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FINANCE AND BUDGET COMMITTEE
JULY 21, 2005

SUBJECT: REFUNDING OF PROP A BONDS

ACTION: ADOPT RESOLUTION AUTHORIZING ISSUANCE OF AUCTION RATE SECURITIES AND USE OF INTEREST RATE SWAPS

RECOMMENDATION

A. Adopt a resolution authorizing the Chief Executive Officer to price and deliver up to $310 million of auction rate securities, the Proposition A, Series 2005 Refunding Bonds, in one or more series to refund certain outstanding Prop A bonds and to enter into one or more related interest rate swaps, Attachment A.

B. Approve documents on file with the Board Secretary for the negotiated bond sale and competitive swap provider selection.

Requires separate, simple majority Board vote.

RATIONALE

Current low long-term interest rates and rising short-term interest rates are providing an opportunity to advance refund up to $282 million of outstanding Prop A bonds to achieve interest savings utilizing a London Interbank Offering Rate (LIBOR) indexed interest rate swap strategy. The swap strategy is being recommended over a traditional fixed rate bond sale because it will generate significantly greater savings. In June 2005, the Board approved the appointment of underwriters/remarketing agents.

The bonds will be issued and the interest rate swaps entered into in accordance with the Debt and Interest Rate Swap Policies.

FINANCIAL IMPACT

The financing will be cash flow neutral to the FY06 budget. Issuance costs will be paid from proceeds of the financing while debt service will be funded from the amounts budgeted for the bonds being refunded.

The interest rate swap strategy is projected to generate present values savings of $35 million. Using fixed bonds, the present value savings would be $18 million.

ALTERNATIVES CONSIDERED

Alternatives considered include:

Issuing fixed rate bonds to accomplish the refunding. This alternative is not recommended because the swap strategy will generate $17 million more in savings.

Deferring the refunding to a later date. This alternative is not recommended due to the risk that long-term interest rates may continue to rise and potential savings could be lost.

Using other financial indices such as a cost-of-funds or Bond Market Association (BMA) indexed swap. They are not recommended because the LIBOR based financing provides a greater overall financial benefit.

ATTACHMENTS

A. Authorizing Resolution
B. Transaction Explanation

Prepared by: Michael J. 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 OF ITS PROPOSITION A FIRST TIER SENIOR SALES TAX REVENUE REFUNDING BONDS AND APPROVING OTHER RELATED MATTERS

(PROPOSITION A 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 transportation 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. 16 adopted August 20, 1980 ("Ordinance No. 16"), imposed a 1/2 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 A Tax"), and such tax was approved by the electors of the County on November 4, 1980; and

WHEREAS, the revenues received by the MTA from the imposition of the Proposition A 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 of the bonds and any premium, interest on the bonds and the costs of issuance of the bonds; and

WHEREAS, the MTA is planning and engineering a countywide public transportation system (the "Public Transportation System") to serve the County and has commenced construction of portions of the Public Transportation System; and

WHEREAS, to facilitate the development and construction of the Public Transportation System, the Commission, as authorized by the Act, pursuant to the terms of a Trust Agreement dated as of July 1, 1986 (the "Trust Agreement") between the Commission and First Interstate Bank of California (the "Original Trustee") and a First Supplemental Trust Agreement also dated as of July 1, 1986, issued $707,615,000 of its Sales Tax Revenue Bonds, Series 1986-A through Series 1986-E (collectively, the "Series 1986 Bonds"); and

WHEREAS, the Commission in 1987 issued $271,550,000 of its Sales Tax Revenue Refunding Bonds Series 1987-A (the "Series 1987-A Bonds") under the terms of the Trust Agreement and a Second Supplemental Trust Agreement dated as of May 1, 1987, and such Series 1987-A Bonds were issued for the purpose of refunding that portion of the Series 1986 Bonds designated as Series 1986-B; and

WHEREAS, the Commission in May 1988 issued $112,274,128.75 of its Sales Tax Revenue Refunding Bonds Series 1988-A (the "Series 1988-A Bonds") under the terms of the Trust Agreement and a Third Supplemental Trust Agreement dated as of May 1, 1988, and such Series 1988-A Bonds were issued for the purpose of refunding that portion of the Series 1986 Bonds designated as Series 1986-C; and

