

# Monthly Financial Update

Oral Report

Finance & Budget Committee

November 2008



**Metro**

# Headlines

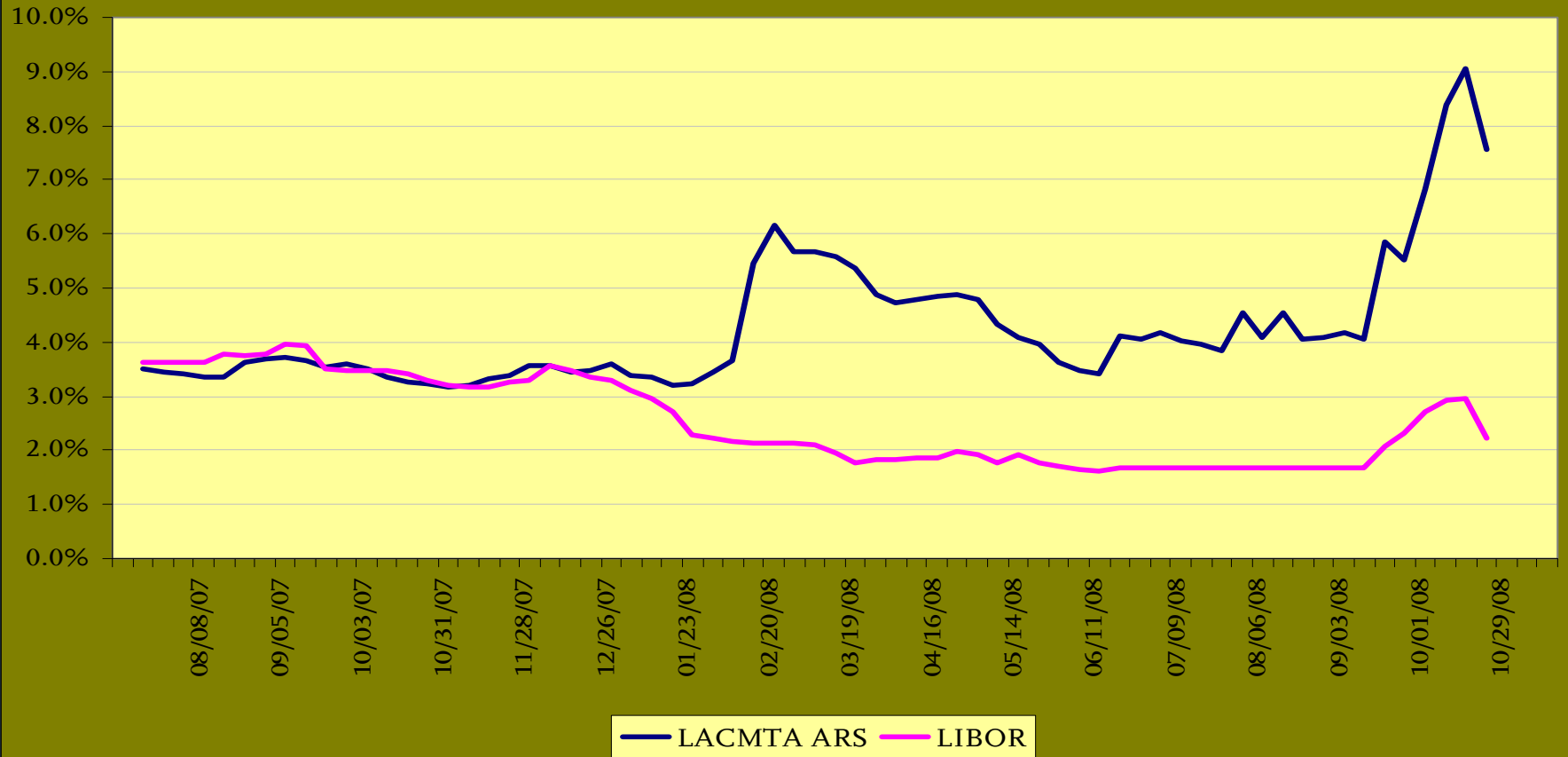
- Fed Funds rate lowered to 1%
- Consumer Confidence Index at all time low
- Gasoline prices continue to decline
- AIG/lease issues covered by national news media
  - WMATA wins TRO on lease deal
- Measure R
- AMBAC downgraded to Baa
- Governor's latest budget proposal slashes STA Funds

