

**NEW ISSUE—BOOK-ENTRY ONLY**

**\$34,375,000**  
**SANTA CLARA COUNTY TRANSIT DISTRICT**  
**Sales Tax Revenue Bonds**  
**1991 Series A**

**Dated: August 1, 1991**

**Due: June 1, as shown below**

The 1991 Series A Bonds are being issued by the Santa Clara County Transit District (the "District") to acquire, renovate and equip administration buildings, to provide for a debt service reserve and to pay certain costs of issuance.

The 1991 Series A Bonds are being issued as fully registered bonds without coupons in the denominations of \$5,000 or any integral multiple thereof. The 1991 Series A Bonds will be registered in the name of CEDE & Co., as holder of the 1991 Series A Bonds and nominee for The Depository Trust Company ("DTC"), New York, New York. Purchasers will not receive certificates representing their interest in the 1991 Series A Bonds purchased. Interest on the 1991 Series A Bonds is payable on each June 1 and December 1, commencing December 1, 1991. The principal or redemption price of and interest on the Bonds is payable by wire transfer to DTC which, in turn, will remit such principal, redemption price or interest to the DTC Participants for subsequent disbursement to the Beneficial Owners of the 1991 Series A Bonds, as more fully discussed herein. The 1991 Series A Bonds will mature on June 1 in the years and amounts and bear interest at the annual rates set forth below:

**MATURITY SCHEDULE**  
**\$2,930,000 SERIAL BONDS**

<b>Maturity (June 1)</b>	<b>Amount</b>	<b>Interest Rate</b>	<b>Price/ Yield</b>	<b>Maturity (June 1)</b>	<b>Amount</b>	<b>Interest Rate</b>	<b>Price/ Yield</b>
1994	\$220,000	5.40%	5.40%	1998	\$380,000	6.00%	6.00%
1995	250,000	5.50	5.50	1999	430,000	6.10	6.10
1996	300,000	5.75	5.75	2000	480,000	6.20	6.20
1997	335,000	5.90	5.90	2001	535,000	6.30	6.30

**\$9,570,000 6.75% Term Bonds Due June 1, 2011—Price 98.912%**

**\$3,155,000 6.50% Term Bonds Due June 1, 2013—Price 96.059%**

**\$18,720,000 6.25% Term Bonds Due June 1, 2021—Price 92.000%**

**(Plus Accrued Interest)**

**The 1991 Series A Bonds are subject to redemption prior to maturity, as more fully described herein.**

The 1991 Series A Bonds are special obligations of the District payable from and secured solely by a pledge of the Revenues (which is defined herein and which principally includes the receipts from the imposition in Santa Clara County of a one-half percent retail transactions and use tax, less certain administrative fees paid to the State Board of Equalization), as described herein.

*Neither the faith and credit nor the taxing power of the Santa Clara County Transit District, Santa Clara County, the State of California or any political subdivision or public agency thereof, other than the District to the extent of the pledge of the sales tax revenues, is pledged to the payment of the principal of, redemption premium, if any, or interest on the 1991 Series A Bonds.*

In the opinion of Orrick, Herrington & Sutcliffe, San Francisco, California, Bond Counsel, based on existing laws, regulations, rulings and court decisions and assuming, among other matters, compliance with certain covenants, interest on the 1991 Series A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, and is exempt from State of California personal income taxes. In the opinion of Bond Counsel, interest on the 1991 Series A Bonds is not a specific preference item for purposes of federal individual or corporate alternative minimum taxes, although Bond Counsel observes that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding other tax consequences relating to the accrual or receipt of interest on, or the ownership or disposition of, the 1991 Series A Bonds. See "TAX EXEMPTION" herein.

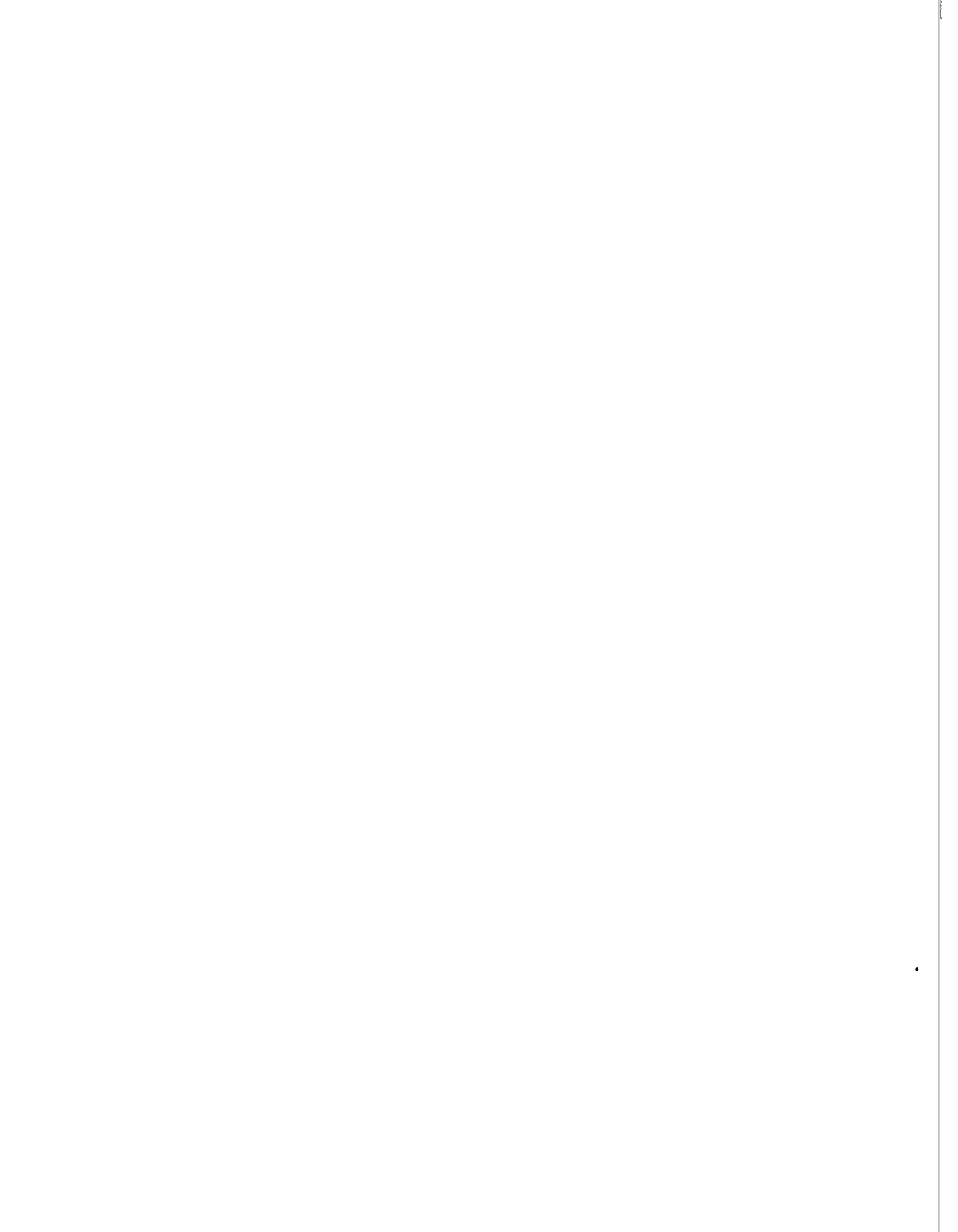
*The 1991 Series A Bonds are offered when, as and if issued and received by the Underwriters subject to the approval of validity by Orrick, Herrington & Sutcliffe, San Francisco, California, Bond Counsel, and certain other conditions.*

*Certain legal matters will be passed on for the Underwriters by Kutak Rock & Campbell, Denver, Colorado.*

*Certain legal matters will be passed on for the District by its General Counsel. It is anticipated that the 1991 Series A Bonds will be available for delivery to DTC on or about September 10, 1991.*

**Smith Barney, Harris Upham & Co.      Grigsby Brandford Powell Inc.**  
Incorporated

Dated: August 28, 1991.



No dealer, salesman or any other person has been authorized by the Santa Clara County Transit District or the Underwriters to give any information or to make any statements or representations, other than those contained in this Official Statement, and, if given or made, such other information, statements or representations must not be relied upon as having been authorized. The information set forth herein has been obtained from the Santa Clara County Transit District and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and it is not to be construed as a representation by the Underwriters. The information in this Official Statement is subject to change, and neither the delivery of this Official Statement nor any sale made after any delivery shall, under any circumstances, create any implication that there has been no change since the date of this Official Statement. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy any of the 1991 Series A Bonds in any jurisdiction in which such offer or solicitation is not authorized, or in which any person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

This Official Statement is not to be construed as a contract with the purchasers of the 1991 Series A Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

THE PRICES AT WHICH THE BONDS ARE OFFERED TO THE PUBLIC BY THE UNDERWRITERS (AND THE YIELDS RESULTING THEREFROM) MAY VARY FROM THE INITIAL PUBLIC OFFERING PRICES OR YIELDS APPEARING ON THE COVER PAGE HEREOF. IN ADDITION, THE UNDERWRITERS MAY ALLOW CONCESSIONS OR DISCOUNTS FROM SUCH INITIAL PUBLIC OFFERING PRICES TO DEALERS AND OTHERS. IN CONNECTION WITH THE OFFERING OF THE 1991 SERIES A BONDS, THE UNDERWRITERS MAY EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 1991 SERIES A BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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

SANTA CLARA COUNTY TRANSIT DISTRICT

TRANSIT DISTRICT BOARD OF SUPERVISORS

Rod Diridon, Chairperson  
Dianne McKenna, Chairperson pro tem  
Ron Gonzales  
Michael M. Honda  
Zoe Lofgren

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ADMINISTRATIVE STAFF

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Lawrence R. Reuter, Assistant Executive Officer  
Gerald A. Rosenquist, Deputy Director, Fiscal Resources  
Michael D. Rancer, Budget, Operations-Analysis Manager  
Amy E. Kung, Finance Manager  
William L. Parsons, Finance Director/Treasurer

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BOND COUNSEL

Orrick, Herrington & Sutcliffe  
San Francisco, California

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TRUSTEE

Security Pacific National Bank  
Los Angeles, California

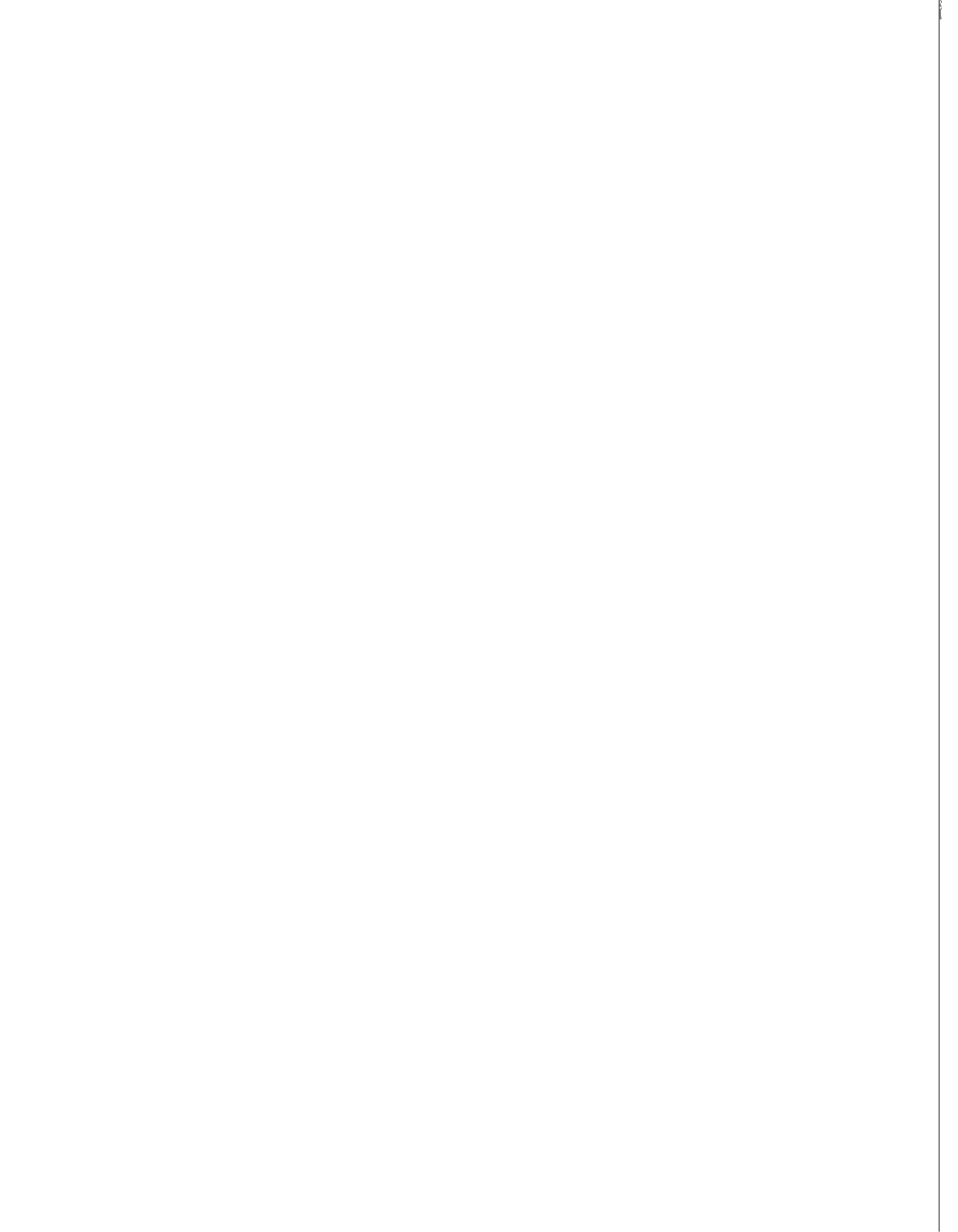


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OFFICIAL STATEMENT

\$34,375,000  
SANTA CLARA COUNTY TRANSIT DISTRICT  
(California)  
SALES TAX REVENUE BONDS  
1991 SERIES A

INTRODUCTION

This Official Statement, which includes the cover page and the appendices hereto, sets forth certain information in connection with the offering of \$34,375,000 principal amount of Sales Tax Revenue Bonds, 1991 Series A (the "1991 Series A Bonds") to be issued by the Santa Clara County Transit District (the "District"). The 1991 Series A Bonds are special obligations of the District payable from and secured by the Revenues under an Indenture and a First Supplemental Indenture, each dated as of August 1, 1991 as supplemented and amended from time to time (the "Indenture") between the District and Security Pacific National Bank, as trustee (the "Trustee"), including a pledge of the Sales Tax Revenues, which are moneys collected as a result of the imposition of the Sales Tax (as defined and described under "SECURITY AND SOURCES OF PAYMENT FOR THE 1991 SERIES A BONDS--The Sales Tax"), less an administrative fee paid to the California State Board of Equalization in connection with the collection and disbursement of the Sales Tax. Capitalized terms not defined herein are defined in "APPENDIX C--Definitions of Certain Terms" hereto.

The 1991 Series A Bonds are being issued by the District under and pursuant to Sections 100000 et seq., of the California Public Utilities Code (the "Act"), the Indenture and the First Supplemental Indenture (the "First Supplemental Indenture") dated as of August 1, 1991 by and between the District and the Trustee.

The District has previously issued and there is currently outstanding \$29,660,000 in aggregate principal amount of its Adjustable Rate Equipment Trust Certificates, Series 1985 A (the "Certificates") which were issued pursuant to an Equipment Trust Indenture, dated as of June 1, 1984, by and between the District and the Trustee (as supplemented and amended, the "Certificate Indenture"). The Certificates are payable from and secured equally by a pledge of the Sales Tax Revenues.

After the issuance of the 1991 Series A Bonds, the total principal amount of Bonds and Certificates which will be outstanding under the Indenture and Certificate Indenture and secured by and payable from the Revenues, including Sales Tax Revenues, will be \$64,035,000.

In addition to the 1991 Series A Bonds and the Certificates, additional Parity Debt may hereafter be issued under and secured by the Indenture and Certificate Indenture and paid from the Revenues. See "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE--Additional Indebtedness" herein.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE DISTRICT, THE COUNTY OF SANTA CLARA, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION OR PUBLIC AGENCY THEREOF, OTHER THAN THE DISTRICT TO THE EXTENT OF THE PLEDGE OF THE SALES TAX REVENUES, IS PLEDGED TO THE PAYMENT OF THE 1991 SERIES A BONDS.

The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for the complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each document. See Appendix C for definitions of certain words and terms used herein. All capitalized terms used in this Official Statement and not otherwise defined herein have the same meanings as in the Indenture.

#### THE PROJECT

The 1991 Series A Bonds are being issued in the aggregate principal amount of \$34,375,000 in order to finance a portion of the Project consisting of the acquisition, renovation and equipping of administration buildings for the District.

The Project consists of 17.47 acres of land and contains 217,000 square feet of office/industrial buildings. The District plans to make approximately \$8,000,000 of improvements to the buildings, including conversion of existing manufacturing, research and development, laboratory and warehouse areas to office use and to acquire communication equipment and workstations.

The District purchased the land and buildings in April 1991. The \$21.6 million purchase price was paid out of available funds in the District's Capital Reserve Fund. A portion of the 1991 Series A Bonds proceeds will be used to reimburse the District's Capital Reserve Fund. The District will take possession of the facility by stages. Spectra-Physics, the former owner, will lease a portion of the property from the District for a minimum of 12 months (to March 31, 1992) or a maximum of 15 months (to June 30, 1992). Additionally, an existing tenant, Rofin-Sinar, Inc., has a lease which will expire on December 20, 1994. However, this lease can be extended for up to an additional five years.

#### OUTSTANDING PARITY INDEBTEDNESS OF THE DISTRICT

The District has issued under the Certificate Indenture and there is currently outstanding \$29,660,000 in aggregate principal amount of Certificates. The Certificates are limited obligations of the District, issued on a parity basis with the 1991 Series A Bonds and, therefore, are payable from and secured by a pledge of the Sales Tax Revenues. The Certificates are additionally secured by a letter of credit issued by The Sumitomo Bank, Limited, San Francisco Agency. The repayment obligations to the bank are also on a parity with the 1991 Series A Bonds. The District may, at its option, prepay all or a portion of the principal amount of the Certificates outstanding at any time.

## SECURITY AND SOURCES OF PAYMENT FOR THE 1991 SERIES A BONDS

### Special Obligations

The 1991 Series A Bonds are special obligations of the District and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from the Revenues, which principally include Sales Tax Revenues pledged under the Indenture. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE DISTRICT, SANTA CLARA COUNTY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION OR PUBLIC AGENCY THEREOF, OTHER THAN THE DISTRICT TO THE EXTENT OF THE PLEDGED REVENUES, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON, THE 1991 SERIES A BONDS.

All Sales Tax Revenues are irrevocably pledged by the District to secure the punctual payment of the principal or purchase price of, premium, if any, and interest on the 1991 Series A Bonds and any Parity Debt in accordance with their terms, and the 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 Certificate Indenture and the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein. Additionally, there are pledged to secure the payment of the principal of and redemption premium, if any, and interest on the 1991 Series A Bonds in accordance with their terms all amounts (including proceeds of the 1991 Series A Bonds) held by the Trustee under the Indenture (except for amounts held in the Rebate 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.

The pledge of Sales Tax Revenues shall constitute a first lien on a co-equal basis with the Certificates and such pledge on the Sales Tax Revenues and the pledge on the amounts in such funds shall be valid and binding from and after delivery by the Trustee of the 1991 Series A Bonds or Parity Debt, without any physical delivery thereof or further act.

The Sales Tax Revenues pledged to the payment of 1991 Series A Bonds and Parity Debt shall be applied without priority or distinction of one over the other and the Sales Tax Revenues shall constitute a trust fund for the security and payment of the 1991 Series A Bonds and Parity Debt. Out of Revenues there shall be applied all sums required for the payment of the principal of (including any premium thereon) and interest on the 1991 Series A Bonds and all Parity Debt, together with any sinking fund payments of 1991 Series A Bonds and Parity Debt and reserve fund requirements with respect thereto. All remaining Revenues, after making the foregoing allocation, shall be available to the District for all lawful District purposes. The pledge of Sales Tax Revenues shall be irrevocable until all the Bonds issued under the Indenture, including the 1991 Series A Bonds, and all Parity Debt are no longer Outstanding.

The Sales Tax Revenues shall be received and held in trust by the Trustee for the benefit of the Owners of the 1991 Series A Bonds and the Parity Debt and shall be disbursed, allocated and applied solely for the uses and purposes described below under "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE--Funds and Accounts; Allocation of Revenues." As long as any Bonds, including the 1991 Series A Bonds, are Outstanding or any Parity Debt remains unpaid, the District has assigned and shall cause Sales Tax Revenues to be transmitted by the State Board of Equalization directly to the Trustee. The Trustee shall forthwith deposit in a trust fund, designated as the "Sales Tax Revenue Fund," which fund the Trustee shall designate and maintain, all Sales Tax Revenues, when and as received by the Trustee. Investment income on amounts held by the Trustee (other than amounts held in the Rebate Fund or for which particular instructions (such as with respect to a Project Fund) are provided in a Supplemental Indenture) shall also be deposited in the Revenue Fund.

As further security for its obligations to pay the principal of and interest on the 1991 Series A Bonds, the District, under the Indenture, has granted to the Trustee a security interest in the following: (i) the proceeds of the 1991 Series A Bonds, and (ii) all moneys and securities held under the Indenture (other than the funds in the Rebate Fund), including all investment income thereon, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

#### The Sales Tax

As security for its obligations to pay the principal of and interest on the 1991 Series A Bonds, the District has pledged to the Trustee the Sales Tax. The Sales Tax is a retail transactions and use tax of 1/2 of 1% of the gross receipts of retailers from the sale of all tangible personal property sold at retail in Santa Clara County and a use tax at the same rate upon the storage, use or other consumption in Santa Clara County of such property purchased from any retailer for storage, use or other consumption in Santa Clara, subject to certain limited exceptions. Revenues from the Sales Tax pledged to secure the 1991 Series A Bonds are referred to herein as "Sales Tax Revenues." For a description of the Sales Tax, including recent amendments regarding the Sales Tax, and a summary of the Sales Tax Revenues reported by the District for the last nine fiscal years ending June 30, 1990 and the amount expected to be reported in the Fiscal Year ending June 30, 1991, see "THE DISTRICT--District Operating Revenues--Sales Tax" herein.