WHEREAS, the Commission in January 1989 issued $174,303,858.10 of its Sales Tax Revenue Refunding Bonds Series 1989-A (the "Series 1989-A Bonds") under the terms of the Trust Agreement and a Fourth Supplemental Trust Agreement dated as of January 1, 1989, and such Series 1989-A Bonds were issued for the purpose of refunding that portion of the Series 1986 Bonds designated as Series 1986-D and Series 1986-E; and

WHEREAS, the Commission entered into a Fifth Supplemental Trust Agreement dated as of December 1, 1990 (the "Fifth Supplement") creating certain accounts and releasing certain moneys held under the Trust Agreement related to the lease of certain railroad cars payable from and secured by a pledge of Pledged Revenues junior and subordinate to the pledge securing the Commission's Sales Tax Revenue Bonds issued under the Trust Agreement (the "Railroad Car Pledge"); and

WHEREAS, the Commission entered into a Sixth Supplemental Trust Agreement dated as of January 1, 1991 (the "Sixth Supplement") providing for payment of certain excess Pledged Revenues under the Trust Agreement and supplementing certain terms of the Trust Agreement relating to the Commission's Subordinate Sales Tax Revenue Commercial Paper Notes (the "Commercial Paper Notes"); and

WHEREAS, the Commission in January 1991 entered into a Subordinate Trust Agreement dated as of January 1, 1991 by and between the Commission and Security Pacific National Trust Company (New York) and a Subordinate First Supplemental Trust Agreement dated as of January 1, 1991 providing for the issuance of the Commercial Paper Notes; and

WHEREAS, the Commission in June 1991 issued $500,000,000 of its Sales Tax Revenue Bonds, Series 1991-A (the "Series 1991-A Bonds") under the terms of the Trust Agreement and a Seventh Supplemental Trust Agreement dated as of June 1, 1991, and such Series 1991-A Bonds were issued for the purpose of financing additional portions of the Public Transportation System and refunding a portion of the Commercial Paper Notes; and

WHEREAS, the Commission in December 1991 issued $281,425,000 of its Sales Tax Revenue Refunding Bonds, Series 1991-B (the "Series 1991-B Bonds") under the terms of the Trust Agreement and an Eighth Supplemental Trust Agreement dated as of December 1, 1991, and such Series 1991-B Bonds were issued for the purpose of refunding a portion of the

Series 1986 Bonds, a portion of the Series 1987-A Bonds and a portion of the Series 1988-A Bonds; and

WHEREAS, the Commission authorized certain amendments to the Trust Agreement and the supplements thereto by approving and entering into a Ninth Supplemental Trust Agreement dated as of December 1, 1991; and

WHEREAS, the Commission in June 1992 issued $98,700,000 of its Sales Tax Revenue Refunding Bonds Series 1992-A (the "Series 1992-A Bonds") and $107,665,000 of its Sales Tax Revenue Refunding Bonds Series 1992-B (the "Series 1992-B Bonds"), both under the terms of the Trust Agreement and a Tenth Supplemental Trust Agreement dated as of June 1, 1992 (the "Tenth Supplement"), and such Series 1992-A Bonds and Series 1992-B Bonds were issued for the purpose of refunding certain maturities of the Series 1986-A Bonds, certain maturities of the Series 1987-A Bonds and certain maturities of the Series 1988-A Bonds; and

WHEREAS, the MTA in May 1993 issued $560,700,000 of its Sales Tax Revenue Refunding Bonds Series 1993-A (the "Series 1993-A Bonds") under the terms of the Trust Agreement and an Eleventh Supplemental Trust Agreement dated as of April 15, 1993, and such Series 1993-A Bonds were issued for the purpose of refunding certain maturities of the Series 1986-A Bonds, certain maturities of the Series 1987-A Bonds, certain maturities of the Series 1988-A Bonds, one maturity of the Series 1989-A Bonds, certain maturities of the Series 1991-A Bonds and certain maturities of the Series 1991-B Bonds; and

WHEREAS, the MTA in October 1993 entered into a Twelfth Supplemental Trust Agreement dated as of September 1, 1993 (the "Twelfth Supplement") providing for certain pledges of Pledged Revenues designated in the Twelfth Supplement as "Second Tier Subordinate Lien Obligations" which are junior and subordinate to (a) the pledges securing the Prior Senior Lien Bonds, as defined herein; and (b) the Railroad Car Pledge and making certain amendments to the Tenth Supplement in connection therewith; and

