



SUBJECT: REFUNDING OF PROP C BONDS

Metropolitan
Transportation
Authority

**ACTION: ADOPT RESOLUTION AUTHORIZING ISSUANCE OF
AUCTION RATE SECURITIES AND USE OF AN INTEREST
RATE SWAP**

One Gateway Plaza
Los Angeles, CA
90012-2932

(213) 922-2000

RECOMMENDATION

Adopt a resolution authorizing the Chief Executive Officer to price and deliver up to \$405 million of auction rate securities as the Proposition C Second Senior 2003-B refunding bonds, in one or more series of auction rate securities to be issued to refund portions of the Prop C 1993-B and 1995-A bonds, and to enter into one or more related interest rate swaps, and to approve documents on file with the Board Secretary for a negotiated bond sale and competitive swap provider selection. (Attachment A). **(Requires separate, simple majority Board vote.)**

RATIONALE

Current low interest rates are providing MTA the opportunity to refund up to \$368 million of bonds consisting of portions of the outstanding Prop C 1993-B series bonds and Prop C 1995-A series bonds to achieve debt service interest savings. In August 2003, the Board approved appointment of Bear Stearns and Lehman Brothers as underwriters and remarketing agents for these variable rate bonds. In July 2003, the Board approved the sale of fixed rate refunding bonds via competitive sale. However, due to the recent rise in interest rates, issuance of a fixed interest rate bonds is not projected to meet Debt Policy refunding guidelines.

In this same higher interest rate environment, use of the recommended London Interbank Offering Rate (LIBOR) indexed interest rate swap strategy is projected to generate savings of as much as \$22 million if all \$368 million of bonds meet the Debt Policy refunding guidelines. The swap(s) would be entered into in accordance with the Interest Rate Swap Policy adopted by the Board in June 2003.

FINANCIAL IMPACT

The costs of issuance for this refunding were not budgeted for FY04 because the refunding was not anticipated at the time of the budget's development. However, the refunding will generate a favorable variance in debt service interest, project 610311, account 51124, in FY04 to offset the unfavorable variance to costs of issuance.

ALTERNATIVES CONSIDERED

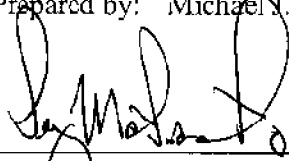
Alternatives considered include:

- A. Issuing fixed rate bonds to accomplish the refunding. This alternative is not recommended because in the current interest rate environment, issuance of a fixed rate bond will not lower the interest rate sufficiently to meet the Debt Policy refunding guidelines.
- B. Deferring the refunding to a later date. This alternative is not recommended due to the risk that interest rates may continue to rise and potential savings will be lost.
- C. Other financing techniques have also been considered, such as the use of a cost of funds swap or a BMA indexed swap. The BMA index is the Bond Market Association floating rate index, an index of municipal floating rate securities. They are not recommended because the recommended LIBOR financing provides a better overall financial benefit.

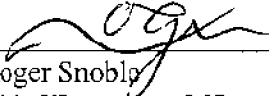
ATTACHMENTS

- A. Authorizing Resolution
- B. Transaction Explanation
- C. Swap Presentation

Prepared by: Michael N. Smith, Assistant Treasurer



Terry Matsumoto
Executive Officer, Finance and Treasurer



Roger Snoble
Chief Executive Officer

ATTACHMENT A

**RESOLUTION OF THE LOS ANGELES COUNTY
METROPOLITAN TRANSPORTATION AUTHORITY
AUTHORIZING THE ISSUANCE AND SALE OF ONE OR
MORE SERIES AND/OR SUBSERIES OF ITS MULTI-MODAL
PROPOSITION C SALES TAX REVENUE REFUNDING BONDS,
SECOND SENIOR BONDS AND APPROVING OTHER RELATED MATTERS**

(PROPOSITION C SALES TAX)

WHEREAS, the Los Angeles County Metropolitan Transportation Authority (the "MTA"), as successor to the Los Angeles County Transportation Commission (the "Commission"), is authorized, under Chapter 5 of Division 12 of the California Public Utilities Code (the "Act"), to issue bonds to finance and refinance the acquisition, construction or rehabilitation of facilities to be used as part of a countywide transit system; and

WHEREAS, pursuant to the provisions of Section 130350 of the California Public Utilities Code, the Commission was authorized to adopt a retail transactions and use tax ordinance applicable in the incorporated and unincorporated territory of the County of Los Angeles (the "County") subject to the approval by the voters of the County; and

WHEREAS, the Commission, by Ordinance No. 49 adopted on August 28, 1990 ("Ordinance No. 49"), imposed a ½ of 1% retail transactions and use tax upon retail sales of tangible personal property and upon the storage, use or other consumption of tangible personal property in the County, the proceeds of the tax to be used for public transit purposes (the "Proposition C Tax"), and such tax was approved by the electors of the County on November 6, 1990; and

WHEREAS, the revenues received by the MTA from the imposition of the transactions and use tax are, by statute, directed to be used for public transit purposes, which purposes include a pledge of such tax to secure any bonds issued pursuant to the Act and include the payments or provision for the payment of the principal, any premium and interest on the bonds and the costs of issuance of the bonds; and

WHEREAS, the MTA is planning and engineering a Countywide rail, bus and highway transit system (the "Rail, Bus and Highway Transit System") to serve the County and has commenced construction of portions of the Rail, Bus and Highway Transit System; and