#### Bond Reserve Fund

The District will cause to be deposited into the Bond Reserve Fund established under the Indenture an amount equal to the Bond Reserve Requirement. Moneys in the Bond Reserve Fund will be used and withdrawn by the Trustee solely for the purpose of making up any deficiency in the Interest Fund or the Principal Fund, or for the payment or redemption of the 1991 Series A Bonds and other Bonds issued pursuant to the Indenture. See "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE--Funding and Application of Bond Reserve Fund."

## DESCRIPTION OF THE 1991 SERIES A BONDS

### General

The 1991 Series A Bonds are being issued in the aggregate principal amount of \$34,375,000 in order to finance a portion of the Project consisting of the acquisition, renovation and equipping of administration buildings for the District. The District purchased the land and buildings in April 1991. The \$21.6 million purchase price was paid out of available funds in the District's Capital Reserve Fund. A portion of the 1991 Series A Bonds proceeds will be used to reimburse the District's Capital Reserve Fund. See "THE PROJECT."

The 1991 Series A Bonds will be dated August 1, 1991. The 1991 Series A Bonds will bear interest at the rates, and will mature, subject to prior redemption as described below, in the amounts and on the dates set forth on the cover page of this Official Statement. Interest on the 1991 Series A Bonds shall be payable on December 1, 1991 and semiannually thereafter on June 1 and December 1 of each year. Interest on the 1991 Series A Bonds shall be computed on the basis of a 360-day year of twelve 30-day months. The 1991 Series A Bonds will be issued as fully registered bonds without coupons and will initially be registered in the name of CEDE & Co., as registered owner and nominee of The Depository Trust Company ("DTC"), as securities depository for the 1991 Series A Bonds. Purchases of the 1991 Series A Bonds are to be made in book-entry only form in the principal amount of \$5,000 or any integral multiple thereof.

The principal and premium, if any, of the 1991 Series A Bonds are payable when due upon presentation thereof at the corporate trust office of Security Pacific National Bank, the Trustee for the 1991 Series A Bonds. Interest on the 1991 Series A Bonds will be payable by wire transfer on the interest payment dates to CEDE & Co. Payments to the owners of the 1991 Series A Bonds are to be made as described below under "Book-Entry Only System."

### Book-Entry Only System

DTC will act as securities depository for the 1991 Series A Bonds. The 1991 Series A Bonds will be issued initially in the form of one fully registered bond for each maturity date as set forth on the cover hereof, in the aggregate principal amount of the 1991 Series A Bonds, and will be registered in the name of CEDE & Co., as nominee of DTC.

DTC is a limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC was created to hold securities of its participants (the "DTC Participants") and to facilitate the clearance and settlement of securities transactions among DTC Participants in such securities through electronic book-entry changes in accounts of the DTC

Participants, thereby eliminating the need of physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations some of whom (and/or their representatives) own DTC. Access to the DTC system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly.

Ownership interests in the 1991 Series A Bonds may be purchased by or through DTC Participants. Such DTC Participants and the persons for whom they acquire interests in the 1991 Series A Bonds as nominees will not receive certificated Bonds, but each DTC Participant will receive a credit balance in the records of DTC in the amount of the DTC Participant's interest in the 1991 Series A Bonds, which will be confirmed to such DTC Participant in accordance with DTC's standard procedures. Each such person for whom a DTC Participant acquires an interest in the 1991 Series A Bonds, as nominee, may desire to make arrangements with such DTC Participant to receive a credit balance in the records of such DTC Participant and may desire to make arrangements with such DTC Participant to have all notices of redemption or other communications to DTC which may affect such persons forwarded in writing by such DTC Participant and to have notification made of all interest payments. NEITHER THE DISTRICT NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH DTC PARTICIPANTS OR THE PERSONS FOR WHICH THEY ACT AS NOMINEES WITH RESPECT TO THE 1991 SERIES A BONDS. In this Official Statement, the term "Beneficial Owner" shall mean the person for which the DTC Participant acquires an interest in the 1991 Series A Bonds.

So long as CEDE & Co. is the registered owner of the 1991 Series A Bonds as nominee of DTC, references herein to the Bondowners or Owners of the 1991 Series A Bonds shall mean CEDE & Co., as aforesaid, and shall not mean the Beneficial Owners of the 1991 Series A Bonds.

DTC will receive payments from the Trustee to be remitted to the DTC Participants who will in turn remit such payments to the Beneficial Owners. The ownership interest of such Beneficial Owner in the 1991 Series A Bonds will be recorded on the records of the DTC Participants whose ownership interest will in turn be recorded on a computerized book-entry system operated by DTC. When notices are given, they shall be sent by the Trustee to DTC only.

Transfers of ownership interests in the 1991 Series A Bonds will be accomplished by book entries made by DTC and, in turn, by the DTC Participants who act on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 1991 Series A Bonds, except as specifically provided in the Indenture. For every transfer or exchange of the 1991 Series A Bonds, or interest therein, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed relating thereto.

DTC may determine to discontinue providing its services with respect to the 1991 Series A Bonds and discharging its responsibilities with respect



thereto under applicable law. Under such circumstances (if there is not a successor securities depository), the 1991 Series A Bonds will be delivered as described in the Indenture.

If the District determines that it is in the best interest of the District to remove DTC or its successor from its function as depository and delivers a written certificate to the Trustee to that effect, the Trustee shall notify DTC, and direct that DTC notify the DTC Participants, of the availability of certificates. In such event, the Trustee shall issue, transfer and exchange certificates as requested by DTC and any other 1991 Series A Bondowners in appropriate amounts.

Redemption of 1991 Series A Bonds

Optional Redemption. The 1991 Series A Bonds maturing on or before June 1, 2000 shall not be subject to redemption prior to their respective stated maturities. The 1991 Series A Bonds maturing on or after June 1, 2001 and on or prior to June 1, 2013, shall be subject to redemption prior to their respective stated maturities, at the option of the District, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the District and by lot within a maturity), on or after December 1, 2000 at the following redemption prices (computed upon the principal amount of 1991 Series A Bonds called for redemption), plus accrued interest to the date fixed for redemption:

<u>Redemption Period</u> <u>(Both Dates Inclusive)</u>	<u>Redemption</u> <u>Price</u>
December 1, 2000 through November 30, 2001	102%
December 1, 2001 through November 30, 2002	101
December 1, 2002 and thereafter	100

The 1991 Series A Bonds maturing on June 1, 2021 shall be subject to redemption prior to the stated maturity thereof, at the option of the District, from any source of available funds, as a whole or in part on any date on or after December 1, 2000, at the principal amount called for redemption, plus accrued interest to the date fixed for redemption, without premium.

Mandatory Redemption. 1991 Series A Bonds maturing on June 1, 2011, shall also be subject to redemption prior to their stated maturity, in part, by lot, from mandatory sinking account payments required by the Indenture on any June 1 on or after June 1, 2002, at the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium in the years and amounts set forth below on the following page:

Mandatory  
Sinking Account  
Payment Dates  
(June 1)

Mandatory  
Sinking Account  
Payments

2002	\$ 595,000
2003	660,000
2004	730,000
2005	810,000
2006	890,000
2007	975,000
2008	1,070,000
2009	1,170,000
2010	1,280,000
2011	1,390,000

1991 Series A Bonds maturing on June 1, 2013, shall also be subject to redemption prior to their stated maturity, in part, by lot, from mandatory sinking account payments required by the Indenture on any June 1 on or after June 1, 2012, at the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium in the years and amounts set forth below:

Mandatory  
Sinking Account  
Payment Dates  
(June 1)

Mandatory  
Sinking Account  
Payments

2012	\$1,515,000
2013	1,640,000

1991 Series A Bonds maturing on June 1, 2021, shall also be subject to redemption prior to their stated maturity, in part, by lot, from mandatory sinking account payments required by the Indenture on any June 1 on or after June 1, 2014, at the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium, in the years and amounts set forth below:

Mandatory  
Sinking Account  
Payment Dates  
(June 1)

Mandatory  
Sinking Account  
Payments

2014	\$1,780,000
2015	1,920,000
2016	2,070,000
2017	2,230,000
2018	2,395,000
2019	2,580,000
2020	2,770,000
2021	2,975,000

Selection of Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the 1991 Series A Bonds of any maturity (and interest rate) thereof the Trustee shall select the 1991 Series A Bonds to be redeemed, from all 1991 Series A Bonds of the respective maturity (and interest rate) not previously called for redemption, in minimum denominations of \$5,000, by lot in any manner which the Trustee in its sole discretion shall deem appropriate and fair. The Trustee shall promptly notify the District in writing of the 1991 Series A Bonds so selected for redemption.

The District shall notify the Trustee at least forty-five (45) days prior to the redemption of 1991 Series A Bonds. Notice of redemption shall be mailed by the Trustee, not less than thirty (30) nor more than sixty (60) days prior to the redemption date, (i) to the respective Owners of any 1991 Series A Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee by first class mail (ii) to the Securities Depositories by registered or certified mail, return receipt requested, or by some other confirmable delivery method, and (iii) to two or more Information Services by first class mail. The Trustee shall mail an additional copy of such notice of redemption to any Bondowner who has not surrendered such Owner's Bonds called for redemption within 60 days after the redemption date.

Partial Redemption of Bonds. Upon surrender of any 1991 Series A Bond redeemed in part only, the District shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the District, a new 1991 Series A Bond of authorized denominations, and of the same maturity and interest rate, equal in aggregate principal amount to the unredeemed portion of the 1991 Series A Bond surrendered.

Effect of Redemption. Notice of redemption having been duly given, and moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, the 1991 Series A Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the 1991 Series A Bonds (or portions thereof) so called for redemption shall become due and payable at the Redemption Price specified in such notice together with interest accrued thereon to the date fixed for redemption, interest on the 1991 Series A Bonds so called for redemption shall cease to accrue, said 1991 Series A Bonds (or portions thereof) shall cease to be entitled to any benefit or security under the Indenture, and the Owners of said 1991 Series A Bonds shall have no rights in respect thereof except to receive payment of said Redemption Price and accrued interest to the redemption date.

#### Limitations on the Issuance of Obligations Payable from Revenues

The District may not, so long as any of the Bonds are Outstanding, issue any obligations or securities, howsoever denominated, payable in whole or in part from Sales Tax Revenues, except the following:

Issuance of Additional Series of Bonds or Certificates. The District may by Supplemental Indenture establish one or more Series of Bonds payable from Revenues and secured by the pledge made under the Indenture equally and ratably with Bonds previously issued, but only upon compliance with the terms of the Certificate Indenture (as long as any Certificates are outstanding) and only upon compliance by the District with the provisions of the Indenture, certain of which 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 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 District 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 District shall have placed on file with the Trustee the report of the District, certifying that the lesser of (i) the amounts of 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 Sales Tax Revenues for the Fiscal Year in which the Bonds are to be issued, will equal at least two 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.

In the event additional revenues are included within the definition of "Revenues" by a Supplemental Indenture, such additional revenues shall be included in the calculations in subsection (c) above as if such additional revenues had always been included in Revenues. 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 District without compliance with the provisions of the Indenture described above under "Issuance of Additional Series of Bonds" and other terms of the Indenture; 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 and, provided further that, as long as Certificates are outstanding, the provisions of the

Certificate Indenture with respect to the issuance of additional Sales Tax Debt are satisfied.

Issuance of Parity Debt. The District may issue Parity Debt payable on a parity with the Bonds and which will have, when issued, an equal lien and charge upon the Sales Tax Revenues, provided that the conditions set forth in the Indenture to the issuance of such Parity Debt are satisfied, including the coverage test described in (c) above.

Subordinated Obligations

The District may issue obligations which are junior and subordinate to the payment of the principal, premium, interest and reserve fund requirements for the Bonds, including the 1991 Series A Bonds, and all Parity Debt and which subordinated obligations are payable as to principal, premium, interest and reserve fund requirements, if any, only out of Sales Tax Revenues after the prior payment of all amounts then required to be paid under the Indenture from Revenues for principal, premium, interest and reserve fund requirements for the Bonds, including the 1991 Series A Bonds, and all Parity Debt, as the same become due and payable; provided that while the Certificates are outstanding, the provisions of the Certificate Indenture for the issuance of Sales Tax Debt are satisfied.

DEBT SERVICE REQUIREMENTS

The following tables show the debt service requirements on the 1991 Series A Bonds and the Certificates.

Santa Clara County Transit District  
Debt Service Schedule

<u>June 1</u>	<u>1991 Series A Bonds</u>	<u>Certificates(1)</u>	<u>Combined Total Debt Service</u>
1991	--	--	--
1992	1,830,158	2,076,200	3,906,358
1993	2,196,190	2,076,200	4,272,390
1994	2,416,190	2,076,200	4,492,390
1995	2,434,310	2,076,200	4,510,510
1996	2,470,560	2,076,200	4,546,760
1997	2,488,310	2,076,200	4,564,510
1998	2,513,545	2,076,200	4,589,745
1999	2,540,745	2,076,200	4,616,945
2000	2,564,515	2,076,200	4,640,715
2001	2,589,755	2,076,200	4,665,955
2002	2,616,050	2,076,200	4,692,250
2003	2,640,888	2,076,200	4,717,088
2004	2,666,338	2,076,200	4,742,538
2005	2,697,063	2,076,200	4,773,263
2006	2,722,388	2,076,200	4,798,588
2007	2,747,313	2,536,200	5,283,513
2008	2,776,500	4,744,000	7,520,500
2009	2,804,275	4,755,000	7,559,275
2010	2,835,300	4,752,000	7,587,300
2011	2,858,900	4,835,000	7,693,900
2012	2,890,075	4,997,000	7,887,075
2013	2,916,600	4,931,000	7,847,600
2014	2,950,000	5,151,000	8,101,000
2015	2,978,750	5,136,000	8,114,750
2016	3,008,750		3,008,750
2017	3,039,375		3,039,375
2018	3,065,000		3,065,000
2019	3,100,313		3,100,313
2020	3,129,063		3,129,063
2021	3,160,938		3,160,938

(1) The interest rate applicable to, and therefore the debt service requirements on, the Certificates is variable. The debt service requirement figures in this column are based on an assumed interest rate of 7% payable on the Certificates. The maximum legally permitted rate of interest payable on the Certificates is 15%. No assurance, estimate or forecast can be made with respect to the rate of interest that may or will be payable on the Certificates during the terms of the Certificates.

## SOURCES AND USES OF FUNDS

The proceeds from the sale of the 1991 Series A Bonds (exclusive of accrued interest) will be applied as follows:

### Sources of Funds:

Principal Amount of 1991 Series A Bonds	\$ 34,375,000
	<u>\$34,375,000</u>

### Uses of Funds:

Project Fund	29,117,476
Bond Reserve Fund	3,160,937
Underwriter's Discount	249,219
Original Issue Discount	1,726,060
Costs of Issuance	121,308
	<u>\$ 34,375,000</u>

## THE DISTRICT

### General

Upon determining that it was necessary that a transit district be established in Santa Clara County (the "County") in order to meet the public transit needs of the County, the State legislature established the District in 1969 by the Santa Clara County Transit District Act (the "Act"). The voters of the County approved the establishment of the District in June 1972. The District commenced operating a public transportation system in Santa Clara County in January 1973. The County comprises 15 cities and has a total population of approximately 1,500,000 persons. The District serves the County by operating 30 bus routes within a service area of approximately 326 square miles. The District also operates a recently completed 21-mile, 33-station light rail system. This light rail system connects South County residents with downtown and North County areas, where major worksites are located. See "THE DISTRICT TRANSIT SYSTEM."

### Administration

The government of the District is vested in the Board of Supervisors of the County of Santa Clara which also serves as the District's governing board. The governing board is composed of five members (the "Supervisors") each representing a different supervisorial district within the District. The boundaries of the supervisorial districts have been set on the basis of, as nearly as practicable, equal population and, among other things, community of interest of the population within the supervisorial districts. The voters of each supervisorial district elect one Supervisor to a four-year term.

The present members of the District's Board, the expiration of each member's term and the number of years each member has served on the Board are as follows:

<u>Name</u>	<u>Term Expires</u>	<u>Years as Member</u>
Rod Diridon, Chairperson	1/1/1995	13
Dianne McKenna, Chairperson, pro tem	1/1/1995	7
Ron Gonzales	1/1/1993	2
Michael M. Honda	1/1/1995	1
Zoe Lofgren	1/1/1993	9

The Board is advised on matters of District policy by a 29-member Advisory Commission composed of a member of the city council of each of the fifteen cities within the District, seven members representing persons with special needs for transit services, such as the elderly or handicapped, and three members having expertise in transit matters.

The county executive of the County is the Executive Officer of the District, and the Assistant Executive Officer of the District is the Director of the Santa Clara County Transportation Agency (the "Transportation Agency"). The Transportation Agency is a part of the government of the County and has overall responsibility for the management and operations of public transportation within the County, and for roads and airports under the jurisdiction of the County. The Transportation Agency administers the District; however the District is a separate legal entity from both the Transportation Agency and the County.

The District's Administrative Staff consists of the following:

SALLY R. REED - Executive Officer of the District and County Executive of Santa Clara County since 1981. From 1971-1981, Deputy City Manager in the Budget Department and officer for intergovernmental affairs for the City of San Jose. Formerly Economist with U.S. Department of Commerce in Washington, D.C. Bachelor of Arts from the University of Missouri.

LAWRENCE R. REUTER - Assistant Executive Officer of the District and Director of Santa Clara County Transportation Agency since November 1990. Bachelor of Science in Engineering from Florida Technological University, Master of Science in Engineering from the University of Central Florida. Responsible for the operations of the County's bus and rail system, roads and airports. Held various key positions with the New York City Transit Authority for nine years, culminating in the Senior Vice President of Operations position. During a period of 13 years, he held various engineering and management positions with Auto Train, a private passenger railroad corporation for 13 years culminating in the Vice President of Operations position.

GERALD A. ROSENQUIST - Deputy Director, Fiscal Resources since 1984. Bachelor of Arts in Business Administration from University of Washington, Certified Public Accountant. Formerly Assistant Controller for Santa Clara County and Chief Accountant of King County, Washington. Member of the Municipal Finance Officer's Association.



MICHAEL D. RANCER - Manager for Budget, Operations Analysis and Purchasing for the District and the County Transportation Agency since June 1987. Bachelor of Arts in Economics, Masters in City Planning from the University of California, Berkeley, Masters in Public Administration from the University of Southern California. Formerly Capital Projects Manager in the Santa Clara County Office of the County Executive and Chief of Staff of a Santa Clara County supervisorial district.

AMY E. KUNG - Finance Manager and Deputy County Controller for the District and the Santa Clara County Transportation Agency since August 1990. Bachelor of Science in Economics and Business Administration from the University of California, Davis. Formerly a senior accountant for the Santa Clara County Finance Department and a budget analyst for the California State Finance Department.

WILLIAM L. PARSONS - Finance Director/Treasurer of Santa Clara County, the District and the Santa Clara County Transportation Agency since January 1985, after being Controller of the same since 1982. Bachelor of Science in Accounting from the University of California, Los Angeles. Formerly Comptroller of King County, Washington and Auditor/Controller of Santa Barbara County, California. Certified Public Accountant. Member of Municipal Finance Officers Association and California Association of Auditor/Controllers.

### Employees

The District presently employs approximately 1,632 nonadministrative persons (including mechanics, bus and light rail operators) represented by the Amalgamated Transit Union Division 265. The District's existing contract with this union will expire on February 24, 1993. All supervisory and administrative personnel are Santa Clara County employees. County employees are represented by eight labor unions and six associations, the largest being Service Employees International Union (Local 715), which represents approximately 46% of all County employees. Currently 96% of all County employees are covered by negotiated agreements. The District has never experienced any major work stoppages or job actions.

### The District Transit System

Bus Transit Service. The District presently operates a bus system with routes serving an area of approximately 326 square miles all within Santa Clara County, a county of 1,300 square miles with a population of approximately 1.5 million. Approximately 30% of this population resides within a quarter of a mile of all of the transportation routes maintained by the District. The area served by the District includes San Jose--one of the fastest growing cities in the United States--and other urbanized portions of central and northern Santa Clara County ("Silicon Valley").

As of June 1991, the District maintained an active fleet of 512 buses to service its system of roughly 80 local and express routes covering 4,250 miles, which system includes coordinated service with five regional carriers:

Alameda Contra-Costa Transit (AC Transit), Bay Area Rapid Transit (BART), San Mateo County Transit (SamTrans), Santa Cruz County Transit and CalTrain. The average daily ridership was, as of June 1991, over 143,000.

Light Rail Transit Service. The District currently operates and maintains a 21-mile, \$550 million light rail system that connects south San Jose residents with downtown San Jose, North San Jose and Santa Clara worksites. Ridership increased from less than 1,000 riders per day when the initial system opened in December 1987, to approximately 6,000 riders per day when the District's Transit Mall opened in 1988. Ridership increased to over 11,000 daily passengers when the line was extended to San Jose's Willow Glen area in August 1990. In April 1991, the entire 21-mile line opened for service, and ridership has reached a high of 23,187 daily riders.

Rail operations employ 192 employees and maintain a fleet of 50 light rail vehicles. As of April 1991, the system began servicing a total of 33 stations, which are fully integrated with the bus system and provide free parking for over 6,300 cars at 11 park-and-ride lots.

Other Transit Services. The District provides funding, coordinates feeder service, and assists in the improvement of CalTrain commuter services. These services are directly managed by the California Department of Transportation. Santa Clara County residents account for about 38% of the total (21,200) rail passengers daily.

The District's transportation system includes service available on request to passengers in inaccessible areas (Dial-A-Ride) and, in conjunction with the California Department of Transportation, a ridesharing program providing commuters with car pool information. The District also operates programs to provide public transportation for the elderly and the handicapped.

#### Financial Results

The following table shows the District's income statements for the four fiscal years 1987 through 1990.

