

price, the Trustee's name, that payment will be made upon presentation and surrender of the Series 2008-A1 Bonds to be redeemed, the place or places where amounts due upon such redemption will be payable, any conditions to the redemption, and that interest, if any, accrued to the date fixed for redemption and not paid will be paid as specified in said notice, and that on and after said date interest thereon will cease to accrue.

If at the time of mailing of notice of an optional redemption there have not been deposited with the Trustee moneys sufficient to redeem all the Series 2008-A1 Bonds called for redemption, at the election of LACMTA such notice may state that it is conditional; that is, subject to the deposit of the redemption moneys with the Trustee not later than the opening of business one Business Day prior to the scheduled redemption date, and such notice will be of no effect unless such moneys are so deposited. In the event sufficient moneys are not on deposit on the required date, then the redemption will be canceled and on such cancellation date notice shall be mailed to the holders of such Series 2008-A1 Bonds, to be redeemed in the same manner as the notice of redemption.

Failure to give any required notice of redemption or any defect therein as to the Series 2008-A1 Bonds will not affect the validity of the call for redemption of the Series 2008-A1 Bonds in respect of which no failure occurs. Any notice sent as provided herein will be conclusively presumed to have been given whether or not actually received by the addressee.

Effect of Redemption

If notice is given as described above under “—Selection of Series 2008-A1 Bonds to be Redeemed; Notice of Redemption” and the moneys for payment of the redemption price are on deposit with the Trustee, the Series 2008-A1 Bonds called for redemption will be due and payable on the redemption date, interest on such Series 2008-A1 Bonds will cease to accrue after such date and the registered owners of the redeemed Series 2008-A1 Bonds will have no rights under the Agreement after the redemption date other than the right to receive the redemption price for such Series 2008-A1 Bonds.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008-A1 BONDS

General

The Series 2008-A1 Bonds are limited obligations of LACMTA payable from and secured by a first lien on and a pledge of the Pledged Revenues, which are moneys collected as a result of the imposition of the Proposition A Sales Tax, less 25% thereof which constitutes the Local Allocation and less an administrative fee paid to the State Board of Equalization in connection with the collection and disbursement of the Proposition A Sales Tax. In addition, the Series 2008-A1 Bonds are secured by all other amounts held by the Trustee under the Agreement except for amounts held in any rebate fund and any redemption fund. Additionally, the Agreement provides that Pledged Revenues also include any Local Allocation that a local jurisdiction authorizes to be pledged to secure the Series 2008-A1 Bonds, plus such additional sources of revenue, if any, which are hereafter pledged to pay the Series 2008-A1 Bonds under a subsequent supplemental trust agreement. No local jurisdiction has pledged any of its Local Allocation to secure any bonds issued under the Agreement, including the Series 2008-A1 Bonds. Pledged Revenues do not include any Proposition A Sales Tax revenues that are released by the Trustee to (a) the payment of the Second Tier Obligations (as defined herein), (b) the payment of the Proposition A Commercial Paper Notes (as defined herein) or (c) LACMTA for the payment, if necessary, of the Remaining Sales Tax Bonds (as defined herein) and certain other amounts described herein and any other lawful purposes of LACMTA.

Neither the faith and credit nor the taxing power of the County, the State of California or any political subdivision or agency thereof, other than LACMTA to the extent of the Pledged Revenues and certain other amounts held by the Trustee under the Agreement, is pledged to the payment of the principal of or interest on the Series 2008-A1 Bonds. LACMTA has no power to levy property taxes to pay the principal of or interest on the Series 2008-A1 Bonds.

The Series 2008-A1 Bonds are limited obligations of LACMTA and are payable, both as to principal and interest, solely from a first lien on and pledge of the Pledged Revenues and certain other amounts held by the Trustee under the Agreement. Other than Pledged Revenues and such other amounts, the general fund of LACMTA is not liable, and neither the credit nor the taxing power of LACMTA is pledged, for the payment of the Series 2008-A1 Bonds or interest on the Series 2008-A1 Bonds.

