487	41,464	48,821	51,505	53,377	54,324	55,170	55,936
Los Altos	24,872	25,769	26,599	27,693	28,976	29,769	30,273	30,513	31,353	31,402
Los Altos Hills	6,862	7,421	7,514	8,025	7,922	8,258	8,548	8,595	8,658	8,634
Los Gatos	23,466	26,906	27,357	28,592	29,413	30,225	30,992	31,157	31,376	31,314
Milpitas	27,149	37,820	50,690	62,698	66,790	67,845	71,152	74,140	75,521	75,410
Monte Sereno	3,074	3,434	3,287	3,483	3,341	3,417	3,430	3,445	3,475	3,501
Morgan Hill	6,485	17,060	23,928	33,586	37,882	40,049	41,562	42,382	43,645	44,145
Mountain View	54,206	58,655	67,365	70,708	74,066	76,204	75,425	76,712	77,925	79,278
Palo Alto	55,999	55,225	55,900	58,598	64,403	66,318	66,960	67,331	68,207	68,691
San Jose	445,779	629,400	782,224	895,131	945,942	983,574	1,014,434	1,030,053	1,042,094	1,046,079
Santa Clara	87,717	87,700	93,613	102,361	116,468	120,196	121,355	121,580	123,752	123,983
Saratoga	27,199	29,261	28,061	29,849	29,926	30,683	30,092	30,060	30,219	30,569
Sunnyvale	95,408	106,618	117,324	131,844	140,081	145,864	145,314	146,629	148,372	149,831
Unincorporated	152,181	127,021	106,173	99,813	89,960	87,040	86,811	87,029	87,352	87,764
County Total[1]	1,066,009	1,295,071	1,497,577	1,682,585	1,781,642	1,840,895	1,879,813	1,903,974	1,927,888	1,938,180

[1] Totals may not be precise due to independent rounding.
Source: U.S. Census 1970-2010; State of California, Department of Finance, Demographic Research Unit (Population Estimates for Cities, Counties, and the State, 2011-2016 with 2010 Census Benchmark).

Employment and Industry

The County is home to a highly skilled and diverse work force, a situation that has traditionally translated into lower unemployment rates in the County when compared to State and national average unemployment rates. Three major industry sectors comprise approximately 56% of the County's employment: Goods Producing – 212,700, Professional & Business Activities – 225,200 and Manufacturing – 163,600.

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 tables list employment details in the County for 2012 through 2016.

County of Santa Clara Average Annual Employment	2012	2013	2014	2015	2016
Civilian Labor Force	987,000	1,000,700	1,021,000	1,039,100	1,056,300
Employment	907,900	934,800	967,200	994,900	1,015,700
County Unemployment	79,000	65,900	53,800	44,200	40,600

Source: Employment Development Department.

County of Santa Clara Unemployment Rate	2012	2013	2014	2015	2016
County Unemployment Rate	8.0%	6.6%	5.3%	4.3%	3.8%
State Unemployment Rate	10.4%	8.9%	7.5%	6.2%	5.4%
United States	7.2%	5.9%	5.0%	4.9%	4.2%

Source: Employment Development Department.

County of Santa Clara
Industry Employment

	2012	2013	2014	2015	2016
Total, All Industries	929,400	966,200	1,007,100	1,044,900	1,077,300
Total Farm	4,900	5,000	5,300	5,500	6,000
Total Nonfarm	924,500	961,200	1,001,800	1,039,400	1,071,300
Goods Producing	191,400	194,100	199,400	206,600	212,700
Mining and Logging	200	300	300	200	300
Construction	34,800	37,500	39,700	43,900	48,900
Manufacturing	156,400	156,300	159,500	162,400	163,600
Service Providing	733,100	767,100	802,400	832,800	858,600
Transportation, Warehousing & Utilities	12,800	13,800	14,400	14,600	15,300
Information	54,200	58,700	65,700	70,500	74,600
Financial Activities	33,200	33,700	34,100	34,600	35,600
Professional & Business Services	178,200	191,200	203,000	216,300	225,200
Educational & Health Services	136,800	143,800	150,000	156,300	162,100
Leisure & Hospitality	82,500	87,500	91,900	95,800	98,900
Other Services	24,800	25,400	26,400	26,900	27,400
Government	91,400	91,800	93,400	92,900	94,100

Source: Employment Development Department.

Major Employers

The County, which is centered in the heart of Silicon Valley, is home to numerous high technology and computer software and hardware manufacturing companies. According to the Silicon Valley Business Journal, as of July 21, 2017, Apple Inc., a technology company, was the largest employer of the Silicon Valley with 25,000 employees. Second on the list was the Alphabet Inc./Google Inc., which employed 20,000. The County of Santa Clara, Stanford University and Cisco System Inc. topped off the top five employers in the County respectively. The uppermost northwestern portion of the County, with its concentration of high-technology, electronics-oriented industry, is popularly referred to as the "Silicon Valley." Major employers in Silicon Valley include Alphabet Inc./Google Inc., Apple Inc., Cisco Systems Inc., Facebook Inc., Intel Corp., Hewlett-Packard Company, and Oracle Corporation. The table below lists the ten largest employers in the County as of July 21, 2017.

County of Santa Clara Largest Employers

Employer	Number of Employees
Apple Inc.	25,000
Alphabet Inc./Google Inc.	20,000
County of Santa Clara	18,244
Stanford University	16,919
Cisco System Inc.	15,700
Kaiser Permanente Northern California	12,500
Stanford Health Care	10,034
Tesla Motors Inc.	10,000
Facebook Inc.	9,385
Intel Corp.	8,500

Source: Silicon Valley/San Jose Business Journal July 21, 2017.

Income

The following table sets forth the median income for the County and the State for the calendar years shown.

County of Santa Clara and State of California
Median Income
2007 through 2016

Year	County of Santa Clara	State of California
2007	$ 84,987	$55,734
2008	88,525	57,014
2009	84,990	58,925
2010	90,581	62,401
2011	89,064	61,632
2012	90,747	61,400
2013	91,702	60,190
2014	93,854	61,990
2015	96,310	65,087
2016	111,069	67,739

Source: http://quickfacts.census.gov; American Community Survey.

Commercial Activity

The County is an important center of commercial activity. Taxable sales activity at business and personal service outlets, as well as at other non-retail commercial establishments, is a significant component of the County's commercial activity. The following table sets forth the amount of taxable transactions from 2011 through 2015. Annual figures for 2016 are not yet available.

