

**LOS ANGELES COUNTY
METROPOLITAN TRANSPORTATION AUTHORITY**

Financial Statements and
Required Supplementary Information

June 30, 2010

(With Independent Auditors' Report Thereon)



LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY

TABLE OF CONTENTS

| | Page |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| Independent Auditors' Report | 1 |
| Management's Discussion and Analysis | 3 |
| Basic Financial Statements: | |
| Government-wide Financial Statements: | |
| Statement of Net Assets | 17 |
| Statement of Activities | 18 |
| Fund Financial Statements: | |
| Balance Sheet – Governmental Funds..... | 20 |
| Reconciliation of the Balance Sheet to the Statement of Net Assets – Governmental Activities | 23 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds | 24 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 26 |
| Statement of Net Assets – Proprietary Fund – Enterprise Fund..... | 27 |
| Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Fund – Enterprise Fund..... | 28 |
| Statement of Cash Flows – Proprietary Fund – Enterprise Fund..... | 29 |
| Statement of Net Assets – Fiduciary Funds | 30 |
| Statement of Changes in Net Assets – Fiduciary Funds | 31 |
| Notes to Basic Financial Statements | 33 |
| Required Supplementary Information: | |
| Schedule of Funding Progress – Pension Plans | 87 |
| Schedule of Funding Progress – OPEB | 88 |
| Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual: | |
| General Fund..... | 89 |
| Proposition A Fund..... | 90 |
| Proposition C Fund..... | 91 |
| Measure R Fund..... | 92 |
| PTMISEA Fund..... | 93 |
| Transportation Development Act Fund..... | 94 |
| State Transit Assistance Fund..... | 95 |
| Other Governmental Funds | 96 |



KPMG LLP
Suite 700
20 Pacifica
Irvine, CA 92618-3391

Independent Auditors' Report

The Board of Directors
Los Angeles County Metropolitan Transportation Authority:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Los Angeles County Metropolitan Transportation Authority (LACMTA) as of and for the year ended June 30, 2010, which collectively comprise LACMTA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of LACMTA's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the defined benefit pension plan financial statements of the United Transportation Union Plan (UTU), the Transportation Communication Union Plan (TCU), the Amalgamated Transit Union Plan (ATU), the Non-Contract Employees Plan (NCE), and the American Federation State County Municipal Employees Plan (AFSCME), which are reported in LACMTA's Employee Retirement Trust Funds and represent 59%, 60%, and 69% of the assets, net assets/fund balances, and revenues/additions of the aggregate remaining fund information, respectively. Those financial statements were audited by another auditor whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for UTU, TCU, ATU, NCE, and AFSCME, are based solely on the reports of the other auditor.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of LACMTA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Los Angeles County Metropolitan Transportation Authority, as of June 30, 2010, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in note T in the notes to the financial statements, the LACMTA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 53, *Accounting and Reporting for Derivative Instruments*, effective July 1, 2009.



In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2010 on our consideration of LACMTA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 15, the schedules of funding progress for pension plans and other postemployment benefits on pages 87 and 88, respectively, and the budgetary comparison information on pages 89 through 96 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

December 20, 2010

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

As management of the Los Angeles County Metropolitan Transportation Authority (LACMTA), we offer readers of our financial statements this narrative overview and analysis. It is designed to:

- Provide an overview of LACMTA's financial activities;
- Highlight significant financial issues;
- Discuss changes in LACMTA's financial position;
- Explain any material deviations from the approved budget; and
- Identify individual fund issues.

We encourage readers to consider information presented here in conjunction with the basic financial statements (beginning on page 17). All dollar amounts are expressed in thousands unless otherwise indicated.

Financial Highlights

- LACMTA's total assets exceeded its liabilities as of June 30, 2010 by \$7,063,499. Of this amount, \$232,492 is reported as unrestricted net assets.
- Total net assets increased by \$389,719 (5.84 percent) this year over previous year. Business-type net assets increased by \$278,772 (6.15 percent) and governmental net assets increased by \$110,947 (5.18 percent). The increase in the business-type activities net assets is due to capital grants received for billable projects. The increase in net assets in the governmental activities is mainly due to revenues received from Measure R half-cent sales tax which was became effective in July 2009.
- At year-end, the governmental funds reported fund balances totaling \$1,418,958. Of this amount, \$1,202,994 is reserved for encumbrances and other commitments and \$215,964 is unreserved fund balance available for spending at LACMTA's discretion.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to LACMTA's basic financial statements. LACMTA's basic financial statements comprise three components: (1) the government-wide financial statements; (2) the fund financial statements; and (3) notes to basic financial statements. This report also contains required supplementary information in addition to the basic financial statements.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

Government-wide Financial Statements

The government-wide financial statements provide a broad overview of LACMTA's finances in a manner similar to private-sector entities.