WHEREAS, to facilitate the development and construction of the Rail, Bus and Highway Transit System, the MTA, as authorized by the Act, pursuant to the terms of a Trust Agreement, dated as of October 1, 1992, as amended and supplemented (the "Trust Agreement"), by and between the Commission, as predecessor to the MTA, and Bank of America National Trust and Savings Association, the predecessor trustee to U.S. Bank Trust National Association, as succeeded by merger by U.S. Bank National Association (the "Trustee"), issued \$516,855,000 of its Proposition C Sales Tax Revenue Bonds, Second Senior Bonds, Series 1992-A (the "Series 1992-A Bonds") pursuant to a First Supplemental Trust Agreement, dated as of October 1, 1992, by and between the Commission, as predecessor to the MTA, and the Trustee; issued

\$204,095,000 of its Proposition C Sales Tax Revenue Refunding Bonds, Second Senior Bonds, Series 1993-A (the "Series 1993-A Bonds") pursuant to a Third Supplemental Trust Agreement, dated as of June 1, 1993, by and between the MTA and the Trustee; issued \$312,350,000 of its Proposition C Sales Tax Revenue Bonds, Second Senior Bonds, Series 1993-B (the "Series 1993-B Bonds") pursuant to a Fourth Supplemental Trust Agreement, dated as of November 15, 1993, by and between the MTA and the Trustee; issued \$250,000,000 of its Proposition C Sales Tax Revenue Bonds, Second Senior Bonds, Series 1995-A (the "Series 1995-A Bonds") pursuant to a Fifth Supplemental Trust Agreement dated as of June 1, 1995, by and between the MTA and the Trustee; issued \$219,710,000 of its Proposition C Sales Tax Revenue Refunding Bonds, Second Senior Bonds, Series 1998-A (the "Series 1998-A Bonds") pursuant to a Sixth Supplemental Trust Agreement, dated as of March 1, 1998, by and between the MTA and the Trustee; issued \$124,805,000 of its Proposition C Sales Tax Revenue Bonds, Second Senior Bonds, Series 1999-A (the "Series 1999-A Bonds") pursuant to a Seventh Supplemental Trust Agreement, dated as of February 1, 1999, by and between the MTA and the Trustee; issued \$161,995,000 of its Proposition C Sales Tax Revenue Bonds, Second Senior Bonds, Series 2000-A (the "Series 2000-A Bonds") pursuant to a Eighth Supplemental Trust Agreement dated as of November 1, 2000, by and between the MTA and the Trustee; and issued \$94,840,000 of its Proposition C Sales Tax Revenue Refunding Bonds, Second Senior Bonds, Series 2003-A (the "Series 2003-A Bonds") pursuant to a Ninth Supplemental Trust Agreement dated as of March 1, 2003, by and between the MTA and the Trustee (collectively, the "Prior Bonds"); and

WHEREAS, the MTA has pledged the Proposition C Tax (less the 20% local allocation and the State Board of Equalization's costs of administering such tax) to secure the Prior Bonds; and

WHEREAS, the MTA now desires to provide for the issuance of one or more series or subseries from time to time of its Proposition C Sales Tax Revenue Refunding Bonds, Second Senior Bonds (the "Refunding Bonds") (a) to refund all or a portion of the outstanding Series 1993-B Bonds and the Series 1995-A Bonds; (b) to fund or make provision for one or more reserve funds, if necessary, for the Refunding Bonds; and (c) to pay certain costs related thereto; and

WHEREAS, on July 24, 2003 the MTA adopted "RESOLUTION OF THE LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY AUTHORIZING THE ISSUANCE AND SALE OF ONE OR MORE SERIES OF ITS PROPOSITION C SALES TAX REVENUE REFUNDING BONDS, SECOND SENIOR BONDS AND APPROVING OTHER RELATED MATTERS (PROPOSITION C SALES TAX)" (the "Fixed-Rate Resolution"); and

WHEREAS, the Fixed-Rate Resolution authorized staff of the MTA to proceed with the refunding of all or a portion of the outstanding Series 1993-B Bonds and the Series 1995-A Bonds through the issuance of the Refunding Bonds as fixed-rate obligations; and

WHEREAS, the MTA has determined that it is in its best financial interest to have the flexibility to refund all or a portion of the outstanding Series 1993-B Bonds and the Series 1995-A Bonds through the issuance of the Refunding Bonds as multi-modal obligations (including, but not limited to, auction rate obligations) and/or as well as fixed-rate obligations; and

WHEREAS, if the Refunding Bonds are issued as variable interest rate obligations, in order to fix the rate of interest payable by the MTA on the Refunding Bonds, the MTA desires to enter into one or more interest rate swap agreements with one or more swap providers, wherein such swap provider(s) will agree to pay to the MTA a sum calculated at a variable interest rate and the MTA will agree to pay a sum calculated at a fixed interest rate to the swap provider(s); and

WHEREAS, there have been presented to the MTA forms of the following documents:

(a) a Supplemental Trust Agreement (the "Supplemental Trust Agreement") by and between the MTA and the Trustee, the form of which will be used in connection with the issuance of each series and/or subseries of the Refunding Bonds;

(b) an Escrow Agreement (the "Escrow Agreement") by and among the MTA, the Trustee and U.S. Bank National Association, acting as escrow agent, the form of which will be used in connection with the refunding and defeasance of all or a portion of the outstanding Series 1993-B Bonds and the Series 1995-A Bonds;

(c) a Preliminary Official Statement (the "Preliminary Official Statement"), the form of which will be used in connection with the sale of each series and/or subseries of the Refunding Bonds, which describes the Refunding Bonds, the MTA and its operations;

