

Supplement

dated June 8, 2009,

to the

**Official Statement
dated June 3, 2009,
(the “Official Statement”)**

of the

Washington Metropolitan Area Transit Authority

regarding its

**Gross Revenue Transit Bonds
Series 2009 A and Series 2009 B**

The first sentence under the heading “THE SERIES 2009 Bonds – Redemption – Extraordinary Optional Redemption of the Series 2009B Bonds” of the Official Statement is amended to change the date therein from “July 1, 2009” to “July 1, 2019”, and is therefore replaced in its entirety with the following sentence:

The Series 2009B Bonds are subject to redemption prior to July 1, 2019, at the option of the Authority, in whole or in part upon the occurrence of an Extraordinary Event (as defined below), at a redemption price (the “Extraordinary Redemption Price”) equal to the greater of:

(1) the issue price set forth on the inside cover page hereof of the principal amount of such Series 2009B Bonds to be redeemed; or

(2) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of such Series 2009B Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Series 2009B Bonds are to be redeemed, discounted to the date on which such Series 2009B Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (as defined below) plus 100 basis points;

plus, in each case, accrued interest on such Series 2009B Bonds to be redeemed to the redemption date.

In the opinion of Bond Counsel, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2009A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Series 2009A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and is not included in the adjusted current earnings of corporations for purposes of calculating the alternative minimum tax.

In the opinion of Bond Counsel, interest on the Series 2009B Bonds is included in gross income for Federal income tax purposes.

In addition, in the opinion of Bond Counsel, interest on the Series 2009 Bonds is exempt from all present Maryland, Virginia and District of Columbia personal income taxes. See "TAX MATTERS" herein.

\$297,675,000
WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY
Gross Revenue Transit Bonds



\$242,675,000
Series 2009A

\$55,000,000
Series 2009B

(Federally Taxable – Issuer Subsidy – Build America Bonds)

Dated: Date of Delivery

Due: January 1 and July 1, as shown on inside cover

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The above-captioned Series 2009A Bonds (the "Series 2009A Bonds") and Series 2009B Bonds (Federally Taxable - Issuer Subsidy - Build America Bonds) (the "Series 2009B Bonds," and, together with the Series 2009A Bonds, the "Series 2009 Bonds") will be special obligations of the Washington Metropolitan Area Transit Authority (the "Authority") issued pursuant to the terms of the Gross Revenue Bond Resolution adopted by the Authority on September 25, 2003, as supplemented by the 2009 Project Supplemental Bond Resolution adopted by the Authority on May 28, 2009 (collectively, the "Resolution"). The Series 2009 Bonds, together with all other bonds issued under the Resolution (the "Bonds"), are payable solely from and secured solely by the Trust Estate (as defined herein), subject to the terms and conditions set forth in the Resolution. The Trust Estate consists primarily of the Gross Revenues (as defined herein) of the Authority. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

The Series 2009 Bonds will be issued only as fully registered bonds registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository. Individual purchases will be made in book-entry-only form.

The proceeds of the Series 2009A Bonds will be used, together with certain other funds, (i) to pay at maturity all of the principal amount and interest due on the Authority's Commercial Paper Series A Notes, currently outstanding in the aggregate principal amount of \$314,500,000, (ii) to finance Capital Cost components of the Authority's Metro Matters Program, and (iii) to pay certain costs of issuing the Series 2009 Bonds. The proceeds of the Series 2009B Bonds will be used to finance Capital Cost components of the Authority's Metro Matters Program and certain costs of issuing the Series 2009 Bonds.

The Series 2009 Bonds will be issued in authorized denominations of \$5,000 or any integral multiple thereof and will bear interest at the rates set forth on the inside cover page hereof, payable semi-annually on January 1 and July 1, commencing January 1, 2010, computed on the basis of a 360-day year comprised of twelve 30-day months.

The Series 2009 Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described herein.

The Series 2009 Bonds are special obligations of the Authority payable solely from the Trust Estate pledged by the Resolution. The Series 2009 Bonds do not constitute a debt or legal obligation of and do not create a lien upon the revenues of the Participating Jurisdictions (as defined herein) or of the United States of America. The full faith and credit of the United States and the Participating Jurisdictions are not pledged to the payment of the Series 2009 Bonds, and none of the foregoing are liable thereon. The Authority has no taxing power.

The Series 2009 Bonds are offered when, as and if issued by the Authority and accepted by the Underwriters. Legal matters with respect to the Series 2009 Bonds are subject to the approval of Hawkins Delafield & Wood LLP, Washington, D.C., Bond Counsel and Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Ballard Spahr Andrews & Ingersoll, LLP, Washington, D.C. Certain legal matters will be passed upon for the Authority by its General Counsel, Carol B. O'Keeffe, Esq. It is expected that the Series 2009 Bonds in definitive form will be available for delivery in book-entry form through the facilities of DTC in New York, New York on or about June 9, 2009.

Goldman, Sachs & Co.

Banc of America Securities LLC

Wachovia Bank, National Association

Cabrera Capital Markets, LLC J.P. Morgan Mesirow Financial, Inc. Siebert Brandford Shank & Co., L.L.C.

MATURITY SCHEDULE

Series 2009A Serial Bonds

Maturity (July 1)	Principal	Interest Rate	Yield	Price	CUSIP*
2010	\$5,375,000	5.00%	1.08%	104.124	938782CX5
2011	6,555,000	5.00%	1.65%	106.760	938782CY3
2012	1,100,000	3.00%	2.10%	102.654	938782CZ0
2012	5,785,000	5.00%	2.10%	108.553	938782DA4
2013	265,000	3.00%	2.50%	101.918	938782DB2
2013	6,940,000	5.00%	2.50%	109.595	938782DC0
2014	1,485,000	3.00%	2.81%	100.889	938782DD8
2014	650,000	4.00%	2.81%	105.576	938782DE6
2014	5,425,000	5.00%	2.81%	110.262	938782DF3
2015	525,000	3.00%	3.03%	99.833	938782DG1
2015	7,375,000	5.00%	3.03%	110.831	938782DH9
2016	650,000	3.125%	3.23%	99.340	938782DJ5
2016	7,635,000	5.00%	3.23%	111.093	938782DK2
2017	8,690,000	5.00%	3.44%	110.898	938782DL0
2018	9,125,000	5.00%	3.66%	110.252	938782DM8
2019	9,580,000	5.00%	3.86%	109.428	938782DN6
2020	10,060,000	5.25%	4.02%	110.093 [†]	938782DP1
2021	10,585,000	5.25%	4.13%	109.141 [†]	938782DQ9
2022	11,140,000	5.25%	4.25%	108.114 [†]	938782DR7
2023	11,725,000	5.25%	4.38%	107.015 [†]	938782DS5
2024	12,340,000	5.25%	4.51%	105.929 [†]	938782DT3
2025	12,990,000	5.25%	4.63%	104.938 [†]	938782DU0
2026	13,670,000	5.25%	4.73%	104.121 [†]	938782DV8
2027	14,390,000	5.25%	4.81%	103.473 [†]	938782DW6
2028	15,145,000	5.25%	4.88%	102.910 [†]	938782DX4
2029	3,125,000	4.875%	4.96%	98.924	938782DY2
2029	12,815,000	5.25%	4.96%	102.271 [†]	938782DZ9

[†] Priced to first par call date of July 1, 2019.

Series 2009A Term Bonds

\$12,570,000 5.00% Series 2009A Term Bond Due July 1, 2032, Priced to Yield 5.20%,
CUSIP Number 938782EA3*

\$24,960,000 5.125% Series 2009A Term Bond Due July 1, 2032, Priced to Yield 5.20%,
CUSIP Number 938782EB1*

Series 2009B Term Bonds

\$55,000,000 7.00% Series 2009B Term Bond Due July 1, 2034, Priced to Yield 7.142%,
CUSIP Number 938782CW7*

* Copyright 2003, American Bankers Association. CUSIP data is provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies Inc. The CUSIP number listed above is being provided solely for the convenience of Bondholders only at the time of issuance of the Series 2009 Bonds and neither the Authority nor the Underwriters make any representation with respect to such CUSIP number nor undertake any responsibility for its accuracy now or at any time in the future. The CUSIP number is subject to being changed after the issuance of the Series 2009 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of the Series 2009 Bonds.

WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY

600 Fifth Street, N.W.
Washington, D.C. 20001
(202) 962-1200

BOARD OF DIRECTORS

Jim Graham, District of Columbia
Chairman

Peter Benjamin, Maryland Catherine Hudgins, Virginia
First Vice Chairman Second Vice Chairman

Neil Albert, District of Columbia
Elizabeth M. Hewlett, Maryland
Christopher Zimmerman, Virginia

ALTERNATE DIRECTORS

Jeffrey C. McKay, Virginia Gordon Linton, Maryland
William D. Euille, Virginia Marcell Solomon, Maryland
Michael A. Brown, District of Columbia
Anthony R. Giancola, District of Columbia

AUTHORITY EXECUTIVE STAFF

John B. Catoe, Jr., General Manager
Gerald Francis, Deputy General Manager, Chief Operating Officer
Carol Dillon Kissal, Chief Financial Officer
Emeka C. Moneme, Chief Administrative Officer
Carol B. O'Keeffe, General Counsel
Raj Srinath, Treasurer

**BOND COUNSEL
and
DISCLOSURE COUNSEL**

Hawkins Delafield & Wood LLP
Washington, D.C.

FINANCIAL ADVISOR

Public Financial Management, Inc.
Philadelphia, Pennsylvania

AUDITOR

Clifton Gunderson LLP
Washington, D.C.

No dealer, broker, salesperson or other person has been authorized by the Washington Metropolitan Area Transit Authority (the “Authority”) to give any information or to make representations, other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the Authority. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2009 Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been furnished by the Authority and includes information obtained from other sources, all of which are believed to be reliable. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority since the date hereof. Such information and expressions of opinion are made for the purpose of providing information to prospective investors and are not to be used for any other purpose or relied on by any other party.

The order and placement of materials in this Official Statement, including the appendices, are not to be deemed a determination of relevance, materiality or importance, and this Official Statement, including the appendices, must be considered in its entirety. The captions and headings in this Official Statement are for convenience only and in no way define, limit or describe the scope or intent, or affect the meaning or construction, of any provisions or sections of this Official Statement. The offering of the Series 2009 Bonds is made only by means of this entire Official Statement.

This Official Statement contains statements which, to the extent they are not recitations of historical fact, constitute “forward-looking statements.” In this respect, the words “estimate,” “project,” “anticipate,” “expect,” “intend,” “believe,” and similar expressions are intended to identify forward-looking statements. A number of important factors affecting the Authority’s financial results could cause actual results to differ materially from those stated in the forward-looking statements.

The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

In connection with the offering of the Series 2009 Bonds, the Underwriters may overallocate or effect transactions which stabilize or maintain the market price of such Bonds at levels above those which might otherwise prevail in the open market. Such stabilization, if commenced, may be discontinued at any time.

These securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense.

This Official Statement is being provided to prospective purchasers either in bound printed form (“Original Bound Format”) or in electronic format on the following website: <http://www.munios.com>. This Official Statement may be relied upon only if it is in its Original Bound Format or if it is printed in full directly from such website.

TABLE OF CONTENTS

INTRODUCTION.....	1
THE AUTHORITY	2
Organization	3
Labor Relations	6
THE SERIES 2009 BONDS	7
General	7
Redemption	8
Book-Entry-Only System	10
PLAN OF FINANCING AND SOURCES AND USES OF FUNDS	11
Sources and Uses of Funds	11
Annual Debt Service.....	12
SECURITY AND SOURCES OF PAYMENT OF THE BONDS	12
Limited Obligations.....	12
Pledge of Trust Estate.....	13
Gross Revenues	13
Remedies; Contractual Obligations	16
Flow of Funds.....	18
Parity Liens and Additional Indebtedness	19
Rate Covenant	20
THE TRANSIT SYSTEM.....	21
Funding the Capital Costs of the Transit System	23
Funding the Operating Expenses of the Transit System	24
CERTAIN AUTHORITY FINANCIAL INFORMATION	27
Management Discussion and Analysis	27
Fiscal Year 2007.....	27
Fiscal Year 2008.....	28
Budgetary Process	30
Outstanding Debt.....	34
Leveraged Lease Transactions.....	34
Pension Plans and OPEB.....	35
Capital Improvement Plan	36
LITIGATION	38
LEGAL MATTERS	39
TAX MATTERS	39
Series 2009A Bonds	39
Series 2009B Bonds	42
Miscellaneous.....	44
FINANCIAL STATEMENTS	44
RATINGS	44
CONTINUING DISCLOSURE	44
UNDERWRITING.....	44
FINANCIAL ADVISOR.....	45
MISCELLANEOUS.....	45
 APPENDIX A — Summary of Certain Provisions of the Resolution	
APPENDIX B — Audited Financial Statements for the Fiscal Year ended June 30, 2008	
APPENDIX C — Form of Opinion of Bond Counsel	
APPENDIX D — Book-Entry-Only System Procedures	
APPENDIX E — Form of Continuing Disclosure Agreement	

[THIS PAGE INTENTIONALLY LEFT BLANK]

Summary

The following summary is subject in all respects to more complete information contained elsewhere in this Official Statement. Capitalized terms used herein and not otherwise defined have the meanings given such terms in APPENDIX A. Certain key definitions below are in an abbreviated format, and are subject to the complete definitions of such terms in APPENDIX A.

Issuer:	Washington Metropolitan Area Transit Authority
Issue:	\$242,675,000 Gross Revenue Transit Bonds, Series 2009A \$55,000,000 Gross Revenue Transit Bonds, Series 2009B (Federally Taxable - Issuer Subsidy - Build America Bonds)
Dated Date:	Date of Delivery
Denominations:	\$5,000 and integral multiples thereof
Interest:	The Series 2009 Bonds will bear interest at the rates set forth on the inside cover page hereof, semi-annually on January 1 and July 1, commencing January 1, 2010, computed on the basis of a 360-day year comprised of twelve 30-day months.
Redemption:	The Series 2009 Bonds are subject to optional and mandatory redemption prior to maturity as described under “THE SERIES 2009 BONDS - Redemption” herein.

**Certain Key
Definitions:**

“*Authority*” means the Washington Metropolitan Area Transit Authority, an interstate compact agency, and an agency and instrumentality of the District of Columbia, State of Maryland, and Commonwealth of Virginia.

“*Capital Costs*” means the costs of the Authority related to the implementation of the Authority’s capital budget, as amended or supplemented from time to time, adopted or in effect for a particular fiscal year, as provided in the Compact.

“*Compact*” means the Washington Metropolitan Area Transit Authority Compact by and among the State of Maryland, the Commonwealth of Virginia, and the District of Columbia.

“*Gross Revenues*” means (i) Revenues exclusive of Lease Related Revenues, (ii) the Stable and Reliable Funding Sources, and (iii) all other revenues, receipts, grants, contributions, subsidies and funds received by the Authority in respect of the Transit System which can be lawfully pledged under the Resolution, provided that Capital Contributions (*i.e.*, capital contributions or grants paid to the Authority by a Participating Jurisdiction or the Federal government on a pay-as-you-go basis) are excluded from Gross Revenues.

“*1993 Bonds*” means the Gross Revenue Transit Refunding Bonds, Series 1993, issued by the Authority under its Gross Revenue Transit Bond Resolution adopted on November 18, 1993.

“*Obligations*” means any bonds, notes, commercial paper or other form of indebtedness of the Authority payable from the Debt Service Fund, authorized by and delivered pursuant to the Resolution, but excluding Obligation Anticipation Notes to the extent payable from, and expected by an Authorized Officer to be paid from, the proceeds of Obligations or other Obligation Anticipation Notes.

“*Parity Debt*” means any Parity Reimbursement Obligation, any Parity Swap Obligation or any other contract, agreement or other obligation of the Authority designated as constituting “Parity Debt” in a certificate of an Authorized Officer delivered to the Trustee.

“*Participating Jurisdictions*” means the District of Columbia, the cities of Alexandria, Falls Church and Fairfax, Virginia and the counties of Arlington and Fairfax, Virginia and political

subdivisions of the Commonwealth located within those counties, and the counties of Montgomery, and Prince George's, Maryland and political subdivisions of the State located within those counties, in which the Authority operates the Transit System.

"Resolution" means the Gross Revenue Bond Resolution adopted by the Authority's Board of Directors on September 25, 2003, as supplemented by the 2009 Project Supplemental Bond Resolution adopted by the Authority on May 28, 2009.

"Revenues" means (i) all fares, rates, fees, charges, rents, revenues and other income received by the Authority from the operation of the Transit System and amounts paid to the Authority by the Federal Government or any Participating Jurisdiction on account of fares or service rendered by the Authority, (ii) proceeds of any business interruption insurance relating to the Transit System, and (iii) interest received on any moneys or securities, other than the Capital Contributions, of the Authority.

"Stable and Reliable Funding Sources" means the amounts paid by the Participating Jurisdictions to the Authority in respect of the Transit System's operating costs and debt service. Payments by the Participating Jurisdictions, including from the Stable and Reliable Funding Sources, are subject to appropriation.

"Transit System" means the facilities, including all real and personal property and all rights, interests, property and appurtenances incidental thereto or used or useful in connection therewith, constructed or acquired by the Authority as part of its regional rail and bus transit system, but excluding Air Rights, Parking Facilities and Joint Development Projects.

"Trust Estate" means all right, title and interest of the Authority in:

- (1) all Gross Revenues;
- (2) the proceeds of the sale of the Obligations;
- (3) all Funds, Accounts and Subaccounts established by the Resolution, including the investments, if any, thereof; and
- (4) all funds, moneys and securities and any and all other rights and interests in property, whether tangible or intangible, from time to time by delivery or by writing of any kind conveyed, mortgaged, pledged, assigned or transferred as and for additional security for the Obligations by the Authority, or by anyone on its behalf, or with its written consent, to the Trustee, which is authorized to receive any and all such property at any and all times, and to hold and apply the same subject to the terms of the Resolution.

**Security for the
Series 2009 Bonds:**

The Resolution pledges the Trust Estate as security for the payment of the Bonds.

The pledge created by the Resolution is subject and subordinate to the pledge of and lien on Gross Revenues created by the 1993 Bond Resolution to secure the Series 1993 Bonds, of which \$22.2 million, with a final maturity of July 1, 2010, will remain outstanding following the issuance of the Series 2009 Bonds. The Authority has covenanted in the Resolution that it will no longer issue bonds or any other obligations under the 1993 Bond Resolution.

Budgeting:

The Authority's operating budget, including debt service payments, is funded from passenger revenues and contributions from the Participating Jurisdictions. The Authority's capital budget is funded from contributions of the Federal government and the Participating Jurisdictions. The Authority has entered into the Metro Matters Funding Agreement with the Participating Jurisdictions to fund its capital program through fiscal year 2010, and is in the process of negotiating a successor agreement.

Amounts to be paid by the Participating Jurisdictions to the Authority to fund the Authority's budget are subject to appropriation. Pursuant to the Compact, the Participating Jurisdictions (with the Washington Suburban Transit District acting for the Maryland jurisdictions) are obligated, subject to the limitations described herein, to provide funding to the Authority for their share of the Authority's budget for the capital and operating costs of the Transit System. If a Participating Jurisdiction were to fail to timely make a required subsidy payment, in addition to any enforcement action available pursuant to the Compact and related funding agreements, the Authority's Board could decide to hold a public hearing as to whether to terminate the provision of Transit System service within the Participating Jurisdiction. See "THE TRANSIT SYSTEM - Funding of Capital Costs of the Transit System" and " - Funding of Operating Expenses of the Transit System."

Rate Covenant:

Pursuant to the terms of the Resolution, the Authority has covenanted to, insofar as practicable and consistent with the provision of adequate service at reasonable fares, fix and establish fares, rates, charges and other fees with respect to the Transit System as shall, in the judgment of the Authority, be sufficient, together with other money available or anticipated to be available therefor (including the anticipated receipt of other amounts constituting Gross Revenues, as well as the proceeds of sale of Obligations, notes or other obligations or evidences of indebtedness of the Authority that will be used to pay the principal of Obligations issued in anticipation of such receipt), to pay (i) all Debt Service, all other amounts due on Parity Debt, debt service on all Subordinated Indebtedness then outstanding, and amounts due on all Subordinated Contract Obligations, (ii) all operating costs of the Transit System (giving effect to any reductions or deferrals or reserves therefor or anticipated reductions or deferrals thereof or reserves therefor), and (iii) all other amounts payable from or constituting a lien or charge on Gross Revenues, in each case as the same become respectively due and payable.

Failure to comply with the covenant described above constitutes an Event of Default under the Resolution. See "APPENDIX A - SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION - Events of Default."

Additional Bonds:

Pursuant to the terms of the Resolution, the Authority is prohibited from creating a pledge of or lien on the Trust Estate, which is superior to the pledge that secures the Bonds. However, the Authority may create a pledge of or lien on the Trust Estate, which is on parity with the pledge that secures the Bonds, and in that connection incur additional indebtedness, provided that certain conditions set forth in the Resolution are satisfied.

Capital Costs. Obligations may be issued to pay, or to provide for the payment of, all or part of Capital Costs. Such Obligations are to be issued upon receipt by the Trustee of (i) a certificate of an Authorized Officer stating that, based on the reasonable expectations of such Authorized Officer, the Authority will be in compliance with its covenant summarized under the caption "Rate Covenant" for the Fiscal Year in which such Obligations are being issued and (ii) a certificate of an Authorized Officer certifying, based on the Authority's records, that Gross Revenues for any twelve (12) consecutive months out of the last eighteen (18) months immediately preceding the incurrence or issuance of such Obligations, adjusted so as to reflect what would have been in effect for such twelve (12) month period with any fare increase at least thirty (30) days prior to the date of incurrence or issuance of such Obligations, shall at least equal 400% of the Average Annual Aggregate Debt Service (with respect to all Obligation and Parity Debt, including the obligations being incurred or issued) for the period commencing with the Fiscal Year next following the incurrence or issuance of such Obligations and ending with the Fiscal Year which includes the latest maturity or payment date of any Outstanding Obligations.

Refunding Obligations. One or more Series of Refunding Obligations may be issued to refund (including by redemption, payment at maturity or in connection with exchanges or tenders) all or any portion of any Outstanding Obligations or Parity Debt, as well as any Series 1993 Bonds. Such Obligations are to be issued upon receipt by the Trustee of a certificate of an Authorized Officer stating either (i) after giving effect thereto, the Debt Service with respect to such Obligations is less in each Fiscal Year than the Debt Service with respect to the Obligations or Parity Debt, or the debt service of the Series 1993 Bonds, as applicable, being refunded for the period commencing with the Fiscal Year next following the incurrence or issuance of such

Obligations and ending with the Fiscal Year which includes the latest maturity or payment date of the Obligations, Parity Debt or Series 1993 Bonds being refunded, or (ii) the Gross Revenue test summarized in the preceding paragraph is satisfied.

Ratings:

Moody's and S&P have assigned ratings of "A1" and "A," respectively, to the Series 2009 Bonds. See "RATINGS" herein.

