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FINANCE AND BUDGET COMMITTEE

February 18, 2009

Revised

SUBJECT: PROP 1B PROJECTS

**ACTION: APPROVE WAIVERS OF INVESTMENT POLICY PROVISIONS AND
AUTHORIZE PURCHASES OF STATE BONDS**

RECOMMENDATION

- A. Approve waivers of Investment Policy provisions as detailed in Attachment A.
- B. Authorize the immediate purchase of \$21 million for projects under construction:
 1. The I-10 Busway Rehabilitation project that was approved under Board delegated authority, Attachment C, line 1; and
 2. Other small projects in the final stages of construction as recommended by Caltrans, Attachment C, line 2-19.
- C. Authorize the CEO to negotiate and execute further bond purchases to keep other Los Angeles County projects on schedule under similar terms up to a maximum of \$200 million.
- D. Consider the following projects for inclusion in the first bond purchase:
 1. New Station Track at LA Union Station, \$22 million
 2. Bus Mid-Life Rehabilitation, \$20 million
 3. Interstate 10 HOV Lanes I-605 to Puente, \$66 million
 4. ATSAC-Reseda Phase I, \$9 million

RATIONALE

The State announced that payments on all projects currently in progress have been suspended as a result of the lack of an adopted budget and unfavorable financial market conditions that prevent it from issuing bonds to meet its Prop 1B commitments for FY09.

In order for the State to raise cash, the State Treasurer is offering to sell us general obligation bonds. This offer was received on January 25, 2009. The cash received from us by the State will then be made available to meet cash flow needs of Prop 1B funded projects in Los Angeles County. The State offers to sell us the bonds via a "private placement." A private placement is a bond sale specifically structured for one investor. Attachment B is copy of the State's Term Sheet. The significant terms that we will negotiate into the final bond purchase agreement are:

1. The State will agree to use our money only for projects in Los Angeles County
2. Interest rate – fixed rate based on other State bonds plus a premium
3. Maturity – not to exceed 3 years
4. Guarantee – security pledge is "full faith and credit of CA" subject only to the State's obligation to public education.

Approval of the recommendations will allow us to provide cash flow in order to keep our Los Angeles County projects on schedule.

DISCUSSION

At the January 2009 meeting, Director Fasana put forth a motion that we advance \$17.3 million to Caltrans in order to keep the contractor working on the I-10 Busway Rehabilitation project from walking off the job. This work is a critical for us to remain in compliance with the \$210 million Congestion Pricing Demonstration grant. The Board delegated authority to the CEO to advance the money to Caltrans to ensure that the work stays on schedule provided that there is guaranteed certainty that we will be paid back with interest in a timely fashion. Therefore, this project is approved under the Board delegated authority.

We believe that this cash flow mechanism meets the spirit and intent of the delegated authority and have begun to take appropriate steps to provide for the I-10 Busway Rehabilitation project to continue without disruption, including engaging bond counsel to assist us in negotiation and drafting the final bond purchase agreement.

There are additional Prop 1B funded projects in Los Angeles County that are facing similar disruptions if the project cash flows are interrupted. Approval of Recommendation D will allow us to purchase additional bonds to keep other Prop 1B projects on schedule. The listing of these projects is shown in Attachment C.

On January 28, 2009, the Metropolitan Transportation Commission authorized the purchase of up to \$200 million of bonds from the State to finance its Prop 1B projects that are underway or scheduled for award in the next several months under substantially the same terms as described above.

Although the structure is an investment, the rationale for purchasing the bonds is to facilitate the continuation of projects that are already underway or scheduled for award shortly and to preserve the federal funds associated with those projects such as the \$210 million Congestion Reduction Demonstration grant. Attachment A details the Investment Policy provisions that need to be waived for these purchases.

FINANCIAL IMPACT

There is no impact on the FY09 budget as a result of the purchase of these bonds. Although the interest rate on the bonds will be greater than cash is currently earning, the State will only pay the accrued interest when the bonds are redeemed or mature.

We have approximately \$500 million of Prop C 25% and TCRP fund balances. These monies are programmed or committed to highway projects. The \$200 million purchase will tie up the cash for not more than three years. Based on history, the remaining fund balances are more than sufficient to meet our own cash flow needs during this period.

We have \$250 million in additional Prop C 40% and General Fund balances that could be used to support our Prop 1B transit projects on a cash flow basis during the period should the circumstances dictate.

The cash flow needs projects to receive immediate support total \$21 million, including the I-10 Busway Rehabilitation project. Additional projects to be considered will be limited to the remaining \$179 million of authorization.

ALTERNATIVE CONSIDERED

We could use our money to loan/advance to Caltrans directly. However, Caltrans cannot commit to timely repayment or payment of interest. This option is not recommended.

