

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Notes to Basic Financial Statements
June 30, 2010

F. Risk Management

The primary emphasis of risk management activities at LACMTA is to prevent or minimize the risk of injury to persons and damage to, or loss of property. Where losses cannot be prevented, LACMTA endeavors to self-insure or to assume such losses as it may deem advisable and economical, giving due consideration to the frequency and severity of probable losses. The consideration of the effect of potential self-insured or assumed losses is part of LACMTA's financial planning process.

For its construction projects, LACMTA requires contractors to maintain a contractor controlled insurance program (CCIP) to minimize LACMTA's risk of exposure to construction related losses. These policies provide property, liability, and workers' compensation insurance and cover many of the risks arising from the work of contractors and subcontractors on LACMTA construction projects.

Operations

The reserves for the workers' compensation and the public liability and property damage claims are actuarially determined and subject to periodic adjustment as conditions warrant. The reserves are discounted using an average rate of return of 3.0 percent. LACMTA believes that the estimated liability for self-insured claims as of June 30, 2010 will be sufficient to cover any costs arising from claims filed or to be filed for incidents that occurred through that date. The liability is based, in part, upon an independent actuarial estimate of reserves required for unsettled claims including losses that have been incurred but not reported and legal expenses but excluding direct administration costs both by LACMTA employees and third party administrators.

Since September 1, 2001, the workers' compensation program is both self-insured and self-administered by LACMTA. As of June 30, 2010, a designated investment has been set aside in the amount of \$183,694 equal to the workers' compensation liabilities.

LACMTA is partially self-insured for public liability and property damage for non-construction activities up to \$4,500 per occurrence. LACMTA has acquired outside insurance coverage for losses of \$200,000 in excess of self-insurance retentions. LACMTA is self-insured for losses less than \$200,000.

Furthermore, LACMTA has an all-risk property insurance program that covers all LACMTA property. The property insurance policy covers insurable values of approximately \$7.8 billion on a probable maximum loss basis with policy limits of \$350,000 for damages (\$150,000 for flood damages). Earthquake coverage is not included in the current program structure. LACMTA does not set aside funds to cover potential gaps in property insurance coverage in case of losses.

As of June 30, 2010, a designated investment has been set aside in the amount of \$84,933 equal to the property and casualty liabilities.

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The following table summarizes changes in the claims and judgments reserves for the years ended June 30, 2010 and 2009:

	Property and Casualty		Workers' Compensation		Total	
	2010	2009	2010	2009	2010	2009
Unpaid claims and claim adjustment						
reserve – beginning of year	\$ 93,185	\$ 98,592	\$ 204,568	\$ 220,022	\$ 297,753	\$ 318,614
Provisions for insured events	26,142	22,327	9,562	9,004	35,704	31,331
Interest income	3,057	6,317	6,162	12,644	9,219	18,961
Total incurred claims and claims						
adjustment expense	122,384	127,236	220,292	241,670	342,676	368,906
Payment attributable to insured events	(37,451)	(34,051)	(36,598)	(37,102)	(74,049)	(71,153)
Total unpaid claims and claim						
adjustment reserves – end of year	\$ 84,933	\$ 93,185	\$ 183,694	\$ 204,568	\$ 268,627	\$ 297,753

As of June 30, 2010, \$74,049 of the total claims liability is considered current.

G. Compensated Absences

LACMTA and PTSC's employees represented by the United Transportation Union (UTU), the Amalgamated Transportation Union (ATU), Transportation Communications Union (TCU), American Federation State, County, Municipal Employees (AFSCME) and the Brotherhood of Teamsters (Teamsters) accumulate vacation leave pay and sick leave pay in varying amounts based on the collective bargaining agreements with the various unions.

Under the July 2006 to June 2010 contracts, vacation periods are not cumulative, however, employees may carry forward vacation pay of up to 40 hours for TCU and ATU and 40 hours for UTU to the next vacation period if notice is given by April 1, otherwise, unused vacation hours earned for the year is paid off on May 31. UTU, TCU and Teamsters employees may request payment of a limited amount of unused sick leave each year at a rate of 75 percent of face value. Unused sick leave for contract employees is payable at the rate of 100 percent of the face value upon retirement or death.

LACMTA, PTSC and EXPO have a combined vacation and sick leave program for its non-represented and AFSCME represented employees. Under this program, vacation and sick leave are combined as time off with pay (TOWP), which accrues at varying rates throughout the year.

Accumulated vacation and sick leave prior to the implementation of TOWP policy on January 1, 1995 were considered frozen and remained on the books as a liability. Frozen vacation may be converted into TOWP once per year at the request of the employee, or will be paid at 100 percent at retirement, termination, or death. Frozen sick leave may be converted to TOWP prior to retirement at a 75 percent conversion rate when an employee reaches the age of 55 and has five years or more service. Upon retirement, unused sick pay

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is paid at 75 percent, except for those individuals who retire between the ages 50 and 55, wherein the payout rate varies from 50 to 75 percent depending on the employee's age at retirement. All employees with 30 or more years of service, regardless of age at retirement, have a payout rate at 75 percent. Upon death, payment of frozen sick leave will be at 100 percent to the employee's beneficiary.

