



**Metro**

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**FINANCE AND BUDGET COMMITTEE  
APRIL 16, 2008**

**SUBJECT: PROP C BONDS**

**ACTION: ADOPT RESOLUTION AUTHORIZING ISSUANCE OF  
REFUNDING BONDS**

**RECOMMENDATION**

Adopt a resolution, Attachment A, authorizing the negotiated sale and issuance of refunding bonds or mode conversion of the Prop C 1993-A bonds and the Prop C 2003 Series B and C Bonds in separate transactions, including negotiation of terms and pricing to the existing or to new interest rate swaps and other agreements, and authorizing related documents that are on file with the Board Secretary.

**Requires separate, simple majority Board vote.**

**RATIONALE**

As a result of the “subprime crisis” we are now paying more than double the interest costs that we should be paying. Therefore, we need to restructure or convert the bonds to the lowest cost alternatives as quickly as possible.

Typically, we have requested authority for a specifically defined single transaction. The requested authority is broader than normally requested because of the need to move as expeditiously as possible. Across all of our affected variable rate bonds, we are paying almost \$2 million per month more than planned.

Our primary objective is to convert/restructure these bonds into uninsured variable rate demand bonds (VRDBs) that we believe will be more attractive to the investment community and bring our interest costs back into line. Because of the complexities of the related interest rate swaps and the liquidity crunch in the market, we might not be able to achieve our primary objective. Therefore, we will need the flexibility to negotiate and execute alternative solutions in light of the then current market conditions as they develop.

**DISCUSSION**

Since summer 2007 the financial marketplace has become increasingly unstable as a result of the subprime crisis. Auction rate securities (ARS) began falling out of favor with investors during the summer and collapsed dramatically at the beginning of 2008. ARS are now trading at 5-8% compared to 2-3% pre-meltdown.

Several bond insurers with traditional “AAA” credit ratings were downgraded in January and February 2008 and others have been placed on “negative credit watch”. As a result, VRDBs with bond insurance have also been negatively affected. On the other hand, uninsured VRDBs are pricing around 2%. We are attempting to implement conversions

to uninsured VRDBs for as many of our programs as we can. However, this structure requires bank liquidity, which has recently become expensive and scarce as many other issuers also attempt to convert their ARS to VRDBs.

We have \$381 million of Prop C 2003 ARS insured by Ambac. Ambac was rated “AAA” as recently as December 2007 but was downgraded by the Fitch Ratings Service to “AA” the other by two agencies still have Ambac rated “AAA”, but on “negative watch” for possible downgrade. The 2003 bonds have two interest rate swaps that we would like to retain while removing the bond insurance and swap termination payment insurance. This will require negotiation of amendments to the swap documents and could result in some increase in the cost of the swap. If we are unable to reach agreement with the swap providers, we would consider alternatives involving termination and possibly replacement of the swaps, as well as alternatives for either temporarily or permanently issuing fixed rate bonds.

We have \$204 million of Prop C 1993-A VRDBs insured by MBIA . MBIA has a “AAA” rating on “negative watch” with all three rating agencies. The 1993 bonds have a “cost of funds” interest rate swap. We would like to retain the swap, while removing the bond insurance and swap termination payment insurance. However, the swap provider has already indicated that it will want to considerably restructure the swap. The swap provider’s demands will affect our decision on which alternatives to pursue.

We will need to negotiate with our interest rate swap counterparties in order to remove the bond insurance and swap insurance. This may result in the need to compensate the providers for loss of the insurance.

We will need to acquire liquidity bank support in order to refund the 2003 ARS into VRDBs. We may also need to solicit liquidity if we refund the 1993 VRDBs. While we already have liquidity for the Prop A 1993-A bonds, because they are VRDBs, the existing liquidity bank has not yet indicated it would be willing to stay on for a refunding.

### **FINANCIAL IMPACT**

Funding of \$750,000 has been included in the FY08 budget for expenses related to debt and refinancing activities. These expenses are funded with Prop C 40% sales tax revenue since the original bond proceeds were used for rail construction. If additional funds are required in FY08 as a result of this action, they will be absorbed in the approved FY08 budget.

### **ALTERNATIVES CONSIDERED**

We could decide not to restructure the bonds resulting in continuing higher interest costs. This option is not recommended.

Another alternative involves fixing the bond rate for a term of one to five years. This strategy is a more costly alternative than issuance of VRDBs, but is a viable consideration if we are ultimately unable to issue VRDBs.

Another strategy to consider is exiting or replacing the swaps. Among the swap alternatives, our first would be to terminate and simultaneously enter into a replacement swap for the same terms and pricing.

The final alternative, but most costly, would be to terminate the swaps and issue fixed rate bonds.