(d) a Broker-Dealer Agreement (the "Broker-Dealer Agreement") by and among the MTA, the auction agent and the broker-dealer, the form of which will be used in connection with the auctioning of each series and/or subseries of Refunding Bonds from time to time;

(e) an Auction Agreement (the "Auction Agreement") by and among the MTA, the auction agent and the broker-dealer, the form of which will be used in connection with the auctioning of each series and/or subseries of Refunding Bonds from time to time;

(f) a bond purchase agreement (the "Purchase Contract") to be dated the date of the sale of each series and/or subseries of the Refunding Bonds, between the applicable underwriter(s) of the respective series and/or subseries of the Refunding Bonds and the MTA, the form of which will be used in connection with the sale of each series and/or subseries of the Refunding Bonds;

(g) an Interest Rate Swap Agreement (the "Swap Agreement") the form of which will be used in connection with the swapping of the variable interest rate on each series and/or subseries of the Refunding Bonds to a fixed rate interest; and

(h) a Continuing Disclosure Certificate by the MTA, the form of which will be used in connection with the issuance of each series and/or subseries of the Refunding Bonds, in order to assist the underwriter(s) of each series and/or subseries of Refunding Bonds in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Continuing Disclosure Certificate").

WHEREAS, the MTA has been advised by its Bond Counsel that such documents are in appropriate form, and the MTA hereby acknowledges that said documents will be modified and amended to reflect the various details applicable to each series and/or subseries of Refunding Bonds and said documents are subject to completion to reflect the results of the sale or sales, from time to time, of each series and/or subseries of Refunding Bonds; and

WHEREAS, the MTA has determined that it is in the best interests of the public transportation needs of the County to provide for the issuance and sale of one or more series and/or subseries of the Refunding Bonds, from time to time, to refund all or a portion of the outstanding Series 1993-B Bonds and Series 1995-A Bonds; and

WHEREAS, the Proposition C Tax, less the 20% allocated to local jurisdictions and less the costs of the State Board of Equalization for administering the Proposition C Tax, is herein referred to as the "Pledged Taxes"; and

WHEREAS, terms used in this Resolution and not otherwise defined herein shall have the meanings assigned to them in the Trust Agreement or the Supplemental Trust Agreement;

NOW, THEREFORE, BE IT RESOLVED BY THE LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY, AS FOLLOWS:

Section 1. Findings. The MTA hereby finds and determines that:

(a) The issuance of one or more series and/or subseries from time to time of the Refunding Bonds to refinance a portion of the development and construction of the Rail, Bus and Highway Transit System by refunding all or a portion of the outstanding Series 1993-B Bonds and Series 1995-A Bonds, to fund or provide for one or more reserve funds, if necessary, and pay certain costs related thereto is in the public interest.

(b) Under the provisions of Ordinance No. 49, all of the Pledged Taxes are revenues of the MTA available for rail, bus and highway transit purposes and are available to be and are, by the terms of the resolutions and the Trust Agreement under which the Prior Bonds were issued, pledged to secure the Prior Bonds and are pledged to secure the Refunding Bonds, and, by this Resolution, such pledge is reaffirmed.

(c) The provisions contained in the Trust Agreement, as previously amended and supplemented, and in the form of the Supplemental Trust Agreement are reasonable and proper for the security of the holders of each series and/or subseries of the Refunding Bonds.

Section 2. Issuance of Refunding Bonds; Terms of Refunding Bonds. For the purposes of refunding all or a portion of the outstanding Series 1993-B Bonds and the Series 1995-A Bonds, funding or providing for a portion of the Reserve Fund, if necessary, established under the Trust Agreement and paying certain costs related thereto, the MTA hereby authorizes the issuance of one or more series and/or subseries of its Proposition C Sales Tax Revenue Refunding Bonds, Second Senior Bonds, from time to time or at the same time. The total aggregate principal amount of Refunding Bonds issued from time to time under this Resolution (whether in one series or multiple series and/or subseries) shall not exceed (a) the lesser of

\$405,000,000 (in the aggregate) or \$405,000,000 (in the aggregate) minus the total principal amount of bonds issued pursuant to the Fixed-Rate Resolution, (b) plus the amount of any original issue premium at which each series and/or subseries of the Refunding Bonds may be sold. The Chair of the MTA, any Vice Chair of the MTA, the Chief Executive Officer (“CEO”) of the MTA, any Deputy Chief Executive Officer of the MTA, the Chief Financial Officer of the MTA, the Executive Officer, Finance of the MTA, the Treasurer of the MTA and any written designee of the CEO, or any of them (each a “Designated Officer”), acting in accordance with this Section 2, are each hereby authorized to determine the actual aggregate principal amount of each series and/or subseries of Refunding Bonds to be issued from time to time (not in excess of the maximum amount set forth above) and to direct the execution and authentication of each series and/or subseries of Refunding Bonds in such amounts. Such direction shall be conclusive as to the principal amounts hereby authorized. Each series and/or subseries of Refunding Bonds shall be in fully registered form and may be issued as Book-Entry Bonds as provided in the form of the Supplemental Trust Agreement. Payment of principal of, interest on and premium, if any, on each series and/or subseries of Refunding Bonds shall be made at the place or places and in the manner provided in each applicable Supplemental Trust Agreement.