OFFICIAL STATEMENT

Relating to

\$297,675,000

WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY GROSS REVENUE TRANSIT BONDS SERIES 2009

**\$242,675,000
Series 2009A**

**\$55,000,000
Series 2009B
(Federally Taxable – Issuer Subsidy – Build America
Bonds)**

INTRODUCTION

This Official Statement, including the cover page and the appendices hereto, is provided to set forth certain information pertaining to the Washington Metropolitan Area Transit Authority (the “Authority”) and its \$297,675,000 Gross Revenue Transit Bonds, Series 2009A (the “Series 2009A Bonds”) and Series 2009B (Federally Taxable - Issuer Subsidy - Build America Bonds) (the “Series 2009B Bonds,” and, together with the Series 2009A Bonds, the “Series 2009 Bonds”). The Series 2009 Bonds are to be issued under the authority of the Washington Metropolitan Area Transit Authority Compact (the “Compact”) by and among the State of Maryland (the “State”), the Commonwealth of Virginia (the “Commonwealth”), and the District of Columbia (the “District”) and the Gross Revenue Bond Resolution adopted by the Authority’s Board of Directors (the “Board”) on September 25, 2003, as supplemented by the 2009 Project Supplemental Bond Resolution adopted by the Authority on May 28, 2009 (collectively, the “Resolution”). The Bank of New York Mellon, New York, New York, is the Trustee under the Resolution (the “Trustee”).

The Authority is a body corporate and politic which was created effective February 20, 1967, pursuant to the Compact and to the National Capital Transportation Act of 1960 (P.L. 86-669, now repealed) (collectively referred to with the National Capital Transportation Acts of 1965 (P.L. 89-173), 1967 (P.L. 90-220), 1969 (P.L. 91-143), 1972 (P.L. 92-349), and the National Capital Transportation Amendments Acts of 1979 (P.L. 96-184) and 1990 (P.L. 101-551), all as amended, as the “Capital Transportation Act”). The Authority is an instrumentality and agency of the State, the Commonwealth and the District, the signatory parties to the Compact.

The Authority is responsible for the development, financing, and operation of mass transit facilities (the “Transit System”), consisting of a rapid rail system (“Metrorail”), a bus transit system (“Metrobus”) and an ADA paratransit service (“MetroAccess”), each providing transit services to those portions of the Washington metropolitan area consisting of the District, the cities of Alexandria, Falls Church and Fairfax, Virginia, and the counties of Arlington and Fairfax, Virginia, and political subdivisions of the Commonwealth located within those counties, and the counties of Montgomery, and Prince George’s, Maryland, and political subdivisions of the State located within those counties (collectively, the “Participating Jurisdictions”). For the fiscal year ending June 30, 2008, the Authority provided more than 215.3 million annual Metrorail trips, 132.8 million annual Metrobus trips and 1.5 million annual MetroAccess trips.

The proceeds of the Series 2009A Bonds will be used, together with other funds, (i) to pay at maturity all of the principal amount and interest due on the Authority's Commercial Paper Series A Notes (the "Series A Notes"), currently outstanding in the aggregate principal amount of \$314,500,000, (ii) to finance Capital Cost components of the Authority's Metro Matters Program, and (iii) to pay certain costs of issuing the Series 2009 Bonds. The proceeds of the Series 2009B Bonds will be used to finance Capital Cost components of the Authority's Metro Matters Program and certain costs of issuing the Series 2009 Bonds. See "PLAN OF FINANCING AND SOURCES AND USES OF BOND PROCEEDS."

The Authority issued on October 23, 2003, its Gross Revenue Transit Refunding Bonds, Series 2003, in the original aggregate principal amount of \$163,495,000 (the "Series 2003 Bonds") under the Resolution to refund a portion of the Gross Revenue Transit Refunding Bonds, Series 1993 (the "Series 1993 Bonds"), issued by the Authority under its Gross Revenue Transit Bond Resolution adopted on November 18, 1993 (the "1993 Bond Resolution"). On November 20, 2003, the Authority issued its Gross Revenue Transit Bonds, Series 2003B Bonds in the original aggregate principal amount of \$35,640,000 (the "Series 2003B Bonds") under the Resolution. The Series 2003 Bonds, the Series 2003B Bonds and the Series 2009 Bonds when issued, will be on a parity under the Resolution and together with any other bonds hereafter issued under the Resolution, are referred to herein as the "Bonds." The Bonds are, however, subordinate to the outstanding Series 1993 Bonds, of which \$22.2 million, with a final maturity of July 1, 2010, will remain outstanding following the issuance of the Series 2009 Bonds, as to their claim on the Trust Estate. The Authority has covenanted in the Resolution that it will no longer issue bonds or any other obligations under or on a parity with the 1993 Bond Resolution. See "CERTAIN AUTHORITY FINANCIAL INFORMATION - Outstanding Debt" herein.

The Series 2009 Bonds are special obligations of the Authority payable solely from the Trust Estate pledged by the Resolution. The Series 2009 Bonds do not constitute a debt or legal obligation of and do not create a lien upon the revenues of the Participating Jurisdictions or of the United States of America. The full faith and credit of the United States and the Participating Jurisdictions are not pledged to the payment of the Series 2009 Bonds, and none of the foregoing are liable thereon. The Authority has no taxing power.

Brief descriptions of and references to the Authority, the Series 2009 Bonds, the Compact, the Resolution, the Transit System and applicable legislation are included in this Official Statement. Such descriptions are made subject to the provisions of such documents and laws and do not purport to be comprehensive or definitive. All references thereto are qualified in their entirety by reference to such documents and laws, copies of which are available for inspection at the principal office of the Authority at 600 Fifth Street, N.W., Washington, D.C. 20001. The Authority's audited financial statements for the fiscal year ended June 30, 2008, are attached hereto as APPENDIX B.

Capitalized terms used herein and not otherwise defined have the meanings set forth in "APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION."

THE AUTHORITY

The Authority was created effective February 20, 1967, pursuant to the Compact and the Capital Transportation Act. The Authority has adopted and from time to time revised a mass transit plan to provide public transportation services in the Participating Jurisdictions (plus very limited portions of the counties of Anne Arundel and Charles in Maryland and Loudoun in Virginia). The plan, which provides the basis for locating rail lines and stations and for routing bus service, may be amended following public dissemination of such proposed modifications and public hearings. The Authority is an agency and

instrumentality of the Commonwealth, the State, and the District, and is dependent upon these governmental units and the remaining Participating Jurisdictions for financial support to meet a portion of its operating and capital expenses.

Organization

The Authority is governed by its Board of Directors (the “Board”), consisting of two directors and two alternates for each of the jurisdictions which signed the Compact (the “Directors”). For the Commonwealth, the Directors are appointed by the Northern Virginia Transportation Commission (“NVTC”); for the District by the Mayor and the Council of the District of Columbia (the “Council”); and for the State by the Washington Suburban Transit Commission (“WSTC”). Alternates to the Board may act only in the absence of the Director for whom they were appointed as alternates except in the case of the District where either alternate may act in the event of a District Director’s absence.

[Remainder of page intentionally left blank]

The Board

The present Directors, the number of years each has served and their occupations are set forth below:

<u>Name of Director</u>	<u>Jurisdiction Represented</u>	<u>Years as Director</u>	<u>Occupation</u>
Jim Graham Chairman	District of Columbia	10	Local Government Official
Peter Benjamin First Vice Chairman	Maryland	2	Retired
Catherine Hudgins Second Vice Chairman	Virginia	5	Local Government Official
Christopher Zimmerman	Virginia	11	Local Government Official
Neil Albert	District of Columbia	1	Local Government Official
Elizabeth M. Hewlett	Maryland	2	Attorney

Alternate Directors

Jeffrey C. McKay	Virginia	1	Local Government Official
Michael A. Brown	District of Columbia	1	Local Government Official
Gordon Linton	Maryland	5	Senior Advisor and Vice President of Business Development
William D. Euille	Virginia	9	Local Government Official
Anthony R. Giancola	District of Columbia	2	Professional Engineer
Marcell Solomon	Maryland	6	Attorney

Management

In January 2007, with the appointment of new General Manager John B. Catoe, Jr., the Authority shifted focus from construction of the Transit System, now largely completed, to management of the operation and maintenance of the existing Transit System. Mr. Catoe replaced much of the existing management team of the Authority in connection with this shift in focus.

The Authority's senior executive and financial management team consists of the following individuals:

John B. Catoe, Jr., General Manager. Mr. Catoe joined the Authority in January 2007. He has more than 30 years of experience in public transportation. For six years prior to coming to the Authority, Mr. Catoe was the Deputy Chief Executive Officer of the Los Angeles County Metropolitan Transportation Authority. In that capacity, he oversaw the agency's multi-modal operations with more

than 2,600 buses, three light rail lines, one heavy rail line and the motorist aid program, including the Freeway Service Patrol and highway call boxes. He also oversaw the Los Angeles transit agency's planning, law enforcement, homeless assistance program, safety and facilities. Mr. Catoe has a Bachelor of Science degree in Business Administration from the University of Redlands in Redlands, California.

Gerald Francis, Deputy General Manager and Chief Operating Officer. Mr. Francis joined the Authority in April 2007. As Deputy General Manager, he has direct responsibility over the daily operation of the bus, rail, paratransit systems, as well as, vertical transportation, facility and car maintenance. He also oversees the day to day management of the Metro Capital Improvement Program which includes infrastructure renewal, engineering and design. Mr. Francis manages staff of over 9,600 employees and is responsible for an annual budget of over \$1.6 billion, \$1.1 billion of which is operating and \$500 million of which is capital dollars. Mr. Francis is an active member of the American Public Transportation Association and serves as the Chairman on the Rail Transit Standards Operating Committee. He is also a member of the Conference of Minority Transportation Officials. Mr. Francis is a graduate of Creighton University in Omaha, Nebraska with a Bachelor of Science Degree in Business Administration.

Carol Dillon Kissal, Chief Financial Officer. Carol Dillon Kissal joined the Authority on August 18, 2008. In her role as Chief Financial Officer, she is responsible for the financial integrity of the Authority. She has direct responsibility for the collection of revenues and other income, the disbursement of all payments, Federal grants management, investment of Authority funds, financing and borrowing, purchasing all goods and services required by the Authority, and accounting for financial transactions, assets, liabilities, payables, and receivables. Her department also develops the Authority's capital improvement and operating budgets, controls expenditures, and calculates and bills local jurisdictions for their contributions to the Authority. Ms. Kissal was the Deputy Director of the District of Columbia Department of Transportation. In that role she was responsible for the allocation of \$1 billion in Federal Highway funds. She also directed the accounting and budget activities for the District of Columbia public school system which has an operating budget of \$1 billion and a capital budget of \$10 billion. In addition to her experience in D.C. government, she has 6 years experience in transportation funding with Amtrak. As Corporate Treasurer for Amtrak, she helped to secure more than \$2.2 billion in capital investment for Amtrak; developed self insurance property and liability programs, and managed debt and investment portfolios. Ms. Kissal worked at IBM for several years in financial capacities worldwide. She has a Bachelor's degree in Business Management from Bardonia College and an MBA in Corporate Finance from Pace University.

Carol B. O'Keeffe, General Counsel. Carol B. O'Keeffe was appointed in August 2004. She leads and manages the Office of General Counsel, which is composed of the sections of Civil Litigation, General Law, and Workers' Compensation. Prior to her appointment, Ms. O'Keeffe was Principal Deputy General Counsel for the Office of General Counsel, having been appointed to that position in November 1993. She received a B.A. degree from California State University at Fresno and a J.D. from the University of Georgia.

Emeka C. Moneme, Chief Administrative Officer. Mr. Moneme was appointed Chief Administrative Officer of the Authority in August 2008. He oversees the Department of Workforce Services, the Department of Information Technology, the Department of Planning and Joint Development and the Department of System Safety. Prior to his appointment, he served as the Director of the District of Columbia Department of Transportation. In this role Mr. Moneme oversaw a \$1.5 billion 6-year capital improvement program for the transportation infrastructure of the nation's capital, operated and maintained the District's 1,500 miles roadway system, directed a staff of 1,000 employees, and served as a Principal Director of the Authority Board of Directors. Prior to this post, Mr. Moneme served as the Chief of Staff for the Authority and provided consulting advice to clients on transportation finance and

business operations projects. Mr. Moneme holds a Bachelor of Science degree in Aeronautics from Miami University and a Masters of Urban Planning from the University of Cincinnati.

Raj Srinath, Treasurer. Mr. Srinath was appointed as the Authority's Treasurer in October 2008. Mr. Srinath is responsible for the direction of all treasury functions of the Authority, including the receipt and custody of all funds, investments, grants and debt management, custody and distribution of all fare media, payment of all obligations of the Authority, and risk management. Prior to joining the Authority, Mr. Srinath was the Associate Treasurer for the District of Columbia. As the Associate Treasurer for the District, he restructured/refinanced over \$800 million of auction rate and other variable rate bonds to mitigate interest rate risk. In addition to his experience with the District of Columbia, Mr. Srinath has seven years of transportation finance experience with Amtrak. As the Senior Director of Corporate Finance at Amtrak, he executed over \$2 billion of financings to fund the acquisition of rail cars and related infrastructure. Mr. Srinath holds a Bachelor of Science in Engineering from the University of Bangalore (India) and a Master's degree in Business Administration from Clarion University of Pennsylvania.

Labor Relations

The Authority presently has approximately 10,535 employees. Approximately 9,343 of these employees are represented by five unions. Union representation and bargaining conditions are legislated by the Capital Transportation Act. Under the terms of the Compact, union contracts are subject to binding arbitration.

The Authority has not experienced an employee strike and work stoppage since September 1979. Each of the Collective Bargaining Agreements with the Authority contains a clause that prohibits a strike by the union(s) or a lockout by management. The Capital Transportation Act requires any labor dispute, where collective bargaining does not result in an agreement, to be subject to final and binding arbitration. No work stoppage has ever materially affected the Authority's operating revenue receipts.

Union membership and representation are set forth below. The term of each of the collective bargaining agreements shown below extends automatically by its terms for the next twelve-month period upon request of either of the parties.

[Remainder of page intentionally left blank]

Union	Approximate Membership	Types of Employees Represented	Contract Expiration Date	Notes
International Brotherhood of Teamsters, Local 639	90	Guards	9/30/10	Executed 9/28/07
International Brotherhood of Teamsters, Local 922	387	Bus Operators and Mechanics	10/31/08 ¹	Negotiations currently on hold
Amalgamated Transit Union, Local 689	7,775	Rail and Bus Operators Attendants, Maintenance (bus and rail fleet) and General Maintenance	6/30/08 ¹	Presently in arbitration
Office and Professional Employees International, Local 2	730	Managerial, Clerical, and Technical	6/30/08 ¹	Arbitration invoked
Fraternal Order of Police/Metro Transit Police Labor Committee	361	Metro Transit Police	12/31/10	Executed 4/18/08

¹ Pursuant to the Compact and the terms of the labor contracts, all such contracts with the Authority remain in full force and effect until modified by the parties or as the result of an arbitrator's finding in interest arbitration.

The Authority's present labor agreement with the Amalgamated Transit Union requires bargaining to commence at least ninety (90) days prior to expiration. The Authority's present labor agreements with all other labor unions require bargaining to commence sixty (60) days prior to expiration.

THE SERIES 2009 BONDS

General

The Series 2009 Bonds will be dated the date of their delivery and bear interest at the rates set forth on the inside cover page hereof, payable semiannually on January 1 and July 1, commencing January 1, 2010, until their final payment or maturity. Interest shall be computed on the basis of a three hundred sixty (360) day year consisting of twelve (12) months of thirty (30) days each. The Series 2009 Bonds shall be issuable only as fully registered bonds in denominations of \$5,000 and multiples thereof.

Principal of and premium, if any, on the Series 2009 Bonds shall be payable to the registered owners upon the surrender of Series 2009 Bonds at the principal corporate trust office of the Trustee. Interest on the Series 2009 Bonds shall be payable by check or draft of the Trustee mailed to the respective Owners at their addresses as they appear on the Record Date on the registration books kept by the Trustee; provided, however, that in the case of a Securities Depository or Owner of \$1,000,000 or more in aggregate principal amount of Series 2009 Bonds, upon the written request of such Owner to the Trustee, received on or prior to a Record Date, specifying the account or accounts to which such payment shall be made, payment of interest when due shall be made by wire transfer of immediately available funds to the bank account number on file with the Trustee. Any such request shall remain in effect until revoked or revised by such Owner by an instrument in writing delivered to the Trustee. Principal, premium, if any, and interest on the Series 2009 Bonds shall be payable in lawful money of the United States of America.

If the date for payment of the principal of, premium, if any, or interest on any of the Series 2009 Bonds shall be other than a Business Day, then the date for such payment shall be the next succeeding day which is a Business Day, and payment on such day shall have the same force and effect as if made on the nominal date of payment.

Redemption

Optional Redemption

The Series 2009 Bonds are not subject to optional redemption prior to July 1, 2019. The Series 2009 Bonds maturing on or after July 1, 2020, shall be subject to redemption prior to maturity, in whole or in part in any authorized denomination, on any date on or after July 1, 2019, at the option of the Authority, at the redemption price of 100% of the principal amount thereof, together with interest accrued to the redemption date.

Extraordinary Optional Redemption of the Series 2009B Bonds

The Series 2009B Bonds are subject to redemption prior to July 1, 2009 at the option of the Authority, in whole or in part upon the occurrence of an Extraordinary Event (as defined below), at a redemption price (the “Extraordinary Redemption Price”) equal to the greater of:

(1) the issue price set forth on the inside cover page hereof of the principal amount of such Series 2009B Bonds to be redeemed; or

(2) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of such Series 2009B Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Series 2009B Bonds are to be redeemed, discounted to the date on which such Series 2009B Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (as defined below) plus 100 basis points;

plus, in each case, accrued interest on such Series 2009B Bonds to be redeemed to the redemption date.

An “Extraordinary Event” will have occurred if Section 54AA or 6431 of the Internal Revenue Code of 1986, as amended (as such Sections were added by Section 1531 of the Recovery Act, pertaining to “Build America Bonds”), is modified, amended or interpreted in a manner pursuant to which the Authority’s 35% cash subsidy payment from the United States Treasury is reduced or eliminated.

The “Treasury Rate” is, as of any redemption date, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two Business Days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the Series 2009B Bonds to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

Mandatory Sinking Fund Redemption

The Series 2009A Bonds, maturing on July 1, 2032, and bearing interest at a rate of 5.00% shall be subject to mandatory sinking fund redemption at par plus accrued interest to the redemption date, without premium in the years and amounts as follows:

<u>Year</u> <u>(July 1)</u>	<u>Amount</u>
2030	\$5,615,000
2031	5,900,000
2032 [†]	1,055,000

[†] Maturity

The Series 2009A Bonds, maturing on July 1, 2032, and bearing interest at a rate of 5.125% shall be subject to mandatory sinking fund redemption at par plus accrued interest to the redemption date, without premium in the years and amounts as follows:

<u>Year</u> <u>(July 1)</u>	<u>Amount</u>
2030	\$11,150,000
2031	11,720,000
2032 [†]	2,090,000

[†] Maturity

The Series 2009B Bonds shall be subject to mandatory sinking fund redemption at par plus accrued interest to the redemption date, without premium in the years and amounts as follows:

<u>Year</u> <u>(July 1)</u>	<u>Amount</u>
2032	\$15,370,000
2033	19,375,000
2034 [†]	20,255,000

[†] Maturity

Any amount accumulated in the Debt Service Fund up to the unsatisfied balance of each Sinking Fund Installment for Bonds may and, if so directed in writing by an Authorized Officer, shall, be applied (together with amounts accumulated in the Debt Service Fund with respect to interest on the Bonds for which such Sinking Fund Installment was established) by the Trustee prior to the forty-fifth day preceding the due date of such Sinking Fund Installment as follows: (i) to the purchase of Bonds of the maturity and interest rate for which such Sinking Fund Installment was established, at prices (including any brokerage and other charges) not exceeding the principal amount of such Bonds plus unpaid interest accrued to the date of purchase, such purchases to be made in such manner as the Authority shall direct;

or (ii) to the redemption of such Bonds if then redeemable by their terms at the prices set forth in (i) above.

Upon the purchase or redemption of any Bond pursuant to the provisions of the Resolution summarized in the preceding paragraph, an amount equal to the principal amount of the Bonds so purchased or redeemed shall be credited toward the next Sinking Fund Installment thereafter to become due with respect to the Bonds of such maturity, and the amount of any excess of the amounts so credited over the amount of such Sinking Fund Installment shall be credited against future Sinking Fund Installments as specified by the Authority at the time of such purchase or redemption.

Selection of Series 2009A Bonds to be Redeemed in Partial Redemption

If less than all of the Outstanding Series 2009A Bonds of a particular maturity and interest rate are to be redeemed, the Trustee shall select, as directed by the Authority (as to the timing of such selection, manner of such selection or otherwise) or otherwise in such manner as the Trustee in its discretion shall deem appropriate and fair, the numbers of the Series 2009A Bonds to be redeemed and portions of any thereof to be redeemed in part. Series 2009A Bonds of denominations equal or less than the minimum authorized denomination thereof may be redeemed only as a whole. Series 2009A Bonds of denominations of more than the minimum authorized denomination thereof may be redeemed either as a whole or in part (which, if redeemed in part, must assure that the portion of the Series 2009A Bond which is not redeemed is an authorized denomination). If the Series 2009A Bonds are registered in book-entry-only form and so long as DTC or a successor securities depository is the sole registered owner of the Series 2009A Bonds, partial redemptions will be done in accordance with DTC procedures. It is Authority's intent that redemption allocations made by DTC, the DTC Participants or such other intermediaries that may exist between Authority and the beneficial owners be made in accordance with these same proportional provisions. However, Authority can provide no assurance that DTC, the DTC Participants or any other intermediaries will allocate redemptions among beneficial owners on such a proportional basis.

Selection of Series 2009B Bonds To Be Redeemed in Partial Redemption

If the Series 2009B Bonds are not registered in book-entry-only form, any redemption of less than all of the Series 2009B Bonds will be allocated among the registered owners of such Series 2009B Bonds as nearly as practicable in proportion to the principal amounts of the Series 2009B Bonds owned by each registered owner, subject to the authorized denominations applicable to the Series 2009B Bonds. This will be calculated based on the formula: $(\text{principal to be redeemed}) \times (\text{principal amount owned by owner}) / (\text{principal amount outstanding})$. The particular Series 2009B Bonds to be redeemed will be determined by the Trustee, using such method as it deems fair and appropriate. If the Series 2009B Bonds are registered in book-entry-only form and so long as DTC or a successor securities depository is the sole registered owner of the Series 2009B Bonds, partial redemptions will be done in accordance with DTC procedures. It is Authority's intent that redemption allocations made by DTC, the DTC Participants or such other intermediaries that may exist between Authority and the beneficial owners be made in accordance with these same proportional provisions. However, Authority can provide no assurance that DTC, the DTC Participants or any other intermediaries will allocate redemptions among beneficial owners on such a proportional basis.

Book-Entry-Only System

The Series 2009 Bonds will be issued as fully registered bonds, registered in the name of Cede & Co., as Registered Bondholder and nominee for The Depository Trust Company ("DTC"), New York, New York. Beneficial ownership interests in the Series 2009 Bonds will be available in book-entry-only

form. Purchasers of beneficial ownership interests in the Series 2009 Bonds will not receive certificates representing their interests in the Series 2009 Bonds purchased. See “APPENDIX D - BOOK-ENTRY-ONLY SYSTEM PROCEDURES.”

Principal of, premium, if any, and interest on the Series 2009 Bonds are payable, so long as the Series 2009 Bonds are in book-entry form, through a securities depository as described in APPENDIX D.

None of the Authority, the Underwriters, or the Trustee has any responsibility or obligation to any beneficial owner with respect to (i) the accuracy of any records maintained by DTC or any DTC Participant, (ii) the distribution by DTC or any DTC Participant of any notice that is permitted or required to be given to the owners of the Series 2009 Bonds, (iii) the payment by DTC or any DTC Participant of any amount received with respect to the Series 2009 Bonds, (iv) any consent given or other action taken by DTC or its nominee as the owner of the Series 2009 Bonds or (v) any other related matter.