Statements of Revenues and Expenses  
For the Year Ended June 30,  
(\$000's)

	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
<b>OPERATING REVENUES:</b>				
Passenger fares, ticket sales and other operating revenues	\$ 10,130	\$ 11,390	\$ 13,074	\$ 14,653
<b>OPERATING EXPENSES:</b>				
Transportation	51,355	57,432	57,727	62,034
Vehicle maintenance	24,924	25,993	27,398	31,383
Nonvehicle maintenance	3,260	4,469	5,476	5,529
General and administrative	20,338	21,088	23,345	24,504
Depreciation and amortization	<u>3,221</u>	<u>10,490</u>	<u>11,629</u>	<u>12,262</u>
Total operating expenses	<u>108,090</u>	<u>119,472</u>	<u>125,575</u>	<u>135,712</u>
<b>OPERATING LOSS</b>	<u>( 97,968)</u>	<u>(108,082)</u>	<u>(112,501)</u>	<u>(121,059)</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>				
State funding	35,091	33,974	38,609	43,231
Federal funding	5,989	6,761	6,739	6,313
Sales Tax Revenues	71,421	73,776	83,429	90,819
Interest and other revenues	24,289	26,588	16,545	13,957
CalTrain passenger subsidy	(3,335)	(3,257)	(3,099)	(4,282)
Interest and other expenses	<u>( 18,878)</u>	<u>( 7,834)</u>	<u>( 5,147)</u>	<u>( 5,190)</u>
Total nonoperating revenues (expenses)	<u>115,577</u>	<u>135,009</u>	<u>137,076</u>	<u>144,348</u>
<b>NET INCOME</b>	<u>\$ 17,609</u>	<u>\$ 26,927</u>	<u>\$ 24,575</u>	<u>\$ 23,289</u>

Management's Discussion of Financial Results

The District's emphasis during its first 15 years of operation has been on the growth and development of an integrated, multi-modal system capable of serving a large metropolitan area. The bus fleet has grown to 512 revenue vehicles and now runs about 22 million vehicle miles per year on a widespread network of local and express routes. A 21-mile light rail line stretches from the residential neighborhoods of South San Jose to the industrial areas of the Silicon Valley.

The District has also established cooperative programs with several adjoining properties to ensure that intercounty passengers can easily transfer from one system to another. These cooperative arrangements encompass SamTrans and CalTrain in San Mateo County, BART and A-C Transit in Alameda County, and also Santa Cruz County Transit. This systemwide expansion has resulted in steady passenger growth, now running at about 45 million riders per year and increasing about 4% annually.

In recent years, the District has sought to stabilize current operations and to further strengthen its aggressive cost containment program so as to provide a strong financial base for the next round of expansion around the turn of the century. Unproductive routes and modes of service will be trimmed back or re-allocated. A limited experiment in contracting out service is expected to yield information on long-term opportunities for cost savings. Budgets in all categories have been trimmed back through attrition of vacant and unneeded positions and through efforts aimed at minimizing exposure to a variety of risks (e.g., improvements in safety training, , reduction in workers' compensation claims, management of health insurance costs, etc.). Improved inventory control has reduced the carrying costs of parts, while the District simultaneously pursues the purchase of more fuel-efficient vehicles. The purchase of the administration complex at 3333 North First Street is part of this effort, as a way of reducing space rental costs while offering a greatly improved working environment.

Given increasing concerns over traffic congestion, clean air and energy conservation, the District believes it is capable, with a minimum of incremental operating cost and with no increase in overhead, of continuing the steady ridership growth of recent years.

### Financial Projections

The table below sets forth a five-year forecasted debt service coverage for the 1991 Series A Bonds and the Certificates, based on District estimates of Sales Tax Revenues in its "Financial Forecast--1991/92--2000".

Forecast of Sales Tax Revenues and Debt Service Coverage

Fiscal Year Ending <u>June 30</u>	Forecast Sales Tax <u>Revenue</u>	Percentage Increase From Prior <u>Year</u>	Debt Service on <u>Certificates(1)</u>	Debt Service on 1991 Series A <u>Bonds</u>	Combined Debt Service <u>(1)</u>	Current Debt Service <u>Coverage(2)</u>	Forecast Debt Service <u>Coverage</u>
1992	\$ 94,496,000	5.7%	\$4,449,000	\$1,830,158	\$6,279,158	\$14.238	\$15.049
1993	99,882,000	5.7	4,449,000	2,196,190	6,645,190	13.453	15.031
1994	105,575,000	5.7	4,449,000	2,416,190	6,865,190	13.022	15.378
1995	111,593,000	5.7	4,449,000	2,434,310	6,883,310	12.988	16.212
1996	117,954,000	5.7	4,449,000	2,470,560	6,919,560	12.920	17.046

(1) Assumes that the Certificates will bear their maximum interest rate of 15%. No assurance, estimate or forecast can be made with respect to the rate of interest that may or will be payable on the Certificates during the terms of the Certificates.

(2) Based upon estimated Sales Tax Revenues for the 12 months ending June 30, 1991, in the amount of \$89,400,000.

## District Operating Revenues

The District derives its revenues principally from funds provided pursuant to the California Transportation Development Act of 1971, as amended (the "TDA Act") and through the Urban Mass Transportation Administration ("UMTA") pursuant to the Urban Mass Transportation Act of 1964, as amended (the "UMTA Act"), both described herein, passenger fares and the Sales Tax levied by the District. As described under "SECURITY AND SOURCES OF PAYMENT FOR THE 1991 SERIES A BONDS," Sales Tax Revenues are pledged to pay the 1991 Series A Bonds. The other sources of revenues described below, although not pledged to the payment of the 1991 Series A Bonds, are lawfully available to pay the principal of and interest on the 1991 Series A Bonds except to the extent such moneys represent grants for restricted purposes.

(a) Sales Tax. In 1976, the voters of the County authorized enactment by the District of an ordinance imposing the Sales Tax--a 1/2% sales and use tax on transactions in the County. The California State Board of Equalization collects this tax for the District and, pursuant to an agreement between the District and the Board of Equalization, after deducting the cost of administering the Sales Tax, monthly remits tax revenue to the Trustee. During the first two months of each of the District's fiscal quarters, the Board of Equalization remits to the Trustee an amount equal to the Board of Equalization's estimate of the amount of Sales Tax Revenue owed the District. During the third month of each of the District's fiscal quarter, the Board of Equalization adjusts the payment to the Trustee to reflect the quarterly reconciliation of Sales Tax Revenue collections during the previously completed fiscal quarter. The Sales Tax is the District's single largest source of revenue.

After application for payment of the 1991 Series A Bonds and Certificates, Sales Tax Revenues are budgeted to pay operating expenses and to pay capital expenditures where State or federal capital assistance programs require that the recipient of assistance contribute locally derived revenue.

The following table shows Sales Tax Revenues reported by the District during the nine fiscal years ended June 30, 1990, as well as the amount expected to be reported in the Fiscal Year ending June 30, 1991 and the percentage of increase or decrease from Fiscal Year to Fiscal Year.

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Total Amount</u>	<u>% Change</u>
1982	50,199,000	13.0%
1983	53,867,701	7.3
1984	62,787,000	16.5
1985	71,211,135	13.4
1986	66,595,794	(6.5)
1987	68,025,000	2.1
1988	78,776,038	15.8
1989	83,428,866	5.9
1990	90,818,836	8.9
1991	89,400,000*	(1.6)

The calculated average annual compound growth rate for the fiscal 10-year period is 6.5%.

\*Estimated by the District:

Source: the District..

The following table shows estimates of Sales Tax Revenues expected to be received by the District for fiscal years ended June 30, 1992 through June 30, 1996 as projected by the District in its "Financial Forecast--1991/92--2000".

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Estimated Sales</u> <u>Tax Revenues*</u>	<u>% Change</u>
1992	\$ 94,496,000	5.7%
1993	99,882,000	5.7
1994	105,575,000	5.7
1995	111,593,000	5.7
1996	117,954,000	5.7

\*Estimated by the District.

Recent Developments Affecting Sales Tax Revenues. In Aerospace-Corp. v. State Board of Equalization, a State court of appeal granted a claim filed by Aerospace Corporation ("Aerospace") for a refund of sales and use taxes erroneously collected by the Board of Equalization over a period of several years on supplies and materials which Aerospace obtained to perform a contract with the federal government. The court of appeal found that the regulation under which the Board of Equalization had made the assessments was arbitrary and inconsistent with the governing statute.

The Board of Equalization had also similarly applied the invalid regulation to other federal contractors in the State. Since the Aerospace Corp. decision, the Board of Equalization has received approximately 240 claims for refunds of improperly collected sales and use taxes.

A portion of these improperly collected sales and use taxes was transferred by the Board of Equalization to the District. The District believes that the amount of any overpayment received by the District from the Board of Equalization with respect to improperly collected sales and use taxes will be recovered by the Board of Equalization from the District through future reductions in distributions to the District of the Sales Tax. The District understands that the Board of Equalization must audit each claim for refund as it is submitted. Accordingly, it is uncertain over what period of time this reduction will occur or when it will commence. According to preliminary estimates of the Board of Equalization, the amount that could be recovered statewide from districts such as the District is approximately \$61.6 million, including interest. It cannot presently be ascertained what percentage of this amount is attributable to the District, but a preliminary estimate is that repayment will cost \$5-7 million over a three- to four-year period.

The District believes this loss will be more than compensated for by a recent expansion of the taxable base. As a result of development of the State Budget, the legislature adopted legislation expanding the transactions and the items subject to the statewide sales tax. The statewide sales tax base was expanded, effective July 15, 1991, to include several additional items, such as candy, newspapers, periodicals, and jet fuel. This expansion of the tax base is expected to increase Sales Tax Revenues by 2-3% (\$1.9-\$2.8 million in Fiscal Year 1992) and is expected to help offset some of the declines in Sales Tax Revenues due to the recession. It is anticipated that this increase will remain in effect for the remainder of the term of the Sales Tax. As a result, this increase is expected to provide long-term growth.

(b) Federal and State Aid. All applications to the federal or state government for any grants must first be submitted for approval to the Metropolitan Transportation Commission ("MTC"). MTC is a local planning agency existing under Title 7.1 of the Government Code of California to provide comprehensive regional transportation planning for the region comprised of the City and County of San Francisco and the Counties of Alameda, Contra Costa, Marin, Napa, San Mateo, Santa Clara, Solano and Sonoma.

MTC annually prepares a Regional Transit Capital Program in which regional priorities are established for the allocation of federal, state and regional funds to transit capital improvement projects. Only those applications for federal or state aid which in the judgment of MTC are compatible with its program are forwarded to the respective governmental agency.

State Aid - TDA Act. The State subsidy consists in part of an allocation of sales tax revenue under the TDA Act, whereby 1/4 of 1% of the State's current 7 1/4% sales tax is made available for public transportation operating and capital expenses in the county in which the sales tax is collected (the "TDA Funds"). The TDA Funds are the District's second largest source of revenue and are distinct from revenues derived from the Sales Tax.

TDA Funds are apportioned, allocated and paid by MTC. In accordance with procedures and eligibility requirements set forth in the TDA Act, the District submits a request for TDA Funds to MTC on each April 1 for the next fiscal year. If MTC approves the request, MTC then directs the Controller of the County to release the TDA Funds to the District. Under TDA regulations, MTC allocates approximately 10% of taxes collected to fund community transit service programs, facilities for the use of pedestrians and bicycles and the transportation planning and programming process. The remaining 90% is allocated to operators who provide public transportation services in the County. The District is the only public transit service provider in the County and therefore receives all of the 90% tax allocation.

TDA Funds for operating assistance are returned to the county of origin and are available to the District in an amount equal to 50% of the District's operating budget after deduction of federal grants, provided that certain TDA Act criteria are met.

The District has been in compliance with TDA Act eligibility requirements and has received TDA Funds in each year since the District began operations in 1973. TDA Funds are received in substantially equal quarterly installments. The following table shows the total amount of TDA Funds for operations available from annual sales tax collections in Santa Clara County during the five fiscal years ended June 30, 1991.

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>TDA Funds for Operations</u> <u>Distributed to the District</u>
1987	\$34,886,286
1988	34,312,662
1989	38,352,209
1990	42,814,516
1991	44,462,704

State Aid - State Transit Assistance Program. Pursuant to the State Transit Assistance Program (the "STA"), a portion of gasoline sales tax revenues is appropriated by the State Legislature to the State Transportation Planning and Development Account (the "STA Funds") for certain transit and energy-related purposes. These STA Funds are allocated throughout the State on the basis of population and operating revenues.



The District has been receiving STA Funds since Fiscal Year 1979-80. STA Funds are claimed on the basis of actual cash expenditures, normally on a quarterly basis. The District did not claim any STA Funds in the Fiscal Year ending June 30, 1991. The amount of \$1.5 million allocated for that Fiscal Year has been rolled forward to the following Fiscal Year. The total available STA Funds allocated for the District in the Fiscal Year ending June 30, 1992, including the rolled forward amount, are \$3.4 million. The following table reflects STA Funds received by the District in the five fiscal years ended June 30, 1990.

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>STA Funds</u> <u>Received</u>
1986	\$1,414,228
1987	61,676
1988	41,584
1989	169,289
1990	276,168

Federal Aid - UMTA Grants. Funds for the federal urban mass transportation program are available from the Urban Mass Transportation Authority ("UMTA") to qualified transit authorities pursuant to procedures set forth by UMTA.

The Urban Mass Transportation Act (the "UMTA Act"), which created UMTA, was enacted for the purpose, among others, of providing substantial federal assistance to enable mass transportation systems to continue to provide vital service. The principal source of funding under the UMTA Act is found in Section 9 therein.

Federal grants are authorized by Section 9 (formerly Section 5), based on a formula block grant which takes into account population and population density, revenue vehicle miles and rail-route miles.

Grants under Section 9 can fund up to 80% of the net cost of eligible projects and can provide operating assistance for up to 50% of the net project cost, although the remaining 20% and 50%, respectively, must be provided by non-federal funds.

The process of obtaining Section 9 capital and operating assistance UMTA grants ("UMTA Grants") is initiated by a recipient designated by the State governor, responsible local officials, and publicly owned operators of mass transportation services. MTC, as the designated recipient in the County, prepares and submits a regional program of projects to UMTA for approval. Additionally, the District must file an application with the UMTA regional office to be eligible for an UMTA Grant. The application, when submitted, may be approved by the UMTA regional office after UMTA funds for the federal fiscal year have been apportioned. Prior to such approval UMTA may request additional information from the District pertaining to the District's application. If the application is approved

by the UMTA regional office, it must, in addition, be reviewed and approved by the UMTA office in Washington, and only after such approval may a grant contract be released.

The following table shows UMTA Grants received in the five fiscal years ended June 30, 1991 and budgeted by the District to meet operating expenses:

<u>Fiscal Year Ended June 30</u>	<u>UMTA Grants Received</u>
1987	\$6,828,287
1988	6,252,965
1989	6,667,739
1990	6,157,852
1991	6,091,124

In addition, the District has received, during the period described above, UMTA grants under Section 3 and Section 9 and its predecessor for capital expenditures.

All UMTA payments are subject to budgetary authority of the United States Congress or of any official, elected or otherwise, or agency with legal or actual control over the disbursement of government funds.

(c) District Ridership and Passenger Fare Revenues. The table below shows the District's ridership and amount of passenger fare revenues received by the District for the past seven fiscal years. Beginning in the Fiscal Year ended June 30, 1989, the District began receiving revenues from advertisements placed on the District's vehicles. These advertising revenues, which equalled an annual amount of approximately \$925,000, are included in the figures shown in the table below:

<u>Fiscal Year Ended June 30</u>	<u>Passengers (000s)</u>	<u>Fare Revenues Received</u>	<u>Percentage Change</u>
1985	35,828	\$10,360,865	9.1%
1986	34,971	10,354,782	(0.1)
1987	34,157	10,129,780	(2.2)
1988	35,580	11,389,968	12.4
1989	39,143	13,074,342	14.8
1990	41,199	14,652,700	12.1
1991	45,653	16,669,000	13.8

The calculated average annual compound growth rate for the fiscal seven-year period is 3.25%.

New fare rates were adopted by the Transit District Board on July 30, 1991, to take effect September 30, 1991. It is estimated that these new rates will add approximately \$4.9 million in fare revenues in the first full year

after their effectiveness. There can be no assurance, however, as to the effect of the fare rate increase on the District's revenues.

(d) Other Revenue. In addition to interest earnings on operating funds, other State and federal assistance is received from time to time that may be used to pay operating expenses.

District Expenditures

Operating Expenditures. The District's greatest operating expenses are labor and employee benefits, which comprise approximately \$100.7 million (74%) of the District's budgeted operating expenditures for Fiscal Year 1990-91. The \$100.7 million labor and employee benefit cost is the total budgeted amount for mechanics, bus and light rail operators, supervisory and administrative personnel of the District. Aside from labor costs, fuel, lubricants, vehicle parts and service costs account for almost all of the District's remaining operating expenses. Costs on fuel, lubricants, tires, tubes and other vehicle parts totaled approximately \$13.3 million and account for about 10% of the District's budgeted operating expenditures for Fiscal Year 1990-91. Costs on maintenance, professional, technical, security and other services totaled approximately \$14 million and account for another 10%.

The following table sets forth the amount of costs incurred on labor (including employee benefits), fuel, lubricants, vehicle parts (including tires and tubes) and services during the past five fiscal years ending June 30, 1990.

Fiscal Year Ended June 30	(In 000s)			
	Labor Costs	Fuel and Lubricants	Vehicle Parts	Maintenance and Other Services
1986	\$70,616	\$4,223	\$ 7,092	\$ 9,666
1987	76,716	3,144	7,995	8,654
1988	80,671	3,916	7,686	10,475
1989	86,513	3,446	6,862	10,276
1990	92,583	4,056	10,284	9,798

Insurance. The District is self-insured for most insurable risks. The District participates in an insurance pool together with other Santa Clara County agencies. The District contributes annually to the County wide self-insurance pool. On general and automobile liabilities, actuarial studies have determined that the current funding level of the self-insurance pool would be able to pay for a claim up to \$10,000,000 at an 85% confidence level. On property damage claims, the District pays the first \$250,000 and \$100,000 for each collision incident of light rail and historical trolley vehicles, respectively. On other property damage claims, claims are paid on an all-risk form, except earthquake, by insurance policies up to the actual cash value on buses and replacement costs on other properties with deductible amounts paid for from the self-insurance pool. The District is self-insured

for workers' compensation claims of bus drivers and mechanics employed by the District. The District maintains a separate fund to account for contributions received from the District's operating fund based on estimated claim liabilities and actual claim payments.

The District is currently a defendant in 18 legal actions involving 51 plaintiffs in which the plaintiffs have alleged violations by the District of various laws prohibiting racial, ethnic and/or sexual harassment or discrimination in employment. It is not possible at this time to estimate with confidence the total amount of damages and other costs that the District may incur as a result of these legal actions. The District anticipates, however, that any such costs incurred as a result of such actions will be paid from the District's self-insurance fund.

#### Capital Reserve Fund

The District established a capital reserve fund (the "Capital Reserve Fund") by resolution of the Board of Supervisors on February 23, 1982. The following moneys are required to be deposited in the Capital Reserve Fund: (i) the proceeds of grants under UMTA Section 3, (ii) State transit assistance moneys, (iii) grants by the State made pursuant to S.B. 620 (Chapter 161, Statutes 1979), (iv) that portion of the proceeds of the Sales Tax required to be set aside as matching funds for state and federal subsidies, and (v) all interest earned on and properly allocable to any of the moneys described in (i), (ii), (iii) and (iv).

Moneys in the Capital Reserve Fund may be used solely (i) to pay the cost of capital improvements to the transit systems of the District and (ii) to make loans to the Enterprise (Operating) Fund from time to time as funds are required for unanticipated current operating expenses of the District.

In the event or to the extent that the revenues pledged to pay the 1991 Series A Bonds and other outstanding obligations of the District are not received by the District, the District may borrow from the Capital Reserve Fund to pay the principal of and interest thereon and is obligated to repay the Capital Reserve Fund for such borrowings. Moneys on deposit in the Capital Reserve Fund are considered part of the moneys lawfully available to pay the principal or redemption price of and the interest on the Certificates and 1991 Series A Bonds. However, the District is not prohibited from pledging, encumbering or spending such moneys and there can be no assurance that such moneys would be available, if needed, to pay the 1991 Series A Bonds.

As of June 30, 1991, there was \$84,923,265 remaining on deposit in the Capital Reserve Fund after \$21.6 million was paid from that fund in April 1991 for the initial acquisition of the District's administration buildings.

## District Capital Program

The District has committed a capital program in the amount of \$233 million over a nine-year period from Fiscal Year 1992 through Fiscal Year 2000. Of this total amount, the District anticipates \$95 million to be funded by federal and state sources.

Financing sources for the portion of the capital project costs to be funded locally are anticipated to be coming from the balance available in the District's Capital Reserve Fund, and the projected operating margin over the next nine years. The balance available in the Capital Reserve Fund for capital project financing is net of an annual restricted amount set aside equaling 15% of the District's total annual operating costs. The 15% annual restricted reserve, established by the District, is set aside to cover emergencies and other expenditures not anticipated in the District's annual operating budget. The amount of the District's annual restricted reserve for the Fiscal Year ending June 30, 1992 is \$24 million.

The following table displays expenditure amounts for the committed capital projects and their corresponding funding sources in total and in annual amounts over the next five fiscal years.

District Committed Capital Program  
Nine-Year Period FY 1992 to FY 2000  
(\$000s)

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u> <u>to</u> <u>2000</u>	<u>Total</u>
<u>Expenditures:</u>							
Bus Replacement	\$27,470	\$15,000	\$15,800	\$16,600	\$14,600	\$75,100	\$164,570
Tasman Corridor Project	17,030	-0-	-0-	-0-	-0-	-0-	17,030
CalTrain	4,207	-0-	-0-	-0-	-0-	-0-	4,207
Facility Modifications and Equipment	11,377	3,500	3,660	3,820	3,980	17,750	44,087
Transit Studies	<u>628</u>	<u>120</u>	<u>120</u>	<u>420</u>	<u>120</u>	<u>1,080</u>	<u>2,788</u>
Total Expenditures	60,712	18,920	19,580	20,840	18,700	93,930	232,682
<u>Funding Sources:</u>							
Bus Replacement							
Federal	15,516	9,000	7,350	9,000	9,000	31,470	31,336
Local	11,954	6,000	8,450	7,600	5,600	43,630	33,234
Tasman Corridor Project							
Federal	11,500	-0-	-0-	-0-	-0-	-0-	11,500
State	2,000	-0-	-0-	-0-	-0-	-0-	2,000
Local	3,530	-0-	-0-	-0-	-0-	-0-	3,530
CalTrain							
Local	4,207	-0-	-0-	-0-	-0-	-0-	4,207
Facility Modifications and Equipment							
Local	11,377	3,500	3,660	3,820	3,980	17,750	44,087
Transit Studies							
Federal	41	41	41	41	41	164	369
Local	<u>587</u>	<u>379</u>	<u>79</u>	<u>379</u>	<u>79</u>	<u>216</u>	<u>2,419</u>
Total Funding Sources	60,712	18,920	19,580	20,840	18,700	93,930	232,682
(Total Federal)	27,057	9,041	7,391	9,041	9,041	31,634	33,205
(Total State)	2,000	-0-	-0-	-0-	-0-	-0-	2,000
(Total Local)	31,655	9,879	12,189	11,799	9,659	62,296	137,477

Bus Replacement. To sustain the existing level of service and to avoid the problems of an aging bus fleet, the District is committed to spend \$89 million to replace 238 buses in the next five years, and \$164 million to replace a total of 478 buses over the next nine years.

