

# Monthly Financial Update

Oral Report

Finance & Budget Committee

October 2008



**Metro**

# Headlines

- House approves Rescue Plan
  - Fed to buy troubled assets
  - \$149 billion in tax breaks
  - Regulators to suspend accounting rules
- Fed expected to lower fed funds target
- Wells Fargo and Citigroup battle for Wachovia

# Headlines (cont'd)

## Goldman Sachs

- Announced infusion of \$5 billion from Berkshire Hathaway (Warren Buffett)
- GS plans to raise an additional \$5 billion via common stock offering

## Morgan Stanley

- Announced infusion of \$8 billion from Mitsubishi Bank

# Impacts

## AIG

- Lease/leaseback
  - Even with the \$85 billion fed “bail out”, credit ratings were downgraded
  - The downgrades triggered provisions in our various lease/leaseback deals that require us to deal with this within short time frames.
  - Failure to accomplish is an Event of Default
  - AIG is involved in 8 of our 10 deals with a total value of nearly \$1 billion
  - Most large rail transit operators are similarly impacted

# Impacts (cont'd)

## AIG (cont'd)

- General liability insurance
  - AIG provides the \$20 million primary layer above our self insured retention layer of \$4.5 million plus an additional \$50 million excess coverage
  - AIG's insurance ratings remain strong
- Property
  - AIG provides \$25 million
- Next renewal summer 2009 will likely be impacted

# Impacts (cont'd)

## AIG (cont'd)

### Interest rate swaps

- 2 swaps, about \$230 million, that appear to be OK with the fed bailout.
- Exposure is AIG bankruptcy which seems to be forestalled at the moment.
- If AIG were to go bankrupt, we would have to pay them about \$40 million.

# Impacts (cont'd)

## Lehman Bros

- No fed bailout
- Barclay's acquired hard assets and investment banking services only
- Lehman provides remarketing services. Barclays has requested continuation.
- If necessary, the services can be transferred to another firm

## Merrill Lynch

- ML was acquired by Bank of America
- ML provides remarketing services that are not expected to be negatively impacted by the merger

# Impacts (cont'd)

## Bear Stearns

- BS was acquired by JP Morgan
- BS provides remarketing services and is a counterparty in CNG hedges
- JP has informed us that they will honor those CNG hedges
- JP continues to provide the remarketing service

## Freddie/Fannie

- Fed takeover actually helps us
- Securities now backed by full faith and credit of US Government.