PLAN OF FINANCING AND SOURCES AND USES OF FUNDS

Sources and Uses of Funds

The Series 2009A Bonds are being issued by the Authority and the proceeds from the sale thereof will be used, together with certain other funds of the Authority, (i) to pay at maturity all of the principal amount and interest due on the Series A Notes, currently outstanding in the aggregate principal amount of \$314,500,000, (ii) to finance Capital Cost components of the Authority’s Metro Matters Program, and (iii) to pay certain costs of issuing the Series 2009 Bonds. The proceeds of the Series 2009B Bonds will be used to finance Capital Cost components of the Authority’s Metro Matters Program and certain costs of issuing the Series 2009 Bonds.

Sources and Uses of Funds

Sources	
Par Amount of Series 2009 Bonds	\$297,675,000.00
Net Original Issue Premium	12,239,864.80
Funds on Hand	<u>\$115,113,974.00</u>
 Total Sources	 <u>\$425,028,838.80</u>
 Uses	
Deposit to Proceeds Account to Pay in Full the Series A Notes	\$314,500,000.00
Deposit to Proceeds Account to Pay Authority Capital Costs	107,613,974.00
Deposit to Costs of Issuance Account	601,563.42
Underwriters’ Discount	<u>\$ 2,313,301.38</u>
 Total Uses	 <u>\$425,028,838.80</u>

Annual Debt Service

<u>Year Ending</u>	<u>Existing</u>	<u>Series 2009A and B Bonds</u>			<u>Total</u>
	<u>Debt Service</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>	<u>Debt Service</u>
7/1/2010	\$ 33,467,813	\$ 5,375,000	\$ 17,229,268	\$ 22,604,268	\$ 56,072,080
7/1/2011	27,477,156	6,555,000	15,968,256	22,523,256	50,000,413
7/1/2012	27,476,650	6,885,000	15,640,506	22,525,506	50,002,156
7/1/2013	16,197,900	7,205,000	15,318,256	22,523,256	38,721,156
7/1/2014	11,775,750	7,560,000	14,963,306	22,523,306	34,299,056
7/1/2015		7,900,000	14,621,506	22,521,506	22,521,506
7/1/2016		8,285,000	14,237,006	22,522,006	22,522,006
7/1/2017		8,690,000	13,834,944	22,524,944	22,524,944
7/1/2018		9,125,000	13,400,444	22,525,444	22,525,444
7/1/2019		9,580,000	12,944,194	22,524,194	22,524,194
7/1/2020		10,060,000	12,465,194	22,525,194	22,525,194
7/1/2021		10,585,000	11,937,044	22,522,044	22,522,044
7/1/2022		11,140,000	11,381,331	22,521,331	22,521,331
7/1/2023		11,725,000	10,796,481	22,521,481	22,521,481
7/1/2024		12,340,000	10,180,919	22,520,919	22,520,919
7/1/2025		12,990,000	9,533,069	22,523,069	22,523,069
7/1/2026		13,670,000	8,851,094	22,521,094	22,521,094
7/1/2027		14,390,000	8,133,419	22,523,419	22,523,419
7/1/2028		15,145,000	7,377,944	22,522,944	22,522,944
7/1/2029		15,940,000	6,582,831	22,522,831	22,522,831
7/1/2030		16,765,000	5,757,700	22,522,700	22,522,700
7/1/2031		17,620,000	4,905,513	22,525,513	22,525,513
7/1/2032		18,515,000	4,009,863	22,524,863	22,524,863
7/1/2033		19,375,000	2,774,100	22,149,100	22,149,100
7/1/2034		<u>20,255,000</u>	<u>1,417,850</u>	<u>21,672,850</u>	<u>21,672,850</u>
Total	\$ 116,395,269	\$297,675,000	\$264,262,037	\$561,937,037	\$678,332,305

SECURITY AND SOURCES OF PAYMENT OF THE BONDS

The Series 2009 Bonds, together with the Series 2003 Bonds and the Series 2003B Bonds, constitute “Obligations” under the Resolution and are special obligations of the Authority, payable solely from the Trust Estate, subject only to the provisions of the Resolution.

Limited Obligations

The Series 2009 Bonds are special obligations of the Authority payable solely from the Trust Estate pledged by the Resolution. The Series 2009 Bonds do not constitute a debt or legal obligation of and do not create a lien upon the revenues of the Participating Jurisdictions or of the United States of America. The full faith and credit of the United States and the Participating Jurisdictions are not pledged to the payment of the Series 2009 Bonds, and none of the foregoing are liable thereon. The Authority has no taxing power.

Pledge of Trust Estate

The Trust Estate consists of, subject to the terms and provisions of the Resolution, all right, title and interest of the Authority in:

- (1) all Gross Revenues;
- (2) the proceeds of the sale of the Obligations;
- (3) all Funds, Accounts and Subaccounts established by the Resolution (other than funds, and any accounts and subaccounts therein, established pursuant to a Supplemental Resolution in connection with Variable Interest Rate Obligations, Put Obligations, Parity Debt, Subordinated Indebtedness or Subordinated Contract Obligations; provided however, that such funds, accounts and subaccounts are specifically excepted from the Trust Estate by the Supplemental Resolution authorizing such Variable Interest Rate Obligations, Put Obligations, Parity Debt, Subordinated Indebtedness or Subordinated Contract Obligations), including the investments, if any, thereof; and
- (4) all funds, moneys and securities and any and all other rights and interests in property, whether tangible or intangible, from time to time by delivery or by writing of any kind conveyed, mortgaged, pledged, assigned or transferred as and for additional security for the Obligations by the Authority, or by anyone on its behalf, or with its written consent, to the Trustee, which is authorized to receive any and all such property at any and all times, and to hold and apply the same subject to the terms of the Resolution.

The Resolution creates a lien on the pledge of moneys and securities pledged under the Resolution without any physical delivery thereof, and the lien of the pledge is valid and binding against all parties having claims of any kind against the Authority.

Gross Revenues

Gross Revenues consist of (i) Revenues exclusive of Lease Related Revenues, (ii) the Stable and Reliable Funding Sources (as defined below) and (iii) all other revenues, receipts, grants, contributions, subsidies and funds received by the Authority in respect of the Transit System which can be lawfully pledged under the Resolution, provided that the Capital Contributions and the Federal Operating Subsidies are excluded from Gross Revenues.

Although “Federal Operating Subsidies” are referred to in the preceding definition of Gross Revenues, the Federal government no longer provides operating subsidies to the Authority.

“Capital Contributions” include any capital contributions or grants paid to the Authority by the Federal government or a Participating Jurisdiction. For a description of the funding of the Capital Costs of the Transit System, see “THE TRANSIT SYSTEM - Funding of Capital Costs of the Transit System” herein.

Revenues

“Revenues” consist of (i) all fares, rates, fees, charges, rents, revenues and other income received by the Authority from the operation of the Transit System and amounts paid to the Authority by the Federal government or any Participating Jurisdiction on account of fares or service rendered by the Authority, (ii) proceeds of any business interruption insurance relating to the Transit System, and

(iii) interest received on any moneys or securities, other than the Capital Contributions, of the Authority; provided, until the same is paid to the Authority for services of the Transit System, Revenues shall not include amounts collected by the Authority in respect of fare media that the owners thereof can apply to pay to Persons other than the Authority for goods or services.

For a description of Authority fare collections from operation of the Transit System for the five previous fiscal years, see “THE TRANSIT SYSTEM - Funding of Operating Expenses of the Transit System.”

Stable and Reliable Funding Sources

As a condition of receiving certain Federal assistance, a 1980 federal law (the “Stark-Harris Act”) required that each Participating Jurisdiction identify a stable and reliable ongoing source of revenue (collectively, the “Stable and Reliable Funding Sources”) to finance its contributions to the Authority in the amounts needed to fund its share of that portion of operating and maintaining the Transit System that is in excess of (i) revenues received by the Authority from the operation of the Transit System and (ii) any amount of Federal subsidy for the Transit System. Each Participating Jurisdiction adopted legislation, described below, that identified certain local revenue sources that would be used by the Participating Jurisdictions to meet their capital, debt service and operating subsidy payment obligation to the Authority. The funds *generated* by the Participating Jurisdictions from their respective Stable and Reliable Funding Sources are not specifically pledged to the payment of the Bonds. A Participating Jurisdiction is not limited to the identified revenue sources to provide funds to make its capital, debt service and operating subsidy payments; the payments can be made from all available funds of the Participating Jurisdiction. Any funds *received* by the Authority as payment from the Participating Jurisdictions for obligations to be paid from the Stable and Reliable Funding Sources or other sources that are not Capital Contributions are Gross Revenues and therefore part of the Trust Estate.

The Authority has covenanted in the Resolution to use its best efforts to cause the Participating Jurisdictions to make payments from their respective Stable and Reliable Funding Sources, together with other funds, if necessary, so as to provide the amounts required to make the deposits to the Debt Service Fund required by the Resolution. To that end, the Authority has covenanted to take all appropriate and governmental action including, without limitation, action to obtain assistance and support for its efforts from any and all governmental entities with an interest therein.

The obligation of the Participating Jurisdictions to make payment of funds to the Authority is subject to appropriation. Pursuant to the Compact, however, the Participating Jurisdictions (with the Washington Suburban Transit District acting on behalf of the Maryland jurisdictions) are obligated, subject to the limitations described herein, to include in their respective budgets and to appropriate or otherwise provide their share of amounts included in the Authority’s capital budget and operating budget to be paid by the Participating Jurisdictions. The Participating Jurisdictions have not been asked to provide, and have not provided, either a certificate or an opinion regarding whether their respective contractual obligations pursuant to the Compact and the Metro Matters Funding Agreement to pay their respective share of the Authority’s budget for capital and operating costs of the Transit System, including debt service on the Bonds, violate any court order or decree, constitute a breach of or default under any contractual obligation, contravene or constitute a violation of any federal or state constitutional or statutory provision, or are the subject of any ongoing litigation. Since 1970, when the Participating Jurisdictions first had funding obligations to the Authority, no Participating Jurisdiction has failed to make (either on time or within a few days of the payment date) a required operating subsidy payment to the Authority, with the exception of one instance in 1993 in which the District was one month late in making a payment. In connection with its capital subsidy payments, the State has, for the past several fiscal years, made an assignment to the Authority of certain flexible transportation grant funds under the

Congestion Mitigation and Air Quality Improvement program (“Flexible Grant Funds”) to be received by the State from the Federal government in lieu of making direct cash payments of a portion of its capital subsidies. Following such an assignment, the Flexible Grant Funds are paid to the Authority within several months. Such assignments of Flexible Grant Funds have generally been made by the State before or very shortly after capital subsidy payments are due to the Authority. In the current fiscal year, the State has made cash payments of \$53.9 million against an obligation of \$74.9 million for fiscal year 2009. The State has agreed to make a cash payment of \$4.6 million and to assign Flexible Grant Funds of \$16.4 million for the balance of its fiscal year 2009 capital subsidy payment, both of which the State has advised will occur on or before June 15, 2009. In addition, a disputed \$1.5 million amount for State capital subsidies from fiscal year 2003 remains unpaid. The Flexible Grant Funds are Capital Contributions and therefore not part of the Gross Revenues pledged to the payment of debt service on the Series 2009 Bonds.

See “THE TRANSIT SYSTEM - Funding of Capital Costs of the Transit System,” “- Funding of Operating Expenses of the Transit System” and “CERTAIN AUTHORITY FINANCIAL INFORMATION - Budgetary Process - Fiscal Year 2009 Budget.”

District of Columbia

In order to comply with the Stark-Harris Act, the District adopted D.C. Law 4-103, the Stable and Reliable Funding Source for WMATA Act of 1982, as amended (“Law 4-103”). Law 4-103 provides for designated revenues to be deposited in the District’s General Fund for allocation to a Metrorail/Metrobus Account. As part of the District’s annual budget, revenues from the identified sources under Law 4-103 may not be appropriated or expended for any purpose until after funds have been provided from such sources to the Authority in an amount sufficient to satisfy the District’s obligation to the Authority to pay the District’s share of the Authority’s operating and Capital Costs and debt service. However, if those revenue sources are insufficient to make the required payments to the Authority, the District is still required to find other available sources of funds to satisfy its obligation to the Authority. In addition, pursuant to the District of Columbia Financial Responsibility and Management Assistance Act of 1995, Public Law 104-8, as amended (the “Control Board Act”), the District of Columbia Financial Responsibility and Management Assistance Authority (the “Control Board”) was established. The Control Board Act granted the Control Board substantial powers over the financial activities and management operations of the District government during any “Control Period” as defined in the Control Board Act. Under the provisions of the Control Board Act, a new Control Period will be initiated if, among other things, the District fails to make payments to any entity under an interstate compact, including the Compact, to which the District is a signatory. If a new Control Period were to be initiated under the existing Control Board Act, the Control Board would be reconstituted and resume its full statutory powers.

State of Maryland

In order to comply with the Stark-Harris Act, the Maryland General Assembly enacted Section 10-205 of the Annotated Transportation Code of Maryland to provide for its Stable and Reliable Funding Source to pay the share of Authority’s operating and Capital Costs and debt service attributable to the Participating Jurisdictions located in the State. The payment is made from the Transportation Trust Fund (the “Trust Fund”) established under Section 3-216, as amended, of the Annotated Transportation Code of Maryland to the Washington Suburban Transit District (“WSTD”), which then makes payment to the Authority. The act creating the Trust Fund provides that there shall be credited to the Trust Fund for the Account of the Maryland Department of Transportation (the “Department”) all taxes, fees, charges and revenues collected or received by or paid, appropriated, or credited to the account of the Department or any of its units in the exercise of its rights, powers, duties or obligations. Payments from the Trust

Fund to the WSTD for this purpose are made only after payments are made to meet the debt service requirements of the Department on its own outstanding debt. However, if the identified Stable and Reliable Funding Source is insufficient to make the required payments to the Authority, the State is still required to find other available sources of funds to satisfy its obligation to the Authority.

Commonwealth of Virginia

In order to comply with the Stark-Harris Act, the Virginia General Assembly enacted Section 58.1-1720 of the Code of Virginia, as amended, which levied, in addition to all other taxes imposed on fuels subject to tax, in every county or city which is a member of any transportation district in which a rapid heavy rail commuter mass transportation system operating on an exclusive right-of-way, and a bus commuter mass transportation system, are owned, operated or controlled, a sales tax of two percent (2%) on the retail price of such fuels sold within such county or city. The Participating Jurisdictions located in the Commonwealth are all members of the NVTC. The tax imposed is paid to the NVTC and is then sent to the Authority to be applied to fund its share of the Authority's operating and Capital Costs and debt service.

Section 15.2-948 of the Code of Virginia, as amended, provides that a Participating Jurisdiction located within the Commonwealth may, within the limits permitted by the Virginia Constitution, designate any of its continuing sources of revenue, or a portion thereof, as its Stable and Reliable Funding Source to pay its mass transit operating and debt service expenses to the extent that such designation is required pursuant to Stark-Harris. However, under the Virginia Constitution, a county, including Fairfax County and Arlington County, cannot obligate itself to pay for a fixed proportion of a future deficit of the Authority if it cannot be paid out of current revenues or there has not been a referendum authorizing the obligation. Based upon the foregoing, Fairfax County and Arlington County have concluded that while they cannot either by legislation or contract commit themselves to pay their obligations to the Authority beyond a current year in which revenues are available, they can, by ordinance, designate the Stable and Reliable Funding Sources from which appropriations for the Authority may be derived. Accordingly, each of the Participating Jurisdictions in the Commonwealth has adopted an ordinance designating its general revenues as the source of funds to provide payments to the Authority on an annual basis (and Alexandria, Falls Church and Fairfax cities have agreed to by written contract with the Authority), and has directed its chief administrative officer to continue close coordination with the Authority to ensure that the Participating Jurisdiction's contribution be included in the annual budget submissions.

Remedies; Contractual Obligations

The obligations of the Participating Authorities are unsecured, contingent obligations under the Compact and related agreements and statutes, including the Metro Matters Funding Agreement. If a Participating Jurisdiction were to fail to timely make a required subsidy payment, in addition to any enforcement action available pursuant to the Compact and related funding agreements, the Authority's Board could decide to hold a public hearing as to whether to terminate the provision of Transit System service within the Participating Jurisdiction. See "THE TRANSIT SYSTEM - Funding of Capital Costs of the Transit System" and " - Funding of Operating Expenses of the Transit System."

Historical and Projected Gross Revenues

The table below shows the Gross Revenues of the Authority collected in fiscal years 2006 through 2008 and projected amounts for fiscal years 2009 and 2010.

Gross Revenues and Debt Service Coverage, Fiscal Years 2006 - 2010 ¹

	(\$000s)				
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u> ³	<u>2010</u> ³
Passenger Revenues	\$ 555,262	\$ 563,356	\$ 625,607	\$ 670,400	\$ 691,900
Other Pledged Revenues	65,610	78,735	86,361	87,100	84,900
Operating Subsidies ²	<u>531,618</u>	<u>606,031</u>	<u>610,001</u>	<u>679,392</u>	<u>679,392</u>
Total Gross Revenues	<u>\$1,152,490</u>	<u>\$1,248,122</u>	<u>\$1,321,969</u>	<u>\$1,436,892</u>	<u>\$1,456,192</u>
Debt Service ⁴	\$33,382	\$33,373	\$33,350	\$33,340	\$56,072
Debt Service Coverage Ratio	35x	37x	40x	43x	26x

1 The Authority's fiscal year ends on June 30.

2 These amounts reflect payments received from the Participating Jurisdictions from the Stable and Reliable Funding Sources or other sources.

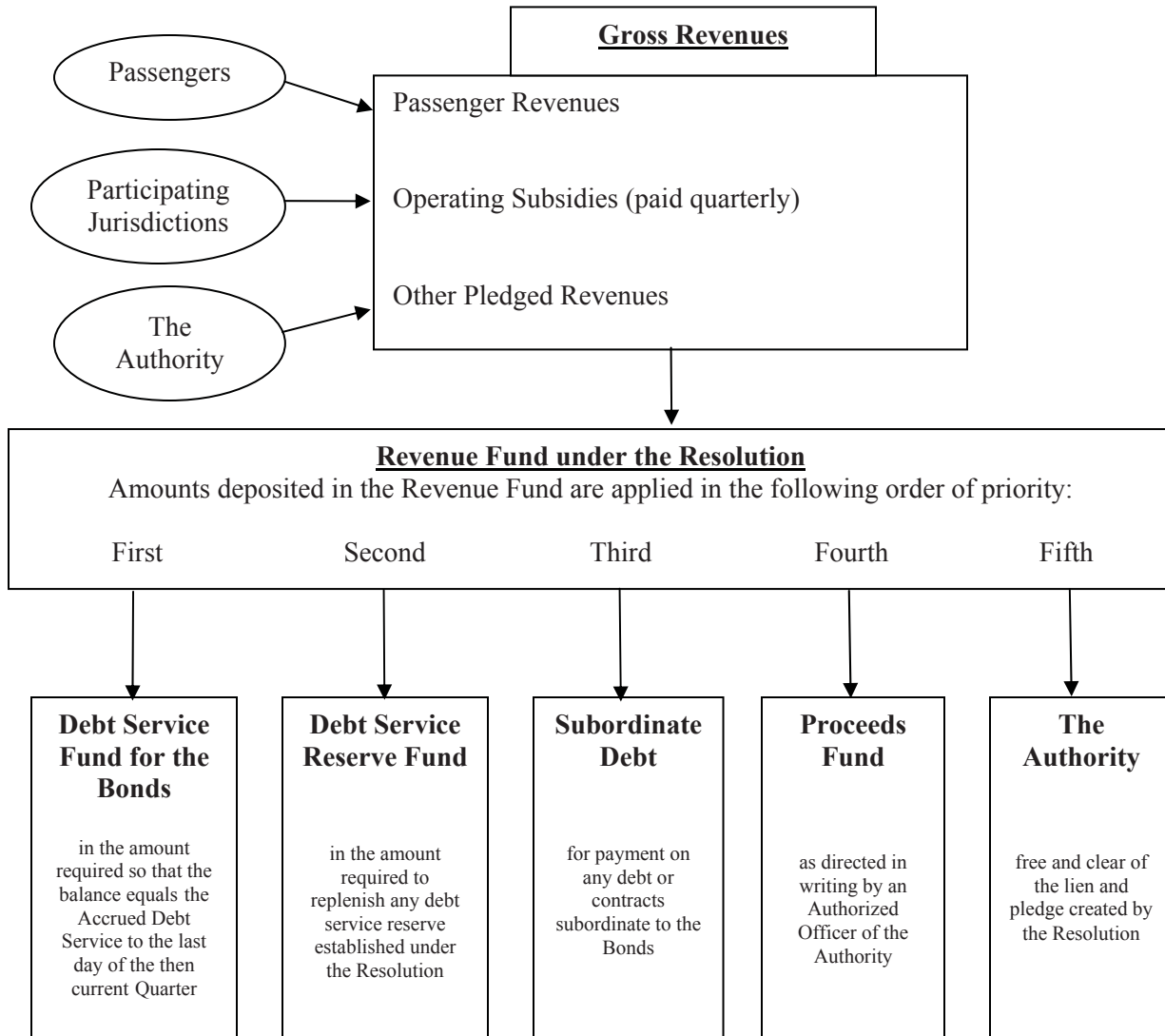
3 The amounts shown for fiscal years 2009 and 2010 are projections of the Authority.

4 The amounts shown for debt service are presented on a cash basis.

[Remainder of page intentionally left blank]

Flow of Funds

The following table summarizes the sources of Gross Revenues and the flow of funds once such Gross Revenues are collected by the Authority and deposited in the Revenue Fund. Such deposit occurs as soon as practicable after the receipt thereof as required by the Resolution.



As summarized above, pursuant to the Resolution the Authority must deposit all Gross Revenues as soon as practicable after the receipt thereof into the Revenue Fund. Amounts in the Revenue Fund are then applied in the amounts and in the order of priority shown below:

- (a) payment to the Debt Service Fund, the amount, if any, required so that the balance in said Fund shall equal the Accrued Debt Service to the last day of the then current Quarter; provided that, for the purposes of computing the amount to be deposited in said Fund, there shall be excluded the amount, if any, set aside in any account within the Debt Service Fund or the Proceeds Fund from the proceeds of Obligations or Parity Debt for the payment of interest on Obligations or Parity Debt to the last day of the then current Quarter;
- (b) transfer to another Person in accordance with any related Supplemental Resolution in the case of any Obligations or Parity Debt, all amounts required by such Supplemental Resolution to build up or replenish any debt service reserve fund established under any Supplemental Resolution for such Obligations or Parity Debt;
- (c) transfer to another Person in accordance with any Supplemental Resolution or other authorizing document creating Subordinated Indebtedness or Subordinated Contract Obligations for payment of, or accrual for payment of, principal of and interest on any Subordinated Indebtedness or for payment of amounts due under any Subordinated Contract Obligation;
- (d) transfer to the Authority for deposit in the Proceeds Fund as directed in writing by an Authorized Officer of the Authority; and
- (e) transfer to such accounts held by the Authority as an Authorized Officer shall specify in writing to the Trustee.

Amounts paid out from any Fund or Account for an authorized purpose (excluding transfers to any other pledged Fund or Account) or transferred as described in subparagraph (e) above are free and clear of the lien and pledge created by the Resolution.

