

Long Range Transportation Plan

In October 2009, the Board approved a 2009 Long Range Transportation Plan (“2009 LRTP”), which is an update to the 2001 Long Range Transportation Plan (“2001 LRTP”). It incorporates changes in policy and system needs since the 2001 LRTP’s adoption as well as the approval of Measure R in November 2008 by County voters, which increased the sales tax rate within the County by ½ of 1% for a period of 30 years to fund LACMTA transportation projects and operations. The 2009 LRTP identifies projected costs of running the transportation system based on a financial forecast of future revenue assumptions through 2040. During the planning process, data was reviewed that predict where and what the current challenges are on the existing transportation system, where mobility issues could arise in 2040, and how the transportation system could be improved with new investments.

The 2009 LRTP reflects LACMTA’s assessment of growth patterns, regional congestion, strategies to improve local air quality, transit-oriented development, the latest technical assumptions and climate change issues, and incorporates Measure R projects. The 2009 LRTP identifies a \$297.6 billion investment in the County’s transportation system through 2040, funded with more than 45 sources of federal, State and local funds. The 2009 LRTP is now the guiding policy behind funding decisions on subsequent transportation projects and programs in the County. Major capital projects and programs that are identified in the 2009 LRTP have priority for future programming of funds. While these projects and programs require further Board approval at various stages of their development, they are priorities for further planning, design, construction and the pursuit of additional funding.

Included in the 2009 LRTP is a projection of debt financing by LACMTA of \$14.3 billion through Fiscal Year 2040, composed of a combination of Proposition A, Proposition C and Measure R-secured debt. Of the total projected amount of LACMTA debt issuance, approximately \$7.5 billion is estimated to be financed over the first ten years of the 2009 LRTP, through Fiscal Year 2019. The actual amount and timing of any debt issuance depends on a number of factors including the actual scope, timing and cost of transportation projects, the ability to obtain funding from other sources and the amount of Proposition A, Proposition C and Measure R sales tax revenues available to fund the projects in the 2009 LRTP, and the actual amounts and timing of future debt issuance may be materially different from the estimate in the 2009 LRTP.

LABOR RELATIONS

General

As of June 1, 2011, LACMTA had approximately 8,850 employees, of which approximately 88% are covered by labor agreements. Full and part-time LACMTA bus and train operators are represented by the United Transportation Union (“UTU”); LACMTA mechanics and service attendants are members of the Amalgamated Transit Union (“ATU”); LACMTA clerks are members of the Transportation Communications Union (“TCU”); bus and rail transportation and maintenance supervisors are members of the American Federation of State County and Municipal Employees (“AFSCME”); and LACMTA security guards are members of the Teamsters Union. The following table summarizes the number of employees covered by, and the expiration dates of, the labor agreements of LACMTA with each of its employee bargaining units as of June 1, 2011.

Employee Bargaining Unit	Number of Employees	Contract Expiration Date
United Transportation Union	4,331	6/30/10
Amalgamated Transit Union	2,114	6/30/10
Transportation Communications Union	679	6/30/10
American Federation of State, County and Municipal Employees	592	6/30/11
Teamsters Union	74	9/30/10

In June 2006, LACMTA renegotiated contracts (effective as of July 1, 2006) with UTU, ATU and TCU, the terms of which were scheduled to expire on June 30, 2009. In December 2009, the Board authorized the CEO to execute successor collective bargaining agreements with UTU and ATU for a term of one year, effective July 1, 2009 through June 30, 2010, execute an extension of the collective bargaining agreement with TCU for a term of one year, effective July 1, 2009 through June 30, 2010, and ratify and execute a successor collective bargaining agreement with the Teamsters, effective October 1, 2009 through September 30, 2010. In June 2008, LACMTA and AFSCME reached a successor agreement for a three-year term ending June 30, 2011. UTU, TCU and Teamsters are all operating on day to day contract extensions. ATU has not signed an extension. Negotiations between LACMTA and the five employee bargaining units (UTU, ATU, TCU, Teamsters and AFSCME) are underway. There are no imminent job actions at this time.

Since September 16, 2000, LACMTA has suffered two major work stoppages. In September 2000, members of UTU went on strike and many members of TCU, ATU and AFSCME honored the picket lines, and in October 2003, members of ATU went on strike and many members of UTU, TCU and AFSCME honored the picket lines. During both strikes LACMTA was able to provide substitute service on a limited basis through contracted services and other operators. The strike in 2000 lasted 32 days and the strike in 2003 lasted 35 days.

