



JUNE 6, 2000

Los Angeles County
Metropolitan
Transportation
Authority
One Gateway Plaza
Los Angeles, CA
90012

TO: BOARD OF DIRECTORS
FROM: JULIAN BURKE *JB/A*
**SUBJECT: LEASE TO SERVICE CONTRACT (DEFEASED LEASE) FOR
RED LINE RAIL VEHICLES**

ISSUE

213.922.6000

The Defeased Lease Policy approved by the Board in February 2000 requires that the MTA's outside auditor review each defeased lease transaction. Section P-IV of the policy requires that the auditor determine the sufficiency of the defeasance arrangements and the accounting treatment of the proposed transaction.

PricewaterhouseCoopers reviewed the lease to service contract for the Red Line vehicles and concurs with management that the transaction will be reflected on the MTA's financial statements since the MTA is liable for the stream of payments due over the life of the transaction. Although the transaction represents approximately \$165 million of additional debt liability, it is economically defeased in that a portion of the proceeds of the transaction will be used to purchase guaranteed investment contract (GIC) to make MTA's payments over time. The GIC asset is equivalent to the debt liability and both will be shown on the MTA's balance sheet. The debt is not counted against the MTA's borrowing capacity since the debt liability is offset by the GIC asset and, therefore, does not impact debt ratio calculations.

The transaction is anticipated to close before the end of June 2000. I will provide a report to the board on the final elements of the transaction after closing.