# Impacts

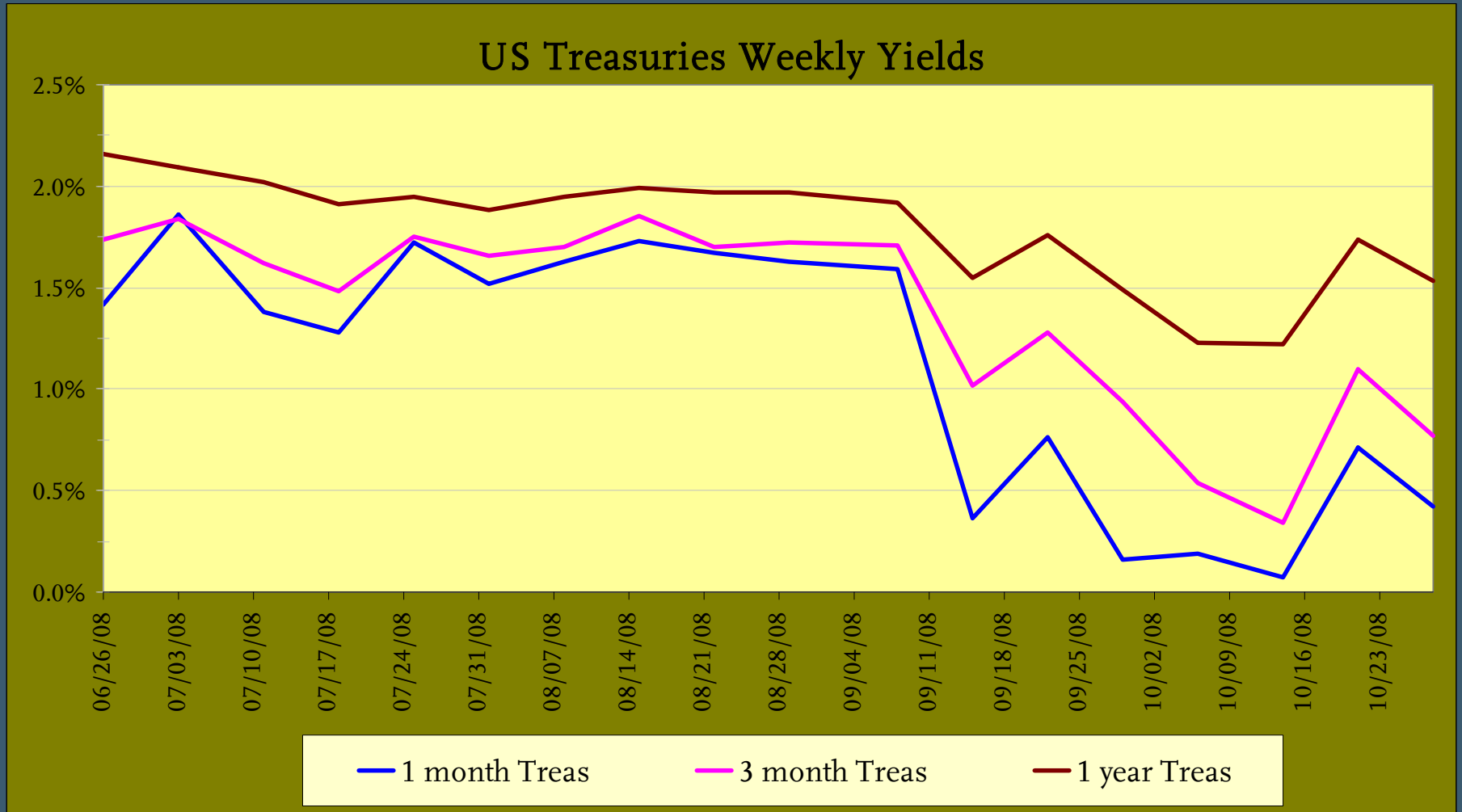
- AMBAC downgrade increases variable interest rate expense
- Variable rate interest cost - \$ 3.5 million / month unfavorable
  - Rates deteriorated following Lehman bankruptcy and remain high due to loss of confidence and lack of demand from money market funds