WHEREAS, the MTA supplemented the terms of the Trust Agreement and amended certain provisions of the Sixth Supplement by approving and entering into a Thirteenth Supplemental Trust Agreement dated as of January 1, 1994, to facilitate the issuance of a replacement letter of credit securing the Commercial Paper Notes and providing for a subordinate obligation relating to a project sometimes referred to as Grand Central Square; and

WHEREAS, the MTA in June 1996 issued $110,580,000 of its First Tier Senior Sales Tax Revenue Bonds Series 1996-A (the "Series 1996-A Bonds") under the terms of the Trust Agreement and a Fourteenth Supplemental Trust Agreement dated as of June 1, 1996 (the "Fourteenth Supplement"), and such Series 1996-A Bonds were issued for the purpose of funding additional portions of the Public Transportation System; and

WHEREAS, the MTA in June 1996 issued $104,715,000 of its Proposition A Second Tier Sales Tax Revenue Refunding Bonds Series 1996 (the "Subordinate Series 1996 Bonds") to refund a portion of the MTA's outstanding Commercial Paper Notes under the terms of a Fifteenth Supplemental Trust Agreement dated as of June 1, 1996 (the "Fifteenth Supplement"); and

WHEREAS, the MTA in June 1997 issued $256,870,000 of its First Tier Senior Sales Tax Revenue Refunding Bonds, Series 1997-A (the "Series 1997-A Bonds") under the terms of the Trust Agreement and a Sixteenth Supplemental Trust Agreement dated as of June 1, 1997 (the "Sixteenth Supplement"), and such Series 1997-A Bonds were issued for the purpose of refunding portions of the MTA's outstanding Commercial Paper Notes, the Series 1986-A Bonds, the Series 1988-A Bonds and the Series 1991-A Bonds; and

WHEREAS, the MTA authorized certain amendments to the Fourteenth Supplement, the Fifteenth Supplement and the Sixteenth Supplement by approving and entering into a Seventeenth Supplemental Trust Agreement dated as of February 1, 1998; and

WHEREAS, the MTA in April 1999 issued $160,205,000 of its First Tier Senior Sales Tax Revenue Refunding Bonds Series 1999-A (the "Series 1999-A Bonds") under the terms of the Trust Agreement and an Eighteenth Supplemental Trust Agreement dated as of April 1, 1999, and such Series 1999-A Bonds were issued for the purpose of refunding a portion of the Series 1989-A Bonds; and

WHEREAS, the MTA in April 1999 issued $150,340,000 of its First Tier Senior Sales Tax Revenue Bonds Series 1999-B (the "Series 1999-B Bonds") under the terms of the Trust Agreement and a Nineteenth Supplemental Trust Agreement dated as of April 1, 1999, and such Series 1999-B Bonds were issued for the purpose of funding a portion of the Public Transportation System and refunding a portion of the MTA's outstanding Commercial Paper Notes; and

WHEREAS, the MTA in May 1999 issued $170,495,000 of its First Tier Senior Sales Tax Revenue Bonds Series 1999-C (the "Series 1999-C Bonds") under the terms of the Trust Agreement and a Twentieth Supplemental Trust Agreement dated as of May 1, 1999, and such Series 1999-C Bonds were issued for the purpose of refunding certain portions of the Series 1996-A Bonds and the Subordinate Series 1996 Bonds; and

WHEREAS, the MTA in April 2001 issued $55,685,000 of its First Tier Senior Sales Tax Revenue Bonds Series 2001-A (the "Series 2001-A Bonds") and $191,215,000 of its First Tier Senior Sales Tax Revenue Refunding Bonds Series 2001-B (the "Series 2001-B Bonds," and together with the Series 2001-A Bonds, the "Series 2001 Bonds") under the terms of the Trust Agreement and a Twenty-First Supplemental Trust Agreement dated as of March 15, 2001, and such Series 2001 Bonds were issued for the purpose of funding a portion of the Public Transportation System and refunding certain portions of the Series 1991-B Bonds; and