Each series and/or subseries of Refunding Bonds shall be issued as current interest bonds and shall be initially available in denominations of \$25,000 and integral multiples thereof, or such other denominations as may be authorized by a Designated Officer. Each series and/or subseries of Refunding Bonds shall, when issued, be in the aggregate principal amounts and serial and/or term maturities and be dated as provided in the final form or forms of the applicable Supplemental Trust Agreement. Each series and/or subseries of Refunding Bonds shall initially bear interest at a variable rate as described in the final form or forms of the applicable Supplemental Trust Agreement but in any event not in excess of twelve percent (12%) per annum. Interest on the Refunding Bonds shall be paid on the dates set forth in the final form or forms of the applicable Supplemental Trust Agreement. The Refunding Bonds shall be sold in a manner by which the interest thereon is excludable from gross income under the Code. Each series and/or subseries of Refunding Bonds shall be subject to redemption at the option of the MTA on such terms and conditions as shall be set forth in each applicable Supplemental Trust Agreement. The Refunding Bonds which are term bonds shall also be subject to mandatory sinking fund redemption as shall be set forth in the applicable Supplemental Trust Agreement.

Execution and delivery of each Supplemental Trust Agreement, which document(s) contain the maturities and interest rate modes within parameters set forth in this Resolution, shall constitute conclusive evidence of the MTA’s approval of such maturities and interest rate modes for each series and/or subseries of Refunding Bonds.

Section 3. Pledge of Pledged Taxes. The Pledged Taxes are hereby irrevocably pledged in accordance with the terms of the Trust Agreement to secure the Prior Bonds, each series and/or subseries of Refunding Bonds, and any additional bonds which may subsequently be issued under and secured by the terms of the Trust Agreement. Except for the Prior Bonds, the MTA hereby confirms that it has not previously granted any prior or parity interest in such Pledged Taxes, and the MTA hereby agrees that, except as permitted by the Trust Agreement (as amended in accordance with its terms), it will not, as long as any of the Refunding Bonds remain outstanding, grant or attempt to grant any prior or parity pledge, lien or other interest in the Pledged Taxes to secure any other obligations of the MTA.

Section 4. Special Obligations. The Refunding Bonds shall be special obligations of the MTA secured by and payable from the Pledged Taxes and from the funds and accounts held by the Trustee under the Trust Agreement. The Refunding Bonds shall also be secured by and be paid from such other sources as the MTA may hereafter provide.

Section 5. Forms of Refunding Bonds. The Refunding Bonds and the Trustee's Certificate of Authentication to appear thereon shall be in substantially the forms set forth in the Exhibits to the applicable Supplemental Trust Agreement, with such necessary or appropriate variations, omissions and insertions as permitted or required by the Trust Agreement or each Supplemental Trust Agreement or as appropriate to adequately reflect the terms of each such series and/or subseries of Refunding Bonds and the obligation represented thereby.

Section 6. Execution of Refunding Bonds. Each of the Refunding Bonds shall be executed on behalf of the MTA by any Designated Officer and any such execution may be by manual or facsimile signature, and each bond shall be authenticated by the endorsement of the Trustee or an agent of the Trustee. Any facsimile signature of such Designated Officer(s) shall have the same force and effect as if such officer(s) had manually signed each of such Refunding Bonds.

Section 7. Approval of Documents; Authorization for Execution. The form, terms and provisions of the Supplemental Trust Agreement and the Escrow Agreement, as presented at this meeting, within the parameters set forth in this Resolution are in all respects approved, and any Designated Officer, any one or more thereof, are hereby authorized empowered and directed to execute, acknowledge and deliver from time to time each applicable Supplemental Trust Agreement and each applicable Escrow Agreement for the respective series and/or subseries of Refunding Bonds, including counterparts thereof, in the name of and on behalf of the MTA. Each Supplemental Trust Agreement and each Escrow Agreement, as executed and delivered, shall be in substantially the forms now before this meeting and hereby approved, or with such changes therein as shall be approved by the hereinabove specified officer or officers of the MTA executing the same; the execution thereof shall constitute conclusive evidence of the MTA's approval of any and all changes or revisions therein from the form of the Supplemental Trust Agreement and the Escrow Agreement now before this meeting; and from and after the execution and delivery of each Supplemental Trust Agreement and each Escrow Agreement, the officers, agents and employees of the MTA are hereby authorized, empowered and directed to do all such acts and things and to execute all such documents as may be necessary to carry out and comply with the provisions of each Supplemental Trust Agreement and each Escrow Agreement.

Section 8. Sale of Refunding Bonds.

(a) The MTA hereby authorizes the sale of each series and/or subseries of the Refunding Bonds through a private, negotiated sale to Bear, Stearns & Co. Inc. and Lehman Brothers Inc. (collectively, the "Underwriters"). In connection therewith, the MTA hereby approves the form of the Preliminary Official Statement (the "Preliminary Official Statement") presented at this meeting and authorizes the Underwriters to distribute (via written format and/or through electronic means) the Preliminary Official Statement to market the Refunding Bonds from time to time, with such additions, deletions and changes as the Designated Officers, or any of them, deemed to be

appropriate for the specific series and/or subseries of Refunding Bonds for which such Preliminary Official Statement is being distributed. The Underwriters are hereby further authorized to distribute (via written format and/or through electronic means) copies of the MTA's most recent annual audited financial statements and such other financial statements of the MTA as any Designated Officer, any one or more thereof, shall approve. Each Preliminary Official Statement shall be circulated for use in selling each series and/or subseries of Refunding Bonds at such time or times as a Designated Officer (after consultation with the MTA's financial advisor and Bond Counsel and such other advisors as the Designated Officer believes to be useful) shall determine that each Preliminary Official Statement is substantially final within the meaning of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended, said determination to be conclusively evidenced by a certificate signed by the Designated Officer to such effect, and any such action previously taken is hereby confirmed, ratified and approved.