The statement of net assets (page 17) presents information on all of LACMTA's assets and liabilities, with the difference between the two being reported as net assets. Trends of increasing or decreasing net assets may serve as useful indicators of financial health.

The statement of activities (pages 18-19) shows how net assets changed during the year. It reports these changes when the underlying event occurs (total economic resources measurement focus) regardless of the timing of related cash flows. It shows the gross and net costs of LACMTA's functions.

Both of the government-wide financial statements distinguish between those functions that are intended to recover a significant portion of their costs from user fees and charges (business-type activities) and those functions that are principally supported by intergovernmental revenues (governmental activities).

The government-wide financial statements include LACMTA and its legally separate entities that are financially accountable to LACMTA. Since they are in substance part of LACMTA's operations, their information has been blended with LACMTA's information. These entities include Public Transportation Services Corporation (PTSC), the Service Authority for Freeway Emergencies (SAFE), and the Exposition Metro Line Construction Authority (EXPO).

Fund Financial Statements

A fund is a group of related accounts that is distinguished by specific activities or objectives in accordance with special regulations or restrictions. LACMTA uses fund accounting to ensure and demonstrate compliance with legal requirements. All of LACMTA's funds are divided into three categories: proprietary, governmental, and fiduciary.

Proprietary Funds

LACMTA maintains only one type of proprietary fund: the Enterprise fund. All transit-related transactions, including support services, capital and related debt transactions are in the Enterprise fund.

The Enterprise fund is used to report the type of functions presented in the business-type activities in the government-wide financial statements. LACMTA uses the Enterprise fund to account for its transit operations: bus, rail, and regional programs. The basic proprietary fund financial statements are on pages 27-29.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

Governmental Funds

Governmental funds are used to account for the functions reported as governmental activities in the government-wide financial statements. Unlike the government-wide financial statements, governmental funds use the current financial resources measurement focus. Thus, they report near term inflows, outflows, and balances of spendable resources.

The basic governmental fund financial statements are on pages 20-21 and 24-25.

Since the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information provided for governmental activities in the government-wide financial statements. As a result, readers may better understand the long-term impact of the government's near-term financing decisions. Reconciliation statements on pages 23 and 26 are shown to facilitate the comparison between the governmental funds and the government-wide financial statements.

LACMTA maintains eleven individual governmental funds, seven of which are considered major funds. Individual fund data for the major funds are presented in the governmental funds balance sheet and governmental funds statement of revenues, expenditures, and changes in fund balances.

LACMTA adopts a spending plan each year. Budgetary comparison schedules are provided for the General fund and for each major special revenue fund on pages 89-96.

Fiduciary Funds

Fiduciary funds are used to account for assets held by LACMTA in a trustee capacity or as an agent. Since these assets are not available to fund LACMTA's programs, they are excluded from the government-wide financial statements. The basic fiduciary fund statements can be found on pages 30-31. They cover the five employee pension funds and the OPEB Trust fund that are administered by LACMTA.

Notes to Basic Financial Statements

Various disclosures accompany the government-wide and fund financial statements in order to provide a full understanding of LACMTA's finances. The notes to basic financial statements are on pages 33-86.

Other Information

Besides the basic financial statements and accompanying notes, this report presents certain required supplementary information starting on page 87.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

Government-wide Financial Analysis

Statement of Net Assets

As mentioned earlier, net assets can serve as an indicator of financial health. LACMTA's net assets increased by 5.84 percent over the previous year. This increase was due to grants received to finance capital projects.

The following table is a summary of the statement of net assets as of June 30, 2010 and 2009.