The following is a summary of the compensated absences payable as of June 30, 2010:

	Balance			Balance	Due Within
	June 30, 2009	Earned	Used	June 30, 2010	One Year
Union Employees:					
Vacation leave	\$ 24,562	\$ 26,017	\$ (25,245)	\$ 25,334	\$ 25,175
Sick leave	26,058	16,480	(13,313)	29,225	13,271
TOWP	6,087	7,714	(7,688)	6,113	6,370
Sub-total	<u>56,707</u>	<u>50,211</u>	<u>(46,246)</u>	<u>60,672</u>	<u>44,816</u>
Non-Union Employees:					
Vacation leave	700	-	(15)	685	13
Sick leave	3,225	-	(418)	2,807	153
TOWP	16,536	17,261	(16,632)	17,165	16,907
Sub-total	<u>20,461</u>	<u>17,261</u>	<u>(17,065)</u>	<u>20,657</u>	<u>17,073</u>
Total	\$ 77,168	\$ 67,472	\$ (63,311)	\$ 81,329	\$ 61,889

H. Termination Benefits

LACMTA has two severance options which must be accounted for under GASB Statement No. 47 *Accounting for Termination Benefits*: the supplemental severance pay option and the two years additional age and service credit option (2+2 plan). Under the supplemental severance pay option, affected employees will receive supplemental severance pay based on the length of service up to a maximum of twenty four weeks. Under the 2+2 plan, the affected employees will receive two years additional age and service credit toward retirement under the LACMTA Non-Contract Employees' Retirement Income Plan. Employees who are not vested in the Non-Contract Retirement Income Plan are not eligible to receive the 2+2 plan.

Under both options, affected employees will receive two weeks basic severance pay. In addition, during the supplemental severance period, LACMTA will pay the employer contribution for the medical, dental and group life insurance costs for the last insurance plan in which the employee was enrollee during their employment with LACMTA. During fiscal year ended June 30, 2010, there were 172 non-contract employees who were terminated, of which 158 took the supplementary severance program and fourteen employees took the 2+2 plan.

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The severance pay and related benefit costs for the year ended June 30, 2010 amounted to \$6,819. The liability amounts are reflected in the Accounts Payable and Accrued Liabilities line item on the Statement of Net Assets. All termination benefits are based on average cost per employee and are shown at present cost.

I. Leases

Operating Leases

LACMTA has entered into various lease agreements as “lessor” to lease various parcels of land located within the vicinity of the Red Line stations. The majority of these leases will expire between 50 years to 99 years. These leases are considered operating leases for accounting purposes.

The carrying value of the land held for lease as of June 30, 2010 is \$48,678 and is included under the Land caption in the Capital Assets section of the Notes to the Basic Financial Statements found on page 49.

The following is a schedule by years of minimum future rentals to be received on non-cancelable operating leases as of June 30, 2010:

YEAR ENDING JUNE 30	AMOUNT
2011	\$ 2,380
2012	2,756
2013	2,903
2014	2,952
2015	2,981
Thereafter	579,124
	\$ 593,096

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LACMTA is committed under various leases as “lessee” to lease for building and office space. These leases are considered to be operating leases for accounting purposes. Lease expenditures for the year ended June 30, 2010 totaled \$6,282. Future minimum lease payments for these leases are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2011	\$ 1,327
2012	1,058
2013	563
2014	436
2015	438
Total	\$ 3,822

Capital Leases

LACMTA has entered into various lease agreements as “lessee” to finance the acquisition of buses and compressed natural gas (CNG) fueling facilities. These lease agreements qualify as capital leases for accounting purposes. The related assets and liabilities have been recorded as business-type activities. The liabilities represent the present values of the future minimum lease payments, while the assets covered by the leases are shown at depreciated cost.

The assets acquired through capital leases are as follows:

	<u>Vehicles</u>	<u>Buildings</u>	<u>Total</u>
Cost	\$ 30,445	\$ 35,051	\$ 65,496
Less: Accumulated Depreciation	(20,221)	(35,051)	(55,272)
Net Book Value	<u>\$ 10,224</u>	<u>\$ -</u>	<u>\$ 10,224</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2010 are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Business-type Activities	2.89% - 6.66%	\$ 5,134

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The lease payment schedule to maturity is as follows:

Year Ending June 30	Principal	Interest
2011	\$ 2,313	\$ 124
2012	1,990	55
2013	831	11
Total	<u>\$ 5,134</u>	<u>\$ 190</u>

J. Long-term Obligations

LACMTA's bonds and notes obligation as of June 30, 2010 are as follows:

	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010	Due Within One Year
<u>Business-type Activities</u>					
General revenue bonds	203,120	\$ -	\$ (18,300)	\$ 184,820	\$ 15,120
Capital grant receipts revenue bonds	132,460		(42,305)	90,155	-
Sales tax revenue and refunding bonds	2,873,395	693,750	(732,695)	2,834,450	118,990
Lease/leaseback to service obligations	870,872	104,375*	(63,473)	911,774	51,569
Commercial paper notes	278,741	-	(135,209)	143,532	-
Notes payable	11,013	-	(1,102)	9,911	1,147
Capitalized lease	7,737	-	(2,603)	5,134	2,313
Business-type Activities – Long-term Liabilities	<u>4,377,338</u>	<u>798,125</u>	<u>(995,687)</u>	<u>4,179,776</u>	<u>189,139</u>
<u>Governmental Activities</u>					
Redevelopment and housing bonds	25,392	-	(1,025)	24,367	662
Total Long-term Liabilities	<u>\$ 4,402,730</u>	<u>\$ 798,125</u>	<u>\$ (996,712)</u>	<u>\$ 4,204,143</u>	<u>\$ 189,801</u>

*Represents leaseback accretion

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest rate method. All bonded indebtedness, except for the taxable commercial paper, is subject to the Federal arbitrage regulation.