# LACMTA's Variable Rates

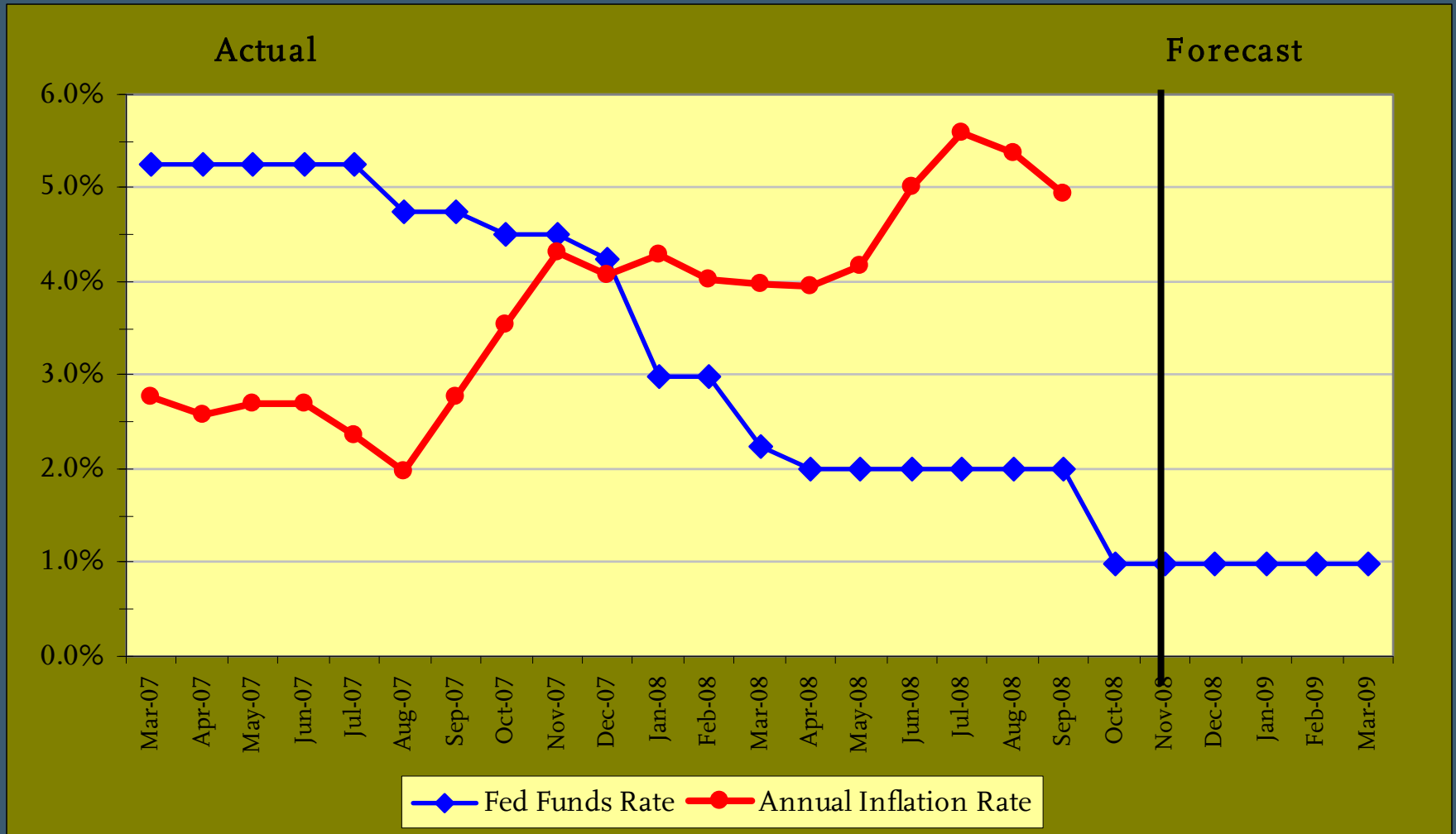
## LACMTA Variable Rates vs LIBOR



# Short Term Rates – Flight to Safety

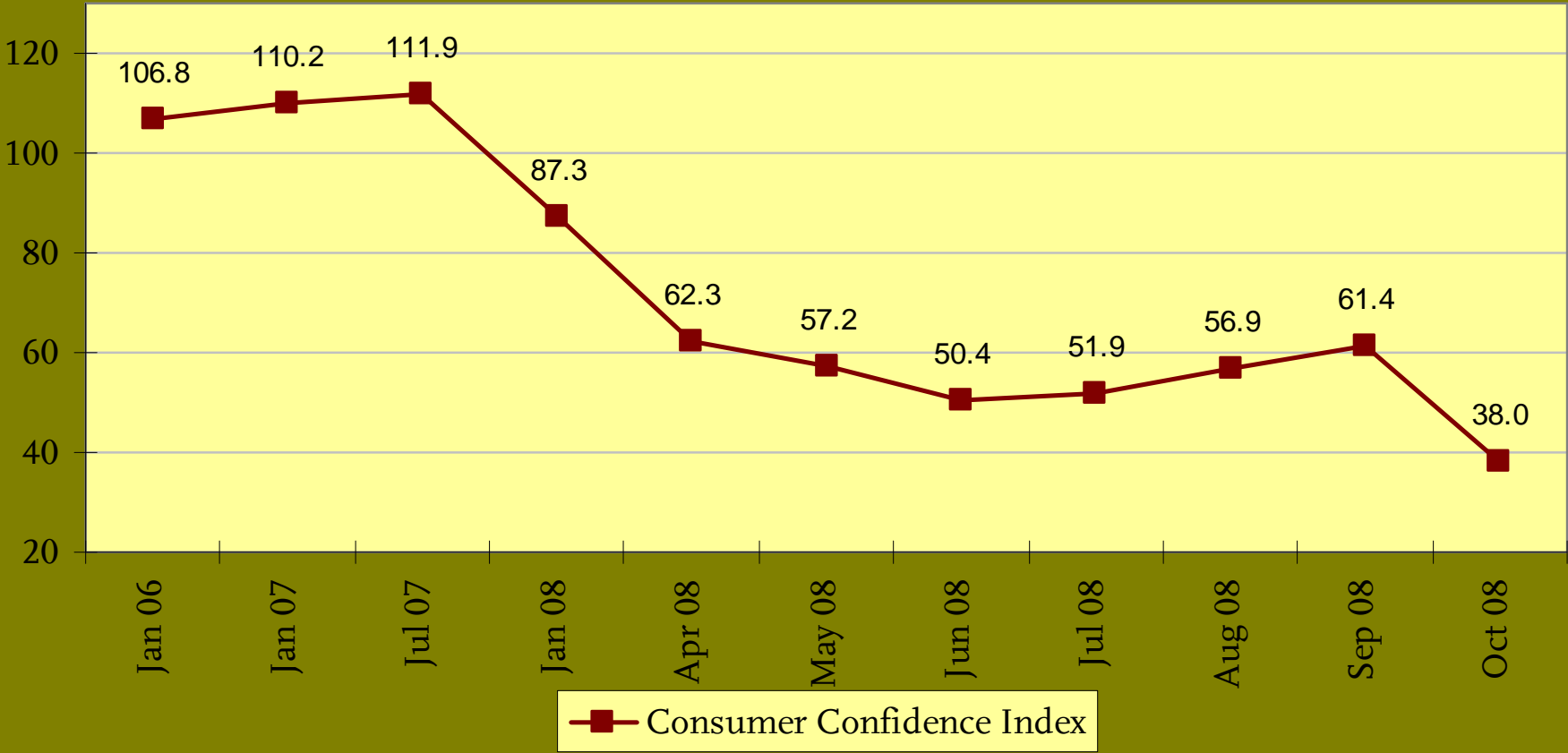


# Financial Markets



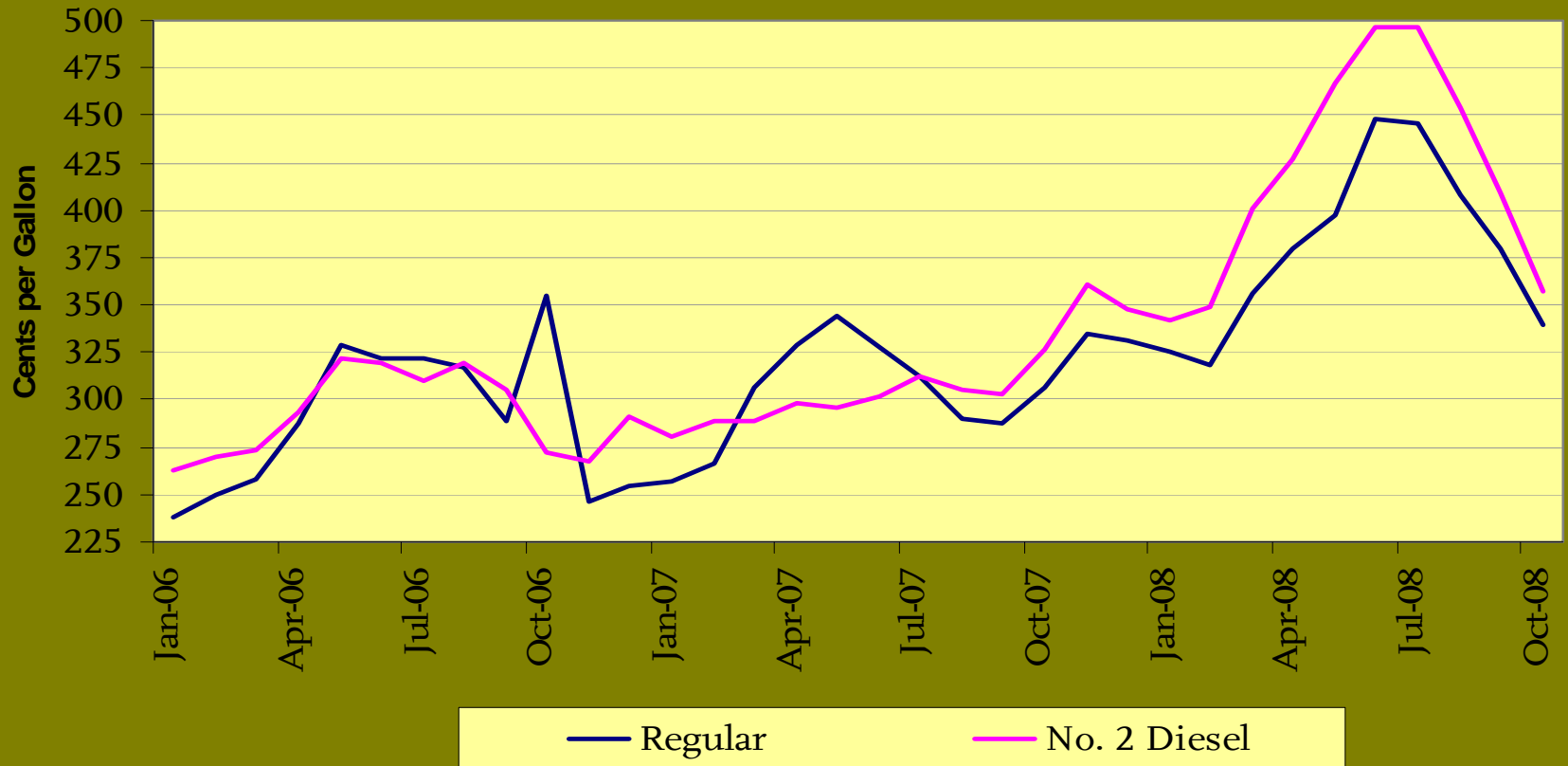
# Financial Markets (cont'd)

## Selected Consumer Confidence Index Points



# Financial Markets (cont'd)

## Regular & Diesel Gas Price Tracking





# AIG

Even with the \$85 billion fed “bail out”, credit ratings were downgraded and remain under threat for downgrade

- The downgrades triggered provisions in our various lease/leaseback deals that require us to replace credit and investment facilities within short time frames
- Failure to provide qualified facilities is an Event of Default that could result in a lease termination
- AIG is involved in 8 of our 10 deals with a total value of nearly \$1 billion
- Most large rail transit operators, about 30 others, are similarly impacted

# Since Last Update

- Obtained bids to replace credit support facilities for two leases
