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FINANCE AND BUDGET COMMITTEE
FEBRUARY 20, 2008

SUBJECT: REFUNDING OF PROP A BONDS

ACTION: ADOPT RESOLUTION AUTHORIZING USE OF INTEREST RATE SWAPS

RECOMMENDATION

Adopt a resolution, Attachment A, that:

A. Authorizes execution of one or more forward starting interest rate swaps for a notional amount not to exceed $270 million;
B. Commits us to issue bonds that will refund portions of the outstanding Prop A 1999-A and Prop A 1999-C bonds; and,
C. Approves documents related to the interest rate swap that are on file with the Board Secretary.

(Requires separate, simple majority Board vote.)

RATIONALE

Low interest rates are providing an opportunity to refund up to $265 million of outstanding Prop A bonds by utilizing an interest rate swap structure (Attachment B) to achieve interest savings of as much as $17 million on a present value basis.

DISCUSSION

The resolution authorizes the execution of interest rate swaps now and commits us to issue variable rate bonds next year in April 2009. A second resolution will be presented in FY09 to approve bond documents and actual issuance of the bonds in April 2009. The appointment of underwriters/remarketing agents for the variable rate bonds was approved in January 2008.

The forward starting swaps will not become active until April 2009 when the variable rate bonds will be issued. The swaps will be indexed to either the London Interbank Offering Rate (LIBOR) or the Securities Industry and Finance Markets Association (SIFMA) index. The SIFMA index is an index representing short-term tax-exempt interest rates. The SIFMA indexed swap provides a slightly more precise hedge of the variable interest rates for our bonds and avoids tax event risk, while the LIBOR indexed swap provides a greater benefit. We will work with our swap advisor to determine the most appropriate swap index given current levels of benefit and existing exposure to LIBOR swaps. Upon approval, the key decision will be whether we should or should not issue additional variable rate bonds. Certain types of variable rate bonds and the bond insurance market have been negatively impacted by the subprime mortgage problem. The result has been higher interest rates on the variable rate bonds and higher fees for liquidity facilities that back the bonds. The swap transaction can be delayed until we are comfortable that the overall transaction will be in accordance with the parameters of the Debt and Interest Rate Swap Policies.

FINANCIAL IMPACT

During FY08 we will advance certain issuance costs such as our bond counsel and swap advisor from funds available in cost center 0521, project 610308, task 01.51. These costs and future issuance costs will ultimately be paid from proceeds of the financing when it closes in FY09. Debt service will be unaffected in FY08 and will be budgeted assuming the swap rate for the last three months of FY09. Over the life of the bonds the interest rate swap strategy is projected to generate present values savings of $17 million, or $25 million on a cash basis.

ALTERNATIVES CONSIDERED

Alternatives considered include:

1. Issuance of fixed rate bonds has been considered to accomplish the refunding. This alternative is not recommended because the swap strategy currently generates significantly more savings.
2. Deferring the refunding to a later date. This alternative is not recommended due to the risk that long-term interest rates may rise and potential savings could be lost.

ATTACHMENTS

A. Authorizing Resolution
B. Transaction Explanation

Prepared by: Michael J. Smith, Assistant Treasurer

Terry Matsumoto
Chief Financial Services Officer and Treasurer

Roger Snoble
Chief Executive Officer

RESOLUTION OF THE LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY AUTHORIZING THE ISSUANCE OF ONE OR MORE SERIES OF ITS PROPOSITION A SENIOR SALES TAX REVENUE REFUNDING BONDS, THE ENTRY INTO AN INTEREST RATE SWAP OR SWAPS IN CONNECTION WITH SUCH ISSUANCE AND OTHER RELATED MATTERS

(PROPOSITION A SALES TAX)

WHEREAS, the Los Angeles County Metropolitan Transportation Authority (the "LACMTA"), 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 LACMTA 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 LACMTA 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 20, 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 that portion of the Series 1986 Bonds designated as Series 1986-A Bonds, certain maturities of the Series 1987-A Bonds and certain maturities of the Series 1988-A Bonds; and

WHEREAS, the LACMTA 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 that portion of the Series 1986 Bonds designated as 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 LACMTA in September 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 LACMTA 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 (the "Thirteenth Supplement"), 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 LACMTA 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 LACMTA 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 LACMTA'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 LACMTA 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 LACMTA's outstanding Commercial Paper Notes, certain maturities of that portion of the Series 1986 Bonds designated as Series 1986-A Bonds, the Series 1988-A Bonds and the Series 1991-A Bonds; and

WHEREAS, the LACMTA 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 LACMTA 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 LACMTA 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 LACMTA's outstanding Commercial Paper Notes; and

