



U.S. House of Representatives
Committee on Transportation and Infrastructure

James L. Oberstar
Chairman

Washington, DC 20515

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October 30, 2008

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The Honorable Henry Paulson
Secretary of the Treasury
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

The Honorable Ben Bernanke
Chairman
The Federal Reserve
20th & Constitution Ave., N.W.
Washington, DC 20551

Dear Mr. Secretary and Mr. Chairman:

We write to express our concern regarding the effect of the current credit crisis on the public transit industry. Transit financing deals entered into between 1988 and 2003 with certain banks have now placed more than 30 of the nation's largest transit agencies at risk of default and financial collapse. Although the U.S. Department of Transportation has limited information, it is our understanding that the public transit sector's total exposure from these deals could be up to \$16 billion, and may significantly impact 25 metropolitan areas in 17 States across the nation. According to individual transit agency estimates, approximately \$1.5 billion to \$4 billion of these deals are immediately at risk. We expect that as you confront this unprecedented situation, you recognize the severity of the financial impact on state and local transit agencies, and the commuting public whom they serve. We urge you to use all of your existing authority, including the Department of Treasury's authority under the Emergency Economic Stabilization Act, to help the transit agencies resolve this issue.

These transit contracts, when in vogue, were touted as an inventive way to allow public transportation agencies to fund their payment obligations for rail and bus equipment purchases. These deals permitted U.S. Treasury obligations to be entrusted to an equity payment undertaker as insurer of the payment obligations, thereby providing up-front resources for transit capital investment in exchange for tax benefits afforded to the involved banks.

The contracts required that the private guarantors maintain minimum credit ratings, and in many transactions, American International Group ("AIG") was the guarantor. When AIG lost its AAA credit rating, the transit agencies found themselves in technical default of the agreement. These defaults – if processed – could cost some of the nation's largest transit agencies hundreds of millions of dollars, and could threaten their very existence and the financial stability of the state and local governments that fund them. This would result in immediate termination of transit services in the nation's largest urban areas, eliminating an important transportation option that saves energy and reduces our nation's dependence on foreign oil.

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In 2003, the tax benefits from these transactions were prohibited and the practice ceased. In response to this change in law, the Internal Revenue Service ("IRS") moved to disallow most of the tax advantages anticipated by the investors when they entered into the transactions.

Unfortunately, in the event of a default, the investors have an opportunity to recover a penalty from the transit agency equal to the cash rents plus a cash amount reflective of anticipated tax benefits. The downgrading of the payment caretakers' credit ratings has provided investors, blocked by the IRS from receiving tax benefits, an opportunity to recover anticipated profits at the expense of public transit agencies.

Enclosed is a list of the transit deals that were approved from 1988 to 2003, however, not all of these transactions may be in jeopardy at this time.

We urge you to address this issue, especially in light of the fact that AIG has been the recipient of considerable assistance from the Treasury. We urge you to use all of your existing authority, including the Department of Treasury's authority under the Emergency Economic Stabilization Act, to resolve the critical issue outlined in this letter.