(b) Each series and/or subseries of the Refunding Bonds, if sold to the Underwriters from time to time, shall be sold subject to an underwriters' discount (excluding original issue discount and premium) not to exceed \$2.50 per \$1000 of principal amount of each series and/or subseries of the Refunding Bonds and subject to the terms and conditions set forth in the form of the Purchase Contract. The form, terms and provisions of the Purchase Contract as presented at this meeting, within the parameters set forth in this Resolution are in all respects approved, and any Designated Officer, any one or more thereof, are hereby authorized empowered and directed to execute, acknowledge and deliver from time to time each applicable Purchase Contract for the respective series and/or subseries of Refunding Bonds, including counterparts thereof, in the name of and on behalf of the MTA. Each Purchase Contract, as executed and delivered, shall be in substantially the form now before this meeting and hereby approved, or with such changes therein as shall be approved by the hereinabove specified officer or officers of the MTA executing the same; the execution thereof shall constitute conclusive evidence of the MTA's approval of any and all changes or revisions therein from the form of the Purchase Contract now before this meeting; and from and after the execution and delivery of each Purchase Contract, the officers, agents and employees of the MTA are hereby authorized, empowered and directed to do all such acts and things and to execute all such documents as may be necessary to carry out and comply with the provisions of each Purchase Contract.

(c) Upon the execution and delivery of each Purchase Contract, from time to time, the Designated Officers shall provide for the preparation, publication, execution and delivery of one or more final Official Statement(s) in the form of the Preliminary Official Statement as presented at this meeting, with such additions, deletions and changes as the Designated Officers, or any of them, deemed to be appropriate for the specific series and/or subseries of Refunding Bonds for which such final Official Statement is being distributed. Any Designated Officer is hereby authorized and directed to execute and deliver the final Official Statement(s) in the name and on behalf of the MTA. The Underwriters are hereby authorized to distribute (via written format and/or through electronic means) the final Official Statement to market the Refunding Bonds from time to time.

(d) The form and content of the Continuing Disclosure Certificate presented at this meeting to be dated the applicable date of delivery of each series and/or subseries of Refunding Bonds, is hereby approved and the MTA's obligation to provide the information as described therein is approved and any Designated Officer is hereby authorized and directed to execute and deliver a Continuing Disclosure Certificate, from time to time, in substantially the form and substance presented at this meeting but with such changes and additions as the Designated Officer shall approve as being in the best interests of the MTA or required to comply with securities rules, such approval to be conclusively evidenced by the Designated Officer's execution and delivery of each such Continuing Disclosure Certificate.

(e) The MTA hereby appoints Bear, Stearns & Co. Inc. and Lehman Brothers Inc. each as a broker-dealer for all or a portion of each series and/or subseries of the Refunding Bonds. In addition to the underwriter's discount and/or underwriting fees to be paid to the Underwriters as approved pursuant to (b) above, the MTA hereby approves the payment of a broker-dealer fee to each broker-dealer of not to exceed twenty-five (25) basis points (0.25%) per annum of the weighted average of the principal amount of the Refunding Bonds outstanding for which such broker-dealer has been appointed broker-dealer, plus certain out-of-pocket expenses incurred by such broker-dealer. The form, terms and provisions of the Broker-Dealer Agreement as presented at this meeting, within the parameters set forth in this Resolution are in all respects approved, and any Designated Officer, any one or more thereof, are hereby authorized empowered and directed to execute, acknowledge and deliver from time to time separate Broker-Dealer Agreements for each series and/or subseries of Refunding Bonds for each respective broker-dealer, including counterparts thereof, in the name of and on behalf of the MTA. Each Broker-Dealer Agreement, as executed and delivered, shall be in substantially the form now before this meeting and hereby approved, or with such changes therein as shall be approved by the hereinabove specified officer or officers of the MTA executing the same; the execution thereof shall constitute conclusive evidence of the MTA's approval of any and all changes or revisions therein from the form of the Broker-Dealer Agreement now before this meeting; and from and after the execution and delivery of each Broker-Dealer Agreement, the officers, agents and employees of the MTA are hereby authorized, empowered and directed to do all such acts and things and to execute all such documents as may be necessary to carry out and comply with the provisions of each Broker-Dealer Agreement.

(f) The MTA hereby authorizes one or more Designated Officers to select, after consultation with the MTA's financial advisors and the broker-dealers appointed in (e) above, one or more auction agents for all or a portion of each series and/or subseries of the Refunding Bonds. Such auction agent(s) shall meet the qualifications set forth in the form of the Supplemental Trust Agreement presented and approved at this meeting. Such auction agent(s) and the MTA will enter into one or more Auction Agreements, from time to time, which, Auction Agreements will be substantially in the form of the Auction Agreement as presented at this meeting. The form, terms and provisions of the Auction Agreement as presented at this meeting, within the parameters set forth in this Resolution are in all respects approved, and any Designated Officer, any one or more thereof, are hereby authorized empowered and directed to execute, acknowledge and

deliver from time to time an Auction Agreement for each series and/or subseries of Refunding Bonds, including counterparts thereof, in the name of and on behalf of the MTA. Each Auction Agreement, as executed and delivered, shall be in substantially the form now before this meeting and hereby approved, or with such changes therein as shall be approved by the hereinabove specified officer or officers of the MTA executing the same; the execution thereof shall constitute conclusive evidence of the MTA's approval of the auction agent(s) selected by the Designated Officer(s) and of any and all changes or revisions therein from the form of the Auction Agreement now before this meeting; and from and after the execution and delivery of each Auction Agreement, the officers, agents and employees of the MTA are hereby authorized, empowered and directed to do all such acts and things and to execute all such documents as may be necessary to carry out and comply with the provisions of each Auction Agreement.

