

**Metro**FINANCE & BUDGET COMMITTEE
MAY 20, 2004

SUBJECT: TAX-EXEMPT COMMERCIAL PAPER PROGRAM

ACTION: EXTEND PROGRAM EXPIRATION DATE

RECOMMENDATION

Adopt a resolution extending the expiration of the tax-exempt commercial paper (TECP) program by an additional six years until January 31, 2012.

RATIONALE

The program provides a source of flexible, low cost financing that allows the MTA to effectively manage its debt program. The current program expiration is January 30, 2006. The program extension is requested now in order to obtain a longer-term letter of credit commitment when the current facility expires in FY05. This will be the second extension since the inception of the program in December 1993.

BACKGROUND

The primary use of the program is to provide interim financing for capital projects until grant reimbursements or other funding are received or until long-term financing is arranged. Compared to issuance of long-term bonds, the TECP program provides MTA with the flexibility to borrow more frequently, at lower cost and in smaller amounts that meet the then current funding requirements without incurring significant issuance costs. The TECP program is authorized to have a maximum of \$350 million outstanding. The current outstanding balance is \$210 million. Currently, the MTA is paying an average rate of 0.95% on its TECP notes for an all-in annual rate of 1.65% including dealer fees and letter of credit fees.

Commercial paper is a short-term debt instrument that can be issued for maturities of 1 to 270 days. Amounts borrowed typically remain outstanding longer than the maturity of the notes. As notes mature, new notes are simultaneously issued, i.e., "rolled over." The TECP program is backed by a \$350 million direct-pay letter of credit that is secured by a pledge of 75% of Proposition A sales tax revenues.

FINANCIAL IMPACT

Funding of projected interest costs and other costs of operating the TECP program are included in the proposed FY05 budget in cost center #0521, Treasury Non-Departmental under project #610306, Prop A Debt Service. In FY03, \$2.3 million was expended for interest and \$1.3 million for professional and technical fees.

TAX-EXEMPT COMMERCIAL PAPER PROGRAM

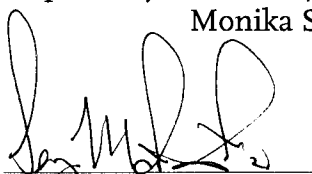
ALTERNATIVE CONSIDERED

MTA could elect to not extend the program. This action would force the shut down of the program and the MTA would lose this low cost, short-term financing tool. MTA would be required to retire the \$210 million of outstanding tax-exempt commercial paper notes from unrestricted cash sources or bond proceeds. This alternative is not recommended.

ATTACHMENTS

- A. Resolution Authorizing Extension of the Program
- B. Fifth Supplemental Subordinate Trust Agreement

Prepared by: Michael J. Smith, Assistant Treasurer
Monika Suarez, Principal Financial Analyst

A handwritten signature in black ink, appearing to read 'Terry Matsumoto', written over a horizontal line.

Terry Matsumoto
Executive Officer, Finance and Treasurer

A handwritten signature in black ink, appearing to read 'Roger Snoble', written over a horizontal line.

Roger Snoble
Chief Executive Officer

ATTACHMENT A

RESOLUTION AUTHORIZING EXTENSION OF THE PROGRAM

RESOLUTION OF THE LOS ANGELES COUNTY METROPOLITAN
TRANSPORTATION AUTHORITY EXTENDING THE TERM OF THE
\$350,000,000 COMMERCIAL PAPER PROGRAM AND AUTHORIZING
OTHER MATTERS RELATED TO THE COMMERCIAL PAPER PROGRAM

Resolved, by the Los Angeles County Metropolitan Transportation Authority (the "Authority") that:

WHEREAS, pursuant to the Los Angeles County Metropolitan Transportation Authority Reform Act of 1992, enacted by the California Legislature, the Authority became the successor agency to the Southern California Rapid Transit District and to the Los Angeles County Transportation Commission (the "Commission");

WHEREAS, the Commission by resolution adopted January 23, 1991 (the "1991 Authorizing Resolution"), authorized and implemented a program of tax-exempt commercial paper (the "Program") involving the issuance from time to time of the Second Subordinate Sales Tax Revenue Commercial Paper Notes, Series A (the "Notes") for the purpose of providing for the financing of the acquisition of real and personal property and the construction of the rail transit system within the County of Los Angeles (the "County"), provided that the aggregate principal amount of Notes and Reimbursement Obligations (as defined in such 1991 Authorizing Resolution) outstanding at any time shall not exceed \$350,000,000; and

WHEREAS, the Authority by resolutions adopted March 24, 1993, extended the termination date of the Program from January 24, 1994 to January 31, 1999 (the "1993 Extension Resolution"), and expanded the scope of the purposes for which the Notes are authorized to be issued to include any and all transit-related purposes including, but not limited to, the construction and equipping of one or more office buildings primarily for the purpose of providing office space for the staff of the Authority and to provide facilities related to the operations of the transit facilities of the Authority all of which will be used in furtherance of the public transit purposes of the Authority (the "1993 Expansion Resolution") ; and