In January 2010, LACMTA transferred \$18,054 to an escrow account to be used solely for both principal and interest payments for the Proposition C Sales Tax Revenue Refunding Bonds, Series 1998-A maturing on July 1, 2010. As of June 30, 2010, the outstanding principal of \$17,535 was considered defeased in substance and reported as reduction of outstanding bonds payable.

General Revenue Bonds

LACMTA has two outstanding general revenue bond issues. These are the General Revenue Refunding Bonds (Workers' Compensation Funding Program) Series 2003, which were

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issued to refund the Certificates of Participation and the General Revenue Refunding Bonds Series 2004 (Union Station Gateway Project), which refunded the General Revenue Refunding Bonds Series 1996-A.

General Revenue bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Business-type Activities	3.50% - 4.56%	\$ 184,820

Annual debt service requirements to maturity for the General Revenue bonds are as follows:

<u>Year Ending June 30</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 15,120	\$ 6,347
2012	5,650	5,842
2013	6,075	5,637
2014	6,525	5,417
2015	7,000	5,180
2016-2020	42,750	21,736
2021-2025	58,050	12,960
2026-2028	43,650	2,348
Total	<u>\$ 184,820</u>	<u>\$ 65,467</u>

Capital Grant Receipts Revenue Bonds

The Capital Grant Receipts Revenue Bonds (Gold Line Eastside Extension Project) Series 2005-A are fixed rate bonds with rates of 3.13 percent to 5.00 percent. The bond proceeds were used to provide funds to finance a portion of the design and construction costs of the light rail transit line from Union Station in downtown Los Angeles to certain East Los Angeles communities; to fund a debt service reserve fund; to fund capitalized interest on the bonds and to pay the bond issuance costs. The bonds are limited obligations of LACMTA, payable solely from and secured solely by grant receipts, amounts on deposit in the funds and accounts established under the Indenture (except the rebate fund), and investment earnings thereon.

Capital Grant Receipt Revenue bonds outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Business-type Activities	3.13% - 5.00%	\$ 90,155

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Annual debt service requirements for the Capital Grant Receipts Revenue Bonds are as follows:

<u>Year Ending June 30</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ -	\$ 4,376
2012	49,765	3,132
2013	40,390	944
Total	<u>\$ 90,155</u>	<u>\$ 8,452</u>

Sales Tax Revenue and Refunding Bonds

LACMTA has outstanding sales tax revenue and sales tax revenue refunding bonds, each secured by either LACMTA’s Proposition A or C sales tax. Proceeds from sales tax revenue bonds provide funds for the acquisition and construction of major capital facilities. Proceeds from sales tax revenue refunding bonds are used to provide funds to retire previously issued sales tax revenue bonds and commercial paper notes. Refunding bonds are generally issued to reduce LACMTA’s debt service costs when more favorable interest rates are available.

In August 2009, LACMTA issued Proposition C Sales Tax Revenue Refunding Bonds, Second Senior Bonds, Series 2009-C, collectively referred to as “Series 2009-C Bonds” with a total par value of \$89,625. The Series 2009-C bonds consist of four subseries: (1) Subseries 2009-C1 Bonds, (2) Subseries 2009-C2 Bonds, (3) Subseries 2009-C3 Bonds and, (4) Subseries 2009-C4 Bonds. Concurrent with the issuance of the Series 2009-C Bonds, LACMTA issued Proposition C Sales Tax Revenue Refunding Bonds, Second Senior Bonds, Series 2009-D (the “Series 2009-D Bonds”) for a total par value of \$118,785. The proceeds of the Series 2009-C Bonds and the Series 2009-D Bonds and other available funds were used to (a) refund its outstanding Proposition C Sales Tax Revenue Refunding Bonds, Second Senior Bonds, Series 2003-C, (b) make a deposit to the Reserve Fund, (c) pay amounts due in connection with the partial termination of an interest rate swap, and (d) pay the costs of issuing the Series 2009-C Bonds and the Series 2009-D Bonds.

The Series 2009-C Bonds initially bear interest in the weekly mode. The weekly rate for each Subseries of Series 2009-C Bonds for each interest period is the rate of interest determined by the applicable remarketing agent on and as of the applicable rate determination date not to exceed 12% per annum. While the Series 2009-C Bonds are in the weekly mode, LACMTA may convert the interest rate on any Subseries of the Series 2009-C Bonds to any other interest rate mode on any interest payment date, upon not less than twenty days prior written notice from the Trustee to the registered owners of the applicable Subseries of Series 2009-C Bonds.

