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FINANCE & BUDGET COMMITTEE  
JANUARY 22, 1998

Los Angeles County  
Metropolitan  
Transportation  
Authority

One Gateway Plaza  
Los Angeles, CA  
90012

213.922.6000

**SUBJECT: REDUCTION OF LEVIES FOR THE BENEFIT ASSESSMENT DISTRICT (A-1)**

**ACTION: ADOPT A RESOLUTION THAT PERMITS THE IMPLEMENTATION OF A RATE REDUCTION PROGRAM FOR THE BENEFIT ASSESSMENT DISTRICT (BAD) and AUTHORIZE THE CHIEF EXECUTIVE OFFICER TO EXECUTE REQUIRED PROGRAM DOCUMENTS, and SET BAD ASSESSMENT RATES AND PROVIDE AN ANNUAL REPORT TO THE BOARD**

**RECOMMENDATION**

- A. Adopt a resolution (Attachment A) that permits the substitution of the cash reserve fund with surety bond.
- B. Authorize the Chief Executive Officer or his designated representatives to:
  1. Execute any documents required to comply with indenture requirements or required by the insurer or the trustee;
  2. Set the assessment rates annually on each foot of assessable property in the BAD (A-1) so that sufficient levies are collected to comply with the indenture requirements, as may be modified to implement this program; and
  3. Provide an annual report to the Board with respect to the continuation or cessation of the proposed assessment rate reduction program.

**ALTERNATIVES CONSIDERED**

1. Consideration was given to refunding the BAD bonds. This option would not have reduced debt service in sufficient amounts to lower assessment rates.
2. Another consideration was to purchase BAD bonds in the secondary market. This option was also rejected. Cash in the reserve fund could not purchase enough bonds to achieve the desired assessment rate reduction.

## **BUDGET IMPACT**

There is no budget impact in FY98. The fees for the surety bond and legal services would be paid from the existing surplus fund held under the indenture.

This program has been structured so that BAD conditions are monitored to minimize MTA's financial exposure. However, there is a risk that under certain unpredictable conditions the MTA would be required to replenish the BAD cash reserves up to \$15.4 million from legally available (unpledged) revenues. Examples of these unpredictable events would include an earthquake or any other catastrophic event, such as a fire, that would result in a decline in assessable square footage below 60 million assessable square feet.

## **BACKGROUND**

In February 1997, the MTA Board was asked by a newly formed downtown Business Improvement District (BID) to lower BAD assessments by \$.05 per assessable square foot for a period of five years. The BID is composed of major property owners in downtown Los Angeles who have voluntarily organized a special district to address goals and priorities for the area, including public safety, marketing, and an improved maintenance program. In support of this request, the MTA Board adopted a resolution that amended the assessment rate schedule and authorized a bond repurchase program.

At the time it was anticipated that the reserves could be used to purchase a portion of outstanding BAD bonds in the secondary market. Doing so would have resulted in a lower levy to the BAD. However, a low interest rate environment existed during the majority of 1997. Therefore, a very high premium would have had to be offered to repurchase the bonds. At those high prices, the cash in the reserve fund could not purchase enough bonds to achieved the desired assessment rate reduction.

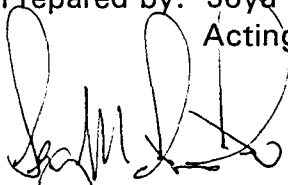
Staff then explored other alternatives and in early November received verbal consent from the insurer to a plan that would reduce the actual levies assessed while maintaining the required debt coverage. In late November the insurer committed to issuance of the surety bond subject to a number of conditions (See Attachment B). In early December, Bank of New York (trustee) gave its consent to the surety replacement. Subsequently staff worked with O'Melveny & Myers (counsel) and Public Resources Advisory Group (financial advisors) to modify to the existing indenture and develop a resolution that will permit the implementation of this program.