WHEREAS, the LACMTA 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 LACMTA 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 LACMTA supplemented the terms of the Trust Agreement by approving and entering into a Twenty-Second Supplemental Trust Agreement dated as of April 1, 2002 (the "Twenty-Second Supplement"), providing for a pledge of the LACMTA 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 LACMTA 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 LACMTA 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 LACMTA 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 LACMTA'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 LACMTA in August 2005 issued $66,450,000 of its First Tier Senior Sales Tax Revenue Refunding Bonds Series 2005-C1 (the "Series 2005-C1 Bonds"), $66,450,000 of its First Tier Senior Sales Tax Revenue Refunding Bonds Series 2005-C2 (the "Series 2005-C2 Bonds"), $66,450,000 of its First Tier Senior Sales Tax Revenue Refunding Bonds Series 2005-C3 (the "Series 2005-C3 Bonds") and $66,475,000 of its First Tier Senior Sales Tax Revenue Refunding Bonds Series 2005-C4 (the "Series 2005-C4 Bonds," and together with the Series 2005-C1, the Series 2005-C2 and the Series 2005-C3, the "Series 2005-C Bonds") under the terms of the Trust Agreement and a Twenty-Sixth Supplemental Trust Agreement dated as of August 1, 2005, and such Series 2005-C Bonds were issued for the purpose of refunding certain portions of the Subordinate Series 1996 Bonds, the Series 1997-A Bonds, the Series 1999-B Bonds and the Series 2001-A Bonds

WHEREAS, the LACMTA in April 2007 issued $46,635,000 of its First Tier Senior Sales Tax Revenue Refunding Bonds Series 2007-A (the "Series 2007-A Bonds") under the terms of the Trust Agreement and a Twenty-Seventh Supplemental Trust Agreement dated as of April 1, 2007, and such Series 2007-A Bonds were issued for the purpose of refunding certain portions of the Series 1997-A Bonds; and

WHEREAS, the LACMTA 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, the Series 2005-B Bonds, the Series 2005-C Bonds and the Series 2007-A 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 LACMTA 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") on or after April 2, 2009 (the "Expected Closing Date") (i) to refund up to $265,720,000 aggregate principal amount of the outstanding Series 1999-A Bonds and Series 1999-C Bonds and (ii) to pay certain costs related thereto, subject to the approval prior to such issuance of certain documentation relating to such bonds as described herein; and

WHEREAS, the LACMTA staff is concerned that increases in interest rates over the coming months may make the refunding of the Series 1999-A Bonds and the Series 1999-C Bonds less desirable for the LACMTA; and

WHEREAS, in order to protect the LACMTA against such rising interest rates, the LACMTA intends to issue the Bonds on or about the Expected Closing Date at variable interest rates (unless it is determined by a Designated Officer (defined below) in consultation with the Swap Advisor (defined below) and Bond Counsel (defined below) to issue such Bonds at a fixed rate), to enter into one or more interest rate swap transactions to become effective on or about the Expected Closing Date with qualified swap counterparties under which the LACMTA would pay a fixed rate to the qualified swap counterparties and receive a floating rate from the qualified swap counterparties over the term of the swap transactions and, if so determined by a Designated Officer after consultation with the Swap Advisor and Bond Counsel, to integrate the Bonds with such qualified hedge for tax purposes, thereby altering the interest rate risk and/or altering the cost of borrowing in a beneficial manner, and when used in combination with the Bonds, enhancing the relationship between risk and return or achieving other policy objectives consistent with the LACMTA's Interest Rate Swap Policy; and

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

WHEREAS, there has been presented to the LACMTA 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, the LACMTA desires to enter into one or more ISDA Master Agreements and the related Schedules, Credit Support Annexes and Confirmations (collectively, the "Swap Agreement") on terms consistent with those set forth in the Request for Interest Rate Swap (as such terms may be modified by a Designated Officer) with one or more qualified swap counterparties in connection with the Bonds and such Swap Agreement is expected to become effective beginning on or after April 2, 2009 with an aggregate net notional amount (calculated in accordance with the LACMTA's Interest Rate Swap Policy) not to exceed the par amount of the Bonds and a termination date no later than the final maturity of the Bonds; and

WHEREAS, the Chief Financial Services Officer and Treasurer, the Assistant Treasurer, the Swap Advisor and Bond Counsel have evaluated the proposed Swap Agreements and the Swap Advisor has presented its Policy Analysis to the LACMTA; and

WHEREAS, the LACMTA 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 up to $265,720,000 aggregate principal amount of Series 1999-A Bonds and Series 1999-C Bonds and to enter into the Swap Agreement with one or more qualified swap counterparties;

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

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

Section 1. **Findings**. The LACMTA hereby finds and determines that:

(a) The issuance of one or more series of its Bonds on or after the Expected Closing Date (i) to refund up to $265,720,000 aggregate principal amount of the outstanding Series 1999-A Bonds and Series 1999-C Bonds and (ii) 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 LACMTA 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 Swap Agreement is designed to reduce the amount or duration of payment, currency, rate, spread, or similar risk or result in a lower cost of borrowing when used in combination with the issuance of the Bonds, pursuant to California Government Code Section 5922, and 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 Bonds, will enhance the relationship between risk and return or achieve other policy objectives consistent with the LACMTA's Interest Rate Swap Policy.