County of Santa Clara
Taxable Transactions by Sector
2011 through 2015
(In thousands)[(1)]

	2011	2012	2013	2014	2015
Motor Vehicle and Parts Dealers	$ 2,894,898	$ 3,480,485	$ 4,039,030	$ 3,959,149	$ 4,254,761
Home Furnishings and Appliance Stores	523,999	573,328	604,982	716,357	2,216,911
Building Material and Garden Equipment and Supplies Dealers	1,316,953	1,406,177	1,574,275	1,757,717	1,784,187
Food and Beverage Stores	1,022,790	1,066,463	1,110,420	1,169,209	1,227,355
Gasoline Stations	2,559,500	2,679,491	2,598,458	2,526,502	2,107,950
Clothing and Clothing Accessories Stores	1,997,291	2,189,462	2,312,465	2,417,856	2,505,418
General Merchandise Stores	2,448,046	2,532,297	2,558,623	2,593,287	2,340,253
Food Services and Drinking Places	3,097,359	3,355,097	3,669,125	4,031,458	4,426,069
Other Retail Group	3,558,707	3,833,909	3,957,264	4,100,218	2,838,004
Total Retail and Food Services	**$19,419,542**	**$21,116,708**	**$22,424,642**	**$23,271,753**	**$23,700,907**
All Other Outlets	14,011,675	15,103,737	15,196,964	16,356,902	17,530,851
Total All Outlets	**$33,431,217**	**$36,220,445**	**$37,621,606**	**$39,628,655**	**$41,231,759**

(1) Totals may not add due to independent rounding.
Source: California Department of Tax and Fee Administration, Taxable Sales in California (Sales and Use Tax).

County of Santa Clara
Taxable Transactions by Sector
2015 by Calendar Quarter
(In thousands)[(1)]

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Motor Vehicle and Parts Dealers	$1,001,929	$1,056,955	$1,111,449	$1,084,428
Home Furnishings and Appliance Stores	487,310	568,592	565,055	595,954
Building Material and Garden Equipment and Supplies Dealers	428,677	470,437	453,976	431,097
Food and Beverage Stores	276,370	300,144	309,790	341,050
Gasoline Stations	482,152	587,575	568,180	470,043
Clothing and Clothing Accessories Stores	530,677	611,533	599,164	764,043
General Merchandise Stores	574,462	619,038	614,259	532,494
Food Services and Drinking Places	1,042,756	1,118,608	1,115,477	1,149,227
Other Retail Group	626,660	689,081	683,470	838,793
Total Retail and Food Services	5,450,993	6,021,963	6,020,821	6,207,129
All Other Outlets	3,848,390	4,332,237	4,522,784	4,827,441
Total All Outlets	**$9,299,383**	**$10,354,200**	**$10,543,606**	**$11,034,570**

(1) Totals may not add due to independent rounding.
Source: California Department of Tax and Fee Administration, Taxable Sales in California (Sales and Use Tax).

County of Santa Clara
Taxable Transactions by Sector
2016 First, Second and Third Calendar Quarters
(In thousands)

	First Quarter	Second Quarter	Third Quarter
Motor Vehicle and Parts Dealers	$1,024,887	$1,106,594	$1,184,574
Home Furnishings and Appliance Stores	578,014	532,764	583,028
Building Material and Garden Equipment and Supplies Dealers	427,367	497,938	481,933
Food and Beverage Stores	283,286	306,966	316,593
Gasoline Stations	425,801	499,880	492,076
Clothing and Clothing Accessories Stores	517,823	610,177	604,081
General Merchandise Stores	558,811	597,858	598,588
Food Services and Drinking Places	1,111,036	1,192,761	1,178,028
Other Retail Group	660,666	738,225	717,597
Total Retail and Food Services	**$5,587,692**	**$6,083,164**	**$6,156,497**
All Other Outlets	4,092,743	4,361,658	4,394,791
Total All Outlets	**$9,680,435**	**$10,444,822**	**$10,551,289**

Fourth Quarter for 2016 figures are unavailable. Totals may not add due to independent rounding.
Source: California Department of Tax and Fee Administration, Taxable Sales in California (Sales and Use Tax).

Construction Activity and Home Sales

The following tables provide a summary of building permit valuations and the number of new dwelling units authorized in the County from 2007 through 2016.

County of Santa Clara
Building Permit Valuations
2007 through 2016
(In Millions of Dollars)

Year	New Residential	New Non-Residential	Total
2007	$1,378.20	$1,986.20	$3,361.30
2008	1,051.10	1,914.50	2,965.70
2009	578.70	1,187.80	1,766.50
2010	1,085.90	1,155.60	2,241.50
2011	333.70	627.70	961.40
2012	1,088.40	660.10	1,748.50
2013	2,060.04	4,183.20	6,243.25
2014	2,230.35	2,655.41	4,885.76
2015	1,866.60	3,589.80	5,456.40
2016	1,709.88	4,698.16	6,408.04

Source: Construction Industry Research Board (CIH/CIRB).

County of Santa Clara
Number of New Dwelling Units
2007 through 2016

Year	Single Family	Multiple Family	Total
2007	2,063	2,520	4,583
2008	1,254	2,417	3,671
2009	667	450	1,117
2010	826	3627	4,453
2011	464	64	526
2012	1,269	3,970	5,239
2013	1,859	6,009	7,868
2014	1,602	8,310	9,912
2015	1,710	3,906	5,616
2016	1,608	3,297	4,905

Source: Construction Industry Research Board (CIH/CIRB).

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

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

Definitions

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

"Accreted Value Table" means the table denominated as such which appears as an exhibit to a Supplemental Indenture providing for a Series of Capital Appreciation Bonds issued pursuant to such Supplemental Indenture.

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

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

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

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

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

"Bond Reserve Fund" means the fund by that name established pursuant to the Indentures.

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

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

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

"Business Day" means any day other than (1) a Saturday, Sunday, or a day on which banking institutions in the State or the State of New York are authorized or obligated by law or executive order go be closed, and (2) for purposes of payments and other actions relating to Bonds secured by a letter of credit, a day upon which commercial banks in the city in which is located the office of the issuing bank at which demands for payment under the letter of credit are to be presented are authorized or obligated by law or executive order to be closed and (3) a day on which the New York Stock Exchange is closed.

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

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

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

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

"Corporate Trust Office" or "corporate trust office" means the corporate trust office of the Trustee at 1 California Street, Suite 400, San Francisco, California 94111 Attention: Corporate Trust Department, but for purposes of transfer, exchange or payment of Bonds, means the principal corporate trust office of the Trustee at 180 East Fifth Street, St. Paul, Minnesota, or, in each case, such other or additional offices as may be designated by the Trustee from time to time.

"Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the Authority and related to the authorization, execution, sale and delivery of the Bonds, including but not limited to advertising and printing costs, costs of preparation and reproduction of documents, filing and recording fees, travel expenses and costs relating to rating agency meetings and other meetings concerning the Bonds, initial fees and charges of the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, Municipal Advisor fees and expenses, rating agency fees,

fees and charges for preparation, execution, transportation and safekeeping of Bonds, surety, insurance and credit enhancement costs, and any other cost, charge or fee in connection with the delivery of Bonds.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(xiii) any investment agreement with a financial institution or insurance company which has at the date of execution thereof an outstanding issue of unsecured, uninsured and unguaranteed debt obligations or a claim paying ability rated in either of the two highest long-term Rating Categories by the Rating Agency;

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

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

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

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

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

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

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

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

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

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

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

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

"Moody's" means Moody's Investors Service, a corporation duly organized and existing under the laws of the State of Delaware, and its successors and assigns.