WHEREAS, the MTA supplemented the terms of the Trust Agreement by approving and entering into a Twenty-Second Supplemental Trust Agreement dated as of April 1, 2002, providing for a pledge of the MTA to be a Second Tier Subordinate Lien Obligation, which pledge relates to certain refunding bonds issued by The Community Redevelopment Agency of the City of Los Angeles, California for a project known as Grand Central Square; and

WHEREAS, the MTA in April 2003 issued $273,505,000 of its First Tier Senior Sales Tax Revenue Refunding Bonds Series 2003-A (the "Series 2003-A Bonds") under the terms of the Trust Agreement and a Twenty-Third Supplemental Trust Agreement dated as of April 1, 2003, and such Series 2003-A Bonds were issued for the purpose of refunding certain portions of the Series 1993-A Bonds; and

WHEREAS, the MTA in June 2003 issued $243,795,000 of its First Tier Senior Sales Tax Revenue Refunding Bonds Series 2003-B (the "Series 2003-B Bonds") under the terms of the Trust Agreement and a Twenty-Fourth Supplemental Trust Agreement dated as of June 1, 2003, and such Series 2003-A Bonds were issued for the purpose of refunding certain portions of the Series 1993-A Bonds; and

WHEREAS, the MTA in July 2005 issued $242,795,000 of its First Tier Senior Sales Tax Revenue Bonds Series 2005-A (the "Series 2005-A Bonds") and $43,655,000 of its First Tier Senior Sales Tax Revenue Refunding Bonds Series 2005-B (the "Series 2005-B Bonds") under the terms of the Trust Agreement and a Twenty-Fifth Supplemental Trust Agreement dated as of July 1, 2005, and such Series 2005-A Bonds were issued for the purpose of refunding a portion of the MTA's outstanding Commercial Paper Notes and funding a portion of the Public Transportation System, and such Series 2005-B Bonds were issued for the purpose of refunding certain portions of the Series 1996-A Bonds, the Subordinate Series 1996 Bonds and the Series 1997-A Bonds; and

WHEREAS, the MTA has pledged the Proposition A Tax (less the 25% local allocation and the State Board of Equalization's costs of administering such tax) to secure the Series 1986 Bonds, the Series 1987-A Bonds, the Series 1988-A Bonds, the Series 1989-A Bonds, the Series 1991-A Bonds, the Series 1991-B Bonds, the Series 1992-A Bonds, the Series 1992-B Bonds, the Series 1993-A Bonds, the Series 1996-A Bonds, the Series 1997-A Bonds, the Series 1999-A Bonds, the Series 1999-B Bonds, the Series 1999-C Bonds, the Series 2001 Bonds, the Series 2003-A Bonds, the Series 2003-B Bonds, the Series 2005-A Bonds and the Series 2005-B Bonds (collectively, the "Prior Senior Lien Bonds") and certain subordinate indebtedness mentioned in the Fifth Supplement, the Sixth Supplement, the Twelfth Supplement, the Thirteenth Supplement, the Fifteenth Supplement and the Twenty-Second Supplement; and

WHEREAS, the MTA now desires to provide for the issuance of one or more series of its Proposition A First Tier Senior Sales Tax Revenue Refunding Bonds (collectively, the "Bonds") (i) to refund up to $3,985,000 aggregate principal amount of the outstanding Subordinate Series 1996 Bonds, (ii) to refund up to $131,715,000 aggregate principal amount of the outstanding Series 1997-A Bonds, (iii) to refund up to $101,240,000 aggregate principal amount of the outstanding Series 1999-B Bonds, (iv) to refund up to $44,490,000 aggregate principal amount of the outstanding Series 2001-A Bonds and (v) to pay certain costs related thereto; and

WHEREAS, there has been presented to the MTA a form of the Twenty-Sixth Supplemental Trust Agreement (the "Supplement") by and between the MTA and The Bank of New York Trust Company, N.A., as successor in interest to the Original Trustee (the "Trustee"), providing for the issuance of the Bonds; and

WHEREAS, the Supplement provides for the Bonds to bear interest at variable rates determined by periodic auctions; and

WHEREAS, there has been presented to the MTA the form of a Broker-Dealer Agreement (the "De La Rosa Broker-Dealer Agreement") among ______________________, as auction agent (the "Auction Agent"), E. J. De La Rosa & Co., Inc., as broker-dealer (the "De La Rosa Broker-Dealer"), and the MTA, providing for certain broker-dealer services in connection with the auction rate provisions of a series of the Bonds; and