Section 2. **Issuance of Bonds**. For the purposes of refunding up to $265,720,000 aggregate principal amount of outstanding Series 1999-A Bonds and Series 1999-B Bonds and paying certain costs related thereto, all in accordance with the LACMTA's Debt Policy, the LACMTA 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 less any net original issue discount shall not exceed $280,000,000. The Chair of the LACMTA, any Vice Chair of the LACMTA, the Chief Executive Officer

("CEO") of the LACMTA, the Chief Financial Services Officer of the LACMTA, the Assistant Treasurer of the LACMTA, 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. Any Designated Officer, in consultation with the Swap Advisor and Bond Counsel, may determine the method of calculating interest on the bonds, which may be either a variable rate or a fixed rate, such determination to be conclusively evidenced by direction of the execution and authentication of the Bonds. The authority conferred by this paragraph shall be subject to the presentation to and approval by the LACMTA of certain documents relating to the Bonds in substantially final form prior to their issuance, specifically: a Supplement to the Trust Agreement providing for the issuance of the Bonds; an Escrow Agreement providing for the defeasance of the Series 1999-A Bonds and Series 1999-C Bonds to be defeased; a Continuing Disclosure Certificate if in Bond Counsel's opinion such a certificate is required by Rule 15c2-12 promulgated under the Securities Exchange Act of 1934; a Purchase Contract providing for the sale of the Bonds; an Official Statement relating to the Bonds in either preliminary or final form; and such other agreements as a Designated Officer, with the advice of Bond Counsel, determines should be approved by the LACMTA.

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 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 LACMTA hereby confirms that it has not previously granted any prior or parity interest in such Pledged Taxes, and the LACMTA 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 LACMTA.

Section 4. Special Obligations. The Bonds shall be special obligations of the LACMTA 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 LACMTA may hereafter provide.

Section 5. Bid of Swap Agreement. The Designated Officers are each hereby authorized and directed to arrange for the competitive bid of the Swap Agreement among one or more counterparties (or the guarantors thereof) whose long-term, unsecured and unsubordinated obligations are (i) rated AA- or better by Standard & Poor's Rating Services ("S&P") or Fitch, Inc. ("Fitch") or Aa3 or better by Moody's Investors Service Inc. ("Moody's") and (ii) not rated below A by S&P or Fitch or A2 by Moody's, 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 6. Negotiation of Swaps. The Designated Officers and each of them are hereby authorized and directed to determine the advisability of entering into the Swap Agreement with a counterparty or counterparties selected as a result of the competitive bid process described in the preceding Section and to negotiate and determine the terms of such Swap Agreement consistent with the LACMTA's Interest Rate Swap Policy and the terms set forth in this Resolution.

Section 7. Approval of Swap Agreement. The Designated Officers are, and each of them is, hereby authorized and directed to execute, acknowledge and deliver the Swap Agreement including counterparts thereof, in the name and on behalf of the LACMTA and the LACMTA's corporate seal is hereby authorized (but not required) to be affixed or imprinted on each of such documents. The Swap Agreement, as executed and delivered, shall be consistent with the terms described in the Request for Interest Rate Swap, with such changes therein as shall be approved by any Designated Officer upon consultation with the Swap Advisor and Bond Counsel, provided that the terms of the Swap Agreement are consistent with this Resolution and the LACMTA's Interest Rate Swap Policy. Execution of the Swap Agreement shall constitute conclusive evidence of the LACMTA's approval of any and all changes or revisions therein from the terms set forth in the Request for Interest Rate Swap now before this meeting. From and after the execution and delivery of the Swap Agreement the officers, agents and employees of the LACMTA 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 Swap Agreement.

Section 8. Credit Enhancement. The Designated Officers and each of them are hereby authorized and directed to determine the advisability of obtaining credit enhancement for all or certain of the payments to be made in connection with the Swap Agreement and to accept the terms and provisions and price of such credit enhancement, to select a provider or providers thereof (the "Credit Enhancer") and to determine such other matters related thereto as in the opinion of such Designated Officer or Officers shall be considered necessary or appropriate and to effect such determinations by making any changes in or additions to the form Swap Agreement required by such Credit Enhancer relating to, without limitation, provisions regarding the termination of such agreement, the provision for collateralization of obligations thereunder, the mechanism for repayment of amounts advanced thereunder or the payment of fees, premiums, expenses or other amounts, notices, the provision of information and such other matters of a technical, mechanical, procedural or descriptive nature necessary or appropriate to implement an insurance policy or other form of credit enhancement with respect to the Swap Agreement; the execution of the Swap Agreement as so modified being conclusive evidence of LACMTA's approval.