In October 2009, LACMTA issued Proposition C Sales Tax Revenue Refunding Bonds, Second Senior Bonds, Series 2009-E (the “Series 2009-E Bonds”) for a total par value of \$118,940. The proceeds from the Series 2009-E Bonds and other available funds were used to (a) refund a portion of its outstanding Proposition C Sales Tax Revenue Bonds, Second

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Senior Bonds, Series 1999-A in an aggregate principal amount of \$81,070; (b) pay the principal of the outstanding Proposition C Commercial Paper Notes in the amount of \$44,000; (c) make a deposit to the Reserve Fund; and (d) pay the costs of issuing the Series 2009-E Bonds.

In October 2009, LACMTA issued Proposition A First Tier Senior Sales Tax Revenue Refunding Bonds, Series 2009-A Bonds (the "Series 2009-A Bonds") for a total par value of \$320,945. The proceeds of the Series 2009-A Bonds, together with certain other available funds were used to (a) refund all of LACMTA's Proposition A First Tier Senior Sales Tax Revenue Refunding Bonds Series 1999-A, all of LACMTA's Proposition A First Tier Senior Sales Tax Revenue Bonds Series 1999-B, and the LACMTA's Proposition A First Tier Senior Sales Tax Revenue Refunding Bonds Series 1999-C maturing on and after July 1, 2012, in an aggregate amount of \$286,205; (b) redeem \$33,016 principal of LACMTA's outstanding Proposition A Commercial Paper Notes; (c) make deposits to the Reserve Fund for the First Tier Senior Lien Bond and to the Surety Replacement Account; and (d) pay the costs associated with the issuing the Series 2009-A Bonds.

In January 2010, LACMTA issued Proposition C Sales Tax Revenue Refunding Bonds, Senior Bonds, Series 2010-A (the "Series 2010-A Bonds") for a total par value of \$45,455. The proceeds of the Series 2010-A Bonds and other available funds were used to (a) refund and defease the LACMTA's Proposition C Sales Tax Revenue Refunding Bonds, Second Senior Bonds, Series 1998-A, and Proposition C Sales Tax Revenue Bonds, Second Senior Bonds, Series 2000-A with an aggregate amount of \$45,160, (b) make a deposit to the Reserve Fund, and (c) pay the costs associated with issuing the Series 2010-A Bonds.

Sales Tax Revenue and Refunding bonds outstanding as of June 30, 2010 are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Business-type Activities	1.50% - 6.50%	\$ 2,834,450

Annual debt service requirements to maturity for the Sales Tax Revenue and Refunding bonds are as follows:

<u>Year Ending June 30</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 118,990	\$ 132,491
2012	140,895	123,281
2013	147,520	113,041
2014	150,110	106,176
2015	161,670	98,868
2016-2020	921,495	372,548
2021-2025	761,055	163,858
2026-2030	298,290	59,322
2031-2035	121,385	17,049
2036	13,040	326
Total	<u>\$ 2,834,450</u>	<u>\$ 1,186,960</u>

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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 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 accounts 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 (AIG), provided a fixed income investment product known as “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 letters of credit documents, AIG’s credit rating should 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 appropriate, and in two instances required AIG to post collateral.

As of June 2010, in the current market environment, most products specified in the Lease/leaseback transaction documents as acceptable replacement facilities are not available. In November 2009, LACMTA reached an agreement with one lessor to post collateral in lieu of obtaining a replacement facility. Extensions to the deadlines to obtain acceptable replacement facilities are in place with most other lessors. Failure to reach a solution could result in early termination of six of the leases that would require LACMTA to pay an estimated \$155 million plus legal costs.

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Efforts have been underway to implement a Federal legislative solution, currently, focused on implementation of an excise tax that would penalize the lessors for taking any windfall gains from termination of a leverage lease transaction. LACMTA continues to be in contact with the lessors to request extensions of the deadlines to replace the facilities and to negotiate other solutions or agree on a minimal out-of-pocket settlement amounts.

The lease obligations currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Business-type Activities	1.85% - 7.38%	\$ 911,774

Annual debt service requirements to maturity for the lease obligations are as follows:

<u>Year Ending June 30</u>	<u>Business-type Activities</u>	
	<u>Accretion</u>	<u>Interest</u>
2011	\$ 51,569	\$ 32,008
2012	5,037	54,148
2013	(36,696)	50,670
2014	73,345	56,605
2015	252,112	50,203
2016-2020	(97,171)	198,966
2021-2025	77,420	224,867
2026-2030	185,491	182,664
2031-2035	354,365	57,786
2036-2039	46,302	7,535
Total	<u>\$ 911,774</u>	<u>\$ 915,452</u>

Commercial Paper Notes

LACMTA operates two commercial paper programs to maintain access to a low cost, flexible source of capital financing. Proposition A and Proposition C Commercial paper notes (CPN), taxable and tax-exempt, are issued by LACMTA with maturity dates ranging from 1 to 270 days at various interest rates. Under the terms of the programs, maturing principal amounts can be rolled-over by issuing new notes. It is the intention of LACMTA to pay the accrued interest and reissue the principal amounts as they mature. Therefore, the outstanding amounts have been classified as non-current liabilities. The proceeds from the CPN have been generally used to provide interim financing for construction and acquisition activities, including construction of rail capital projects and rail right-of-way acquisitions. LACMTA periodically retires CPN by issuing long-term, fixed rate bonds.