“Accrued Debt Service” means, as of any date of calculation, an amount equal to the sum of the amounts of accrued and unpaid Debt Service with respect to all Obligations and Parity Debt, calculating the accrued Debt Service with respect to each obligation at an amount equal to the sum of (i) as estimated by an Authorized Officer, interest on the Obligations and interest components of Parity Debt accrued and unpaid and to accrue to the end of the then current Quarter, and (ii) Principal Installments due and unpaid and that portion of the Principal Installment for such Obligations and Parity Debt next due which would have accrued (if deemed to accrue in the manner set forth in the Resolution) to the end of such Quarter. For purposes of calculating Debt Service Fund deposits, Principal Installments shall not include amounts that an Authorized Officer has notified the Trustee are to be paid from sources other than Gross Revenues, nor shall Accrued Debt Service include any amounts that, as certified by an Authorized Officer, have been set aside under the Resolution or otherwise in trust for the payment thereof.

Parity Liens and Additional Indebtedness

Pursuant to the terms of the Resolution, the Authority is prohibited from creating a pledge of or lien on the Trust Estate which is superior to the pledge that secures the Bonds. However, the Authority may create a pledge of or lien on the Trust Estate that is on parity with the pledge that secures the Bonds,

and in that connection incur additional indebtedness, provided that certain conditions set forth in the Resolution are satisfied. For a description of the Capital Improvement Plan of the Authority, including plans which may result in the issuance of additional Obligations, and certain outstanding debt of the Authority, see "CERTAIN AUTHORITY FINANCIAL INFORMATION - Capital Improvement Plan" and "- Outstanding Debt" herein.

Capital Costs. Obligations may be issued to pay, or to provide for the payment of, all or part of Capital Costs. Such Obligations are to be issued upon receipt by the Trustee of (i) a certificate of an Authorized Officer stating that, based on the reasonable expectations of such Authorized Officer, the Authority will be in compliance with its covenant summarized under the caption "Rate Covenant" for the Fiscal Year in which such Obligations are being issued and (ii) a certificate of an Authorized Officer certifying, based on the Authority's records, that Gross Revenues for any twelve (12) consecutive months out of the last eighteen (18) months immediately preceding the incurrence or issuance of such Obligations, adjusted so as to reflect what would have been in effect for such twelve (12) month period with any fare increase at least thirty (30) days prior to the date of incurrence or issuance of such Obligations, shall at least equal 400% of the Average Annual Aggregate Debt Service (with respect to all Obligation and Parity Debt, including the obligations being incurred or issued) for the period commencing with the Fiscal Year next following the incurrence or issuance of such Obligations and ending with the Fiscal Year which includes the latest maturity or payment date of any Outstanding Obligations.

Refunding Obligations. One or more Series of Refunding Obligations may be issued to refund (including by redemption, payment at maturity or in connection with exchanges or tenders) all or any portion of any Outstanding Obligations or Parity Debt, as well as any Series 1993 Bonds. Such Obligations are to be issued upon receipt by the Trustee of a certificate of an Authorized Officer stating either (i) after giving effect thereto, the Debt Service with respect to such Obligations is less in each Fiscal Year than the Debt Service with respect to the Obligations or Parity Debt, or the debt service of the Series 1993 Bonds, as applicable, being refunded for the period commencing with the Fiscal Year next following the incurrence or issuance of such Obligations and ending with the Fiscal Year which includes the latest maturity or payment date of the Obligations, Parity Debt or Series 1993 Bonds being refunded, or (ii) the Gross Revenue test summarized in the preceding paragraph.

Rate Covenant

Pursuant to the terms of the Resolution, the Authority has covenanted to, insofar as practicable and consistent with the provision of adequate service at reasonable fares, fix and establish fares, rates, charges and other fees with respect to the Transit System as shall, in the judgment of the Authority, be sufficient, together with other money available or anticipated to be available therefor (including the anticipated receipt of other amounts constituting Gross Revenues, as well as the proceeds of sale of Obligations, notes or other obligations or evidences of indebtedness of the Authority that will be used to pay the principal of Obligations issued in anticipation of such receipt), to pay (i) all Debt Service, all other amounts due on Parity Debt, debt service on all Subordinated Indebtedness then outstanding, and amounts due on all Subordinated Contract Obligations, (ii) all operating costs of the Transit System (giving effect to any reductions or deferrals or reserves therefor or anticipated reductions or deferrals thereof or reserves therefor), and (iii) all other amounts payable from or constituting a lien or charge on Gross Revenues, in each case as the same become respectively due and payable.

Failure to comply with the covenant described above constitutes an Event of Default under the Resolution. See "APPENDIX A - SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION - Events of Default."

THE TRANSIT SYSTEM

In March 1968, the Participating Jurisdictions agreed on the scope and routes for an Adopted Regional System, commonly known as Metrorail, and a financial cost sharing and development plan for a 98-mile rail system. Amendments to the development plan for Metrorail increased the system to a 106-mile, 86-station rapid rail system (see the following map of Metrorail). The Authority has over 1,100 rail transit vehicles in operation providing 200 million passenger trips annually. The Authority currently operates parking facilities at its Metrorail stations with over 48,891 spaces.

An extension of the Metrorail system to Washington Dulles International Airport (the “Dulles Extension”) in Loudoun County, Virginia, is expected to begin construction in 2009. Eleven new stations are planned to be constructed, with construction funded by the Federal government, the Commonwealth, Fairfax County, Loudoun County, and the Metropolitan Washington Airports Authority (“MWAA”). The Authority will not provide funds for the construction of the extension. Upon completion, MWAA will request that the Dulles Extension be added to the Metrorail system. If approved by the Authority, the Dulles Extension would become a capital asset of the Authority, the Authority would fund its operation, and Loudoun County would become a Participating Jurisdiction. The Authority currently has no plans for further additional expansion of the Metrorail system.

The Authority also operates a comprehensive bus system which provides service to areas not served by Metrorail and is integrated closely with Metrorail operations. In accordance with Authority policy, as Metrorail is expanded, bus service is correspondingly adjusted to feed the rail system. The Authority presently provides bus service to about 350 route variations, totaling almost 50 million annual miles. A bus vehicle fleet of 1,500 buses provides approximately 524,300 average daily passenger trips.

In addition to Metrobus, the Authority operates MetroAccess, an ADA paratransit service for the Washington, DC metropolitan area. MetroAccess is sponsored by the Authority, local governments and the other local fixed-route transit system in the Washington metropolitan area. MetroAccess provides door-to-door transportation service for eligible riders. MetroAccess has 14,000 registrants and provides service through contract carriers having over 300 vehicles. Approximately 1.8 million registrant trips are forecasted for fiscal year 2009.

The Metrorail system plays an important role in facilitating economic and leisure activities in the Washington metropolitan area. For example, during the 2008 season 53% of those attending Washington Nationals games at Nationals Park, located in the District, traveled to games on Metrorail.

In addition to serving the broader Washington metropolitan area, the Metrorail and Metrobus systems play an essential role in ensuring that Federal government workers are able to travel to and from the many Federal workplaces in the District and surrounding suburbs. More than 120,000 Federal workers use the Transit System to travel to and from work, accounting for approximately 40% of ridership during peak hours.



System Map

- Legend**
- Red Line • Glenmont to Shady Grove
 - Orange Line • New Carrollton to Vienna/Fairfax-GMU
 - Blue Line • Franconia-Springfield to Largo Town Center
 - Green Line • Branch Avenue to Greenbelt
 - Yellow Line • Huntington to Fort Totten



Metro is accessible.

COPYRIGHT ©2006
WASHINGTON METROPOLITAN
AREA TRANSIT AUTHORITY

REV 05/23/07
©2007 METRO



Funding the Capital Costs of the Transit System

Funds for the capital development of Metrorail were provided on a shared basis between the Federal government and the Participating Jurisdictions.

Initial Funding

An initial \$2.0 billion was provided for the capital development of Metrorail, with Congress appropriating two-thirds of this amount and the State, the Commonwealth, the District and the Participating Jurisdictions appropriating the remaining one-third. In addition, \$997 million of federally guaranteed Transit Series A - E Notes issued in 1972 through 1975 provided additional capital to support development of Metrorail. These bonds were retired by the Authority in 1993 through a refinancing of one-third of the bonds and through receipt of Federal funds sufficient to retire the remaining two-thirds of the then-outstanding bonds. The extensive Federal participation in Metrorail represented a development decision in response to the recognized need to improve the quality and lower the cost of transporting Federal employees working in the Washington metropolitan area. The Capital Transportation Act provided the authorization to enter into the Compact, authorized the construction of Metrorail and provided specific Federal funding commitments.

Capital Contributions required from the Participating Jurisdictions to provide the local match for Federal grants were provided through multi-year Interim Capital Contributions Agreements that specified the matching commitment due from each jurisdiction during each year of the federally authorized construction program. All of the contributions pursuant to the Interim Capital Contributions Agreements have been made.

Ongoing Funding

Ongoing funding of Metrorail continues to be a partnership between the Participating Jurisdictions and the Federal government. In 2004, the Authority entered into the Metro Matters Funding Agreement with the Participating Jurisdictions to fund its capital program through fiscal year 2010. Amounts contributed by the Participating Jurisdictions pursuant to the Metro Matters Funding Agreement are subject to appropriation. Since inception of the Metro Matters Funding Agreement, financing sources for Metrorail construction through fiscal year 2008 have been approximately \$1.8 billion, with \$764 million from the Federal government, \$541 million from the Participating Jurisdictions, \$456 million from bond proceeds and investment income and \$42 million from miscellaneous sources.

The Metro Matters Funding Agreement requires each Participating Jurisdiction to use “all reasonable efforts to pursue all legally available means to secure the necessary and appropriate budget, legislative, and appropriations actions to obtain funding in the full amounts” of its obligations under the Agreement. The obligation of the District to do so is subject to the Federal and District anti-deficiency statutes and Congressional appropriation. If a Participating Jurisdiction were to fail to include in its budget a required capital subsidy payment, or, following such inclusion and an appropriation, were to fail to make such payment to the Authority, the Authority could bring suit pursuant to the Metro Matters Funding Agreements to attempt to compel compliance. However, each Participating Jurisdiction retains the absolute discretion as to whether to appropriate, and there would be no contractual remedy for the failure to appropriate were the budgetary procedures to be followed.

In addition to the contractual remedy described above, the Authority’s Board could decide to hold a public hearing as to whether to terminate the provision of Transit System service within any Participating Jurisdiction which has failed to timely make a required subsidy payment regardless of the particular circumstances. Following such a hearing, Authority staff would provide a report to the Board

as to whether such service should be terminated, following which the Board would make its decision. Any such Board decision, however, must be made on the basis of a majority vote. As with all Board votes, the majority must include one of the Directors from each of the Compact signatories (the Commonwealth, the State, and the District), including the signatory in which the Participating Jurisdiction in which the termination of service is being considered is located.

The Authority has commenced preliminary negotiations with the Participating Jurisdictions to reach a new agreement to fund its capital projects following the expiration of the Metro Matters Funding Agreement. See “CERTAIN AUTHORITY FINANCIAL INFORMATION - The Metro Matters Program.”

For a description of the Authority’s Capital Improvement Plan, see “CERTAIN AUTHORITY FINANCIAL INFORMATION - Capital Improvement Plan” herein. The Capital Improvement Plan is expected to be funded with funds from the Federal government, the Participating Jurisdictions and bond proceeds, among other sources.

Capital Contributions are excluded from the Gross Revenues of the Authority pledged as part of the Trust Estate for the payment of debt service on the Bonds.

Funding the Operating Expenses of the Transit System

Pursuant to the Compact, the Participating Jurisdictions (with the Washington Suburban Transit District acting for the Maryland jurisdictions) are obligated, subject to the limitations described herein, to provide funding to the Authority for their share of the Authority’s budget for capital and operating costs of the Transit System. Under the terms of the Compact and legislative enactments of the Participating Jurisdictions, the Stable and Reliable Funding Sources have been identified as the funding sources for capital, debt service and operating subsidy payments, although each Participating Jurisdiction is not limited to the identified revenue sources in order to provide all obligated payments. The funds to be provided by or on behalf of each Participating Jurisdiction are subject to annual appropriation to provide for the projected annual operating deficit of the Transit System. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Gross Revenues - Stable and Reliable Funding Sources.”

In addition to the quarterly operating subsidy payments made to the Authority by or on behalf of the Participating Jurisdictions, the Authority’s revenues consist primarily of farebox revenues from passengers. In establishing its budget each year, the Authority makes an estimate of the revenues it expects to receive from operation of the Transit System based on the current or projected fare schedule and ridership, together with other Authority business revenues, including from advertising, charter bus services and other sources. The balance of the Authority’s budget is provided through operating subsidy payments from or on behalf of the Participating Jurisdictions. At the end of a fiscal year, to the extent that the amount of a Participating Jurisdiction’s operating subsidy payment is less or more than its share of the difference between the total operating expenses and operating revenues of the Authority for that fiscal year, the amount of the Participating Jurisdiction’s operating subsidy payment for the following fiscal year is adjusted by such amount.

Pursuant to the terms of the Compact, the District, the Washington Suburban Transit District (acting on behalf of the Participating Jurisdictions in the State) and the Participating Jurisdictions in the Commonwealth are obligated “subject to such review and approval as may be required by their budgetary and other applicable processes . . . [to] include in their respective budgets next to be adopted and appropriate or otherwise provide the amounts” required of each of them pursuant to the Authority’s operating and capital budgets. If a Participating Jurisdiction were to fail to include in its budget a required operating subsidy payment or, following such inclusion and an appropriation, were to fail to make such payment to the Authority, the Authority could bring suit pursuant to the Compact to attempt to

compel compliance. However, each Participating Jurisdiction retains the absolute discretion as to whether to appropriate, and there would be no contractual remedy for the failure to appropriate were the budgetary procedures to be followed.

In addition to the contractual remedy described above, the Authority's Board could decide to hold a public hearing as to whether to terminate the provision of Transit System service within any Participating Jurisdiction which has failed to timely make a required subsidy payment regardless of the particular circumstances as described above under "FUNDING OF THE CAPITAL COSTS OF THE SYSTEM - Ongoing Funding."

The Authority's current rate schedule, which became effective January 6, 2008, provides for peak period base passenger fares of approximately \$1.65 for Metrorail, \$1.35 for cash fares on Metrobus, and \$1.25 for Metrobus fares paid with a SmarTrip® card. The Authority's Metrorail fares are determined on the basis of a base fare that all passengers are charged, which varies depending on the time of day during which the trip is made, and an additional fare charge based on the distance a passenger rides on the Transit System. The Authority provides intermodal transfers between Metrobus and Metrorail. In setting its fare schedule, the Authority expects to recover approximately fifty percent (50%) of the Transit System's operating costs through farebox receipts, advertising income, and parking fees. Fares are adjusted from time to time and the Board decisions regarding such fare increases are not subject to regulatory approval.

The table set forth below details the major categories of operating expenditures and the annual changes. See "CERTAIN AUTHORITY FINANCIAL INFORMATION" herein for greater detail about changes in certain categories of expenditures shown below.

OPERATING EXPENSES FOR FISCAL YEARS 2006-2008
(**\$000s**)

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Labor	\$536,439	\$573,514	\$571,589
Fringe Benefits	271,577	302,416	415,453
Services	102,081	117,867	143,816
Materials and Supplies	123,439	144,584	148,467
Utilities	67,010	72,286	84,725
Casualty and Liability Costs	44,688	28,223	23,445
Leases and Rentals	3,999	2,925	2,349
Miscellaneous	5,205	3,452	1,211
Depreciation and Amortization	<u>306,955</u>	<u>361,141</u>	<u>412,341</u>
Total Operating Expenses	\$1,461,393	\$1,606,408	\$1,803,396

Source: The Authority's fiscal year 2007 and 2008 CAFRs.

The Authority's operating statistics based on the audited statements for fiscal years 2004 through 2008 are set forth in the following table.

OPERATING STATISTICS

Fiscal Year	Passengers							Operating Revenues ¹			Operating Expenses ^{1,2}	Ratio of Operating Revenues to Operating Expenses
	(000s)						(\$000s)					
	Peak Base Fare		Metrorail	Metrobus	MetroAccess	Total	Annual Percentage Change	Farebox	Other	Total		
Rail	Bus											
2004	\$1.30	\$1.25	189,985	146,011	1,112	337,109	1.30%	\$453,043	\$46,942	\$499,985	\$ 963,029	51.92%
2005	1.35	1.25	195,186	127,905	1,253	324,344	-3.94%	522,475	50,067	572,542	1,039,979	55.05%
2006	1.35	1.25	199,278	128,416	1,746	329,440	1.55%	555,262	52,216	607,478	1,154,438	52.62%
2007	1.35	1.25	207,906	131,490	1,648	341,044	3.40%	563,356	61,736	625,092	1,245,267	50.20%
2008	1.65	1.35	215,315	132,849	1,483	349,647	2.46%	625,607	64,965	690,572	1,391,055	49.64%

¹ These amounts are presented on a GAAP basis.

² These amounts do not include depreciation and amortization expenses.

Operating Subsidy Payments from the Participating Jurisdictions

The Participating Jurisdictions have provided operating subsidy payments to the Authority sufficient to meet the Authority's annual budget requirements. The following table sets forth the annual operating subsidy payments pursuant to each year's adopted budget made by each Participating Jurisdiction from fiscal year 2004 through fiscal year 2008.

PARTICIPATING JURISDICTION SUBSIDY PAYMENTS ¹ (\$000s)

Fiscal Year	D.C.	% of total	Montgomery County	% of total	Prince George's County	% of total	Alexandria	% of total	Arlington County	% of total	Fairfax City	% of total	Fairfax County	% of total	Falls Church	% of total	Total ^{1, 3}
2004	\$160,202	38%	\$74,213	18%	\$ 80,241	19%	\$17,340	4%	\$29,625	7%	\$ 917	0.2%	\$54,215	13%	\$1,184	0.2%	\$417,937
2005	163,645	38%	77,498	18%	84,870	20%	17,873	4%	29,922	7%	878	0.2%	56,645	13%	1,193	0.3%	432,524
2006 ⁴	175,727	38%	81,467	18%	92,518	20%	18,792	4%	32,111	7%	988	0.2%	59,089	13%	1,356	0.3%	462,048
2007 ⁴	185,123	38%	86,477	18%	97,612	20%	20,054	4%	33,513	7%	1,045	0.2%	63,165	13%	1,563	0.3%	488,552
2008 ⁴	202,072	38%	90,237	17%	109,097	21%	21,646	4%	36,550	7%	1,082	0.2%	65,504	12%	1,594	0.3%	527,782

¹ The amounts in this table are presented on a cash basis.

² Totals may not add due to rounding.

³ See Note 4 in "APPENDIX B – AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2008" for details relating to the reconciliation of the aggregate jurisdictional operating subsidies as shown in the financial statements (\$610,001,000 for fiscal year 2008) and the aggregate jurisdictional operating subsidies on a funding basis (\$487,626,000 for fiscal year 2008).

⁴ Includes payments for Metrobus, Metrorail, MetroAccess, debt service and operating contingency.

CERTAIN AUTHORITY FINANCIAL INFORMATION

Management Discussion and Analysis

The policy of the Board, implemented by Authority management, has been and continues to be that the Transit System will maintain extremely high standards of quality, reliability, comfort and safety. Recognizing that the Transit System serves the capital of the nation, carrying not only local passengers, but visitors from across the country and around the world, the Transit System is designed to be architecturally and operationally exceptional. Upholding those standards is central to the Authority's philosophy behind the operation of the Transit System.

Management strives to control costs of the Transit System aggressively, while assuring that all maintenance is carried out without delay, and that quality and levels of service are maintained or enhanced. At the same time, substantial efforts are made to attract additional ridership and revenue through innovative and creative marketing and pricing.

The existing Transit System has reached the age at which a comprehensive program of replacement of equipment and rehabilitation of facilities is required. Consequently, the Board had adopted both goals and policies within the Capital Improvement Program designed to maintain the Transit System at or above its current level.

In January 2007, with the appointment of new General Manager John B. Catoe, Jr., the Authority shifted its focus from construction of the Transit System, now largely completed, to management of the operation and maintenance of the existing Transit System. As part of this shift in focus, Mr. Catoe has brought in various new managers to assist in implementing this changed approach to the management of the operations of the Authority.

The following discussion of financial results for the fiscal years ended June 30, 2007, and June 30, 2008, reflects the operations of the Authority.

Fiscal Year 2007

Revenues for fiscal year 2007 totaled \$730 million. Operating revenues, which include passenger revenue, totaled \$625.1 million, an increase of \$17.6 million (2.9%). Passenger revenue, a significant portion of the Authority's operating revenues, increased by \$8.1 million (1.5%). The increase can be attributed to higher ridership. Metrorail ridership climbed to a record level of over 207 million annual trips, an increase of 1.1%. Metrobus ridership grew to 131.5 million annual trips, an increase of 0.5%. Revenue for bus service increased by \$2.9 million (73.1%), primarily due to the new DC Circulator, the Metrorail Yellow Line to Fort Totten rail service extension, the Metrorail Red Line Grosvenor turnback and the Metro Extra 79 Georgia Avenue bus route. Capital Contributions to the Authority decreased by \$247.7 million (52.6%), primarily due to a decrease in funding for transit construction projects.

Total expenses for fiscal year 2007 increased by \$131.7 million (8.4%) to \$1.7 billion from \$1.6 billion for fiscal year 2006. Salaries and benefits increased by \$67.9 million (8.4%), due to contractual wage increases and increased levels of vehicle maintenance and Transit System enhancements. Additional transit police were added for general safety and security as well as for sporting events, national capital events and festivals. Expenses for services increased by \$15.8 million (15.5%) to \$117.9 from \$102.1 million in fiscal year 2006. The increase in costs was primarily driven by increased usage of MetroAccess, SmartCard service and transportation consultation services. Expenses for materials and supplies increased by \$21.1 million (17.1%). The steadily increasing cost for fuel accounted for the

largest portion of this increase. Expenses for utilities increased by \$5.3 million (7.9%) due to increased usage to operate eight-car passenger trains and higher natural gas costs.

Net capital assets increased by \$97.7 million (1.2%) in fiscal year 2007. Revenue vehicles increased by \$188.1 million (10.8%), as a result of placing into service rail cars and compressed natural gas transportation vehicles. In addition, costs associated with railcar rehabilitation also contributed to the increase. Construction in progress decreased by \$162.1 million (15.7%) as a result of transferring a number of completed projects to transit facilities and equipment.

Fiscal Year 2008

Total revenues for fiscal year 2008 were \$792.8 million. Operating revenues, which include passenger revenue, totaled \$690.6 million, an increase of \$65.5 million (10.5%). Passenger revenue, a significant portion of the Authority's operating revenues, increased by \$62.3 million (11.1 %). The increase can be attributed to a mid-year fare increase as well as higher ridership. Metrorail ridership climbed to a record level of over 215 million annual trips, an increase of 3.9%. Metrobus ridership grew to 132.8 million annual trips, an increase of 1%. A strong regional economy and the Authority's ability to attract and retain riders contributed to higher transit usage.

Total expenses for fiscal year 2008 increased by \$187.6 million (11%) to \$1.9 billion, from \$1.7 billion for fiscal year 2007. Salaries and benefits increased by \$111.1 million (12.7%) due to increased workers' compensation claims, pension plan contributions (including a prepaid pension cost adjustment), and an increase in postemployment benefits other than pension ("OPEB") as a result of the adoption of GASB Statement 45, which established standards for the measurement, recognition, and display of OPEB expenses/expenditures and related assets and liabilities, note disclosures, and, if applicable, required supplementary information in financial reports of employers. Expenses for services increased by \$25.9 million (22%) to \$143.8 million, primarily driven by increased usage of MetroAccess and transportation consultation services. Expenses for materials and supplies increased by \$3.9 million (2.7%). The largest portion of the rise in expenses for materials and supplies can be attributed to purchases of bus tires and write-offs of obsolete inventory, as well as increased outlays for computer equipment, propulsion parts and brakes. Expenses for utilities increased by \$12.4 million (17.2%) due to increased usage to operate eight-car passenger trains and higher natural gas costs.

