Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
7	08/22/13	Open	Action	07/29/13

Subject: Approving an Amendment to RT's Leveraged Lease Transactions

ISSUE

Whether or not to delegate authority to the General Manager/CEO to execute documents necessary to modify RT's 2005, 2006, and 2007 leveraged lease transactions with Fifth Third Leasing Company to lower the U.S. treasury rating requirements.

RECOMMENDED ACTION

Adopt Resolution No. 13-08-_________ Delegating Authority to the General Manager/CEO to Execute Documents Necessary to Modify RT's 2005, 2006, and 2007 Leveraged Lease Transactions to Lower the U.S. Treasury Rating Requirements.

FISCAL IMPACT

Budgeted:	No	This FY:	$50,000
Budget Source:	Operating	Next FY:	$0
Funding Source:	LTF; STA; Measure A	Annualized:	$N/A
Cost Cntr/GL Acct(s) or Capital Project #:	23-6303	Total Amount:	$50,000

Total Budget: $50,000 (Outside Estimate)*

* Total fees are expected to be less than this amount.

DISCUSSION

In late 2005, early 2006 and late 2007, RT entered into three different "Lease Financing" or "Leveraged Lease" transactions (also described as "SILOs") involving RT light rail vehicles. As described in more detailed in the Issue Paper accompanying Resolution No. 11-02-0034, the transactions allowed RT to lease 50 rail cars to an equity investor (Fifth Third Leasing Company ("Fifth Third")) for a period beyond their useful life and then lease back the cars for an extended period of time, after which they can be repurchased. The majority of the initial "lease" payment from the equity investor was placed on deposit with financing counterparties to fund the annual payment obligations and the purchase option.

Each of RT's three transactions was structured the same and involved the same parties. AIG Matched Funding provided a collateralized Equity Payment Undertaking Agreement (EPUA) which was guaranteed by AIG. Another AIG affiliated entity, AIGFP-Special Finance, provided a Debt Payment Undertaking Agreement (DPUA) which was also guaranteed by AIG. Ambac provided a surety, or secondary back up insurance. The agreements required RT to replace Ambac and AIG within 60 days if their ratings were downgraded below these triggers: "Aa3/AA-" in the case of Ambac and "A2/A" in the case of AIG as EPUA guarantor and "A3/A-" as DPUA guarantor.

Approved: Presented:

General Manager/CEO Chief Financial Officer

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As a result of the financial crisis that began in 2008, the ratings of both entities fell below the applicable thresholds. From the time that the ratings first fell below their minimum thresholds in September 2008, Fifth Third provided RT with letter agreements in which it agreed to forbear from taking an action for default under the Lease Financing documents for a period of time.

Over this same time frame, forbearance was sought and received from Wells Fargo Bank (WF) because covenants within the line of credit (LOC) made it necessary. A default on a credit instrument, even a technical default, created a cross default condition on the LOC.

On February 28, 2011, the Board authorized staff to undertake the restructuring of RT's SILO transactions to eliminate the need for continued forbearance from its equity investor,

Following a five-month process involving many meetings and documents between all the parties, the restructuring was completed. The EPUA was eliminated and replaced with U.S. Treasury securities, with a rating requirement that the securities remain at Aaa/AAA ratings. Unfortunately, in August, 2011, just one month after the restructuring was completed, Standard & Poor's downgraded the US Government, lowering the US Treasury ratings to Aaa/AA+. As a result of this downgrade, RT was again required to seek forbearance from both Fifth Third and WF for the additional technical defaults. Fifth Third was unwilling to rewrite the documents again at that time and chose, instead, to issue an annual forbearance letter that overlapped RT's LOC renewal, to ease any difficulty the new technical defaults might cause in efforts to annually renew the LOC with WF. WF also annually renewed its matching forbearance letter to the end of the term of the LOC, which was June 30, 2013.

Due to the recent WF decision not to renew RT's annual LOC, staff has undertaken a search for a replacement bank that will provide a $25 million LOC. The most likely replacement bank is reluctant to proceed with credit consideration due to the technical defaults on the Lease Financing transactions, even with annual forbearance from Fifth Third.

Fifth Third has now agreed to amend the Participation Agreements to reduce the rating trigger applicable to the equity securities so long as US Treasury collateral is pledged for the transactions and RT agrees to pay all costs to accomplish the amendments. Counsel for Fifth Third is currently in the process of drafting the necessary documents to accomplish this change and the parties are still negotiating regarding the costs of the transaction.

While reducing the rating trigger will not ensure that RT will receive a favorable credit opinion from the bank that raised it as an issue, it will clear the technical defaults and improve RT's position as it seeks a new LOC. .

Staff recommends that the Board of Directors delegate authority to the General Manager/CEO to negotiate and execute all documents necessary to reduce the U.S. Treasuries "rating trigger" for the 2005, 2006 and 2007 Lease Financing transactions and to pay all costs incurred to effectuate the modifications.

RESOLUTION NO. 13-08-_____

Adopted by the Board of Directors of the Sacramento Regional Transit District on this date:

August 12, 2013

DELEGATING AUTHORITY TO THE GENERAL MANAGER/CEO TO EXECUTE DOCUMENTS NECESSARY TO MODIFY RT'S 2005, 2006, AND 2007 LEVERAGED LEASE TRANSACTIONS TO LOWER THE U.S. TREASURY RATING REQUIREMENTS

WHEREAS, in 2005, 2006, and 2007, RT entered into three leveraged lease transactions (Lease Transactions) with The Fifth Third Leasing Company (Fifth Third) with respect to a total of 50 rail cars with an aggregate value of approximately $223.8 million; and

WHEREAS, the Lease Transactions contain a requirement for RT to replace the equity collateral if the ratings for such collateral falls below Aaa/AAA; and

WHEREAS, the equity collateral pledged in the transactions are US Treasury securities backed by the ratings of the US Government; and

WHEREAS, the US Government rating was downgraded and fell below the ratings trigger in August 2011; and

WHEREAS Fifth Third has consistently agreed to forbear the requirement to replace the equity securities until either the US Government rating improves or a solution to the requirement was found, and

WHEREAS RT and Fifth Third have agreed amend the Lease Transaction documents to reduce the ratings requirement for the equity collateral pledged as long as US Treasuries constitute the equity collateral,

BE IT HEREBY RESOLVED BY THE BOARD OF DIRECTORS OF THE SACRAMENTO REGIONAL TRANSIT DISTRICT AS FOLLOWS:

THAT, the General Manager/CEO is hereby authorized to execute all documents necessary to modify the ratings trigger for the Lease Transactions and to pay all costs incurred to effectuate the modification.

PATRICK HUME, Chair

A T T E S T:

MICHAEL R. WILEY, Secretary

By: ______________________________

Cindy Brooks, Assistant Secretary