Tasman Corridor Project. The District has committed to spend \$17 million for this project out of the \$464 million total project cost estimate. The District's additional commitment on this project depends on the availability of federal, state and local funding sources currently being sought by the District to finance this project. The District's funding plan for this project is 50% federal, 25% state and 25% local shares.

This project is an expansion of the District's light rail transit service program. This project would extend the existing light rail line an additional 14 miles and include up to 18 additional stations. The extension line would run from the northeast part of San Jose east of Interstate 680, continue west through Milpitas, northern San Jose and Santa Clara and then extend to the Mountain View central business district and CalTrain station.

CalTrain. The District has committed \$4.2 million in local funds to purchase trackage rights extending CalTrain rail service from Tamien Station in San Jose 28 miles south to Gilroy.

The Gilroy-CalTrain extension project will be funded mostly by local sources and the project is expected to be completed in 1993. In the Fiscal Year ending June 30, 1991, the District appropriated \$31 million toward the planned activities under this project including improvements on station platforms at various south county locations, park-and-ride lots at each station location, track and signal improvements as necessary and overnight storage facilities for trains at the Gilroy depot.

Facility Modifications and Equipment. The program committed by the District includes amounts to be spent on bus stop and pavement improvements, development and improvement of high activity multiple route interface and transfer facilities, underground storage tank replacement and other projects under the District's hazardous waste management program, as well as other miscellaneous facility modifications and support equipment.

Transit Studies. The District has also committed amounts for feasibility studies of several long-range transit corridors.

In addition to projects already committed, the District has also identified other projects totaling \$653 million for the next nine-year period. These projects have been identified as high priorities in transportation plans but have not yet received funding commitments. These projects are: a 100-bus fleet expansion; continuing development of the Tasman Corridor projects; and partial funding for the development of two other transit corridors. The District will not commit to any of these projects unless funding sources are identified. Their availability is anticipated to finance not only the capital costs, including the local matching requirement, but also any operating cost increases resulting from these capital projects once they are in place.

In planning for the District's capital program and determining the level of funding requirements for the next five to nine years, the District has

established in 1984 a comprehensive transportation plan for the County called the Transportation Plan T2000. The Final T2000 Plan was adopted by the T2000 Steering Committee and the County Transit Board of Supervisors in May 1987. The T2000 Plan provides the policy framework in the form of goals, objectives and improvement priorities which have been used as a basis for many of the transit capital projects and programs. The District plans to update the T2000 Plan periodically. The first T2000 Plan update, called the Santa Clara County Transportation Plan T2010, will be completed by the end of this year. The main objective of the T2010 Plan is to update the T2000 Plan with new or modified information, project descriptions, cost estimates and priorities.

#### Hazardous Material Management Program

In July 1991, the District and the County District Attorney's Office reached an agreement on a judgment against the District for violation of California's underground storage tank and hazardous waste laws at different bus yards. The judgment included \$2 million in penalties and specified corrective measures to be taken. The \$2 million penalty fees will be applied directly to environmental projects beneficial to Santa Clara County.

In order to undertake the necessary corrective measures to bring the District in compliance with regulations as rapidly as possible, the Transit Board of Supervisors, through a declaration of a state of emergency, approved an appropriation of \$9 million to accelerate the District's underground tank replacement schedule and hazardous waste management program at different bus yards. The program includes the replacement of underground storage tanks and remediation at sites affected by hazardous materials such as removal of soil from affected areas and the installation of new monitoring systems and storage tanks. In addition to this \$9 million, the District has already spent nearly \$6 million on hazardous material management program projects.

The District has formed a committee composed of District staff and outside consultants to develop, implement and complete a fast-track compliance program.

#### Significant Accounting and Budgetary Policies

The District is considered an enterprise fund and follows the accrual basis of accounting. The District has retained the firm of Deloitte & Touche to audit its records for the last six fiscal years.

The District's budget is prepared annually prior to the commencement of its Fiscal Year (July 1-June 30). Sales Tax and TDA Funds are budgeted on the basis of historical collections and factored against inflation and other growth barometers. Passenger fares are budgeted on the basis of ridership trends as projected to be affected by anticipated fare and route changes and certain other factors. Federal, state and regional funding sources are budgeted in accordance with allocations and commitments.



Revenues and expenditures are monitored continually by an automated comprehensive financial management system called Standard Accounting and Reporting System ("STARS"), installed in the County in July 1986. In addition, the District maintains additional mechanized reporting systems, which provide up-to-date data for the District to meet a variety of management needs and reporting requirements.

The District is able to adjust its transit operations and reduce expenditures when necessary, if revenue receipts and collection trends indicate imbalances from budgeted levels.

#### SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The Indenture contains various provisions and covenants, some 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.

#### Additional Indebtedness

The District will not, so long as any of the Bonds are Outstanding, issue any obligations or securities, howsoever denominated, payable in whole or in part from Sales Tax Revenues except Parity Debt, Subordinated Obligations or Refunding Obligations. See "DESCRIPTION OF THE 1991 SERIES A BONDS--Limitations on the Issuance of Obligations Payable From Revenues."

#### 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 the outstanding Certificates and other outstanding Parity Debt as provided in the Certificate Indenture and the proceedings for such Parity Debt delivered to the Trustee (which shall be proportionate in the event such amounts are insufficient to provide for all deposits required as of any date to be made with respect to the Bonds and such Parity Debt):

Interest Fund. Commencing in September, 1991, 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 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 if 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 Fund for any month shall be increased by the amount by which the deposit in the prior month was less than the actual amount of interest accruing during that month on said Outstanding Variable Rate Indebtedness). No deposit need be made into the Interest Fund if the amount contained therein is at least equal to the interest to become due and payable on the interest payment dates falling within the next six months upon all of the Bonds issued then Outstanding, and on June 1 of each year any excess amounts in the Interest Fund not needed to pay interest on such date (and not held to pay interest on Bonds having interest payment dates other than June 1 and December 1) shall be transferred to the District (but excluding, in each case, any moneys on deposit in the Interest Fund from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay interest on any future interest payment dates following such interest payment dates).

Principal Fund: Sinking Accounts. 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, plus (b) one-twelfth of the aggregate yearly amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds of all Series having annual maturity dates within the next twelve months, plus (c) one-sixth of the aggregate of the Mandatory Sinking Account Payments to be paid during the next six-month period into the respective Sinking Accounts for the Term Bonds of all Series for which Sinking Accounts have been created and for which semiannual mandatory redemption is required from said Sinking Accounts, plus (d) one-twelfth of the aggregate of the Mandatory Sinking Account Payments to be paid during the next twelve-month period into the respective Sinking Accounts for the Term Bonds of all Series for which Sinking Accounts shall have been created and for which annual

mandatory redemption is required from such Sinking Accounts; provided that if the District 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 be set aside towards 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 said Term Bonds shall bear to each other, after first deducting for such purposes from said Term Bonds any of said Term Bonds required to be redeemed annually as shall have been redeemed or purchased during the preceding twelve-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 twelve-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 twelve-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 twelve month period and theretofore paid from the Principal Fund to redeem or purchase Term Bonds during such 12-month period; provided that if the District 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 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 District a Certificate of the District 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 District.

Bond Reserve Fund. The Trustee shall deposit as soon as possible in each month in the Bond Reserve Fund, except as otherwise permitted by the Indenture, upon the occurrence of any deficiency therein, one-twelfth (1/12) of the aggregate amount of each unreplenished prior withdrawal from the Bond Reserve Fund and the full amount of any deficiency due to any required valuations of the investments in the Bond Reserve Fund until the balance in the Bond Reserve Fund is at least equal to the Bond Reserve Requirement.

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 District. The District may use and apply the Revenues when received by it for any lawful purpose of the District, 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 transfer from the Bond Reserve Fund are insufficient to make such payments, the Trustee shall immediately notify the District, in writing, of such deficiency and direct that the District transfer the amount of such deficiency to the Trustee on or prior to such payment date. The District 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 all amounts in the Sinking Accounts shall be used and withdrawn by the Trustee solely to purchase or redeem or pay at maturity Term Bonds, as provided in the Indenture.

The Trustee shall establish and maintain within the Principal Fund a separate account for the Term Bonds of each Series and maturity. 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 District, apply moneys in such Sinking Account to the purchase of Term Bonds of such Series and maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Fund) as is directed by the District, except that the purchase price (excluding accrued interest, in the case of Current Interest Bonds) shall not exceed the principal amount or Accreted Value thereof. If, during the 12-month period (or six-month period with respect to Bonds having semi-annual Mandatory Sinking Account Payments) immediately preceding said Mandatory Sinking Account Payment date, the Trustee has purchased Term Bonds of such Series and maturity with moneys in such Sinking Account, or, during said period and prior to giving said notice of redemption, the District 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 subsection shall be cancelled by the Trustee and destroyed by the Trustee and a certificate of destruction shall be delivered to the District 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 District to be used for any lawful purpose. All Term Bonds purchased from a Sinking Account or deposited by the District with the Trustee in a twelve-month period ending May 31 (or in a six-month period ending May 31 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 of the District. 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 District.

#### Funding and Application of Bond Reserve Fund

In lieu of making the Bond Reserve Requirement deposit 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 District), the District 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 Moody's and Standard & Poor's 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 surety bonds or insurance policies (as described in the following paragraph) 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 this section. At least one year prior to the stated expiration of such letter of credit, the District 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 described in the following paragraph. 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 District. If the District shall fail to deposit a replacement letter of credit, extended letter of credit or surety bond or insurance policy with the Trustee, the District 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 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 District), the District 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 company's insurance policies) are rated in one of the two highest Rating Categories of Moody's and Standard & Poor's 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 District 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 hereinafter described, 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 of 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 of 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 instrument or portion of the Bond Reserve Fund may be available to pay only the Series of Bonds for which it was 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 District 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 Fund in excess of the Bond Reserve Requirement shall be transferred by the Trustee to the District on June 1 and December 1 of each year; 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 District with the Trustee for the purpose of optionally redeeming Bonds of any Series shall, unless otherwise directed by the District, 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 District, 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 District, except that the purchase price (exclusive of such accrued interest) may not exceed the Redemption Price or Accreted Value then applicable to such Bonds. All Term Bonds purchased or redeemed from the Redemption Fund shall be allocated to Mandatory Sinking Account Payments applicable to such Series and maturity of Term Bonds as may be specified in a Request of the District.

### Application of Proceeds of 1991 Series A Bonds

The proceeds of the sale of the 1991 Series A Bonds shall be deposited with the Trustee and shall be held in trust and set aside by the Trustee as follows:

- (a) The Trustee shall deposit in the Interest Fund the amount of such proceeds representing interest accrued on the 1991 Series A Bonds to the date of delivery thereof.
- (b) The Trustee shall deposit in the Bond Reserve Fund an amount equal to the Bond Reserve Requirement.
- (c) The remaining proceeds from the sale of the 1991 Series A Bonds shall be transferred by the Trustee to the District for deposit into the Project Fund established under the Indenture.

### Establishment and Application of Project Fund

The District shall establish, maintain and hold in trust a separate fund designated as the "Project Fund." The moneys in the Project Fund shall be used and withdrawn by the District to pay the costs of the Project, including reimbursing itself for funds advanced for the initial purchase of the District's administration buildings and the Costs of Issuance of the 1991 Series A Bonds. All investment earnings on funds held in the Project Fund shall be deposited in the Project Fund unless directed by the District to be deposited in the Rebate Fund.



When the District determines that the portions of the Project to be financed with the proceeds of the 1991 Series A Bonds has been completed, a Certificate of the District shall be delivered to the Trustee by the District stating (i) the fact and date of such completion, (ii) that all of the costs thereof have been determined and paid (or that all of such costs have been paid less specified claims which are subject to dispute and for which a retention in the Project Fund will be maintained by the District in the full amount of such claims until such dispute is resolved) and (iii) that the Trustee is to deposit, upon receipt from the District, the remaining balance in the Project Fund, less the amount of any such retention, to the Redemption Fund and apply such funds to the purchase or redemption of maturities of 1991 Series A Bonds designated by the District. Upon the receipt of such Certificate and funds, the Trustee shall deposit the amount received from the District, being the amount remaining in the Project Fund less the amount of any such retention, to the Redemption Fund to be used for the purchase or redemption of 1991 Series A Bonds as soon as practicable in accordance with the foregoing Certificate and the terms and conditions of the Indenture.

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 District, solely in Investment Securities. All Investment Securities shall be, as directed by the District in writing or by telephone, promptly confirmed in writing, be acquired subject to the limitations described below under "Covenants of the District--Tax Covenants," the limitations as to maturities hereinafter in this section described and such additional limitations or requirements consistent with the foregoing as may be established by Request of the District. If and to the extent the Trustee does not receive investment instructions from the District 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 thereof and the Trustee shall thereupon request investment instructions from the District 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 later than the date on which it is estimated that such moneys will be required by the Trustee.

Investment Securities purchased with moneys on deposit in the Principal Fund, Interest Fund and Bond Reserve Fund, to the extent such Investment Securities are required by the definition thereof to be rated, shall be rated not less than the rating on the Bonds (excluding any rating of the Bonds attributable to a letter of credit, insurance policy or other credit enhancement securing the Bonds).

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, 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 District--Tax Covenants." Notwithstanding anything to the contrary contained in this paragraph, 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 accrued 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 District so instructs the Trustee, to accommodate rebate calculations. The Trustee may act as principal or agent in the making or disposing of any investment and, with the prior written consent of the District 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 District may and the Trustee shall, upon the Request of the District, 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 Moody's and Standard & Poor's.

The District may and the Trustee shall, upon the Request of the District, 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 District 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 District or the Trustee may contract for an interest rate swap is limited to entities the debt securities of which are rated in the highest short-term or one of the two highest long-term debt Rating Categories by Moody's and Standard & Poor's. If the District so designates, amounts payable under the interest rate 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 District 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 agreement, to the extent required thereunder, amounts deposited in the Interest Fund for the payment of 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 is 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 District, in accordance with a Request of the District, 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 District 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 District

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

(i) Punctual Payment. The District 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 District 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 for interest thereon which shall not have been so extended. Nothing described herein shall be deemed to limit the right of the District to issue bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

(iii) Waiver of Acts. The District 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 now or at any time hereafter in force that may affect the covenants and agreements contained in the Indenture or in the Bonds, and all benefit or advantage of any such law or laws is expressly waived by the District to the extent permitted by law.

(iv) Further Assurances. The District 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 District 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 District 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 District will furnish the Trustee, within one hundred eighty (180) days after the end of each Fiscal Year, the financial statements of the District 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 accountant's examination of the financial statements was performed in accordance with generally accepted auditing standards and a Certificate of the chief financial officer of the District 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 District to cure such default. Thereafter, a copy of such financial statements will be furnished to any owner of Bonds upon written request to the District.

(vii) Collection of Sales Tax Revenues. The District 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 District. 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 District will continue to levy and collect such transactions and use taxes to the full amount permitted by law. The District further covenants that it has entered into an agreement with the State Board of Equalization under and pursuant to which the State Board of Equalization will process and supervise collection of said transactions and use taxes and will transmit Sales Tax Revenues directly to the Trustee. Said agreement will be continued in effect so long as any of the Bonds are Outstanding and shall not be amended, modified or altered without the written consent of the Trustee so long as any of the Bonds are Outstanding. The District will receive and hold in trust for (and remit immediately to) the Trustee any Sales Tax Revenues paid to the District by the State Board of Equalization.

Sales Tax Revenues received by the Trustee shall be transmitted to the District 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 District 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 District 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 Certificate. 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 District 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 District covenants to comply with the directions contained in the Tax Certificate and the Trustee covenants to comply with all written instructions of the District 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 paragraph if it follows such instructions of the District, and the Trustee shall have no liability or responsibility to enforce compliance by the District 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 District, in Investment Securities, subject to the restrictions set forth in the Tax Certificate.

Upon receipt of the instructions of the District, the Trustee shall remit part or all of the balances in the Rebate Fund to the federal government of the United States of America, as directed. In addition, if such instructions so direct, the Trustee will 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 District in accordance with a Request of the District.

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 section and the Tax Certificate shall survive the defeasance or payment in full of the Bonds.

The District shall retain all records with respect to the calculations and instructions described herein 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 District 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 District may exclude the application of these covenants and the covenants described above under "Rebate Fund" to such Series of Bonds. Without limiting the generality of the foregoing, the District shall

comply with all requirements and covenants contained in the Tax Certificate. In the event that at any time the District 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 District 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 subsection and above under "Rebate Fund," if the District shall receive an Opinion of Bond Counsel to the effect that any action required as described herein 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 District and the Trustee may rely conclusively on such opinion in complying with the provisions hereof, and the covenants hereunder 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 District, 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 District 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 section.

The Indenture and the rights and obligations of the District 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 District 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 Moody's and Standard & Poor's.

No such modification or amendment shall (a) extend the fixed maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment provided for the payment of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon

the redemption thereof, without the consent of the 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 District of any Supplemental Indenture as described herein, 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 District, 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 District may adopt without the consent of any Bondholders but only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the District 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 District;

(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 hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially and adversely affect the interests of the 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 District 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 District 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 in accordance therewith, and the respective rights, duties and obligations under the Indenture of the District, 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 1991 Series A Bonds

Discharge of Indenture. Bonds of any Series or a portion thereof, including the 1991 Series A Bonds, may be paid by the District 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 District 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 District, then and in that case, at the election of the District (evidenced by a Certificate of the District, filed with the Trustee, signifying the intention of the District 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 District under the Indenture shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon Request of the District, the Trustee shall cause an accounting for such period or periods as may be requested by the District to be prepared and filed with the District and shall execute and deliver to the District 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 District all moneys or securities or other property held by it pursuant to the Indenture which, as evidenced by a verification report, upon which the Trustee may conclusively rely, from a firm of certified public accountants, or other independent consulting firm, are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

Discharge of Liability on Bonds. Upon the deposit with the Trustee, escrow agent or other fiduciary, in trust, at or before maturity, of money or securities in the necessary amount (as 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 District 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 District 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 District may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the District 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 Money 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 money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and shall be:

(a) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as 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 District) to apply such money to the payment of such principal or Redemption Price and interest with respect to such Bonds.

#### Transfer and Exchange of 1991 Series A Bonds

Use of Depository. So long as the 1991 Series A Bonds are registered in book-entry form. Beneficial Owners will not receive certificates representing their ownership interests in the 1991 Series A Bonds. Transfers of ownership interests in, and exchanges of, the 1991 Series A 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 District (and there is no successor depository), the District shall issue, and the Trustee shall authenticate and deliver, 1991 Series A Bonds to the DTC Participants for further delivery to the Beneficial Owners. Thereafter, the Trustee shall maintain a register of the Owners of the 1991 Series A Bonds, and transfers and exchanges of 1991 Series A Bonds shall be effected as described in this section.

Transfer of 1991 Series A Bonds. Any 1991 Series A 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 his duly authorized attorney, upon surrender of such 1991 Series A Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Trustee.

Whenever any 1991 Series A Bond or 1991 Series A Bonds shall be surrendered for transfer, the District shall execute and the Trustee shall authenticate and deliver a new 1991 Series A Bond or 1991 Series A 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 1991 Series A Bonds for redemption, or of any 1991 Series A Bond or portion of a 1991 Series 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 1991 Series A Bonds. 1991 Series A Bonds may be exchanged at the Corporate Trust Office of the Trustee for a like aggregate principal amount of 1991 Series A Bonds of other authorized denominations of the same series, maturity and interest rate; provided that no exchange may occur during the period established by the Trustee for selection of 1991 Series A Bonds for redemption, or of any 1991 Series A Bond or portion of a 1991 Series 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 District 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 District 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 District insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of the District, or approving a petition filed against the District seeking reorganization of the District 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 District or of the Revenues, and such custody or control shall not be terminated within 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 District 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 section, 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 District, 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 section 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 District 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 District 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 District 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 of its counsel and other agents) incurred in and about the performance of its powers and duties under the Indenture;

(2) To the payment of the whole amount of Bond Obligation then due on the Bonds and Parity 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 effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power 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 proceeding, 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 of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the 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 would 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 of 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 of Bonds owned by the Owners making such request..

Such notification, request, 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 District, the Trustee and the Bondholders, subject to any determination in such proceedings, shall be restored to their former positions and rights hereunder, severally and respectively, and all rights, remedies, powers and duties of the District, the Trustee and the Bondholders shall continue as though no such proceedings had been taken.

Remedies Not Exclusive. No remedy herein 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 or now or hereafter existing at law or in equity or otherwise.

No Waiver of Default. No delay or omission of the Trustee or of any Owner of 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.



## LITIGATION

There is not now pending any litigation restraining or enjoining the issuance or delivery of the 1991 Series A Bonds or questioning or affecting the validity of the 1991 Series A Bonds or the proceedings and authority under which they are to be issued. Neither the creation, organization or existence of the District, nor the title of the present members of the District to their respective offices is being contested.

## TAX EXEMPTION

In the opinion of Orrick, Herrington & Sutcliffe, San Francisco, California, Bond Counsel, based on existing laws, regulations, rulings and court decisions and assuming, among other matters, compliance with certain covenants, the interest paid by the District on the 1991 Series A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code and is exempt from State of California personal income taxes.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the 1991 Series A Bonds. The District has covenanted to comply with certain restrictions designed to assure that the interest paid by the District on the 1991 Series A Bonds will not be included in federal gross income. Failure to comply with these covenants may result in interest on the 1991 Series A Bonds being included in federal gross income, possibly from the date of issuance of the 1991 Series A Bonds. The opinion of Bond Counsel assumes compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of the issuance of the 1991 Series A Bonds may affect the tax status of interest on the 1991 Series A Bonds.