| Los Angeles County Metropolitan Transportation Authority | | | | | | |
|-----------------------------------------------------------------|---------------------------------|-------------|--------------------------------|-------------|--------------|-------------|
| Summary Statement of Net Assets | | | | | | |
| | Business-type Activities | | Governmental Activities | | Total | |
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Current & other assets | \$2,436,942 | \$2,450,949 | \$1,737,260 | \$1,545,965 | \$4,174,202 | \$3,996,914 |
| Capital assets | 7,366,524 | 7,216,342 | 772,794 | 772,794 | 8,139,318 | 7,989,136 |
| Deferred outflow – derivatives | 25,386 | 32,406 | - | - | 25,386 | 32,406 |
| Total assets and deferred outflows | 9,828,852 | 9,699,697 | 2,510,054 | 2,318,759 | 12,338,906 | 12,018,456 |
| Current liabilities | 607,587 | 570,545 | 201,872 | 117,190 | 809,459 | 687,735 |
| Noncurrent liabilities | 4,409,816 | 4,596,475 | 56,132 | 60,466 | 4,465,948 | 4,656,941 |
| Total liabilities | 5,017,403 | 5,167,020 | 258,004 | 177,656 | 5,275,407 | 5,344,676 |
| Invested in capital assets, net of related debt | 4,366,480 | 3,900,614 | 772,794 | 772,794 | 5,139,274 | 4,673,408 |
| Restricted for debt service | 446,878 | 419,282 | - | - | 446,878 | 419,282 |
| Restricted for other purpose | - | - | 1,244,855 | 1,268,069 | 1,244,855 | 1,268,069 |
| Unrestricted | (1,909) | 212,781 | 234,401 | 100,240 | 232,492 | 313,021 |
| Total net assets | \$4,811,449 | \$4,532,677 | \$2,252,050 | \$2,141,103 | \$7,063,499 | \$6,673,780 |

The increase in current and other assets of \$191,295 (12.37%) in the governmental activities is mainly due to accrued Measure R sales tax revenues.

Invested in capital assets, net of related debt in the business-type activities increased by \$465,866 (11.94%) is attributable to the completion of the Gold Line Eastside extension which opened in November 2009, the continuing construction of Exposition Light Rail Project, and acquisition of rail cars and compressed natural gas (CNG) buses.

The decrease in unrestricted net assets in the business-type activities of \$214,690 (100.90%) is mainly due to the increase in capital assets not funded by long term debt.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

Overall, the significant changes in fiscal year 2010 are the opening of the Metro's Light Rail Gold Line Eastside extension, the implementation of Measure R half-cent sales tax, and the start of construction of the I-405 Sepulveda Pass Widening Project.

Statement of Activities

The following table is a summary of the statement of activities for the year ended June 30, 2010 and 2009.

| Los Angeles Metropolitan Transportation Authority Change in Net Assets | | | | | | |
|-----------------------------------------------------------------------------------|---------------------------------|--------------------|--------------------------------|--------------------|--------------------|--------------------|
| | Business-type Activities | | Governmental Activities | | Total | |
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$342,087 | \$357,895 | \$15,713 | \$10,101 | \$357,800 | \$367,996 |
| Operating grants and contributions | 239,835 | 214,285 | 267,306 | 162,387 | 507,141 | 376,672 |
| Capital grants and contributions | 411,392 | 424,732 | - | - | 411,392 | 424,732 |
| General revenues: | | | | | | |
| Sales tax | - | - | 2,085,370 | 1,596,152 | 2,085,370 | 1,596,152 |
| Investment income | 8,811 | 7,912 | 35,068 | 44,742 | 43,879 | 52,654 |
| Net appreciation (decline) in fair Value of investments | (709) | (119) | 4,200 | 10,540 | 3,491 | 10,421 |
| Miscellaneous | 16,346 | 20,231 | 26,979 | 41,065 | 43,325 | 61,296 |
| Total program revenues | <u>1,017,762</u> | <u>1,024,936</u> | <u>2,434,636</u> | <u>1,864,987</u> | <u>3,452,398</u> | <u>2,889,923</u> |
| Program Expenses: | | | | | | |
| Transit operations | 1,808,257 | 1,807,037 | - | - | 1,808,257 | 1,807,037 |
| Transit operators programs | - | - | 201,354 | 282,305 | 201,354 | 282,305 |
| Local cities programs | - | - | 370,177 | 300,113 | 370,177 | 300,113 |
| Highway projects | - | - | 247,715 | 45,591 | 247,715 | 45,591 |
| Regional multimodal capital programs | - | - | 102,084 | 145,354 | 102,084 | 145,354 |
| Paratransit programs | - | - | 25,283 | 14,208 | 25,283 | 14,208 |
| Other transportation subsidies | - | - | 88,180 | 79,910 | 88,180 | 79,910 |
| General government | - | - | 219,629 | 199,338 | 219,629 | 199,338 |
| Total program expenses | <u>1,808,257</u> | <u>1,807,037</u> | <u>1,254,422</u> | <u>1,066,819</u> | <u>3,062,679</u> | <u>2,873,856</u> |
| Increase (decrease) in net assets before transfers: | (790,495) | (782,101) | 1,180,214 | 798,168 | 389,719 | 16,067 |
| Transfers | 1,069,267 | 1,005,062 | (1,069,267) | (1,005,062) | - | - |
| Increase (decrease) in net assets | 278,772 | 222,961 | 110,947 | (206,894) | 389,719 | 16,067 |
| Net assets—beginning of year | 4,532,677 | 4,309,716 | 2,141,103 | 2,347,997 | 6,673,780 | 6,657,713 |
| Net assets – end of year | <u>\$4,811,449</u> | <u>\$4,532,677</u> | <u>\$2,252,050</u> | <u>\$2,141,103</u> | <u>\$7,063,499</u> | <u>\$6,673,780</u> |