WHEREAS, the Authority by resolutions adopted November 20, 1996, extended the termination date of the Program from January 31, 1999 to January 31, 2006 (the "1996 Extension Resolution," together with the 1991 Authorizing Resolution and the 1993 Extension Resolution, the "Prior Resolutions"); and

WHEREAS, the Notes and other obligations incurred in connection with the Program are issued under and secured by a Subordinate Trust Agreement dated as of January 1, 1991 (the "Subordinate Trust Agreement"), between the Commission and U.S. Bank Trust National Association, the successor to the BankAmerica Trust Company, as the successor to Security Pacific National Trust Company (New York), as trustee (the "Trustee"); a First Supplemental Subordinate Trust Agreement, dated as of January 1, 1991 (the "First Supplemental Agreement"), between the Commission and the Trustee; a Second Supplemental Subordinate Trust Agreement, dated as of January 1, 1994 (the "Second Supplemental Agreement"), between the Authority and the Trustee; a Third Supplemental Subordinate Trust Agreement,

dated as of December 1, 1996 (the "Third Supplemental Agreement"), between the Authority and the Trustee; and a Fourth Supplemental Subordinate Trust Agreement, dated as of December 1, 1996, between the Authority and the Trustee (the "Fourth Supplemental Agreement," together, with the Subordinate Trust Agreement, the First Supplemental Agreement, the Second Supplemental Agreement and the Third Supplemental Agreement, the "Trust Agreement");

WHEREAS, U.S. Bank Trust National Association is the successor to the BankAmerica Trust Company, as the Issuing and Paying Agent, under an Issuing and Paying Agent Agreement dated as of January 1, 1991;

WHEREAS, the Program is a beneficial means of financing the needs of the Authority and the Authority, therefor, wishes to extend the termination date of the Program beyond January 31, 2006; and

WHEREAS, the terms used herein and not defined herein shall have the meanings assigned to them in the 1991 Authorizing Resolution, the 1993 Extension Resolution, the 1996 Resolution, or in the Trust Agreement.

NOW, THEREFORE, be it resolved by the Authority, as follows:

Section 1. Extension of the Program. The 1996 Extension Resolution provided that the language in the 1993 Extension Resolution that "no Note shall be issued with a maturity date later than January 31, 1999, unless such date has been extended by subsequent resolution of the Authority" was amended to extend such date to January 31, 2006. The Authority hereby provides that no Note shall be issued with a maturity date later than January 31, 2012 unless such date has been extended by subsequent resolution of the Authority. To accomplish such extension of the "Program Termination Date" within the meaning of the Trust Agreement, the Authority hereby authorizes the execution and delivery by the Authority of a Fifth Subordinate Supplemental Trust Agreement (the "Supplemental Agreement") in such form as presented with this Resolution, which provides for such extension of the Program Termination Date and the Chairman, the Vice Chairman, the Chief Executive Officer, the Chief Financial Officer, the Treasurer and any one or more thereof, are hereby authorized, empowered and directed to execute, acknowledge and deliver such Supplemental Agreement in the name and on behalf of the Authority.

Section 2. Additional Authorization. The Chairman, the Vice Chairman, the Chief Executive Officer, the Chief Financial Officer, the Treasurer and all officers, agents and employees of the Authority are, and each of them is, hereby authorized and directed to do any and all things necessary or useful to effectuate the execution and delivery of the Notes, the Documents and the Commercial Paper Memorandum and to carry out the terms thereof. The Chairman, the Vice Chairman, the Chief Executive Officer, the Chief Financial Officer, the Treasurer and all other officers, agents and other employees of the Authority are, and each of them is, hereby further authorized and directed for and on behalf of the Authority to execute all papers, documents, certificates and other instruments that may be required or useful in order to carry

out the authority conferred by the Prior Resolutions, this Resolution, the Trust Agreement, or to evidence the same authority including, but not limited to, executing documents which may be prepared for the purpose of implementing the provisions of this Resolution.

Section 3. 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 4. Effective Date. The effective date of this Resolution shall be the date of its adoption.

CERTIFICATION

The undersigned, duly qualified and acting as Secretary of the Los Angeles County Metropolitan Transportation Authority, certifies that the foregoing is a true and correct copy of a Resolution adopted at a legally convened meeting of the Board of Directors of the Los Angeles County Metropolitan Transportation Authority held on May 27, 2004.