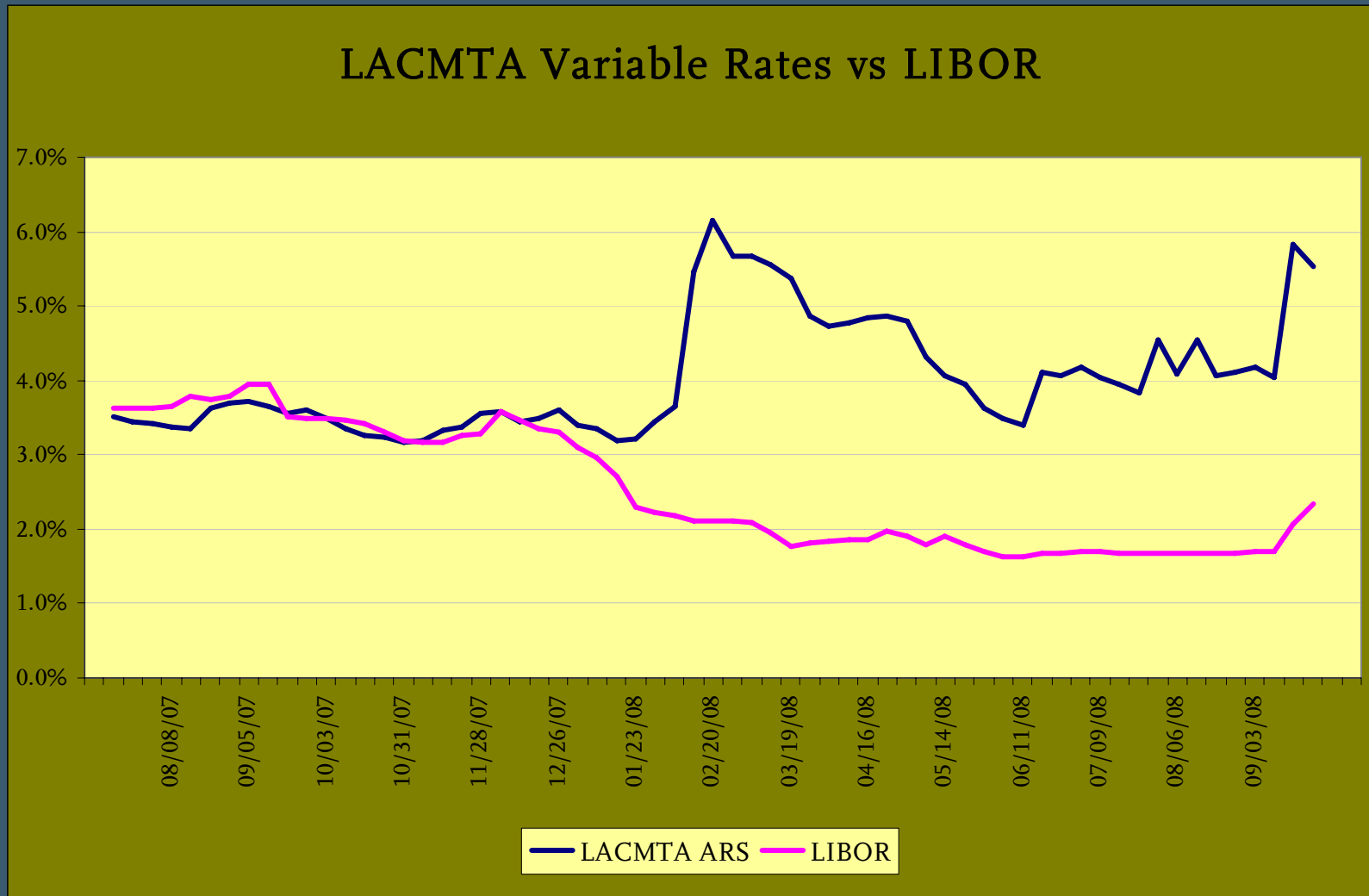
# Impacts (cont.)

- Downgrade of AIG is affecting defeased lease transactions
  - AIG has posted over \$80 million of collateral for two agreements
  - Downgrade causing us to obtain up to six credit support facilities, increasing costs related to defeased lease transactions and exposing us to significant termination costs if unable to find qualified replacements.
- Variable rate interest cost - \$4 million / month unfavorable
  - Rates deteriorated following Lehman bankruptcy, loss of confidence and ensuing liquidations of money market funds
- Natural Gas prices continue to retreat significantly from peak in July