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

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

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

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

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

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

"Outstanding," when used as of any particular time with inference to Bonds, means (subject to the provisions of the Indenture relating to the disqualification of certain Bonds in determining the aggregate principal amount of Bonds Outstanding) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except (1) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (2) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with the defeasance provisions of the Indenture; and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the trustee pursuant to the Indenture.

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

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

"Person" means a corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

"Principal Fund" means the Fund by that name established pursuant to the Indenture.

"Project" means the acquisition, construction, improvement or equipping of any or all real and personal property, equipment, rights or interests to be owned, held or used for transit purposes, including, but not limited to, rights-of-way, rail lines, bus lines, stations, platforms, switches, barns, terminals, parking lots and any and all facilities necessary or convenient for transit service within or partly without the Authority, and the payment of all costs incidental to or connected with the accomplishment of such purpose including, without limitation, engineering, inspection, legal, fiscal agents, financial consultant and other fees, bond and other reserve funds, working capital, bond interest estimated to accrue during construction and for a period not to exceed one year thereafter, and expenses for all proceedings for the authorization, issuance and sale of Bonds.

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

"Proportionate Basis," when used with respect to the redemption of Bonds, means that the amount of Bonds of each maturity to be redeemed shall be determined as nearly as practicable by multiplying the total amount of funds available for redemption by the ratio which the amount of Bond Obligation of Bonds of such maturity bears to the amount of all Bond Obligation of Bonds to be redeemed, provided that if the amount available for redemption of Bonds of any maturity is insufficient to redeem a multiple of $5,000 principal amount or Accreted Value payable at maturity, such amount shall be applied to the redemption of the highest possible integral multiple (if any) of $5,000 principal amount or Accreted Value payable at maturity. For purposes of the foregoing, Term Bonds shall be deemed to mature in the years and in the amounts of the Mandatory Sinking Account Payments, and Capital Appreciation Bonds and Current Interest Bonds maturing or subject to Mandatory Sinking Account Payments in the same year shall be treated as separate maturities. When used with respect to the payment or purchase of Bonds, "Proportionate Basis" shall have the same meaning set forth above except that "pay" or "purchase" shall be substituted for "redeem" or "redemption" and "paid" or "purchased" shall be substituted for "redeemed."

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

"Rating Category" means (i) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier and (ii) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination or letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

"Rebate Fund" means that fund established under the Indenture.

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

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

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

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

(1) all Sales Tax Revenues; and

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

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

"Sales Tax Revenues" means amounts collected by the State Board of Equalization and distributed to the Authority pursuant to Section 135250 *et seq*. of the Act and Ordinance No. NS-2 adopted by the Authority on March 29, 1976 and as approved by the voters on March 2, 1976. The California Department of Tax and Fee Administration handles most of the taxes and fees previously collected by the State Board of Equalization, including, as of July 1, 2017, the Sales Tax.

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

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

“Series,” whenever used with respect to Bonds, means all of the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction, regardless of variations in maturity, interest rate, redemption and other provisions, and any Bonds authenticated and delivered upon transfer or exchange or in lieu of or in substitution for (but not to refund) such Bonds as provided in the Indenture.

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

“Standard & Poor’s” means Standard & Poor’s Ratings Group, a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “Standard & Poor’s” shall be deemed to refer to any other nationally recognized securities rating agency selected by the Authority.

“State” means the State of California.

“Supplemental Indentures” means any indenture duly executed and delivered, supplementing, modifying or amending the Indenture, but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

“Tax Certificate” means the tax certificate delivered by the Authority at the time of the issuance and delivery of any Series of Bonds, as the same may be amended or supplemented in accordance with its terms.

“Term Bonds” means Bonds payable at or before their specified maturity date or dates from Mandatory Sinking Account Payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

“Trustee” means U.S. Bank National Association, a national banking association, organized and existing under the laws of the United States, or its successor, as Trustee as provided in the Indenture.

“Variable Rate Indebtedness” means any indebtedness the interest rate on which is not fixed at the time of incurrence of such indebtedness, and has not at some subsequent date been fixed, at a single numerical rate for the entire term of the indebtedness.

Funds and Accounts; Allocation of Revenues

So long as any Bonds are Outstanding, the Trustee shall set aside in each month following receipt of the Sales Tax Revenues the moneys in the Revenue Fund in the following respective funds (each of which the Trustee shall establish, maintain and hold in trust for the benefit of the Owners of the Bonds in accordance with the provisions of the Indenture) in the following amounts, in the following order of priority, the requirements of each such fund (including the making up of any deficiencies in any such fund resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any fund subsequent in priority; provided that on a parity with such deposits the Trustee may set aside or transfer amounts with respect to outstanding Parity Debt and the proceedings of such Parity Debt delivered to the Trustee (which shall be proportional in the event such amounts are insufficient to provide for all deposits equaled as of any date to be made with respect to the Bonds and such Parity Debt).

Interest Fund. Commencing in December, 1997, the Trustee shall set aside in the Interest Fund as soon as practicable in each month an amount equal to (a) one-sixth of the aggregate half-yearly amount of interest becoming due and payable on the Outstanding Current Interest Bonds (except for Bonds constituting Variable Rate Indebtedness) during the next ensuing six months (excluding any interest or for which there are moneys deposited in the Interest Fund from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay such interest during said next ensuing six months), until the requisite half-yearly amount of interest on all such Outstanding Current Interest Bonds (except for Bonds constituting Variable Rate Indebtedness) is on deposit in such Fund; provided that from the date of delivery of a Series of current Interest Bonds until the first interest payment date with respect to such Series the amounts so paid with respect to such Series shall be sufficient on a monthly pro rata basis to pay the aggregate amount of interest becoming due and payable on said interest payment date with respect to such Series, plus (b) the aggregate amount of interest, calculated at a rate of twelve percent (12%) per annum of the actual rate of interest is not known, to accrue during that month on the Outstanding Variable Rate Indebtedness (provided, however, that the amount of such deposit into the Interest Fund for any month may be reduced by the amount by which the deposit in the prior month exceeded the actual amount of interest accrued during that month on said Outstanding Variable Rate Indebtedness and further provided that the amount of such deposit into the interest and for any month shall be increased by the amount by which the deposit in the prior month was less than the actual amount of interest accruing during that month on said Outstanding Variable Rate Indebtedness). No deposit need be made into the Interest Fund if the amount contained therein is at least equal to the interest to become due and payable on the interest payment dates falling within the next six months upon all of the Bonds issued then Outstanding, and on June 1 of each year any excess amount in the Interest Fund not needed to pay interest on such date (and not held to pay interest on Bonds having interest payment dates other than June 1 and December 1) shall be transferred to the Authority (but excluding, in each case, any moneys on deposit in the Interest Band from the proceeds of any Series of bonds or other source and reserved as capitalized interest to pay interest on any future interest payment dates following such interest payment dates).