WHEREAS, there has been presented to the MTA the form of a Broker-Dealer Agreement (the "Goldman Broker-Dealer Agreement") among the Auction Agent, Goldman, Sachs & Co., as broker-dealer (the "Goldman Broker-Dealer"), and the MTA, providing for certain broker-dealer services in connection with the auction rate provisions of a series of the Bonds; and

WHEREAS, there has been presented to the MTA the form of a Broker-Dealer Agreement (the "Merrill Lynch Broker-Dealer Agreement") among the Auction Agent, Merrill Lynch & Co., as broker-dealer (the "Merrill Lynch Broker-Dealer"), and the MTA, providing for certain broker-dealer services in connection with the auction rate provisions of a series of the Bonds; and

WHEREAS, there has been presented to the MTA the form of a Broker-Dealer Agreement (the "Morgan Stanley Broker-Dealer Agreement" and together with the De La Rosa Broker-Dealer Agreement, the Goldman Broker-Dealer Agreement and the Merrill Lynch Broker-Dealer Agreement, the "Broker-Dealer Agreements") among the Auction Agent, Morgan Stanley & Co. Incorporated, as broker-dealer (the "Morgan Stanley Broker-Dealer" and together with the De La Rosa Broker-Dealer, the Goldman Broker-Dealer and the Merrill Lynch Broker-Dealer, the "Broker-Dealers"), and the MTA, providing for certain broker-dealer services in connection with the auction rate provisions of a series of the Bonds; and

WHEREAS, there has been presented to the MTA the form of an Auction Agreement (the "Auction Agreement") between the Auction Agent and the Trustee, providing for certain auction agent services in connection with the auction rate provisions of the Bonds; and

WHEREAS, the MTA intends to integrate the Bonds with a qualified hedge for tax purposes, thereby producing a fixed yield on the Bonds; and

WHEREAS, such qualified hedge shall be in the form of one or more interest rate swap agreements for which the MTA intends to receive competitive bids, with the assistance of the MTA's swap advisor, PFM Asset Management, LLC (the "Swap Advisor"), as bidding agent; and

WHEREAS, there has been presented to the MTA the forms of an ISDA Master Agreement and the related Schedule, Credit Support Annex and Confirmation (collectively, the "Swap Agreement") providing a hedge against the MTA's exposure to the variable interest cost of the Bonds; and

WHEREAS, there has been presented to the MTA the form of Request for Interest Rate Swap the "Request for Interest Rate Swap") prepared by the Swap Advisor in connection with the competitive bid of the Swap Agreement; and

WHEREAS, there has been presented to the MTA a form of a Continuing Disclosure Certificate (the "Continuing Disclosure Certificate") to be executed by the MTA as required by Securities and Exchange Commission Rule 15c2-12, as amended; and

WHEREAS, there has been presented to the MTA the form of an Escrow Agreement (the "Escrow Agreement") between the MTA and BNY Western Trust Company, as escrow agent, providing for the refunding of all or a portion of the Subordinate Series 1996 Bonds, the Series 1997-A Bonds, the Series 1999-B Bonds and the Series 2001-A Bonds; and

WHEREAS, there has been presented to the MTA the form of a Preliminary Official Statement to be used in connection with the sale of the Bonds (the "Preliminary Official Statement") which describes the Bonds, the MTA and the MTA's operations and finances; and

WHEREAS, the MTA has been advised by its bond counsel, Fulbright & Jaworski L.L.P. ("Bond Counsel"), that the foregoing documents are in appropriate form, and the MTA hereby acknowledges that said documents will be modified and amended to reflect the various final terms of the Bonds and said documents are subject to completion to reflect the results of the sale of the Bonds; and

WHEREAS, the MTA has determined that it is in its best interest to provide for the private, negotiated sale of the Bonds to E. J. De La Rosa & Co., Inc., Goldman, Sachs & Co., Merrill Lynch & Co. and Morgan Stanley & Co. Incorporated (collectively, the "Underwriters"); and

WHEREAS, there has been presented to the MTA the form of a Purchase Contract (the "Purchase Contract"), by and between the MTA and the Underwriters for the initial purchase and sale of the Bonds; and

