



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

James L. Oberstar
Chairman

Washington, DC 20515

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Ranking Republican Member

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October 30, 2008

James W. Coon II, Republican Chief of Staff

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.

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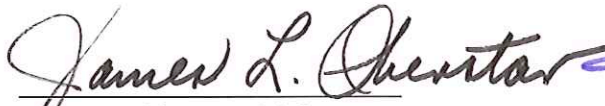
In 2003, the tax benefits from these transactions were prohibited and the practice ceased. In response to this change in law, the Internal Revenue Service ("IRS") moved to disallow most of the tax advantages anticipated by the investors when they entered into the transactions.

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