

MOODY'S ASSIGNS Aa3 UNDERLYING RATING TO LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY'S \$285 MILLION PROPOSITION A FIRST TIER SENIOR SALES TAX REVENUE REFUNDING BONDS, SERIES 2008-A

RATING OUTLOOK IS STABLE

Los Angeles County Metro. Transp. Auth., CA Mass Transit California

Moody's Rating

Issue	Rating
Proposition A First Tier Senior Sales Tax Revenue Refunding Bonds, Series 2008-A	Aa3
Sale Amount	\$285,000,000
Expected Sale Date	07/29/08
Rating Description	Sales Tax Revenue

NEW YORK, July 11, 2008 -- Moody's Investors Service has assigned a Aa3 underlying rating to Los Angeles Metropolitan Transportation Authority's ("LACMTA") approximately \$285 million of Proposition A First Tier Senior Sales Tax Revenue Refunding Bonds, Series 2008-A. At this time Moody's has also affirmed the Aa3 rating on the authority's \$1.44 billion of outstanding Proposition A debt. The rating outlook is stable. The Aa3 rating is based upon the bonds' first-lien claim on the pledged 1/2-cent sales taxes; the large and diverse sales tax base from which the sales tax is derived; strong debt service coverage, and; expectation of additional leveraging of this revenue stream as the authority implements its long term capital program.

The bonds are expected to initially bear interest in a weekly mode and are supported by standby bond purchase agreements ("SBPA") by Dexia Credit Local(Aa1 issuer rating) Bank of America, N.A. (Aaa issuer rating). Moody's also expects to assign a short-term rating based on our review of the standby-bond purchase agreements.

USE OF PROCEEDS: The bonds will refund four sub-series of auction rate securities (Proposition A Series 2005-C).

LEGAL SECURITY: The bonds are secured by proceeds of a 0.5% dedicated, voter-authorized sales and use taxes levied in Los Angeles County (Aa3 general obligation rating), less amounts paid to local jurisdictions (25% of collections) and a nominal administrative fee to the California State Board of Equalization. The sales tax is not subject to sunset provisions. The Proposition A bonds benefit from a first claim on Proposition A sales tax receipts, and benefit from a trustee intercept of the sales taxes.

INTEREST RATE DERIVATIVES: LACMTA has entered into a total of seven interest rate swap agreements with a combined notional amount of \$1.16 billion. Three swaps totaling \$330 million are secured by Prop A revenues. The swaps provide a synthetic fixed rate of interest on most of LACMTA's variable rate demand obligations and auction rate securities. The floating rates received by LACMTA are based upon either

the associated bond coupon or a proportion of one-month London Interbank Offered Rate (LIBOR). The notional amount of each swap declines in accordance with the amortization of the associated bond and termination payments carry a junior claim to the securitizing revenue source of the associated bonds (net payments benefit from a parity claim). Collateral posting is required of LACMTA under certain circumstances. Termination by counterparties is permissible only when both the insurer's rating is below A3 and LACMTA's rating is below Baa3 by one or more rating agencies. The swaps are managed in accordance with LACMTA's interest rate swap policy which is annually reviewed and provides guidance for the use of derivatives as well as requires the annual adoption of a contingency plan for mandatory termination of one or more swaps. Moody's notes that the risk of mandatory termination appears remote and draws comfort from both LACMTA's careful management of its derivative portfolio as well as the authority's continued maintenance of liquidity levels sufficient to meet the risks associated with these swaps. The seven swaps have a recent aggregate mark to market of more than \$34 million payable by LACMTA to the various counterparties in the event of termination.

STRENGTHS:

* Gross pledge of a dedicated 1/2 cent sales tax collected in Los Angeles County less 25% paid to local jurisdictions and certain administrative fees. The tax is remitted directly to the trustee by the California State Board of Equalization to pay debt service

* Large and diverse county sales tax base continues to demonstrate resiliency to economic fluctuations with the Proposition A sales tax collections posting a compound annual growth rate of greater than 5% from 1997 through 2007

* Strong cash and investments position across all major funds; though this could be eroded in the event of swap termination payments and/or automatic termination of standby bond purchase agreements

CHALLENGES:

* Somewhat modest debt service coverage relative to other transit systems in this rating category

* Additional leveraging of this revenue stream likely given significant long term capital plans

* Cooling regional and national economy could pressure sales tax collections and reduce growth in future years (1% growth expected in FY09)

* Possible restructuring of LACMTA's entire auction rate portfolio to variable rate demand bonds would increase the proportion of debt with a tender feature to approximately a still manageable 35% from a more modest 7% prior to current and planned restructurings

MARKET POSITION: LACMTA PROVIDES ESSENTIAL TRANSIT SERVICES TO NATION'S SECOND LARGEST METROPOLITAN AREA

LACMTA provides bus and rail service to approximately 10 million residents of Los Angeles County as well as bus service to portions of Orange and San Bernardino Counties. Ridership reached 495.8 million in fiscal 2007, a 2.7% increase over the prior year. The fiscal 2007 farebox recovery ratio of 26% is somewhat below that of agencies of comparable size but also reflects the predominance of bus transportation, which generally has a lower farebox recovery than rail. Though a recent fare increase of approximately 15% may reduce ridership growth, the base fare remains affordable at \$1.25. Though bus ridership is down somewhat in the current year, rail ridership is up slightly, and the rising cost of fuel may help accelerate bus ridership recovery following the fare increase.

