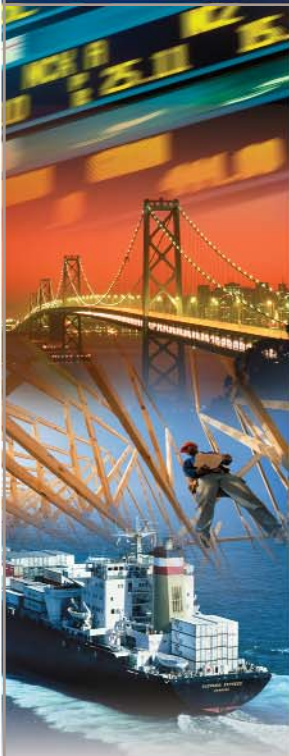


**Ambac**

Santa Clara Valley Transportation Authority Meets Financing Needs with Unique Three-Part Issue

\$371,115,000

**Santa Clara Valley Transportation Authority
Sales Tax Revenue Bonds**



A downturn in the economy often leads to a decrease in tax revenue. Yet, government authorities must continue to look to and plan for the future infrastructure needs of their communities, overcoming the financing difficulties presented by low points in the economic cycle. For Santa Clara, California, the reality of falling sales tax revenues in 2002 created challenges for the county's Valley Transportation Authority (VTA), both for funding projects already approved as well as those planned to help meet the future needs of San Jose and the Silicon Valley area. A county-wide sales tax, earmarked for transportation improvement, was approved by the voters in 2000, but will not go into effect until 2006. The VTA assembled a financial team, which included Ambac Assurance, to develop a cost-effective way to leverage that upcoming sales tax revenue to meet short-term needs as well as provide long-term financing for important future projects.

An interim financing solution was considered, to cover the period until the sales tax takes effect, but the VTA hoped to avoid the need to re-market a financing in such a short period of time. To unify the structuring and marketing process, the VTA's financing team created a unique three-part financing that would meet the VTA's needs with insured bonds through a current refunding, an advance refunding and a long-term new money issue. As of this writing, all three tranches, totalling about \$370 million have been issued. The bonds are structured with a mandatory tender in 2006, to effect a fixed rate when the new sales tax commences. As a result, the VTA was able to lock-in attractive rates for three-year issues, with the ability to issue longer term debt when sales tax revenues increase in 2006. The bonds will then be remarketed or refunded.

At the time of issuance of the first tranche, Ambac issued a commitment to provide financial guarantee insurance on all three issues ensuring that the bonds will receive the highest ratings available. Ambac also agreed to provide a debt service reserve fund surety for the VTA program. The VTA is authorized to issue up to \$550 million in bonds, but the creative, multi-tranche structure has helped the VTA save on capitalized interest, considerably reducing the total amount of debt issued. In addition to providing insurance, Ambac agreed to allow the VTA to pay the financial guarantee premium in two installments, giving the Authority additional flexibility and helping them continue to plan for and meet the transportation needs of the Santa Clara Valley.

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