Net capital assets increased by \$19.2 million (0.2%) in fiscal year 2008. Revenue vehicles increased by \$278.9 million (14.4%), as a result of placing new rail cars into service. In addition, costs associated with railcar rehabilitation also contributed to the increase. Construction in progress decreased by \$548.4 million (62.9%) as a result of transferring a number of completed projects to transit facilities and equipment. Capital assets before depreciation increased by \$418.2 million, largely attributable to new rail car purchases, facilities enhancements, and rail rehabilitation.

The following table summarizes the changes in revenues, expenses and net assets of the Authority for fiscal years 2004 through 2008.

**Changes in Revenues, Expenses and Net Assets
For Fiscal Years 2004 - 2008
(\$000s)**

	<u>Fiscal Year</u>				
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<u>Operating Revenues</u>					
Passenger revenue	\$453,043	\$522,475	\$555,262	\$563,356	\$625,607
Charter and contract revenue	3,806	3,395	3,909	6,767	8,047
Advertising revenue	26,002	29,000	30,000	33,000	35,296
Rental revenue	15,786	16,466	17,108	20,777	20,451
Other revenue	\$ 1,348	\$ 1,206	\$ 1,199	\$ 1,192	\$ 1,171
Total operating revenues	\$499,985	\$572,542	\$607,478	\$625,092	\$690,572
<u>Nonoperating revenues</u>					
Investment income	\$ 1,450	\$ 5,011	\$ 3,981	\$ 4,718	\$ 5,068
Interest income from leasing transactions	88,562	91,924	88,548	87,874	80,802
Income from pension plans	-	16,687	-		
Other	\$ 3,277	\$ 3,790	\$ 9,413	\$ 12,281	\$ 16,328
Total nonoperating revenues	\$ 93,289	\$117,412	\$101,942	\$104,873	\$102,198
Total Revenues	\$593,274	\$689,954	\$709,420	\$729,965	\$792,770
<u>Operating expenses</u>					
Labor	\$ 485,124	\$ 498,865	\$ 536,439	\$ 573,514	\$ 571,589
Fringe benefits	250,784	272,756	271,577	302,416	415,453
Services	67,696	77,063	102,081	117,867	143,816
Materials and supplies	89,586	105,560	123,439	144,584	148,467
Utilities	52,681	61,517	67,010	72,286	84,725
Casualty and liability costs	12,467	16,869	44,688	28,223	23,445
Leases and rentals	1,913	4,096	3,999	2,925	2,349
Miscellaneous	2,778	3,253	5,205	3,452	1,211
Depreciation and amortization	\$ 296,485	\$ 299,707	\$ 306,955	\$ 361,141	\$ 412,341
Total operating expenses	\$1,259,514	\$1,339,686	\$1,461,393	\$1,606,408	\$1,803,396
<u>Nonoperating expenses</u>					
Interest expense from leasing transactions	88,562	91,924	88,548	87,874	80,802
Interest expense	12,517	10,611	9,978	11,838	9,533
Pension plans expense	\$ 23,808	-	\$ 14,514	-	-
Total nonoperating expenses	\$ 124,887	\$ 102,535	\$ 113,040	\$ 99,712	\$ 90,335
Total Expenses	\$1,384,401	\$1,442,221	\$1,574,433	\$1,706,120	\$1,893,731
Jurisdictional subsidies, capital grants and capital subsidies	714,936	749,768	1,029,095	838,385	869,894
Increase In Net Assets	\$(76,191)	\$(2,499)	\$164,082	\$(137,770)	\$(231,067)

Source: The Authority's fiscal year 2008 CAFR.

For fiscal year 2008, Gross Revenues totaled approximately \$1.3 billion, including, as shown in the table above: (i) all amounts shown as "Operating Revenues," totaling approximately \$690.6 million, (ii) under Nonoperating Revenues, the amounts shown as "Investment Income" in the amount of approximately \$5.1 million and "Other" in the amount of approximately \$16.3 million and (iii) of the

amount shown as “Jurisdictional subsidies, capital grants and capital subsidies,” approximately \$610 million was attributable to jurisdictional subsidies. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Gross Revenues - Historical and Projected Gross Revenues” herein for a summary of Gross Revenues for fiscal years 2005 through 2010.

Budgetary Process

General

The Authority’s annual budget consists of three budgets: an operating budget, a capital budget and a reimbursable projects budget.

The focus of the operating budget is on the people, supplies and services needed to operate Metrobus, Metrorail, and MetroAccess. Budgetary issues for the operating budget center on the cost of continuing operations, expanding services to meet growing demand, and improving efficiency of service. Funding for the operating budget comes primarily from passenger fares and subsidies from the Participating Jurisdictions.

In developing the operating budget for a coming fiscal year, the Authority prepares forecasts of revenues and expenses, described below, approximately 12-18 months prior to the start of the fiscal year. Following the preparation of the forecast of revenues, preliminary amounts for each Participating Jurisdiction’s operating subsidy are determined pursuant to the Authority’s allocation formula determined by Board policy. Discussions between Authority staff members and staff from the governments of the various Participating Jurisdictions follow, with the amount of each Participating Jurisdiction’s subsidy subject to reduction in response, with a concomitant reduction in forecast revenues, resulting in a need to make corresponding expense reductions.

Revenue forecasts are predominately driven by ridership trends for Metrorail and Metrobus. Passenger fare revenue from Metrobus and Metrorail makes up more than 75% of all operating revenue. Aside from general bus and rail ridership growth trends, the passenger revenue forecast also considers possible service changes, anticipated special events, fare policy changes, potential fare increases, deferred revenue recognition policies, and other similar variables.

Similar to revenue forecasts, expense forecasts are largely driven by a small number of key variables. Payroll and employee fringe benefit expenses account for approximately 70% of the total annual operating cost. Of that amount, approximately 85% is determined by the terms and conditions of five separate collective bargaining agreements. Each annual expense forecast takes into consideration assumptions about settlement and execution of these labor contracts. Variables include cost of living and other contractually required types of pay increases. In addition, the expense forecast also accounts for variations in payroll related costs for taxes, health insurance, pensions and other benefit programs. The remaining 30% of total cost is for non-personnel related expenses that fall into different categories, as to which differing forecast assumptions regarding inflation and escalation are made. These categories include: electric power for operating Metrorail trains, bus fuel, utilities, materials and supplies, insurance and expenses for aspects of the operation that are contracted out.

In addition, to the extent that the amount of a given Participating Jurisdiction’s operating subsidy payment to the Authority in a fiscal year is, due to a disparity between actual revenue collections and budget projections of such collections, insufficient to pay (or in excess of) its share of the total aggregate operating subsidy needed by the Authority, an adjustment in the amount of such difference is applied to its operating subsidy amount in the following fiscal year.

The General Manager generally presents a budget proposal to the Board in January. The Board reviews and considers the proposal and makes any changes deemed desirable from a policy perspective. The Board acts to approve the budget before the beginning of the fiscal year on July 1.

The capital budget focuses on the assets and infrastructure needed to support Metrobus, Metrorail, and MetroAccess services. Assets and infrastructure include the Authority's buses, rail cars, stations, track, maintenance facilities, power systems, etc. Budgetary issues for the capital budget center on the condition of the current assets and infrastructure and what is needed to maintain them in safe and reliable condition. Funding for the capital budget comes from federal grants, the Participating Jurisdictions, and the issuance of debt.

The reimbursable projects are those unique services or programs for which separate funding has been arranged. The most common of these projects are expanded bus services paid for by one of the Participating Jurisdictions. Other reimbursable projects include capital improvements made to Metrorail stations funded by a Participating Jurisdiction.

[Remainder of page intentionally left blank]

Fiscal Year 2009 Budget

The Authority's approved fiscal 2009 annual budget, totaling approximately \$1.9 billion, and a comparison to fiscal year 2008 amounts, is summarized in the following tables.

**Summary of State and Local Funding
for Operating and Capital Budgets
(\$000,000s) ¹**

	Operating Budget								FY09 Totals ³	
	Operating Subsidy		Debt Service		Capital Budget		Reimbursable Projects			
	FY 08 (Actual)	FY 09 (Budget)	FY 08 (Actual)	FY 09 (Budget)	FY 08 (Actual)	FY 09 (Budget)	FY 08 (Actual)	FY 09 (Budget)		
District of Columbia	\$191.7	\$203.0	\$10.3	\$10.3	\$61.5	\$65.4	\$19.5	\$16.4	\$295.2	38.8%
Maryland										
Montgomery County	85.4	90.4	4.9	4.9	20.8	30.4	0.0	0.5	126.2	16.6%
Prince George’s County	104.2	115.8	4.9	4.9	23.0	33.7	0.0	0.7	155.0	20.4%
MD Dept. of Trans.	-	-	-	-	-	-	4.7	0.1	0.1	0.01%
Subtotal	\$189.6	\$206.2	\$9.7	\$9.8	\$43.8	\$64.1	\$4.7	\$1.3	\$281.3	37.0%
Virginia										
Alexandria	20.2	19.9	1.4	1.4	7.4	7.9	0.0	0.1	29.4	3.9%
Arlington County	33.8	33.9	2.7	2.7	14.6	15.5	0.0	0.3	52.4	6.9%
City of Fairfax	1.0	1.1	0.04	-	0.3	0.3	0.0	0.0	1.5	0.2%
Fairfax County	62.3	69.7	3.2	3.2	23.3	24.8	0.8	0.4	98.1	12.9%
Falls Church	1.6	1.5	0.04	-	0.5	0.5	0.5	0.5	2.5	0.3%
Metro Wash. Airport Auth	-	-	-	-	-	-	2.1	-	-	-
Subtotal	\$119.0	\$126.1	\$7.4	\$7.3	\$46.1	\$49.1	\$3.4	\$1.3	\$183.9	24.2%
Total ²	\$500.3	\$535.2	\$27.5	\$27.5	\$151.4	\$178.7	\$27.5	\$18.9	\$760.3	100%

¹ The amounts in this table were not produced in accordance with GAAP and as such may not match amounts shown in the audited financial statements of the Authority, which were produced in accordance with GAAP.

² Totals may not add due to rounding.

³ Totals and percentages are of fiscal year 2009 budgeted amounts.

Source: The Authority's fiscal year 2009 approved budget, except as to fiscal year 2008 actual figures, which were provided by the Authority.

Summary of Funding by Program and Source
(\$000,000s)

	Fiscal 2006 <u>Actual</u>		Fiscal 2007 <u>Actual</u>		Fiscal 2008 <u>Actual</u>		Fiscal 2009 <u>Approved</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Operating Budget								
Fares, Parking, Business								
Revenues and Other	\$616.8	26.0%	\$629.8	35.3%	\$659.7	37.0%	\$793.8	41.7%
State and Local Funds	459.4	19.4%	508.4	28.5%	527.8	28.9%	562.7	29.6%
Subtotal	\$1,076.2	45.3%	\$1,138.2	63.8%	\$1,174.8	65.9%	\$1,356.5	71.2%
Capital Budget								
Federal Funds	190.4	8.0%	190.9	10.7%	249.8	14.0%	261.8	13.8%
State and Local Funds	115.6	4.9%	158.1	8.9%	151.4	9.3%	178.7	9.4%
Other Sources	6.0	0.3%	6.0	0.3%	6.0	0.3%	26.0	1.4%
Debt	88.1	3.7%	180.2	10.1%	110.3	6.2%	61.1	3.2%
Subtotal	\$400.1	16.9%	\$535.1	30.0%	\$532.5	29.9%	\$527.5	27.7%
Reimbursable Projects								
Sponsoring Agency	897.8	37.8%	111.1	6.2%	75.0	4.2%	20.0	1.1%
Subtotal	\$897.8	37.8%	111.1	6.2%	75.0	4.2%	20.0	1.1%
Total	\$2,374.1	100%	\$1,784.4	100%	\$1,782.3	100%	\$1,904.0	100%

1 The amounts in this table were not produced in accordance with GAAP and as such may not match amounts shown in the audited financial statements of the Authority, which were produced in accordance with GAAP.

2 Totals may not add due to rounding.

Source: The Authority's fiscal year 2009 approved budget, except as to fiscal year 2008 actual figures, which were provided by the Authority.

The Authority's fiscal year 2009 operating budget currently continues to be balanced, with no material variance anticipated through fiscal year-end. Ridership and revenue trends both continue to show growth rates of approximately 3%, as the Authority expected. Expenditures are occurring as planned and the operational aspects of running the Metrorail and Metrobus systems are tracking within normal parameters. As of February 2009, fiscal year-to-date actual revenues earned are \$519.8 million and expenses incurred are \$876.4 million, both of which are more favorable than budget projections by approximately 1%. Throughout fiscal year 2009 there have been no meaningful deviations from what management expected would occur in preparing the fiscal year 2009 budget. Current Authority forecasts indicate that there will be a fiscal year-end budget surplus of approximately 1% that will be placed into the operating reserve.

Outstanding Debt

The following table summarizes certain outstanding debt of the Authority.

	<u>Amount Outstanding</u>	<u>Final Maturity Date</u>	<u>Source of Payment</u>	<u>Priority of Payment</u>
Series 1993 Bonds	\$22,230,000	July 1, 2010	Gross Revenues	Senior to Series 2009 Bonds ¹
Series 2003 Bonds	\$87,705,000	July 1, 2014	Gross Revenues	On Parity with Series 2009 Bonds
Series 2003B Bonds	\$11,150,000	July 1, 2010	Gross Revenues	On Parity with Series 2009 Bonds
Commercial Paper Notes, Series A	\$314,500,000	N.A. (being redeemed with Series 2009 Bond proceeds)	Gross Revenues	Subordinate to the Series 2003 and 2009 Bonds
Wachovia Line of Credit	\$0	expires May 2010	Unsecured	Unsecured

¹ The Authority has covenanted in the Resolution that it will no longer issue bonds or any other obligations under the 1993 Bond Resolution.

The Authority has obtained a 364-day line of credit (the “Wachovia Line of Credit”) expiring in May 2010, for \$100,000,000 from Wachovia Bank, National Association, the proceeds of which are to be used for capital project purposes. No debt is currently outstanding under the Wachovia Line of Credit.

In addition, the Authority has obtained a commitment for a 364-day line of credit (the “Bank of America Line of Credit”) for \$125,000,000 from Bank of America, N.A, the proceeds of which are to be used for operating budget purposes. The Authority expects to execute the documents for the Bank of America Line of Credit before August 2009.

Leveraged Lease Transactions

Between 1998 and 2003, the Authority entered into 16 leveraged lease transactions, thirteen of which were lease-in lease-out transactions and three of which were sale-in lease-out transactions, pursuant to which the Authority either sold or long-term (up to 28 years) leased various series of rapid rail cars to a trust (each a “Trust”), the beneficiary of which is a U.S. federal income tax-paying entity, and then leased or subleased the subject cars back from the Trust. The Authority has the obligation to make regularly scheduled rent payments during the term of the leases and subleases (the “Leases”). The Authority also has the right to exercise a purchase option, which, if exercised, results in all attributes of ownership and use of the equipment or facility reverting from the Trust to the Authority. The purchase option exercise dates differ in each lease, the earliest being in 2011 and the latest being in 2030.

The Leases did not involve the creation of a lien on the Gross Revenues of the Authority.

At the closing of each of the Leases, the Authority entered into contracts with certain obligors or guarantors (the “Guarantors”) to economically defease all of the Authority’s regularly scheduled rent payments and purchase option payments by acquiring different types of financial instruments. However, the obligation of the Authority to pay the rent remains regardless of whether the Guarantor under the defeasance instrument performs. The Authority cannot currently predict whether or when any Guarantor of any of the defeasance instruments will fail to perform or the economic consequences to the Authority of any such failure.

The Guarantors are private entities. The Leases require that if the credit rating of a Guarantor falls below a specified level, the Authority is required to replace the Guarantor with another entity providing such an instrument. If the Authority were unable to replace a Guarantor, the Authority has an obligation to pay a termination payment to the applicable Trust.

In cases in which downgrades have occurred, the Authority has obtained extensions or waivers and is continuing negotiations for further extensions and waivers. In addition to exploring such commercial alternatives, the Authority has engaged in discussions with various legislative and executive branch officials in an effort to obtain legislative or administrative assistance.

The Authority has dissolved four of the Leases. From these and other actions the Authority has taken, it has reduced its potential maximum termination payment exposure of approximately \$435 million to approximately \$256 million (a reduction of approximately 40%). The Authority continues to explore all possible options to resolve these issues. See Notes 11 and 13(b) in “APPENDIX B – AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2008” for additional details relating to these leveraged lease transactions.

Pension Plans and OPEB

The Authority has established and administers five defined-benefit pension plans for its employees. In addition, the Authority provides OPEB. For a description of the Authority’s funding of its pension plan and OPEB liabilities, see Notes to Basic Financial Statements 8 and 9 in “APPENDIX B - AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2008.”

Aggregate information relating to the Authority’s pension system and OPEB are summarized in the following table.

Pension and OPEB Summary

Fiscal Year 2008 ¹

(\$000s)

	<u>Pension System</u>	<u>OPEB</u>
Annual Required Contribution ²	\$43,024	\$93,074
Contributions Made	\$47,406 ³	\$33,827 ³
Actuarial Value of Assets	\$3,003,250	\$0
Actuarial Liability	\$3,024,755	\$1,330,359
Funded Ratio	99.3%	0%
Unfunded Actuarial Accrued Liability	\$21,505	\$1,330,359

1 Amounts shown are for fiscal year 2008, except for that portion of the pension system numbers relating to Union Local 922 and the Transit Police Union (which account for approximately 17.6% of overall Authority annual pension cost), which are for calendar year 2008.

2 The "Annual Required Contribution" represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

3 For fiscal year 2009, the Authority has budgeted \$36.3 million for OPEB. The fiscal year 2009 pension budget totals \$52.4 million, which fully funds the \$48.9 million actuarially required contributions to the defined benefit plans and provides \$3.5 million for the defined contribution plans.

Capital Improvement Plan

The current Authority Capital Improvement Program ("CIP") is based on a comprehensive re-examination of the Authority's 25-year requirements and the need to align resources to adequately rehabilitate the Transit System and increase ridership. The CIP includes the Infrastructure Renewal Program ("IRP"), the System Access/Capacity Program and the System Expansion Program.

The Metro Matters Program

The Metro Matters Program (the "Metro Matters Program") is a six-year capital funding program, for fiscal years 2005 through 2010 (and, to the extent described below, in later years), that provides funds to be invested in the Transit System to assure the highest standard is maintained by the Authority in delivering a safe, clean, reliable and comfortable service to the residents of the greater Washington metropolitan area. The Metro Matters Program has a total multi-year budget of \$3 billion and is embodied in the Metro Matters Funding Agreement (the "Metro Matters Funding Agreement") which was adopted by the Participating Jurisdictions and the Authority's Board of Directors in October 2004. The Metro Matters Program requires Participating Jurisdictions to pay the cash needed to fund capital contracts for the current year. During the six-year period, available funds have been and will be supplemented through short-term borrowings in years when cash expenditures needed to meet its obligations exceed jurisdictional cash payments.

Pursuant to the Metro Matters Funding Agreement, the Authority may issue debt to assist in the financing of the Metro Matters Program in accordance with the IRP. The Participating Jurisdictions may elect to: (i) fund their share through a single, upfront cash payment (a “Prepayment”) on the date of issuance of the debt, or (ii) commit, pursuant to the Metro Matters Funding Agreement, to make the pro rata annual contributions (“Annual Debt Service Payments”) necessary in order for the Authority to make payments of debt service on such debt. Participating Jurisdictions which opt to make a Prepayment are not obligated to make any further payments, including Annual Debt Service Payments, in connection with the issuance of such debt. Prepayments, with the exception of any Prepayments that are Capital Contributions, are Gross Revenues of the Authority.

The Metro Matters Program provides for the funding of capital projects through fiscal year 2010, but further provides that the Participating Jurisdictions will be responsible, pursuant to the terms and subject to the limitations of the Metro Matters Funding Agreement, to pay debt service on debt issued to fund the Metro Matters Program until 2034.

In connection with the issuance of the Series 2009 Bonds, all of the Participating Jurisdictions in the Commonwealth have elected to fund completely their Metro Matters Program obligation with a Prepayment, with the exception of the City of Falls Church, which is making a partial Prepayment. The Prepayments, totaling \$115,113,974, are Capital Contributions and therefore not Gross Revenues. The remaining Participating Jurisdictions are obligated to make Annual Debt Service Payments on the Series 2009 Bonds in accordance with the Metro Matters Funding Agreement. The payment of such Annual Debt Service Payments are subject to appropriation by each such Participating Jurisdiction. Such Participating Jurisdictions have agreed in the Metro Matters Funding Agreement to use all reasonable efforts to pursue all legally available means to secure the necessary and appropriate budget, legislative, and appropriations actions in order to obtain funding in the full amount of their respective Annual Debt Service Payments.

In fiscal year 2010, capital projects for the Metrorail system will include: replacing deteriorated or damaged track, repairing cracks and leaks in the stations and tunnels, replacing obsolete communications and train control equipment, purchasing and putting into diesel-electric hybrid buses, elevator and escalator rehabilitation, track maintenance, improvements to station amenities, communications and information technology improvements, new support equipment, and rehabilitation of support facilities. Pursuant to the Metro Matters Program, the Authority has budgeted approximately \$478 million for capital projects in fiscal year 2010, including approximately \$262 million of federal funds and \$198 million from the Participating Jurisdictions. In addition, for fiscal years 2011 through 2024 the Authority projects a total of approximately \$983 million of capital expenditures will be funded pursuant to the Metro Matters Program, including approximately \$313 million under the IRP, \$8 million for an expansion of eight-car Metrorail train service, \$85 million for improved buses and bus garage facilities, \$5 million for program management and support, and \$571 million for capital project related debt service. Of this, approximately \$943 million of the 2011-2024 capital funds will be provided by the Participating Jurisdictions.

Future Capital Improvements

The Authority, in a December 2008 inventory (the “Capital Needs Inventory”), identified \$11.3 billion of needed, but unfunded, capital projects for fiscal years 2011-2020. The capital projects identified in the Capital Needs Inventory include mid-life rehabilitation of railcars and buses, rehabilitation of maintenance yards and equipment, updated information technology expenses, expansion of the Metrorail and Metrobus fleets, rail station pedestrian connections, Metrorail station platform and entrance canopies, fare card system improvements, expanded security lighting and cameras on buses and in stations, and improvements to station signage. In addition, the Authority projects Metrorail ridership to

increase by 22% and Metrobus ridership to increase by 9% by 2020, necessitating the purchase of more railcars and buses, the construction of more elevators and escalators in the Metrorail stations, extensions of rail platforms and two new bus garages. The Capital Needs Inventory did not include increased Transit System expansion projects, projects that would be funded entirely by a Participating Jurisdiction, or debt service costs. The Authority has commenced preliminary negotiations with the Participating Jurisdictions to reach a new agreement to fund the capital projects identified in the Capital Needs Inventory following the expiration of the Metro Matters Funding Agreement. Long term arrangements for the funding of the projects identified in the Capital Needs Inventory could involve, subject to the approval of the Authority, the issuance of additional Obligations under the Resolution.