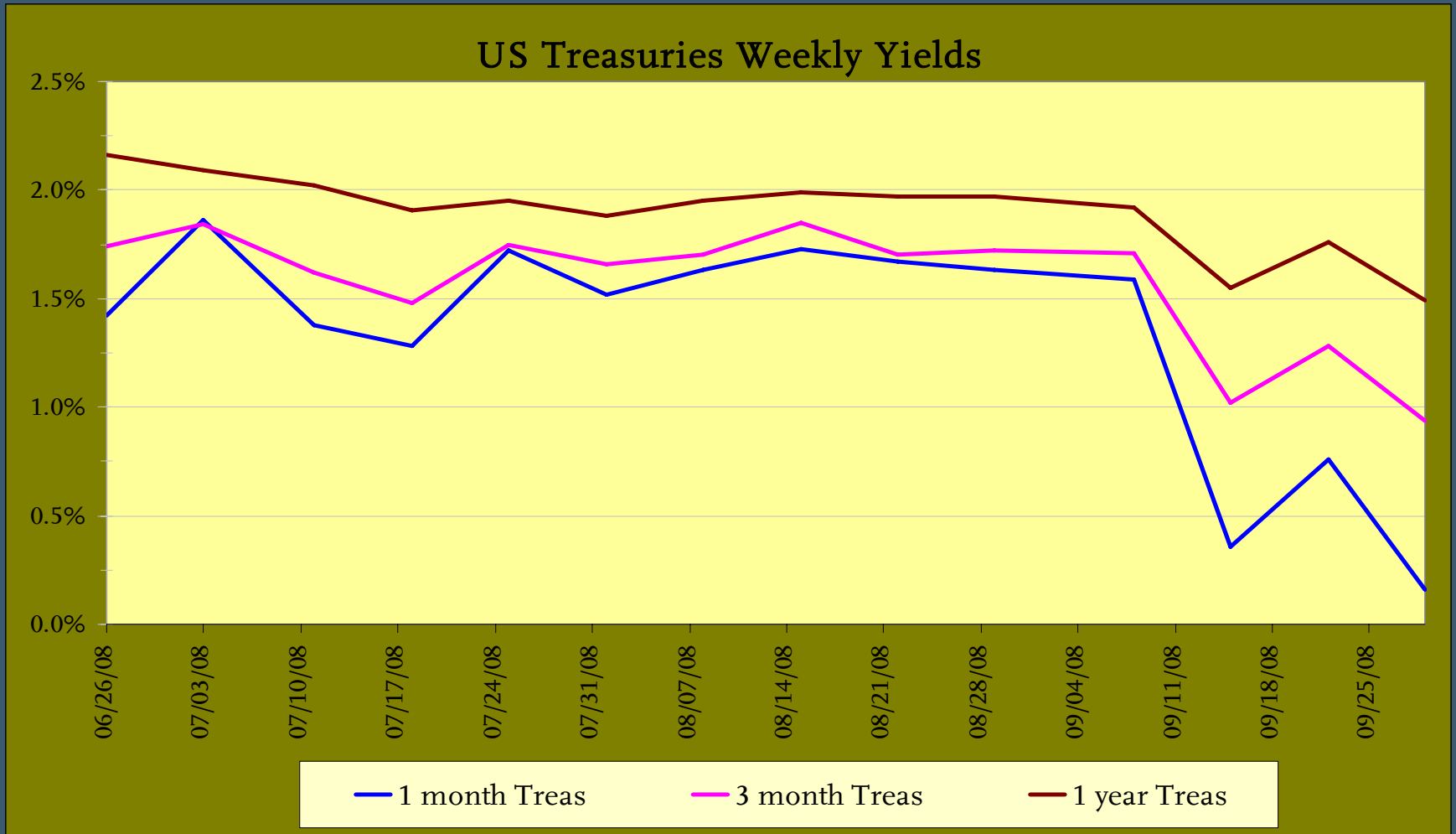
# Impacts (cont'd)

- Credit markets continue to deteriorate
- Previously committed liquidity banks have pulled back on \$450 million of letters of credit, delaying four bond refundings
- Underwriters have been unable to place our recently underwritten variable rate demand bonds which have now been “put” to liquidity bank at higher rate

