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Metropolitan
Transportation
Authority

One Gateway Plaza
Los Angeles, CA
90012-2952

FINANCE AND BUDGET COMMITTEE
JULY 17, 2003

SUBJECT: BENEFIT ASSESSMENT DISTRICT A1 LEVIES

ACTION: ADOPT A RESOLUTION AUTHORIZING THE MODIFICATION OF THE RESERVE FUND SURETY POLICY FOR THE SPECIAL BENEFIT ASSESSMENT DISTRICT A1 REVENUE BONDS

RECOMMENDATION

Adopt a resolution authorizing the Chief Executive Officer and other Authorized Officers under the resolution to execute the documents for the modification or substitution of the Surety Bond provided by Ambac Assurance Corporation, and authorizing the payment of the surety fee and all other expenses of the matters described in the resolution, not to exceed \$350,000.

ISSUE

The proposed action will keep the levy from approaching its \$0.42 per square foot maximum and to provide relief to current property owners. By modifying the surety policy to eliminate the requirement to make annual replenishment payments to the Reserve Fund, the levy requirement will be lowered by \$2.1 million each year through FY2007-08. In FY2008-09 there will be a corresponding increase in the levy to pay debt service on bonds for which the Reserve Fund was originally intended to provide funding. MTA is implementing this action to partially mitigate a large increase in the levy that will otherwise take effect beginning in FY2003-04.

POLICY IMPLICATIONS

Adoption of the authorizing resolution will enable MTA to mitigate some of the increases that will otherwise occur beginning in FY2003-04. The mitigation will result in smaller levy increases in the initial fiscal periods by moving some of the tax burden for property owners into FY2008-09.

ALTERNATIVES CONSIDERED

Without modification of the surety policy the levy will be approximately \$0.41 per assessable square foot. With the recommended modification, which is

supported by the Downtown Business Improvement District, the levy in each of the next 5 years would be reduced by about \$0.035, thereby reducing the tax burden on the current property owners.

FINANCIAL IMPACT

The budgetary costs of implementing this action are anticipated to not exceed \$350,000. The expenses will be funded from the Surplus Fund of the A1 District Bonds. These costs were not separately budgeted in either FY03 or FY04 because this action was not decided upon until after the FY04 budget process was complete. In addition, this action will extend and increase the MTA's liability for repayment of the Surety Bond. The MTA has previously pledged, as part of the initial purchase of the Surety Bond in 1997, to use available funds to repay the Surety Bond. The modification of the Surety Bond will increase the coverage amount of the Surety Bond by \$3,000,000 per year beginning in FY2003-04 to a maximum of \$15,000,000, and will extend the term of the Surety Bond to FY2008-09. In the event A1 District tax levies are insufficient to pay debt service on the bonds and the Surety Bond is drawn upon for payment of debt service, the MTA will be liable for repayment of the Surety Bond.

NEXT STEPS

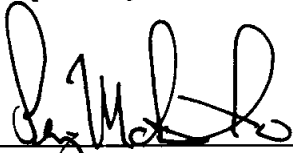
Following adoption of the resolution, documents will be executed to implement the surety modification. The levy rate for the A1 District will be calculated for FY2003-04, reflecting the reduced levy requirement.

A separate complementary action was approved by the Board at the June 2003 Board meeting. That action lowered levies for the A1 District in FY2003-04 through FY2006-07 with a corresponding levy increase in FY2007-08. The combined levy reduction for the two actions will average about \$0.075 per assessable square foot through FY2006-07.

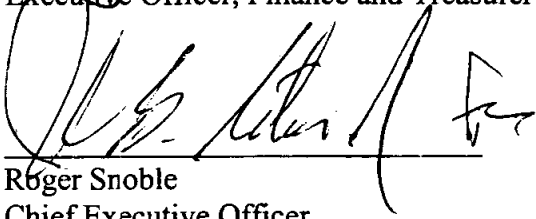
ATTACHMENT

A. Authorizing Resolution

Prepared by: Michael J. Smith, Assistant Treasurer



Terry Matsumoto
Executive Officer, Finance and Treasurer



Roger Snoble
Chief Executive Officer

Attachment A

RESOLUTION OF THE BOARD OF DIRECTORS OF THE LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY AUTHORIZING THE SUBSTITUTION OF CERTAIN AMOUNTS TO BE HELD IN THE RESERVE ACCOUNT WITH A SURETY BOND, THE AMENDMENT OF THE INDENTURE AND THE EXECUTION OF OTHER NECESSARY DOCUMENTS AND CERTIFICATES AND RELATED ACTIONS IN CONNECTION WITH THE SPECIAL BENEFIT ASSESSMENT DISTRICT A1 REVENUE BONDS, SERIES 1992-A AND SERIES 2001-A

WHEREAS, in accordance with Chapter 12, Part 3, Division 10 (commencing with Section 33000) of the California Public Utilities Code (the "Act"), the Board of Directors of the Southern California Rapid Transit District (the "District") formed Special Benefit District No. A1 of the Southern California Rapid Transit District;