Transit operations recovered 27.64 percent of total operating expenses from operating revenues, excluding depreciation and interest, compared to 30.3 percent of the prior year. The remaining costs were covered by grants and transfers provided by LACMTA's

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

governmental activities. Capital asset replacement costs have traditionally been funded as needed with governmental resources.

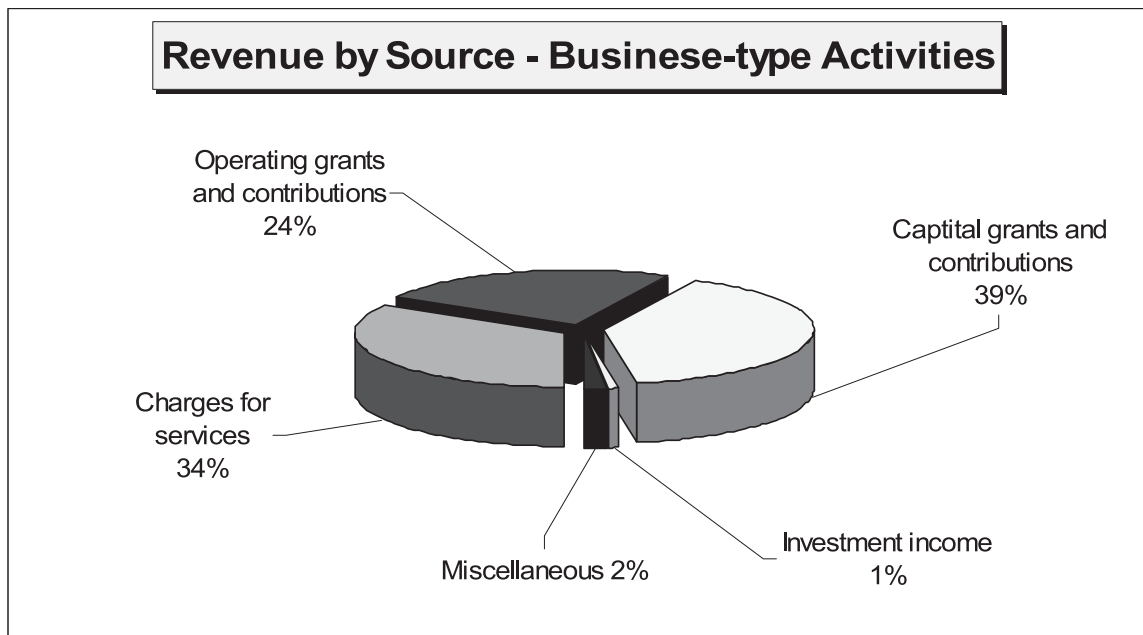
The increase in sales tax revenues in the governmental activities of \$489,218 (30.65%) is mainly due to the revenues received from the Measure R half-cent sales tax that became effective in July 2009.

Most of the governmental activities expenditures are subsidies related to countywide transportation planning and development programs. These programs are primarily funded by local sales taxes. Subsidies totaling \$1,034,793 to other agencies represented the largest governmental expenditures, which include the pass-through of state, federal and local funding to other agencies in Los Angeles County for public transit, transportation demand management, bikeways, and highway projects.

Highway project expenditures in the governmental activities increased by \$202,124 (443.34%) primarily due to the construction costs associated with the I-405 Sepulveda Pass Improvement Project which will add a 10-mile HOV lane and improve supporting infrastructure such as ramps, bridges and sound walls.