The rate reduction program will reduce the BAD (A-1) assessment rates on a year-to-year basis for a maximum of five years (FY99-FY03) as long as the BAD's financial and operating conditions remain stable. While it is the goal of the program to reduce the assessments by a full \$.05 (five cents), this will depend on a yearly evaluation of the BAD's assessable square footage, collection rates, and delinquencies. The cash reserve will be replenished beginning in FY04 and continuing through FY08.

**ATTACHMENT**

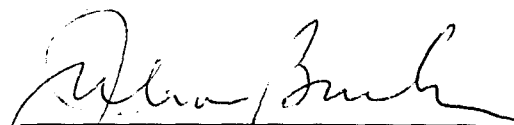
- A. Resolution
- B. Surety Bond Replacement Program

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**RESOLUTION OF THE LOS ANGELES COUNTY  
METROPOLITAN TRANSPORTATION AUTHORITY  
AUTHORIZING THE SUBSTITUTION OF THE  
RESERVE ACCOUNT WITH A SURETY BOND  
AND THE AMENDMENT OF THE INDENTURE  
DATED AS OF OCTOBER 1, 1992  
AND CERTAIN MATTERS RELATED THERETO,  
EACH RELATING TO \$154,055,000 SOUTHERN  
CALIFORNIA RAPID TRANSIT DISTRICT SPECIAL  
BENEFIT ASSESSMENT DISTRICT A1 REVENUE BONDS,  
SERIES 1992-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 "RTD") formed Benefit District No. A1 ("Assessment District A1") on July 11, 1985;

WHEREAS, pursuant to Section 33003 of the Act, the RTD authorized the issuance of \$154,055,000 Special Benefit Assessment District A1 Revenue Bonds, Series 1992-A (the "Bonds"), payable from special benefit assessments levied and to be levied within Assessment District A1, to pay for the costs of construction of one or more rail transit stations located within Assessment District A1;

WHEREAS, in order to provide for the authentication and delivery of the Bonds and to establish the terms and conditions upon which the Bonds were issued and secured, the RTD and Meridian Trust Company of California, as trustee, entered into an Indenture dated as of October 1, 1992 (the "Indenture");

WHEREAS, under the leadership of the Central City Association of Los Angeles the Downtown Center Business Improvement District (the "BID") was formed for the purpose of improving and revitalizing downtown Los Angeles and the BID will assess major downtown property owners annually in order to finance such improvements;

WHEREAS, the BID is composed of substantially the same property owners as those located within Assessment District A1;

WHEREAS, in order to reduce the assessment burden on property owners located within both the BID and Assessment District A1, on February 26, 1997, the Authority adopted a Resolution authorizing a reduction in assessment rates in

Assessment District A1 during the five-year period commencing with Fiscal Year 1999-00 through Fiscal Year 2003-04 subject to compliance with all legal requirements;

WHEREAS, pursuant to Section 4.03(c) of the Indenture, the RTD 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 (as defined in the Indenture);

WHEREAS, the Los Angeles County Metropolitan Transportation Authority (the "Authority"), as successor to the RTD, desires to substitute a surety bond to be issued by AMBAC Assurance Corporation ("AMBAC") in the amount of \$15,000,000 (the "Surety Bond") for the same amount of cash currently on deposit in the Reserve Account in the Debt Service Fund;

WHEREAS, the Authority desires to deposit the freed up moneys from the Reserve Account into a newly created fund designated the "Assessment Subsidy Fund" to be held under the Indenture and used to reduce the annual assessment levied in Assessment District A1 during the five-year period commencing with Fiscal Year 1999-00 through Fiscal Year 2003-04;

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 the creation of the Assessment Subsidy Fund and certain other matters related thereto, the Authority desires to amend the Indenture in certain respects;

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 LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY, AS FOLLOWS:

1. Recitals. The Authority finds and determines that the foregoing recitals are true and correct.

2. Substitution of Surety Bond for Reserve Account Moneys. The Authority hereby authorizes and approves of the substitution of the Surety Bond to be issued by AMBAC for the moneys currently held in the Reserve Account in the Debt Service Fund in connection with the Bonds. The Authority hereby authorizes the Chief Executive Officer or the designee of the Chief Executive Officer (each, a "Designated Officer"), any one or more thereof, to take such action as is necessary to effectuate such substitution.