### **NEXT STEPS**

For Prop C2003-B & C Bonds

- Solicit for liquidity agreements with the banks
- Negotiate with current swap counterparties to retain the swaps for the refunding
- If unable to locate liquidity or unable to agree with swap counterparties, pursue next best alternative. Dependent on market conditions and other factors.
- Price and deliver refunding bonds

For Prop C 1993-A Bonds

- Negotiate for transfer of liquidity facility to refunding or locate replacement
- Negotiate with current swap counterparty to retain the swap for the refunding
- If unable to locate liquidity or unable to agree with swap counterparties, pursue next best alternative. Dependent on market conditions and other factors.
- Price and deliver refunding bonds

### **ATTACHMENT**

A. Authorizing Resolution

Prepared by: Michael J. Smith, Assistant Treasurer



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Terry Matsumoto  
Chief Financial Services Officer and Treasurer



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Roger Snoble  
Chief Executive Officer

Attachment A

**RESOLUTION OF THE LOS ANGELES COUNTY  
METROPOLITAN TRANSPORTATION AUTHORITY  
AUTHORIZING THE ISSUANCE AND SALE OF  
ONE OR MORE SERIES OF ITS PROPOSITION C SALES  
TAX REVENUE REFUNDING BONDS, SECOND SENIOR  
BONDS AND APPROVING OTHER RELATED MATTERS**

**(PROPOSITION C 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 transit 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. 49 adopted August 28, 1990 ("Ordinance No. 49"), imposed a ½ 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 C Tax"), and such tax was approved by the electors of the County on November 6, 1990; and

WHEREAS, the revenues received by the LACMTA from the imposition of the transactions and use 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 rail, bus and highway transit system (the "Rail, Bus and Highway Transit System") to serve the County and has commenced construction of portions of the Rail, Bus and Highway Transit System; and

WHEREAS, to facilitate the development and construction of the Rail, Bus and Highway Transit System, the LACMTA, as authorized by the Act, pursuant to the terms of a Trust Agreement, dated as of October 1, 1992, as amended and supplemented (the "Trust Agreement"), by and between the Commission, as predecessor to the LACMTA, and Bank of America National Trust and Savings Association, the predecessor trustee to U.S. Bank Trust National Association, as succeeded by merger by U.S. Bank National Association (the "Trustee"), issued \$516,855,000 of its Proposition C Sales Tax Revenue Bonds, Second Senior Bonds, Series 1992-A (the "Series 1992-A Bonds") pursuant to a First Supplemental Trust Agreement, dated as of October 1, 1992, by and between the Commission, as predecessor to the LACMTA, and the Trustee; issued \$204,095,000 of its Proposition C Sales Tax Revenue Refunding Bonds, Second Senior Bonds, Series 1993-A (the "Series 1993-A Bonds") pursuant to a Third Supplemental Trust Agreement, dated as of June 1, 1993, by and between the LACMTA and the Trustee; issued \$312,350,000 of its Proposition C Sales Tax Revenue Bonds, Second Senior Bonds, Series 1993-B (the "Series 1993-B Bonds") pursuant to a Fourth Supplemental Trust Agreement, dated as of November 15, 1993, by and between the LACMTA and the Trustee; issued \$250,000,000 of its Proposition C Sales Tax Revenue Bonds,

Second Senior Bonds, Series 1995-A (the "Series 1995-A Bonds") pursuant to a Fifth Supplemental Trust Agreement, dated as of June 1, 1995, by and between the LACMTA and the Trustee; issued \$219,710,000 of its Proposition C Sales Tax Revenue Refunding Bonds, Second Senior Bonds, Series 1998-A (the "Series 1998-A Bonds") pursuant to a Sixth Supplemental Trust Agreement, dated as of March 1, 1998, by and between the LACMTA and the Trustee; issued \$124,805,000 of its Proposition C Sales Tax Revenue Bonds, Second Senior Bonds, Series 1999-A (the "Series 1999-A Bonds") pursuant to a Seventh Supplemental Trust Agreement, dated as of February 1, 1999, by and between the LACMTA and the Trustee; issued \$161,995,000 of its Proposition C Sales Tax Revenue Bonds, Second Senior Bonds, Series 2000-A (the "Series 2000-A Bonds") pursuant to a Eighth Supplemental Trust Agreement dated as of November 1, 2000, by and between the LACMTA and the Trustee; issued \$94,840,000 of its Proposition C Sales Tax Revenue Refunding Bonds, Second Senior Bonds, Series 2003-A (the "Series 2003-A Bonds") pursuant to a Ninth Supplemental Trust Agreement dated as of March 1, 2003, by and between the LACMTA and the Trustee; issued \$170,775,000 of its Proposition C Sales Tax Revenue Refunding Bonds, Second Senior Bonds, Series 2003-B (the "Series 2003-B Bonds") pursuant to a Tenth Supplemental Trust Agreement dated as of October 1, 2003, by and between LACMTA and the Trustee; issued \$221,850,000 of its Proposition C Sales Tax Revenue, Second Senior Bonds, Series-C (the "Series 2003-C Bonds") pursuant to an Eleventh Supplemental Trust Agreement dated as of October 1, 2003, by and between LACMTA and the Trustee; issued \$ \$176,345,000 of its Proposition C Sales Tax Revenue Bonds, Second Senior Bonds, Series 2004-A (the "Series 2004-A Bonds") pursuant to an Twelfth Supplemental Trust Agreement dated as of October 1, 2004, by and between LACMTA and the Trustee; and issued \$129,385,000 of its Proposition C Sales Tax Revenue Refunding Bonds, Second Senior Bonds, Series 2006-A (the "Series 2006-A Bonds") pursuant to a Thirteenth Supplemental Trust Agreement dated as of September 1, 2006, by and between LACMTA and the Trustee (collectively, the "Prior Bonds"); and