WHEREAS, pursuant to the Act and an Indenture, dated as of October 1, 1992, by and between the Southern California Rapid Transit District (the "District") and Meridian Trust Company of California, as trustee, as amended and supplemented by the First Supplemental Indenture, dated as of January 1, 1998, by and between the Los Angeles County Metropolitan Transportation Authority (the "Authority" as successor to the District) and BNY Western Trust Company, as successor trustee (the "Trustee"), and the Second Supplemental Indenture, dated as of August 1, 2001, by and between the Authority and the Trustee (as so amended and supplemented, the "Indenture"), the District issued its Special Benefit Assessment District A1 Revenue Bonds, Series 1992-A (the "Series 1992-A Bonds") in the aggregate principal amount of \$154,055,000, and thereafter the Authority issued its Special Benefit Assessment District A1 Revenue Refunding Bonds, Series 2001-A (the "Series 2001-A Bonds"), in the aggregate principal amount of \$42,465,000 (all capitalized terms used in these recitals shall have the meanings ascribed thereto in the Indenture);

WHEREAS, the payment of the principal of and interest on the Series 1992-A Bonds and the 2001-A Bonds, each as and when due is insured by a financial guaranty insurance policy issued by Ambac Assurance Corporation;

WHEREAS, as of the date hereof, a portion of the Reserve Requirement is secured by an Ambac Indemnity Surety Bond with a \$15,000,000 par amount, and an additional \$1,146,000 is currently on deposit the Reserve Account established under the Indenture;

WHEREAS, the Authority is obligated to transfer certain available funds to the Reserve Account as provided in the Indenture and has agreed that in each year commencing on September 1, 2003, and on each September 1 thereafter, through and including September 1, 2007, the Trustee shall transfer first, from the Assessment Subsidy Fund (to the extent moneys are available therein) and second, from the Special Fund, to the Reserve Account an amount

equal to \$2,150,000 (the "Annual Replenishment"), such that the cash in the Reserve Account on September 1, 2007 is at least equal to the greater of \$10,750,000 or the Reserve Requirement;

WHEREAS, pursuant to Section 4.03(c) of the Indenture, the Authority may, at any time and from time to time, substitute one or more lines or letters of credit, surety bonds, bond insurance policies or other form of guarantee from a financial institution (the long-term unsecured obligations of which are rated not less than "AA" by Standard & Poor's Ratings Services and "Aa" by Moody's Investors Service, Inc.) in lieu of or in substitution for all or any portion of the Reserve Requirement;

WHEREAS, Authority desires to accelerate the September 1, 2003 Annual Replenishment in an amount not less than \$2,500,000 and to substitute the existing surety bond and the scheduled Annual Replenishment continuing September 1, 2004 and on each September 1 thereafter, through and including September 1, 2007, with a surety bond to be issued by Ambac Assurance Corporation ("Ambac") in the amount of \$15,000,000 (the "Surety Bond")^;

WHEREAS, such substitution is intended to provide surety coverage in substitution for the requirement that on each September 1, 2004 through 2007 the Reserve Fund be replenished from amounts on deposit in the Assessment Subsidy Fund (to the extent moneys are available therein)^, and the Indenture will be revised to reflect this change;

WHEREAS, in order to induce Ambac to issue its Surety Bond, the Authority proposes to enter into a Guaranty Agreement with Ambac whereby the Authority will agree to reimburse Ambac from legally available funds for any amounts drawn on the Surety Bond;

WHEREAS, the Authority, with the prior written consent of Ambac, desires to pay the costs of the Surety Bond and all other expenses, including legal fees, incurred in connection with the issuance of the Surety Bond from amounts currently on deposit in the Surplus Account in the Debt Service Fund of the Indenture;

WHEREAS, in order to provide for the substitution of the Surety Bond and certain other matters related thereto as set forth herein, the Authority desires to amend the Indenture in certain respects and on the terms and conditions hereinafter set forth;

WHEREAS, Section 8.01(b) of the Indenture provides that the Indenture may be modified or amended by a Supplemental Indenture, without the consent of any Bond Owners or Ambac, in any respect whatsoever as the Authority may deem necessary or desirable, provided that such modifications or amendments shall not materially adversely affect the interests of the Bond Owners; and

WHEREAS, terms used in this Resolution and not otherwise defined herein shall have the meanings assigned to them in the Indenture:

NOW, THEREFORE, BE IT RESOLVED, by The Board of Directors of The Los Angeles County Metropolitan Transportation Authority, as follows:

Section 1. All of the recitals herein contained are true and correct and the Authority so finds.

Section 2. The Authority hereby authorizes and approves of the substitution of the Surety Bond to be issued by Ambac in the amount of \$15,000,000 (the "Surety Bond") in place of the surety bond currently on deposit in, and amounts scheduled to be transferred on each September 1, 2004 through 2007 as an Annual Replenishment to, the Reserve Account. The Authority hereby authorizes the Chair of the Board, or such other member of the Board as the Chair may designate, the Chief Executive Officer of the Authority, Chief Financial Officer, the Deputy Chief Executive Officer of the Authority and the Executive Officer, Finance and Treasurer of the Authority, or such other officer of the Authority as the Chief Executive Officer of the Authority may designate (the "Authorized Officers"), any one or more thereof, to take such action as is necessary to effectuate such substitution.