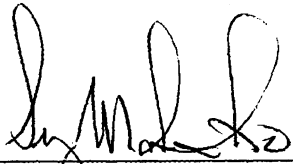
NEXT STEPS

- Negotiate and execute the final bond purchase agreement
- Fund the initial transaction
- After State budget and federal economic stimulus issues are more clear, determine which, if any, additional projects will be supported by additional bond purchases.

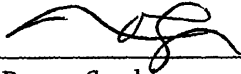
ATTACHMENT

- A. Investment and Debt Policy Waivers
- B. State Prop 1B Term Sheet
- C. Project Lists
- D. Project Rationales

Prepared by: Terry Matsumoto,
Chief Financial Services Officer and Treasurer



Terry Matsumoto
Chief Financial Services Officer and Treasurer



Roger Snoble
Chief Executive Officer

ATTACHMENT A
INVESTMENT POLICY WAIVERS

Reference	Restriction	Waiver Required to
6.3	Purchases are limited to statutorily authorized investments pursuant to the California Gov't Code Section 53601	Authorize the Treasurer to conduct a Private Placement transaction(s) with the State of California by executing a Bond Purchase Agreement(s) including; negotiating the purchase price to be paid; negotiating terms of the bonds (interest rate, maturity, redemption provisions).
5.1 A #3	Registered state warrants or treasury notes or bonds of the State of California must be rated Aa/AA or better long term, by a national rating agency	Permit the purchase of Private Placement bonds issued by the State of California that are rated below Aa/AA or are not rated.
5.1 A #3	Registered state warrants or treasury notes or bonds of the State of California cannot exceed 25% of the Operating Fund Portfolio	Waive the 25% issuer limitation for State of California registered warrants, treasury notes or bonds
3.1	The primary objectives, ...of investment activities shall be: A. Safety; B. Liquidity; and C. Yield	Recognize that the objective of the transaction is to support the continuation of transportation improvement projects and acknowledge that the transaction will reduce the liquidity available to meet other cash flow requirements.

ATTACHMENT B
PROP 1B TERM SHEET

STATE OF CALIFORNIA
Proposition 1B (The Highway Safety, Traffic
Reduction, Air Quality, and Port Security Bond Act
of 2006) 2009 General Obligation Put Bonds

Term Sheet Dated January , 2009

Issuer:	State of California
Authorization:	<p>Proposition 1B, the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (the "Bond Act") was approved by State voters in November 2006.</p> <p>The Bond Act authorizes the State to sell \$19.925 billion in general obligation bonds to fund transportation projects to relieve congestion, facilitate the movement of goods, improve air quality, and enhance the safety and security of the state's transportation system. The Bonds are to provide a one-time major infusion into the transportation system and are to be spent over the course of several years.</p>
Purpose:	To provide funds for transportation purposes detailed in the Bond Act. Bond proceeds will also be used to fund costs of issuance and interest on the Bonds.
Form of Delivery:	Bonds in a minimum denomination of [\$1,000,000] and integral multiples of [\$100,000] in excess of that amount. Bonds will be issued in DTC Book entry form.
Dated Date and Delivery Date:	The Dated Date of each Bond will be its delivery date.
Initial Sales:	State will enter into a Bond Purchase Agreement with Purchaser, which will include sophisticated investor representations on part of the Purchaser including responsibility for Purchaser's own investigation of the credit supporting the Bonds.
Mandatory Tender Date:	[Three (3)] years from the Dated Date. On the Mandatory Tender Date the Purchaser will be entitled to be repaid principal and accrued interest on the Bond. There will be no credit enhancement to support the Mandatory Tender. The State expects to refinance the Bonds prior to this date, or to remarket the Bonds to new investors. If refinancing or remarketing is not feasible, the State is obligated to pay the Bonds on the Mandatory Tender Date as a full faith and credit obligation. See

“Security” below.

Maturity Date: Amortizing, with the final maturity thirty (30) years from the Dated Date of each Bond. No amortization will occur before the Mandatory Tender Date.

Interest Rate: Option 1 – Variable Rate - The Bonds will accrue interest at a variable interest rate based on a negotiated fixed spread above the SIFMA Rate, reset as of each Wednesday of each week, from the Dated Date to the Maturity Date, but not to exceed the Maximum Interest Rate of 11%. “SIFMA” means the Securities Industry and Financial Markets Association (formerly known as The Bond Market Association and the Public Securities Association), and any successor organization. “SIFMA Rate” means, on any date, a rate determined on the basis of the seven day high grade market index of tax exempt variable rate demand obligations, as produced by Municipal Market Data and published or made available by SIFMA or any Person acting in cooperation with or under the sponsorship of SIFMA and acceptable to the Bank Agent and effective from such date. In the event Municipal Market Data no longer produces an index satisfying the requirements of the preceding sentence, the SIFMA Rate (a/k/a, the “SIFMA Municipal Swap Index”) shall be deemed to be the S&P Weekly High Grade Index, or, if either such index is not available, such other similar national index of short-term municipal securities as reasonably designated by the State.