Sincerely,


James L. Oberstar, M.C.
Chairman


John L. Mica, M.C.
Ranking Member


Peter A. DeFazio, M.C.
Chairman
Subcommittee on Highways and Transit

Transit Sales and Lease Transactions from 1988-2003

| State | City | Transit Agency | Assets | Asset Value |
|-------|---------------|--|------------------------------------|---------------|
| CA | Los Angeles | Los Angeles County Metropolitan Transportation Authority | Light Rail Transit | \$28,500,000 |
| CA | Los Angeles | Los Angeles County Metropolitan Transportation Authority | 72 Rapid Rail car | \$162,800,000 |
| CA | Los Angeles | Los Angeles County Metropolitan Transportation Authority | Light Rail Transit | \$289,000,000 |
| CA | Los Angeles | Los Angeles County Metropolitan Transportation Authority | 67 Light Rail Transit Cars | \$259,200,000 |
| CA | Los Angeles | Los Angeles County Metropolitan Transportation Authority | Light Rail Transit | \$259,200,000 |
| CA | Los Angeles | Los Angeles County Metropolitan Transportation Authority | Patsaouras Plaza | \$125,000,000 |
| CA | Los Angeles | Los Angeles County Metropolitan Transportation Authority | 23 Light Rail Vehicles | \$99,200,000 |
| CA | Los Angeles | Southern California Rapid Transit District | Methane Buses | \$70,000,000 |
| CA | Los Angeles | Southern California Regional Rail Authority, Metrolink | Commuter and Locomotive Cars | \$67,800,000 |
| CA | Oakland | Peninsula Corridor Joint Powers Board, Caltrain | Railcars | \$107,000,000 |
| CA | Oakland | Peninsula Corridor Joint Powers Board, Caltrain | 20 Commuter and 3 Locomotive Cars | \$67,700,000 |
| CA | Oakland | Peninsula Corridor Joint Powers Board, Caltrain | 39 Commuter and 13 Locomotive Cars | \$141,400,000 |
| CA | Oakland | Peninsula Corridor Joint Powers Board, Caltrain | 52 Commuter and 13 Locomotive Cars | \$174,600,000 |
| CA | Sacramento | Sacramento Regional Transit District | Light Rail Transit | \$416,900 |
| CA | San Diego | San Diego Metropolitan Transit Development Board | Light Rail Transit | \$53,339,825 |
| CA | San Diego | San Diego Metropolitan Transit Development Board | 41 Light Rail Transit Cars | \$76,140,000 |
| CA | San Francisco | Alameda-Contra Costa Transit District | Buses | \$100,000,000 |
| CA | San Francisco | Bay Area Rapid Transit | Railcars | \$180,000,000 |
| CA | San Francisco | Bay Area Rapid Transit | Railcars | \$30,000,000 |
| CA | San Francisco | Bay Area Rapid Transit | Qualified Technological Equipment | \$212,000,000 |
| CA | San Francisco | San Francisco Municipal Transportation Agency | 150 Light Rail Cars | \$467,950,000 |
| CA | San Jose | San Jose Regional Transit District | Railcars | \$19,685,575 |
| CO | Denver | Denver Regional Transportation District | Buses | \$20,000,000 |
| CO | Denver | Denver Regional Transportation District | Railcars and Facilities | \$124,750,000 |
| CT | Hartford | Connecticut Department of Transportation | 245 Vehicles | \$384,000,000 |
| CT | New Haven | Metropolitan Transportation Authority, Connecticut DOT | Railcars | \$118,600,000 |
| DC | Washington | Washington Metropolitan Area Transit Authority | 214 Rail Cars | \$576,820,000 |
| DC | Washington | Washington Metropolitan Area Transit Authority | 42 Rapid Rail Cars | \$98,700,000 |
| DC | Washington | Washington Metropolitan Area Transit Authority | 36 Rapid Rail Cars | \$95,000,000 |
| FL | Miami | Miami-Dade Transit Authority | Railcars and Facilities | \$142,000,000 |
| GA | Atlanta | Metropolitan Atlanta Regional Transit Authority | Rapid Rail Cars | \$558,850,000 |
| GA | Atlanta | Metropolitan Atlanta Regional Transit Authority | 94 Rapid Rail Cars | \$140,500,000 |
| GA | Atlanta | Metropolitan Atlanta Regional Transit Authority | Avondale Rail Maintenance | \$120,500,000 |
| GA | Atlanta | Metropolitan Atlanta Regional Transit Authority | South Rail Line | \$700,000,000 |
| GA | Atlanta | Metropolitan Atlanta Regional Transit Authority | East Rail Line | \$650,000,000 |
| IL | Chicago | Chicago Transit Authority | Rail Facility | \$141,000,000 |
| IL | Chicago | Chicago Transit Authority | Rail Line | \$450,000,000 |
| IL | Chicago | Chicago Transit Authority | 710 Buses | \$241,000,000 |
| IL | Chicago | Chicago Transit Authority | Qualified Technological Equipment | \$150,000,000 |
| IL | Chicago | Chicago Transit Authority | Buses | \$120,000,000 |
| IL | Chicago | Pace Suburban | Buses | \$120,000,000 |
| MA | Boston | Massachusetts Bay Transportation Authority | Railcars | \$28,000,000 |
| MA | Boston | Massachusetts Bay Transportation Authority | Railcars | \$28,500,000 |
| MA | Boston | Massachusetts Bay Transportation Authority | Railcars | \$147,000,000 |
| MA | Boston | Massachusetts Bay Transportation Authority | Railcars | \$117,000,000 |
| MA | Boston | Massachusetts Bay Transportation Authority | Engine Terminal | \$219,000,000 |
| MD | Baltimore | Maryland Department of Transportation | Light Rail Transit | \$45,000,000 |
| MO | St. Louis | Bi-State Development Agency | Maintenance Facilities | \$105,200,000 |
| MO | St. Louis | Bi-State Development Agency | Light Rail Cars and Facility | \$138,100,000 |
| NJ | Newark | New Jersey Transit | Buses | \$72,888,000 |