The Proposition A and Proposition C commercial paper programs are supported by direct-pay irrevocable letters of credit. The letters of credit are issued by a single bank for the Proposition C CPN program and a single bank for the Proposition A CPN program. Each

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bank is required to have a short term credit rating of at least A-1/P-1. The letters of credit are drawn upon at each note maturity to pay the principal and interest due. Principal that has been advanced by the banks and paid to the holders of the matured notes is reimbursed to the banks either by issuing new notes or by direct payment from LACMTA.

Interest is reimbursed to the banks on a current basis from sales tax revenues. In the event that the CPN dealers are unable to remarket the commercial paper and/or LACMTA is unable to repay the interest or principal, the banks will incur an unreimbursed draw on the letters of credit. Unreimbursed draws are converted to term loans following a specified period of time. The term loan for Proposition C CPN is repayable over a period of four years with equal quarterly principal payments. The term loan for Proposition A CPN is repayable beginning nine months after the commencement of the term loan, with quarterly principal payments over a period of two years and three months. Interest is charged at rates specified in the applicable Reimbursement Agreement. The letter of credit supporting the Proposition C commercial paper program expires in May 2013, while the letter of credit supporting the Proposition A commercial paper program expires in January 2012.

As of June 30, 2010, \$143,532 of commercial paper notes were outstanding. Proposition A and Proposition C commercial paper notes were \$119,046 and \$24,486, respectively.

Notes Payable

LACMTA entered into a financing, acquisition and control account agreement for the acquisition and installation of the solar energy generation and conservation equipment at the Metro Support Services Center (MSSC). The Notes Payable outstanding balance as of June 30, 2010 is as follows:

Purpose	Interest Rates	Amount
Business-type Activities	4.04%	\$ 9,911

The payment schedule to maturity is as follows:

Year Ending June 30	Business-type Activities	
	Principal	Interest
2011	\$ 1,147	\$ 387
2012	1,194	339
2013	1,244	291
2014	1,295	240
2015	1,348	186
2016-2018	3,683	409
Total	\$ 9,911	\$ 1,852

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Redevelopment and Housing Bonds

LACMTA entered into an agreement with the Community Redevelopment Financing Authority (CRFA) of the Community Redevelopment Agency (CRA) of the City of Los Angeles to assist in the financing of the Grand Central Square Multifamily Housing and Redevelopment Project. Under this agreement, housing and redevelopment bonds were issued by CRA.

The 2007-A multifamily housing refunding bonds were issued to redeem the 1993 Series that funded the development in a historic central location in downtown Los Angeles served by and accessible to the Metro Red Line.

The 2002-A redevelopment bonds were issued to refund the 1993-A bonds that assisted in the financing of the CRA's Redevelopment Plan for its Central Business District Redevelopment Project, also located in downtown Los Angeles, which borders the Bunker Hill Project and is in close proximity to the Metro Red Line. Both projects were undertaken with a commitment to promote the use of mass transit and reduce traffic congestion.

The projects were completed and LACMTA is making debt service payments related to these bonds. Under a reimbursement agreement collateralized by real property of the Grand Central Square Housing Project, the developer issued two promissory notes with a combined value of \$41,112 due in fiscal year 2027.

Housing and Redevelopment bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental Activities	4.13% - 5.38%	\$ 24,367

Annual debt service requirements to maturity for the Housing and Redevelopment bonds are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 662	\$ 1,208
2012	1,015	1,163
2013	1,060	1,116
2014	1,110	1,067
2015	1,160	1,014
2016-2020	6,705	4,147
2021-2025	8,570	2,219
2026-2027	4,085	215
Total	<u>\$ 24,367</u>	<u>\$ 12,149</u>

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Summary of Significant Changes to Long-term Bond and Note Obligations

During the fiscal year, LACMTA refunded the Proposition C 2003-C Sales Tax Revenue Refunding Bonds, which were auction rate securities (ARS). Beginning in September 2007, the financial marketplace became increasingly unstable as a result of the “subprime crisis.” ARS began falling out of favor with investors and collapsed dramatically at the beginning of calendar 2008, causing rates to more than double. In order to mitigate interest rate risk, the Series 2009-C and 2009-D Bonds were issued to significantly reduce LACMTA’s interest costs by eliminating exposure to Ambac and the auction rate securities market.

The Proposition C Series 2009-C Refunding Bonds are uninsured VRDBs backed with letters of credit with two highly rated banks, which are more attractive to the investment community under present market conditions. The Proposition C 2009-C Bonds were issued in the amount of \$89,625, to refund \$89,625 of Proposition C 2003-C ARS. Concurrently with the issuance of the Series 2009-C Bonds, LACMTA refunded the remaining outstanding Series 2003-C Bonds through the issuance of the Series 2009-D fixed rate bonds because of savings due to relatively low interest rates on fixed rate bonds and much lower on-going expenses because no bank facilities are required with fixed rate bonds. One of LACMTA’s existing Interest Rate Swap agreements was partially terminated in connection with the Series 2009-D refunding bonds, incurring a termination fee of \$6,125 that was paid from the bond proceeds.