Defined Benefit Pension Plan

LACMTA has a single-employer public employee retirement system that includes five defined benefit plans (the “Plans”) that cover substantially all employees (except PTSC employees) and provides retirement, disability, and death benefits. The benefit provisions and all other requirements are established by State statute, ordinance, collective bargaining agreements or Board actions. Four of the Plans are restricted to specific union members, while the fifth provides benefits to non-represented employees and to members of the Teamsters Union. In addition, LACMTA provides pension benefits to most PTSC employees through a defined benefit plan administered by the California Public Employees’ Retirement System (“PERS”), a multiple-employer pension system. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. For a description of these defined benefit plans and LACMTA’s obligations to make contributions to these plans, see “Note III—DETAILED NOTES ON ALL FUNDS—L. Pensions” in the Notes to the Financial Statements in “APPENDIX B—LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2010.”

Other Post-Employment Benefits

LACMTA provides post-employment health care and life insurance benefits for retired employees and families. Pursuant to Governmental Accounting Standards Board Pronouncement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions

(OPEB),” LACMTA is required to account for its expenses and a portion of the present value of future expenses related to these benefits. For a description of these benefits, LACMTA’s obligations to account for certain projected future costs of these benefits and other matters regarding these benefits, see “Note III—DETAILED NOTES ON ALL FUNDS—M. Other Postemployment Benefits (OPEB)” in the Notes to the Financial Statements in “APPENDIX B—LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2010.”

OUTSTANDING DEBT

General

In addition to obligations issued by LACMTA that are secured by Proposition A Sales Tax, LACMTA has issued debt secured by the Proposition C Sales Tax, the Measure R Sales Tax, and other revenues of LACMTA, and may issue additional obligations so secured upon satisfaction of certain additional bonds tests in the applicable indentures governing such debt. See “FUTURE TRANSPORTATION IMPROVEMENTS—Long Range Transportation Plan” above. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008-A1 BONDS” in the front part of this Remarketing Memorandum for a discussion of obligations secured by the Proposition A Sales Tax.

Debt and Interest Rate Swap Policies

In September 2010, the Board approved an updated Debt Policy for LACMTA (the “Debt Policy”). The Debt Policy sets forth guidelines for the issuance and management of LACMTA’s debt. Among other things, the Debt Policy requires LACMTA to develop a capital improvement plan which includes the capital projects LACMTA plans to undertake in future years. Capital improvement plans were adopted with the annual budgets for Fiscal Years 2000 through 2011. The Debt Policy also sets forth guidance on the type of debt that may be incurred by LACMTA (*e.g.*, long-term versus short-term), the source of payment for such debt, and other factors to be considered when incurring debt.

In September 2010, the Board approved an updated Interest Rate Swap Policy for LACMTA (the “Swap Policy”). The Swap Policy includes guidelines to be used by LACMTA when entering into interest rate swaps and management practices that address the special risks associated with interest rate swaps. The Swap Policy requires that LACMTA evaluate the risks, on an ongoing basis, of existing interest rate swaps. The interest rate swap agreements into which LACMTA has entered are described below.

Proposition C Sales Tax Obligations

General. Long-term obligations of LACMTA payable from the Proposition C Sales Tax consist of sales tax revenue bonds and commercial paper notes, and certain amounts owed under two interest rate swap agreements, one standby bond purchase agreement and two letter of credit reimbursement agreements. LACMTA has two priority levels of obligations secured by the Proposition C Sales Tax: its Proposition C Senior Sales Tax Revenue Bonds and Proposition C Senior Parity Debt and its Proposition C Subordinate Lien Obligations. In addition, LACMTA has incurred other obligations, which are secured by certain “remaining” Proposition C Sales Tax cash receipts. See “—Other Obligations” herein.

Proposition C Senior Bonds. LACMTA had the following Proposition C Senior Sales Tax Revenue Bonds outstanding as of July 2, 2011:

**Los Angeles County Metropolitan Transportation Authority
Proposition C Sales Tax Revenue Bonds, Senior Bonds
(Outstanding as of July 2, 2011)**

<u>Proposition C Senior Sales Tax Revenue Bonds¹</u>	<u>Outstanding Principal Amount</u>
Proposition C Sales Tax Revenue Refunding Bonds, Senior Bonds, Series 2010-A	\$ 41,365,000
Proposition C Sales Tax Revenue Refunding Bonds, Senior Bonds, Series 2009-E	112,295,000
Proposition C Sales Tax Revenue Refunding Bonds, Senior Bonds, Series 2009-D	98,700,000
Proposition C Sales Tax Revenue Refunding Bonds, Senior Bonds, Series 2009-C	89,625,000
Proposition C Sales Tax Revenue Refunding Bonds, Senior Bonds, Series 2009-B	235,300,000
Proposition C Sales Tax Revenue Refunding Bonds, Senior Bonds, Series 2009-A	166,075,000
Proposition C Sales Tax Revenue Refunding Bonds, Senior Bonds, Series 2008-A	110,305,000
Proposition C Sales Tax Revenue Refunding Bonds, Senior Bonds, Series 2006-A	127,820,000
Proposition C Sales Tax Revenue Bonds, Senior Bonds, Series 2004-A	152,845,000
Proposition C Sales Tax Revenue Refunding Bonds, Senior Bonds, Series 2003-A	21,615,000
Proposition C Sales Tax Revenue Bonds, Senior Bonds, Series 1999-A	15,020,000
Total	<u>\$1,170,965,000</u>