WHEREAS, the MTA now desires to provide for the issuance of one or more Series from time to time of its Proposition C Sales Tax Revenue Refunding Bonds, Second Senior Bonds (the "Refunding Bonds") (a) to refund all or a portion of the outstanding Series 1993-A Bonds, the Series 2003-B Bonds and/or the Series 2003-C Bonds; (b) to fund or make provision for one or more reserve funds, if necessary, for the Refunding Bonds; and (c) to pay certain costs related thereto (as described below); and

WHEREAS, in connection with the issuance of the Refunding Bonds, the LACMTA would enter into one or more Supplemental Trust Agreements (each, a "Supplement") by and between the LACMTA and BNY Western Trust Company (the "Trustee"), as successor in interest to the Original Trustee; and

WHEREAS, in connection with the issuance of the Refunding Bonds, the LACMTA would enter into one or more Escrow Agreements (each, an "Escrow Agreement") among the Trustee, acting as escrow agent, and the LACMTA, which agreement would provide for the deposit, investment and expenditure of moneys to refund the Series 1993-A Bonds, the Series 2003-B Bonds and/or the Series 2003-C Bonds; and

WHEREAS, in connection with the issuance of the Refunding Bonds, the LACMTA may enter into one or more Standby Bond Purchase Agreements (each, a "SBPA") among one or more commercial banks (each, a "Liquidity Provider") and the LACMTA, pursuant to which each Liquidity Provider would agree to purchase all or a portion of the Refunding Bonds that may be tendered for purchase by the holders thereof from time to time under the terms of the Supplement; and

WHEREAS, in connection with the issuance of the Refunding Bonds, the LACMTA may enter into one or more Reimbursement Agreements (each, a "Reimbursement Agreement") among one or more commercial banks (each, a "Credit Provider") and the LACMTA, pursuant to which

each Credit Provider would agree to deliver a direct-pay letter of credit to support the tender of and the timely payment of principal and interest on all or a portion of the Refunding Bonds and the LACMTA would agree to reimburse any Credit Provider for any draws of such letter of credit; and

WHEREAS, in connection with the issuance of the Refunding Bonds, the LACMTA would prepare one or more Preliminary Official Statements (each, a "Preliminary Official Statement") to be used in connection with the offer and sale of the Refunding Bonds; and

WHEREAS, in connection with the issuance of the Refunding Bonds, the LACMTA would enter into one or more Bond Purchase Agreements (each, a "Purchase Agreement"), to be dated the date of sale of the Refunding Bonds, between one or more investment banks (each, an "Underwriter") and the LACMTA; and

WHEREAS, in connection with the issuance of the Refunding Bonds, the LACMTA may enter into one or more Remarketing Agreements (each, a "Remarketing Agreement"), between one or more investment banks (each, a "Remarketing Agent") and the LACMTA; and

WHEREAS, in connection with the issuance of the Refunding Bonds, the LACMTA may enter into a Continuing Disclosure Certificate (the "Continuing Disclosure Certificate") to assist the Underwriters in complying with Rule 15c2-12(b)(5) promulgated by the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, which will provide for the annual and periodic update of certain financial and operating information; and

WHEREAS, the LACMTA has entered into an Interest Rate Swap Agreement (the "1993 Swap") with AIG Financial Products Corp. ("AIG"), dated as of June 1, 1993, which relates to the Series 1993-A Bonds; and

WHEREAS, the LACMTA has entered into with Wachovia Bank, National Association, an ISDA Master Agreement, dated as of October 9, 2003, the related Schedule, the related Credit Support Annex and the related Confirmation (collectively, the "2003B Swap"), which relate to the Series 2003-B Bonds; and

WHEREAS, the LACMTA has entered into with Goldman Sachs Mitsui Marine Derivatives Products, L.P., an ISDA Master Agreement, dated as of October 1, 2003, the related Schedule, the related Credit Support Annex and the related Confirmation (collectively, the "2003C Swap" and, together with the 1993 Swap and the 2003B Swap, the "Related Swaps"), which relate to the Series 2003-C Bonds; and

WHEREAS, in connection with the issuance of the Series 1993-A Bonds, the LACMTA entered into a Liquidity Guaranty Agreement (as amended through the date of these resolutions, the "AIG Liquidity Guaranty"), dated as of June 1, 1993, by and between AIG and the LACMTA; and