Proposition A Sales Tax Obligations

LACMTA has outstanding a variety of obligations that are payable from the Proposition A Sales Tax, including sales tax revenue bonds, lease revenue bonds, commercial paper notes and certain amounts owed under interest rate swap agreements, standby bond purchase agreements and pledge agreements. At this time, LACMTA has three priority levels of obligations: its First Tier Senior Obligations (which include all First Tier Senior Lien Bonds), its Second Tier Obligations (which include certain payments under interest rate swap agreements and certain other obligations) and its Third Tier Obligations (which include the Proposition A Commercial Paper Notes). LACMTA has incurred other obligations which are secured by certain “remaining” Proposition A Sales Tax cash receipts. LACMTA has the ability to issue additional obligations that are payable from the Proposition A Sales tax if it satisfies certain tests. See “PROPOSITION A SALES TAX OBLIGATIONS.”

Additional First Tier Senior Lien Bonds

Upon compliance with the terms of the Agreement, LACMTA is permitted to issue Additional First Tier Senior Lien Bonds under the Agreement secured by Pledged Revenues on a parity basis with the Outstanding First Tier Senior Lien Bonds. First Tier Senior Lien Bonds may be issued for any purpose for which LACMTA at the time of issuance may incur debt, including, if LACMTA may then otherwise do so, for the purpose of loaning the proceeds to other entities.

Prior to issuance of any First Tier Senior Lien Bonds, there will be delivered to the Trustee, in addition to other items, a certificate prepared by a Consultant showing that 35% (or such greater percentage permitted by the immediately following paragraph) of the Proposition A Sales Tax collected for any 12 consecutive months out of the 15 consecutive months immediately preceding the issuance of the proposed First Tier Senior Lien Bonds was at least equal to 115% of Maximum Annual Debt Service for all First Tier Senior Lien Bonds which will be outstanding immediately after the issuance of the proposed First Tier Senior Lien Bonds.

If any city entitled to receive a Local Allocation has authorized the pledging of all or a portion of its share of the Local Allocation to secure the First Tier Senior Lien Bonds, the duration of such pledge is not less than the term of any First Tier Senior Lien Bonds then issued and Outstanding or currently proposed to be issued, and a certified copy of the city’s ordinance, resolution or other official action authorizing the pledge and setting forth the terms of such pledge and a written opinion of bond counsel that the pledge of such portion of the Local Allocation is a valid pledge of LACMTA have been filed with the Trustee, then the reference to 35% in the immediately preceding paragraph will be replaced with the percentage which is equal to 35% plus the percentage determined by dividing the amount of the Local Allocation then included in Pledged Tax by the total Proposition A Sales Tax.

For purposes of the comparisons set forth in the Consultant's certificate, the actual historical Proposition A Sales Tax revenues may be adjusted by the Consultant if there has been or upon the issuance of the proposed First Tier Senior Lien Bonds there will be a change in the base upon which the Proposition A Sales Tax is imposed, the Proposition A Sales Tax revenues for the 12 months used in the comparisons will be adjusted to reflect the amount of Proposition A Sales Tax revenues which would have resulted had the change in the base occurred on the first day of such 12-month period.

Under the Agreement, "Maximum Annual Debt Service" generally means the greatest amount of principal and interest becoming due and payable on all First Tier Senior Lien Bonds in the fiscal year in which the calculation is made or in any subsequent fiscal year. However, if LACMTA issues variable rate bonds and enters into an interest rate swap agreement related to any First Tier Senior Lien Bonds, the Agreement permits LACMTA to use the fixed rate it pays under the interest rate swap agreement for purposes of determining the maximum amount of interest becoming due and payable on such First Tier Senior Lien Bonds. For a description of the interest rate swap agreements LACMTA has entered into and the First Tier Senior Lien Bonds to which such agreements relate, see "PROPOSITION A SALES TAX OBLIGATIONS—Outstanding Proposition A Sales Tax Obligations—Second Tier Obligations." For the definition of Maximum Annual Debt Service, see APPENDIX C—"SUMMARY OF LEGAL DOCUMENTS; DEFINITIONS."

The certificate described above will not be required, however, if the Additional First Tier Senior Lien Bonds to be issued are being issued for the purpose of refunding then Outstanding First Tier Senior Lien Bonds and there is delivered to the Trustee, instead, a certificate of the Authorized Authority Representative showing that Maximum Annual Debt Service on all First Tier Senior Lien Bonds Outstanding after the issuance of the refunding First Tier Senior Lien Bonds will not exceed Maximum Annual Debt Service on all First Tier Senior Lien Bonds Outstanding prior to the issuance of such First Tier Senior Lien Bonds.