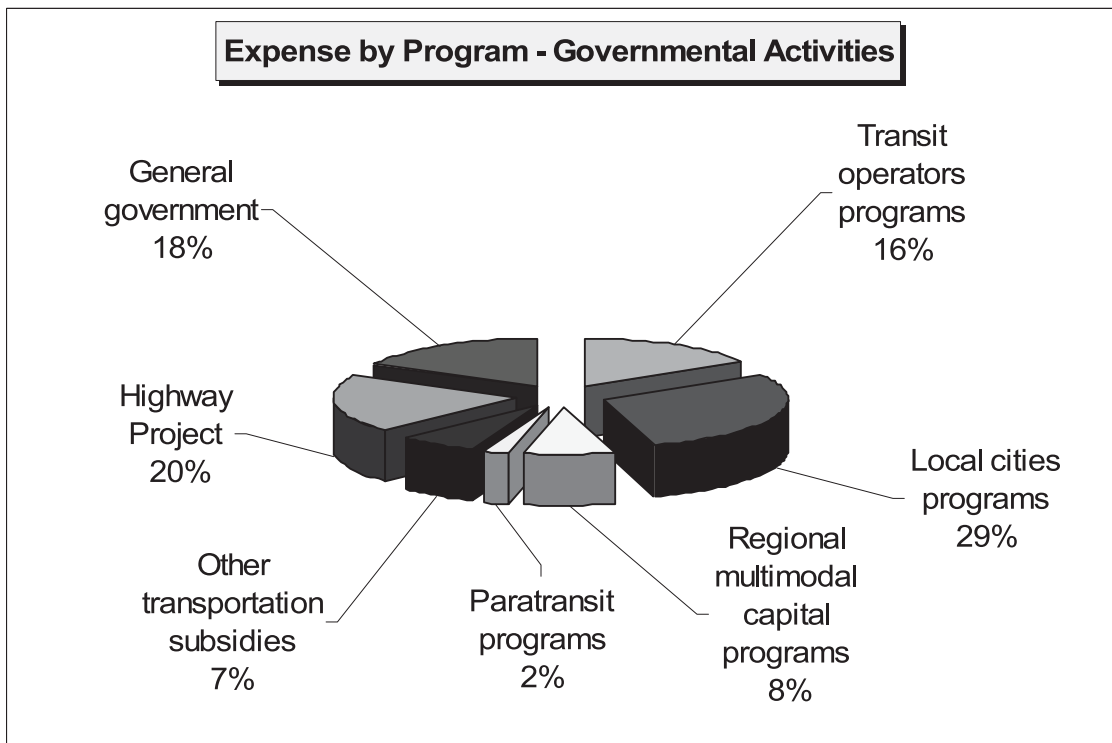
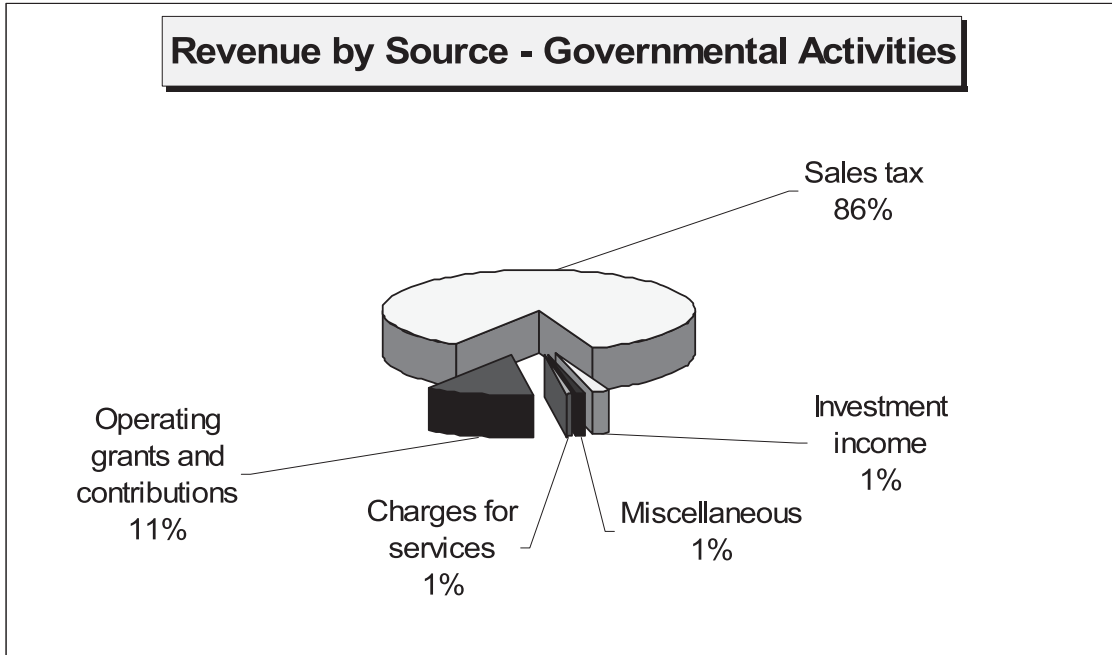
Regional multimodal capital programs decreased by \$43,270 (29.77%) primarily due to lesser reimbursements of project expenditures related to regional surface transportation, local traffic systems, and bus capital and operations.