Bond Counsel is further of the opinion that interest on the 1991 Series A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, Bond Counsel observes that interest on the 1991 Series A Bonds is included in adjusted current earnings for purposes of calculating corporate alternative minimum taxable income.

Certain requirements and procedures contained or referred to in the Indenture and other relevant documents may be changed and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of nationally recognized bond counsel. Bond Counsel expresses no opinion as to any 1991 Series A Bond or the interest thereon if any such change occurs or action is taken upon the advice or approval of Bond Counsel other than Orrick, Herrington & Sutcliffe.

Although Bond Counsel has rendered an opinion that interest on the 1991 Series A Bonds is excluded from gross income for federal income tax purposes and exempt from State of California personal income taxes, the ownership or

disposition of, or the accrual or receipt of interest on, the 1991 Series A Bonds may otherwise affect the Owner's tax liability. The nature and extent of these other tax consequences will depend upon the Owner's particular tax status and the Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

#### LEGAL MATTERS

Orrick, Herrington & Sutcliffe, San Francisco, California, Bond Counsel, will render an opinion with respect to the validity of the 1991 Series A Bonds. The proposed form of such approving opinion is attached hereto as APPENDIX D. Bond Counsel has not been requested to examine or review and has not examined or reviewed the accuracy or sufficiency of this Official Statement relating to the 1991 Series A Bonds, or any proceedings, reports, correspondence, financial statements or other documents containing financial or other information related to the District which have been or may be furnished or disclosed to purchasers of the 1991 Series A Bonds; and Bond Counsel expresses no opinion with respect to such financial or other information or the accuracy or sufficiency thereof. Certain legal matters will be passed upon for the Underwriters by their counsel, Kutak Rock & Campbell, Denver, Colorado. Certain legal matters will be passed upon for the District by the general counsel for the District.

#### THE RATINGS

The 1991 Series A Bonds have been rated "AA" by Standard & Poor's and "A1" by Moody's. These ratings reflect only the views of the rating agencies, and do not constitute a recommendation to buy, sell or hold securities. The District has furnished to the rating agencies certain information respecting the 1991 Series A Bonds, the District and the Project. Generally, rating agencies base their ratings on such information and materials and their own investigations, studies and assumptions. The ratings are subject to revision or withdrawal at any time by the rating agencies, and there is no assurance that the ratings will continue for any period of time or that they will not be lowered or withdrawn. Any reduction or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

#### UNDERWRITING

The 1991 Series A Bonds are being purchased by Smith Barney, Harris Upham & Co. Incorporated and Grigsby Brandford Powell Inc. (the "Underwriters"). The Underwriters have agreed to purchase the 1991 Series A Bonds at a price of \$32,399,721.10, plus accrued interest. The Purchase Contract relating to the 1991 Series A Bonds provides that the Underwriters will purchase all of the 1991 Series A Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in said Purchase Contract, the approval of certain legal matters by counsel and certain other conditions.

The Underwriters may offer and sell 1991 Series A Bonds to certain dealers and others at prices lower than the offering prices stated on the cover page hereof. The offering prices may be changed from time to time by the Underwriters.

#### MISCELLANEOUS

The references herein to the Act, the Indenture and the Purchase Contract are brief outlines of certain provisions thereof. Such outlines do not purport to be complete and for full and complete statements of such provisions reference is made to said documents or the Act, as the case may be. Copies of the documents mentioned under this heading are available for inspection at the District and following delivery of the 1991 Series A Bonds will be on file at the offices of the Trustee in Los Angeles, California.

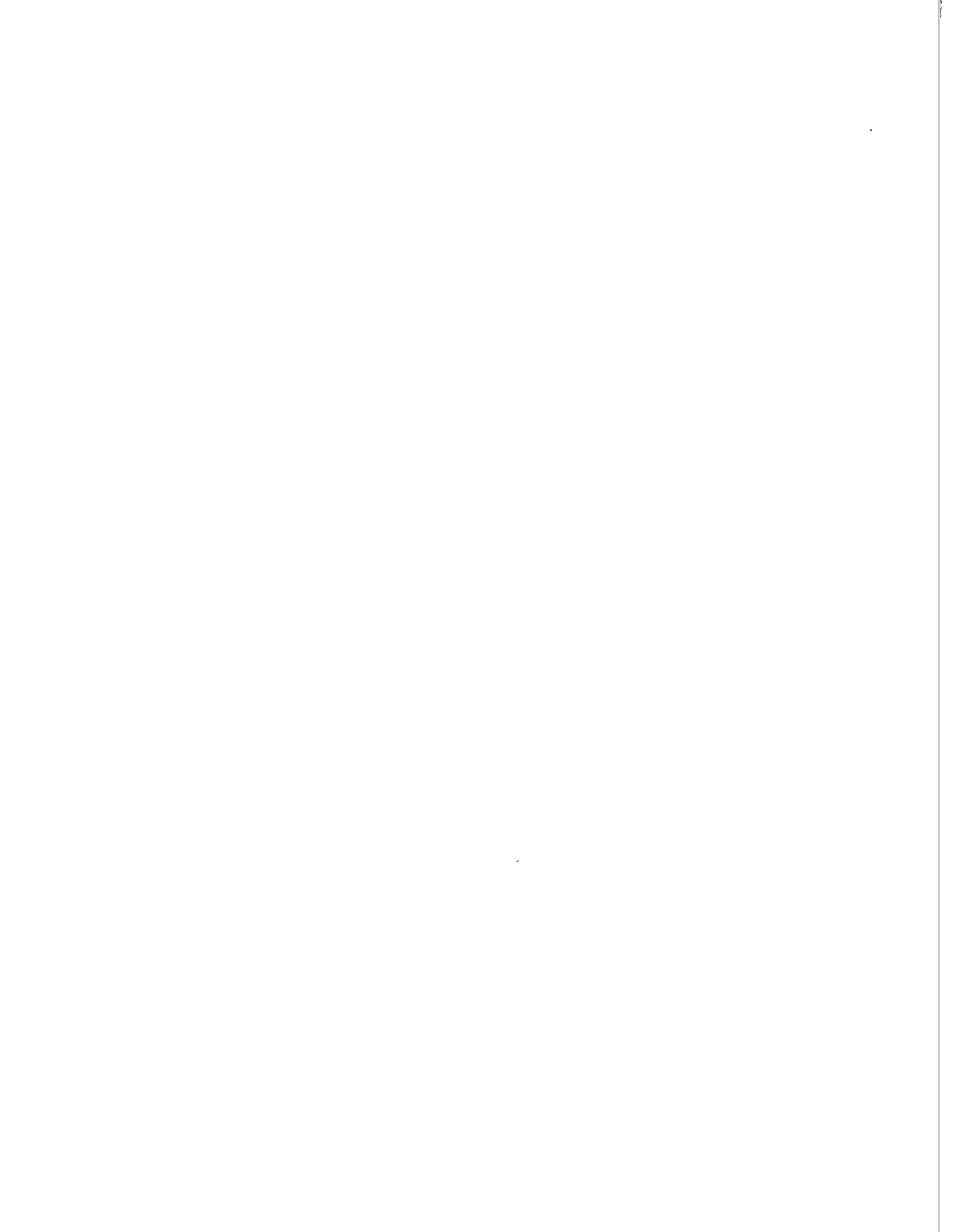
References are made herein to certain documents and reports which are brief summaries thereof which do not purport to be complete or definitive. Reference is made to such documents and reports for full and complete statements of the content thereof.

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 District and the purchasers or Owners of any of the 1991 Series A Bonds.

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

SANTA CLARA COUNTY TRANSIT DISTRICT

By /s/ Gerald A. Rosenquist  
Deputy Director, Fiscal Resources



APPENDIX A

Audited Financial Statements of the  
Santa Clara County Transit District  
for the Years Ending June 30, 1990 and 1989  
and  
Unaudited Financial Statements of the Santa Clara  
County Transit District for the Period July 1, 1990  
to January 6, 1991



## INDEPENDENT AUDITORS' REPORT

The Honorable Board of Supervisors,  
Santa Clara County Transit District:

We have audited the accompanying component unit financial statements of the Santa Clara County Transit District (the District), a component unit of the County of Santa Clara, as of and for the years ended June 30, 1990 and 1989, listed in the foregoing table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such component unit financial statements present fairly, in all material respects, the financial position of the District at June 30, 1990 and 1989 and the results of its operations and the changes in financial position for the years then ended in conformity with generally accepted accounting principles.

*Deloitte & Touche*

October 12, 1990

SANTA CLARA COUNTY TRANSIT DISTRICT

BALANCE SHEETS, JUNE 30, 1990 AND 1989

<u>ASSETS</u>	<u>1990</u>	<u>1989</u>
<b>CURRENT ASSETS:</b>		
Cash and investments:		
Unrestricted	\$121,082,285	\$ 64,709,373
Restricted	31,571,235	9,604,288
Receivables	13,913,089	13,489,233
Spare parts and supplies	8,375,255	9,396,296
Prepaid and other current assets	<u>4,104,854</u>	<u>4,328,939</u>
Total current assets	179,046,718	101,528,129
<b>DEFERRED BOND ISSUANCE COSTS</b> (net of amortization of \$265,000 and \$237,000, respectively)	718,437	747,112
<b>RESTRICTED CASH AND INVESTMENTS</b>	11,591,477	77,422,301
<b>INVESTMENT IN JOINT VENTURE</b>	687,381	566,720
<b>LAND, BUILDINGS AND EQUIPMENT - NET</b>	<u>619,859,215</u>	<u>555,060,980</u>
<b>TOTAL</b>	<u>\$811,903,228</u>	<u>\$735,325,242</u>
<b><u>LIABILITIES AND DISTRICT EQUITY</u></b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 11,743,806	\$ 10,888,609
Accrued expenses	11,509,510	13,323,039
Due to other County funds - net	2,448,138	2,301,972
Due to other governmental agencies	<u>804,958</u>	<u>1,040,111</u>
Total current liabilities	<u>26,506,412</u>	<u>27,553,731</u>
<b>NONCURRENT ACCRUED EXPENSES</b>	<u>15,816,679</u>	<u>9,469,191</u>
<b>LONG-TERM DEBT</b>	<u>29,660,000</u>	<u>29,660,000</u>
<b>COMMITMENTS</b>		
<b>DISTRICT EQUITY:</b>		
Contributed capital	372,901,659	330,127,232
Retained earnings:		
Reserved	67,994,568	80,702,333
Unreserved	<u>299,023,910</u>	<u>257,812,755</u>
Total District equity	<u>739,920,137</u>	<u>668,642,320</u>
<b>TOTAL</b>	<u>\$811,903,228</u>	<u>\$735,325,242</u>

See notes to financial statements.

SANTA CLARA COUNTY TRANSIT DISTRICT

STATEMENTS OF REVENUES AND EXPENSES  
FOR THE YEARS ENDED JUNE 30, 1990 AND 1989

	<u>1990</u>	<u>1989</u>
<b>OPERATING REVENUES:</b>		
Passenger fares, ticket sales and other operating revenues	<u>\$ 14,652,700</u>	<u>\$ 13,074,342</u>
<b>OPERATING EXPENSES:</b>		
Transportation	62,034,225	57,727,181
Vehicle maintenance	31,382,675	27,398,013
Nonvehicle maintenance	5,529,505	5,475,971
General and administrative	<u>24,503,982</u>	<u>23,344,965</u>
Operating expenses excluding depreciation and amortization	123,450,387	113,946,130
Depreciation and amortization	<u>12,261,724</u>	<u>11,628,884</u>
<b>Total operating expenses</b>	<u>135,712,111</u>	<u>125,575,014</u>
<b>OPERATING EXPENSES IN EXCESS OF OPERATING REVENUES</b>	<u>(121,059,411)</u>	<u>(112,500,672)</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>		
State assistance	43,230,780	38,609,410
Federal grants	6,313,044	6,739,182
Sales tax revenues	90,818,836	83,428,866
Interest income	13,257,824	12,735,220
Other revenues	698,969	3,809,687
Interest expense	(1,654,775)	(2,041,345)
CalTrain passenger subsidy	(4,281,554)	(3,098,814)
Other expenses	<u>(3,535,211)</u>	<u>(3,105,995)</u>
<b>Total nonoperating revenues - net</b>	<u>144,847,913</u>	<u>137,076,211</u>
<b>EXCESS OF REVENUES OVER EXPENSES</b>	<u>\$ 23,788,502</u>	<u>\$ 24,575,539</u>

See notes to financial statements.

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**SANTA CLARA COUNTY TRANSIT DISTRICT**

**STATEMENTS OF DISTRICT EQUITY**  
**FOR THE YEARS ENDED JUNE 30, 1990 AND 1989**

	<u>CONTRIBUTED</u> <u>CAPITAL</u>	<u>.....RETAINED</u> <u>RESERVED</u>	<u>EARNINGS.....</u> <u>UNRESERVED</u>
BALANCES, JULY 1, 1988	\$309,575,192	\$ 83,680,054	\$225,051,589
Excess of revenues over expenses			24,575,539
Capital grants	25,759,946		
Depreciation on assets acquired through capital grants	(4,480,253)		4,480,253
Decrease in reserved retained earnings		(2,977,721)	2,977,721
Disposal of assets acquired through capital grants	<u>(727,653)</u>	<u>                    </u>	<u>727,653</u>
BALANCES, JUNE 30, 1989	330,127,232	80,702,333	257,812,755
Excess of revenues over expenses			23,788,502
Capital grants	47,489,315		
Depreciation on assets acquired through capital grants	(4,714,888)		4,714,888
Decrease in reserved retained earnings	<u>                    </u>	<u>(12,707,765)</u>	<u>12,707,765</u>
BALANCES, JUNE 30, 1990	<u>\$372,901,659</u>	<u>\$ 67,994,568</u>	<u>\$299,023,910</u>

See notes to financial statements.

SANTA CLARA COUNTY TRANSIT DISTRICT

STATEMENTS OF CHANGES IN FINANCIAL POSITION  
FOR THE YEARS ENDED JUNE 30, 1990 AND 1989

	<u>1990</u>	<u>1989</u>
<b>UNRESTRICTED CASH AND INVESTMENTS PROVIDED BY (USED FOR):</b>		
<b>OPERATIONS:</b>		
Excess of revenues over expenses	\$ 23,788,502	\$ 24,575,539
Items not affecting working capital:		
Depreciation and amortization	12,261,724	11,628,884
Loss on disposal of fixed assets	-	966,015
Amortization of deferred bond issuance costs	28,675	28,674
Earnings from joint venture	<u>(46,082)</u>	<u>(30,976)</u>
Working capital provided by operations	36,032,819	37,168,136
Effect of working capital items on unrestricted cash and investments:		
(Increase) decrease in:		
Cash and investments - restricted	(21,966,947)	3,994,077
Receivables	(423,856)	7,710,739
Spare parts and supplies	1,021,041	(3,388,979)
Prepaid and other current assets	224,085	(3,488,397)
Increase (decrease) in:		
Notes payable	-	(7,000,000)
Accounts payable	855,197	932,510
Accrued expenses	(1,813,529)	(957,095)
Due to other County funds - net	146,166	(611,697)
Due to other governmental agencies	<u>(235,153)</u>	<u>(1,241,547)</u>
Total unrestricted cash and investments provided by operations	<u>13,839,823</u>	<u>33,117,747</u>
<b>FINANCING ACTIVITIES:</b>		
Capital grants and contributions	47,489,315	25,759,946
Restricted cash and investments - decrease	65,830,824	37,731,264
Noncurrent accrued expenses - increase	6,347,488	1,850,668
Payments of long-term debt	<u>-</u>	<u>(5,700,000)</u>
Total unrestricted cash and investments provided by financing activities	<u>119,667,627</u>	<u>59,641,878</u>

(Continued)

SANTA CLARA COUNTY TRANSIT DISTRICT

STATEMENTS OF CHANGES IN FINANCIAL POSITION  
FOR THE YEARS ENDED JUNE 30, 1990 AND 1989 (Concluded)

	<u>1990</u>	<u>1989</u>
INVESTING ACTIVITIES:		
Purchase of land, buildings and equipment	(77,059,959)	(73,095,278)
Investment in joint venture	<u>(74,579)</u>	<u>(51,799)</u>
Total unrestricted cash and investments used for investing activities	<u>(77,134,538)</u>	<u>(73,147,077)</u>
INCREASE IN UNRESTRICTED CASH AND INVESTMENTS	56,372,912	19,612,548
UNRESTRICTED CASH AND INVESTMENTS:		
Beginning of year	<u>64,709,373</u>	<u>45,096,825</u>
End of year	<u>\$121,082,285</u>	<u>\$ 64,709,373</u>

See notes to financial statements.

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# SANTA CLARA COUNTY TRANSIT DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### 1. ORGANIZATION

Santa Clara County Transit District (the District) was established in 1972 following an affirmative vote of the electorate. The District has the responsibility to develop, maintain and operate a public mass transit system for the benefit of the residents of the County of Santa Clara (the County), California (the State). The District is governed by the County's Board of Supervisors under provisions of the Santa Clara County Transit District Act. Accordingly, the District is an integral part of the County and is included as a component unit along with all other component units in the general purpose financial statements of the County.

### 2. SIGNIFICANT ACCOUNTING POLICIES

Description of the reporting entity - The financial statements include the financial activities of the District and the former Guadalupe Corridor Joint Powers Fund (the Fund), whose operations were interrelated. The Guadalupe Corridor Joint Powers Fund was established to oversee the construction of a light-rail transit system in the Guadalupe Corridor. The Fund's joint powers agreement expired on December 31, 1988. Although the Fund was terminated, future results of the Guadalupe Corridor construction will continue to be presented as part of the District's financial statements.

The financial statements do not include the Santa Clara County District Amalgamated Transit Union Pension Plan (the Plan), which is a potential component unit of the District. The Plan is excluded because of the prevailing industry practice of not including a pension plan in an enterprise fund's financial statements. Relevant financial information of the Plan is disclosed in Note 10.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements and relates to the timing of the measurements made regardless of the method of measurement.

The accompanying financial statements are prepared using the accrual basis of accounting, under which revenues are recorded when earned and expenses are recorded when incurred.

Deferred bond issuance costs are amortized on a straight-line basis over the term of the related debt.

Spare parts and supplies are stated at average cost.

Land, buildings and equipment are stated at cost. Depreciation is computed using the straight-line method over estimated useful lives of 5 to 50 years as follows:

Structures and improvements	15 - 50 years
Buses and cars	7 - 15 years
Light-rail structures and light-rail vehicles	25 - 30 years
Other operating equipment	5 - 15 years
Leasehold improvements	lease term

Assets acquired with capital grant funds are included in land, buildings and equipment. Depreciation on such assets is included in the statements of revenues and expenses.

Vested compensated absences for vacation and sick leave benefits that have been earned but are not anticipated to be claimed and disbursed during the next fiscal year are accrued and recorded as noncurrent accrued expenses.

Federal, state and local grant funds are accounted for in accordance with the purpose for which the funds are intended.

Approved grants for the acquisition of land, buildings and equipment are recorded as contributed capital when the related expenditures are incurred. Depreciation on assets acquired with capital grant funds is transferred from retained earnings to contributed capital; disposals of such assets are recorded as reductions in contributed capital.

Approved grants for operating assistance are recorded as nonoperating revenues in the fiscal year in which the grants are applicable and the related grant conditions are met.

Investments are stated at amortized cost, which approximates current (market) value.

Pension costs are accrued as determined based on actuarial studies using the entry age normal cost method.

Self-insurance - The District is fully self-insured for liability and workers' compensation claims. Estimated losses on claims other than workers' compensation claims are charged to expense in the period the loss is determinable and are paid to the Santa Clara County Insurance Internal Service Fund. Estimated losses on claims for workers' compensation are charged to expense in the period the loss is determinable and are accrued as a liability.

Reclassifications - Certain reclassifications have been made to the 1989 financial statements to conform to the 1990 presentation.

### 3. CASH AND INVESTMENTS

The District deposits cash with the County Treasurer in a commingled account with cash from various other governmental entities within the County for investment purposes. The commingled cash is principally deposited in time deposits and invested in bankers' acceptances, negotiable certificates of deposit and various U.S. Government Agency and commercial notes. Interest earned from such time deposits and investments is allocated quarterly to the District funds based on its average daily cash balances.

The County's (and therefore the District's) investment policies are governed by state statutes. In addition, the County (which includes the District) has an investment committee which prescribes written investment policies regarding the types of investments which may be made and that limit amounts which may be invested in any one financial institution or amounts which may be invested in long-term instruments. During the year ended June 30, 1990, such committee's permissible investments included obligations of the U.S. Treasury, U.S. Government Agencies and certain time deposits, certificates of deposit, bankers' acceptances, commercial paper, repurchase and reverse repurchase agreements. Investments in commercial paper must be rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record. Negotiable certificates of deposit are restricted to those rated B or better by the Keefe, Bruyette and Wood, Inc. rating service.

Time deposits are collateralized as required by state law (Government Code Section 53652) with assets held in a common pool with other governmental agencies. State law requires the market value of the common pool of collateral be equal to or greater than 110% of all public deposits with the pledging financial institution if government securities are used, or 150% if mortgages are used, as collateral. The collateral is not held by, or held in the name of the County or the District.

At June 30, 1990, all of the County's investments, other than time deposits, are insured or registered, or the related securities are held by the County or its agent in the County's name, and thus are credit risk Category 1 investments.

The District complied with the provisions of these statutes pertaining to the types of investments held, institutions in which deposits were made and security requirements. The District will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

The ATU Deferred Compensation Plan assets are invested solely at the discretion of participating employees. Such investments are not subject to statutes relating to County investments.