WHEREAS, in connection with the issuance of the Series 1993-A Bonds, the LACMTA entered into a Standby Bond Purchase Agreement (as amended through the date of these resolutions, the "Dexia Liquidity Facility"), dated as of January 30, 1996, by and between the LACMTA and Credit Local de France ("Dexia"); and

WHEREAS, the Board of the LACMTA hereby acknowledges that Section V(B) of the Debt Policy of the LACMTA contemplates that the LACMTA will achieve certain levels of target savings on any issuance of refunding bonds; and

WHEREAS, as a result of the recent historic volatility within the capital markets of the United States, the LACMTA has determined that it may be required to restructure the Series

1993-A Bonds, the Series 2003-B Bonds and/or the Series 2003-C Bonds in order to mitigate the risk of that volatility and potentially to reduce the over-all debt service costs of the LACMTA over the life of the bonds; and

WHEREAS, the Board of the LACMTA desires to permit the issuance of the Refunding Bonds irrespective of whether the issuance thereof complies with the interest savings or other provisions of the Debt Policy of the LACMTA; and

WHEREAS, the LACMTA has pledged the Proposition C Tax (less the 20% local allocation and the State Board of Equalization's costs of administering such tax) (the "Pledged Taxes") to secure the Prior Bonds; and

WHEREAS, terms used in this Resolution and not otherwise defined herein shall have the meanings assigned to them in the Trust Agreement;

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

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

(a) The issuance of the Refunding Bonds to refund all or a portion of the Series 1993-A Bonds, the Series 2003-B Bonds and/or the Series 2003-C Bonds and pay certain costs related thereto is in the public interest.

(b) Under the provisions of Ordinance No. 49, all of the Pledged Taxes are revenues of the LACMTA available for rail, bus and highway transit purposes and are available to be and are, by the terms of the resolutions and the Trust Agreement under which the Prior Bonds were issued, pledged to secure the Prior Bonds and are pledged to secure the Refunding Bonds, and, by this Resolution, such pledge is reaffirmed.

(c) The provisions contained in the Trust Agreement, as previously amended and supplemented, and to be set forth in one or more Supplements are reasonable and proper for the security of the holders of the Refunding Bonds.

(d) Any Swap Agreement (as defined below) 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 Refunding 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 Refunding Bonds, will enhance the relationship between risk and return or achieve other policy objectives consistent with the LACMTA's Interest Rate Swap Policy (except as described herein).

2. **Issuance of Refunding Bonds.** For the purposes of refunding the Series 1993-A Bonds, the Series 2003-B Bonds and/or the Series 2003-C Bonds, and the payment of certain costs related thereto, the LACMTA hereby authorizes the issuance of one or more Series of its Proposition C Sales Tax Revenue Refunding Bonds, Second Senior Bonds; *provided, however*, that the True Interest Cost (as defined below) of the Refunding



Bonds shall not exceed 8%, as such shall be calculated by the Financial Advisor of the LACMTA as of the date of delivery of the Refunding Bonds. The LACMTA hereby specifies that the aggregate principal amount of the Refunding Bonds shall be an amount sufficient, but not in excess of, the amount required (taking into account any original issue discount), to refund the Series 1993-A Bonds, the Series 2003-B Bonds and/or the Series 2003-C Bonds, to provide for one or more debt service reserve funds, and to provide for the underwriters' discount and payment of costs of issuance (including, as provided below, the payment of any termination payment related to the termination of a Related Swap and any payment required in connection with an amendment of a Related Swap, the AIG Liquidity Guaranty or the Dexia Liquidity Facility). The LACMTA hereby specifies that the Refunding Bonds shall not mature later than July 1, 2032. The Chair of the LACMTA, any Vice Chair of the LACMTA, any Chief Executive Officer ("CEO") of the LACMTA, any Chief Financial Services Officer of the LACMTA, any Treasurer, any 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 Refunding Bonds to be issued (not in excess of the maximum amount set forth above) and to direct the execution and authentication of the Refunding Bonds in such amount. Such direction shall be conclusive as to the principal amounts hereby authorized. The Refunding Bonds shall be in fully registered form and shall be issued as Book-Entry Bonds as provided in the applicable Supplement. Payment of principal of, interest on and premium, if any, on the Refunding Bonds shall be made at the place or places and in the manner provided in the applicable Supplement. As used herein, the term "True Interest Cost" shall be the interest rate (compounded semiannually) necessary to discount the debt service payments from their respective payment dates to the dated date of the Refunding Bonds and to the principal amount, and premium or discount if any, of the Refunding Bonds. For the purpose of calculating the True Interest Cost, the principal amount of Refunding Bonds scheduled for mandatory sinking fund redemption as part of a term bond shall be treated as a serial maturity for such year. If any Refunding Bonds bear interest at a variable rate, then, to the extent that the LACMTA has entered into a Swap Agreement related to such Refunding Bonds, the interest rate that shall be used to calculate the True Interest Cost shall equal the fixed rate payable by the LACMTA under such Swap Agreement and shall include any on-going fees and costs on any SBPA or Reimbursement Agreement. If any Refunding Bonds bear interest at a variable rate, then, to the extent that the LACMTA has not entered into a Swap Agreement related to such Refunding Bonds, the interest rate that shall be used to calculate the True Interest Cost shall reflect an assumed rate calculated by the Financial Advisor of LACMTA and include any on-going fees and costs on any SBPA or Reimbursement Agreement. The calculation of the True Interest Cost shall include such other reasonable assumptions and methods as determined by the Financial Advisor of the LACMTA.