Principal Fund; Sinking Accounts. Commencing in December 1997, the Trustee shall deposit in the Principal Fund as soon as practicable in each month an amount equal to at least (a) one-sixth of the aggregate semiannual amount of Bond obligation becoming due and payable on the Outstanding Serial Bonds of all Series having semiannual maturity dates within the next six months, including any Bonds maturing on June 1, 1998, plus (b) one-twelfth of the aggregate yearly amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds of all Series having annual maturity dates within the next 12 months, plus (c) one-sixth of the aggregate of the Mandatory Sinking Account Payments to be made during the next six-month period into the respective Sinking Accounts for the Term Bonds of all Series for which Sinking Accounts have been created and for which semiannual mandatory redemption is required from said Sinking Accounts, plus (d) one-twelfth of the aggregate of the Mandatory Sinking Account Payments to be paid during the next 12-month period into the respective Sinking Accounts for the Term Bonds of all Series for which Sinking Accounts shall have been created and for which mandatory redemption is required from such Sinking Accounts; provided that if the Authority certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from amounts on deposit in the Bond Reserve Fund that would be in excess of the Bond Reserve Requirement upon such payment, no amounts need to be set aside toward such principal to be so refunded or paid. All of the aforesaid Mandatory Sinking Account Payments shall be made without priority of any payment into any one such Sinking Account over any other such payment. In the event that the Revenues shall not be sufficient to make the required deposits so that moneys in the Principal Fund on any principal or mandatory redemption date are equal to the amount of Bond Obligation to become due and payable on the Outstanding Serial Bonds of all Series plus the Bond Obligation amount of and redemption premium on the outstanding term Bonds required to be redeemed or paid at maturity on such date, then such moneys shall be applied on a proportionate basis and in such proportion as said Serial Bonds and such Term Bonds shall bear to each other, after first deducting for such purposes from said Term Bonds any of said Term Bonds required to be redeemed annually as shall have been redeemed or purchased during the preceding 12-month period and any of said Term Bonds required to be redeemed semiannually as shall have been redeemed or purchased during the six-month period ending on such date or the immediately preceding six-month period. In the event that the Revenues shall not be sufficient to pay in full all Mandatory Sinking Account payments required to be paid at any one time into all such Sinking Accounts, then payments into all such Sinking Accounts shall be made, on a proportionate basis, in such proportion that the respective Mandatory Sinking account payments required to be made into each Sinking Account during the then current 12-month period bear to the aggregate of all of the Mandatory Sinking Account Payments required to be made into all such Sinking Accounts during such 12-month period.

No deposit need be made into the Principal Fund so long as there shall be in such fund (i) moneys sufficient to pay the Bond Obligation of all Serial Bonds then Outstanding and maturing by their terms within the next twelve months plus (ii) the aggregate of all Mandatory Sinking Account Payments required to be made in such 12-month period, but less any amounts deposited into the Principal Fund during such 12-month period and theretofore paid from the Principal Fund to redeem or purchase Term Bonds during such 12-month period; provided that if the Authority certifies to the Trustee that any principal payments are expected to be demanded on or prior to their respective due dates or paid from amounts on deposit in the Bond Reserve Fund that would be in excess of the Bond Reserve Requirement upon such payment, no amounts need be on deposit with respect to such principal payments. At the beginning of each Fiscal Year and in any event not later than August 1 of each year, the Trustee shall request from the Authority a certificate of the Authority setting forth the principal payments for which deposits will not be necessary pursuant to the preceding sentence and the reason therefor. On June 1 of each year any excess amounts in the Principal Fund not needed to pay principal on such date (and not held to pay principal on Bonds having principal payment dates other than June 1) shall be transferred to the Authority.

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

Any Revenues remaining in the Revenue Fund after the foregoing transfers described above under "Interest Fund," "Principal Fund; Sinking Accounts" and "Bond Reserve Fund," except as otherwise provided in a Supplemental Indenture, shall be transferred on the same Business Day to the Authority. The Authority may use and apply the Revenues when received by it for any lawful purpose of the Authority, including the redemption of Bonds upon the terms and conditions set forth in the Supplemental Indenture relating to such Bonds and the purchase of Bonds as and when and at such prices as it may determine.

If five days prior to any principal payment date, interest payment date or mandatory redemption date the amounts on deposit in the Interest Fund and Principal Fund, including the Sinking Accounts therein, with respect to the payments to be made on such upcoming date after any transfers from the Bond Reserve Fund are insufficient to make such payments, the Trustee shall immediately notify the Authority, in writing, of such deficiency and direct that the Authority transfer the amount of such deficiency to the

Trustee on or prior to such Payment date. The Authority covenants and agrees in the Indenture to transfer to the Trustee from any Revenues in its possession the amount of such deficiency on or prior to the principal, interest or mandatory redemption date referenced in such notice.

Application of Interest Fund

All amounts in the Interest Fund shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture) and making payments on interest rate swap agreements, as provided in the Indenture.

Application of Principal Fund

All amounts in the Principal Fund shall be used and withdrawn by the Trustee solely for the purposes of paying the Bond Obligation of the Bonds when due and payable, except that any amounts in the Sinking Accounts shall be used and withdrawn by the Trustee solely to purchase or redeem or pay at maturity Term Bonds, as provided in the Indenture.

The Trustee shall establish and maintain within the Principal Fund a separate account for the Term Bonds of each Series and maturity. On or before the Business Day prior to any date upon which a Mandatory Sinking Account Payment is due, the Trustee shall transfer the amount of such Mandatory Sinking Account Payment (being the principal thereof, in the case of Current Interest Bonds, and the Accreted Value, in the case of Capital Appreciation Bonds) from the Principal Fund to the applicable Sinking Account. With respect to each Sinking Account, on each Mandatory Sinking Account Payment date established for such Sinking Account, the Trustee shall apply the Mandatory Sinking Account payment required on that date to the redemption of Term Bonds of such Series and maturity for which such Sinking Account was established, in the manner provided in the Supplemental Indenture pursuant to which such Series of Bonds was created, provided that, at any time prior to giving such notice of such redemption, the Trustee shall, upon receipt of a Request of the Authority, apply moneys in such Sinking Account to the purchase or Term Bonds of such Series and maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Fund) as is directed by the Authority, except that purchase price (excluding accrued interest, in the case of Current Interest Bonds) shall not exceed the principal Amount or Accreted Value thereof. Assuming the 12-month period (or six-month period with respect to Bonds having semi-annual Mandatory Sinking Account Payments) immediately preceding said Mandatory Sinking Account Payment Date, the Trustee has purchased Term Bonds of such Series and maturity with moneys in such Sinking Account, or, during said period and prior to giving said notice of redemption, the Authority has deposited Term Bonds of such Series and maturity with the Trustee, or Term Bonds of such Series and maturity were at any time purchased or redeemed by the Trustee from the Redemption Fund and allocable to said Mandatory Sinking Account Payment, such Term Bonds so purchased or deposited or redeemed shall be applied, to the extent of the full principal amount thereof, to reduce said Mandatory Sinking Account Payment. All Term Bonds purchased or deposited pursuant to this provision shall be canceled by the Trustee and destroyed by the Trustee and a certificate of destruction shall be delivered to the Authority by the Trustee. Any amounts remaining in a Sinking Account when all of the Term Bonds for which such account was established are no longer Outstanding shall be withdrawn by the Trustee and transferred to the Authority to be used for any lawful purpose. All Term Bonds purchased from a Sinking Account or deposited by the Authority with the Trustee in a 12-month period ending May 31 (or in a six-month period ending May 1 or November 30 with respect to Bonds having semi-annual Mandatory Sinking Account Payments) and prior to the giving of notice by the Trustee for redemption from Mandatory Sinking Account Payments for such period shall be allocated first to the next succeeding Mandatory Sinking Account Payment for such Series and maturity of Term Bonds, if any, occurring on the next June 1 or December 1, then as a Credit against such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request to the Authority. All Term Bonds redeemed by the Trustee from the Redemption Fund shall be credited to such future Mandatory Sinking Account Payments for such Series and Maturity of Term Bonds as may be specified in a Request of the Authority.