3. Approval of First Supplemental Indenture; Authorization for Execution. The form, terms and provisions of the First Supplemental Indenture dated as of January 1, 1998 (the "First Supplemental Indenture"), by and between the Authority and BNY Western Trust Company, as trustee (the "Trustee"), is in all respect approved, and the Chief Executive Officer and any Designated Officer, any one or more thereof, are hereby authorized, empowered and directed to execute, acknowledge and deliver the First Supplemental Indenture, including counterparts thereof, in the name of and on behalf of the Authority. The First 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 First Supplemental Indenture now before this meeting; and from and after the execution and delivery of the First 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 First Supplemental Indenture.

4. Approval of Guaranty Agreement; Authorization for Execution. The form, terms and provisions of the Guaranty Agreement dated as of January 1, 1998 (the "Guaranty Agreement"), by and between the Authority and AMBAC, is in all respect approved, and the Chief Executive Officer and any Designated Officer, any one or more thereof, are 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.

5. Payment of Surety Bond Premium and Legal Fees. The Authority hereby authorizes the payment to AMBAC of a premium in the amount of \$600,000 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 legal fees, incurred in connection with the matters described in this Resolution from amounts on deposit in the Surplus Account in the Debt Service Fund. The Authority hereby directs the Chief Executive Officer and any Designated Officer to obtain the consent of AMBAC to use amounts on deposit in the Surplus Account in the Debt Service Fund for such purposes.

6. Additional Authorization. The Chief Executive Officer and the Designated 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 First Supplemental Indenture, the Guaranty Agreement and the substitution of the Surety Bond. The Chief Executive Officer and the Designated 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 First 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.

7. Ratification of Prior Actions. 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.

8. Severability. 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.

9. Effective Date. This Resolution shall become effective upon adoption by the Board of Directors of the Los Angeles County Metropolitan Transportation Authority.



CERTIFICATION

The undersigned, duly qualified and acting Secretary of the Los Angeles County Metropolitan Transportation Authority, hereby certifies that the foregoing is a true and correct copy of a Resolution adopted at a legally convened meeting of the Board of Directors of the Los Angeles County Metropolitan Transportation Authority held on January 28, 1998.

DATED: \_\_\_\_\_

\_\_\_\_\_  
Secretary, Los Angeles County  
Metropolitan Transportation  
Authority



**\$154,055,000**  
**Special Benefit Assessment District**  
**Surety Bond Replacement**

January 22, 1998



## **Commitment Summary**

Ambac Assurance Corporation has issued its commitment to provide a Surety Bond relating to the Debt Service Reserve Fund subject to certain conditions:

### ■ **Financial Requirements**

- Replenishment of the Debt Service Reserve Fund to the Reserve Requirement of \$15.4 million by FY 2008
- No material adverse change in the financial and operating condition of the Benefit Assessment District (the "BAD")

### ■ **Documents**

- Supplemental Indenture reflecting amendments
- Guaranty Agreement
- Resolution of Board
- Ambac Surety



## **Commitment Summary (continued)**

### **■ Legal Requirements**

- Certificate of an officer of MTA which states that there has been no misleading information which has been provided to Ambac
- An opinion of bond counsel which opines that any draws on the Surety may be reimbursed by the MTA to Ambac subject to prior liens on MTA revenue
- Trustee consent to amendment to Indenture
- An opinion of counsel acceptable to Ambac which states that the Guaranty Agreement is legal, valid and binding obligation of the MTA
- An opinion of bond counsel relating to Supplemental Indenture

### **■ Costs**

- Payment of the Surety in the amount of 4% of the reserve requirement or approximately \$600,000
- Legal Fees