

March 31, 2009

**Summary:**

**Los Angeles County Metropolitan  
Transportation Authority,  
California; Sales Tax**

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## Summary:

# Los Angeles County Metropolitan Transportation Authority, California; Sales Tax

Credit Profile		
US\$83.65 mil Sales Tax rev rfdg bnds (Proposition C Second Senior) ser 2009 A-2 due 07/01/2023		
<i>Long Term Rating</i>	AA+/A-1+/Stable	New
US\$83.65 mil Sales Tax rev rfdg bnds (Proposition C Second Senior) ser 2009 A-1 due 07/01/2023		
<i>Long Term Rating</i>	AA+/A-1+/Stable	New
Los Angeles Cnty Metro Transp Auth Sales Tax (Prop C)		
<i>Long Term Rating</i>	AA+/Stable	Upgraded
Los Angeles Cnty Metro Transp Auth (Prop C Second Sr) (ASSURED GTY)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Upgraded

## Rationale

Standard & Poor's Ratings Services raised its long-term rating and underlying rating (SPUR) to 'AA+' from 'AA' on the Los Angeles County Metropolitan Transportation Authority (LACTMA), Calif.'s outstanding Proposition C bonds. The upgrade reflects our expectation that debt service coverage will remain above that required by the transaction's covenants, so that declines in pledged revenue based on economic weakness could be weathered without what we consider material deterioration in credit quality. In addition, Standard & Poor's assigned its 'AA+/A-1+' rating to LACTMA's \$167.3 million Proposition C second senior sales tax refunding bonds, series 2009A-1 and 2009A-2.

Rating factors include our opinion of:

- The breadth of the Los Angeles County economy, with a growing population of 10.25 million residents;
- Historic growth in sales tax revenue collections, although a decline of 5% is expected in 2009 and 2010;
- A low degree of leverage, with coverage of 4.8x despite fiscal 2009 revenue declines; and
- A 1.3x additional bonds test (ABT), and a lien that is subordinate to an open first lien.

The series 2009A-1 and A-2 bonds are secured by a second senior lien on Proposition C sales tax revenues. Proposition C sales taxes, approved by county voters in 1990, are collected at a rate of 0.5% on retail sales throughout Los Angeles County. The tax has no sunset provision. Separately, LACMTA collects an additional 0.5% sales tax pursuant to Proposition A approved by voters in 1980, and issues bonds secured by Proposition A sales taxes under a separate indenture. These Proposition C 2009A-1 and A-2 bonds will refund bonds issued in 2003. Pursuant to a standby bond purchase agreement (SBPA) provided by JPMorgan Chase Bank, National Association (A-1+), as more fully discussed below, we believe LACMTA is able to manage the exposure to potential remarketing failures and the need to purchase its debt.

The 'A-1+' short-term component of the rating assigned to the series 2009-A1 and 2009-A2 bonds represents the likelihood of payment of tenders and reflects a liquidity facility provided pursuant to the SBPA.. The SBPA provides coverage of principal and 35 days of interest at the maximum rate of 12% per annum for the purchase price of

bonds that are not successfully remarketed. The SBPA is scheduled to terminate on March 31, 2010, unless earlier terminated or extended according to its terms.

The 2009-A1 and 2009-A2 bonds will initially bear interest in the weekly rate mode and may be converted to the daily, term-, or fixed-rate modes. The SBPA will enhance bonds in the daily and weekly rate modes. During the daily and weekly interest rate modes, the bondholders may optionally tender their bonds upon providing appropriate notice.

The bonds are subject to mandatory tender upon the following occurrences:

- On the first business day following the last day of each term rate period;
- On any mode change date, which is the date the bonds are converted to another interest rate mode;
- On any substitution date, which is the effective date of a substitute liquidity facility;
- On the fifth business day preceding the expiration date of the SBPA;
- On a business day 20-25 days following the trustee's receipt of notice that a notice termination event has occurred under the SBPA, and in no event later than the day preceding the termination date; and
- On any business day specified by the authority that is not less than 20 days following trustee's receipt of such notice and in no event later than the day preceding the expiration date.

The SBPA's obligation to purchase unremarketed tendered bonds will be terminated without notice to the bondholders upon the occurrence of various events in the SBPA, including but not limited to the bonds being downgraded to below 'BBB-'. We have reviewed these automatic termination and suspension events and view them as consistent with our published criteria. Additionally, the SBPA contains a 'most favored-nation' provision that allows JP Morgan to terminate its obligation with notice upon the occurrence of certain events of default not only contained in this SBPA, but other events of default contained in bank agreements entered into by the authority. These other events of default may be automatically incorporated into this SBPA, and such incorporated events of default may lead to a notice termination. LACMTA has stated its intention to monitor the provisions of its agreements and make the SBPA its governing document for future agreements, as well as to continually stress test the ability of pledged revenue to cover the potential of rising interest rates.

So far in 2009, revenues have been what we consider mixed on a month-to-month basis. November 2008 revenues were \$1.5 million or 2.4% below those in November 2007. Sales tax revenue collections have historically been very stable, with only a single, small decline in 2002. On average since 1996, sales tax revenues have grown 5.1% annually, reaching \$686 million in 2007, up from \$403 million in 1996. During the economic recession in 2002, sales taxes in Los Angeles County declined only 0.5%, compared to much greater declines seen in other major U.S. counties. The last substantial decline was in the early 1990s, when the loss of much of the region's aerospace industry led to an 8.3% drop in 1992.

LACTMA expects that revenue will decline by 5.0% each of this year (fiscal year 2009) and next year. Despite this decline, we expect that coverage should be 4.8x. LACMTA has stress tested its debt and estimates that it could issue more than \$500 million, experience 12.0% interest rates on all variable debt, and experience a 20.0% reduction in revenue and maintain coverage of 2.0x. The ABT allows for the issuance of parity debt as long as historic sales tax revenues available for debt service equal at least 1.3x maximum annual debt service on all parity and senior debt.

## Outlook

The stable outlook reflects our expectation that regional economic stability and the breadth of the Los Angeles County economy should support continued credit strengths, mainly steady growth in pledged revenue. Additionally, we believe that a restrictive ABT and a reliance on remaining sales taxes for transportation subsidies should support what we view as continued high debt service coverage levels.

<b>Ratings Detail</b> (As Of March 31, 2009)		
Los Angeles Cnty Metro Transp Auth proposition C sales tax rev rfdg bnds 2nd sr bnds ser 2003-B1, B-2, C-1 thru C-4 dtd 10/9/03 due 07/01/2023 2025 <i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Upgraded
Los Angeles Cnty Metro Transp Auth proposition C sales tax rev rfdg & second sr bnds ser 1998A dtd 03/01/1998 due 07/01/2008-2020 2023 <i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Upgraded
Los Angeles Cnty Metro Transp Auth Sales Tax rev rfdg bnds (Prop C Second Senior Bnds) ser 2008-A <i>Long Term Rating</i>	AA+/Stable	Upgraded
Many issues are enhanced by bond insurance.		

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