[Taxable Alternative - The Bonds will accrue interest at a variable interest rate based on a negotiated fixed spread above the one-month LIBOR Index Rate, reset as of the first Business Day of each month, compounded annually, from the Dated Date to the Maturity Date, but not to exceed a Maximum Interest Rate. “LIBOR Index Rate” means, for any day, the rate per annum equal (rounded upwards, if necessary) to the nearest 1/1000 of 1% for deposits in Dollars for a period equal to one month, which appears on the Reuters LIBOR01 Page as of 11:00 a.m. (London, England time) on such date.]

Option 2 – Fixed Rate - The Bonds will accrue interest at a negotiated tax-exempt fixed interest rate to the Mandatory Tender Date.

[Taxable Alternative - The Bonds will accrue interest at a negotiated taxable fixed interest rate to the Mandatory Tender Date.]

Interest Payment: Option 1 – Variable Rate - Interest due on the Bonds will be payable on the first Business Day of each month. Interest on the Bonds will be calculated on the basis of a 365 or 366 day year and the actual number of days elapsed.

Option 2 – Fixed Rate - Interest due on the Bonds will be payable every six months on the first day of that month. Interest on the Bonds will be calculated on the basis of a 360-day year comprised of 12 30-day months.

Security: The Bonds are general obligations of the State to which the full faith and credit of the State are pledged. Principal of and interest on the Bonds are payable from any moneys in the General Fund of the State, subject only to the prior application of funds to support of the public school system and public institutions of higher education. Principal and interest are continuously appropriated pursuant to the Bond Act.

Optional Redemption: Option 1 – Variable Rate - The Bonds will be subject to redemption at par plus accrued interest at the option of the State at any time upon at least [fifteen (15)] calendar days notice.

Option 2 – Fixed Rate - The Bonds will be subject to redemption at par plus accrued interest at the option of the State at any time upon at least thirty (30) calendar days notice.

Sales Restriction: The Bonds will be sold only to “Qualified Institutional Buyers” (“QIB”) or “Accredited Investors” (“AI”) as defined by S.E.C. regulations.

Transfer of Ownership Restriction: Ownership of the Bonds may only be transferred to another QIB or AI which signs a new investment representation letter to the Treasurer.

Opinions: See attached forms of opinions to be provided by the State Attorney General and Orrick Herrington & Sutcliffe, LLP.

Tax-Exemption: Bond Counsel will render an opinion regarding the federal and state tax treatment of interest on the Bonds.

Bond Counsel: Orrick, Herrington & Sutcliffe LLP

Counsel to the State: State Attorney General

Financial Advisors: Montague DeRose and Associates, LLC
Public Resources Advisory Group

Trustee/Paying Agent: California State Treasurer’s Office

Agent for Sale: Final terms of the Bonds are subject to the approval of the State Treasurer as Agent for Sale.

Contact information for additional questions:

State Treasurer’s Office: Katie Carroll (916) 653-3719
 Attorney General’s Office: Stepan Haytayan (213) 897-2037
 Orrick Herrington & Sutcliffe LLP: Robert Feyer (415) 773-5886; Jenna Magan (916) 329-7980
 Montague DeRose and Associates: Doug Montague or Jim Bemis (805) 496-2211