In 2008, Congress passed and the President signed the Rail Safety Improvement Act of 2008, Public Law 110-432 (the “2008 Rail Act”). The 2008 Rail Act authorized \$1.5 billion for appropriation to the Secretary of Transportation to be used to make grants to the Authority for the financing in part of the capital and preventive maintenance projects of the Transit System in increments over 10 fiscal years, beginning with fiscal year 2009. The grants authorized are for 50% of the cost of Transit System projects, conditioned on the remaining 50% being provided by the Participating Jurisdictions in cash from sources other than federal funds or revenues from the operation of the Transit System. Provision of the grants is further contingent upon enactment of identical amendments to the Compact by the State, the District and the Commonwealth, which would include (1) expanding the board of directors of the Authority to include two federal government representatives, and (2) requiring that any payments made by Participating Jurisdictions be from a source of funding which is earmarked or required under State or local law to be used to match the federal funds authorized by the 2008 Rail Act. The State and the Commonwealth have enacted such identical amendments to the Compact. The Council of the District has also enacted an identical amendment, which awaits signature by the Mayor of the District and approval by Congress. The Federal budget for fiscal year 2010 submitted to Congress by the President does not include a \$150 million expenditure pursuant to the 2008 Rail Act for fiscal year 2010; Congress, however, may choose to appropriate such funds as part of a fiscal year 2010 appropriations bill. The Authority’s fiscal year 2010 capital budget of approximately \$478 million and the \$983 million of capital expenditures for fiscal years 2011 through 2024 to be funded pursuant to the Metro Matters Program, both as described above, do not take into account the receipt of funds pursuant to the 2008 Rail Act. The Authority’s capital prioritization process will be completed in July and will be tailored to meet whatever level of funds are appropriated by Congress.

On February 17, 2009, the President of the United States signed into law the American Recovery and Reinvestment Act of 2009, Public Law 11-5 (the “Recovery Act”), a national economic stimulus bill. Pursuant to the Recovery Act, the Authority expects to receive approximately \$202 million for use to fund capital projects, with the majority of these funds expected to be received in fiscal years 2010 and 2011.

LITIGATION

There is no litigation now pending or threatened (i) to restrain or enjoin the issuance or sale of the Series 2009 Bonds; (ii) questioning or affecting the validity of the Series 2009 Bonds, the Resolution or the pledge by the Authority under the Resolution; or (iii) question or affecting the validity of any of the proceedings for the authorization, sale, execution or delivery of the Series 2009 Bonds.

The Authority is involved in certain other litigation and disputes incidental to its operations. Upon the basis of information presently available, General Counsel to the Authority and the Authority believe that there are substantial defenses to such litigation and disputes and that, in any event, the

ultimate liability, if any, resulting therefrom will not materially adversely affect the financial position of the Authority.

LEGAL MATTERS

Certain legal matters relating to the authorization and validity of the Series 2009 Bonds will be subject to the approving opinion of Hawkins Delafield & Wood LLP, Washington, D.C., Bond Counsel, which will be furnished at the expense of the Authority upon delivery of the Series 2009 Bonds and will be in substantially the form set forth as APPENDIX C.

Certain legal matters pertaining to the issuance of the Series 2009 Bonds will be passed upon for the Authority by its General Counsel, Carol B. O’Keeffe, Esquire. Hawkins Delafield & Wood LLP, Washington, D.C., Disclosure Counsel to the Authority, will deliver an opinion regarding certain matters to the Authority and the Underwriters. Certain legal matters will be passed upon for the Underwriters by their counsel, Ballard Spahr Andrews & Ingersoll, LLP, Washington, D.C.

TAX MATTERS

Series 2009A Bonds

Opinion of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2009A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) interest on the Series 2009A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and is not included in the adjusted current earnings of corporations for purposes of calculating the alternative minimum tax. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority in connection with the Series 2009A Bonds, and Bond Counsel has assumed compliance by the Authority with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Series 2009A Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel, interest on the Series 2009A Bonds is exempt from all present Maryland, Virginia and District of Columbia personal income taxes.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Series 2009A Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action hereafter taken or not taken, or any, facts or circumstances that may hereafter come to its attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Series 2009A Bonds, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Series 2009A Bonds in order that interest on the Series 2009A Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Series 2009A Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Series 2009A Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Authority has covenanted to comply with all applicable requirements of the Code to assure the exclusion of interest on the Series 2009A Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Series 2009A Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Series 2009A Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Series 2009A Bonds.

Prospective owners of the Series 2009A Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is not included in gross income for Federal income tax purposes. Interest on the Series 2009A Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

“Original issue discount” (“OID”) is the excess of the sum of all amounts payable at the stated maturity of a Series 2009A Bond (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the “issue price” of a maturity means the first price at which a substantial amount of the Series 2009A Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Series 2009A Bonds is expected to be the initial public offering price set forth on the inside cover page of the Official Statement. Bond Counsel further is of the opinion that, for any Series 2009A Bonds having OID (a “Discount Bond”), OID that has accrued and is properly allocable to the Owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Series 2009A Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An Owner’s adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Series 2009A Bond. Accrued OID may be taken into account as an

increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

Bond Premium

In general, if an Owner acquires a Series 2009A Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Series 2009A Bond after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates), that premium constitutes “bond premium” on that Series 2009A Bond (a “Premium Bond”). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the Owner’s yield over the remaining term of the Premium Bond, determined based on constant yield principles. An Owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the Owner’s regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the Owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the Owner’s original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Series 2009A Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, “Request for Taxpayer Identification Number and Certification,” or unless the recipient is one of a limited class of exempt recipients, including corporations. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to “backup withholding,” which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a “payor” generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Series 2009A Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series 2009A Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner’s Federal income tax once the required information is furnished to the Internal Revenue Service.

Series 2009B Bonds

In the opinion of Bond Counsel to the Authority, interest on the Series 2009B Bonds (the “Build America Bonds”) (i) is included in gross income for Federal income tax purposes pursuant to the Code and (ii) is exempt, under existing statutes, from all present Maryland, Virginia and District of Columbia personal income taxes.

The Build America Bonds are expected to be designated as such by the Authority pursuant to applicable provisions of the Code; the Authority will elect to receive cash subsidy payments equal to 35 percent of the interest payable on the Build America Bonds from the United States Treasury. As a result of such election, holders of the Build America Bonds are not entitled to receive the tax credit otherwise permitted under Section 54AA(a) of the Code. The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Build America Bonds in order for the Authority to continue to receive said subsidy payments. These requirements include, but are not limited to, requirements relating to use and expenditure of the available project proceeds of the Build America Bonds, yield and other restrictions on investments of available project proceeds, including redemptions of unspent proceeds at the three year anniversary date of the issuance of the Build America Bonds. Noncompliance may cause the Build America Bonds to fail to qualify for the receipt of the interest subsidy payments. The Authority has covenanted to comply with certain applicable requirements of the Code to assure the receipt of the interest subsidy payments in respect of the Build America Bonds.

The following discussion is a brief summary of the principal United States Federal income tax consequences of the acquisition, ownership and disposition of Build America Bonds by original purchasers of the Build America Bonds who are “U.S. Holders,” as defined herein. This summary (i) is based on certain relevant provisions of the Code under existing law and is subject to change at any time, possibly with retroactive effect; (ii) assumes that the Build America Bonds will be held as “capital assets”; and (iii) does not discuss all of the United States Federal income tax consequences that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules, such as insurance companies, financial institutions, tax-exempt organizations, dealers in securities or foreign currencies, persons holding the Build America Bonds as a position in a “hedge” or “straddle,” or holders whose functional currency (as defined in Section 985 of the Code) is not the United States dollar, or holders who acquire Build America Bonds in the secondary market.

Holders of Build America Bonds should consult with their own tax advisors concerning the United States Federal income tax and other consequences with respect to the acquisition, ownership and disposition of the Build America Bonds as well as any tax consequences that may arise under the laws of any state, local or foreign tax jurisdiction.

Original Issue Discount

In general, if OID is greater than a statutorily defined *de minimis* amount, a holder of a Build America Bond having a maturity of more than one year from its date of issue must include in Federal gross income (for each day of the taxable year, or portion of the taxable year, in which such holder holds such Build America Bond) the daily portion of OID, as it accrues (generally on a constant yield method) and regardless of the holder’s method of accounting. “OID” is the excess of (i) the “stated redemption price at maturity” over (ii) the “issue price.” For purposes of the foregoing: “issue price” means the first price at which a substantial amount of the Build America Bond is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers); “stated redemption price at maturity” means the sum of all payments, other than “qualified stated interest,” provided by such Build America Bond; “qualified stated interest” is stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at

least annually at a single fixed rate; and “*de minimis* amount” is an amount equal to 0.25 percent of the Build America Bond’s stated redemption price at maturity multiplied by the number of complete years to its maturity. A holder may irrevocably elect to include in gross income all interest that accrues on a Build America Bond using the constant-yield method, subject to certain modifications.

Disposition and Defeasance

Generally, upon the sale, exchange, redemption, or other disposition (which would include a legal defeasance) of a Build America Bond, a holder generally will recognize taxable gain or loss in an amount equal to the difference between the amount realized (other than amounts attributable to accrued interest not previously includable in income) and such holder’s adjusted tax basis in the Build America Bond.

The Authority may cause the deposit of moneys or securities in escrow in such amount and manner as to cause the Build America Bonds to be deemed to be no longer outstanding under the Resolution (a “defeasance”). For Federal income tax purposes, such defeasance could result in a deemed exchange under Section 1001 of the Code and a recognition by such owner of taxable income or loss, without any corresponding receipt of moneys. In addition, the character and timing of receipt of payments on the Build America Bonds subsequent to any such defeasance could also be affected.

Backup Withholding and Information Reporting

In general, information reporting requirements will apply to non-corporate holders with respect to payments of principal, payments of interest, and the accrual of OID on a Build America Bond and the proceeds of the sale of a Build America Bond before maturity within the United States. Backup withholding may apply to holders of Build America Bonds under Section 3406 of the Code. Any amounts withheld under the backup withholding rules from a payment to a beneficial owner, and which constitutes over-withholding, would be allowed as a refund or a credit against such beneficial owner’s United States Federal income tax provided the required information is furnished to the Service.

U.S. Holders

The term “U.S. Holder” means a beneficial owner of a Build America Bond that is: (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) an estate the income of which is subject to United States Federal income taxation regardless of its source or (iv) a trust whose administration is subject to the primary jurisdiction of a United States court and which has one or more United States fiduciaries who have the authority to control all substantial decisions of the trust.

IRS Circular 230 Disclosure

The advice under the caption “Series 2009B Bonds” concerning certain income tax consequences of the acquisition, ownership and disposition of the Build America Bonds, was written to support the marketing of the Build America Bonds. To ensure compliance with requirements imposed by the Internal Revenue Service, Bond Counsel to the Authority informs you that (i) any federal tax advice contained in this Official Statement (including any attachments) or in writings furnished by Bond Counsel to the Authority is not intended to be used, and cannot be used by any bondholder, for the purpose of avoiding penalties that may be imposed on the bondholder under the Code, and (ii) the bondholder should seek advice based on the bondholder’s particular circumstances from an independent tax advisor.

Miscellaneous

Tax legislation, administrative action taken by tax authorities, and court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Series 2009A Bonds under Federal or state law and could affect the market price or marketability of the Series 2009 Bonds.

Prospective purchasers of the Series 2009 Bonds should consult their own tax advisors regarding the foregoing matters.

FINANCIAL STATEMENTS

Attached hereto as APPENDIX B are the audited financial statements of the Authority for the fiscal year ended June 30, 2008, and the report thereon from Clifton Gunderson LLP, Washington, D.C. Such financial statements have been included herein in reliance on the report of said firm and its expertise in auditing and accounting.

RATINGS

Moody's Investors Service and Standard and Poor's Ratings Group have assigned ratings to the Series 2009 Bonds of "A1" and "A" respectively. A rating reflects only the view of the agency giving such rating and is not a recommendation to buy, sell or hold the Series 2009 Bonds. An explanation of the significance of such ratings may only be obtained from the rating agency furnishing the same. Such ratings may be changed at any time, and no assurance can be given that they will not be revised downward or withdrawn entirely by either or both of such rating agencies if, in the judgment of either or both, circumstances so warrant. Any such downward revision or withdrawal of either of such ratings may have an adverse effect on the market price of the Series 2009 Bonds.

CONTINUING DISCLOSURE

The Authority will undertake in a Continuing Disclosure Agreement to assist the Underwriters in complying with the provisions of Rule 15c2-12 (the "Rule"), promulgated by the Securities and Exchange Commission (the "SEC") and as in effect on the date hereof, by providing annual financial information, operating data and material event notices required by the Rule. As described in APPENDIX E, such undertaking requires the Authority to provide only limited information at specified times. Effective July 1, 2009, the sole NRMSIR will be the Municipal Securities Rulemaking Board.

The Authority is required to provide, by no later than four months after the end of its fiscal year (i.e., by November 1) financial information and operating data on an annual basis pursuant to continuing disclosure agreements entered into in connection with prior issuances of Bonds. That financial information and operating data is contained in the Authority's Comprehensive Annual Financial Report ("CAFR"), and accordingly the Authority satisfies its continuing disclosure agreement by filing the annual CAFR with the appropriate NRMSIRs.

UNDERWRITING

The Underwriters for the Series 2009 Bonds have agreed, subject to certain conditions, to purchase from the Authority the Series 2009 Bonds described on the inside cover of this Official

Statement at an aggregate purchase price of \$307,601,563.42, reflecting an aggregate par amount of \$297,675,000, plus a net original issue premium of \$12,239,864.80 and less an Underwriters' discount of \$2,313,301.38, and to reoffer such Series 2009 Bonds at the yields set forth on the inside cover.

The Series 2009 Bonds may be offered and sold to certain dealers (including dealers depositing such Series 2009 Bonds into investment trusts) at prices lower or yields higher than such public offering prices or yields and prices may be changed, from time to time, by the Underwriters. The Underwriters will be obligated to purchase all such Series 2009 Bonds if any Series 2009 Bonds are purchased.

FINANCIAL ADVISOR

Public Financial Management, Inc., Philadelphia, Pennsylvania, served as independent financial advisor, to the Authority with respect to the sale of the Series 2009 Bonds. The Financial Advisor assisted in the preparation of this Official Statement and in other matters relating to the planning, structuring and issuance of the Series 2009 Bonds and provided other advice. The Financial Advisor has not undertaken to make an independent verification of, or to assume responsibility for the accuracy, completeness or fairness of the information contained in the Official Statement.

MISCELLANEOUS

The references to, excerpts from, and summaries of documents referred to herein do not purport to be complete statements of provisions of such documents, and reference is directed to such documents for full and complete statements of all matters of fact relating to the Series 2009 Bonds, the security for the payment of the Series 2009 Bonds and the rights and obligations of the registered owners thereof.

The information contained in this Official Statement has been compiled from official and other sources deemed to be reliable, and while not guaranteed as to completeness or accuracy, is believed to be correct as of this date.

Any statement made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, is set forth as such and not as a representation of fact, and no representation is made that any of the estimates will be realized. The information and expressions of opinion herein are subject to change without notice and neither the delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the Transit System since the date hereof.

Further information regarding the Authority and Transit System is available upon request to the Treasurer, 600 Fifth Street, N.W., Washington, D.C. 20001 (202) 962-1020, to Public Financial Management, Inc., Two Logan Square, Suite 1600, 18th and Arch Streets, Philadelphia, Pennsylvania 19103 (215) 567-6100.

[Remainder of page intentionally left blank]

The execution and delivery of this Official Statement by the Chairman has been duly authorized by the Board.

**WASHINGTON METROPOLITAN AREA
TRANSIT AUTHORITY**

By: /s/ Jim Graham
Jim Graham, Chairman

APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

[THIS PAGE INTENTIONALLY LEFT BLANK]

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

The following is a summary of certain provisions of the Resolution. This is not a complete recital of the terms of the Resolution and reference should be made to the Resolution for a complete statement of its terms. Words and terms used in this summary shall have the same meaning herein as in the Resolution except where otherwise noted.

Establishment of Funds and Accounts

The Resolution establishes a Revenue Fund, a Proceeds Fund and a Debt Service Fund.

Each such Fund shall initially consist of the Account and Subaccounts, if any, established or permitted by the Resolution. Additional Funds, Accounts and Subaccounts may be established by the Authority in its discretion with the Funds and Accounts established pursuant to the Resolution; the establishment of such Accounts or Subaccounts shall be evidenced by the delivery by Authority to the Trustee of a certificate of an Authorized Officer.

Amounts held at any time by the Authority or the Trustee in any of the Funds, Accounts or Subaccounts initially established pursuant to the Resolution or in any other Fund, Account or Subaccount established by the Authority pursuant to the Resolution shall be held in trust separate and apart from all other funds.

Proceeds Fund and Application Thereof

The Authority shall establish within the Proceeds Fund a Costs of Issuance Account, a Proceeds Account and such other Accounts as the Authority deems necessary and desirable, and the Authority or any Authorized Officer of the Authority may establish within each such Account separate Subaccounts for each Series of Obligations.

The Authority shall pay into the Proceeds Fund and each Account and Subaccount, if any, therein, such amounts as shall be provided for in a Supplemental Resolution or in the resolution authorizing Obligation Anticipation Notes.

The amounts in each such Account and Subaccount, if any, shall, unless otherwise provided for in a Supplemental Resolution or in the resolution authorizing Obligation Anticipation Notes, be applied solely to the payment of the purposes of the Obligations in anticipation of which such Obligation Anticipation Notes are issued, in the manner and upon such conditions, if any, as the Authority may provide in such Supplemental Resolution or in the resolution authorizing Obligation Anticipation Notes; provided, however, that, subject to the provisions of the resolution authorizing Obligation Anticipation Notes relating to the application of the proceeds thereof, if on any interest payment date or Principal Installment due date, the amounts in the Debt Service Fund shall be less than Debt Service payable on such date, the Authority shall apply amounts from the Proceeds Fund to the extent necessary to make up the deficiency.

Revenue Fund, Gross Revenues and Application Thereof

The Authority shall deposit into the Revenue Fund all Gross Revenues as soon as practicable after the receipt thereof. The Authority shall deposit promptly all amounts in the Revenue Fund into the following Funds and Accounts, in the amounts and in the order of priority, as follows:

- (a) payment to the Debt Service Fund, the amount, if any, required so that the balance in said Fund shall equal the Accrued Debt Service to the last day of the then current Quarter; provided that, for the purposes of computing the amount to be deposited in said Fund, there shall be excluded the amount, if any, set aside in any account within the Debt Service Fund or the Proceeds Fund from the proceeds of Obligations or Parity Debt for the payment of interest on Obligations or Parity Debt to the last day of the then current Quarter;
- (b) transfer to another Person in accordance with any related Supplemental Resolution in the case of any Obligations or Parity Debt, all amounts required by such Supplemental Resolution to build up or replenish any debt service reserve fund established under any Supplemental Resolution for such Obligations or Parity Debt;
- (c) transfer to another Person in accordance with any Supplemental Resolution or other authorizing document creating Subordinated Indebtedness or Subordinated Contract Obligations for payment of, or accrual for payment of, principal of and interest on any Subordinated Indebtedness or for payment of amounts due under any Subordinated Contract Obligation;
- (d) transfer to the Authority for deposit in the Proceeds Fund as directed in writing by an Authorized Officer of the Authority; and
- (e) transfer to such accounts held by the Authority as an Authorized Officer shall specify in writing to the Trustee.

Amounts paid out from any Fund or Account for an authorized purpose (excluding transfers to any other pledged Fund or Account) or transferred pursuant to clause (e) of this caption shall be free and clear of the lien and pledge created by the Resolution.

Debt Service Fund

The Trustee shall pay out of the Debt Service Fund to the respective Paying Agents (i) on or before each interest payment date for any of the Obligations and any related Parity Debt, the amount required for the interest payable on such date; (ii) on or before each Principal Installment due date, the amount required for the Principal Installment (including the portion thereof payable in respect of a Parity Reimbursement Obligation) payable on such due date, and (iii) on or before any redemption date for the Obligations or Parity Debt which occurs on any interest payment date, the amount required for the payment of interest on the Obligations or Parity Debt then to be redeemed. Such amounts shall be applied by the Paying Agents to such payments on and after the due dates thereof.

In the event of the refunding (including in connection with any payment at maturity, redemption, purchase, tender or exchange) of any Obligations, the Trustee shall, upon the direction of the Authority, withdraw from the Debt Service Fund all or any portion of the amounts accumulated therein with respect to the Debt Service on the Obligations being refunded and (a) deposit such amounts, free and clear of any lien, pledge or claim of the Resolution, with itself as Trustee or an escrow agent to be held in trust solely for the purchase, exchange or payment of the principal or Redemption Price, if applicable, of and interest on the Obligations being refunded, (b) apply such amounts to pay the Costs of Issuance of the Refunding Obligations, or (c) deposit such amounts in any Fund, Account, or Subaccount established under the Resolution; provided that no such withdrawal or deposit shall be made unless (i) upon such refunding, the Obligations being refunded shall be deemed to have been paid within the meaning and with the effect

provided in the Resolution and (ii) at the time of and giving effect to such withdrawal and refunding, there shall exist no deficiency in any Fund, Account or Subaccount established under the Resolution.

If at any time the amount on deposit in the Debt Service Fund exceeds the amount then required to be on deposit therein, the Trustee shall at the request of Authority, subject to the provisions of the Supplemental Resolution governing any Subordinated Indebtedness then Outstanding, transfer to the Authority the amount of such excess free and clear of the lien and pledge of the Resolution.

Investment of Funds

Subject to the provisions of the Resolution, amounts in the Funds and Accounts established by the Resolution may be invested only in Authorized Investments and only when and as specifically directed in writing by an Authorized Officer.

The Trustee or the Authority shall sell any Authorized Investments held in any Fund, Account or subaccount to the extent required for payments from such Fund, Account or subaccount. The proceeds of such sales, and of all payments at maturity or upon redemption of such investments, shall be held in the applicable Fund, Account or subaccount to the extent required to meet the requirements of such Fund, Account or subaccount. Except as provided by Supplemental Resolution, in computing the amount of such Funds, Accounts and Subaccounts, investments shall be valued at par, or if purchased at other than par, shall be valued at Amortized Value. Accrued interest received upon the sale of any Authorized Investment to the extent such amount exceeds any accrued interest paid on the purchase of such Authorized Investment shall be treated as interest earned on such Authorized Investment for purposes of this caption.

In making any investment in any Authorized Investments with money in any Fund or Account established under the Resolution, the Trustee or the Authority may combine such money with money in any other Fund or Account held by it, but solely for purposes of making such investment in such Authorized Investments.

Selection of Obligations to be Redeemed

If less than all the Outstanding Obligations of like tenor, Series, maturity and interest rate shall be redeemed, the Trustee shall select, as directed by the Authority (as to the timing of such selection, manner of such selection or otherwise) or otherwise in such manner as the Trustee in its discretion shall deem appropriate and fair, the numbers of the Obligations to be redeemed and portions of any thereof to be redeemed in part. Obligations of denominations equal or less than the minimum authorized denomination thereof may be redeemed only as a whole. Obligations of denominations of more than the minimum authorized denomination thereof may be redeemed either as a whole or in part (which, if redeemed in part, must assure that the portion of the Obligation which is not redeemed is an authorized denomination). For the purposes of this caption, Obligations, or portions thereof, which have theretofore been selected for redemption shall not be deemed Outstanding.

Redemption at the Election or Direction of the Authority; Redemption Otherwise than at the Authority's Election or Direction

If the Authority elects to redeem the obligations, the Authority shall give written notice to the Trustee of its election so to redeem, of the redemption date, of the Series, of the principal amounts of the Obligations of each maturity and interest rate of such Series to be redeemed (which Series, maturities, interest rates and principal amounts thereof to be redeemed shall be determined by the Authority in its sole discretion, subject to any limitations with respect thereto contained in any Supplemental Resolution).