  - Subsequently the provider has withdrawn its bid
- Requested each of our seven lease equity investors to provide extensions of the deadlines to replace the facilities and invited to them to discuss alternative solutions
- Moody's and Fitch rating agencies contacted us expressing concern about magnitude of possible termination payments
- AMBAC downgrade triggers problems for other transit agencies' leases

# Since Last Update (cont'd)

- Formed coalition with 30 other transit properties to lobby Capitol Hill for a solution for lease issues under the Federal bailout program
- Request Treasury or Federal Reserve implement a no-cost solution
  1. Step into AIG's position in the transactions, or
  2. Backstop (insure) AIG facilities in the lease agreements
  3. Pursue a legislative solution that would direct the solutions listed above

# Since Last Update (cont'd)

- Support letters to Treasury Secretary and Federal Reserve Chairman from:
  - Senators Boxer, Durbin, Menendez, Lautenberg
  - Senator Feinstein
  - Reps Oberstar, Mica, DeFazio
  - American Public Transportation Association
- WMATA investor declared default
  - WMATA won TRO until Nov 12
- Developed commercial paper issuance documents to refund the 2004 Capital Grants auction rate bonds

# Next Steps

- Obtain extensions of deadlines to replace lease facilities
- Work with industry coalition to convince Treasury or Federal Reserve to guaranty the obligations of AIG for our lease transactions
- Pursue legislative remedy for lease issues via “Stimulus Bill”
- Locate surety policies as credit support for defeased lease transactions affected by AIG
- Refund Capital Grants Bonds by issuing Prop A tax-exempt commercial paper

## Next Steps (cont'd)

- Continue efforts to refund the four remaining affected bond issues, negotiate amendments to related interest rate swaps
- Resolve documentation and authorization matters in order that we may invest in our own high yielding variable rate bonds
- Continue soliciting liquidity banks to implement variable rate refundings

# End Presentation

## Discussion