3. **Terms of Refunding Bonds.** The Refunding Bonds shall be available in denominations of not less than \$5,000. The Refunding Bonds shall, when issued, be in the aggregate principal amounts and shall be dated as shall be provided in the final form of the applicable Supplement. The Refunding Bonds may bear interest at either a fixed or variable interest rate, as specified in the applicable Supplement. The Refunding Bonds may be issued as serial bonds or as term bonds or as both serial bonds and term bonds, all as set forth in the applicable Supplement. No Refunding Bonds shall bear interest at a rate in excess of 12% per annum. Interest on the Refunding Bonds shall be paid on the dates

set forth in the applicable Supplement. The Refunding Bonds shall be subject to redemption at the option of the LACMTA on such terms and conditions as shall be set forth in the applicable Supplement. The Refunding Bonds shall also be subject to mandatory sinking fund redemption as shall be set forth in the applicable Supplement.

Execution and delivery of one or more Supplements, which document contains the maturities, interest rates and the fixed or variable interest payment obligations of the LACMTA within parameters set forth in this Resolution, shall constitute conclusive evidence of the LACMTA's approval of such maturities, interest rates and payment obligations.

4. **Pledge of Pledged Taxes.** The Pledged Taxes are hereby irrevocably pledged in accordance with the terms of the Trust Agreement to secure the Prior Bonds, the Refunding Bonds and any additional bonds which may subsequently be issued under and secured by the terms of the Trust Agreement. Except for the Prior 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 Refunding 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.

5. **Special Obligations.** The Refunding 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 Refunding Bonds shall also be secured by and be paid from such other sources as the LACMTA may hereafter provide.

6. **Form of Refunding Bonds.** The Refunding Bonds and the Trustee's Certificate of Authentication to appear thereon shall be in substantially the form set forth in the applicable Supplement, with such necessary or appropriate variations, omissions and insertions as permitted or required by the Trust Agreement or the applicable Supplement or as appropriate to adequately reflect the terms of such Refunding Bonds and the obligation represented thereby.

7. **Execution of Refunding Bonds.** Each of the Refunding Bonds shall be executed on behalf of the LACMTA by any Designated Officer and any such execution may be by manual or facsimile signature, and each bond shall be authenticated by the endorsement of the Trustee or an agent of the Trustee. Any facsimile signature of such Designated Officer(s) shall have the same force and effect as if such officer(s) had manually signed each of such Refunding Bonds.

8. **Approval of Documents, Authorization for Execution.** Each of the Designated Officers is hereby severally authorized and directed to have prepared and to execute, acknowledge and deliver in the name of and on behalf of the LACMTA one or more Supplements, one or more Escrow Agreements, one or more SBPAs, one or more Reimbursement Agreements, one or more Purchase Agreements, one or more Remarketing Agreements, a Continuing Disclosure Certificate (any Supplement, any Escrow Agreements, any SBPAs, any Reimbursement Agreements, any Purchase Agreements, any Remarketing Agreements and any Continuing Disclosure Certificate shall be collectively referred to as the "Related Documents" and each a "Related Document"), in each case, to the extent, in the form, and with the terms and provisions as the Designated Officer executing the same shall determine is appropriate and necessary for the issuance of

the Refunding Bonds including, but not limited to, affirmative and negative covenants relating to the Refunding Bonds and the finances and operations of the LACMTA; *provided, however*, that (a) the terms and provisions of the Related Documents shall not, as of the date of the delivery of the Refunding Bonds, provide for costs, expenses, fees, premiums and the like such that the True Interest Cost of the Refunding Bonds exceeds 8% as provided and calculated above and (b) the aggregate principal amount of the Refunding Bonds shall be an amount sufficient, but not in excess of, the amount required (taking into account any original issue discount), to refund the Series 1993-A Bonds, the Series 2003-B Bonds and/or the Series 2003-C Bonds, to provide for one or more debt service reserve funds and to provide for the underwriters' discount and payment of all other costs of issuance (including, as provided below, the payment of any termination payment related to the termination of a Related Swap and any payment required in connection with an amendment of a Related Swap, the AIG Liquidity Guaranty or the Dexia Liquidity Facility).