Flow of Funds

Pursuant to an agreement between LACMTA and the State Board of Equalization, the State Board of Equalization is required to remit monthly directly to the Trustee the Proposition A Sales Tax receipts after deducting the State Board of Equalization's costs of administering the Proposition A Sales Tax and after paying directly to LACMTA the Local Allocation (25% of net Proposition A Sales Tax cash receipts) (which for purposes of administrative ease is actually transferred first to the Trustee who then disburses the Local Allocation to LACMTA). Under the Agreement, the Trustee is required to deposit and apply the moneys received from the State Board of Equalization, as needed (75% of net Proposition A Sales Tax cash receipts), taking into consideration any other funds previously deposited or applied in such month for such purposes, as follows:

FIRST, to the credit of the Bond Interest Account for the First Tier Senior Lien Bonds, an amount equal to the Aggregate Accrued Interest for the current calendar month less any Excess Deposit made with respect to the last preceding calendar month plus any Deficiency existing on the first day of the calendar month plus any amount of interest which has become due and has not been paid and for which there are insufficient funds in the Bond Interest Account or other special accounts to be used to make such payment;

SECOND, to the credit of the Bond Principal Account for the First Tier Senior Lien Bonds, the Aggregate Accrued Principal for the current calendar month plus any Accrued Premium and any Deficiency existing on the first day of the calendar month plus any amount of principal which has become due and has not been paid and for which there are insufficient funds in the Bond Principal Account or other special account to be used to make such payment;

THIRD, to the credit of the Reserve Fund for the First Tier Senior Lien Bonds, such portion of the balance, if any, remaining after making the deposits to the Bond Interest Account and the Bond Principal Account described above, as is necessary to increase the amount on deposit in the Reserve Fund to an amount equal to the Reserve Fund Requirement for the First Tier Senior Lien Bonds, or if the entire balance is less than the amount necessary, then the entire balance will be deposited into the Reserve Fund; provided, however, that so long as any Reserve Fund Insurance Policy is in effect and the Reserve Insurer is not in default of its obligations thereunder, the Trustee will pay the Reserve Insurer the greater of (i) the minimum amount required to be paid in accordance with the provisions of such Reserve Fund Insurance Policy and any related agreements between LACMTA and the Reserve Insurer, or (ii) the amount necessary to reinstate the amount available to be drawn under such Reserve Fund Insurance Policy in order to meet the Reserve Fund Requirement for the First Tier Senior Lien Bonds (see “—Reserve Fund for First Tier Senior Lien Bonds” below);

FOURTH, to make deposits for the payment of Second Tier Obligations; provided that the Trustee may not use any portion of the remaining allocation for the Rail Development Program (See “Table 2—Proposition A Sales Tax Apportionment”) to make payments under the Pledge Agreements; and

FIFTH, to pay any remaining amount to the trustee under a subordinate trust agreement in such amounts and at such times as will be needed to provide for payment of such obligations in accordance with a Supplemental Trust Agreement or Supplemental Trust Agreements relating to such subordinate debt, including but not limited to the obligation of LACMTA with respect to the Proposition A Commercial Paper Notes described herein.

Any remaining funds will then be transferred to LACMTA and will be available to be used for any lawful purpose, and will no longer be available to pay debt service on the First Tier Senior Lien Bonds. LACMTA has granted pledges on the remaining Proposition A Sales Tax revenues to the payment of certain amounts under the Liquidity Facility, the payment of and reserve requirements for the Remaining Sales Tax Bonds and termination payments under the Series 2008-A Swap Agreements. See “PROPOSITION A SALES TAX OBLIGATIONS—Outstanding Proposition A Sales Tax Obligations—Other Obligations.” After the payment of the Remaining Sales Tax Bonds, LACMTA may use any remaining Proposition A Sales Tax revenues in accordance with the provisions of Ordinance No. 16.

The following page provides a graphic presentation of the flow of funds for Proposition A Sales Tax cash receipts.

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**TABLE 1
Proposition A Sales Tax
Flow of Funds**