Below are graphical depictions of the components of business-type revenues and expenses for the year ended June 30, 2010.



LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

Below are graphical depictions of the components of governmental revenues and expenditures for the year ended June 30, 2010.



LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

Proprietary Fund

The proprietary fund financial statements provide the same information found in the business-type section of the government-wide financial statements, but in more detail.

The increase of \$278,772 in net assets was mainly due to the grants received for billable capital projects such as EXPO construction and major bus acquisitions.

Governmental Funds

As previously noted, governmental funds present information about current financial (consumable) resources because they directly impact short-term financing requirements. This is particularly true to the unreserved fund balance, which represents uncommitted available resources.

LACMTA's governmental funds ended the fiscal year with \$1,418,958 in total fund balances. Approximately 85.09 percent of this amount has been committed to future programs. The major governmental funds are discussed below.

General fund balance increased by \$19,827, mainly due to fewer transfers out in FY10. Out of \$180,454 fund balance, \$1,843 is reserved for encumbrances.

Proposition A fund balance decreased by \$34,079 mainly due to lower sales tax revenues. LACMTA has reserved \$56,795 of the total fund balance of \$80,536.

Proposition C fund balance decreased by \$362,461 primarily due to lower sales tax and intergovernmental revenues. LACMTA has reserved \$987,867 for future programs, which is \$871,854 more than the fund balance of \$116,013. The negative unreserved fund balance is expected to be funded from future revenues.

Measure R has a fund balance of \$383,665 on its first year of commencement mainly due to receipts of sales tax revenues. LACMTA has reserved \$34,482 of the total fund balance for future programs.

Public Transportation Modernization, Improvement and Service Enhancement Account (PTMISEA) fund balance decreased by \$61,918 primarily due to transfers out during the year and no new funding from the State. The \$56,696 year-end fund balance has been reserved for specific projects.

Transportation Development Act fund balance decreased by \$25,650 primarily due to the decrease in sales tax revenues. LACMTA has reserved \$92,786 for future programs, which is \$1,107 more than the fund balance of \$91,679. The shortfall is expected to be funded from future revenues.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

State Transit Assistance fund balance increased by \$113,777 mainly due to the receipts of sales tax revenues, while no revenue allocation was made for the current fiscal year. Of the \$167,939 fund balance, \$7,142 is reserved for future programs and the remaining fund balance has been allocated as approved by the Board.

General Fund Budgetary Highlights

The general fund includes activities associated with the government that are not legally or otherwise required to be accounted for in another fund. It accounts for only 1.80 percent of LACMTA's total governmental funds revenues, while expenditures represent 1.77 percent of total governmental funds expenditures.

During the year, the original budget was decreased by \$491 due to the decrease in legal service fees for the ongoing sales-leaseback contract negotiations.

Revenues

The primary sources of revenue are the federal alternative fuel tax credit receipts, rental income from inactive rights-of-way, joint development projects, investment income, Federal, State, and local grants, and high occupancy vehicles (HOV) lane fines.

Investment income and net appreciation in fair value of investments is \$4,078 greater than budgeted levels mainly due to a higher rate of return than originally anticipated.

Expenditures

The general fund provides resources to pay for bus and rail operations, joint development administration, property management expenditures, administration of LACMTA's rideshare services, and other general expenditures.