(g) Any Designated Officer, on behalf of the MTA, is further authorized and directed to cause one or more written notices to be provided to the California Debt and Investment Advisory Commission of the proposed sale of each series and/or subseries of Refunding Bonds, said notice(s) to be provided in accordance with Section 8855 et seq. of the California Government Code, to file the notice(s) of final sale with said Commission, to file the rebates and notices required under section 148(f) and 149(e) of the Internal Revenue Code of 1986, as amended, and to file such additional notices and reports as are deemed necessary or desirable by such Designated Officer in connection with each series and/or subseries of Refunding Bonds, and any prior such notices are hereby ratified, confirmed and approved.

Section 9. Trustee, Paying Agent, Registrar and Escrow Agent. The MTA hereby appoints U.S. Bank National Association as Trustee, Paying Agent and as Registrar for each series and/or subseries of the Refunding Bonds. Additionally, the MTA hereby appoints U.S. Bank National Association as escrow agent in connection with the refunding of all or a portion of the outstanding Series 1993-B Bonds and the Series 1995-A Bonds. Such appointments shall be effective upon the issuance of each series and/or subseries of Refunding Bonds, from time to time, and shall remain in effect until the MTA, by supplemental agreement, resolution or other action, shall name a substitute or successor thereto.

Section 10. Bond Insurance and Reserve Fund Surety Bond. In connection with the sale of each series and/or subseries of Refunding Bonds, the Designated Officers are hereby authorized to purchase on behalf of the MTA one or more policies of municipal bond insurance for some or all of the Refunding Bonds and to purchase one or more reserve fund surety bonds for the Refunding Bonds on such terms as shall be acceptable to the Underwriters and the Designated Officer. If purchased by the MTA, said insurance and/or reserve fund surety bond shall contain such terms and conditions as shall be acceptable to said Designated Officer(s).

Section 11. Interest Rate Swap Agreement. After reviewing the results of an evaluation undertaken by the MTA's Chief Financial Officer, the MTA's Treasurer, the MTA's financial/swap advisor and bond counsel (which reviewed the benefits and potential areas of risk set forth in Section V. of the Swap Policy (as defined hereinafter)), and a term sheet which sets forth certain terms of the proposed interest rate swap transaction (collectively, the "Evaluation"), the MTA authorizes any Designated Officer to enter into one or more interest rate swap

transactions, from time to time, with one or more of the counterparties described in the Evaluation, in connection with each series and/or subseries of the Refunding Bonds issued as variable interest rate obligations. The MTA hereby finds that the interest rate swaps described in the Evaluation will be used to alter interest rate risk and/or alter the cost of borrowing in a beneficial manner, and when used in combination with the Refunding Bonds, future series of bonds and the Prior Bonds will enhance the relationship between risk and return, and achieve other policy objectives of the MTA. In connection with each interest rate swap transaction entered into by the MTA the Designated Officers are hereby authorized to enter into one or more interest rate swap agreements with one or more of the swap counterparties described in the Evaluation, provided such interest rate swap agreement meets the qualifications set forth in the MTA's Interest Rate Swap Policy (June 2003) (the "Swap Policy"). Said interest rate swap agreement shall be in the form and contain the terms and provisions of the Interest Rate Swap Agreement as presented at this meeting, within the parameters set forth in this Resolution, the Swap Policy and the Evaluation. The form, terms and provisions of the Interest Rate Swap Agreement as presented at this meeting, within the parameters set forth in this Resolution, the Swap Policy and the Evaluation are in all respects approved, including, without limitation, any payment obligations owed by the MTA under the Interest Rate Swap Agreement. Each Interest Rate Swap Agreement, as executed and delivered, shall be in substantially the form now before this meeting and hereby approved, or with such changes therein as shall be approved by the hereinabove specified officer or officers of the MTA executing the same; the execution thereof shall constitute conclusive evidence of the MTA's approval of any and all changes or revisions therein from the form of the Interest Rate Swap Agreement now before this meeting; and from and after the execution and delivery of each Interest Rate Swap Agreement, the officers, agents and employees of the MTA are hereby authorized, empowered and directed to do all such acts and things and to execute all such documents as may be necessary to carry out and comply with the provisions of each Interest Rate Swap Agreement.

In connection with entering into an Interest Rate Swap Agreement, the Designated Officers are hereby authorized to purchase on behalf of the MTA one or more policies of municipal bond insurance and/or one or more surety bonds guaranteeing the MTA's obligations under the Interest Rate Swap Agreement. If purchased by the MTA, said insurance and/or reserve fund surety bond shall contain such terms and conditions as shall be acceptable to said Designated Officer(s).

