

**Under the terms of the Liquidity Facility, the Liquidity Provider does not support or otherwise guarantee the payment of principal of or interest on the Series 2008-A1 Bonds by LACMTA.**

See “THE LIQUIDITY FACILITY AND LIQUIDITY FACILITY PROVIDER” in this Remarketing Memorandum.

#### **Alternate Liquidity Facility for the Series 2008-A1 Bonds**

If at any time there shall have been delivered to the Trustee (i) an Alternate Liquidity Facility in substitution for the Liquidity Facility then in effect, (ii) a Favorable Opinion of Bond Counsel, (iii) a written Opinion of Counsel for the provider of the Alternate Liquidity Facility to the effect that such Alternate Liquidity Facility is a valid, legal and binding obligation of the provider thereof, and (iv) unless waived by such entity, written evidence satisfactory to the Liquidity Provider of the provision for purchase from such Liquidity Provider of all Liquidity Provider Bonds held by such Liquidity Provider at a price equal to the principal amount thereof plus accrued and unpaid interest, and payment of all amounts due to the Liquidity Provider under the Liquidity Facility on or before the effective date of such Alternate Liquidity Facility, then the Trustee shall accept such Alternate Liquidity Facility on the Substitution Date and shall surrender the Liquidity Facility then in effect to the provider thereof on the Substitution Date. The Trustee shall give notice of such proposed substitution by mail to the Owners of the Series 2008-A Bonds no less than 20 days prior to the proposed Substitution Date and such Series 2008-A Bonds shall be subject to mandatory tender on such date. See “DESCRIPTION OF THE SERIES 2008-A1 BONDS – Mandatory Tender for Purchase of Series 2008-A1 Bonds” above.

### **PROPOSITION A SALES TAX AND COLLECTIONS**

#### **The Proposition A Sales Tax**

Under the California Public Utilities Code, LACMTA is authorized to adopt retail transactions and use tax ordinances applicable in the incorporated and unincorporated territory of the County in accordance with California’s Transaction and Use Tax Law (California Revenue and Taxation Code Section 7251 et seq.), upon authorization by a specified percentage of the electors voting on the issue. In accordance with the County Transportation Commissions Act (Section 130000 et seq. of the California Public Utilities Code (the “Transportation Commissions Act”)), LACMTA, on August 20, 1980, adopted Ordinance No. 16 (“Ordinance No. 16”) which imposed a retail transactions and use tax. Ordinance No. 16 was submitted to the electors of the County in the form of “Proposition A” and approved at an election held on November 4, 1980. Ordinance No. 16 imposes a tax of ½ of 1 percent of the gross receipts of retailers from the sale of tangible personal property sold at retail in the County and a use tax at the same rate upon the storage, use or other consumption in the County, subject to certain limited exceptions. The retail transactions and use tax imposed by Ordinance No. 16 and approved by the voters with the passage of Proposition A is referred to in this Remarketing Memorandum as the “Proposition A Sales Tax.” As approved by the voters, the Proposition A Sales Tax is not limited in duration. The validity of the Proposition A Sales Tax was upheld in 1982 by the California Supreme Court in *Los Angeles County Transportation Commission v. Richmond*. See “LITIGATION.”

Collection of the Proposition A Sales Tax is administered by the State Board of Equalization, which imposes a charge for administration. Such charge is based on the actual costs incurred by the State Board of Equalization in connection with the administration of the collection of the Proposition A Sales Tax. In accordance with Ordinance No. 16, LACMTA is required to allocate the proceeds of the Proposition A Sales Tax as follows:

**TABLE 2**  
**Proposition A Sales Tax Apportionment**

Use	Percentage
Local Allocation	25%
Rail Development Program <sup>(1)</sup>	35
Discretionary	<u>40</u>
TOTAL	<u>100%</u> <sup>(2)</sup>

<sup>(1)</sup> Pursuant to the Act of 1998 (as defined in this Remarketing Memorandum) LACMTA is prohibited from spending Proposition A Sales Tax revenues on the costs of planning, design, construction or operation of any New Subway, including debt service on bonds, notes or other evidences of indebtedness issued for such purposes after March 30, 1998. See “—Initiatives and Changes to Proposition A Sales Tax—The Act of 1998” below.