Secretary, Los Angeles County Metropolitan
Transportation Authority

ATTACHMENT B

FIFTH SUPPLEMENTAL SUBORDINATE TRUST AGREEMENT

FIFTH SUPPLEMENTAL SUBORDINATE TRUST AGREEMENT

by and between

**LOS ANGELES COUNTY METROPOLITAN
TRANSPORTATION AUTHORITY**

and

U.S. BANK TRUST NATIONAL ASSOCIATION,
as Trustee

Dated as of May 1, 2004

\$350,000,000
LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
SECOND SUBORDINATE SALES TAX REVENUE
COMMERCIAL PAPER NOTES
SERIES A

FIFTH SUPPLEMENTAL SUBORDINATE TRUST AGREEMENT

This FIFTH SUPPLEMENTAL SUBORDINATE TRUST AGREEMENT, dated as of May 1, 2004 (the "Fifth Supplemental Agreement"), is made by and between the **LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY** (the "Authority"), an entity duly organized and existing pursuant to Chapter 2, Division 12 of the California Public Utilities Code (commencing with Section 13005.2) (the "Authority Act"), and **U.S. BANK TRUST NATIONAL ASSOCIATION**, as trustee (the "Trustee") and supplements that First Supplemental Subordinate Trust Agreement, dated as of January 1, 1991, as previously amended and supplemented, by and between the Authority and the Trustee (the "First Supplemental Agreement") which supplements the Subordinate Trust Agreement dated as of January 1, 1991 (the "Agreement"), which is also by and between the Authority and the Trustee.

Section 2.07 of the First Supplemental Agreement provides that the Authority may extend, from time to time, the Program Termination Date and sets forth the terms and conditions for the effectiveness of the adoption of any Supplemental Agreement adopted for such purpose.

Section 6.02 of the First Supplemental Agreement provides that the Authority may, from time to time and at any time, with the written consent of the Agent Bank, execute and deliver Supplemental Agreements supplementing and/or amending the First Supplemental Agreement in the manner set forth in Article X of the Agreement. Amongst other things, the Agreement provides in Section 10.02(g) that the Authority may, without the consent of or notice to the Holders, execute and deliver Supplemental Agreements to modify, alter, amend or supplement the Agreement or any Supplemental Agreement in any respect which, in the judgment of the Authority, as concurred in by the Trustee, is not materially adverse to the Holders.

The Authority on May 27, 2004, adopted a resolution entitled "Resolution of the Los Angeles County Metropolitan Transportation Authority Extending The Term of The \$350,000,000 Commercial Paper Program and Authorizing Other Matters Related To The Commercial Paper Program" wherein it approved the extension of the Commercial Paper Program to January 31, 2012 and the adoption of a supplemental agreement to amend the definition of Program Termination Date as defined in the First Supplemental Agreement, as amended.

The Authority, the Trustee and the Agent Bank have approved the amendments as set forth herein, and in the judgment of the Authority such amendment will not be materially adverse to the Holders. The Trustee by executing this Fifth Supplemental Agreement concurs with the Authority's determination.

ARTICLE I

AMENDMENT OF FIRST SUPPLEMENTAL SUBORDINATE TRUST AGREEMENT

Section 1.1. Amendment of Section 1.01 of the First Supplemental Subordinate Trust Agreement.

The definition of "Program Termination Date" is amended in its entirety to read:

"Program Termination Date" means January 31, 2012, or such later date as shall be established pursuant to Section 2.07 hereof.

Unless otherwise specifically defined herein, all capitalized terms used herein shall have the meanings stated or ascribed in the First Supplemental Agreement, as amended.

ARTICLE II

MISCELLANEOUS

Section 2.1. Captions. The captions in this Fifth Supplemental Agreement are for convenience only and do not define or limit the scope or intent of any provisions or Sections of this Fifth Supplemental Agreement.

Section 2.2. Counterparts. This Fifth Supplemental Agreement may be signed in several counterparts. Each will be an original, but all of them together constitute the same instrument.

Section 2.3. Effectiveness of Remainder of Agreement. Except as otherwise amended herein or in the Second Supplemental Agreement, Third Supplemental Agreement, or in the Fourth Supplemental Agreement, the First Supplemental Agreement shall remain in full force and effect.

**LOS ANGELES COUNTY METROPOLITAN
TRANSPORTATION AUTHORITY**

By _____
Terry Matsumoto
Executive Officer, Finance and Treasurer

U.S. BANK TRUST NATIONAL ASSOCIATION, as Trustee

By _____
Ignazio Tamburello
Assistant Vice President

**CONSENT OF BAYERISCHE LANDESBANK,
ACTING THROUGH ITS NEW YORK BRANCH**

The execution and delivery of the foregoing Fifth Supplemental Subordinate Trust Agreement, and the amendment of the above-described First Supplemental Subordinate Trust Agreement in accordance therewith, is hereby consented to and approved by the undersigned.

As Agent Bank

BAYERISCHE LANDESBANK

Acting Through Its New York Branch,

By _____

Name: _____

Title:

By _____

Name: _____

Title: