

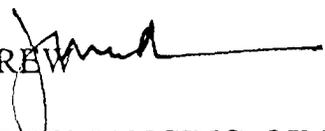


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June 14, 1995

Los Angeles County
Metropolitan
Transportation
Authority

TO: MTA BOARD MEMBERS AND ALTERNATES

FROM: JOSEPH E. DREW 

SUBJECT: REVIEW OF REFINANCING OF BOND SALES

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As was referenced in the Los Angeles Times today we have ordered a debt capacity model be prepared by our current financial adviser, Public Finance Management, in order to determine, in part, if we were overcharged for financial services in the refinancing of bonds issued by the LACTC and the MTA. There were four such transactions conducted in 1991 through 1993, three by the LACTC and one by the MTA to take advantage of lower interest rates.

We are pleased to report that our transactions reduced our interest obligations by \$43.2 million. Our goal for these transactions was to save at least 3 percent on interest rates. On aggregate we actually achieved a 4 percent savings. Although we informed the Times of these facts, this material was not incorporated in their article.

Our procedures at the time, to assure that we received fair market rates and that the transactions were properly handled, was to obtain outside written verification by an independent broker/dealer. In three of the four refundings we obtained written verification that we were not unduly charged for services, and that we obtained fair market rates.

In the fourth instance, in June 1992, we obtained written verification that we were charged a fair market rate for services, however, this transaction involved a different type of security which did not require verification of fair market rates. These procedures were consistent with those followed by other government agencies and required by bond counsel.

REVIEW OF REFINANCING OF BOND SALES

June 14, 1995

Page 2

We have no evidence at this time that the MTA nor the LACTC was the victim of collusion in connection with these verification letters from our former financial advisor, Lazard Freres, nor anyone associated with the refinancing transactions. We will report to you the result of the debt capacity model when completed, and if there is evidence that we were indeed overcharged, we will advise you as to any remedies that the MTA might pursue.

State and federal guidelines have changed for these types of refinancings. As a result of these changes, and our internal review, we have revised our guidelines for future securities transactions. These changes will assure us that the financial advisor shall not purchase securities for the MTA which are to be held in escrow or reserve accounts, nor shall this firm act as an underwriter for debt issued. We also will insist that securities purchased for escrow and reserve accounts shall be competitively bid.