<sup>(2)</sup> Up to 5% of the Proposition A Sales Tax revenues received by LACMTA may be used by LACMTA to pay administrative costs. Administrative costs are payable only from Proposition A Sales Tax revenues that have been released to LACMTA and are no longer Pledged Revenues. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008-A1 BONDS—Flow of Funds” above.

Source: LACMTA

As described below, the State Board of Equalization has agreed to remit directly on a monthly basis the remaining Proposition A Sales Tax revenues to the Trustee after deducting the costs of administering the Proposition A Sales Tax and disbursing the Local Allocation to LACMTA (which for purposes of administrative ease, is first transferred to the Trustee who then disburses the Local Allocation to LACMTA). After application of Proposition A Sales Tax revenues to the funds and accounts related to the First Tier Senior Lien Bonds in accordance with the Agreement, the Trustee is required to transfer the remaining unapplied Proposition A Sales Tax revenues for deposit to the funds and accounts established and maintained for the Second Tier Obligations and the Proposition A Commercial Paper Notes. Any Proposition A Sales Tax revenues remaining after the deposits described above are required to be released to LACMTA to be used by LACMTA first, to pay certain amounts owing to the Liquidity Provider pursuant to the Liquidity Facility, second, if necessary, to pay debt service on the Remaining Sales Tax Bonds and termination payments under the Series 2008-A Swap Agreements, and third, for any lawful purposes of LACMTA. The First Tier Senior Lien Bonds do not have a lien on and are not secured by any Proposition A Sales Tax revenues that are released by the Trustee and deposited to the funds and accounts established and maintained for the Second Tier Obligations or the Proposition A Commercial Paper Notes or that are transferred to LACMTA to be used to pay certain amounts owing to the Liquidity

Provider under the Liquidity Facility, debt service on the Remaining Sales Tax Bonds, termination payments under the Series 2008-A Swap Agreements, or for any lawful purposes of LACMTA.

The amount retained by the State Board of Equalization from collections of Proposition A Sales Tax is based on the total local entity cost reflected in the annual budget of the State of California, and includes direct, shared and central agency costs incurred by the State Board of Equalization. The amount retained by the State Board of Equalization is adjusted to account for the difference between the State Board of Equalization's recovered costs and its actual costs during the prior two fiscal years. The State Board of Equalization's fee for administering the Proposition A Sales Tax for fiscal year 2008 totaled approximately \$6.4 million, representing 0.9% of Proposition A Sales Tax receipts. The State Board of Equalization's fee for fiscal year 2009 totaled approximately \$7.2 million, representing 1.1% of Proposition A Sales Tax receipts. The State Board of Equalization's fee for fiscal year 2010 totaled approximately \$7.0 million, representing 1.2% of Proposition A Sales Tax receipts. LACMTA assumes that such State Board of Equalization fee may increase incrementally each year. The State Board of Equalization can change the fee at its discretion in the future.

Under the Agreement, LACMTA has covenanted that (a) it will not take any action which will impair or adversely affect in any manner the pledge of the Pledged Revenues or the rights of the holders of the First Tier Senior Lien Bonds, including the Series 2008-A1 Bonds; and (b) it will be unconditionally and irrevocably obligated, so long as any of the First Tier Senior Lien Bonds, including the Series 2008-A1 Bonds, are outstanding and unpaid, to take all lawful action necessary or required to continue to entitle LACMTA to receive the Pledged Revenues at the same rates as provided by law (as of the date of the Agreement), to pay from the Pledged Revenues the principal of and interest on the First Tier Senior Lien Bonds in the manner and pursuant to the priority set forth in the Agreement, and to make the other payments provided for in the Agreement.