Public Resources Advisory Group: Ed Soong (310) 477-1453
Attachment C
State Private Placement Bond Project List
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Caltrans	SHOPP	Interstate 10 Rehabilitate Roadway (1)	\$ 18,400	\$ 21,600	\$ 40,000	7/17/2008
Los Angeles County	LSBRP	6th Street Off Ramp	390	3,013	3,403	11/5/2008
Los Angeles County	LSBRP	9th Street	143	1,100	1,243	11/12/2008
Los Angeles County	LSBRP	Alondra Blvd	49	378	427	3/11/2008
Los Angeles County	LSBRP	Azusa Canyon Rd	17	130	147	5/16/2000
Los Angeles County	LSBRP	First St	13	98	111	10/7/2008
Los Angeles County	LSBRP	First Street	19	144	163	10/7/2008
Los Angeles County	LSBRP	Garey Ave	61	474	536	10/7/2008
Los Angeles County	LSBRP	Imperial Highway	143	1,100	1,243	4/15/2008
Los Angeles County	LSBRP	Irwindale Ave	14	108	122	6/4/2008
Los Angeles County	LSBRP	Martin L. King Jr. Blvd	53	407	460	9/23/2008
Los Angeles County	LSBRP	Oak Grove Drive	286	2,207	2,493	8/19/2008
Los Angeles County	LSBRP	Oak Grove Drive	240	1,852	2,092	8/19/2008
Los Angeles County	LSBRP	Oleander Ave	21	163	184	4/10/2008
Los Angeles County	LSBRP	Queens Way N/B	262	2,026	2,289	6/10/2008
Los Angeles County	LSBRP	Queens Way S/B	262	2,026	2,289	6/10/2008
Los Angeles County	LSBRP	Washington Blvd	95	731	826	11/6/2008
Los Angeles County	LSBRP	Willow Street	34	260	294	6/17/2008
Los Angeles County	LSBRP	Winnetka Ave	45	350	395	4/1/2008
Sub Total Projects Under Construction			\$ 20,547	\$ 38,168	\$ 58,714	
OTHER POTENTIAL CANDIDATES (Metro Sponsored or Programmed)						
Caltrans	Intercity Rail	New Station Track at LA Union Station	\$ 21,800	\$ 3,000	\$ 24,800	9/18/2008
LACMTA	PTMISEA	Bus Mid-Life Rehabilitaiton	20,000	4,200	24,200	7/1/2008
Caltrans	STIP	Interstate 10 HOV Lanes from Route 605 to Puente Avenue	65,893	64,354	130,247	3/5/2009
City of Los Angeles	TLSP	The 70 intersection ATSAC-Reseda Phase 1	8,506	-	8,506	12/8/2008
Sub Total Other Potential Candidate			\$116,199	\$ 71,554	\$187,753	
Reserve			\$ 63,254			
GRAND TOTAL			\$200,000			

Notes:

LSBRP	Local Seismic Bridge Retrofit Program
PTMISEA	Public Transportation Modernization Improvement Service Enhancement Account
SHOPP	State Highway Operation and Protection Program
STIP	State Transportation Improvement Program
TLSP	Traffic Light Synchronization Program
(1)	Previously approved since the bond program meets conditions set by Board in January
*	Interstate 10 HOV Lanes project reflects bid opening date, not award date.

Attachment D
Project Rationales

Projects Under Construction – this listing totaling \$21 million represents projects under construction including the I-10 Busway Rehabilitation project that is approved under Board delegated authority and 18 other small projects in the final stages of construction, Attachment C lines 1-19.

Due to the large amounts needed for the following projects, we recommend that each be considered separately.

New Station Track at Union Station, Attachment C line 22 – The project includes design, demolition of an existing Amtrak mail-handling dock, and construction of a new platform and two tracks to accommodate commuter rail passengers. Of the total project cost of \$24.8 million, SCRRA already has \$3 million from other sources. This funding is being used for the design and demolition/site preparation. The remaining \$21.8 million in Proposition 1B funding is needed for construction, which is on a tight time-frame to have the platform ready when Metrolink's trains, now on order, are delivered. If the \$21.8 million were suspended, the construction would be delayed. Plans to add service with the new trains would be constrained by congestion and reliability issues at Union Station.

Bus Mid-Life Rehabilitation, Attachment C line 23 – Prop 1B funds were approved for this effort which began July 1, 2008 and is ongoing. Although there are fund balances that can be drawn on to cover this shortfall, these fund balances are eligible for operations. Purchase of the bonds allowing Prop 1B to be used for this capital project preserves the use of these monies for operations when the bonds mature.

I-10 HOV from I-605 to Puente, Attachment C line 24 – This project is one of three projects that will close the gap of the existing I-10 High Occupancy Vehicle (HOV) lanes from Downtown LA to the I-15 in San Bernardino County. The project is advertised and bids will be opened in early March. If the project is suspended, \$61 million in already obligated Congestion Mitigation and Air Quality Improvement (CMAQ) funds will be de-obligated and put at serious risk of their ultimate loss. The loss of funds would delay the two other segments from to the east from Puente Avenue over Kellogg Hill to State Route 57, where it would meet with a previously constructed HOV lane segment into San Bernardino County. The I-10 from I-605 to Puente Avenue HOV lane project addresses serious congestion by carrying substantial traffic volume. Completion of construction of the HOV lanes will result in economic benefits in the area by reducing traffic congestion for commuters and commercial vehicles, improving travel times, enhancing air quality, reducing fuel consumption and enhancing safety. Completion of the HOV lanes through the San Gabriel Valley will also enhance the projected ridership of the Congestion Reduction Demonstration Project (Fastlanes Project) that is scheduled to be in operation by the end of 2010. This and the other two HOV lane Projects were on the original Long Range Transportation Plan (LRTP) and is a Baseline Project in the current LRTP.

ATSAC- Reseda Phase I, Attachment C line 25 – This project was awarded a Call for Projects grant for design and it is on-going. The allocated Proposition 1B Traffic Light Synchronization Program is needed for construction to integrate 107 signalized intersections into the new Adaptive Traffic Control System (ATCS) to minimize traffic disruption. If the project is suspended the construction schedule will be disrupted and the integration delayed.