Section 12. Additional Authorization. The Designated Officers and all officers, agents and employees of the MTA, for and on behalf of the MTA, be and they hereby are authorized and directed to do any and all things necessary to effect the execution and delivery of the Refunding Bonds, each Supplemental Trust Agreement, each final Official Statement, each Escrow Agreement, each Purchase Contract, each Broker-Dealer Agreement, each Auction Agreement, each Interest Rate Swap Agreement and each Continuing Disclosure Certificate and to carry out the terms thereof. The Designated Officers and all other officers, agents and employees of the MTA are further authorized and directed, for and on behalf of the MTA, to execute all papers, documents, certificates and other instruments that may be required in order to carry out the authority conferred by this Resolution and by the Trust Agreement, each Supplemental Trust Agreement or to evidence said authority and its exercise. The foregoing authorization includes, but is in no way limited to, the direction (from time to time) by a Designated Officer of the investments in Permitted Investments (defined in the Trust Agreement)

of the proceeds of the Refunding Bonds and of the Pledged Taxes, including the execution and delivery of investment agreements related thereto, the execution by a Designated Officer and the delivery of one or more Tax Compliance Certificates for each series and/or subseries of Refunding Bonds as required by each Supplemental Trust Agreement for the purpose of complying with the rebate and arbitrage requirements of the Internal Revenue Code of 1986, as amended; and documents required by The Depository Trust Company in connection with the Book-Entry Bonds.

Section 13. Costs of Issuance. The MTA authorizes funds of the MTA together with the proceeds of the Refunding Bonds to be used to pay costs of issuance of the Refunding Bonds, including but not limited to, costs of attorneys, accountants, verification agents, financial advisor, the costs associated with rating agencies, bond insurance, surety bonds and interest rate swap agreements, printing, publication and mailing expenses and any related filing fees.

Section 14. Fixed Rate Resolution. The MTA hereby affirms the Fixed Rate Resolution and such Fixed Rate Resolution shall continue to be in full force and effect. The Designated Officers, agents and employees of the MTA, for and on behalf of the MTA, continue to have authorization pursuant to the terms of the Fixed Rate Resolution to issue refunding bonds pursuant to such Fixed Rate Resolution as an alternative or in conjunction with the authorization granted under this Resolution.

Section 15. Severability. The provisions of this Resolution are hereby declared to be severable, and, if any section, phrase or provision shall for any reason be declared to be invalid, such declaration shall not affect the validity of the remainder of the sections, phrases and provisions hereof.

Section 16. Effective Date. This Resolution shall be effective upon adoption.

Section 17. Contract. This Resolution and the pledge of the Pledged Taxes contained herein shall constitute a contract between the MTA and the holders of the Refunding Bonds.

ATTACHMENT B

Explanation of Strategy to Refund Proposition C 1993-B and 1995-A Bonds

MTA has an opportunity to refund the Proposition C 1993-B and 1995-A bonds to achieve a lower interest rate. Use of a fixed rate bond to accomplish the refunding is not beneficial at current interest rate levels. However, an interest rate lower than that currently available using a fixed rate bond can be realized by employing a financing structure where variable rate bonds are issued and simultaneously hedged using an interest rate swap to achieve a synthetic fixed rate.

For tax-exempt issuers such as MTA, interest rate swaps are typically able to provide a lower interest rate than tax-exempt fixed rate bonds for terms (maturities) longer than about 12 years. The interest rate advantage increases as the term lengthens. Issuance of the variable rate bonds will provide the funds to retire the prior bonds and generates a variable rate payment obligation. MTA may then enter into a "fixed payer" interest rate swap to lock in a fixed rate payment.

Under the swap contract, MTA will agree to pay a fixed rate payment to the swap provider and the swap provider will pay a variable rate payment to MTA. It is anticipated that the variable rate payments received by MTA from the swap provider will closely approximate, and thus offset, the payments MTA will pay out to the bondholders on the variable rate bonds. The end result is that the net payment for MTA will be the synthetic fixed rate of the interest rate swap.

The interest rate for the variable rate payment is set each payment period by referencing an index, in this instance either a 1-month or 3-month LIBOR rate will be used. The actual dollar amount of the payments is calculated by multiplying each rate by the "notional" amount of the swap. The notional amount will be equivalent numerically to the par amount of the underlying bond issue and is used to calculate the payments to be exchanged. There is no exchange of principal amounts when transacting a swap.

When entering into a LIBOR based swap there is an assumption that MTA's variable rate bond payments will, over time, maintain their historic proportional price relationship of 62% of the LIBOR index. The index will be used to calculate the variable rate amounts that MTA will receive. If that historic relationship changes, MTA's variable rate payments won't match and offset each other as well, possibly resulting in an increased cost to MTA that would reduce the amount of the savings. If this relationship changed significantly and the change occurred early in the life of the transaction it is possible that all savings could be negated, and it is possible that a moderate loss could occur. The greatest threat of a large change in the relationship is that there would be tax reform that would eliminate the tax-exemption for interest on municipal bonds. The likelihood of a significant change early in the transaction is assessed as being remote. This shift in the relationship is known as Basis Risk, and in this example is the result of Tax Risk.

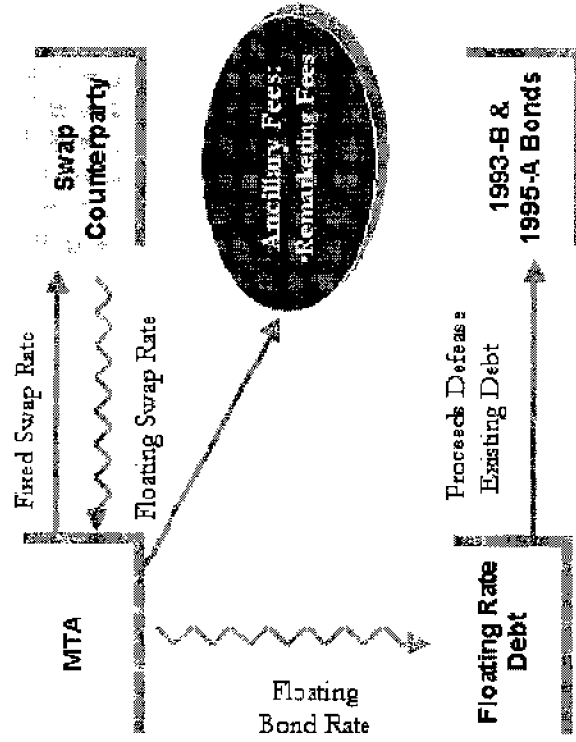
Various risks need to be considered when entering into an interest rate swap, some of the key risks are listed in Attachment D.

