

**Liquidity Facility and Letters of Credit.** LACMTA has entered into a standby bond purchase agreement and two reimbursement agreements to support certain of its variable rate obligations. In connection with the issuance of the Proposition C Sales Tax Revenue Refunding Bonds, Senior Bonds, Series 2009-A, LACMTA entered into a standby bond purchase agreement (the “Proposition C Standby Bond Purchase Agreement”) with Bank of Nova Scotia. In connection with the issuance of the Proposition C Sales Tax Revenue Refunding Bonds, Senior Bonds, Series 2009-C Bonds (the “Prop. C 2009-C Bonds”), LACMTA entered into two reimbursement agreements with respect to the letters of credit (the “Series 2009-C Letters of Credit”) issued by Sumitomo Mitsui Banking Corporation, acting through its New York Branch, and U.S. Bank National Association to support the Prop. C 2009-C Bonds. LACMTA’s obligation to make reimbursement payments to Bank of Nova Scotia under the Proposition C Standby Bond Purchase Agreement and to make reimbursement payments to Sumitomo Mitsui Banking Corporation and U.S. Bank National Association under the reimbursement agreements relating to the Prop. C 2009-C Letters of Credit constitute Proposition C Senior Parity Debt and are secured on a parity basis with the Proposition C Senior Sales Tax Revenue Bonds.

The following table sets forth certain terms of LACMTA’s current liquidity facility and letters of credit relating to the Proposition C Senior Sales Tax Revenue Bonds.

	<b>Proposition C 2009-A Variable Rate Bonds</b>	<b>Proposition C 2009-C Variable Rate Bonds</b>	
Outstanding Principal	\$166,500,000	\$44,800,000	\$44,825,000
Liquidity Facility/Letter of Credit	Liquidity Facility	Letter of Credit	Letter of Credit
Liquidity Provider/ Letter of Credit Provider	The Bank of Nova Scotia	Sumitomo Mitsui Banking Corporation	U.S. Bank National Association
Issuance Date	March 26, 2010	August 1, 2009	August 1, 2009
Expiration Date	March 16, 2012	August 3, 2012	August 3, 2012
Reset Mode	Daily	Weekly	Weekly

**Additional Proposition C Senior Bonds and Parity Debt.** LACMTA may incur additional Proposition C Senior Parity Debt upon the satisfaction of certain additional bonds tests.

**Proposition C Subordinate Lien Obligations.** On June 9, 1993, LACMTA received authorization to issue \$150,000,000 of commercial paper notes (the “Proposition C Commercial Paper Notes”) payable from and secured by Proposition C Sales Tax revenues. As of July 2, 2011, the Proposition C Commercial Paper Notes were outstanding with a maturity value of \$23,585,000. The Proposition C Commercial Paper Notes are payable from and secured by Proposition C Sales Tax revenue on a basis subordinate to the lien on Proposition C Sales Tax revenues granted to the Proposition C Senior Sales Tax Revenue Bonds and the Proposition C Senior Parity Debt.

The following table sets forth a listing LACMTA’s current letter of credit relating to the Proposition C Commercial Paper Notes.

	<b>Proposition C Commercial Paper Taxable Series A</b>
Outstanding Principal	\$23,585,000
Letter of Credit Provider	Bank of America, N.A.
LOC Amount	\$150,000,000
Issuance Date	May 12, 2010
Expiration Date	May 12, 2013

## **Measure R**

On November 16, 2010, LACMTA issued \$732,410,000 aggregate principal amount of its Measure R Senior Sales Tax Revenue Bonds, Series 2010-A and Series 2010-B (the “Measure R Bonds”) to finance certain transportation projects. These bonds are payable from the Measure R Sales Tax. As of July 2, 2011, there was \$732,410,000 aggregate principal amount of the Measure R Bonds outstanding. LACMTA may incur additional debt secured by and payable from the Measure R Sales Tax.

## **Lease/Leaseback and Lease-to-Service Obligations**

From January 1997 through July 2003, LACMTA entered into a number of “lease/leaseback” leveraged lease agreements for assets including heavy rail vehicles, buses, light rail vehicles, and various real property operating facilities. Under these agreements, LACMTA entered into a head lease as lessor with an investor and simultaneously into a sublease agreement as lessee to lease the assets back. LACMTA received upfront rent prepayments which were invested in fixed income investments in an amount that, including interest income, will be sufficient to fund all scheduled sublease payments through exercise of the early buyout option. LACMTA has realized \$64.7 million in net benefit after funding of fixed income investments and payment of transaction expenses.

For the leveraged lease transactions, LACMTA was obligated to insure and maintain the facilities, buses, and rail cars. The leveraged lease agreements provided for LACMTA’s right to continue to use and control the facilities, buses, and rail cars during the term of the sublease. LACMTA agreed to indemnify the investors against increased costs, and any new or increased taxes or fees imposed on the leased assets, and cash flows or income of the lease, other than changes to the income tax rate.

The proceeds from the various finance obligations have been recorded as lease account in the Statement of Net Assets – Enterprise Fund. These funds were placed with fiscal agents and are sufficient to cover all scheduled payments. The related liabilities are shown as business-type long-term debt. These debts will be repaid from earnings on the related investments together with the principal amounts of the investments.