FINANCIAL POSITION: SALES TAX PROVIDES STRONG DEBT SERVICE COVERAGE

Moody's expects that LACMTA's sales tax collections will continue to exhibit solid growth over the long term - consistent with the historical trend - though near term pressures related to a softening regional and national economy could place pressure on this economically sensitive revenue stream. LACMTA's fiscal 2009 budget calls for sales tax growth of approximately 1% - well below the ten-year compound annual growth rate of more than 5%. Proposition C debt service coverage totaled a healthy 5.86 times in fiscal 2007 and averaged 5.15 times from 2003 through 2007. LACMTA has accumulated significant operating reserves across all of its governmental and enterprise funds, with fiscal 2007 unrestricted cash and investments exceeding \$1.1 billion. This liquidity figure includes funds held in various governmental general and special revenue funds, including Proposition A and Proposition C Funds with a combined fiscal 2007 unrestricted cash and investment balance of \$662 million. Management reports that these balances are available, if needed, in the event of an unprotected tender or a swap termination payment. Though such events are unlikely, Moody's views LACMTA's strong liquidity position as a credit strength that somewhat mitigates these risks.

Unrestricted cash and investments recorded in LACMTA's enterprise fund is more narrow at approximately \$52.5 million, or 4.7% of fiscal 2007 operations and maintenance expenses. LACMTA utilized \$164 million of its reserves in fiscal 2008 to establish a retiree healthcare trust and intends to devote its expected current-year surplus of more than \$7 million to this purpose as well. LACMTA's compressed natural gas purchases are hedged through FY2009, which in the current market environment has provided significantly increased budget stability and some cost savings in recent months. Fuel costs, which represent 6.3% of operating expenditures, are nevertheless rising.

CAPITAL PROGRAM: SEVERAL CAPITAL IMPROVEMENT PROJECTS UNDERWAY; NUMEROUS LONG TERM PROJECTS IDENTIFIED

Moody's expects that LACMTA will be a frequent issuer of debt moving forward as it works to implement both near and long term capital plans featuring bus purchases, rail line extensions and other transportation projects. The authority will also restructure out of its auction rate securities exposure and possibly insured variable rate bonds in the coming months.

The bulk of the authority's near term capital investment is focused on the Gold Line Eastside Extension (mid-2009 projected opening) and the Exposition Light Rail Project (2010 phase one opening). The Gold Line Eastside Extension is a six mile dual track light rail system with eight new stations. Approximately \$491 million of the project cost is from Federal grants, with about \$231 million of the grant funding advanced from bond proceeds. The remaining \$398 million will be funded from additional federal, state and local sources, including proceeds of Proposition A and Proposition C sales tax revenue bonds. The Exposition Light Rail Project will add 15 miles of light rail track from downtown Los Angeles to Santa Monica in two phases. Phase 1 will add 8.6 miles from Downtown to Culver City at an expected total project cost of \$862 million, with 85% of the cost to be met by state and federal funding. LACMTA is also considering placing an additional 1/2 cent sales tax on the November ballot to support its capital plan.

LACMTA's debt ratio is moderate at 48.5% and will likely increase as the authority implements its capital program. The authority is planning three additional bond sales this year to refund its auction rate bonds. LACMTA may also revise the standby bond purchase agreements supporting its Proposition A Series 1992-A and Proposition C Series 1993-A bonds which are insured by FGIC (insurance financial strength rating of B1/negative outlook) and MBIA (insurance financial strength rating of A2/negative outlook), respectively. LACMTA may also opt to refund the two bonds with the sale of refunding variable rate bonds. At present \$36.6 million of the Series 1992-A bonds and \$193.21 million of the Series 1993-A bonds are outstanding. Moody's notes that while LACMTA's liquidity position, expectations of market access and strong management of its debt and derivatives portfolio should allow the authority to manage these near term challenges, the authority will likely face increased interest costs as well as possible drains on liquidity in the event of termination of one or more liquidity facilities. Moody's will continue to monitor LACMTA's efforts to restructure these obligations.

OUTLOOK:

The stable outlook reflects satisfactory debt service coverage by pledged revenues, adequate security provisions and plans for additional borrowing under the Proposition A authorization. The stable outlook also reflects the assumption that the MTA will continue to weather any future fluctuations in economic cycles, as well as interest rates and that management will continue to prudently manage its capital program.

What could change the rating - UP:

The rating could be increased if debt service coverage improves materially.

What could change the rating - DOWN:

Reduced debt service coverage due to heavy leveraging of this revenue stream and/or a sustained period of flat or reduced sales tax collections could place pressure on the rating. A sizeable drain on the authority's liquidity due to swap termination payments and/or automatic termination of standby bond purchase agreements may also lead to a downgrade.

KEY STATISTICS:

Type of system: Multi-modal mass transit

Service area population, Los Angeles County (U.S. Census estimate): 9.8 million

Proposition A tax revenue compound annual growth rate, 1997-2007: 5.2%

Total ridership FY 2007: 495.8 million

Ridership compound annual growth rate, 2003-2007: 2.2%

Farebox recovery ratio FY 2007: 26.03%

Debt ratio, FY 2007: 48.5%

Proposition A debt service coverage, FY 2007: 3.48x

Proposition A maximum annual debt service coverage, FY 2007: 3.48x

RATED DEBT:

Proposition A First Tier Senior Sales Tax Bonds, \$1.44 billion - Aa3

Proposition C Second Senior Sales Tax Bonds, \$1.23 billion - A1

General Revenue Bonds, \$206.77 million - A2

Capital Grants Receipts Revenue Bonds, \$216.7 million - A2

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