Under LACMTA Act, the State of California pledges to, and agrees with the holders of any bonds issued under LACMTA Act and with those parties who may enter into contracts with LACMTA pursuant to LACMTA Act that the State of California will not limit or alter the rights vested by LACMTA Act in LACMTA until such bonds, together with the interest thereon, are fully met and discharged and the contracts are fully performed on the part of LACMTA. However, such pledge and agreement does not preclude the State of California from changing the transactions and items subject to the statewide general sales tax and thereby altering the amount of Proposition A Sales Tax collected. See "RISK FACTORS—California State Legislature or Electorate May Change Items Subject to Proposition A Sales Tax."

The ½ of 1 percent Proposition A Sales Tax imposed by LACMTA in the County is in addition to the general sales tax levied statewide by the State (currently 8.25 percent) and is in addition to a ½ of 1 percent sales tax imposed by LACMTA in 1990 pursuant to Ordinance No. 49 of LACMTA known as "Proposition C" (such sales tax referred to in this Remarketing Memorandum as the "Proposition C Sales Tax"), a ½ of 1 percent sales tax approved by County voters in November 2008 to fund LACMTA transportation projects and operations known as the "Measure R Sales Tax", and taxes that apply only within certain cities in the County. These tax rates and the items subject to the Proposition A Sales Tax are subject to change. See "RISK FACTORS—California State Legislature or Electorate May Change Items Subject to Proposition A Sales Tax" and "—Increases in Sales Tax Rate May Cause Declines in Proposition A Sales Tax Revenues." See also APPENDIX A—"THE LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY—Proposition A Sales Tax Obligations."

### **Initiatives and Changes to Proposition A Sales Tax**

**Proposition 218.** In 1996, the voters of the State of California approved Proposition 218, known as the "Right to Vote on Taxes Act." Proposition 218 added Articles XIIC and XIID to the California

State Constitution. Among other things, Article XIII C removes limitations, if any, that exist on the initiative power in matters of local taxes, assessments, fees and charges. Even though LACMTA's enabling legislation did not limit the initiative power of the electorate prior to Proposition 218, Proposition 218 has affirmed the right of the voters to propose initiatives that could influence the Proposition A Sales Tax.

***The Act of 1998.*** One such initiative was approved by the voters of the County in 1998 in the form of the "Metropolitan Transportation Authority Reform and Accountability Act of 1998" (the "Act of 1998"). The Act of 1998 prohibits the use of Proposition A Sales Tax and Proposition C Sales Tax to pay any costs of planning, design, construction or operation of any "New Subway," including debt service on bonds, notes or other evidences of indebtedness issued for such purposes after March 30, 1998. "New Subway" is defined in the Act of 1998 to mean any rail line which is in a tunnel below the grade level of the earth's surface (including any extension or operating segment thereof), except for the Segment-1, Segment-2 and Segment-3 (North Hollywood) of the Red Line. The Act of 1998 does not limit the use of Proposition A Sales Tax or Proposition C Sales Tax revenues to provide public mass transit improvements to railroad right-of-ways. The Act of 1998 does not limit in any way the collection of the Proposition A Sales Tax or the Proposition C Sales Tax; it only limits the uses of such taxes. LACMTA believes that the proceeds of all obligations previously issued by LACMTA which are secured by the Proposition A Sales Tax and/or the Proposition C Sales Tax have been used for permitted purposes under the Act of 1998. **Therefore, the Act of 1998 has no effect on LACMTA's ability to continue to use the Proposition A Sales Tax or the Proposition C Sales Tax to secure payment of its outstanding obligations secured by the Proposition A Sales Tax or the Proposition C Sales Tax, including the Series 2008-A1 Bonds.**

As required by the Act of 1998, LACMTA contracted with an independent auditor to complete an audit with respect to the receipt and expenditure of Proposition A Sales Tax and Proposition C Sales Tax between the effective dates of Proposition A and Proposition C and June 30, 1998. The independent auditor completed the audit in November 1999. The Act of 1998 further requires LACMTA to contract for an independent audit each subsequent fiscal year to determine LACMTA's compliance with the provisions of Proposition A, Proposition C and the Act of 1998 relating to the receipt and expenditure of Proposition A Sales Tax revenues and Proposition C Sales Tax revenues. For fiscal years 1999 through 2010, the independent auditors determined that LACMTA was in compliance with Proposition A, Proposition C and the Act of 1998 for each such respective fiscal year (the "Annual Act of 1998 Audit").