American International Group Inc. or its affiliates (“AIG”) provided a fixed income investment product known as a “payment undertaking agreement” that was used in seven of the lease/leaseback transactions in order to invest the proceeds to fund all the scheduled rent payments and early buy-out option payments. In addition, AIG provided credit support in the form of letters of credit for three lease/leaseback transactions. Under the lease/leaseback documents, AIG was required to be replaced or

credit enhanced if any of its credit ratings fall below either Aa2/AA or A2/A, depending on the transactions. As for the letter of credit documents, AIG's credit rating could not fall below either A2 or A. In September 2008, AIG's credit rating was downgraded to "A-" by S&P, requiring replacement of the payment undertaking agreements and credit enhancement, as applicable, and in two instances required AIG to post collateral.

In the current market environment, most products specified in the lease/leaseback transaction documents as acceptable replacement facilities are not available. In May 2011, LACMTA reached an agreement with one lessor to terminate a lease/leaseback transaction with minimal settlement costs. Extensions to the deadlines to obtain acceptable replacement facilities are in place with most other lessors. LACMTA is in contact with two lessors to negotiate collateral posting agreements in lieu of obtaining a replacement facility and is negotiating with the remaining lessors to negotiate agreements in lieu of obtaining replacement agreements or agree on minimal out-of-pocket settlement amounts. Failure to reach a solution could result in early termination of six of the leases that could require LACMTA to pay as much as \$150 million, plus legal costs.

See "Note III—DETAILED NOTES ON ALL FUNDS—J. Long-term Obligations—Lease/Leaseback and Lease-to-service Obligations" 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."

## **INVESTMENT POLICY**

### **General**

Certain features of LACMTA's Investment Policy are summarized in "Note III—DETAILED NOTES ON ALL FUNDS—A. Cash and Investments" 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."

### **Investment Balances**

As of June 30, 2011 (based on unaudited financial information), LACMTA had approximately \$2.54 billion in market value deposited in non-discretionary trust accounts (including bond proceeds and escrows), primarily invested in U.S. Treasury securities, municipal bonds, commercial paper and the County of Los Angeles Pooled Surplus Investments (the "Los Angeles County Pool") maintained by the County of Los Angeles Treasurer and Tax Collector. As of June 30, 2011 (unaudited), LACMTA also had approximately \$1.57 billion in book value deposited in discretionary (operating) accounts. Such discretionary investments are summarized below:

<b>Investments</b>	<b>Percentage of Total Book Value as of June 30, 2011</b>
Los Angeles County Investment Pool	
Local Agency Investment Fund	5.1%
Bank Deposits	3.6
Certificates of Deposit	0.0
Subtotal Los Angeles County Investment Pool	8.7%
State of California Private Placement	8.5%
Managed Investments	
Federal Agencies	22.4%
Corporate Notes	28.6
Treasuries	18.6
Commercial Paper	4.2
Money Market Funds	3.8
Repurchase Agreements	3.2
Municipal securities	1.7
Bankers Acceptance	0.0
Cash	0.0
Sub Total Managed Investments	82.8%
Total Cash and Investments*	100.0%

\* Numbers may not add due to rounding.  
Source: LACMTA.

As of June 30, 2011 (unaudited), the liquid reserve of the discretionary accounts, which totaled approximately \$237 million in both book value and market value, was managed internally by LACMTA and had an average maturity of 30 days. LACMTA's Investment Policy prohibits investing in reverse repurchase agreements.

The total market value of the Los Angeles County Pool as of May 31, 2011 was approximately \$25.491 billion (unaudited). As of May 31, 2011 approximately 46.4% of the investments mature within 60 days, with an average of 559.31 days to maturity for the entire portfolio.

Additional information regarding LACMTA's investments are included in "Note III—DETAILED NOTES ON ALL FUNDS—A. Cash and Investments" 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."

## LITIGATION

### Sales Tax Litigation

On April 30, 1982, the California Supreme Court, in *Los Angeles County Transportation Commission v. Richmond*, upheld the constitutionality of the Proposition A Sales Tax. On March 3, 1992, the California Court of Appeal, in *Vernon v. State Board of Equalization*, upheld the validity of the Proposition C Sales Tax. On September 28, 1995, the California Supreme Court affirmed the California Court of Appeal's ruling in *Santa Clara County Local Transportation Authority v. Guardino*, which invalidated a half cent sales tax by the Santa Clara County Local Transportation Authority. LACMTA does not believe such decision has any effect on the validity of LACMTA's Proposition A Sales Tax.

### **Construction Litigation**

Tutor-Saliba-Perini (“TSP”), a construction company, filed suit against LACMTA claiming extra charges under certain Metro Red Line Segment 2 contracts. LACMTA cross-complained for violation of the California False Claims Act and for breaches of contract. The trial on the complaint and cross-complaint concluded in August 2001, with a judgment for LACMTA, which judgment was reversed in January 2005. After retrying portions of this case, certain rulings will be appealed. LACMTA does not believe the outcome of the litigation will have a material adverse impact on its ability to pay debt service on any of its obligations.

### **Other Litigation**

In addition to the matters herein discussed, various other claims have been asserted against LACMTA. In the opinion of LACMTA, none of the pending claims will materially and adversely affect LACMTA’s ability to pay the principal of and interest on any of its obligations.