# LACMTA's Variable Rates

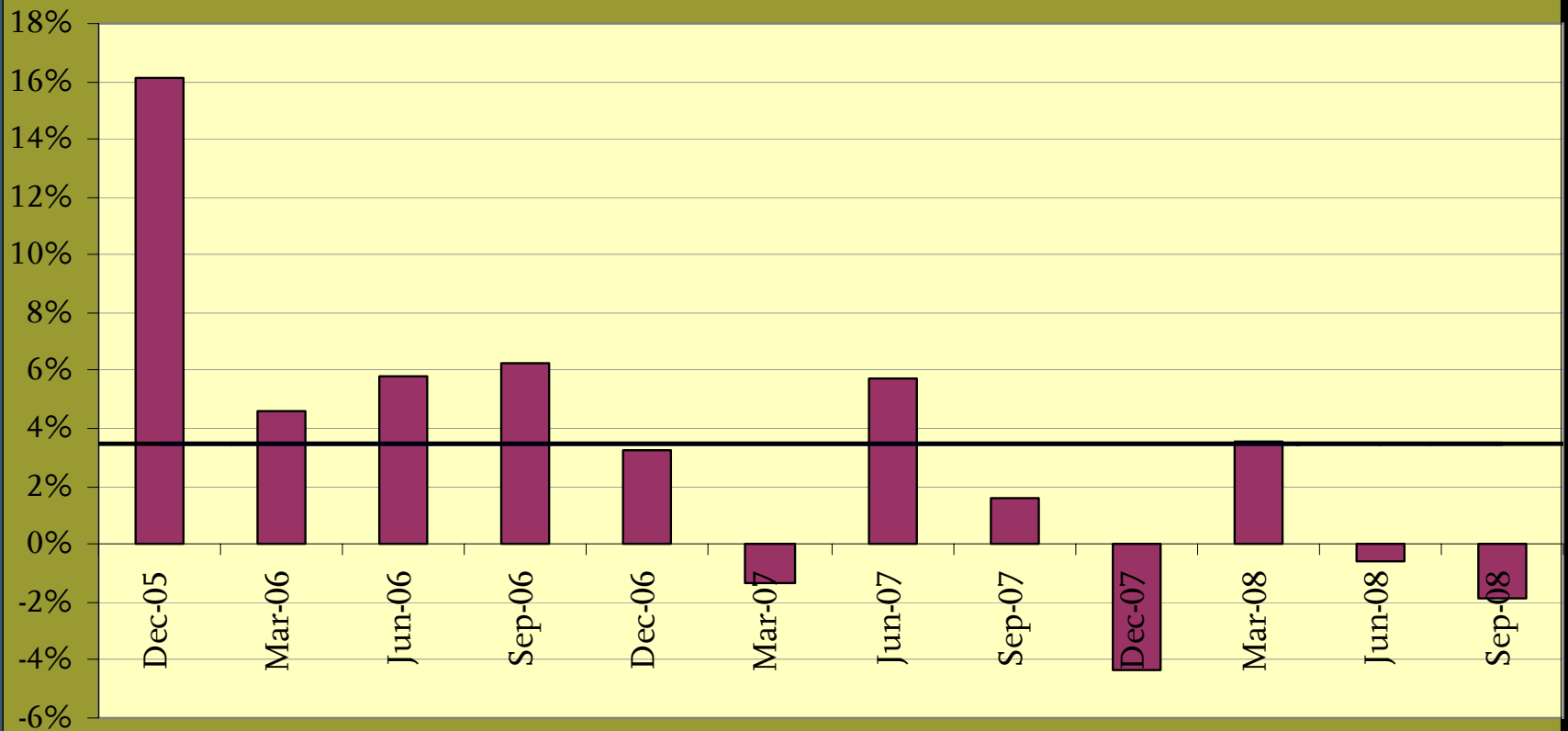


# Short Term Rates – Flight to Safety



# Sales Tax Revenue

Quarterly Sales Tax Revenue History  
Year over Year Proposition A and C Growth Rate



# Since Last Update

- Refunded Prop A 2005 Auction Bonds
- Amended Prop C 1993 liquidity terms so money funds can now buy at lower rates
- Completed replacement of degraded \$111 million reserve fund surety policy with cash from bond refunding and new \$85 million surety policy from FSA

# Next Steps

- Determine if liquidity banks will reconfirm their currently deferred commitments
- Refund Capital Grants Bonds by issuing Prop A tax-exempt commercial paper
- Continue efforts to refund the four remaining affected bond issues, negotiate amendments to related interest rate swaps
- Locate surety policies as credit support for defeased lease transactions affected by AIG

# End Presentation

Questions/discussion