Administration and other expenditures are \$4,233 lower than budgeted levels mainly due to less joint development and property administration expenditures than the anticipated programmed levels.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

Capital Assets

As of June 30, 2010, LACMTA had \$8,139,318 (net of accumulated depreciation) invested in capital assets, as shown below, a two percent increase compared from the previous fiscal year.

| Los Angeles County Metropolitan Authority Capital Assets (Net of accumulated depreciation) | | | | | | |
|-------------------------------------------------------------------------------------------------------|-------------------------------------|---------------------|------------------------------------|-------------------|--------------------|---------------------|
| | Business-type Activities | | Governmental Activities | | Total | |
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Land | \$ 626,285 | \$ 625,915 | \$ 772,794 | \$ 772,794 | \$ 1,399,079 | \$ 1,398,709 |
| Buildings | 4,692,688 | 4,070,288 | - | - | 4,692,688 | 4,070,288 |
| Equipment | 143,242 | 154,873 | - | - | 143,242 | 154,873 |
| Vehicles | 1,013,552 | 960,077 | - | - | 1,013,552 | 960,077 |
| Construction in progress | 890,757 | 1,405,189 | - | - | 890,757 | 1,405,189 |
| Total Capital Assets | \$ 7,366,524 | \$ 7,216,342 | \$ 772,794 | \$ 772,794 | \$8,139,318 | \$ 7,989,136 |

Major capital asset projects in various stages of development at the end of the current fiscal year included the following:

The Exposition Light Rail Project is a \$2.4 billion project that traverses 15.2 miles between Downtown Los Angeles and Santa Monica. The line is being built in two phases:

The first phase, with a budget of \$892 million, is approximately 8.6 miles long and parallels the heavy congested I-10 freeway extending from Downtown Los Angeles to Culver City with an estimated travel time of less than 30 minutes. It will operate in a dual track configuration on Flower Street and along the Exposition Boulevard right-of-way. It will have twelve stations, consisting of two existing stations and ten new stations, three of which will be aerial. The project is electrically powered from overhead power lines. As of June 30, 2010, \$562.8 million has been expended on Phase 1.

The second phase is estimated to cost \$1.5 billion, is approximately 6.6 miles and is continuing from Phase 1 terminus in Culver City to 4th Street and Colorado Avenue in the city of Santa Monica. It travels along the Exposition Boulevard right-of-way until it reaches 17th Street in Santa Monica, and operates in street-running mode down the middle of Colorado Avenue. It will have seven new stations, one of which will be aerial. The estimated travel time between downtown Los Angeles and Santa Monica is less than 46 minutes. As of June 30, 2010, \$17.9 million has been expended on Phase 2.

The Universal Fare System (UFS) and Transit Access Pass (TAP) is a \$165.6 million project designed to improve LACMTA's fare collection on the bus and rail systems through a regional electronic smartcard fare payment system. Installation of UFS fareboxes and ticket

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

vending machines has been completed. Eleven Los Angeles County municipal transit operators will operate the UFS equipment as part of TAP which utilizes non-contact smart cards to provide seamless fare collection among the region's transit operators. LACMTA entered into a contract to enhance TAP operations by adding an advanced gating system and related services to deter fare evasion, improve system security, and capture ridership data. Design and preliminary engineering work for the gating project started in February 2008. As of June 30, 2010, \$120.3 million has been expended.

LACMTA's major bus acquisition project, initiated during FY09 for the purchase of 260 CNG high capacity buses, resulted in the delivery of 225 buses with total expenditures of \$163.8 million as of June 30, 2010. The remaining buses are expected to be delivered in FY11. LACMTA also awarded a \$24 million new contract for 53 additional 30-foot CNG buses for its contract service operations. As part of the Congestion Reduction Demonstration Project for the I-10 and I-110 express lanes, \$28.4 million is earmarked for a contract option to purchase 41 additional 45-foot CNG high capacity buses. All of these buses are scheduled for delivery in FY11.

LACMTA entered into a Light Rail Vehicle Base Contract to acquire fifty Light Rail Vehicles, which includes spare parts, special tools, and equipment. As of June 30, 2010, thirty-six vehicles were received and placed into service. As of June 30, 2010, \$118.6 million has been expended.

The Metro Orange Line Extension is a \$215.6 million, four-mile extension of the Metro Orange Line extending from the Canoga park-and-ride lot to the Chatsworth Metrolink Station. The project includes: 1) busway; 2) new station platforms at the Canoga Park park-and-ride lot; 3) new stations at Sherman Way (with park-and-ride), Roscoe Boulevard, Nordhoff Street, and the Chatsworth Metrolink Station (with park-and-ride); 4) grade-separation structure over active railroad tracks at Lassen Street (Lassen/Railroad overcrossing) providing direct access into the Chatsworth Metrolink Station; 5) Los Angeles River and Santa Susana Wash bridge crossings, and 6) satellite bus parking facility. The project also includes street improvements, bicycle/pedestrian path, systems equipment, and landscaping similar to the Metro Orange Line. As of June 30, 2010, \$24.8 million has been expended.