**9. Sale of Bonds.**

(a) The LACMTA hereby authorizes the sale of the Refunding Bonds through a private, negotiated sale to one or more Underwriters.

(b) The Refunding Bonds, if sold to the Underwriter or Underwriters, shall be sold subject to an underwriters' discount (excluding original issue discount) not to exceed \$5 per \$1,000 of principal amount of Refunding Bonds and subject to the terms and conditions set forth in the Purchase Agreement.

(c) Any Designated Officer, on behalf of the LACMTA, is further authorized and directed to cause written notice to be provided to the California Debt and Investment Advisory Commission ("CDIAC") of the proposed sale of the Refunding Bonds, said notice to be provided in accordance with Section 8855 *et seq.* of the California Government Code, to file the notice of final sale with CDIAC, to file the rebates and notices required under section 148(f) and 149(e) of the Internal Revenue Code of 1986, as amended, and to file such additional notices and reports as are deemed necessary or desirable by such Designated Officer in connection with the Refunding Bonds, and any prior such notices are hereby ratified, confirmed and approved.

**10. Preliminary Official Statement and Official Statement.** In connection with the issuance of the Refunding Bonds, the LACMTA hereby authorizes the circulation of one or more Preliminary Official Statements. The Preliminary Official Statement(s) shall contain a description of the finances and operations of the LACMTA, a description of the Proposition C Tax and a description of historical receipts of sales tax revenues substantially in the form of the Preliminary Official Statement presented at this meeting of the Board of LACMTA with such changes as any Designated Officer determines are appropriate or necessary. Each Preliminary Official Statement shall also contain a description of the applicable Refunding Bonds and the terms and conditions of the applicable Supplement together with such information and description as a Designated Officer determines is appropriate or necessary. Each Preliminary Official Statement shall be circulated for use in selling the Refunding Bonds at such time or times as a Designated Officer (after consultation with the Underwriter or Underwriters, the LACMTA's Financial Advisor and Bond Counsel and such other advisors as the Designated Officer believes to be useful) shall

deem such Preliminary Official Statement to be final within the meaning of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended, said determination to be conclusively evidenced by a certificate signed by said Designated Officer to said effect.

Upon execution of any Purchase Agreement relating to the Refunding Bonds, from time to time, the Designated Officers shall provide for the preparation, publication, execution and delivery of one or more final Official Statements in substantially the form of the Preliminary Official Statement presented at this meeting of the Board of LACMTA with such changes as any Designated Officer determines are appropriate or necessary. Any Designated Officer is hereby authorized and directed to execute and deliver one or more final Official Statements in the name and on behalf of the LACMTA. One or more supplements to the final Official Statement(s) or revised final Official Statement(s) may be prepared and delivered to the Underwriter or Underwriters reflecting updated and revised information as shall be acceptable to the Underwriter or Underwriters and as the Designated Officers, or any of them, deem appropriate or necessary. Each Official Statement shall be circulated for use in selling the Refunding Bonds at such time or times as a Designated Officer deems appropriate after consultation with the Underwriter or Underwriters, the LACMTA's Financial Advisor and Bond Counsel and such other advisors as the Designated Officer believes to be useful.

11. **Related Swaps.** In connection with or related to the Refunding Bonds the Series 1993-A Bonds, the Series 2003-B Bonds and/or the Series 2003-C Bonds, each of the Designated Officers is hereby severally authorized and directed to terminate or to amend the provisions of some or all of the Related Swaps that such Designated Officers determines is appropriate or necessary. In connection with any amendment of any of the Related Swaps, each of the Designated Officers are hereby severally authorized and directed (a) to provide for a lower or higher fixed rate payment by the LACMTA under such Related Swap, provided that such fixed interest rate shall not exceed the rate of 8% per annum, (b) to provide for such other terms that such Designated Officer determines is appropriate or necessary and consistent with LACMTA's Interest Rate Swap Policy (except as described herein) and (c) to pay any fee associated with such amendment. In connection with any termination of any of the Related Swaps, each of the Designated Officers is hereby severally authorized to incur and to pay any termination payment payable to the counterparty thereto. In addition, in connection with any such termination payment, each of the Designated Officers are hereby authorized and directed to increase the aggregate principal amount of the Refunding Bonds to permit for the payment of such termination payment from the proceeds of the Refunding Bonds or to provide for the payment of such termination payment from such source or sources as such Designated Officer shall determine is appropriate or necessary.