Funding and Application of Bond Reserve Fund

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

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

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

Application of Redemption Fund

The Trustee shall establish, maintain and hold in trust a special fund designated as the "Redemption Fund." All moneys deposited by the Authority with the Trustee for the purpose of optionally redeeming Bonds of any Series shall, unless otherwise directed by the Authority, be deposited in the Redemption Fund. All amounts deposited in the Redemption Fund shall be used and withdrawn by the Trustee solely for the purpose of redeeming Bonds of such Series, in the manner, at the times and upon the terms and conditions specified in the Supplemental Indenture pursuant to which such Series of Bonds was created; provided that, at any time prior to giving such notice of redemption, the Trustee shall, upon receipt of a Request of the Authority, apply such amounts to the purchase of Bonds of such Series at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding, in the case of Current Interest Bonds, accrued interest, which is payable from the Interest Account) as is directed by the Authority, except that the purchase price (exclusive of such earned interest) may not exceed the Redemption Price or Accreted Value then applicable to such Bonds. All Term Bonds purchased or redeemed from the Redemption Fund shall be allocated to Mandatory Sinking Account payments applicable to such Series and maturity of Term Bonds as may be specified in a Request of the Authority.

Establishment and Application of Costs of Issuance Fund

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

Investment of Moneys in Funds and Accounts

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

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

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

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

The Trustee may commingle any of the funds or accounts established pursuant to the Indenture into a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Trustee shall be accounted for separately as required by the Indenture and, provided further, that such commingling shall not be allowed to the extent the Authority so instructs the Trustee, to accommodate rebate calculations. The Trustee may act as principal or agent in the rating or disposing of any investment and, with the prior written consent of the Authority, may impose its customary charge therefor. The Trustee may sell at the best price obtainable, or present for redemption, any Investment Securities so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Investment Security is credited, and the Trustee shall not be liable or responsible for any loss resulting from such investment.

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

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

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

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

Covenants of the Authority

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

(i) Punctual Payment. The Authority will punctually pay or cause to be paid the principal or Redemption Price of and interest on all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, and shall punctually pay or cause to be paid all Mandatory Sinking Account payments, but in each case only out of Revenues as provided in the Indenture.

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

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

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

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

(vi) Accounting Records and Financial Statements. The Authority will at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with generally accepted accounting principles, in which complete and accurate entries shall be made of all transactions relating to the Revenues. Such books of record and account shall be available for inspection by the Trustee at reasonable hours and under reasonable circumstances.

The Authority will furnish the Trustee, within two hundred ten (210) days after the end of each Fiscal Year, the financial statements of the Authority relating to the Revenues for such Fiscal Year, together with the report and opinion of an independent certified public accountant stating that the financial statements have been prepared in accordance with generally accepted accounting principles and that such accountants' examination of the financial statements was performed in accordance with generally accepted auditing standards and a Certificate of the chief financial officer of the Authority stating that no event which constitutes an Event of Default or which with the giving of notice or the passage of time or both would constitute an Event of Default has occurred and is continuing as of the end of such Fiscal Year, or specifying the nature of such event and the actions taken and proposed to be taken by the Authority to cure such default. Thereafter, a copy of such financial statements will be furnished to any owner of Bonds upon written request to the Authority.

(vii) Collection of Sales Tax Revenues. The Authority covenants and agrees that it has duly levied a transactions and use tax in accordance with the Act, pursuant to and in accordance with the Ordinance, duly passed and adopted by the Authority. Said Ordinance has not and will not be amended, modified or altered so long as any of the Bonds are Outstanding in any manner which would reduce the amount of or timing of receipt of Sales Tax Revenues, and the Authority will continue to levy and collect such transactions and use taxes to the full amount permitted by law. The Authority further covenants that it has entered into an agreement with the State Board of Equalization under and pursuant to which the CDTFA will process and supervise collection of said transactions and use taxes and will transmit Sales Tax Revenues directly to the Trustee. Said agreement will be continued in effect so long as any of the Bonds are outstanding and shall not be amended, modified or altered without the written consent of the Trustee so long as any of the Bonds are Outstanding. The Authority will receive and hold in trust for (and remit immediately to) the Trustee any Sales Tax Revenues paid to the Authority by the CDTFA.

Sales Tax Revenues received by the Trustee shall be transmitted to the Authority as described above under "Funds and Accounts; Allocation of Revenues;" provided that, during the continuance of an Event of Default, any Sales Tax Revenues received by the Trustee shall be applied first to the payment of the costs and expenses of the Trustee in declaring such Event of Default and pursuing remedies, including reasonable compensation of its agents, attorneys and counsel, which costs and expenses shall be paid from the Revenue Fund, and second, to deposit into the Interest Fund and Principal Fund and to the payment of Parity Debt as more fully set forth in the Indenture and as described under "Events of Default."

The Authority covenants and agrees to separately account for all Revenues and to provide to the Trustee access to such accounting records at reasonable hours and under reasonable circumstances.

The Authority covenants that so long as the Bonds are Outstanding, it will not, to the best of its ability, suffer or permit any change, modification or alteration to be made to the Act which would materially and adversely affect the rights of Bondholders.

Rebate Fund. The Trustee shall establish and maintain a fund separate from any other fund established and maintained under the Indenture designated as the Rebate Fund. Within the Rebate Fund, the Trustee shall maintain such accounts as shall be necessary in order to comply with the terms and requirements of the Tax Certificates subject to the transfer provisions described below, all money at any time deposited in the Rebate Fund shall be held by the Trustee for the account of the Authority in trust, to the extent required to satisfy the Rebate Requirement (as defined in the Tax Certificate), for payment to the federal government of the United States of America, and neither the Trustee nor the Owner of any Bonds shall have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by the Indenture and by the Tax Certificate. The Authority covenants to comply with the directions contained in the Tax Certificate and the Trustee covenants to comply with all written instructions of the Authority delivered to the Trustee pursuant to the Tax Certificate (which instructions shall state the actual amounts to be deposited in or withdrawn from the Rebate Fund and shall not require the Trustee to make any calculations with respect thereto). The Trustee shall be deemed conclusively to have complied with the provisions of the Indenture described in this provision if it follows such instructions of the Authority, and the Trustee shall have no liability or responsibility to enforce compliance by the Authority with the terms of the Tax Certificate nor to make computations in connection therewith.