Such notice shall be given at least 45 days prior to the redemption date or such shorter period as may be provided in the Supplemental Resolution or as shall be acceptable to the Trustee. In the event notice of redemption shall have been given as provided in by the Resolution, the Authority shall on or prior to the redemption date cause to be paid out to the appropriate Paying Agent or Paying Agents out of money available therefor an amount in cash which, in addition to other money, if any, available therefor held by such Paying Agent or Paying Agents, will be sufficient to redeem on the redemption date at the Redemption Price thereof, all of the Obligations to be redeemed.

To the extent provided by Supplemental Resolution the Authority may, in its sole discretion, purchase, at any time and from time to time, any Obligations which are redeemable at the election of the Authority at a purchase price equal to the redemption price therefor. To exercise any such option, the Authority shall give the Trustee a written request exercising such option within the time periods specified in the related Supplemental Resolution as though such written request were a written request of the Authority for redemption, and the Trustee shall thereupon give the Owners of the Obligations to be purchased notice of such purchase in the manner specified in the related Supplemental Resolution as though such purchase were a redemption. On the date fixed for purchase pursuant to any exercise of such an option, the Authority shall pay the purchase price of the Obligations then being purchased to the Trustee in immediately available funds, and the Trustee shall pay the same to the sellers of such Obligations against delivery thereof. Following such purchase, the Trustee shall cause such Obligations to be registered in the name of the Authority nominee and shall deliver them to the Authority, or its nominee. Except to the extent otherwise directed by an Authorized Officer, no purchase of Obligations pursuant to such an option shall operate to extinguish the indebtedness of the Authority evidenced thereby.

Whenever by the terms of the Resolution the Trustee is required to redeem Obligations otherwise than at the election or direction of the Authority, the Trustee shall (i) select the Obligations to be redeemed, (ii) give the notice of redemption and (iii) pay out of moneys available therefor the Redemption Price thereof in accordance with the terms of the Resolution. The Trustee shall have no liability in making such selection.

Notice of Redemption Provisions for the Obligations

When the Trustee shall receive notice from the Authority of its election to redeem Obligations pursuant to the Resolution, and when redemption of Obligations is required by the Resolution, the Trustee shall give notice, in the name of the Authority, of the redemption of such Obligations, which notice shall specify the Series (including CUSIP numbers), maturities and, if any maturity shall include Obligations bearing different interest rates and all Obligations of such maturity are not being redeemed, interest rate of the Obligations to be redeemed, the redemption date and the place or places where amounts due upon such redemption will be payable and, if less than all of the Obligations of any like tenor, Series, maturity and interest rate are to be redeemed, the letters and numbers or other distinguishing marks of such Obligations so to be redeemed, and, in the case of Obligations to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed, and, if applicable, that such notice is conditional and the conditions that must be satisfied. Such notice shall further state that on such date there shall become due and payable upon each Obligation to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of Obligations to be redeemed in part only, together with interest accrued to the redemption date, and that from and after such date interest thereon shall cease to accrue and be payable. Such notice shall be given not less than 30 days nor more than 45 days, or for such other period as may be specified in a Supplemental Resolution authorizing a particular Series, before the redemption date, to the Owners of any Obligations or portions of Obligations which are to be redeemed. Failure so to give any such notice to any particular Owner shall not affect the validity of the proceedings for the redemption of Obligations not

owned by such Owner and failure of any Owner to receive such notice shall not affect the validity of the proposed redemption of Obligations. The Authority may provide notices of redemption at such additional times as it may determine necessary or appropriate.

Any notice of optional redemption may state that it is conditional upon receipt by the Trustee of money sufficient to pay the Redemption Price of such Obligations or upon the satisfaction of any other condition, or that it may be rescinded upon the occurrence of any other event, and any conditional notice so given may be rescinded at any time before payment of such Redemption Price if any such condition so specified is not satisfied or if any such other event occurs. Notice of such rescission shall be given by the Trustee to affected Owners of Obligations as promptly as practicable upon the failure of such condition or the occurrence of such other event.

Unless otherwise provided by Supplemental Resolution, notices of redemption shall be sent by first class mail, postage prepaid.

Notice of redemption of any Series of Obligations shall also be sent by the Trustee to such additional Persons as may be specified in the Supplemental Resolution authorizing such Series.

Indebtedness

Except as permitted by the terms and provisions of the Resolution, the Authority shall not incur any indebtedness, secured by a pledge of any of the Trust Estate (prior to the release thereof) which is due on demand, or indebtedness which provides the owners thereof the right to declare any payments thereunder (whether at the maturity of principal or on the due date of interest or upon redemption or prepayment) not otherwise due and payable, except in the event all Obligations and Parity Debt are then due and payable.

Medium of Payment; Form and Date

The Obligations shall be payable, with respect to interest, principal, and Redemption Price, in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts (or to the extent permitted by law, in any other coin or currency authorized pursuant to a Supplemental Resolution for related Obligations and Parity Debt). The Obligations shall be issued in the form of fully registered Obligations without coupons.

The Obligations shall be dated, and shall bear or not bear interest, as provided in the Supplemental Resolution authorizing such Obligations.

Transfer of Obligations

The transfer of each Obligation shall be registerable only upon the books of the Authority, which shall be kept by the Registrar, by the Owner thereof in person or by his attorney authorized in writing, upon surrender thereof together with a written instrument of transfer satisfactory to the Registrar executed by the Owner or his authorized attorney. Upon the registration of transfer of any such Obligation, the Authority shall issue in the name of the transferee a new Obligation of the same aggregate principal amount, Series, maturity and interest rate as the surrendered Obligation.

The Authority and each Fiduciary may deem and treat the Person in whose name any Outstanding Obligation shall be registered upon the books of the Authority as the absolute owner of such Obligation, whether such Obligation shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal and Redemption Price, if any, of and interest on such Obligation and for all other

purposes, and all such payments so made to any such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon such Obligation to the extent of the sum or sums so paid, and neither the Authority nor any Fiduciary shall be affected by any notice to the contrary. The Authority agrees to indemnify and save each Fiduciary harmless from and against any and all loss, cost, charge, expense, judgment or liability incurred by it, unless acting in bad faith or with negligence under the Resolution, in so treating such registered owner.

Regulations with Respect to Exchanges and Transfers

In all cases in which the privilege of exchanging Obligations or registering the transfer of Obligations is exercised, the Authority shall execute and the Registrar shall deliver Obligations in accordance with the provisions of the Resolution. All Obligations surrendered in any such exchanges or registrations of transfer shall forthwith be canceled by the Registrar. For every such exchange or registration of transfer of Obligations, whether temporary or definitive, the Authority or the Registrar may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer.

Defeasance

If the Authority shall pay or cause to be paid to the Owners of all Obligations then Outstanding the principal and interest and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in the Resolution, then, at the option of the Authority, expressed in an instrument in writing signed by an Authorized Officer and delivered to the Trustee, the covenants, agreements and other obligations of the Authority to the Owners of Obligations shall be discharged and satisfied. In such event, the Trustee shall, upon the request of the Authority, execute and deliver to the Authority all such instruments as may be desirable to evidence such discharge and satisfaction and the Fiduciaries shall pay over or deliver to the Authority all money, securities and funds held by them pursuant to the Resolution which are not required for the payment or redemption of Obligations not theretofore surrendered for such payment or redemption.

The Outstanding Obligations or any portions thereof for the payment or redemption of which money shall have been set aside and shall be held in trust by the Paying Agents shall at the respective maturity or redemption dates thereof be deemed to have been paid within the meaning and with the effect expressed in the preceding paragraph. Outstanding Obligations or any portions thereof shall, prior to the maturity or redemption date thereof, be deemed to have been paid within the meaning and with the effect expressed in the preceding paragraph either (A) with respect to the defeasance of Taxable Obligations, Tax-Exempt Obligations or otherwise, as provided in the Supplemental Resolution authorizing their issuance or (B) if (a) in case any of said Obligations are to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail a notice of redemption on said date of such Obligations, (b) there shall have been irrevocably deposited with the Trustee either money in an amount which shall be sufficient, or Defeasance Securities the principal of and the interest on which when due will provide money which, together with the money, if any, deposited with the Trustee at the same time, shall be sufficient, without further investment or reinvestment of either the principal amount thereof or the interest earnings thereon, to pay when due, the principal or Redemption Price, if applicable, and interest due and to become due on such Obligations or such portions thereof on and prior to the redemption date or maturity date thereof, as the case may be, and (c) in the event such Obligations are not by their terms maturing or are not subject to redemption within the next succeeding 60 days, the Authority shall have given the Trustee in form satisfactory to it irrevocable instructions to mail, as soon as practicable, a notice to the Owners of such Obligations that the deposit required by (b) above has been made with the Trustee and that said Obligations are deemed to have been paid in accordance with the section of the Resolution summarized in this caption and stating

such maturity or redemption date upon which money is to be available for the payment of the principal or Redemption Price, if applicable, on such Obligations. Neither Defeasance Securities nor money deposited with the Trustee pursuant to the section of the Resolution summarized in this caption nor principal or interest payments on any such Defeasance Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if applicable, and interest on said Obligations; provided, however, that any money on deposit with the Trustee, (i) to the extent such money will not be required at any time for such purpose, shall be paid over to the Authority as received by the Trustee, free and clear of any trust, lien or pledge securing said Obligations or otherwise existing under the Resolution, and (ii) to the extent such money will be required for such purpose at a later date, shall, to the extent practicable, be reinvested in Defeasance Securities maturing at times and in amounts sufficient, together with any money available to the Trustee for such purpose, to pay when due the principal or Redemption Price, if applicable, and interest to become due on said Obligations on and prior to such redemption date or maturity date thereof, as the case may be. *Notwithstanding any other provision of the Resolution, the Authority may at the time of defeasance elect to retain the right to redeem or require the tender of any obligations deemed paid pursuant to the Resolution. The Trustee shall, at the direction of the Authority, select the Obligations or portions thereof that are deemed to have been paid in advance of the redemption of such Obligations.*

Anything in the Resolution to the contrary notwithstanding, any money held by a Fiduciary in trust for the payment and discharge of the principal or Redemption Price of or interest on any of the Obligations which remains unclaimed for 2 years after the date when such principal, Redemption Price or interest, respectively, has become due and payable, either at stated maturity dates or by call for earlier redemption, if such money was held by the Fiduciary at such date, or for 2 years after the date of deposit of such money if deposited with the Fiduciary after the date when such principal, Redemption Price, or interest, respectively, became due and payable, shall, at the written request of the Authority, be repaid by the Fiduciary to the Authority, as its absolute property and free from trust, and the Fiduciary shall thereupon be released and discharged with respect thereto and the Owners of Obligations shall look only to the Authority for the payment of such principal, Redemption Price, or interest, respectively. Before being required to make any such payment to the Authority, the Fiduciary shall, at the expense of the Authority, cause to be mailed to the Owners entitled to receive such money a notice that said money remains unclaimed and that, after a date named in said notice, which date shall be not less than 30 days after the date of the mailing, the balance of such money then unclaimed will be returned to the Authority.

Events of Default

The following events shall constitute an Event of Default under the Resolution:

- (i) If default shall be made by the Authority in the payment of principal, Sinking Fund Installment, interest or premium on any Obligation after the same shall have become due, whether at maturity or upon call for redemption or otherwise, which default shall continue for a period of 30 days;
- (ii) If the Authority fails to observe, or a refusal to comply with, the terms of the Resolution or the Obligations, other than a failure or refusal constituting another Event of Default under the Resolution, provided, however, that such failure or refusal shall have continued for a period of 60 days after written notice, specifying such failure and requesting that it be remedied, is given to the Authority by the Trustee, unless the Trustee shall agree in writing to an extension of such time prior to its expiration, and provided further, that if the failure stated in the notice cannot be remedied within the applicable period, the Trustee shall not unreasonably withhold its consent to an extension of such

time if corrective action has been instituted by the Authority within such period and is being diligently pursued;

(iii) If the Authority shall commence a voluntary case or similar proceeding under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect or shall authorize, apply for or consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator or similar official for the Authority and/or the rent, fees, charges or other revenues of the Transit System, or shall make any general assignment for the benefit of creditors, or shall make a written declaration or admission to the effect that it is unable to meet its debts as such debts mature, or shall authorize or take any action in furtherance of any of the foregoing;

(iv) If a court having jurisdiction in the premises shall enter a decree or order for relief with respect to the Authority in an involuntary case or similar proceeding under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or a decree or order appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for the Authority, and/or the rents, fares, charges or other revenues of the Transit System, or a decree or order for the dissolution, liquidation or winding up of the Authority and its affairs or a decree or order finding or determining that the Authority is unable to meet its debts as such debts mature, and any such decree or order shall remain unstayed and in effect for a period of 90 consecutive days;

(v) If the pledge created by the Resolution shall, at any time and for any reason, cease to be in full force and effect, or a Final Judgment shall be rendered which shall declare the pledge to be null and void, or shall declare that the pledge does not establish in any material respect the lien it purports to establish, or that the pledge is not for the benefit of the Owners of the Obligations and Parity Debt, subject to the rights of no other parties (other than Owners of Obligation Anticipation Notes, Revenue Anticipation Notes and, to the extent provided pursuant to the terms and provisions of this Resolution, the Owners of Subordinated Indebtedness or Subordinated Contract Obligations); and

(vi) If the principal of any Parity Debt is declared due and payable immediately as the result of a default by the Authority in respect of such Parity Debt;

then, and in each and every such case, so long as such Event of Default shall not have been remedied, unless the principal of all the Obligations shall have already become due and payable, either the Trustee (by notice in writing to the Authority), or the Owners of not less than 25% in principal amount of the Obligations Outstanding (by notice in writing to the Authority and the Trustee), may declare the principal of all the Obligations then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and be immediately due and payable, anything in the Resolution or in any of the Obligations contained to the contrary notwithstanding. The right of the Trustee or of the Owners of not less than 25% in principal amount of the Obligations to make any such declaration as aforesaid, however, is subject to the condition that if, at any time after such declaration, but before a judgment or decree for payment of the money due has been obtained by the Trustee, all overdue installments of interest upon the Obligations, together with interest on such overdue installments of interest to the extent permitted by law and the reasonable and proper charges, expenses and liabilities of the Trustee, and all other sums then payable by the Authority under the Resolution (except the principal of, and interest accrued since the next preceding interest payment date on, the Obligations due and payable solely by virtue of such declaration) shall either be paid by or for the account of the Authority or provision satisfactory to the Trustee shall be made for such payment, and all defaults under the Obligations or under the Resolution (other than the payment of principal and interest due and

payable solely by reason of such declaration) shall be made good or be secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, then and in every such case the Owners of not less than 25% in principal amount of the Obligations Outstanding, by written notice to the Authority and to the Trustee, shall rescind such declaration and annul such default in its entirety, or, if the Trustee shall have acted itself to declare the Obligations due and payable, and if there shall not have been theretofore delivered to the Trustee written direction to the contrary by the Owners of not less than 25% in principal amount of the Obligations Outstanding, then any such declaration shall ipso facto be deemed to be rescinded and any such default shall ipso facto be deemed to be annulled, but no such rescission or annulment shall extend to or affect any subsequent default or impair or exhaust any right or power consequent therein.

Powers of Trustee

In the event that any Event of Default specified in the Resolution summarized under the caption “Events of Default” shall occur and be continuing, the Trustee may, and, upon written request of the Owners of a majority in aggregate principal amount of the Obligations then Outstanding, shall, in its name,

- (i) bring suit upon the Obligations against the Authority;
- (ii) by action or suit, require the Authority to account as if it were the trustee of an express trust for the Owners of the Obligations; or
- (iii) by action or suit, enjoin any acts or things which may be unlawful or in violation of the rights of the Owners of the Obligations.

Subject to the provisions of the preceding caption, the remedies conferred upon or reserved to the Trustee in respect of any Event of Default are not intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Resolution or now or hereafter existing at law or in equity or by statute; provided, however, that the Trustee or the Owners of the Obligations shall not have the right to declare all Obligations to be immediately due and payable. No delay or omission to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient.

The Trustee shall in addition to the foregoing powers, have and possess all of the powers necessary or appropriate for the exercise of any functions specifically set forth in the Resolution or incidental to the general representation of Owners of Obligations in the enforcement and protection of their rights.

The Authority covenants that if an Event of Default shall have happened and shall not have been remedied, the books of record and account of the Authority and all other records relating to the Trust Estate shall at all times be subject to the inspection and use of the Trustee and of its agents and attorneys and, upon demand of the Trustee, the Authority will account, as if it were the trustee of an express trust, for the Trust Estate for such period as shall be stated in such demand.

Priority of Payments After Default

In the event that the funds held by the Fiduciaries shall be insufficient for the payment of interest and principal or Redemption Price then due on the Obligations and for payments then due with respect to

Parity Debt, such funds (excluding funds held for the payment or redemption of particular Obligations which have theretofore become due at maturity or by call for redemption and funds which at the time of their deposit into any fund or account under the Resolution have been designated to be applied solely to the payment of the principal of and premium, if any, and interest on any series of Obligation Anticipation Notes) and any other money received or collected by the Fiduciaries, or the Trustee, after making provision for the payment of any expenses necessary in the opinion of the Trustee to protect the interest of the Owners of the Obligations, and for the payment of the charges and expenses and liabilities incurred and advances made by the Fiduciaries in the performance of their duties under the Resolution, shall be applied as follows:

Unless the principal of all of the Obligations shall have become due and payable,

First: To the payment to the Persons entitled thereto of all installments of interest then due with respect to Obligations and the interest components of Parity Debt in the order of the maturity of such installments and interest components, and, if the amount available shall not be sufficient to pay in full any installments and interest components due on the same date, then to the payment thereof ratably, according to the amounts due on such installments and interest components, to the Persons entitled thereto, without any discrimination or preference, except as to the difference in the respective rates of interest specified in such Obligations and Parity Debt; and

Second: To the payment to the Persons entitled thereto of the unpaid principal or Redemption Price of any Obligations and the principal component of Parity Debt which shall have become due, whether at maturity or by call for redemption, in the order of their due dates and, if the amount available shall not be sufficient to pay in full all the Obligations and Parity Debt due on any date, then to the payment thereof ratably, according to the amounts of principal and Redemption Price and principal component due on such date, to the Persons entitled thereto, without any discrimination or preference.

If the principal of all of the Obligations and the principal component of Parity Debt shall have become due and payable, to the payment of the principal and interest then due and unpaid upon the Obligations and Parity Debt without preference or priority of principal or principal component over interest or interest component or of interest or interest component over principal or principal component, or of any installment of interest or interest component over any other installment of interest or interest component, or of any Obligation or Parity Debt over any other Obligation or Parity Debt, ratably, according to the amounts due respectively for principal and interest, to the Persons entitled thereto, without any discretion or preference except as to any difference in the respective rates of interest specified in the Obligations and Parity Debt.

Accounting and Inspection of Records After Default

The Authority covenants that if an Event of Default shall have happened and shall not have been remedied, the books of record and account of the Authority and all other records relating to the Trust Estate shall at all times be subject to the inspection and use of the Trustee and of its agents and attorneys and, upon demand of the Trustee, the Authority will account, as if it were the trustee of an express trust, for the Trust Estate for such period as shall be stated in such demand.

Remedies Not Exclusive

Except as otherwise provided in the Resolution, the remedies conferred upon or reserved to the Trustee are not intended to be exclusive of any other available remedy or remedies, but each and every

such remedy shall be cumulative and shall be in addition to every other remedy given under the Resolution or, existing at law or in equity or by statute.

No Recourse on the Obligations

No recourse shall be had for the payment of the principal or Redemption Price of or interest on the Obligations or Parity Debt or for any claim based thereon or on the Resolution against any member, officer, or employee of the Authority or any Person executing the Obligations.

Preservation and Inspection of Documents

All documents received by a Fiduciary under the provisions of the Resolution shall be retained in its possession and shall be subject at all reasonable times to the inspection of the Authority, any other Fiduciary, and any Owners of at least 5% aggregate principal amount of Obligations and their agents and their representatives, any of whom may make copies thereof.

Interested Parties

Nothing in the Resolution expressed or implied is intended or shall be construed to confer upon, or to give to any Person, other than the Authority, the Fiduciaries, the Owners of Obligations and the Owners of Parity Debt, any right, remedy or claim under or by reason of the Resolution or any covenant, condition or stipulation thereof, and all the covenants, stipulations, promises and agreements in the Resolution contained by and on behalf of the Authority shall be for the sole and exclusive benefit of the Authority, the Fiduciaries, the Owners of Obligations and the Owners of Parity Debt.