¹ The Proposition C Senior Sales Tax Revenue Bonds are payable from, and constitute prior first liens on, Proposition C Sales Tax revenue.
Source: LACMTA.

Proposition C Senior Parity Debt. LACMTA has designated as Proposition C Senior Parity Debt its obligations to make regularly scheduled payments under two interest rate swap agreements, its obligation to make certain reimbursements under one standby bond purchase agreement and certain obligations under two letter of credit reimbursement agreements from Proposition C Sales Tax revenues on parity with the Proposition C Senior Sales Tax Revenue Bonds.

Proposition C Swap Agreements. LACMTA is party to an interest rate swap agreement with Wells Fargo Bank N.A. (“Wells Fargo”), as successor to Wachovia Bank, National Association (the “Wells Fargo Swap Agreement”) and an interest rate swap agreement (the “GSMMDP Swap Agreement”) and, together with the Wells Fargo Swap Agreement, the “Proposition C Swap Agreements”) with Goldman Sachs Mitsui Marine Derivative Products, L.P. (“GSMMDP”). Certain terms of the Proposition C Swap Agreements are included in the table below.

LACMTA’s obligations to pay Wells Fargo and GSMMDP (each, a “Proposition C Swap Counterparty”) the applicable net regularly scheduled payments under the Proposition C Swap

Agreements constitute Proposition C Senior Parity Debt and, as such, are secured on a parity basis with the Proposition C Senior Sales Tax Revenue Bonds. The terms of the Proposition C Swap Agreements do not alter any of the obligations of LACMTA with respect to the payment of principal of or interest on the related Proposition C Senior Sales Tax Revenue Bonds. The payments received by LACMTA from the Proposition C Swap Counterparties due under the Proposition C Swap Agreements are not pledged to the payment of principal of or interest on any Proposition C Senior Sales Tax Revenue Bonds.

Under certain circumstances, LACMTA may be obligated to make termination payments to a Proposition C Swap Counterparty if the applicable Proposition C Swap Agreement is terminated in whole or in part prior to its scheduled termination date. The amount of any such termination payments will be determined by several factors, including the level of comparable interest rates at the time the affected Proposition C Swap Agreement is terminated. Any such termination payment could be substantial and would be due immediately upon termination of the applicable Proposition C Swap Agreement. Each of the Proposition C Swap Agreements provides that any such termination payment is secured by a pledge of Proposition C Remaining Sales Tax, Proposition A Remaining Sales Tax and General Revenues. Estimated termination amounts that would be payable by LACMTA under the Proposition C Swap Agreements are included in the table below.

Under the terms of the Proposition C Swap Agreements, LACMTA may be required to post collateral in favor of the applicable Proposition C Swap Counterparty if the estimated termination payment exceeds certain thresholds. Each of the Proposition C Swap Agreements provides that LACMTA's obligation to post collateral is secured by a pledge of Proposition C Sales Tax revenue on a basis subordinate to the Proposition C Senior Sales Tax Revenue Bonds. As of July 26, 2011, LACMTA had no collateral posted under the Wells Fargo Swap Agreement. While LACMTA has posted collateral under the GSMMDP Swap Agreement in the past, as of July 15, 2011, LACMTA had no obligation to post collateral under the GSMMDP Swap Agreement.

The following table sets forth certain terms of LACMTA's current swap agreements relating to the Proposition C Senior Sales Tax Revenue Bonds.

	Proposition C 2009-A Variable Rate Bonds	Prop C 2009-C Variable Rate Bonds
Initial Notional Amount	\$166,075,000	\$89,625,000
Swap Counterparty	Wells Fargo Bank N.A.	Goldman Sachs Mitsui Marine Derivative Products, L.P.
Effective Date	November 18, 2010	July 23, 2009
Maturity Date	July 1, 2023	July 1, 2025
Fixed Rate LACMTA Pays	3.454%	3.392%
LACMTA Receives	68% of USD-LIBOR	68% of USD-LIBOR
Termination Value as of 07/15/11	\$8,877,141.83	\$3,871,586.46