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

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

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

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

Tax Covenants. The Authority covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on the Bonds under Section 103 of the Code; provided that, prior to the issuance of any Series of Bonds, the Authority may exclude the application of these covenants and the covenants described above under "Rebate Fund" to such Series of Bonds. Without limiting the foregoing, the Authority shall comply with all requirements and covenants contained in the Tax Certificate. In the event that at any time the Authority is of the opinion that it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture, the Authority shall so instruct the Trustee in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

Notwithstanding any provision of the Indenture described in this provision and above under "Rebate Fund," if the Authority shall receive an Opinion of Bond Counsel to the effect that any action required as described in the Indenture and therein is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on the Bonds pursuant to Section 103 of the Code, the Authority and the Trustee may rely conclusively on such opinion in complying with the provisions of the Indenture, and the covenants thereunder shall be deemed to be modified to that extent.

Modification or Amendment of the Indenture

Amendments Requiring the Consent of Bondowners. The Indenture and the rights and obligations of the Authority, the Owners of the Bonds and the Trustee may be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority and the Trustee may enter into with the written consent of the Owners of a majority in aggregate amount of Bond Obligation of the Bonds (or, if such Supplemental Indenture is only applicable to a Series of Bonds, such Series of Bonds) then Outstanding shall have been filed with the Trustee; provided that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any particular maturity remain Outstanding, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding for purposes of this provision.

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

No such modification or amendment shall (a) extend the mixed maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment provided for the payment of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Owner of each Bond so affected, or (b) reduce the aforesaid percentage of Bond Obligation the consent of the Owners of which is required to effect any such modification or amendment or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture, or deprive the owners of the Bonds of the lien created by the Indenture on such Revenues and other assets (in each case, except as expressly provided in the Indenture), without the consent of the Owners of all of the Bonds then Outstanding. It shall not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution and delivery by the Trustee and the Authority of any Supplemental Indenture as described in the Indenture, the Trustee shall mail a notice, setting forth in general terms the substance of such Supplemental Indenture to the Owners of the Bonds at the addresses shown on the registration books of the Trustee. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

Amendments Not Requiring the Consent of Bondowners. The Indenture and the rights and obligations of the Authority, of the Trustee and of the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority may adopt without the consent of any Bondholders due only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the Authority in the Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power therein reserved to or conferred upon the Authority;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture;

(3) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute thereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially and adversely affect the interests of the Owners of the Bonds;

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

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

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

(7) if the Authority agrees in a Supplemental Indenture to maintain the exclusion of interest on a Series of Bonds from gross income for purposes of federal income taxation, to make such provisions as are necessary or appropriate to ensure such exclusion;

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

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

Effect of Supplemental Indenture. From and after the time any Supplemental Indenture becomes effective, the Indenture shall be deemed to be modified and amended an accordance therewith, and the respective rights, duties and obligations under the Indenture of the Authority, the Trustee and all Owners of Bonds Outstanding shall thereafter be determined, exercised and enforced subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Defeasance of Bonds

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

(a) by paying or causing to be paid the Bond Obligation of and interest on such Outstanding Bonds, as and when the same become due and Payable;

(b) by depositing with the Trustee, an escrow agent or other fiduciary, in trust, at or before maturity, money or securities in the necessary amount (as discussed below under "Deposit of Money or Securities") to pay or redeem such Outstanding Bonds; or

(c) by delivering to the Trustee, for cancellation by it, such Outstanding Bonds.

If the Authority shall pay all Series for which any Bonds are Outstanding and also pay or cause to be paid all other sums payable under the Indenture by the Authority, then and in that case, at the election of the Authority (evidenced by a Certificate of the Authority, filed with the Trustee, signifying the intention of the Authority to discharge all such indebtedness and the Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the Authority under the Indenture shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon request of the Authority, the Trustee shall cause an accounting of such period or periods as may be requested by the Authority to be prepared and filed with the Authority and shall execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver to the Authority all moneys or securities or other property held by it pursuant to the Indenture which, as evidenced by a verification report, upon which the Trustee may conclusively rely, from a firm of certified public accountants, or other independent consulting firm, are not required for the payment or redemption of Bonds not surrendered for such payment or redemption.

Discharge of Liability on Bonds. Upon the deposit with the Trustee, escrow agent or other fiduciary, in trust, at or before maturity, of money or securities in the necessary amount (as discussed below under "Deposit of Money or Securities") to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the Authority in respect of such Bond shall cease, terminate and be completely discharged, provided that the Owner thereof shall thereafter be entitled to the payment of the principal of and premium, if any, and interest on the Bonds, and the Authority shall remain liable for such payment, but only out of such money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of the indenture regarding any principal, Redemption Price of or interest on the Bonds that remain unclaimed for a period of two years after the principal of all the Bonds has become due and payable, and the continuing duties of the Trustee under the Indenture.

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

Deposit of Moneys or Securities. Whenever in the Indenture it is provided or permitted there be deposited with or held in trust money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include moneys or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and shall be:

(a) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or

(b) Investment Securities described in clauses (i), (ii) or (vi) of the definition thereof the principal of and interest on which when due will, in the opinion of an independent certified public accountant delivered to the Trustee (upon which opinion the Trustee may conclusively rely), provide money sufficient to pay the principal or redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or redemption price and interest become due, provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice; provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of the Indenture or by Request of the Authority) to apply such money to the payment of such Principal or Redemption Price and interest with respect to such Bonds.

Transfer and Exchange of Bonds

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

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

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

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

Events of Default and Remedies of Bondholders

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

(a) default in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise, or default in the redemption from any Sinking Account of any Bonds in the amounts and at the times provided therefor;

(b) default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(c) if the Authority shall fail to observe or perform any covenant, condition, agreement or provision in the Indenture on its part to be observed or performed, other than as referred to in subsection (a) or (b) above, for a period of sixty (60) days after written notice, specifying such failure and requesting that it be remedied, has been given to the District by the Trustee; except that, if such failure can be remedied but not within such sixty (60) day period and if the District has taken all action reasonably possible to remedy such failure within such sixty (60) day period, such failure shall not become an Event of Default for so long as the District shall diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time established by the Trustee;

(d) if any default shall exist under any agreement governing any Parity Debt and such default shall continue beyond the grace period, if any, provided for with respect to such default;

(e) if the Authority files a petition in voluntary bankruptcy, for the composition of its affairs or for its corporate reorganization under any state or federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or admits in writing to its insolvency or inability to pay debts as they mature, or consents in writing to the appointment of a trustee or receiver for itself;

(f) if a court of competent jurisdiction shall enter an order, judgment or decree declaring the Authority insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of the Authority, or approving a petition filed against the Authority seeking reorganization of the Authority under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within 60 days from the date of the entry thereof;

(g) if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Authority or of the Revenues, and such custody or control shall not be terminated within sixty (60) days from the date of assumption of such custody or control; or

(h) if the Legislature of the State shall repeal or amend all or any portion of the provisions of the Act relating to the retail transactions and use tax, being Sections 100250 to 100256, inclusive, of the Public Utilities Code unless the Authority has determined that said repeal or amendment does not materially and adversely affect the rights of Bondholders.