Proposition A Series 2009 A Bonds, Proposition C Series 2009 E Bonds, and Proposition C Series 2010 A Bonds issued during FY10 were fixed rate bond issues that refunded outstanding fixed rate bond issues, for net cash flow savings. Proposition A Series 2009-A Bonds were issued in the amount of \$320,945 to refund Proposition A Series 1999-A, Proposition A Series 1999-B Bonds, and portion of Proposition A Series 1999-C Bonds with an aggregate amount of \$286,205 and pay \$33,016 principal of the outstanding Proposition A Commercial Paper Notes. Proposition C Series 2009-E Bonds were issued in the amount of \$118,940 to refund a portion of its outstanding Proposition C Series 1999-A Bonds in an aggregate principal amount of \$81,070 and pay the principal of the outstanding Proposition C Commercial Paper Notes in the amount of \$44,000. Proposition C Series 2010-A Bonds were issued in the amount of \$45,455 refund Proposition C Series 1998-A Bonds and Proposition C Series 2000-A for an aggregate amount of \$45,160.

In October 2009, LACMTA redeemed \$42,305 Capital Grant Receipts Revenue Bonds Series 2005-B from capital grant receipts. The bonds were redeemed earlier than scheduled to reduce its future debt service requirements.

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The net cash flow savings that resulted from the FY10 bond refundings are as follows:

Refunding Debt	Prior Cash Flow	Refunded Cash Flow	Net Cash Flow Savings	Present Value of Net Cash Flow Savings
Proposition A 2009-A Refunding Bonds	\$ 405,066	\$ 391,452	\$ 13,614	\$ 10,899
Proposition C 2009-C & D Refunding Bonds	283,516	253,331	30,185	11,038
Proposition C 2009-E Refunding Bonds	111,632	101,063	10,569	7,024
Proposition C 2010-A Refunding Bonds	70,819	64,973	5,846	3,807

K. Capital and MOU Commitments

Construction in Progress and Other Significant Commitments

LACMTA's commitments to vendors for capital projects which are in various phases of development as of June 30, 2010 are as follows:

<u>Project</u>	<u>Contract Commitments</u>	
	<u>Total</u>	<u>Remaining</u>
Rail Projects	\$ 1,113,213	\$ 192,107
Bus Rapid Transitways	98,752	81,225
Bus Acquisition and Others	658,876	248,422
Total	<u>\$ 1,870,841</u>	<u>\$ 521,754</u>

LACMTA has entered into various Memoranda of Understanding (MOU) to fund local transportation projects. For this purpose, LACMTA has reserved Propositions A and C, TDA, STA and Measure R funds totaling \$1,179,072 as of June 30, 2010.

L. Pensions

LACMTA provides pension benefits that cover substantially all full-time employees through five self-administered defined benefit pension plans and the California Public Employees' Retirement System (CalPERS). Four of the self-administered plans are restricted to specific union members, while the fifth provides benefits to Non-Represented employees and Teamsters.

California Public Employees' Retirement System (CalPERS)

CalPERS is an agent multiple-employer public retirement system.

Most full-time employees of PTSC are covered members under CalPERS and become fully vested in their accrued benefits after five years of credited service. Normal retirement is at age 60 with five years of credited service. The form of the normal benefit is a modified straight-line annuity equal to two percent (benefit factor) of final average compensation

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(generally the last or the highest consecutive 36 months of employment) times years of credited service. Other optional benefits are available at a reduced amount. Early retirement is available at age 50 with five years of credited service. The benefit factor is actuarially reduced for retirement prior to age 60 and actuarially increased after age 60 up to age 63. The plan provides for survivor and disability benefits. The benefit provisions and all other requirements are established by contract with the CalPERS in accordance with the provisions of the Public Employees' Retirement Law. An annual stand-alone financial report is issued and a copy can be obtained by a request from CalPERS, P.O. Box 942709, Sacramento, CA 94229-2709 or visit CalPERS's website at www.CalPERS.ca.gov.

The employer and employee contributions are a percentage of the employee's compensation. The rates are defined by law and are based on the employer's benefit formula as determined by periodic actuarial valuations. These contributions are deposited in a fund established for each entity for the purpose of creating actuarial reserves for future benefits. For the year ended June 30, 2010, the contribution rate of covered payroll was 14.44 percent. This rate includes the mandatory employee contribution of 7.0 percent that is currently paid by PTSC.

Total Annual Required Contributions (ARC) for the years ended June 30, 2010, 2009, and 2008 were \$17,661, \$17,286, and \$17,468, respectively, all of which were attributable to the PTSC and paid in full. Such contributions were made in accordance with the latest CalPERS actuarial valuation. These pension contributions for normal costs include the employees' portion, and for the years ended June 30, 2010, 2009, and 2008, were \$8,559, \$8,328, and \$8,353, respectively. At June 30, 2010, 2009, and 2008, there were no Net Pension Obligations (NPO).

The most recent actuarial valuation date was June 30, 2007 and the individual entry age normal cost was the actuarial cost method used to determine the ARC.

The smoothing of market value method was used to determine the actuarial value of assets, which was set to be no less than 80 percent or greater than 120 percent of actual market value for the purpose of determining 2009/2010 employer contributions. Initial unfunded liabilities are amortized over a closed period with subsequent plan amendments amortized as a level percentage of pay over a closed 20-year period. The actuarial assumptions are 7.75 percent investment rate of return; an inflation rate of 3.0 percent; and projected salary increases of 3.25 percent to 14.45 percent dependent on age, service, and type of employment.