12. **Interest Rate Swap Agreements.** In connection with or related to the Refunding Bonds, the Series 1993-A Bonds, the Series 2003-B Bonds and/or the Series 2003-C Bonds, each of the Designated Officers is hereby severally authorized and directed to execute and deliver on behalf of the LACMTA one or more interest rate swap agreements (each, a "Swap Agreement") with one or more institutional parties (each, a "Counterparty") if the Designated Officers or any of them determine that it is appropriate or necessary to do so. In connection with each Swap Agreement:

(a) The Designated Officers are each hereby authorized and directed to arrange for the competitive bid of the Swap Agreement and, if the Designated Officers determine it to be appropriate and necessary under the market and competitive conditions, to privately negotiate the terms of a Swap Agreement

without a competitive bid process, among one or more Counterparties (or the guarantors thereof) whose long-term, unsecured and unsubordinated obligations as of the date on which the LACMTA enters into such Swap Agreement 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, or (iii) have a "AAA" subsidiary that is appropriately rated by at least one nationally recognized credit rating agency on such terms as any such Designated Officer determines is appropriate or necessary, with such changes thereto as may be determined by any Designated Officer, upon consultation with the Financial Advisor and Bond Counsel.

(b) 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 and to negotiate and determine the terms, conditions and provisions of such Swap Agreement consistent with the LACMTA's Interest Rate Swap Policy (except as described herein) and the terms set forth in this Resolution; *provided, however*, that the obligations of the LACMTA shall not cause the True Interest Cost on the Refunding Bonds to exceed 8%, as such is calculated and determined as set forth above.

(c) 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. 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.

(d) 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.

(e) The Designated Officers and each of them are hereby authorized and directed to pledge or caused to be pledged, to the Counterparty or Counterparties 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.

(f) 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.

13. **Paying Agent and Registrar.** The LACMTA hereby appoints the Trustee as Paying Agent for the Refunding Bonds, appoints the Trustee as Registrar for the Refunding Bonds, and appoints the Trustee as Escrow Agent under any Escrow Agreement. Such appointments shall be effective upon the issuance of the Refunding Bonds and shall remain in effect until the LACMTA, by supplemental agreement, resolution or other action, shall name a substitute or successor thereto.

14. **Liquidity Facility; Direct-Pay Letter of Credit; Bond Insurance.** In connection with the sale of the Refunding Bonds, the Designated Officers are hereby authorized to purchase or otherwise arrange for the provision of on behalf of the LACMTA, including the payment of such premiums, fees and other costs and expenses as such Designated Officer determines is acceptable) one or more policies of municipal bond insurance, SBPAs and/or direct-pay letters of credit to support the payment of the purchase price in connection with the tender of some or all of the Refunding Bonds and/or to support the timely payment of principal and interest on the Refunding Bonds, said insurance, SBPAs and direct-pay letters of credit to contain such terms and conditions as such Designated Officer(s) shall determine is appropriate or necessary for the issuance of the Refunding Bonds. Notwithstanding the Debt Policy of the LACMTA, each of the Designated Officers is hereby authorized and directed to determine the process of procuring the provider of municipal bond insurance, SBPA and/or direct pay letter of credit and such process may be, at the determination of such Designated Officer, either a competitive bidding process or a privately negotiated process.

15. **Additional Authorization.** The Designated Officers and all officers, agents and employees of the LACMTA, for and on behalf of the LACMTA, be and they hereby are authorized and directed to do any and all things necessary to effect the execution and delivery of the Refunding Bonds and the Related Documents and to carry out the terms thereof. 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 required in order to carry out the authority conferred by this Resolution or the provisions of the Trust Agreement, each Supplement and the Related Documents or to evidence said authority and its exercise. The foregoing authorization includes, but is in no way limited to, the direction (from time to time) by a Designated Officer of the investments in Permitted Investments (defined in the Trust Agreement) of the proceeds of the Refunding Bonds and of the Pledged Taxes including the execution and delivery of investment agreements related thereto, the execution by a Designated Officer and the delivery of the Tax Certificate as required by the Supplement for the purpose of complying with the rebate requirements of the Internal Revenue Code of 1986, as amended; and the execution and delivery of documents required by The Depository Trust Company in connection with the Book-Entry Bonds. All actions heretofore taken by the officers, agents and employees of the LACMTA in furtherance of this Resolution are hereby confirmed, ratified and approved.

16. **Continuing Authority of Designated Officers.** The authority of any individual serving as a Designated Officer under this Resolution by a written designation signed by the Chair of the LACMTA, any Vice Chair of the LACMTA, any CEO, any Deputy CEO, any Chief Financial Services Officer, any Treasurer, or any Assistant Treasurer shall

remain valid notwithstanding the fact that the individual officer of the LACMTA signing such designation ceases to be an officer of the LACMTA, unless such designation specifically provides otherwise.

17. **Further Actions.** From and after the delivery of the Refunding Bonds, the Designated Officers and each of them are hereby authorized and directed to amend, supplement or otherwise modify any Related Document at any time and from time to 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 Financial Advisor and Bond Counsel, the execution of such amendment, supplement or other modification being conclusive evidence of LACMTA's approval thereof. The Designated Officers and each of them are hereby authorized and directed to terminate, amend or replace any Remarketing Agreement, SBPA, direct pay letter of credit or Reimbursement Agreement and to enter into one or more Remarketing Agreements, SBPAs or Reimbursement Agreements with one or more Remarketing Agents, Liquidity Providers or Credit Providers as any such Designated Officer shall determine is appropriate or necessary.

