



April 5, 2001

**TO: BOARD OF DIRECTORS**  
**FROM: ALLAN G. LIPSKY** *Allan Lipsky*  
**CHIEF OPERATING OFFICER**  
**SUBJECT: LEASE-LEASEBACK LIGHT RAIL VEHICLES**  
**UPDATE ON OTHER LEASING ACTIONS**

Metropolitan  
Transportation  
Authority

One Gateway Plaza  
Los Angeles, CA  
90012-2952

### ISSUE

#### **Lease-Leaseback of Light Rail Vehicles**

Through the MTA's leasing advisors, Capstar Partners, LLC and McCalley Consulting (Capstar), an Information Memorandum (IM) to entertain competitive proposals for a "defeased lease" transaction involving 52 Siemens and 15 Sumitomo Light Rail Vehicles was issued on March 21, 2001. This IM was issued jointly with the Southern California Regional Rail Authority (SCRRA) who wish to lease 28 Bombardier Bi-Level Commuter Coaches and 4 General Motors Passenger Locomotives. Staff expects to present a recommended equity investor and transaction parameters to the Board for authorization to negotiate and enter into a lease transaction at the May Board meeting.

#### **Update on other Leasing Actions**

The MTA has also received two unsolicited proposals for our evaluation and consideration. The first proposal is known as a "like kind exchange" and involves the leasing of real estate assets such as bus divisions and rail maintenance yards and the Regional Rebuild Center. This proposal has been evaluated and will be brought to the Board for consideration in April. The second proposal is a leasing transaction for buses that appears similar to the rail car transactions that have previously been approved and closed. This proposal is currently under evaluation by our leasing advisors.

### BACKGROUND

#### **Light Rail Vehicles**

A defeased lease creates a business interest in the leased assets for the investor that allows the investor to derive tax benefits from the transaction. Monetization of these tax benefits can be accomplished through a defeased lease transaction that results in an up-front cash benefit to the MTA at the closing of the transaction. The MTA successfully closed two previous defeased lease transactions; the most recent transaction was for 72 Breda Red Line Heavy Rail vehicles on June 22, 2000, with an MTA benefit in excess of \$15 million.

The SCRRA has requested to combine their 28 bi-level commuter coaches and 4 passenger locomotives valued at \$67.8 million with MTA's lease assets. The advantages to the MTA of including the SCRRA in our transaction is that some of the expenses will be shared between the two agencies and the larger transaction size should increase bidder interest, potentially improving proposed pricing. The SCRRA has agreed that the MTA will be the lead agency in negotiating the transaction. The SCRRA has also agreed to use the MTA's leasing advisor and outside counsel to evaluate and negotiate the transaction. Staff will bring the Memorandum of Understanding between the two agencies to the Board for consideration in May along with the recommendation for an equity investor.

Lease transactions involve certain upfront and contingent fees which historically have averaged between 2 and 3% of the fair market value of the asset being leased. In the case of the rail car lease, which will aggregate approximately \$327 million, fees are estimated to total between \$6.5 and \$8.0 million. Contingent fees to our advisor (Capstar) pursuant to their contract will be approximately \$1.8 million. A surety policy is estimated to cost approximately \$2.3 million. Lender and miscellaneous fees are estimated at \$700,000. Appraiser fees, MTA legal fees and transportation consultant fees (which are non-contingent and will be incurred whether or not the transaction closes) are estimated at \$1.2 million.

Any final lease transaction will conform to the adopted MTA Defeased Leasing policy. Following the receipt of proposals, Capstar will analyze the proposals and work with staff to recommend an award based on the optimal combination of maximum benefit to MTA and most favorable terms and conditions. The MTA reserves the right to reject all proposals in the event that the MTA Board decides not to proceed with the proposed transaction.