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Los Angeles County
Metropolitan Transportation Authority

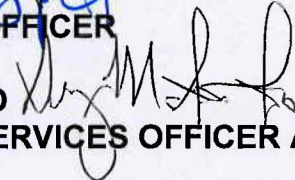
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JULY 21, 2011

TO: BOARD OF DIRECTORS

THROUGH: ARTHUR T. LEAHY 
CHIEF EXECUTIVE OFFICER

FROM: TERRY MATSUMOTO 
CHIEF FINANCIAL SERVICES OFFICER AND TREASURER

SUBJECT: DEFEASED LEASES

ISSUE

We are informing the Board of our intent to enter into a collateral agreement with Canadian Imperial Bank of Canada ("CIBC") in order to cure a default under that lease resulting from the 2008 credit ratings downgrade of American International Group (AIG).

DISCUSSION

The collateral agreement provides a "no cost" solution to cure the default. The funds put into escrow, including any interest earnings, will be returned to us at the successful completion of the lease term. There will only be the legal fees necessary execute the documents.

The Defeased Lease Policy adopted by the Board in October 2008 delegates authority to the CEO to take all actions necessary to administer the defeased leases, including to amend terms and pricing and to terminate the leases whenever such actions are judged to be in the best interest of the MTA and consistent with the objectives of the initial transaction. We expect to execute a collateral agreement next week for our defeased lease with the (CIBC).

BACKGROUND

We have been in a technical default situation under our defeased lease transaction with CIBC as a result of the credit rating downgrade of AIG in October 2008. We have reached an agreement with CIBC for a restructuring that will remedy the default and allow the transaction to remain in place for the balance of its term. The restructuring proposal is essentially "self insurance" in the form a funded escrow account that will serve as collateral to backstop the AIG letter of credit. In exchange for posting approximately \$1 million of collateral, CIBC will waive the current and future credit provisions that led to the technical default noted above. The collateral requirement will decline over time and will be released at the conclusion of the lease in about nine years.

The \$1 million deposit into the escrow account has no budget impact because the assets remain our property as long as we remain in compliance with the CIBC lease documents. We remain confident that AIG will be able to meet its requirements due in part to the substantial Federal ownership of AIG as a result of the Federal Reserve's bailout of AIG in 2008.

We executed 10 defeased lease transactions through 2003 and received \$65 Million in cash benefit for our participation. Seven of the leases were in default following the ratings downgrade of AIG. One defaulted lease was permanently resolved when we terminated it this past May. The currently proposed collateral agreement will resolve another default and leave five unresolved. We are currently in discussions that we hope will resolve two additional defaulted leases by also posting collateral. We continue to reach out to the remaining three investors.

NEXT STEPS

Execute collateral agreement and post collateral.

If you have any questions or comments, please contact Terry Matsumoto, (213) 922-2473.