WHEREAS, the MTA has determined that it best serves the public transportation needs of the County to provide for the issuance and sale of one or more series of the Bonds to refund all or a portion of the outstanding Subordinate Series 1996 Bonds, Series 1997-A Bonds, Series 1999-B Bonds and Series 2001-A Bonds; and

WHEREAS, the Proposition A Tax, less the 25% allocated to local jurisdictions and less the costs of the State Board of Equalization for administering the Proposition A 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 and the Supplement;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF 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 of its Bonds (i) to refund up to \$3,985,000 aggregate principal amount of the outstanding Subordinate Series 1996

Bonds, (ii) to refund up to $131,715,000 aggregate principal amount of the outstanding Series 1997-A Bonds, (iii) to refund up to $101,240,000 aggregate principal amount of the outstanding Series 1999-B Bonds, (iv) to refund up to $44,490,000 aggregate principal amount of the outstanding Series 2001-A Bonds and (v) to pay certain costs related thereto, is in the public interest.

(b) Under the provisions of Ordinance No. 16, all of the Pledged Taxes are revenues of the MTA available for public transit purposes and are available to be and are, by the terms of the resolutions and the Trust Agreement under which the Prior Senior Lien Bonds were issued, pledged to secure the Prior Senior Lien Bonds and are pledged to secure the 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 Supplement are reasonable and proper for the security of the holders of the Bonds.

(d) Each Swap Agreement is designed to reduce the amount and duration of rate, spread or similar risk when used in combination with the issuance of the Bonds, pursuant to California Government Code Section 5922.

Section 2. Issuance of Bonds. For the purposes of refunding up to $3,985,000 aggregate principal amount of the outstanding Subordinate Series 1996 Bonds, refunding up to $131,715,000 aggregate principal amount of the outstanding Series 1997-A Bonds, refunding up to $101,240,000 aggregate principal amount of the outstanding Series 1999-B Bonds, refunding up to $44,490,000 aggregate principal amount of the outstanding Series 2001-A Bonds, and paying certain costs related thereto, all in accordance with the MTA's Debt Policy, the MTA hereby authorizes the issuance of one or more series of its Proposition A First Tier Senior Sales Tax Revenue Refunding Bonds. The total aggregate principal amount of Bonds issued under this Resolution shall not exceed $310,000,000. The Chair of the MTA, any Vice Chair of the MTA, the Chief Executive Officer ("CEO") of the MTA, any Deputy CEO of the MTA, the Chief Financial Officer of the MTA, the Executive Officer, Finance of the MTA, the Treasurer of the MTA, or any such officer serving in an acting or interim capacity, and any written designee of 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 Bonds to be issued (not in excess of the maximum amount set forth above) and to direct the execution and authentication of the Bonds in such amount. Such direction shall be conclusive as to the principal amounts hereby authorized. The Bonds shall be in fully registered form and shall be issued as Book-Entry Bonds as provided in the Supplement. Payment of principal of, premium, if any, and interest on the Bonds shall be made at the place or places and in the manner provided in the Supplement.

Section 3. Terms of Bonds. The Bonds shall mature not later than July 1, 2031, shall bear interest at the auction rates, be subject to redemption and have such other terms, all as set forth in the Supplement. The Bonds shall be in substantially the form set forth in the Supplement with necessary or appropriate variations, omissions and insertions as permitted or required by the Supplement or as appropriate to adequately reflect the terms of the Bonds and the obligations represented thereby. No Bonds shall bear interest at a rate in excess of 15% per annum.

Section 4. Pledge of Pledged Taxes. The Pledged Taxes are hereby irrevocably pledged in accordance with the terms of the Trust Agreement to secure the Prior Senior Lien Bonds, the Bonds and any additional bonds which may subsequently be issued under and secured by the terms of the Trust Agreement. Except for the Prior Senior Lien 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 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 5. Special Obligations. The 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 Bonds shall also be secured by and be paid from such other sources as the MTA may hereafter provide.

Section 6. Execution of Bonds. Each of the 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 Bonds.

Section 7. Sale of the Bonds. The MTA hereby authorizes the sale of the Bonds through a private, negotiated sale to the Underwriters pursuant to the Purchase Contract. The Bonds, if sold to the Underwriters, shall be sold subject to an underwriters' discount (excluding original issue discount) not to exceed 0.35% of the aggregate principal amount of the Bonds, subject to the terms and conditions set forth in the Purchase Contract.