Transit Sales and Lease Transactions from 1988-2003

| State | City | Transit Agency | Assets | Asset Value |
|------------------------|--------------|---|---|-------------------------|
| NJ | Newark | New Jersey Transit | Rebuilt Commuter Rail | \$90,000,000 |
| NJ | Newark | New Jersey Transit | Rebuilt Commuter Rail | \$86,290,000 |
| NJ | Newark | New Jersey Transit | Rebuilt Commuter Rail | \$20,000,000 |
| NJ | Newark | New Jersey Transit | Locomotive Cars | \$65,692,893 |
| NJ | Newark | New Jersey Transit | Rail Facility | \$125,000,000 |
| NJ | Newark | New Jersey Transit | Railcars | \$230,000,000 |
| NJ | Newark | New Jersey Transit | 4 Garages | \$90,000,000 |
| NJ | Newark | New Jersey Transit | Up to 250 Buses | \$100,000,000 |
| NJ | Newark | New Jersey Transit | 24 Light Rail Transit | \$85,000,000 |
| NJ | Newark | New Jersey Transit | Over 215 Coach Cars | \$100,000,000 |
| NJ | Newark | New Jersey Transit | 1100 Coach Cars | \$450,000,000 |
| NJ | Newark | New Jersey Transit | Qualified Technological Equipment for Rail | \$150,000,000 |
| NJ | Newark | New Jersey Transit | 21 Locomotives | \$127,000,000 |
| NJ | Newark | New Jersey Transit | 48 Commuter Rail Cars | \$64,900,000 |
| NY | New York | Metropolitan Transportation Authority | Light Rail Transit | \$216,000,000 |
| NY | New York | Metropolitan Transportation Authority | Maintenance Facilities | \$313,000,000 |
| NY | New York | Metropolitan Transportation Authority | 205 Heavy Rail Cars | \$450,000,000 |
| NY | New York | Metropolitan Transportation Authority | 528 Heavy Rail Cars | \$1,160,000,000 |
| NY | New York | Metropolitan Transportation Authority | 120 Rapid Rail Cars | \$250,000,000 |
| OH | Cleveland | Greater Cleveland Regional Transit Authority | 108 Commuter Vehicles | \$251,078,000 |
| OR | Portland | Tri-County Metropolitan Transportation District of Oregon | Railcars and Facilities | \$120,000,000 |
| OR | Portland | Tri-County Metropolitan Transportation District of Oregon | 31 Light Rail Transit Cars | \$80,000,000 |
| PA | Philadelphia | Southeastern Pennsylvania Transportation Authority | Railcars | \$57,200,000 |
| PA | Philadelphia | Southeastern Pennsylvania Transportation Authority | | \$61,000,000 |
| PA | Philadelphia | Southeastern Pennsylvania Transportation Authority | 220 Rapid Rail Cars | \$648,460,000 |
| PA | Philadelphia | Southeastern Pennsylvania Transportation Authority | Light Rail Transit and Rapid Rail | \$648,500,000 |
| PA | Pittsburgh | Port Authority | Railcars | \$100,000,000 |
| PA | Pittsburgh | Port Authority | Facilities and Garages | \$63,950,000 |
| TX | Dallas | Dallas Area Rapid Transit | Railcars | \$123,000,000 |
| TX | Dallas | Dallas Area Rapid Transit | Facilities | \$110,800,000 |
| TX | Dallas | Dallas Area Rapid Transit | 53 Light Rail Transit Cars | \$172,000,000 |
| TX | Houston | Metropolitan Transit Authority of Harris County | 7 Bus Facilities | \$225,240,000 |
| TX | Houston | Metropolitan Transit Authority of Harris County | Transit Buses & Coach Cars | \$190,700,000 |
| TX | Houston | Metropolitan Transit Authority of Harris County | Qualified Technological Equipment for Buses | \$48,000,000 |
| WA | Seattle | Central Puget Sound Regional Transit Authority | 58 Commuter and 11 Locomotive Cars | \$146,200,000 |
| WA | Seattle | King County Metropolitan Transit | Dual Bus | \$1,088,590 |
| WA | Seattle | King County Metropolitan Transit | Buses | \$39,400,000 |
| Total Projects: | | 87 Projects in 25 Metropolitan Areas | Total Value of Assets: | \$16,102,839,783 |

*Information provided by the Federal Transit Administration