Section 9. Pledge of Collateral. The Designated Officers and each of them are hereby authorized and directed to pledge or caused to be pledged, to the swap counterparty or counterparties selected pursuant to the competitive bid process described in Section 5, collateral in the form of cash or securities to secure its obligations under the Swap Agreement when required by and in accordance with the terms thereof.

Section 10. Authorization to Amend, Supplement, Modify or Terminate Swap Agreement The Designated Officers and each of them are hereby authorized and directed to amend, supplement or otherwise modify the Swap Agreement at any time and in any manner determined to be necessary or desirable by the Designated Officer executing such amendment, supplement or modification, upon consultation with the Swap Advisor and Bond Counsel, the execution of such amendment, supplement or other modification being conclusive evidence of LACMTA's approval thereof. In addition, the Designated Officers and each of them are authorized to optionally terminate the Swap Agreement in whole or in part in accordance with the terms of the Swap Agreement.

Section 11. Additional Authorization. The Designated Officers and all officers, agents and employees of the LACMTA, for and on behalf of the LACMTA, are hereby authorized and directed to take any and all actions necessary or desirable to effect the issuance and sale of the Bonds and the execution and delivery of the Swap Agreement and to carry out the transactions contemplated herein and therein. The Designated Officers and all other officers, agents and employees of the LACMTA are further authorized and directed, for and on behalf of the LACMTA, 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 Bonds or the Swap Agreement. Further, the Designated Officers are authorized to identify the Swap Agreement as integrated with the Bonds for tax purposes on its books and records as required under the Federal tax law. All actions heretofore taken by the officers, agents and employees of the LACMTA in furtherance of the purposes of this Resolution are hereby confirmed, ratified and approved.

Section 12. Bond Counsel and Disclosure Counsel. The LACMTA hereby confirms, ratifies and approves the appointment of Nixon Peabody LLP as bond counsel and disclosure counsel to the LACMTA in connection with the entry into the Swap Agreement and the issuance and sale of the Bonds.

Section 13. 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 14. 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 February __, 2008.

[SEAL]

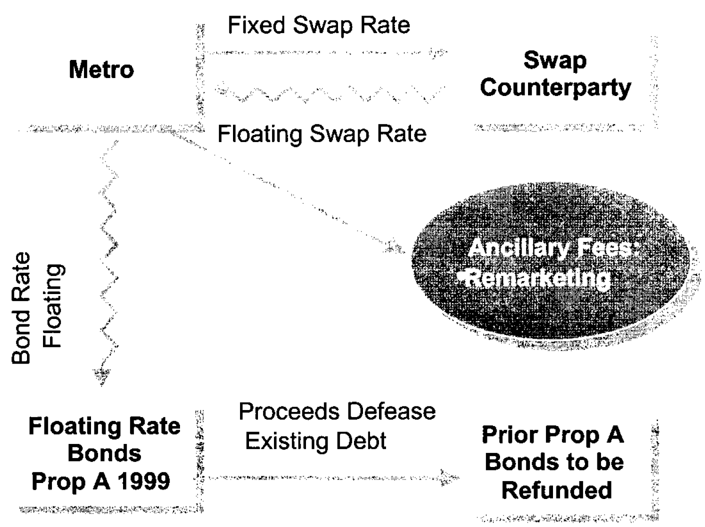
By ________________________________
Board Secretary, Los Angeles County
Metropolitan Transportation Authority

Dated: ____________, 2008

ATTACHMENT B

Transaction Explanation

This synthetic fixed rate strategy will produce an interest rate lower than traditional fixed rate bonds. To implement the transaction we will issue variable rate bonds and enter into an interest rate swap indexed to either the London Interbank Offering Rate (LIBOR) or Securities Industry and Finance Markets Association (SIFMA) index. We will pay the actual interest costs to the bondholders. Under the swap we will make a monthly fixed rate payment to the provider based on a fixed rate that is determined by competitive bid when the swap is entered into. The swap provider simultaneously will make a variable rate payment to Metro based on the variable rate index. In practice the payments are netted and only one payment is made. 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.



The interest rate for the monthly variable rate swap payments received by Metro will be set at a percentage of the index that best correlates to the interest rates on our variable rate bonds. The actual dollar amount of a payment is calculated by multiplying the variable 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, so the quantity is described as notional.

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.