Section 8. Approval of Documents. The forms, terms and provisions of the Supplement, the Broker-Dealer Agreements, the Swap Agreements, the Continuing Disclosure Certificate, the Escrow Agreement and the Purchase Contract (collectively, the "Documents") are in all respects approved, and the Designated Officers are, and each of them is, hereby authorized and directed to execute, acknowledge and deliver each of the Documents including counterparts thereof, in the name and on behalf of the MTA and the MTA's corporate seal is hereby authorized (but not required) to be affixed or imprinted on each of the Documents. The form, terms and provisions of the Auction Agreement are also approved. The Documents, as executed and delivered, shall be in substantially the forms on file with the Board Secretary and hereby approved, with such changes therein as shall be approved by the Designated Officer or Officers executing the same, which execution shall constitute conclusive evidence of the MTA's approval of any and all changes or revisions therein from the forms of the Documents now before this meeting; and from and after the execution and delivery of the Documents the officers, agents and employees of the MTA are, and each of them is, hereby authorized and directed to take all such actions and to execute all such documents as may be necessary to carry out and comply with the provisions of the Documents.

Section 9. Bid of Swap Agreement. The Designated Officers are each hereby authorized to arrange for the competitive bid of the Swap Agreements among one or more counterparties (or the guarantors thereof) whose long-term, unsecured and unsubordinated obligations are rated AA- or better by Standard & Poor's Rating Services or Fitch, Inc. or Aa3 or better by Moody's Investors Service Inc., on such terms as described in the Request for Interest Rate Swap, with such changes thereto as may be determined by any Designated Officer, upon consultation with the Financial Advisor and Bond Counsel.

Section 10. Preliminary Official Statement. The distribution of the Preliminary Official Statement in connection with the offering and sale of the Bonds in substantially the form of the draft thereof presented at this meeting, with such changes therein as shall be approved by the Designated Officers, individually or collectively, is hereby authorized and approved. The Preliminary Official Statement shall be circulated for use in selling the Bonds at such time as a Designated Officer (after consultation with the Financial Advisor and Bond Counsel and such other advisors as the Designated Officer believes to be useful) shall deem the Preliminary Official Statement to be 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. Each Designated Officer is hereby authorized to make such determination.

Section 11. Official Statement. Prior to the delivery of the Bonds, the MTA shall provide for the preparation, execution, delivery, publication and distribution of a final Official Statement relating to the Bonds in substantially the form of the draft Preliminary Official Statement on file with the Board Secretary. The Designated Officers are, and each of them is, hereby authorized and directed to execute and deliver the final Official Statement in the name and on behalf of the MTA. 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 Preliminary Official Statement now before this meeting.

Section 12. Paying Agent and Registrar. The MTA hereby appoints the Trustee as Paying Agent and Registrar for the Bonds. Such appointments shall be effective upon the issuance of the Bonds and shall remain in effect until the MTA, by supplemental agreement, resolution or other action, shall name a substitute or successor thereto.

Section 13. Escrow Agent. The MTA hereby appoints The Bank of New York Trust Company, N.A. as Escrow Agent under the Escrow Agreement. Such appointments shall be effective upon the issuance of the Bonds and shall remain in effect until the MTA, by supplemental agreement, resolution or other action, shall name a substitute or successor thereto.

Section 14. Credit Enhancement; Surety. Each of the Designated Officers is hereby authorized to obtain municipal bond insurance or any other guarantee of payment of the principal of and interest on the Bonds as well as the MTA's payment obligations under the Swap Agreements and to obtain a surety bond or other credit facility covering all or a portion of the reserve fund for the Bonds, and to execute and deliver any financial guaranty or reimbursement agreement with the providers thereof, all upon such terms as shall be satisfactory to such Designated Officer.

Section 15. Investment of Bond Proceeds. Each of the Designated Officers is hereby authorized to invest and reinvest Bond proceeds and other moneys deposited in the funds and accounts established pursuant to the Trust Agreement and the Escrow Agreement in investments permitted for such funds and accounts under the Trust Agreement, including but not limited to repurchase agreements and investments agreements described therein.