LACMTA-administered Plans

LACMTA has a single-employer public employees retirement system that includes five defined benefit pension plans (Plans) covering substantially all employees, providing retirement, disability, and death benefits. Generally, employees' rights to retirement benefits vest after five (5) years for non-represented, Teamsters, and AFSCME employees and ten (10) years for UTU, ATU, and TCU employees. All contract and non-contract retirement benefits are based on the individual employee's years of service, age, final

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compensation, bargaining units, and disability status. The benefit provisions and all other requirements are established by state statute, ordinance, collective bargaining agreements, or Board's actions. An annual stand-alone financial report is issued for the Plans and can be obtained by requesting a copy from the Accounting Department, One Gateway Plaza, Los Angeles, CA 90012-2952.

The Plans' member contributions, benefits paid, and refunds are recorded using the accrual basis of accounting. The Plans' member contributions are recognized in the period in which the contributions are due and member benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The Plans' equity securities, pooled equity trust, and the fixed income securities are reported at the fair value based on quoted market prices as of fiscal year end.

LACMTA's funding policy is to make annual contributions to the Plans in amounts that, when combined with employees' contributions, fund the actuarially computed cost as they accrue. Actuarially computed costs are determined using the projected unit credit method. The employee and employer contributions are required by the plan agreements as either a percentage of annual earnings which is applicable only to ATU pension plan or the dollar amount recommended to finance the benefits provided in the UTU, TCU, AFSME and Non-contract plans on a sound actuarial basis. LACMTA uses the level percentage of payroll method to amortize the unfunded liability or surplus of the base plan over 15 years for UTU, TCU, Non-Contract, and AFSCME, and through 2023 for ATU.

The annual required contributions (ARC), for LACMTA and employees, by plan, for the years ended June 30, 2010, 2009, and 2008, are as follows:

Contributions	United Transportation Union Plan	Transportation Communication Union Plan	Amalgamated Transit Union Plan	Non-Contract Employees Plan	AFSCME	Total
<u>2010</u>						
Employer	\$ 23,230	\$ 4,639	\$ 16,752	\$ 3,620	\$ 1,581	\$ 49,822
Employee	16,541	1,910	5,137	-	-	23,588
Total	<u>\$ 39,771</u>	<u>\$ 6,549</u>	<u>\$ 21,889</u>	<u>\$ 3,620</u>	<u>\$ 1,581</u>	<u>\$ 73,410</u>
<u>2009</u>						
Employer	\$ 14,716	\$ 2,480	\$ 13,638	\$ 2,288	\$ 1,179	\$ 34,301
Employee	16,712	1,977	2,567	-	-	21,256
Total	<u>\$ 31,428</u>	<u>\$ 4,457</u>	<u>\$ 16,205</u>	<u>\$ 2,288</u>	<u>\$ 1,179</u>	<u>\$ 55,557</u>
<u>2008</u>						
Employer	\$ 14,495	\$ 2,446	\$ 14,541	\$ 2,652	\$ 1,121	\$ 35,255
Employee	15,872	1,873	3,639	-	-	21,384
Total	<u>\$ 30,367</u>	<u>\$ 4,319</u>	<u>\$ 18,180</u>	<u>\$ 2,652</u>	<u>\$ 1,121</u>	<u>\$ 56,639</u>

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The annual pension cost, annual amount contributed, and net pension obligation for the years ended June 30, 2010, 2009, and 2008 are as follows:

	United Transportation Union Plan	Transportation Communication Union Plan	Amalgamated Transit Union Plan	Non- Contract Employees Plan	AFSCME	Total
<u>2010</u>						
Annual Pension Cost	\$ 23,195	\$ 4,639	\$ 16,777	\$ 3,620	\$ 1,581	\$ 49,812
Annual Amount Contributed	23,230	4,639	16,752	3,620	1,581	49,822
Net Pension Obligation	868	-	-	-	-	868
<u>2009</u>						
Annual Pension Cost	14,681	2,480	13,644	2,288	1,179	34,272
Annual Amount Contributed	14,716	2,480	14,406	2,288	1,179	35,069
Net Pension Obligation	903	-	-	-	-	903
<u>2008</u>						
Annual Pension Cost	14,460	2,446	14,541	2,652	1,121	35,220
Annual Amount Contributed	14,495	2,446	14,790	2,652	1,121	35,504
Net Pension Obligation	937	-	-	-	-	937

The components of the net pension obligation for UTU employees for years ended June 30, 2010, 2009, and 2008 are as follows:

	Annual Required Contribution (ARC) (a)	NPO at the beginning of the year (BOY) (b)	Interest on the NPO at the BOY (c)	Adjustment to ARC (d)	Amortization of NPO at the BOY (Decrease in NPO) (e)	NPO at the end of the year (EOY) (b)+(c)+(d)+(e)
<u>2010</u>	\$ 23,230	\$ 903	\$ 67	\$ -	\$ (102)	\$ 868
<u>2009</u>	14,716	937	75	-	(109)	903
<u>2008</u>	14,495	973	78	-	(114)	937