Attachment C

**Prop C 1993-B & 1995-A Bonds
Refunding & Interest Rate Swap Strategy**

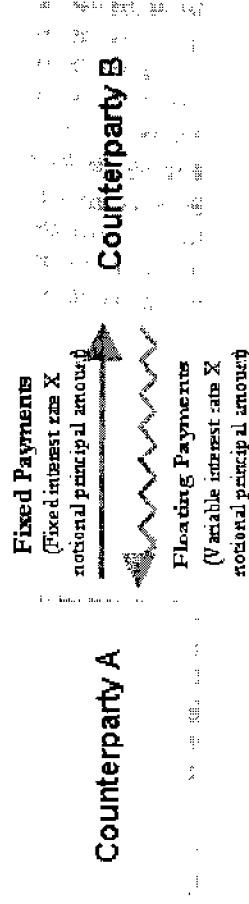
August 21, 2003

MTA Will Issue Floating Rate Debt to Defease Existing Fixed Rate Debt and Enter Into Floating-To-Fixed Rate Swap



Interest Rate Swaps in General

- An interest rate swap is a contract between two parties (referred to as “counterparties”) to exchange interest rate payments at specified dates in the future.
- The interest rate payments for a given counterparty equal the product of an swap rate and a notional principal amount.
- The swap rate for one counterparty is a fixed rate, while the swap rate for the other counterparty is a variable rate.
- The principal amount by which the swap rates are multiplied is notional because principal payments are not swapped, paid or exchanged; the notional principal amount is only a “placeholder” used for calculating swap payments.



Credit agency opinions

	MOODY'S	SEAP	RITCH
Swap Policy	<ul style="list-style-type: none"> • Foundation of review, articulates management's philosophy regarding risk management and use of derivatives, including exit strategy 	<ul style="list-style-type: none"> • Part of debt management plan outlining risk and reward of swap, risk mitigation or funding strategy, monitoring, quantitative assessment of risk 	<ul style="list-style-type: none"> • Important in evaluating overall credit • Strong policy may mitigate other risks • Professionals associated with issue may also mitigate risk
Termination Risk <small>(Risk that a swap will be terminated by a counterparty before maturity)</small>	<ul style="list-style-type: none"> • Assumes Issuer will not terminate unless economic • Reviews terms governing termination by counterparty and potential cost to Issuer • Counterparty credit is evaluated 	<ul style="list-style-type: none"> • Analyze swap contract legal provisions to insure remoteness of termination triggers (ideally, failure to pay, bankruptcy, merger w/o assumption, illegality). Termination lien is also important • Other termination criteria (i.e. downgrade) must be established as remote or stress test must be run • Means to reduce termination risk are also considered (i.e. term, contingency plan) • Remedies should not infringe upon bondholders' rights 	<ul style="list-style-type: none"> • Conducts analysis of termination costs under various interest rate scenarios • Prefers termination events limited to circumstances considered in ratings (i.e. downgrade, bankruptcy, default) • Non-credit termination events may cause disregard for the swap

Credit agency opinions

	MOODY'S	S&P	FITCH
<p>Counterparty Risk (risk that the counterparty may be unable to meet its payment obligations)</p>	<ul style="list-style-type: none"> Looks to internal rating of counterparty Accepts posting of collateral to limit counterparty risk Evaluates Credit Support Annex 	<ul style="list-style-type: none"> Counterparty rating of at least A/A-1 No credit given to swap is "terminating" counterparty 	<ul style="list-style-type: none"> Expects counterparty to be rated at least as highly as issuer Prefers provisions providing for collateral in event of downgrade Prefers termination provisions to relate to counterparty credit
<p>Rollover Risk (swap maturity does not match maturity of hedged debt or asset)</p>	<ul style="list-style-type: none"> Timing and impact of rollover is evaluated 	<ul style="list-style-type: none"> Concrete rollover strategy or bonds purchased unhedged at swap maturity 	
<p>Basis Risk (potential mismatch between interest cost of underlying variable rate bonds and variable rate payment received)</p>	<ul style="list-style-type: none"> Analysis of possible interest rate scenarios 	<ul style="list-style-type: none"> Risk tested by BMA/LIBOR scenarios incorporated in tax event risk analysis 	<ul style="list-style-type: none"> Issuer must demonstrate that they have planned for the possibility of adverse basis movement (i.e. through reserves or budgeting)
<p>Tax Risk (risk of a change in tax law creating basis risk)</p>	<ul style="list-style-type: none"> Stress scenario at 25% marginal tax rate in 5 years (BMA = 75% of LIBOR) 	<ul style="list-style-type: none"> Stress scenario BMA/LIBOR ratio of 69% for first 5 years, 72% for next 5 years and 75.5% thereafter 	

Next Steps

- At the September Board meeting:
 - The Board will be asked in the next month to consider a resolution to issue floating rate debt and enter into an interest rate swap.
 - The Board will also be asked to approve relevant floating rate debt and interest rate swap documents.
- Upon approval of the resolution by the Board, the MTA will direct the underwriters to issue floating rate debt, and a will seek competitive interest rate swap bids from counterparties in October 2003.