Section 16. Additional Authorization. The Designated Officers and all officers, agents and employees of the MTA, for and on behalf of the MTA, are hereby authorized and directed to take any and all actions necessary or desirable to effect the execution and delivery of the Bonds, the Supplement, the Broker-Dealer Agreements, the Auction Agreement, the Swap Agreements, the Continuing Disclosure Certificate, the Escrow Agreement, the Purchase Contract and the final Official Statement and to carry out the transactions contemplated therein. 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 necessary or desirable in order to carry out the authority conferred by this Resolution or the provisions of the Documents. All actions heretofore taken by the officers, agents and employees of the MTA in furtherance of the purposes of this Resolution are hereby confirmed, ratified and approved.

Section 17. Bond Counsel and Disclosure Counsel. The MTA hereby confirms, ratifies and approves the appointment of Fulbright & Jaworski L.L.P. as bond counsel and disclosure counsel to the MTA in connection with the issuance and sale of the Bonds.

Section 18. 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 sections, phrases and provisions shall not affect any other provision of this Resolution.

Section 19. Effective Date. The effective date of this Resolution shall be the date of its adoption.

CERTIFICATION

The undersigned, duly qualified and acting as Board Secretary of the Los Angeles County Metropolitan Transportation Authority, certifies that the foregoing is a true and correct copy of the Resolution adopted at a legally convened meeting of the Board of Directors of the Los Angeles County Metropolitan Transportation Authority held on ________, 2005.

[SEAL]

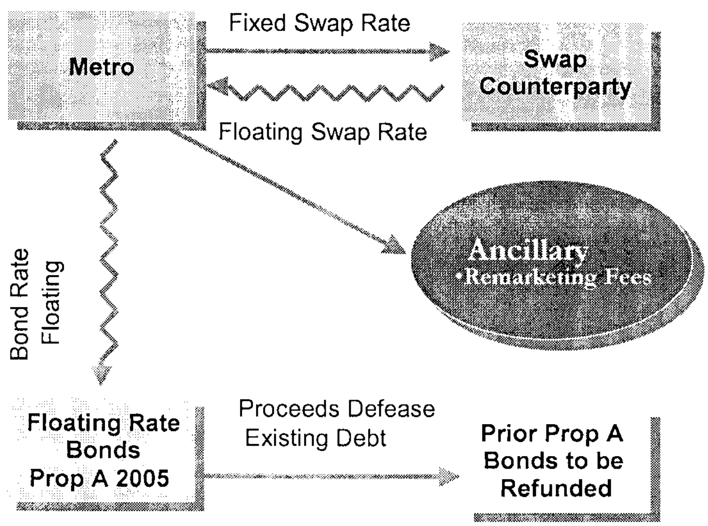
By ____________________________________
Board Secretary, Los Angeles County
Metropolitan Transportation Authority

Dated: ____________, 2005

ATTACHMENT B

Transaction Explanation

Metro will issue auction rate securities (ARS), variable rate bonds, and enter into a LIBOR indexed interest rate swap. Metro will pay the actual interest costs to the bondholders. Under the swap, Metro will pay a fixed rate payment, determined by competitive bid, to the swap provider and the swap provider will pay a variable rate payment based on LIBOR to Metro. Over the life of the bonds, the variable rate payments received from the swap provider will offset the variable rate payments paid to the bondholders. The end result is that the net cost will be the fixed rate determined in the swap contract. This rate is referred to as the synthetic fixed rate.



This synthetic fixed rate strategy will produce an interest rate lower than traditional fixed rate bonds because the current swap market provides an interest rate advantage for maturities of 8 years or more and increases as the term lengthens.

The interest rate for the monthly variable rate swap payments received by Metro will be set based on a percentage of the 1-month LIBOR rate. The actual dollar amount of a payment is calculated by multiplying the rate by the "notional" amount of the swap. The notional amount is essentially the par amount of the outstanding bonds. There is no exchange of principal amounts when transacting a swap.

Relative to a fixed rate bond transaction, interest rate swaps provide greater financial benefit and bear various additional risks. The additional financial benefit of the proposed swap is believed to be greater than the amount of additional risk, net of risk mitigation as outlined in the Interest Rate Swap Policy. The major risks and significant mitigation measures related to swaps are identified in the Interest Rate Swap Policy.