LACMTA's contributions to the Plans for the year ended June 30, 2010 were made in accordance with the actuarially determined requirements computed as of December 31, 2008 for the UTU, TCU, Non-Contract, and AFSCME Plans while the ATU Plan was computed as of January 1, 2009. Actuarially computed costs are determined using the projected unit credit method. The total annual required contributions (ARC) for all plans for the years ended June 30, 2010, 2009, and 2008 were \$49,822, \$34,301, and \$35,255, respectively. Annual pension cost, which is equivalent to ARC plus interest on Net Pension Obligation (NPO) less amortization of NPO, amounted to \$49,812, \$34,272, and \$35,220 for the years ended June 30, 2010, 2009, and 2008 respectively. The NPO for the UTU Plan for the years ended June 30, 2010, 2009, and 2008 were \$868, \$903, and \$937, respectively. There was no NPO at June 30, 2010, 2009, and 2008 for the TCU, ATU, Non-Contract, and AFSCME Plans.

The required contribution rate by employees for the fiscal years ended June 30, 2010, 2009, and 2008 were between 0 and 8.58 percent, 0 and 8.86 percent, 0 and 8.51 percent, respectively, of their annual wages. The employer rate is equal to the ARC. The method of ½ book value + ½ market value was used to determine the actuarial value of assets for the

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UTU, TCU, Non-Contract, and AFSCME Plans. Effective with the actuarial valuation as of December 31, 2007, the ATU Plan adopted the 4-year smoothed market value method with a 15 percent corridor to determine the actuarial value of assets. The key actuarial assumptions are: 8.0 percent investment rate of return including a 3.0 percent rate for inflation projected salary increases tied to age-based rates, and no postemployment benefit increases.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information, which shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The LACMTA's funding progress information as of June 30, 2010 is presented below:

Actuarial Valuation Date	Normal Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded Liability (UAAL) (a)-(b)	Funded Ratio (b)/(a)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (a)-(b)/(c)
PTSC						
06/30/2008	\$ 282,568	\$ 276,752	\$ 5,816	97.94%	\$ 123,548	4.71%
LACMTA						
12/31/2009						
UTU	512,887	362,222	150,665	70.62%	190,212	79.21%
TCU	90,027	61,866	28,161	68.72%	27,578	102.11%
ATU	295,021	211,174	83,847	71.58%	109,214	76.77%
Non-Contract	131,773	114,115	17,658	86.60%	6,206	284.53%
AFSCME	50,675	44,653	6,022	88.12%	6,161	97.74%
Total	\$ 1,080,383	\$ 794,030	\$ 286,353	73.50%	\$ 339,371	84.38%

M. Other Postemployment Benefits (OPEB)

Plan Description

On February 22, 2007, the Board adopted a resolution authorizing the establishment of an irrevocable Retiree Health Care and Welfare Benefits Trust ("Plan"). The Plan is a single-employer, defined benefit plan administered by LACMTA to provide OPEB benefits, such as medical, dental, vision, life insurance, and similar benefits offered by LACMTA to its active and retired employees. The Plan covers benefits administered by LACMTA to Non-contract employees and employees represented by AFSCME and the Teamsters and the contractual obligations to the respective Union Health & Welfare Trusts for employees represented by ATU, TCU, and UTU. Generally, eligibility for coverage is based on an employee's service and age. An annual stand-alone financial report is issued for the Plan and can be obtained by requesting a copy from the Accounting Department, LACMTA, One Gateway Plaza, Los Angeles, CA 90012-2952.

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Plan Accounting Practices

Basis of Accounting – The Plan’s financial statements have been prepared using the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred.

Contributions and Benefits – Plan member contributions are recognized in the period in which the contributions are due. LACMTA contributions are on a “pay-as-you-go” basis reflecting budgeted retirees’ medical and life insurance benefits. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Method Used to Value Investments – Investments are reported at fair value based on quoted market prices as of fiscal year end. Investment income is recognized on an accrual basis. Gains and losses on sales and exchange of securities are recognized on the trade date. Gains or losses on sales of securities are determined on the basis of average cost.

Enrollment

The numbers of participants (not in thousands) by employee group as of January 1, 2009 (the effective date of the bi-annual OPEB valuation) are as follows. There have been no significant changes in the number of employees covered since that date.

Participant	Union Health & Welfare Trusts				Total
	LACMTA	ATU	TCU	UTU	
Active Employees	1,927	2,178	702	4,048	8,855
Retirees under 65	301	445	162	898	1,806
Retirees over 65	617	549	133	810	2,109
Total Actives and Retirees	2,845	3,172	997	5,756	12,770

Funding Policy

Member Contribution

Contributions made by Non-contract/AFSCME/Teamsters retirees are established and approved by the Board. Generally, the contribution is calculated as a percent of the premium cost based on service. The benchmark is 25 years or more to qualify for the active employee contribution rate. For each year of service less than 25 years, the retiree pays an additional 4 percent of LACMTA’s cost. Contributions are remitted by LACMTA to the Plan. The Union Health and Welfare Trusts establish the plan member contribution rate. ATU retirees’ contributions are \$80 per month pre-65 years of age and \$60 per month post-65 years of age. TCU retiree contributions are \$35 per month for single coverage; \$50 per month for retiree plus dependent coverage. UTU retiree contributions are \$50 per month.