Additional information on capital assets can be found on page 49.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

Long-term Debt Administration

At the end of the fiscal year, LACMTA had total long-term debt of \$4,204,143 of which \$2,834,450 were bonds collateralized by sales tax revenue and \$911,774 were lease/leaseback obligations.

The remainder of the long-term debt consisted of general revenue bonds, capital grant receipts revenue bonds, commercial paper, and other debt as shown below:

| Los Angeles County Metropolitan Transportation Authority | | | | | | |
|-----------------------------------------------------------------|-------------------------------------|---------------------|------------------------------------|------------------|---------------------|------------------|
| Long-term Debt | | | | | | |
| | Business-type Activities | | Governmental Activities | | Total | |
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Sales tax revenue bonds and refunding bonds | \$ 2,834,450 | \$ 2,873,395 | \$ - | \$ - | \$ 2,834,450 | \$ 2,873,395 |
| Lease/leaseback to service obligations | 911,774 | 870,872 | - | - | 911,774 | 870,872 |
| Commercial paper notes | 143,532 | 278,741 | - | - | 143,532 | 278,741 |
| General revenue bonds | 184,820 | 203,120 | - | - | 184,820 | 203,120 |
| Capital grant receipts revenue bonds | 90,155 | 132,460 | - | - | 90,155 | 132,460 |
| Other debt | 15,045 | 18,750 | 24,367 | 25,392 | 39,412 | 44,142 |
| Total long-term liabilities | \$ 4,179,776 | \$ 4,377,338 | \$ 24,367 | \$ 25,392 | \$ 4,204,143 | 4,402,730 |

During the fiscal year, LACMTA issued several refunding bonds to achieve debt service savings. In August 2009, \$202,300 in Proposition C Series 2003-C Bonds were refinanced by the \$89,625 Proposition C Series 2009-C and \$118,875 Proposition C Series 2009-D Bonds to convert auction rate securities (ARS) to uninsured variable rate demand bonds (VRDBs) and fixed rate bonds. In October 2009, the Proposition C Series 1998-A Bonds with an outstanding balance of \$81,070 and \$44,000 in Proposition C Commercial Paper Notes were redeemed and refunded by \$118,940 Proposition C Series 2009-E bonds. In October 2009, the Proposition A Series 1999-A and Series 1999-B bonds, a portion of the Series 1999-C bonds, and a portion of the Proposition A Commercial Paper Notes, in an aggregate amount of \$319,221 were refinanced by the \$320,945 Proposition A Series 2009-A bonds. Lastly, in January 2010, a portion of the Proposition C Series 1998-A bonds and the Proposition C Series 2000-A bonds in an aggregate amount of \$45,160 were defeased and refunded by the \$45,455 Proposition C Series 2010-A bonds.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

Bond Ratings

LACMTA's bonds are rated by Standard & Poor's, Moody's, and Fitch as specified in the following schedule of ratings:

| Bonds Issue Type | Standard & Poor's | Moody's | Fitch |
|----------------------------------------------|------------------------------|----------------|--------------|
| Proposition A First Tier Senior Lien Bonds | AAA | Aa2 | AA- |
| Proposition C Senior Sales Tax Revenue Bonds | AA+ | Aa2 | AA- |
| General Revenue Bonds | A | A1 | n/a |
| Capital Grant Receipts Revenue Bonds | A+ | A1 | n/a |

Additional information on LACMTA's long-term debt can be found on pages 55 to 64.

Economic Factors and Next Year's Budget

The main economic factors affecting LACMTA's financial capacity to deliver transportation programs and projects include:

- Economic conditions influencing local sales tax revenues
- Capital grant revenues availability
- Interest rate fluctuations
- Fuel and labor costs

LACMTA uses forecasts from various governmental sources as a basis of its future funding assumptions. The budget for FY11 assumed a 4.5 percent growth in sales tax revenue as a result of the economic recovery following a 9.1 percent declines in FY09 and FY10. Local sales taxes registered as the largest revenue sources for LACMTA, comprising 55 percent of LACMTA's total FY11 estimated revenues. From this revenue base, LACMTA constructs a budget that balances anticipated revenues with area transportation needs.

Further Information

This report has been designed to provide our stakeholders with a general overview of LACMTA's financial condition and related issues. Inquiries should be directed to the Chief Financial Services Officer and Treasurer, One Gateway Plaza, Mail Stop 99-25-7, Los Angeles, CA, 90012-2952 or visit LACMTA's website at www.metro.net.

THIS PAGE INTENTIONALLY LEFT BLANK