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

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

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

Application of Revenues and Other Funds After Default. If an Event of Default shall occur and be continuing, the Authority shall immediately transfer to the Trustee all Revenues held by it and the Trustee shall apply all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture (except as otherwise provided in the Indenture) as follows and in the following order:

(1) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the Bonds and Parity Debt, including the costs and expenses of the Trustee and the Bondholders in declaring such Event of Default, and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements to its counsel and other agents) incurred in and about the performance of its powers and duties under the Indenture;

(2) To the payment of the whole amount of Bond Obligation then due on the Bonds and Parity Debt (upon presentation of the Bonds and Parity Debt to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture with interest on such Bond Obligation, at the rate or rates of interest borne by the respective Bonds and Parity Debt, to the payment to the persons entitled thereto of all installments of interest then due and the unpaid principal or Redemption Price of any Bonds and Parity Debt which shall have become due, whether at maturity by acceleration or by call for redemption, in the order of their due dates, with interest on the overdue Bond Obligation and Parity Debt at the rate borne by the respective Bonds and Parity Debt, and, if the amount available shall not be sufficient to pay in full all the Bonds and Parity Debt due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or Accreted Value due on such date to the persons entitled thereto, without any discrimination or preference.

Trustee to Represent Bondholders. The Trustee is irrevocably appointed (and the successive respective Owners of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Bonds, the Indenture, the Act and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bondholders, the Trustee in its discretion may, and upon the written request of the Owners of not less than twenty-five percent (25%) in aggregate amount of Bond Obligation of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it shall deem most effective to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power granted in the Indenture, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the Indenture, the Act or any other law, and upon instituting such proceedings the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the revenues and other assets pledged under the Indenture, pending such proceedings. All rights or action under the indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Owners of such Bonds, subject to the provisions of the Indenture.

Bondholders Direction of Proceedings. Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee and upon furnishing the Trustee with indemnification satisfactory to it, to direct the method of conducting all remedial proceedings taken by the Trustee under the Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, that the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee should be unjustly prejudicial to Bondholders or holders of Parity Debt not parties to such direction.

Limitation on Bondholders Right to Sue. No Owner of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Act or any other applicable law with respect to such Bond, unless (1) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default, (2) the Owners of not less than twenty-five percent (25%) in aggregate amount of Bond Obligation or the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted under the Indenture or to institute such suit, action or proceeding in its own name; (3) such Owner or said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (4) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; and (5) the Trustee shall not have received contrary directions from the Owners of an aggregate amount of Bond Obligation of the Bonds then Outstanding in excess of the aggregate amount of Bond Obligation or Bonds owned by the owners making such request.

Such notification, requests, tender of indemnity and refusal or omission are conditions precedent to the exercise by any Owner of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Indenture, the Act or other applicable law with respect to the Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner therein provided and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

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

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

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

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

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX E

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this "Disclosure Certificate") is executed and delivered by the Santa Clara Valley Transportation Authority (the "Authority") in connection with the issuance of the Authority's $27,760,000 Sales Tax Revenue Refunding Bonds, 2017 Series B (the "Bonds"). The Bonds are being issued pursuant to an Indenture, dated as of November 1, 1997, as supplemented and amended (the "Master Indenture"), between the Authority and U.S. Bank National Association, as trustee (the "Trustee"), and an Tenth Supplemental Indenture, dated as of December 1, 2017, between the Authority and the Trustee (the "Tenth Supplemental Indenture" and, together with the Master Indenture and all other supplements thereto, the "Indenture"). The Bonds are special limited obligations of the Authority payable solely from and secured solely by the Revenues (as defined in the Indenture), consisting primarily of revenues from a sales tax imposed pursuant to the California Transactions and Use Tax Law, being Sections 7251 *et seq.* of the California Revenue and Taxation Code. Pursuant to Section 17.12 of the Tenth Supplemental Indenture, the Authority covenants and agrees as follows:

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

SECTION 2. 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.

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

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

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

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

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

"Official Statement" shall mean the Official Statement, dated December 13, 2017, relating to the Bonds.

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

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

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

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

SECTION 3. Provision of Annual Reports.

(a) The Authority shall provide, or shall cause the Dissemination Agent to provide, to MSRB, through EMMA, not later than 210 days after the end of the Authority's fiscal year, commencing with the fiscal year ending June 30, 2018, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Official Statement shall serve as the first Annual Report. The Annual Report must be submitted in electronic format, accompanied by such identifying information as provided by the MSRB. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to such date, the Authority shall provide the Annual Report to the Dissemination Agent. If the Fiscal Year changes for the Authority, the Authority shall give notice of such change in the manner provided under Section 5(e) hereof.

(b) If by 15 Business Days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, through EMMA, the Dissemination Agent has not received a copy of the Annual Report the Dissemination Agent shall contact the Authority to determine if the Authority is in compliance with subsection (a). The Authority shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Authority and shall have no duty or obligation to review such Annual Report.

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

(d) The Dissemination Agent shall:

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

(ii) (if the Dissemination Agent is other than the Authority), to the extent appropriate information is available to it, file a report with the Authority certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided.

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

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

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

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Authority shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, in a timely manner not more than ten (10) Business Days after the event:

(1) principal and interest payment delinquencies;

(2) defeasances;

(3) tender offers;

(4) rating changes;

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

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

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

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

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

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

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

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

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

(3) nonpayment related defaults;

(4) modifications to the rights of Owners;

(5) a notices of prepayment; or

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

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

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

(e) If the Dissemination Agent has been instructed by the Authority to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB.

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

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

SECTION 7. Termination of Reporting Obligation. The obligations of the Authority and the Dissemination Agent under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Authority shall give notice of such termination in the same manner as for a Listed Event under Section 5.

SECTION 8. Dissemination Agent. The Authority may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign at any time by providing at least 30 days' notice in writing to the Authority. The Authority hereby appoints Digital Assurance Certification LLC as initial Dissemination Agent hereunder. Notwithstanding any other provision to this Disclosure Certificate to the contrary, the Authority may provide any Annual Report to Beneficial Owners by means of posting such Annual Report on an internet site that provides open access to Beneficial Owners.

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Authority may amend this Disclosure Certificate, provided no amendment increasing or affecting the obligations or duties of the Dissemination Agent shall be made without the consent of such party, and any provision of this Disclosure Certificate may be waived if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to the Authority and the Dissemination Agent to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule.

SECTION 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Authority from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Authority chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Certificate, the Authority shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 11. Default. In the event of a failure of the Authority to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions, as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Authority to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the Authority to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Authority agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their respective powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Authority for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the Authority, the Bondholders, or any other party. The obligations of the Authority under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

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

Dated: December 21, 2017

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

By: ___________________________________
Chief Financial Officer

DIGITAL ASSURANCE CERTIFICATION LLC, as Dissemination Agent

By: ___________________________________
Authorized Representative

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Santa Clara Valley Transportation Authority

Name of Bond Issue: $27,760,000 Santa Clara Valley Transportation Authority Sales Tax Revenue Refunding Bonds, 2017 Series B

Date of Issuance: December 21, 2017

NOTICE IS HEREBY GIVEN that the Santa Clara Valley Transportation Authority (the "Authority") has not provided an Annual Report with respect to the above-named Bonds as required by that certain Indenture, dated as of November 1, 1997, as amended and supplemented, including as amended and supplemented by the Tenth Supplemental Indenture, dated as of December 1, 2017, each by and between the Authority and U.S. Bank National Association, as trustee. The Authority anticipates that the Annual Report will be filed by _____________.

