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Ronald W. Smith  
Corporate Secretary  
Municipal Securities Rulemaking Board  
1900 Duke Street, Suite 600  
Alexandria, VA22314

RE: Request for comment on MSRB Notice 2012-04 concerning the application of MSRB Rule G-17 to bondholder consents by underwriters of municipal securities

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Dear Mr. Smith:

The Los Angeles Metropolitan Transportation Authority (“LACMTA”) appreciates the opportunity to comment on the Municipal Securities Rulemaking Board’s (“MSRB”) Notice 2012-04 (the “Notice”). In general, we commend the MSRB for proactively addressing potentially abusive practices in the municipal markets. If there are circumstances in which issuers are materially injuring existing bondholders through underwriter consents, then the Notice will alert the municipal markets that these kinds of practices are not acceptable. However, we want to express our concern that the Notice not be stated too broadly such that it may preclude amendments that do not treat investors unfairly even though the amendment would affect the security of the bonds, as in the example cited below.

The LACMTA is currently in the process of amending two of our sales tax bond trust agreements to resolve an ambiguity regarding whether a downgraded surety policy counts toward satisfaction of the debt service reserve requirement. Our trust agreements are silent on this matter. We are in the process of executing these amendments to the trust agreements by obtaining consents, like underwriter consents, for each series of bonds we issue until we have a sufficient percentage of bondholders under each trust agreement to approve an amendment.

The ambiguity in the trust agreements poses risk for both the LACMTA and our bondholders. The Proposition A and Proposition C bond indentures are 30 years old and 20 years old, respectively, and thus some terms are not reflective of the current market. To resolve the ambiguity, our proposed amendment will specify a reserve fund surety policy provider ratings level and, if a provider falls below that level, it will trigger a specified period within which we must replenish the reserve fund. By providing an extended time for replacement and establishing lower ratings triggers, the proposed amendment arguably reduces bondholder security slightly if one takes the position that the LACMTA already had an obligation to immediately replace a downgraded surety. However, we tested the terms of the proposed amendment by speaking with a number of large institutional investors, each of whom responded positively to the proposed changes. In addition, bondholders were willing to accept the proposed terms in exchange for adding language specifying the terms for replacement. Under the

proposed language of the Notice, a mutually beneficial amendment such as this may not be possible.

While we commend the MSRB for addressing the problem, we do believe that the Notice is too broadly stated and could preclude a productive solution like the example we have provided. The key portion of the Notice that concerns us is:

*“For example, it would be a violation of Rule G-17 for an underwriter to consent to amendments to an authorizing document that would reduce the security for existing bondholders unless (i) the authorizing document expressly provided that an underwriter could provide bondholder consent and (ii) the offering documents for the existing securities expressly disclosed that bondholder consents could be provided by underwriters of other securities issued under the authorizing document.”*

While the Notice does provide some clarification about what a reduction of security for existing bondholders would look like, we think that the facts and circumstances in day-to-day transactions are too complex and too varied to make this sweeping statement.

Consequently, we believe that the Notice is too sweeping in how it articulates the abusive practices.

The MSRB needs to keep in mind that many amendments to indentures and trust agreements may be technically material and adverse to bondholders and yet be in the best interests of everyone involved. These indentures and trust agreements may be several decades old and formal bondholder consent requests may simply not be practical or helpful for anyone involved. Accordingly, the MSRB should be sure to articulate the point so as to be clear that legitimate and helpful practices are not unintentionally stopped.

Thank you for considering these comments.

Best Regards,



Michael J. Smith  
Assistant Treasurer  
Los Angeles County Metropolitan Transportation Authority