Cash and investments at June 30 consist of (at amortized cost, which approximates market):

	<u>1990</u>	<u>1989</u>
Time deposits, specifically for the District	\$ 2,952,071	\$ 12,569,000
Money market funds, specifically for the District	311,975	7,224,228
Cash and investments commingled in County Treasury	159,022,393	130,899,421
Deferred Compensation Plan	<u>1,958,558</u>	<u>1,043,313</u>
Total cash and investments	<u>\$164,244,997</u>	<u>\$151,735,962</u>
Cash and investments:		
Unrestricted	\$121,082,285	\$ 64,709,373
Restricted for payment of certain current liabilities	31,571,235	9,604,288
Restricted cash and investments:		
With fiscal agent	5,222,603	20,839,100
Other	<u>6,368,874</u>	<u>56,583,201</u>
Total cash and investments	<u>\$164,244,997</u>	<u>\$151,735,962</u>
	<u>1990</u>	<u>1989</u>
CURRENT:		
Guadalupe Corridor Capital Project	\$27,837,507	-
Workers' compensation Payroll related	1,655,895	\$ 7,243,578
	<u>2,077,833</u>	<u>2,360,710</u>
Total current	<u>\$31,571,235</u>	<u>\$ 9,604,288</u>
NONCURRENT:		
Workers' compensation reserve	\$ 6,129,226	-
Debt retirement reserve	2,966,000	\$ 2,966,000
Deferred compensation	1,958,558	1,043,313
Guadalupe Corridor Capital Project	-	56,266,778
Light-rail and other equipment acquisition	-	16,827,229
Other	<u>537,693</u>	<u>318,981</u>
Total noncurrent	<u>\$11,591,477</u>	<u>\$77,422,301</u>

Restricted cash and investments at June 30 represent monies restricted for (1) the payment of current and noncurrent liabilities, (2) legally required reserve amount for the retirement of debt issued, and (3) other reserves.

4. RECEIVABLES

Receivables at June 30 consist of the following:

	<u>1990</u>	<u>1989</u>
Federal government	\$ 3,151,868	\$ 230,425
State government	487,005	1,452,730
Interest	3,003,280	3,056,189
Sales tax	6,604,800	5,810,978
Other	<u>666,136</u>	<u>2,938,911</u>
Total	<u>\$13,913,089</u>	<u>\$13,489,233</u>

5. INVESTMENT IN JOINT VENTURE

During the year ended June 30, 1988, the District entered into a joint venture with other County funds to create a motor pool for use by the investing funds. Such investment is accounted for using the equity method.

The joint venture includes investments from the District and other County funds in the form of cash and vehicles. The activities of the joint venture include rental of vehicles to the participating funds, as well as service, maintenance and replacement of the vehicles. The joint venture is managed by District management, and at June 30, 1990 the District's share of the total investment in the joint venture was 37%.

Condensed financial information of the joint venture as of and for the year ended June 30 is as follows:

	<u>1990</u>	<u>1989</u>
Total assets	\$1,914,000	\$1,643,000
Total liabilities	50,000	53,000
Total equity investment	1,864,000	1,590,000
Total revenues	973,000	875,000
Total expenses	849,000	788,000
Excess of revenues over expenses	124,000	87,000



6. LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment at June 30 consist of the following:

	<u>1990</u>	<u>1989</u>
Land	\$ 86,805,382	\$ 82,924,516
Structures and improvements	75,029,652	71,594,678
Buses, cars and light-rail vehicles	147,387,819	146,920,961
Light-rail structures	234,275,960	234,275,960
Other operating equipment	27,054,510	24,320,642
Leasehold improvements	4,432,607	3,949,263
Capital projects-in-process	<u>116,480,315</u>	<u>50,420,265</u>
Total	691,466,245	614,406,285
Accumulated depreciation and amortization	<u>(71,607,030)</u>	<u>(59,345,305)</u>
Land, buildings and equipment - net	<u>\$619,859,215</u>	<u>\$555,060,980</u>

Capital projects-in-progress at June 30, 1990 consists of the following (in thousands):

	<u>Current Project Cost Estimates</u>	<u>Expended to June 30, 1990</u>	<u>Committed at June 30, 1990</u>	<u>Planned Completion Date</u>
Guadalupe Corridor Light-Rail	\$163,045	\$ 98,651	\$64,394	1991
Multimodal Terminal	14,543	12,416	2,127	1992
CalTrain-Gilroy Extension	6,300	764	5,536	1993
San Jose Transit Mall (SJTM) Facilities	3,478	-	3,478	1991
Modifications	21,421	2,672	18,749	Various
Others	<u>7,134</u>	<u>1,977</u>	<u>5,156</u>	Various
Total	<u>\$215,921</u>	<u>\$116,480</u>	<u>\$99,440</u>	

District management anticipates receiving federal and state matching funds totaling approximately \$64,353,000. The District has a locally funded commitment of approximately \$35,087,000 at June 30, 1990.

Additionally, under the Agreement with the City of San Jose, ownership of the SJTM will be shared 89% by the District and 11% by the City of San Jose. At June 30, 1990, the City of San Jose had contributed \$4,965,000 of the \$39,382,000 expended to that date for the SJTM project. Upon completion of the SJTM project, the cost attributable to the ownership by the City of San Jose will be removed from capital projects-in-process and transferred to the City of San Jose and the contributed capital account will be reduced accordingly.

The City of San Jose also contributes funds for certain Guadalupe Corridor light-rail project right-of-way acquisitions. The District accounts for these contributions as a reduction in the purchased asset as the City of San Jose retains title for its portion of the acquisition.

7. LONG-TERM DEBT

Long-term debt at June 30 consists of:

	<u>1990</u>	<u>1989</u>
Series 1985A Equipment Trust Certificates, adjustable rate of interest (5.4% at June 30, 1990), due June 1, 2015	<u>\$29,660,000</u>	<u>\$29,660,000</u>

The Series 1985A Equipment Trust Certificates (the Certificates) were issued to finance the retirement of the Series 1984A Equipment Trust Certificates which had been issued to finance the acquisition of light-rail vehicles for the Guadalupe Corridor light-rail project. Proceeds from the sale of the 1985A Certificates were \$52,155,000, net of issuance costs of \$705,000. As of June 30, 1990, the District had repaid \$23,200,000 on the Certificates. The interest on the 1985A Certificates is adjusted daily by the Trustee.

The Certificates are limited general obligations of the District and are secured by the light-rail vehicles purchased with the proceeds of the Certificates. As additional security for these obligations, the District has pledged 90% of sales tax revenues for its years ended June 30, 1985 through 1990 and 100% of sales tax revenues for all subsequent years.

Long-term debt of \$29,660,000 matures beginning in 2007.

8. RETAINED EARNINGS

The Board has reserved retained earnings of \$67,994,568 at June 30, 1990 (1989, \$80,702,333) for the locally funded share of capital asset acquisitions.

9. FEDERAL, STATE AND LOCAL ASSISTANCE

The District is dependent upon the receipt of funds from several sources to meet its operating, maintenance, capital and future debt service 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:

Federal grants - Federal grants are approved principally by Urban Mass Transportation Administration (UMTA). Federal grants for the year ended June 30 are summarized as follows:

	<u>1990</u>	<u>1989</u>
Operating assistance grants:		
UMTA Section 9	\$ 6,157,852	\$ 6,667,739
Federal Aid Urban (FAU)	87,497	7,062
Federal Technical Studies	54,804	64,381
UMTA Section 3	438	-
Managerial Technical Grant	<u>12,453</u>	<u>-</u>
Total	<u>6,313,044</u>	<u>6,739,182</u>
Capital grants:		
UMTA Section 3	38,306,460	19,949,746
UMTA Section 9	<u>1,322,893</u>	<u>1,300,899</u>
Total	<u>39,629,353</u>	<u>21,250,645</u>
Total federal grants	<u>\$45,942,397</u>	<u>\$27,989,827</u>

UMTA reserves the right to audit expenditures financed by its grants to determine if such expenditures comply with conditions of the grants. The District's management believes the results of such audits will not have a material adverse effect on the District's financial position. UMTA retains its interest in assets acquired under federal grants should the assets be disposed of prior to the end of their economic lives or not be used for mass transit.

State grants and subsidies - State grants and subsidies for the years ended June 30 are summarized as follows:

	<u>1990</u>	<u>1989</u>
Operating assistance:		
Transportation Development Act	\$42,814,516	\$38,352,209
State Transit Assistance	276,168	169,289
Other	<u>140,096</u>	<u>87,912</u>
Total	<u>43,230,780</u>	<u>38,609,410</u>
Capital assistance:		
State Transit Assistance	115,005	209,883
State Highway Account	5,439,807	4,039,923
Other	<u>372,000</u>	<u>-</u>
Total	<u>5,926,812</u>	<u>4,249,806</u>
Total state grants and subsidies	<u>\$49,157,592</u>	<u>\$42,859,216</u>

Transportation Development Act funds represent the District's share of the .25% sales tax collected for each taxable sales dollar spent in the County.

Sales tax revenues, \$90,818,836 and \$83,428,866 in 1990 and 1989, respectively, represent amounts received from the California State Board of Equalization which, under a sales tax measure, collects for the District .5% for each taxable sales dollar spent in the County. These amounts are available to fund both operations and capital expenditures except as described in Note 7.

Local grants - Capital assistance received from the City of San Jose for the years ended June 30, 1990 and 1989 was \$44,270 (excluding a prior year adjustment of \$114,622) and \$259,495, respectively. Capital assistance received from the City of Santa Clara in 1990 was \$2,003,502 and none was received in 1989.

The Santa Clara County Local Transportation Fund allocation to the Santa Clara County PCC staff of \$56,515 and \$20,000 for the years ended June 30, 1990 and 1989, respectively, has been included in other nonoperating revenues.

## 10. EMPLOYEE BENEFIT PLANS

### PENSION PLANS:

The following information regarding the Santa Clara County District Amalgamated Transit Union Pension Plan (the Plan) and the Public Employees' Retirement Fund (the Fund) is disclosed in accordance with the requirements of Statement No. 5 of the Governmental Accounting Standards Board, Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Governmental Employers, (GASB No. 5).

### THE PLAN

Substantially all Amalgamated Transit Union (the Union or ATU) employees are covered by the Plan. The Plan 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. Employees vest after ten years of service and are eligible to receive retirement benefits at age 65. Employees may also be eligible to receive retirement benefits at age 55 after fifteen years of service. These benefit provisions and all other requirements are established by state statute and various employee agreements.

The District, based on a valuation by the Plan's actuaries, contributed 5.82% and 6.32% of payroll for covered employees during the years ended June 30, 1990 and 1989, respectively. The District's total covered Union payroll for the years ended June 30, 1990 and 1989 was \$55,486,000 and \$52,587,000, respectively.

### Funding status and progress

The "pension benefit obligation" is a standardized disclosure measure that results from applying actuarial assumptions to estimate the present value of pension benefits, adjusted for the effects of projected salary increases and step rate benefits, to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the Plan to which contributions are made on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used.

The pension benefit obligation of the Plan was computed as part of an actuarial valuation performed as of January 1, 1990. The significant actuarial assumptions used in the 1990 valuation to compute the pension benefit obligation were an average rate of return on investment assets of 8%, average wage increases of 4% attributable to inflation and real salary increases and 2% attributable to merit or seniority and no postretirement benefit increases. There were no changes in actuarial assumptions.

The funding status applicable to the Plan at January 1, 1990 (the latest available for the Plan) follows:

**Pension benefit obligation:**

Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$10,075,000
Current employees:	
Employer financed, vested	23,280,000
Employer financed, nonvested	<u>10,895,000</u>
Total pension benefit obligation	44,250,000
Net assets available for plan benefits, at amortized cost (total current market value, \$54,220,000)	<u>52,142,000</u>
Net assets in excess of pension benefit obligation	<u>\$ 7,892,000</u>

Actuarially determined contributions required and contributions made

The funding policy of the Plan provides for actuarially determined periodic contributions by the District at rates such that sufficient assets will be available to pay Plan benefits when due. The District's contributions to the Plan for the years ended June 30, 1990 and 1989 were made in accordance with the actuarially determined requirements computed as of January 1, 1989 and 1988, respectively. The total pension expense and funded contributions for the years ended June 30, 1990 and 1989 were \$3,229,000 and \$3,323,000, respectively, which consisted of the District's employer contributions of \$3,179,000 and \$3,013,000 normal cost (5.73% and 5.73% of current covered payroll) and \$50,000 and \$310,000 amortization of the unfunded actuarial liability (.09% and 0.59% of current covered payroll), respectively. The unfunded actuarial liability at January 1, 1990 was \$3,543,000.

The Plan uses the level percentage of payroll modification of the Entry Age Normal Cost Method to determine the contribution rate for normal cost and to amortize any unfunded actuarial liabilities. Unfunded actuarial liabilities are amortized through June 30, 2014.

Significant actuarial assumptions used in the 1989 and 1988 valuations to compute the actuarially determined contribution requirement are the same as those used to compute the pension benefit obligation as described above.

Historical trend information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due.

Trend information for the years ended June 30, 1990, 1989 and 1988 (using the latest available actuarial valuations as of January 1, 1990, 1989 and 1988, respectively) follows:

	<u>1990</u> (000's)	<u>1989</u> (000's)	<u>1988</u> (000's)
Net assets available for benefits, at amortized cost	\$52,142	\$44,845	\$35,701
Pension benefit obligation	\$44,250	\$35,740	\$32,071
Net assets available for benefits as a percentage of pension benefit obligation	118%	125%	111%
Net assets in excess of pension benefit obligation	\$ 7,892	\$ 9,105	\$ 3,630
Unfunded actuarial liability	\$ 3,543	\$ 535	\$ 3,594
Annual covered payroll (for the year ended June 30)	\$55,486	\$52,587	\$50,930
Net assets in excess of pension benefit obligation as a percentage of annual covered payroll	14.2%	17.3%	7.1%
Contributions (for the year ended June 30) made in accordance with actuarially determined requirements as a percentage of annual covered payroll	5.82%	6.32%	5.69%

## THE FUND

All eligible County nonunion employees within the District participate in the Fund of the State of California's Public Employees Retirement System (PERS). The Fund is an agent multiple-employer defined benefit retirement plan that acts as a common investment and administrative agent for various local and state governmental agencies within the State of California. The Fund provides retirement, disability and death benefits based on the employees' years of service, age and final compensation. Employees vest after five years of service and may receive retirement benefits at age 50. The County contracts with PERS for these benefits and the District participates with the County on a cost-sharing basis. These benefit provisions and all other requirements are established by state statute and county resolutions.

The District, based on a valuation by the Fund's actuaries, contributed 12.3% and 12.1% of payroll for covered employees to the Fund for the years ended June 30, 1990 and 1989, respectively. The District's contribution, in accordance with various employee agreements, includes the employees' required 7% of payroll contribution. The District's total covered payroll, applicable to County employees, for the years ended June 30, 1990 and 1989 was \$14,325,000 and \$13,315,000, respectively. Employees have no additional obligation to contribute to the Fund. The District's contributions for 1990 represented 3.0% (1989, 3.1%) of the County's total contributions to the Fund.

### Funding status and progress

The pension benefit obligation (as defined under the Plan, above) of the Fund was computed as part of an actuarial valuation performed as of June 30, 1989. The significant actuarial assumptions used in the 1989 valuation to compute the pension benefit obligation were an assumed rate of return on investment assets of 8.5%, annual payroll increases of 5.5% attributable to inflation and real salary increases and 1.5% attributable to merit or seniority and no postretirement benefit increases. There were no changes from the prior year in actuarial assumptions or benefit changes in the pension benefit obligation.

The funding status applicable to all County employees at June 30, 1989 follows:



<b>Pension benefit obligation:</b>	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$ 332,086,000
<b>Current employees:</b>	
Accumulated employee contributions and allocated investment earnings	260,970,000
Employer-financed, vested	346,481,000
Employer-financed, nonvested	<u>19,589,000</u>
<b>Total pension benefit obligation</b>	<b>959,126,000</b>
<b>Net assets available for benefits, at cost (total current market value, \$1,197,023,000)</b>	<b><u>1,021,350,000</u></b>
<b>Net assets in excess of pension benefit obligation</b>	<b><u>\$ 62,224,000</u></b>

Actuarially determined contributions required and contributions made

The funding policy of the Fund provides for actuarially determined periodic contributions by the County, which includes the District, at rates such that sufficient assets will be available to pay Fund benefits when due. The District's contributions to the Fund for the years ended June 30, 1990 and 1989 were made in accordance with the actuarially determined requirements computed as of June 30, 1989 and 1988, respectively. The District's total pension expense and funded contributions for the years ended June 30, 1990 and 1989 were \$1,756,000 and \$1,607,000 respectively, which consisted of (a) \$972,000 and \$890,000 of the employees' total required contribution paid by the District (net 6.8% and 6.7% of current covered payroll) and the District's employer contributions of (b) \$784,000 and \$717,000 normal cost (5.4% and 5.4% of current covered payroll).

The Fund uses the level percentage of payroll modification of the Entry Age Normal Actuarial Cost Method to determine the contribution rate for normal cost and to amortize any unfunded actuarial liabilities. Unfunded actuarial liabilities are amortized through June 30, 2011.

Significant actuarial assumptions used in the 1989 and 1988 valuations to compute the actuarially determined contribution requirements are the same as those used to compute the pension benefit obligation as described above.

### Historical trend information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Systemwide trend information may be found in the California PERS Annual Reports.

For the County's share of the Fund, trend information for the years ended June 30, 1990, 1989 and 1988 (using the latest available actuarial valuations as of June 30, 1989, 1988 and 1987, respectively) follows:

	<u>1990</u> (000's)	<u>1989</u> (000's)	<u>1988</u> (000's)
Net assets available for benefits, at cost	\$1,021,350	\$894,580	\$781,138
Pension benefit obligation	\$ 959,126	\$855,511	\$778,302
Net assets available for benefits as a percentage of pension benefit obligation	106%	105%	100%
Net assets in excess of pension benefit obligation	\$ 62,224	\$ 39,069	\$ 2,836
Annual covered payroll	\$424,011	\$377,096	\$341,968
Net assets in excess of pension benefit obligation as a percentage of annual covered payroll	14.7%	10.4%	.8%
Contributions made in accordance with actuarially determined requirements as a percentage of annual covered payroll	13.9%	13.8%	15.5%

#### **OTHER POSTEMPLOYMENT BENEFITS:**

#### DEFERRED COMPENSATION PLAN

The District offers its ATU employees a deferred compensation plan (Deferred Plan) created in accordance with Section 457 of the Internal Revenue Code. The Deferred Plan permits the employees to defer a portion of their salary until future years. The deferred compensation is not available to the employees until termination, retirement, death or emergency.

Beginning in 1990, the District included the assets of the Deferred Plan in the accompanying balance sheet under noncurrent assets and noncurrent accrued expenses.

At June 30, 1990 and 1989, \$1,959,000 and \$1,043,000 had been deferred under the Deferred Plan. All amounts of compensation deferred under the Deferred Plan are invested in money market, mutual, growth or fixed income funds, and all related earnings thereon are solely the property of the District until paid or made available to the employee or other beneficiary, subject only to the claims of general creditors. Participants' rights under the Deferred Plan are equal to those of general creditors of the District in an amount equal to the fair market value of the deferred account for each participant. To date, the Deferred Plan assets have only been used to pay deferred compensation amounts to employees. In the opinion of District management it is unlikely that deferred compensation assets will be used to satisfy the claims of general creditors in the future.

All nonunion employees are covered under the County's Deferred Compensation Plan which is included in the County's balance sheet under the same classification.

#### SPOUSAL MEDICAL TRUST

Beginning in 1990, the District included the net assets available for ATU Spousal Medical Trust (the Trust), a medical insurance benefit for the pensioners' spouses, as a noncurrent asset and liability on the District's financial statements. In prior years, the Trust had been included in the Santa Clara County District ATU Pension Plan's financial statements. Pursuant to a collective bargaining agreement, the District is required to contribute to the Trust \$0.05, increasing to \$0.10 beginning March 5, 1990, per hour worked by Union employees. Such contributions for the year ended June 30, 1990 and 1989 were \$189,000 and \$141,000, respectively.

The District's 1989 financial statements have been restated to conform to the 1990 presentation. The addition of the Deferred Plan and the Trust did not materially change the financial statements of the District.

**ATU RETIREE HEALTH CARE PROGRAM**

The District provides an ATU Retiree Health Care Program (the Program), a postemployment benefit, in accordance with the agreement between the District and the ATU, to all ATU employees who retire from the District on or after attaining the age of 55 with at least 15 years of service. As of June 30, 1990, 126 retirees meet the eligibility requirements. The District pays medical and life insurance premiums for its retirees. Expenditures for the Program are recognized as retirees report claims. Expenditures of approximately \$194,000 were incurred for the year ended June 30, 1990.

The District is required to include the balance sheet effect of the ATU Retiree Health Care Program in its financial statements beginning with fiscal 1995.

**11. COMMITMENTS**

The District leases its office facilities from the County under a year-to-year lease agreement and leases various other properties for use as transfer facilities, parking lots, information centers and warehouses under lease agreements which expire at various dates through 2013. These agreements are recorded as operating leases. Rent expense was approximately \$1,414,000 and \$1,244,000 in 1990 and 1989, respectively.

Minimum future annual rental payments under these lease agreements are as follows:

1991	\$1,200,000
1992	1,008,000
1993	874,000
1994	838,000
1995	101,000
Thereafter	<u>2,986,000</u>
Total	<u>\$7,007,000</u>

Unaudited Financial Statements of the  
Santa Clara County Transit District  
Balance Sheet as of January 6, 1991

Assets

Current Assets

Cash and Investments	
Unrestricted	\$100,003.895
Restricted	16,148,996
Receivables	3,201,410
Due from Other Government Agency	21,785,173
Spare Parts and Supplies	8,893,604
Prepaid and Other Current Assets	<u>5,618,814</u>
Total Current Assets	155,651,892
Deferred Bond Issuance Costs (Net)	704,101
Restricted Cash and Investment	13,274,027
Investment in Joint Venture	687,382
Land, Buildings and Equipment (Net)	<u>659,091,651</u>
TOTAL ASSETS	<u>\$829,409,052</u>

Liabilities and District Equity

Current Liabilities	
Accounts Payable	\$ 3,580,283
Accrued Expenses	<u>9,259,300</u>
Total Current Liabilities	<u>12,839,583</u>
Non-Current Accrued Expenses	<u>17,340,440</u>
Long-Term Debt	<u>29,660,000</u>
District Equity:	
Contributed Capital	391,309,961
Retained Earnings:	
Reserved	67,994,568
Unreserved	<u>310,264,499</u>
Total District Equity	<u>769,569,028</u>
TOTAL LIABILITIES AND DISTRICT EQUITY	<u>\$829,409,052</u>

Unaudited Financial Statements of the  
Santa Clara County Transit District  
Statement of Revenues and Expenses  
for the Period  
July 1, 1990 to January 6, 1991

OPERATING REVENUES:

Passenger fares, ticket sales and other operating revenues	\$ <u>8,102,217</u>
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OPERATING EXPENSES:

Transportation	34,140,034
Vehicle maintenance	15,938,796
Non-vehicle maintenance	3,281,178
General and administrative	<u>12,813,226</u>

Operating expenses excluding depreciation and amortization	66,173,234
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Depreciation and amortization	6,467,026
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Total operating expenses	<u>72,640,260</u>
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OPERATING EXPENSES IN EXCESS OF OPERATING REVENUES	( <u>64,538,043</u> )
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NON-OPERATING REVENUES/(expenses):

State Assistance	22,893,878
Federal grants	3,221,516
Sales tax revenues	45,057,581
Interest income	5,866,325
Other revenues	603,255
Interest expense	( 608,683 )
CalTrain passenger subsidy	( 2,326,653 )
Other expenses	<u>( 6,214,453 )</u>

Total non-operating revenues (net)	<u>68,492,766</u>
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EXCESS OF REVENUES OVER EXPENSES	\$ <u>3,954,723</u>
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## APPENDIX B

### LOCAL ECONOMIC AND OTHER INFORMATION

#### General

Santa Clara County lies immediately south of the San Francisco Bay and is the fourth most populous county in California. The County encompasses an area of approximately 1,300 square miles. One third of the total acreage is relatively flat with few topographic barriers. The valley floor, which extends outward from the Bay in a southeasterly direction, is shaped by the Santa Cruz Mountains on the west and the Diablo Range on the East. Two distinct valleys are formed where the hills narrow at the town of Coyote, located in the center of the County. This natural division defines the two areas known locally as North County and South County.