Dated: _______, 20__

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

By: ___________________________________

Its: ___________________________________

APPENDIX F

BOOK-ENTRY SYSTEM

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Santa Clara Valley Transportation Authority Sales Tax Revenue Refunding Bonds, 2017 Series B (the "Bonds"). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for Bond in the aggregate principal amount of such Bond, and will be deposited with DTC. Capitalized terms used herein and not otherwise defined herein shall have the meanings set forth in the front portion of this Official Statement or in APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

The following information has been provided by DTC, and neither of the Santa Clara Valley Transportation Authority (the "Authority") nor the Underwriter makes any representation as to its accuracy or completeness. For further information, beneficial owners should contact DTC in New York, New York.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. The information set forth on such website is not incorporated herein by reference.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (each a "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee. Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority and the Trustee as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments, redemption proceeds, distributions and dividend payments, will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of the Authority, DTC, or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest, redemption proceeds, distributions and dividends, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the applicable remarketing agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the applicable remarketing agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the applicable remarketing agent's DTC account.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered.

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

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX G

FORM OF BOND COUNSEL OPINION

[Date of Delivery]

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

$27,760,000
Santa Clara Valley Transportation Authority
Sales Tax Revenue Refunding Bonds
2017 Series B

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance of $27,760,000 aggregate principal amount of Sales Tax Revenue Refunding Bonds, 2017 Series B (the "2017 Series B Bonds") issued by the Santa Clara Valley Transportation Authority (the "Authority"), a county transit district duly organized and existing under the Santa Clara Valley Transportation Authority Act, being Part 12 of Division 10 of the Public Utilities Code of the State of California (Sections 100000 *et seq.*) (the "Act").

The 2017 Series B Bonds are being issued pursuant to the Act (and the provisions of the Revenue Bond Law of 1941, being Section 54300 *et seq.* of the California Government Code as referenced in the Act), an Indenture, dated as of November 1, 1997, as amended and supplemented (as previously amended and supplemented, the "Original Indenture"), by and between the Authority and U.S. Bank National Association, as successor to First Trust of California, National Association, as trustee (the "Trustee") and an Tenth Supplemental Indenture, dated as of December 1, 2017 (the "Tenth Supplemental Indenture"), by and between the Authority and the Trustee. The Original Indenture and the Tenth Supplemental Indenture are collectively referred to herein as the "Indenture." The 2017 Series B Bonds are being issued to refund all of the Santa Clara Valley Transportation Authority Sales Tax Revenue Refunding Bonds, 2011 Series A (the "Refunded Bonds").

The 2017 Series B Bonds are limited obligations of the Authority secured under the Indenture by a pledge of sales tax revenues derived from a one-half of one percent retail transactions and use tax (the "1976 Sales Tax"), imposed in accordance with the Act and the California Transactions and Use Tax Law (Revenue and Taxation Code Section 7251 *et seq.*), less certain administrative fees paid to the California Department of Tax and Fee Administration in connection with the collection and disbursement of the 1976 Sales Tax, approved by the electorate of the County of Santa Clara in October 1976. The 2017 Series B Bonds are further secured by a pledge of certain amounts held by the Trustee under the Indenture.

As Bond Counsel, we have examined copies certified to us as being true and complete copies of the proceedings of the Authority in connection with the issuance of the 2017 Series B Bonds. We have also examined such certificates of officers of the Authority and others as we have considered necessary for the purposes of this opinion.

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

1. The 2017 Series B Bonds constitute valid and binding limited obligations of the Authority as provided in the Indenture, and are entitled to the benefits of the Indenture. The 2017 Series B Bonds are payable from 1976 Sales Tax Revenues and the pledge of certain amounts held by the Trustee under the Indenture.

2. The Indenture has been duly and validly authorized, executed and delivered by the Authority and, assuming the enforceability thereof against the Trustee, constitutes the legally valid and binding obligation of the Authority, enforceable against the Authority in accordance with its terms. The Indenture creates a valid pledge, to secure the payment of principal of and interest on the 2017 Series B Bonds, of the 1976 Sales Tax Revenues and other amounts held by the Trustee in certain funds and accounts established pursuant to the Indenture, subject to the provisions of the Indenture permitting the application thereof for other purposes and on the terms and conditions set forth therein.

3. Under existing statutes, regulations, rulings and court decisions, and assuming compliance with the covenants mentioned below, interest on the 2017 Series B Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 (the "Code") from the gross income of the owners thereof for federal income tax purposes. We are further of the opinion that under existing statutes, regulations, rulings and court decisions, the 2017 Series B Bonds are not "specified private activity bonds" within the meaning of section 57(a)(5) of the Code and, therefore, interest on the 2017 Series B Bonds will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. Receipt or accrual of interest on 2017 Series B Bonds owned by a corporation may affect the computation of the alternative minimum taxable income of that corporation. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed. We are further of the opinion that interest on the 2017 Series B Bonds is exempt from personal income taxes of the State of California under present state law.

Pursuant to the Indenture and in the *Tax Certificate Pertaining to Arbitrage and Other Matters under Sections 103 and 141-150 of the Internal Revenue Code of 1986*, delivered by the Authority in connection with the issuance of the 2017 Series B Bonds, the Authority has made representations relevant to the determination of, and has made certain covenants regarding or affecting, the exclusion of interest on the 2017 Series B Bonds from the gross income of the owners thereof for federal income tax purposes. In reaching our opinions described in the immediately preceding paragraphs, we have assumed the accuracy of such representations and the present and future compliance by the Authority with such covenants. Further, except as stated above, we express no opinion as to any federal or state tax consequence of the receipt of interest on, or the ownership or disposition of, the 2017 Series B Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequence with respect to the 2017 Series B Bonds, or the interest thereon, if any action is taken with respect to the 2017 Series B Bonds or the proceeds thereof predicated or permitted upon the advice or approval of other counsel.

The opinions expressed in paragraphs 1 and 2 above are qualified to the extent the enforceability of the 2017 Series B Bonds and the Indenture may be limited by applicable bankruptcy, insolvency, debt adjustment, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally or as to the availability of any particular remedy. The enforceability of the 2017 Series B Bonds and the Indenture is subject to the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing, to the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law, and to the limitations on legal remedies against governmental entities in California.

No opinion is expressed herein on the accuracy, completeness or fairness of the Official Statement or other offering material relating to the 2017 Series B Bonds.

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

Respectfully submitted,

[THIS PAGE INTENTIONALLY LEFT BLANK]

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY • SALES TAX REVENUE REFUNDING BONDS, 2017 SERIES B

Mixed Sources
Product group from well managed forests, controlled sources and recycled wood or fiber.

Printed by: ImageMaster, LLC
www.imagemaster.com