18. **Costs of Issuance.** The LACMTA authorizes funds of the LACMTA together with the proceeds of the Refunding Bonds to be used to pay costs of issuance of the Refunding Bonds, including but not limited to costs of attorneys, accountants, verification agents, financial advisors, the costs associated with rating agencies, bond insurance and surety bonds, printing, publication and mailing expenses, any related filing fees and the payment of any termination payment incurred in connection with the termination of any Related Swap and any payment required in connection with an amendment of a Related Swap, the AIG Liquidity Guaranty or the Dexia Liquidity Facility.

19. **Amendment of Dexia Liquidity Facility and the AIG Liquidity Guaranty.** Each of the Designated Officers is hereby authorized and directed to enter into any waiver or amendment of the Dexia Liquidity Facility and/or the AIG Liquidity Guaranty, including an amendment that would provide for the LACMTA to undertake additional covenants, if such Designated Officer determines such waiver or amendment is appropriate or necessary in connection with the administration of the Series 1993-A Bonds; *provided, however*, that the True Interest Cost with respect to the Series 1993-A Bonds from and after giving effect to such waiver or amendment (without regard to the True Interest Cost in effect before such waiver or amendment) shall not exceed 8%.

20. **Conversion.** In lieu of refunding the Series 1993-A Bonds, the Series 2003-B Bonds and/or the Series 2003-C Bonds, the Designated Officers are hereby severally authorized and directed, if any such Designated Officer determines that it is appropriate or necessary, to effect a conversion of the interest rate mode of the Series 1993-A Bonds, the Series 2003-B Bonds and/or the Series 2003-C Bonds under the terms and provisions of the Trust Agreement and to enter into such Related Documents as any such Designated Officers shall determine is appropriate or necessary to effect such conversion; provided, however, that the True Interest Cost of the Series 1993-A Bonds, the Series 2003-B Bonds and/or the Series 2003-C Bonds, as applicable, after giving effect to the conversion, shall not exceed 8% (as calculated above). Furthermore, any action or agreement that the Board of the LACMTA has authorized one or more Designated Officers to take or to enter into in the name of the LACMTA with respect to the issuance of the Refunding Bonds, including the preparation and circulation of one or more Preliminary Official Statements and the

preparation, execution and circulation of one or more Official Statements and supplements thereto, the Designated Officers shall be severally authorized, if any such Designated Officer shall determine such action or such agreement is appropriate or necessary to the conversion of the Series 1993-A Bonds, the Series 2003-B Bonds and/or the Series 2003-C Bonds, as applicable, the Board of the LACMTA hereby authorizes and directs such Designated Officer to take such action or to enter into such agreement in the name of and on behalf of the LACMTA in connection with the conversion of the Series 1993-A Bonds, the Series 2003-B Bonds and/or the Series 2003-C Bonds.

21. **Debt Policy and Interest Rate Swap Policy.** In light of the extraordinary circumstances under which the Board of the LACMTA is approving the issuance of the Refunding Bonds and/or the conversion of the Series 1993-A Bonds, the Series 2003-B Bonds and/or the Series 2003-C Bonds, as applicable, notwithstanding the provisions of the Debt Policy and the Interest Rate Swap Policy of the LACMTA, the Designated Officers are hereby severally authorized and directed, with respect to any agreement or the taking of any action that would otherwise be required to be taken through a competitive bidding process under the Debt Policy and/or the Interest Rate Swap Policy, to enter into such agreement (including any of the Related Documents and any Swap Agreement) or take such action through either a competitive bidding process or a privately negotiated transaction as any such Designated Officer shall determine is appropriate or necessary. Further, notwithstanding the Debt Policy of the LACMTA, the Designated Officers are severally authorized and directed to provide for the issuance of the Refunding Bonds regardless of whether the Refunding Bonds satisfy the requirements of the Debt Policy for interest savings on the issuance of refunding bonds so long as any such Designated Officer determines that the issuance of the Refunding Bonds is appropriate or necessary to mitigate risk to market volatility or is otherwise in the best interests of the LACMTA.

22. **Investment Agreements.** In connection with the issuance of the Refunding Bonds, each of the Designated Officers is hereby authorized and directed to terminate, amend, assign or otherwise dispose of any investment agreement relating to the Series 1993-A Bonds, the Series 2003-B Bonds and/or the Series 2003-C Bonds in such manner and on such terms and provisions as any such Designated Officer shall determine is appropriate or necessary.

23. **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 declaration shall not affect the validity of the remainder of the sections, phrases and provisions hereof.

24. **Effective Date.** This Resolution shall be effective upon adoption.

25. **Contract.** This Resolution and the pledge of the Pledged Taxes contained herein shall constitute a contract between the LACMTA and the holders of the Refunding Bonds and any Counterparty of any Swap Agreement.



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 April \_\_, 2008.

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LACMTA Board Secretary

DATED: \_\_\_\_\_