South County has retained the agricultural base which once existed throughout the area. North County is densely populated, extensively urbanized and heavily industrialized. North County contains 13 cities, each one adjacent to another. South County has two cities, separated by roughly 20 miles. The uppermost western portion of North County, with its concentration of high-technology, electronics-oriented industry, is often referred to as "Silicon Valley." It derives this name from the base material used to manufacture semiconductors, which were first developed there. Large employers include Lockheed Missiles & Space Co., Hewlett-Packard, IBM, National Semiconductor and Varian Associates.

Aside from a small portion of the lower end of San Francisco Bay, the County contains no major bodies of water, although several reservoirs and lakes are scattered throughout the area. Mt. Hamilton, located directly east of San Jose, is the highest point in the County, with an elevation of 4,213 feet. The County has a mild climate, with mean temperatures for January and July of 49 degrees and 68 degrees, respectively, and average annual rainfall of 13 inches.

Neighboring counties include San Mateo on the northwest, Santa Cruz on the southwest, San Benito on the South, Merced and Stanislaus on the east, and Alameda on the northeast. The City of San Jose, the County's primary city, is 50 miles south of San Francisco and 42 miles south of Oakland.

#### County Government

Santa Clara County was incorporated in 1850 as one of the original 27 counties of the State. It operates under a home rule charter, adopted by County voters in 1950 and amended in 1976. The legislative body is a five-member Board of Supervisors elected for staggered four-year terms by the District. Other elected officials include the Assessor, District Attorney, and Sheriff. All elected officials serve four-year terms. The County Executive, who is appointed by the Board of Supervisors, administers the daily affairs of the County and carries out Board policies. Department heads are appointed by the County Executive.

The County provides certain services on a countywide basis and additional services to unincorporated areas. County services include law and justice, detention, social, health, hospital, fire protection, roads, transportation, parks and recreation, elections and records, communication, planning, zoning, treasury and tax collection.

### Transportation

The City of San Jose is at the junction of Interstate Highways 280, 680, and 880 and U.S. Highway 101. U.S. 101 and Interstate 280 serve Santa Clara County from the north, providing a link with San Francisco. Interstates 680 and 880 connect the County with the East Bay. Connecting these main highways are Highways 82, 85 and 237, various County roads, and a well-developed system of expressways. In March 1984, County voters approved a half-cent sales tax increase to build or complete three major highway projects. The tax began on April 1, 1985 and will last ten years. Over \$1 billion will be generated to upgrade Highway 237, widen Highway 101, and extend Highway 85 in the County's western portion. Construction of the projects is currently underway and is being implemented through a cooperative effort between the Santa Clara County Traffic Authority and CalTrain.

The District provides bus service throughout the County, including connections to the San Francisco Bay Area Rapid Transit System and to CalTrain services. Boarding ridership totalled 41.65 million passengers for the year ended June 1991, a 7.6% increase from ridership of 38.7 million in 1990 and a 265% increase from ridership of 15.7 million in 1980. Construction was completed in April 1991 on the \$550 million Guadalupe portion of the light rail project traversing the County. The 21-mile system has 33 passenger stops from the residential and industrial areas of south San Jose through downtown San Jose to the northern industrial areas of Santa Clara County. In the Fiscal Year ended June 30, 1991, the District's light rail service carried 4.0 million passengers.

Other rail service is provided by Southern Pacific and CalTrain, which features a commuter rail service between the greater San Jose area and San Francisco. Other transit operators in the County include Greyhound Bus Lines and Peerless Stages, both of which offer passenger and parcel service with overnight deliveries to all major cities in California.

Southern Pacific and Western Pacific provide freight service to the east shore of San Francisco Bay. Within San Jose, there are central switching yards with ramps for piggyback loading and cranes for handling of containerized freight. Freight transportation service is also provided by approximately 65 interstate trucking firms and more than 400 local and regional contract carriers.

Deepwater transportation is available at the Port of Redwood City, some 25 miles north of San Jose. Ports at San Francisco and Oakland are equipped to handle all types of coastal and overseas cargo. All three ports are conveniently accessible by freeway from San Jose.



San Jose International Airport is one of the three major airports in the San Francisco Bay Area. The airport serves the most heavily traveled air corridor in the world, the Southern California/Bay Area corridor. The airport is served by 13 carriers with 400 daily flights and in 1990 handled 7.1 million passengers, a 6% increase over 1989. The airport completed a number of capital expansion projects in February 1990, including the first new terminal (Terminal A) in twenty-five years, a customs facility, a parking garage containing 1,800 spaces, new parking lots and several new roads. Airport officials are currently developing a Master Plan to address County air travel needs over the next twenty years.

County residents and visitors alike also utilize San Francisco International Airport (40 miles northwest of San Jose) and Metropolitan Oakland International Airport (30 miles north of San Jose). General aviation and charter services are available at San Jose's Red-Hillview Airport, the South County Airport at San Martin and the County Airport at Palo Alto.

### Population

When viewed over the past 50 years, the County's population growth pattern has exhibited three decades of very robust growth followed by two decades of healthy, yet 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 growth exploded by 121%, with every major city as well as the unincorporated areas posting huge increases; the County also recorded the incorporation of four new cities during the 1950's, raising the total number of cities to its current level of 15.

Population growth subsided during the 1960's, although the 66% growth rate was over four times the 15.4% statewide increase. The population of Santa 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. The unincorporated area of the County posted its first decline in the 1960's, setting the stage for further drops in each of subsequent three decades.

County population growth fell to 21.5% during the 1970's, thereby falling below the statewide rate (25.7%) for the first time in recent history. 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 areas fell by 25,160. The slower growth of the 1970's reflected a slowing urbanization, due in part to policies adopted by the County to preserve agricultural areas. The same factor influenced further slowing of County growth in the 1980's and is expected to have similar effect in the 1990's.

The latest data from the U.S. Census indicate that the County's population reached 1,497,577 in 1990, representing a 15.6% increase from the population base in 1980. Over the same period, statewide population grew more rapidly at a rate of 21.5%. San Jose's population of 782,248 resulted in its becoming the largest city in the Bay Area, surpassing San Francisco. Double-digit growth rates were achieved in Campbell, Cupertino, Gilroy, Milpitas, Morgan Hill, Mountain View, San Jose and Sunnyvale. Population declines were reported for Monte Sereno, Saratoga and the unincorporated areas of the County. The remaining cities had low, but positive, growth rates.

Of the County's 15 cities, approximately one-half of the residents live in San Jose. Other major cities in the County include Sunnyvale, Santa Clara, Mountain View and Palo Alto, all of which are located northwest of San Jose and are in the area popularly referred to as "Silicon Valley" due to the large concentrations of electronics, research and manufacturing firms.

The table below provides an historical summary of population trends in Santa Clara County and its incorporated cities. The proportion of residents currently living in cities is 93%; it had been as low as 65% in the 1940's. The increasing maturation of the County's employment and economic sectors over the past 40 years has resulted in the incorporation of new cities, as well as the expansion of city boundaries, resulting in a declining fraction (7%) of residents living in unincorporated areas.

TABLE B-1

County of Santa Clara						
Population(1)						
	1940	1950	1960	1970	1980	1990
Campbell	4,337	9,720	11,863	24,731	27,067	36,048
Cupertino	--	2,438	3,664	18,216	25,770	40,263
Gilroy	3,615	4,951	7,348	12,665	21,641	31,487
Los Altos	--	--	19,696	24,872	25,769	26,303
Los Altos Hills	--	--	3,412	6,862	7,421	7,514
Los Gatos	3,597	4,907	9,036	23,466	26,598	27,357
Milpitas	--	--	6,572	27,149	37,820	50,686
Monte Sereno	--	--	1,506	3,074	3,434	3,287
Morgan Hill	1,014	1,627	3,151	6,485	17,060	23,928
Mountain View	3,946	6,563	30,889	54,206	58,655	67,460
Palo Alto	16,774	25,475	52,287	55,999	55,225	55,300
San Jose	68,457	95,280	204,196	445,779	636,550	782,248
Santa Clara	6,650	11,702	58,880	87,717	87,746	93,613
Saratoga	--	1,329	14,861	27,199	29,261	28,061
Sunnyvale	4,373	9,829	52,398	35,408	106,618	117,229
Unincorporated	<u>62,186</u>	<u>117,176</u>	<u>162,256</u>	<u>152,181</u>	<u>128,291</u>	<u>106,193</u>
Total	174,949	290,547	642,315	1,066,009	1,295,071	1,497,577
California	6,907,387	10,586,223	15,717,204	18,136,045	23,668,562	29,760,021

(1) Totals may not equal sums due to independent rounding.  
Source: United States Census (1940-1990)

According to the Association of Bay Area Governments' ("ABAG") "Projections '90," Santa Clara County will grow to 1,614,550 people by the year 2000 which is a 116,973 person increase from the 1990 census figure. From 1985 to 1995, the annual population growth in the County is projected by ABAG to average 1.03%. Therefore, population is expected to continue to grow in the coming decade at a more moderate rate than in the most recent decades. Table B-2, "Santa Clara County Population Projection 1980-2005," indicates estimates of future population growth for Santa Clara County to the year 2005.

TABLE B-2

SANTA CLARA COUNTY POPULATION PROJECTION  
1980-2005

	<u>Total Population</u>	<u>Percentage Growth Over Prior Five Years</u>	<u>Cumulative Average Annual Growth Rate (1985 Base)</u>
1980	1,295,073	--	--
1985	1,384,550	6.46%	--
1990	1,463,600	5.40	1.08%
1995	1,539,950	4.96	0.99
2000	1,614,550	4.62	0.92
2005	1,658,100	2.63	0.53

Source: Association of Bay Area Governments (Projections '90: 1980, 1985, 1990, 1995, 2000, 2005).

Employment

Santa Clara County, which included approximately 833,400 wage and salary jobs in 1989, has the largest employment base of any county in northern California. Three major industry sectors comprise 72% of the County's employment: manufacturing (32.3%), services (25.7%) and retail trade (14%).

Various types of manufacturing firms are located in Santa Clara County. Durable goods manufacturing accounts for almost 90% of manufacturing employment. The electrical equipment and supplies industry itself accounts for approximately 40% of all County manufacturing jobs. Other major components of durable goods manufacturing are electronic components and accessories; office computing and accounting machinery; instruments, guided missiles and space vehicles and communications equipment.

In the nondurable goods manufacturing sector, goods processing and the printing and publishing industries are the leading employers.

The services sector has been the fastest growing industry, particularly in the areas of business and medical services which support electronics manufacturing and health care.

Table B-3 summarizes employment by industry of workers in the County since 1986 and includes a significant number of residents of neighboring counties who commute to work in Santa Clara County. The figures presented are annual averages that are estimated by the California Employment Development Department.

TABLE B-3

County of Santa Clara  
Wage and Salary Employment by Industry  
(In Thousands)

	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
Agriculture	3.5	4.7	4.8	4.7	4.7
Mining	0.2	0.2	0.1	0.2	0.2
Construction	30.7	32.0	33.5	33.4	34.2
Manufacturing					
Durable Goods	235.0	235.1	246.2	241.9	236.3
Nondurable Goods	25.8	25.8	27.0	27.9	28.2
Transportation and Public Utilities	21.5	21.5	21.6	21.8	22.8
Trade					
Wholesale	40.3	42.7	47.9	53.8	54.3
Retail	118.9	108.4	112.9	116.5	115.7
Finance, Insurance and Real Estate	33.1	34.7	32.6	32.4	22.7
Services	185.2	196.5	210.4	214.1	220.5
Government	<u>84.2</u>	<u>86.5</u>	<u>86.5</u>	<u>86.8</u>	<u>89.6</u>
Total(1)	778.4	788.2	823.3	833.4	839.2

(1) "Total" may not add due to independent rounding.

Source: California State Department of Employment Development.

A highly skilled work force characterizes the Santa Clara County labor market, a situation that has translated into lower unemployment rates in the County when compared to the statewide average unemployment rate. As shown below in Table B-4, the County's estimated 1990 average annual unemployment rate (4.0%) was well below the average for the entire State (5.6%) for the fifth consecutive year.

TABLE B-4.

County of Santa Clara  
Estimated Average Annual Employment and  
Unemployment of Resident Labor Force  
1986 Through 1990

	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990*</u>
Labor force	797,100	805,600	836,400	846,800	813,600
Employment	750,900	769,100	803,400	814,500	780,700
Unemployment	46,200	36,500	33,000	32,300	32,900
Unemployment Rate	5.8%	4.5%	4.0%	3.8%	4.0%
State Unemployment Rate	6.7%	5.7%	5.3%	5.1%	5.6%

\*Due to a change in benchmarking methods, the data for 1990 are not strictly comparable to 1988 and 1989.

Source: California State Department of Employment Development.

As shown in Table B-5, however, job growth rates in the County have trailed those in the rest of the State in each of the past five years.

TABLE B-5

SANTA CLARA COUNTY  
WAGE AND SALARY EMPLOYMENT GROWTH  
(Percent Change)

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1985-90 Average</u>
State of California	3.8	2.5	3.7	3.9	3.8	2.2	3.3
Santa Clara County	6.9	-1.2	2.8	3.7	1.6	0.35	2.4

Source: California State Commission on Finance, "Annual Long-Term General Fund Forecast."

Growth Potential. Total employment in Santa Clara County, as forecasted by the Employment Development Department ("EDD"), is expected to increase at a moderate rate of approximately 3.7% per year from May 1987 to May 1992. (see Table B-6, "Santa Clara County Wage and Salary Employment by Industry"). The EDD projects that total May 1992 employment in the County should increase by more than 144,900 jobs from the May 1987 estimate to 928,400. Services will be the fastest growing industry division and there will be moderate but steady growth in electronic manufacturing.

In the longer term, total employment in Santa Clara County is projected to increase by 344,940 by the year 2005, according to the Association of Bay Area Government's estimates contained in "Projections '90" (see Table B-7, "Santa Clara County Projected Employment Growth 1990-2000"). This represents a total employment increase of 43% or 2.2% per year during the 1985-2005 period.

TABLE B-6

SANTA CLARA COUNTY  
WAGE AND SALARY EMPLOYMENT BY INDUSTRY  
1987 ANNUAL AVERAGE AND PROJECTED 1993 EMPLOYMENT

	<u>1988</u>	<u>1993</u>	<u>Percent Change</u>
Nonagricultural employment	818,000	884,600	8.1%
Mining	200	200	0.0
Construction	32,800	35,500	8.2
Manufacturing	266,300	272,000	1.9%
Nondurable goods	28,000	28,600	2.1
Food and kindred products	7,400	6,200	-16.2
Printing and publishing	8,800	9,800	14.0
Chemicals and allied products	6,400	6,700	4.7
Other nondurables	5,600	5,900	5.4
Durable goods	238,800	243,400	1.9
Fabricated metals	7,000	6,300	-10.0
Electronics Group	185,800	190,700	2.6
Computers	53,300	57,000	6.9
Electrical and electronic equipment	88,000	88,000	0.0
Instruments	44,500	45,700	2.7
Transportation equipment	32,100	31,900	-0.6
Other durables	13,900	14,500	4.3
Transportation and public utilities	21,800	23,300	6.9
Transportation	11,900	13,500	13.4
Communications and utilities	10,000	9,800	-2.0
Wholesale trade	51,300	60,900	18.7
Retail trade	115,700	125,300	8.3
Department stores	19,700	20,600	4.6
Food stores	15,000	16,400	9.3
Restaurants and bars	41,000	45,000	9.8
Other retail stores	40,000	43,300	8.3
Finance, insurance and real estate	32,000	32,500	1.6
Finance	14,000	14,300	2.1
Insurance	7,300	7,700	5.5
Real Estate and other	10,700	10,500	-1.9
Services	211,100	241,000	14.2
Hotels and motels	7,400	8,500	14.9
Business services	57,400	87,200	17.1
Auto and miscellaneous repair	9,600	10,500	9.4
Health services	38,600	44,400	15.0
Engineering & management surv.	35,600	40,400	13.5
Other services	62,500	70,000	12.0
Government	86,400	93,900	8.7
Federal government	13,400	13,900	9.7
State and local government	73,000	80,000	9.6

Source: California Employment Development Department, "Annual Planning Information, San Jose Metropolitan Statistical Area," June 1989.

TABLE B-7

SANTA CLARA COUNTY  
PROJECTED EMPLOYMENT GROWTH  
1990-2000

	<u>Total Employment</u>	<u>Percentage Growth Over Period</u>	<u>Cumulative Average Annual Growth Rate (1985 Base)</u>
1990	831,710	--	--
1995	980,550	11.21%	2.24%
2005	1,145,950	16.36%	1.68%

Source: Association of Bay Area Governments (Projections '90: 1980, 1985, 1990, 1995, 2000, 2005).

Major Employers

Light industrial activity centering on high-technology, electronics and aerospace accounts for a significant portion of Santa Clara County's private-sector workforce. Major private- and public-sector employers are listed in Table B-3 below.

TABLE B-8

County of Santa Clara  
Major Employers

<u>Employer</u>	<u>No. of Employees</u>
Lockheed	27,712
Santa Clara County	16,345
Hewlett-Packard	16,000
IBM Corp.	14,699
Stanford University	14,679
U.S. Navy	7,300
Sun Microsystems Inc.	6,700
Apple Computer Inc.	6,500
Nat. Semiconductor	5,500
City of San Jose	5,048

Source: San Jose Business Journal, October 1990.



In 1990, the U.S. Defense Department proposed closing many of its military installations. Defense Secretary Cheney announced on April 13, 1991 that Moffett Field Naval Air Station in Mountain View will be closed, subject to final approval by an oversight committee that is currently reviewing the list of recommended base closures. The closure, if implemented, would be phased in over several years and would commence no earlier than 1992.

Moffett Field currently employs 5,725 military and 5,103 civilian personnel. Private estimates of the net effect on County employment if Moffett Field is closed range from a loss of 8,000 jobs to a gain of 5,000 jobs. Those who foresee job losses attribute the decline to the elimination of Moffett Field's current employees as well to the negative impact on two firms (Lockheed Missiles & Space Co. and NASA's Ames Research Center) that utilize the airfield for transport and research purposes. Those who foresee job gains cite the benefits that will accrue due to private development of such a prime location.

### Industry

Manufacturing. Santa Clara County is the manufacturing center of northern California and one of the most important manufacturing centers in the United States. The value of products produced locally exceeds \$30 billion per year, and is greater than the output of many individual states. The electronics and defense and aerospace equipment account for most of the County's manufacturing activity. Electronic equipment includes a wide and complex array of products such as computers, microprocessors and controllers, integrated circuits, components, and medical and electrical instruments. Defense and aerospace equipment includes products such as military vehicles, satellites and rocket motors.

The electronics industry in the County experienced a slump in the mid 1980's, but the fortunes of the industry have steadily improved since 1987. The demand for semiconductors has increased significantly and employment is on the rise. The primary reasons for renewed electronics job growth have been a successful wave of product innovation in computers and the decline in the value of the dollar. In addition, demand has increased for engineering workstations, specialized microprocessors, semiconductors, and medical and electrical instruments.

Defense Related Industry. Santa Clara County has historically benefitted from heavy national defense spending. According to the California State Commission of Finance, the County received more prime defense contract dollars per capita than any other county in California between 1985 to 1988, and ranked second in total prime defense contract dollars. In 1988, Santa Clara County received a total of \$4.3 billion in prime defense contract awards.

As for the outlook for upcoming defense contract awards, recent events in the Middle East have encouraged speculation that the reductions in defense spending proposed in 1990 by Defense Secretary Cheney will be modified. However, with the federal budget deficit expected to hit a record \$270 billion

in 1991, there appears to be little choice for the military except to reduce its budget. The California Commission on State Finance estimates that the decline in defense spending will cause statewide defense employment to fall by 5.5% in 1991. This decline follows on the heels of a 4.8% drop in 1990 when Lockheed announced the closure of its Burbank facility and McDonnell Douglas announced 10,000 layoffs in southern California. Most of the 22,100 jobs lost in 1990 were concentrated in firms located in southern California; it is expected that 1991 losses will again be oriented toward that region of the State.

Reductions in defense outlays in 1991 are likely to affect a number of both large and small military hardware programs. Some important programs may continue to receive research and development funding while production schedules are deferred. Other programs that already have entered or are about to enter the production phase may find the number of items produced significantly scaled back. Problem programs include the A-12 Navy Attack Aircraft (McDonnell-Douglas and General Dynamics), the B-2 Stealth Bomber (Northrop), the C-17 Transport (McDonnell-Douglas) and the Advanced Medium Air-to-Air Missile (Hughes).

Manufacturers of ordnance and general troop supplies are expected to fare better in 1991 than initially anticipated as a result of the deployment of troops and equipment to the Middle East. After 1991, however, prospects will be dominated by Pentagon plans for a smaller, more flexible, and more rapidly deployable military. Defense electronics companies in particular should be the principal beneficiaries of the 'new military,' since high-technology gear is seen as the key to rapid deployment forces and since the Gulf crisis has highlighted the advantages of sophisticated imagery, radar communications and avionics. Such a development would likely benefit production and employment in the County, given the County's heavy emphasis on electronics research and manufacturing.