Section 3. The form, terms and provisions of the Third Supplemental Indenture dated as of June 1, 2003 (the "Third Supplemental Indenture"), by and between the Authority and BNY Western Trust Company, as trustee (the "Trustee"), is in all respect approved, and any Authorized Officer, any one or more thereof, is hereby authorized, empowered and directed to execute, acknowledge and deliver the Third Supplemental Indenture, including counterparts thereof, in the name of and on behalf of the Authority. The Third Supplemental Indenture, as executed and delivered, shall be in substantially the form now before this meeting and hereby approved, or with such changes therein as shall be approved by the hereinabove specified officer or officers of the Authority executing the same; the execution thereof shall constitute conclusive evidence of the Authority's approval of any and all changes or revisions therein from the form of the Third Supplemental Indenture now before this meeting; and from and after the execution and delivery of the Third Supplemental Indenture, the officers, agents and employees of the Authority are hereby authorized, empowered and directed to do all such acts and things and to execute all such documents as may be necessary to carry out and comply with the provisions of the Third Supplemental Indenture.

Section 4. The form, terms and provisions of Guaranty Agreement with respect to the Surety Bond (the "Guaranty Agreement"), in such form substantially similar to the Guaranty Agreement dated as of dated as of January 1, 1998, by and between the Authority and Ambac, is in all respect approved, and any Authorized Officer, any one or more thereof, is hereby authorized, empowered and directed to execute, acknowledge and deliver the Guaranty Agreement, including counterparts thereof, in the name of and on behalf of the Authority. The Guaranty Agreement, as executed and delivered, shall be in substantially the form now before this meeting and hereby approved, or with such changes therein as shall be approved by the hereinabove specified officer or officers of the Authority executing the same; the execution thereof shall constitute conclusive evidence of the Authority's approval of any and all changes or revisions therein from the form of the Guaranty Agreement now before this meeting; and from and after the execution and delivery of the Guaranty Agreement, the officers, agents and employees of the Authority are hereby authorized, empowered and directed to do all such acts and things and to execute all such documents as may be necessary to carry out and comply with the provisions of the Guaranty Agreement.

Section 5. The Authority hereby authorizes the payment to Ambac of a premium ^for the issuance and delivery of its Surety Bond. Such premium shall be paid from amounts on deposit in the Surplus Account in the Debt Service Fund. The Authority hereby further authorizes the payment of all other expenses^ including, without limitation, legal and consultant fees, incurred in connection with the matters described in this Resolution in an amount not to exceed \$350,000 from amounts on deposit in the Surplus Account in the Debt Service Fund. The Authority hereby directs any Authorized Officer to obtain the consent of Ambac to use amounts on deposit in the Surplus Account in the Debt Service Fund for such purposes.

Section 6. The Authorized Officers and all officers, agents and employees of the Authority, for and on behalf of the Authority, are hereby authorized and directed to do any and all things necessary to effect the execution and delivery of the Third Supplemental Indenture, the Guaranty Agreement and the substitution of the Surety Bond. The Authorized Officers and all other officers, agents and employees of the Authority are further authorized and directed, for and on behalf of the Authority, to execute all papers, documents, certificates and other instruments that may be required in order to carry out the authority conferred by this Resolution, the Third Supplemental Indenture or the Guaranty Agreement or to evidence said authority or its exercise. The foregoing authorization includes, but is in no way limited to, the execution and delivery of certificates or other documents required pursuant to the Indenture or by Ambac or the Trustee in connection with the foregoing matters.

Section 7. All actions heretofore taken by any officer, agent or employee of the Authority in connection with the substitution of the Surety Bond or in connection with or related to any of the agreements or documents referenced herein are hereby approved, confirmed and ratified.

Section 8. The Authorized Officers are each hereby authorized and directed to solicit the consent of the Ambac and credit rating agencies as appropriate or necessary and to evidence such consent as the Authorized Officers, with the advice of Authority Counsel, may require and approve and are directed, jointly and severally, to do any and all things which they may deem necessary or advisable in order to consummate the transactions herein authorized and otherwise to carry out, give effect to and comply with the terms and intent of this Resolution.

Section 9. The provisions of this Resolution are hereby declared to be severable and, if any section, phrase or provision shall for any reason be declared to be invalid or unenforceable, such declaration shall not affect the validity of the remainder of the sections, phrases and provisions hereof.

Section 10. All actions heretofore taken by the officers, employees and agents of the Authority with respect to the transactions set forth above are hereby approved, confirmed and ratified.

Section 11. This Resolution shall take effect immediately upon its adoption.

PASSED AND ADOPTED by the Board of Directors of the Los Angeles County Metropolitan Transportation Authority on **July** __, 2003.

Chair of the Board of Directors of the Los Angeles County Metropolitan Transportation Authority

(SEAL)

ATTEST:

Secretary of the Los Angeles County Metropolitan Transportation Authority

Document comparison done by DeltaView on Friday, June 20, 2003 12:13:12

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