In connection with each Annual Act of 1998 Audit, the independent auditor annually audits how LACMTA spends Proposition A Sales Tax revenues during the related fiscal year to ensure that it spends those revenues for the categories of use set forth in Proposition A. See "—The Proposition A Sales Tax" above. Each fiscal year, a substantial portion of the Proposition A Sales Tax revenues are spent on the payment of principal of and interest on the First Tier Senior Lien Bonds. For purposes of determining LACMTA's compliance with the categories of use set forth in Proposition A, LACMTA allocates the annual payments of principal and interest with respect to each series of First Tier Senior Lien Bonds to the categories of use for which such series of First Tier Senior Lien Bonds financed or refinanced.

The Act of 1998 also established the "Independent Citizens' Advisory and Oversight Committee" (the "Committee") whose responsibilities include reviewing LACMTA's annual audit of its receipt and expenditure of Proposition A Sales Tax and Proposition C Sales Tax, the holding of public hearings regarding the annual audit and issuing reports based upon those audits and public hearings. The Committee is made up of five members, of which one member is appointed by the chair of the Los Angeles County Board of Supervisors, one member is appointed by the chair of the Board, one member is appointed by the Mayor of the City of Los Angeles, one member is appointed by the Mayor of the City of Long Beach, and one member is appointed by the Mayor of the City of Pasadena.

## Historical Proposition A Sales Tax Collections

The following table presents, among other things, collections of net Proposition A Sales Tax revenues and corresponding Pledged Revenues for the fiscal years ending June 30, 2000 through June 30, 2010.

**TABLE 3**  
**Historic Net Proposition A Sales Tax Receipts,**  
**Local Allocations and Pledged Revenues (Dollars in Millions)**

<b>Fiscal Year</b>	<b>Net Sales Tax Revenue<sup>(1)</sup></b>	<b>Annual Percentage Change</b>	<b>Allocations to Local Governments<sup>(2)</sup></b>	<b>Pledged Revenues<sup>(3)</sup></b>
2001	\$528.3	4.75%	\$132.1	\$396.2
2002	526.0	(0.44)	131.5	394.5
2003	548.3	4.24	137.1	411.2
2004	576.7	5.18	144.2	432.5
2005	619.5	7.42	154.9	464.6
2006	669.0	7.99	167.2	501.8
2007	686.2	2.57	171.5	514.6
2008	683.3	(0.42)	170.8	512.5
2009	620.8	(9.15)	155.2	465.6
2010	565.7	(8.88)	141.4	424.3

<sup>(1)</sup> Reflects Proposition A Sales Tax revenues, reported according to accrual basis accounting, presented in LACMTA's audited financial statements, less administrative fee paid to the State Board of Equalization. Rounded to the closest \$100,000.

<sup>(2)</sup> Rounded to the closest \$100,000.

<sup>(3)</sup> Net Sales Tax Revenue less Allocations to Local Governments. Rounded to the closest \$100,000.

Source: LACMTA.

The Proposition A Sales Tax receipts for a quarterly period are determined by sales tax revenues based on sales activity generally occurring in the last two months of the previous quarter and the first month of the current quarter. As a result of the national recession and regional general economic conditions, LACMTA experienced a substantial decline in Proposition A Sales Tax revenues in fiscal years 2009 and 2010. The following table sets forth the amount of Proposition A Sales Tax receipts for the most recent eight quarters and the changes in such amounts from the corresponding period in the prior year.