### Agriculture

Despite increasing urbanization, agriculture remains an important contributor to the County's economy. In 1989, the value of agricultural production totaled \$146,671,750, a 3% increase from the 1988 figure. Roughly one-third of agricultural production consists of vegetable crops, one-third is comprised of nursery crops, with the remainder including fruit, nut and berry crops, livestock and field crops. The following table summarizes the County's agricultural activity from 1986 through 1990 and illustrates that while the composition of production value has shifted toward vegetables, the overall value of output has remained in the range of \$140-147 million.

County of Santa Clara  
Agricultural Production  
1985 through 1989

	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
Fruit, Nut and Berry Crops\$	\$ 13,312,000	\$ 18,062,500	\$ 15,340,690	\$ 18,424,000	\$ 12,971,000
Vegetable Crops	56,516,000	52,202,000	52,276,000	53,328,000	56,060,000
Livestock, Poultry and Dairy Products	15,840,100	13,164,700	15,506,880	15,685,080	12,046,200
Field Crops and Apiary	8,940,523	8,384,705	9,218,175	10,933,200	12,438,500
Nursery Stock, Cut Flowers and Seed	<u>43,347,000</u>	<u>46,846,560</u>	<u>50,133,275</u>	<u>48,301,470</u>	<u>48,221,525</u>
Total	\$137,955,623	\$142,660,465	\$142,475,020	\$146,671,750	\$141,737,225

\*Latest figures available.

Source: County Agricultural Department.

Commercial Activity

Retail trade comprises a large segment of the County's economy, employing 115,700 people in 1990. During the 1980's, the sector recorded strong annual increases in retail sales activity as population growth and rising incomes stimulated consumer spending. As measured by the value of taxable transactions, retail activity expanded by 86% to \$10.3 billion between 1980 and 1989, an average annual gain of nearly 10%. During the 1980's, the number of shopping centers located in the County grew to 160.

Inclusion of sales activity at business and personal service outlets and commercial enterprises results in total taxable transactions of \$17.3 billion in 1989, an increase of 102% since 1980. As a fraction of total California sales activity, the County's share of transactions has averaged 6.4% and its share of sales tax permits has averaged 5.3% over the past five years.

As indicated in Table B-9 below, the latest available data indicate that \$13 billion of transactions were posted in the first three quarters of 1990.

TABLE B-9

County of Santa Clara  
Taxable Transactions  
1980-1990  
(In Millions)

	<u>1980</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
Apparel Stores	\$ 276.9	\$ 388.6	\$ 429.6	\$ 448.3	\$ 502.8	\$ 548.9
General Merchandise Stores	966.5	1,472.4	1,683.0	1,804.8	1,929.2	1,954.4
Specialty Stores	698.0	1,197.5	1,398.9	1,557.4	1,651.5	1,725.5
Food Stores	416.0	636.2	580.8	577.9	610.9	614.9
Package Liquor Stores	120.2	102.9	125.5	119.8	114.3	114.5
Eating and Drinking Places	654.9	1,007.2	1,087.7	1,174.4	1,233.9	1,297.4
Home Furnishings and Appliances	309.0	515.3	533.1	580.9	620.8	624.2
Building Materials and Farm Implementations	324.1	610.2	634.7	707.0	820.0	833.3
Service Stations	697.9	558.7	624.9	648.8	677.9	766.1
Automobile, Boat, Motorcycle and Plane Dealers and Parts Outlets	912.2	1,842.4	1,744.1	1,864.9	1,910.5	1,842.2
Other Retail	<u>95.0</u>	<u>85.7</u>	<u>93.4</u>	<u>93.9</u>	<u>64.1</u>	<u>67.3</u>
Total Retail Outlets	\$5,460.7	\$ 8,410.0	\$ 8,935.9	\$ 9,578.1	\$10,165.9	\$10,388.7
Business and Personal Services	268.2	574.6	626.9	698.8	750.6	826.1
All Other Outlets	<u>2,863.8</u>	<u>4,924.9</u>	<u>5,369.4</u>	<u>5,744.0</u>	<u>6,427.3</u>	<u>6,700.0</u>
Total All Outlets	\$8,592.7	\$13,916.5	\$14,932.3	\$16,020.9	\$17,343.8	\$17,914.4

Note: Totals may not add due to independent rounding.

Source: State Board of Equalization.

### Construction Activity

The value of building permits issued by the County totaled \$1.36 billion in 1990, a 6.2% decline from activity in 1989. As shown in Table B-10 below, the residential sector accounted for nearly 30% of the decline, with the remaining 70% of the drop attributable to declines in public sector and commercial activity and alterations/expansions to existing nonresidential structures.

Despite the slowdown in other components of the nonresidential sector, permit valuation increased in the industrial subsector to its highest level in three years. The commercial subsector stabilized around the \$160 million level, following several years in the early and mid-1980's when the County experienced substantial expansion of commercial activity.

Though the residential sector slipped modestly in 1990, its valuation of \$659.2 million remained marginally above the \$654 million average for the past six years. The sector was supported by a substantial 34% gain in multi-family permits to their highest level since 1987. Single-family permits, on the other hand, declined below the 2,000 mark to their lowest level since 1982. Reflecting the greater share of lower-priced multi-family units relative to single-family units, average valuation declined by almost \$6,000 in 1990 to \$135,332. Despite the year-over-year decline, the level of average valuation in 1990 was 80% higher than in 1985.

Within the County, a major redevelopment program has been underway in San Jose for several years. Both public and private sources have participated in projects that include commercial, hotel, residential and office construction. Major components that have been completed include the 1.5 million square-foot Park Center Plaza office complex and the 581-room Fairmont Hotel with the nearby 75-shop pavilion retail complex. In addition, construction is continuing on the Guadalupe-Auzerais Redevelopment Project that includes a completed convention center as well as planned hotels, 600,000 square-foot towers, a museum and a river park. Finally, a \$35 million pedestrian-oriented Downtown Transit Mall was recently completed as part of the Countywide light rail transit project.

TABLE B-10

County of Santa Clara  
Building Permit Valuations  
1985 Through 1990

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
Valuation (\$ millions):						
Residential (new)	\$ 712.1	\$ 657.1	\$ 604.3	\$ 615.5	\$ 689.5	\$ 659.2
Nonresidential						
Commercial	379.9	304.7	242.4	151.2	163.5	158.2
Industrial	232.2	122.2	136.3	94.9	126.4	133.7
Other/Alterations	\$ <u>442.6</u>	\$ <u>409.8</u>	\$ <u>505.9</u>	\$ <u>598.7</u>	\$ <u>471.2</u>	\$ <u>409.8</u>
Total	\$ <u>1,766.8</u>	\$ <u>1,493.9</u>	\$ <u>1,488.8</u>	\$ <u>1,460.3</u>	\$ <u>1,450.7</u>	\$ <u>1,360.9</u>
New Dwelling Units:						
Single Family	3,827	3,244	3,071	3,691	2,571	1,762
Multiple Family	<u>5,641</u>	<u>4,973</u>	<u>4,431</u>	<u>2,794</u>	<u>2,312</u>	<u>3,109</u>
Total	<u>9,468</u>	<u>8,217</u>	<u>7,502</u>	<u>6,485</u>	<u>4,883</u>	<u>4,871</u>
Average Valuation:						
Dwelling Unit	\$75,211	\$79,968	\$80,552	\$94,911	\$141,213	\$135,332

Note: Totals may not add due to independent rounding.

Source: "California Construction Trends," Security Pacific National Bank; 1989-90, Economic Sciences Corporation.

### Education

Public education is provided by twenty-two elementary, six high school, six unified and four community college districts. Enrollment in public K-12 schools totaled 226,700 in 1990, with students attending 283 elementary schools and 53 high schools. The four community college districts operate seven public-supported two-year colleges that had a combined enrollment of 96,200 in 1990. The latest available records indicate that the County budgeted \$1.146 billion for the K-14 public education system during the 1989-1990 school year.

Approximately 300 private and parochial K-12 schools operate in the County. In addition, three major private universities reside in the County: San Jose State University (17,550 full-time and 12,780 part-time students), Santa Clara University (5,080 full-time and 2,610 part-time students), and Stanford University (12,100 full-time and 1,300 part-time students).

## Utilities

Natural gas and electricity is provided through most of the County by Pacific Gas and Electric Company. The Cities of Santa Clara and Palo Alto own and operate separate municipal electric utilities. Santa Clara Valley Water District provides water service to most of the County. Much of San Jose is served by San Jose Water Company. The San Jose-Santa Clara Pollution Control Plant treats wastewater from eight cities in the County. Local telephone service is provided by Pacific Bell.

Water Supply Developments. Along with most regions in California, the County is currently facing its fifth consecutive year of drought conditions. The water deficit that has accumulated since 1987 has forced both state and federal agencies to curtail water deliveries to California communities and farms.

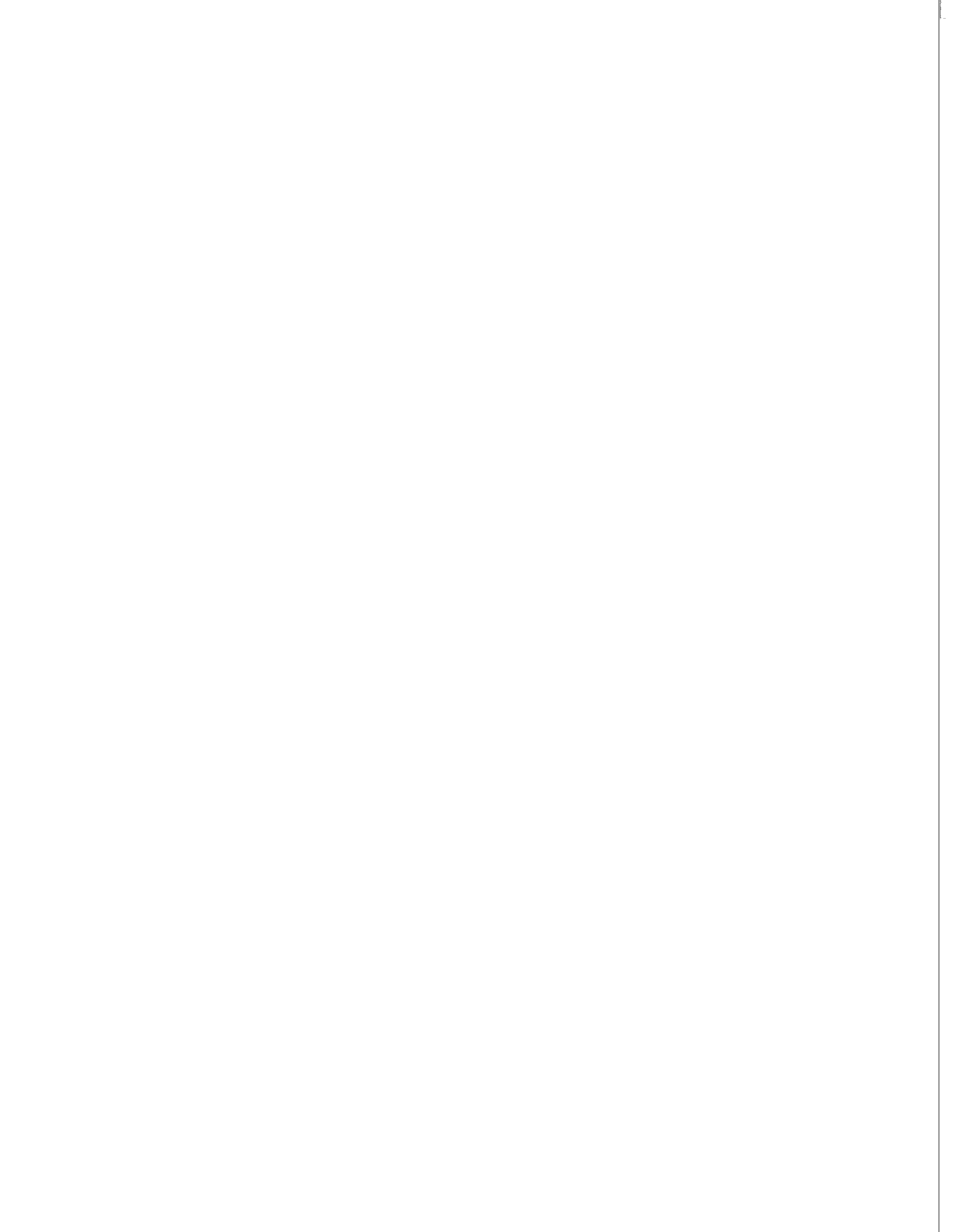
On February 4, 1991, the State Water Project (SWP) cut off all water deliveries to farmers in an attempt to preserve one million acre-feet of water for 1992; Governor Pete Wilson announced on March 7 that an estimated 700,000 acre-feet of water that flows into SWP reservoirs after heavy storms in early March would also be held in reserve for 1992. In addition, state officials are expected to ease restrictions on water transfers to shift water from relatively wet regions to dry ones this year. The Santa Clara Valley Water District (SCVWD) anticipates that SWP deliveries to the County will be reduced by 85% in 1991, resulting in supplies of only 14,000 acre-feet.

On February 14, 1991, the U.S. Bureau of Reclamation announced 75% cutbacks in water deliveries from its large dams on the Sacramento River, a water source that normally supplies one-fourth of the state's water needs and typically provides 152,000 acre-feet to SCVWD. Most of the County receives one-third of its water from the federal government. The exceptions include Los Altos Hills, Palo Alto and Milpitas, which face cutbacks of their own as part of the San Francisco Hetch-Hetchy system.

As of May 15, 1991 SCVWD's reservoirs stood at 30% of capacity versus a normal-to-date capacity of 80%; moreover, most of the water in the reservoirs is imported water. Rainfall totals through May 15 stood at 72% of normal levels.

Due to the state and federal cutbacks as well as to subnormal rainfall, the Santa Clara Valley Water District extended into the current year its successfully implemented 1990 policy of targeting a 20% reduction from pre-drought usage. In April, 1991, SCVWD imposed 25% mandatory cutbacks, using 1937 levels as a basis. The usage restrictions adopted by SCVWD are administered by the individual cities in the County and by the 12 major retailers that supply the County's 1.4 million customers.

Owing to the SCVWD's successful conservation and rationing policy as well as to increased levels of imported water and groundwater pumping, no significant disruptions to manufacturing, agriculture and residential activity have yet occurred. However, the District is unable to precisely determine the potential impact of any deepening of the drought on the County's economic activity and, hence, on District revenues.





## APPENDIX C

### DEFINITIONS OF CERTAIN TERMS

"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 6 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 aggregate 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.

"Board" means the Board of Supervisors of the District.

"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 Indenture.

"Bond Reserve Requirement" means, as of any date of calculation, (a) with respect to any Series of Bonds bearing only a fixed rate of interest, 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) with respect to any Series of Bonds which may bear a variable rate of interest, 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 to 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 District mean, respectively, a written certificate, statement, request, requisition or order signed in the name of the District by its Executive Officer or its Treasurer and Controller or any other person authorized by the Executive Officer 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.

"Certificate Indenture" means the Equipment Trust Indenture, dated as of June 1, 1984, between the Trustee and the District, as from time to time supplemented and amended in accordance with the terms thereof.

"Certificates" means the Santa Clara County Transit District Equipment Trust Certificates issued and outstanding pursuant to the Certificate Indenture.

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

"Corporate Trust Office" or "corporate trust office" means the corporate trust office of the Trustee at 33 New Montgomery Street, San Francisco, California 94105, Attention: Corporate Trust Division or such other or additional offices as may be designated by the Trustee including for purposes of payment, transfer or exchange of Bonds.

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

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

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

(a) if Sales Tax Debt is (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 Standard & Poor's and Moody's, 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 Standard & Pooors and Moody's, 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 District, 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 District certifies that it intends to refinance such Sales Tax Debt prior to maturity, as if they were amortized over a 10-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 formula, 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 the maximum interest rate permitted by the agreement under which such Sales Tax Debt was issued or incurred; 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.

"District" means the Santa Clara County Transit District, a public entity of the State of California, duly organized and existing under the Act.

"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 hereafter selected and designated as the official fiscal year period of the District which designation shall be provided to the Trustee in a certificate of the District.

"Indenture" means the indenture, dated as of August 1, 1991, by and between the Trustee and the District, 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 "Municipal and Government," 99 Church Street, 8th Floor, New York, New York 10007, 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 District may designate in a Request of the District delivered to the Trustee.

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

"Investment Securities" means the following:

(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 Moody's and Standard & Poor's;

(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 to give 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 Moody's and Standard & Poor's;

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

(viii) demand or time deposits or certificates of deposit, whether negotiable or nonnegotiable, 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 Moody's and Standard & Poor's;

(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 of 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 Moody's and Standard & Poor's, 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 Moody's and Standard & Poor's;

(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 agreement, 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 of Investment Securities; provided that as used in this clause (xii) and clause (xiii) investments will be deemed to satisfy the requirements of clause (xi) 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 claims paying ability rated in either of the two highest long-term Rating Categories by Moody's and Standard & Poor's;

(xiv) shares of beneficial interest in diversified management companies investing exclusively in securities and obligations described in clauses (i) through (xiii) of this definition of Investment Securities and which companies have the highest rating by Moody's and Standard & Poor's; 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 Moody's and Standard & Poor's, which purchases may not exceed 270 days maturity or 40 percent of the District'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; and

(xviii) any investment 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 on such Bonds.

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

"Maximum Annual Debt Service" shall mean the greatest amount of 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 Service:

(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 any interest rate swap agreement is in effect with respect to, and is payable on a parity with, the Bonds or Parity Debt to which it relates, no amounts payable under such interest rate swap agreement shall be included in the calculation of Maximum Annual Debt Service unless the sum of (i) interest payable on such Bonds or Parity Debt, plus (ii) amounts payable by the District under such interest rate swap agreement, less (iii) amounts receivable by the District under such interest rate swap agreement are greater than the interest payable on the Bonds or Parity Debt to which it relates, then, in such instance, the amount of such payments to be made that exceed the interest to be paid on the Bonds or Parity Debt shall be included in such calculation. For such purposes, the variable amount under any such interest rate swap agreement shall be determined as described in the definition of Debt Service or, if no maximum rate is specified, at the rate of fifteen percent (15%) per annum; and

(c) if any Bonds or Parity Debt features an option, on the part of the owners thereof or an obligation under the terms of such Bonds or Parity Debt, to tender all or a portion of such debt to the District, the Trustee or other fiduciary or agent and require that such debt or portion thereof be purchased if properly presented, then for purposes of determining the amounts of principal and interest due in any Fiscal Year on such debt, the options or obligations of the owners of such debt to tender the same for purchase or payment prior to their stated maturity or maturities shall be treated as a principal maturity occurring on the first date on which owners of such debt may or are required to tender such debt except that any such option or obligation to tender debt shall be ignored and not treated as a principal maturity, if (1) such debt is rated in one of the two highest long-term Rating Categories by Moody's and by Standard & Poor's or such debt is rated in the highest short-term, note or commercial paper Rating Categories by Moody's and by Standard & Poor's and (2) funds for the purchase price of such debt are to be



provided by a letter of credit, line of credit or standby bond purchase agreement and the obligation of the District with respect to the provider of such letter of credit, line of credit or standby bond purchase agreement, other than its obligations on such debt, shall be subordinated to the obligation of the District on the debt or, if not subordinate, shall be incurred (assuming such immediate tender) under the conditions and meeting the tests for the issuance of Parity Debt set forth herein.

"Moody's" means Moody's Investors Service, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the District.

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

"Outstanding," when used as of any particular time with reference 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 cancelled by the Trustee or surrendered to the Trustee for cancellation; (2) Bonds with respect to which all liability of the District 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 "Bondholder" or "Bondowner," whenever used herein with respect to a Bond, means the person in whose name such Bond is registered.

"Parity Debt" means the Certificates and any indebtedness, installment sale obligation, lease obligation or other obligation of the District 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, yards,

terminals, parking lots and any and all facilities necessary or convenient for transit service within or partly without the District, 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 Category" means (i) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier and (ii) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

"Rebate Fund" means that fund established under the Indenture.

"Rebate Requirement" means the Rebate Requirement defined in the Tax Certificate.

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

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

"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 District 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 for Fiscal Years 1990-1991 and thereafter, 100% of the amounts collected by the State Board of Equalization and distributed to the District pursuant to Section 100250 et seq. of the Act.

"Securities Depositories" means the following: The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax-(516) 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 19103, 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 District may designate in a Request of the District delivered to the Trustee.

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

"Series," whenever used herein with respect to Bonds, means all of the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction, regardless of variations in maturity, interest rate, redemption and other provisions, and any Bonds thereafter authenticated and delivered upon transfer or exchange or in lieu of or in substitution for (but not to refund) such Bonds as herein provided.

"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 Corporation, 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 District.

"State" means the State of California.

"Supplemental Indenture" means any indenture hereafter 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 District 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 Security Pacific National Bank, 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.

APPENDIX D

Proposed Form of Bond Counsel Opinion

[Closing Date]

Santa Clara County Transit District  
1555 Berger Drive  
San Jose, California 95112

Santa Clara County Transit District  
Sales Tax Revenue Bonds, 1991 Series A  
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Santa Clara County Transit District (the "Issuer") of \$34,375,000 aggregate principal amount of Santa Clara County Transit District Sales Tax Revenue Bonds, 1991 Series A (the "Bonds"), issued pursuant to the provisions of Chapter 7 of Part 12 of Division 10 of the Public Utilities Code of the State of California (the "Act") and an indenture, dated as of August 1, 1991, and a first supplemental indenture, dated as of August 1, 1991 (collectively, the "Indenture"), between the Issuer and Security Pacific National Bank, as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Tax Certificate, dated the date hereof (the "Tax Certificate"), certificates of the Issuer, the Trustee, and others, opinions of counsel to the Issuer and the Trustee and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur, and we disclaim any obligation to update this

opinion. We have assumed the genuineness of all documents and signatures presented to us. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture and the Tax Certificate are subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public entities in the State of California. We express no opinion with respect to any indemnification, contribution or choice of law provisions contained in the foregoing documents. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

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

1. The Bonds constitute the valid and binding limited obligations of the Issuer payable from and secured by a pledge of Revenues.
2. The Indenture has been duly authorized, executed and delivered by, and constitutes the valid and binding obligation of, the Issuer.
3. Interest on the Bonds is excluded from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986 and is exempt from California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that interest on the Bonds is included in adjusted current earnings in calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE

per