Supplemental Resolutions Effective Upon Filing With the Trustee

The Authority may adopt at any time or from time to time, for any one or more of the purposes specified in the Resolution including but not limited to the following, a Supplemental Resolution, which does not require the consent of or notice to any Owner:

- (1) To close the Resolution against, or provide limitations and restrictions in addition to the limitations and restrictions contained in the Resolution on, the issuance and delivery of the Obligations, or the issuance or entering into of other evidences of indebtedness;
- (2) To add to the covenants and agreements of the Authority in the Resolution, other covenants and agreements to be observed by the Authority which are not contrary to or inconsistent with the Resolution as theretofore in effect;
- (3) To add to the limitations and restrictions in the Resolution, other limitations and restrictions to be observed by the Authority which are not contrary to or inconsistent with the Resolution as theretofore in effect;
- (4) To surrender any right, power or privilege reserved to or conferred upon the Authority by the Resolution;
- (5) To authorize Obligations of a Series and, in connection therewith, (a) specify and determine the matters and things referred to in the provisions of the Resolution authorizing issuance of Obligations, and also any other matters and things relative to such Obligations which are not contrary to or inconsistent with the

Resolution as theretofore in effect, (b) in the case of Variable Interest Rate Obligations or Put Obligations, as applicable, set forth provisions specifying the manner in which interest on Variable Interest Rate Obligations or Put Obligations, as applicable, is to be calculated for the purposes of various definitions and provisions of the Resolution, provisions providing for changes in interest rates, interest rate periods or interest payment dates for any Variable Interest Rate Obligation of a Series or Put Obligations, as applicable, provisions regarding an Owner's right or Obligation to tender Put Obligations for redemption or purchase in lieu of redemption, and provisions governing the manner in which Variable Interest Rate Obligations or Put Obligations, as applicable, which the Owner thereof has the right to, or has exercised a right to, tender for redemption or purchase in lieu of redemption shall be treated for purposes of various definitions and provisions of the Resolution, (c) set forth provisions governing the administration of any Qualified Swap or Credit Facility, and provisions providing for the issuance of Reimbursement Obligations or the conversion of other Obligations to Reimbursement Obligations (and in connection with such conversion to change the interest rates, sinking fund provisions or maturity date on such Obligations) to secure or reimburse the provider of such Credit Facility, (d) in the case of either Taxable Obligations or Tax-Exempt Obligations, set forth defeasance provisions with respect thereto (including the manner of attaining such defeasance and the effect thereof), and (e) make such additional changes herein, not materially adverse to the rights of the Owners of the Obligations previously issued, as are necessary or appropriate; or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first issuance and delivery of such Obligations;

- (6) To authorize Obligation Anticipation Notes in accordance with the terms and provisions of the Resolution and, in connection therewith, specify and determine the matters and things referred to in the Resolution, and also any other matters and things relative to such Obligations which are not contrary to or inconsistent with the Resolution as theretofore in effect;
- (7) To confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the Resolution of any additional security other than that granted or pledged under the Resolution;
- (8) To (a) establish for any one or more Series of Obligations a separate debt service reserve fund which shall be permitted to be applied solely to the payment of specified Obligations, provided that (i) the specified Obligations shall have no claim or lien on nor be payable from any amounts in any other such debt service reserve fund, (ii) the specified Obligations shall be excluded from the calculation of any applicable debt service reserve fund requirement for any other Outstanding Obligations, and (iii) the amount required to be on deposit in such debt service reserve funds shall be specified in the Supplemental Resolutions authorizing the specified Obligations, but in no event shall such amount, after giving effect to any surety bond, insurance policy, letter of credit or similar obligation deposited in any such separate debt service reserve fund pursuant to the Resolution, be in excess of the amount that would otherwise be the debt service reserve fund requirement for such specified Obligations assuming that such Obligations were the only Obligations Outstanding under the Resolution;

and (b) make such other amendments, changes or modifications to the Resolution as may be deemed necessary or desirable by the Authority to insure that such debt service reserve funds function in the manner contemplated in this paragraph;

- (9) To authorize Parity Debt and, in connection therewith, specify and determine (or provide procedures for an Authorized Officer to specify or determine) the matters and things referred to in the terms and provisions of the Resolution, and also any other matters and things relative to such Parity Debt which are not contrary to or inconsistent with the Resolution as then in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first issuance or entering into of such Parity Debt, and at any time to rescind or limit any authorization for any such Parity Debt theretofore authorized but not issued or entered into; in connection with the authorization of Parity Swap Obligations and Parity Reimbursement Obligations, any such Supplemental Resolution may include provisions for the availability, transferability, use or application of the Funds, Accounts and subaccounts established pursuant to the Resolution for the benefit of such Parity Swap Obligations and Parity Reimbursement Obligations; and shall grant to the Owners of such Parity Debt the same rights granted to Owners of Obligations pursuant to the terms and provisions of the Resolution;
- (10) To authorize Subordinated Indebtedness or Subordinated Contract Obligations and, in connection therewith, specify and determine (or provide procedures for an Authorized Officer to specify or determine) the matters and things required or permitted by the Resolution in connection therewith, and also any other matters and things relative to such Subordinated Indebtedness or Subordinated Contract Obligations which are not contrary to or inconsistent with the Resolution as then in effect, or at any time to amend, rescind or limit any authorization for any such Subordinated Indebtedness or Subordinated Contract Obligations theretofore authorized but not issued or entered into; and in connection with the authorization of Subordinated Indebtedness or Subordinated Contract Obligations, any such Supplemental Resolution may include provisions for the availability, transferability, use or application of amounts available to pay Subordinated Indebtedness or Subordinated Contract Obligations and any other funds, accounts or subaccounts created for the benefit of such Subordinated Indebtedness or Subordinated Contract Obligations;
- (11) To modify any of the provisions of the Resolution in any respect whatsoever, provided that (i) such modification shall be, and be expressed to be, effective only after all Obligations affected thereby and Outstanding at the date of the adoption of such Supplemental Resolution shall cease to be Outstanding and (ii) such Supplemental Resolution shall be specifically referred to in the text of all Obligations delivered on original issuance after the date of the adoption of such Supplemental Resolution and of the Obligations issued in exchange therefor or in place thereof;
- (12) To add to the Resolution any provisions required by law to preserve the exclusion from gross income for federal income tax purposes of interest received on Tax-Exempt Obligations then Outstanding or to be issued or the exemption of interest received on any Obligations from state income taxation;

- (13) To modify, amend or supplement the Resolution in any manner, not already provided for in or pursuant to the Supplemental Resolution authorizing the related Series of Obligations in order to provide for a Credit Facility, Qualified Swap, or other similar arrangement with respect to any Series of Obligations, under the Resolution, so long as the Authority determines that such Supplemental Resolution does not materially adversely affect the right, security and interest of the Owners of Outstanding Obligations;
- (14) To modify, amend or supplement the Resolution in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar Federal statute hereafter in effect or to permit the qualification of the Obligations for sale under the securities laws of any of the states of the United States of America, and, if the Authority so determines, to add hereto such other terms, conditions and provisions as may be required by said Trust Indenture Act of 1939 or similar Federal statute;
- (15) To amend or modify any Supplemental Resolution authorizing Obligations of a Series to reflect the substitution of a new Credit Facility for the Credit Facility then in effect;
- (16) At any time prior to the first authentication and delivery of any Obligations under the Resolution or at any other time when no Obligations are Outstanding under the Resolution, to modify the provisions of the Resolution in such manner as the Authority deems necessary or appropriate;
- (17) To cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Resolution;
- (18) To insert such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable and are not contrary to or inconsistent with the Resolution as theretofore in effect, including, in the event the Compact is amended or other legislation is enacted to so provide, the substitution of an alternate or different legal name for the current name of the Authority or any other Related Entity in the Resolution or the form of Obligations; or
- (19) With Rating Confirmation, to make any other modification or amendment of the Resolution which the Authority shall in its sole discretion determine will not have a material adverse effect on the interests of the Owners of Outstanding Obligations. In making any determination under this paragraph, the Authority may conclusively rely upon an Opinion of Counsel or opinions of other experts or professionals.

Supplemental Resolutions Effective With Consent of Owners of Obligations

At any time or from time to time, a Supplemental Resolution may be adopted subject to consent by Owners of Obligations in accordance with and subject to the provisions of the Resolution, upon the filing with the Trustee of a copy thereof certified by an Authorized Officer of the Authority and upon compliance with the provisions of the Resolution, shall become fully effective in accordance with its terms as provided in the Resolution.

Effectiveness of Supplemental Resolutions

In order to become effective, a copy of every Supplemental Resolution when filed with the Trustee shall be accompanied by a Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted in accordance with the provisions of the Resolution, is authorized or permitted by the Resolution, and is valid and binding upon the Authority and enforceable in accordance with its terms; provided, however, that the concurrent delivery of an Opinion of Bond Counsel required by the Resolution.

No Supplemental Resolution shall change or modify any of the rights or obligations of any Fiduciary without its written consent.

Modifications by Unanimous Consent

The terms and provisions of the Resolution and the rights and obligations of the Authority and of the Owners of Obligations may be modified or amended in any respect upon the adoption and filing by the Authority of a Supplemental Resolution and the consent of the Owners of all of the Obligations then Outstanding; provided, however, that no such modification or amendment shall change or modify any of the rights or obligations of any Fiduciary without the filing with the Trustee of the written consent thereto of such Fiduciary in addition to the consent of the Owners of Obligations.

Offices for Servicing Obligations

The Authority shall at all times maintain one or more offices or agencies where Obligations may be presented for payment, registration, transfer or exchange, and where notices, demands and other documents may be served upon the Authority in respect of the Obligations or of the Resolution. The Authority may appoint the Trustee or any other Fiduciary as its agent to maintain such office or agency for the payment, redemption, registration, transfer or exchange of Obligations, and for the service upon the Authority of such notices, demands and other documents.

Further Assurances

At any and all times the Authority shall, to the extent permitted by law, make, do, execute, adopt, acknowledge and deliver, and take all and every such further acts, deeds, conveyances, assignments, resolutions, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning and confirming all and singular the rights and interests in the Trust Estate or assigned, or intended so to be, or which the Authority may become bound to pledge or assign.

Power to Issue Obligations and Effect Pledge

The Authority is duly authorized under all applicable laws to create and issue the Obligations, adopt the Resolution and pledge the Trust Estate in the manner and to the extent provided in the Resolution. Except as provided therein with respect to the Series 1993 Bonds and Revenue Anticipation Notes and subject to the terms and provisions of the Resolution, the Trust Estate is and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by the Resolution, and all corporate action on the part of the Authority to that end has been duly and validly taken. The Obligations and the provisions of the Resolution are and will be the legally valid and binding special and limited obligations of the Authority as provided in the Resolution, enforceable in accordance with their terms and the terms of the Resolution and entitled to the benefits of the Resolution and the Compact. The Authority shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Trust Estate and all the rights of the Owners of Obligations under

the Resolution against all claims and demands of all persons whomsoever. The Authority shall not issue or incur any obligations or indebtedness secured by any portion of the Trust Estate which is secured on a parity with the lien and pledge established by the 1993 Bond Resolution for the benefit of the Series 1993 Bonds.

Operation and Maintenance of Transit System

The Authority shall at all times use its best efforts to operate or cause to be operated the Transit System properly and in an efficient and economical manner, and shall use its best efforts to maintain, preserve and keep the same or cause the same to be so maintained, preserved and kept, with the appurtenances and every part and parcel thereof, in good repair, working order and condition, and shall from time to time make or cause to be made, all necessary and proper repairs, replacements and renewals so that at all times the operation of the Transit System may be properly and advantageously conducted. Nothing shall prevent the Authority from ceasing to operate or maintain, or from leasing or disposing of, all or any portion of the Transit System if, in the judgment of the Authority it is advisable to lease, dispose of, or not to operate and maintain the same and the Authority files a notice of such action with the Trustee accompanied by a certification of the General Manager and the Treasurer of the Authority that the operation thereof is not essential to the maintenance and continued operation of the rest of the Transit System and such arrangement will not materially interfere with the ability of the Authority to comply with its rate covenant set forth in the Resolution; and, provided further, that the sale-leaseback or the lease-leaseback of any portion of the Transit System or other similar contractual arrangements, the effect of which is that the Authority, at the time of entering into such arrangements, reasonably expects to continue to have the ability to control such portion of the Transit System for use in its operations, shall not constitute a lease or disposition of such portion of the Transit System for purposes of this caption.

The Authority shall retain and appoint a Consulting Engineer (as defined below) which not later than one hundred and eighty (180) days following the end of every third Fiscal Year following the adoption of the Resolution shall make an examination of and report on the maintenance of the Transit System and the Authority's capital program to provide the funding therefor. Each such report shall be in sufficient detail to show whether the Authority has satisfactorily maintained the structures, facilities, equipment and properties of the Transit System in accordance with applicable industry standards for the maintenance thereof and whether the provisions for funding thereof in the Authority's capital program is adequate. In the event that such report shall find the Authority shall have failed to so maintain the Transit System or that the funding therefor is inadequate, such report shall specify the details of such failure or inadequacy. A copy of such report shall be filed with the Authority and the Trustee. On the filing of such report, the Authority shall undertake a review thereof and take or cause to be taken any action necessary to correct the conditions, if any, specified in such report which indicate a failure to maintain the Transit System as aforesaid or provide adequate funding therefor, as the case may be. For these purposes "Consulting Engineer" means one or more independent consulting engineers or engineering firms or corporations having special skills, knowledge and experience in analyzing the operation and maintenance of transit systems and advising with respect to the maintenance thereof.

Maintenance of Insurance for the Transit System

The Authority shall at all times maintain, to the extent reasonably obtainable, the following insurance to such extent and in such amounts as is usually carried by those operating transit systems, with such variations as shall reasonably be required to conform to applicable standard or customary insurance practice and subject to such exceptions and permissible deductions as are ordinarily required:

- (a) Multi-risk insurance on the Transit System covering direct physical loss or damage thereto;

- (b) Public liability insurance covering injuries to persons and property; and
- (c) Insurance during the construction or reconstruction of any portion of the Transit System, provided that the Authority shall not be required to maintain any such insurance to the extent that such insurance is carried for the benefit of the Authority by contractors.

The proceeds of any such insurance relating to property of the Authority shall be payable to the Authority and shall be applied to its necessary or reasonable costs involved in the repair, replacement or reconstruction of the damaged property, and, if and to the extent not so applied, shall be applied to the retirement of any Obligations, Parity Debt or Subordinated Indebtedness, as determined by the Authority. The proceeds of such insurance relating to property of the Authority shall be deposited in a separate fund held by the Authority or the Trustee, as determined by the Authority, and shall be applied at the direction of the Authority to the purposes described in the Resolution. Pending such application, such proceeds may be invested by the Authority in Authorized Investments which mature not later than such times as shall be necessary to provide moneys when needed to pay such costs of reconstruction or replacement. Interest earned on such investments shall be retained in such fund.

In lieu of maintaining any or all of the insurance required by the Resolution, the Authority may establish a self-insurance plan and in connection therewith establish one or more insurance funds and accumulate therein such amounts as the Authority deems reasonable for self-insurers operating transit systems. Amounts held in such insurance funds shall be applied by the Authority to the reasonable and necessary costs of repair or replacement of any damaged or destroyed property of the Transit System and to the payment of any liabilities covered by such self insurance plan, to the extent that the proceeds of insurance reasonably expected to be available for such purpose, if any, and any other money available to the Authority therefor shall be insufficient therefor. Amounts in insurance funds shall also be applied to the payment, when due, of interest and principal on the Obligations and Parity Debt to the extent other moneys are not available therefor under the Resolution or otherwise.

The Authority may maintain such other or additional insurance as it shall deem to be in the interests of the Authority.

Accounts and Reports

The Authority shall keep proper books of record and account of its operations. Such books of account are to be audited at least annually by independent certified public accountants experienced in governmental accounting selected by the Authority. A copy of each audit report, annual balance sheet and income and expense statement shall be filed with the Trustee and sent to any Owner filing with the Authority a written request therefor. The Authority may charge for such reports and other documents a reasonable fee to cover reproduction, handling and postage.

The Authority shall annually, within 120 days after the close of each fiscal year or at such other time required under applicable law or a subsequent contract with all or certain Owners (or, if not available by such date, when and if available), file with the Trustee, and otherwise as provided by law, a copy of an annual report for such year, accompanied by the opinion of the accountants specified in the Resolution.

The Authority shall file with the Trustee and the Bond Insurer (a) forthwith upon becoming aware of any Event of Default or default in the performance by the Authority of any covenant, agreement or condition contained in the Resolution, a certificate signed by an Authorized Officer of the Authority and specifying such Event of Default or default and (b) within one hundred twenty (120) days after the end of each Fiscal Year commencing with the Fiscal Year ending after the Fiscal Year in which this Resolution is adopted, a certificate signed by an Authorized Officer of the Authority stating that, to the best of his

knowledge and belief, the Authority has kept, observed, performed and fulfilled each and every one of its covenants, agreements and obligations contained in the Resolution and there does not exist at the date of such certificate any default by the Authority under the Resolution or any Event of Default or other event which, with the giving of notice or the lapse of time or both as specified in the Resolution would become an Event of Default, or, if any such default or Event of Default or other event shall so exist, specifying the same and the nature and status thereof.

Rate Covenant

The Authority shall, insofar as practicable and consistent with the provision of adequate service at reasonable fares, fix and establish fares, rates, charges and other fees with respect to the Transit System as shall, in the judgment of the Authority, be sufficient, together with other money available or anticipated to be available therefor (including the anticipated receipt of other amounts constituting Gross Revenues, as well as the proceeds of sale of Obligations, notes or other obligations or evidences of indebtedness of the Authority that will be used to pay the principal of Obligations issued in anticipation of such receipt), to pay (i) all Debt Service, all other amounts due on Parity Debt, debt service on all Subordinated Indebtedness then outstanding, and amounts due on all Subordinated Contract Obligations, (ii) all operating costs of the Transit System (giving effect to any reductions or deferrals or reserves therefor or anticipated reductions or deferrals thereof or reserves therefor), and (iii) all other amounts payable from or constituting a lien or charge on Gross Revenues, in each case as the same become respectively due and payable.

General

The Authority shall do and perform, or cause to be done or performed, all acts and things required to be done or performed by or on behalf of the Authority under the provisions of the Resolution and the Compact. Upon the date of authentication and delivery of any of the Obligations, all conditions, acts and things required by law and the Resolution to exist, to have happened and to have been performed precedent to and in connection with the issuance of such Obligations (and any related Parity Debt then being incurred) shall exist, have happened and have been performed and the issue of such Obligations (and any related Parity Debt then being incurred), together with all other Indebtedness of the Authority, shall be within every debt and other limit prescribed by law.

Annual Operating Budget

The Authority shall adopt and file with the Trustee for each Fiscal Year beginning after the adoption of the Resolution an annual operating budget complying with the Compact and prepared in accordance with the provisions of the Resolution. Each such budget for a Fiscal Year shall include the amount required to make the deposits for such Fiscal Year into the Debt Service Fund as set forth in the Resolution.

The Authority shall set forth in each of its annual operating budgets, and in each amendment of an annual operating budget, an appropriate provision which acknowledges that the Gross Revenues provided for in such budget or amendment are subject to the pledge and lien established by the Resolution.

Payments by Participating Jurisdictions

The Authority shall use its best efforts to cause the Participating Jurisdictions to make payments of their respective Stable and Reliable Funding Sources, together with other funds if necessary, so as to provide the amounts required to make the deposits in the Debt Service Fund required by the Resolution;

and to this end the Authority shall take all appropriate and governmental action, including without limitation, action to obtain assistance and support for its efforts from any and all governmental entities with an interest therein.

Authorization of the Obligations

The Resolution authorizes Obligations of the Authority designated as “Transit Revenue Obligations,” which may be issued in one or more Series or subseries. Obligations may be issued as Tax-Exempt Obligations, as Taxable Obligations, as obligations which convert on a particular date or dates from Taxable Obligations to Tax-Exempt Obligations, or as Taxable Obligations which are mandatorily exchangeable on a particular date or dates for Tax-Exempt Obligations, or otherwise as determined by a Supplemental Resolution. The Obligations shall be special obligations of the Authority payable solely from the Trust Estate pledged to the payment thereof pursuant to the first paragraph of the section of the Resolution summarized under the caption “The Pledge Effected by the Resolution.” The aggregate principal amount of the Obligations which may be executed and delivered under the Resolution is not limited except as provided in the Resolution or as may from time to time be limited by law.

General Provisions for Issuance of Obligations

The Obligations may be issued pursuant to a Supplemental Resolution in such principal amount or amounts in one or more Series or subseries as may be specified in such Supplemental Resolution. Obligations of any Series or subseries shall be authorized by a Supplemental Resolution which shall specify certain matters enumerated in the Resolution (or the manner of determining such matters):

An Authorized Officer to whom a Supplemental Resolution has delegated the power to determine any of the matters enumerated in the Resolution shall execute a Certificate of Determination evidencing such determinations or other actions taken pursuant to the delegation under such Supplemental Resolution, and such Certificate of Determination shall be conclusive evidence of the determinations or actions of such Authorized Officer as to the matters stated therein. The matters set forth in any such Certificate of Determination shall have the same effect as if set forth in the related Supplemental Resolution.

The Obligations may be sold in one or more Series or subseries (each of which shall contain a designation distinguishing it from other Series or subseries) and shall be delivered by the Authority under the Resolution but only upon receipt by the Trustee of:

- (a) An Opinion of Bond Counsel in customary form to the effect that (i) the Authority has the right and power under the Compact to adopt the Resolution, and the Resolution has been duly and lawfully adopted by the Authority, is in full force and effect, and is valid and binding upon the Authority, and enforceable in accordance with its terms, and no other authorization for the Resolution is required as of the date thereof; (ii) the Resolution creates the valid pledge which it purports to create of the Trust Estate in the manner and to the extent provided in the Resolution; and (iii) the Obligations are valid, binding and special and limited obligations of the Authority as provided in the Resolution, enforceable in accordance with their terms and the terms of the Resolution and entitled to the benefits of the Resolution and of the Compact, and such Bonds have been duly and validly authorized and issued in accordance with law, including the Compact as amended to the date of such Opinion, and in accordance with the Resolution; provided, that such Counsel’s Opinion may take exception as to the effect of, or for restrictions or limitations imposed by or resulting from, bankruptcy, insolvency, debt adjustment, moratorium, reorganization or other similar laws, judicial decisions and principles of equity relating to

the enforcement of creditors' rights generally or contractual obligations, and judicial discretion and the valid exercise of the sovereign police powers of the State of Maryland, the Commonwealth of Virginia or the District of Columbia and of the constitutional power of the United States of America;

- (b) A copy of the Supplemental Resolution authorizing such Obligations, certified by an Authorized Officer;
- (c) A written order of the Authority as to the delivery of the Obligations, signed by an Authorized Officer;
- (d) If any Obligations are Variable Interest Rate Obligations or a Qualified Swap is being entered into that will result in a variable interest rate obligation of the Authority, a determination by an Authorized Officer of the Estimated Average Interest Rate;
- (e) If any Obligations of such Series are Put Obligations, a determination by an Authorized Officer of the method or methods to be employed to provide for the purchase or redemption of all Put Obligations of such Series if the Owners thereof elected to tender for purchase or redemption the entire aggregate Outstanding principal amount of the Put Obligations of such Series; and
- (f) Such further documents and money as are required by the provisions of the Resolution.

Special Provisions for Capital Cost Obligations

Obligations may be issued to pay, or to provide for the payment of, all or part of Capital Costs. Such Obligations are to be issued upon receipt by the Trustee of (i) a certificate of an Authorized Officer stating that, based on the reasonable expectations of such Authorized Officer, the Authority will be in compliance with its covenant summarized under the caption "Rate Covenant" for the Fiscal Year in which such Obligations are being issued and (ii) a certificate of an Authorized Officer certifying, based on the Authority's records, that Gross Revenues for any twelve (12) consecutive months out of the last eighteen (18) months immediately preceding the incurrence or issuance of such Obligations, adjusted so as to reflect what would have been in effect for such twelve (12) month period with any fare increase at least thirty (30) days prior to the date of incurrence or issuance of such Obligations, shall at least equal 400% of the Average Annual Aggregate Debt Service (with respect to all Obligation and Parity Debt, including the obligations being incurred or issued) for the period commencing with the Fiscal Year next following the incurrence or issuance of such Obligations and ending with the Fiscal Year which includes the latest maturity or payment date of any Outstanding Obligations.

Refunding Obligations

In addition to refinancings permitted under the section of the Resolution summarized under the caption "Special Provisions for Capital Cost Obligations," one or more Series of Refunding Obligations may be issued to refund (including by redemption, payment at maturity or in connection with exchanges or tenders) all or any portion of any Outstanding Obligations or Parity Debt, as well as any Series 1993 Bonds. Such Obligations are to be issued upon receipt by the Trustee of a certificate of an Authorized Officer stating either (i) after giving effect thereto, the Debt Service with respect to such Obligations is less in each Fiscal Year than the Debt Service with respect to the Obligations or Parity Debt, or the debt service of the Series 1993 Bonds, as applicable, being refunded for the period commencing with the Fiscal Year next following the incurrence or issuance of such Obligations and ending with the Fiscal Year which includes the latest maturity or payment date of the Obligations, Parity Debt or Series 1993 Bonds

being refunded, or (ii) the Gross Revenue test summarized under the caption “Special Provisions for Capital Cost Obligations.”

Separately Financed Projects; Revenue Anticipation Notes

Nothing in the Resolution prevents the Authority from authorizing and issuing bonds, notes, or other obligations or evidences of indebtedness, other than Obligations, for any project authorized by the Compact or by other then applicable law, or from financing any such project from other available funds (any such project being referred to herein as a “Separately Financed Project”), if the debt service on such bonds, notes, or other obligations or evidences of indebtedness, if any, and the Authority’s share of any operating expenses related to such Separately Financed Project, are payable solely from funds not pledged to the payment of Obligations, including amounts released from the lien of the Resolution.

Nothing in the Resolution shall prevent the Authority from authorizing or issuing Revenue Anticipation Notes. Prior to the issuance of Revenue Anticipation Notes, an Authorized Officer shall deliver a certificate to the Trustee certifying as to the operating subsidies or reimbursements in anticipation of which such Revenue Anticipation Notes are being issued. Such note or notes shall contain or have endorsed thereon a designation by the Authority that such note or notes constitute Revenue Anticipation Notes under the Resolution or words of similar import, as may be determined by an Authorized Officer prior to the authentication thereof.

The Pledge Effected by the Resolution

There are pledged for the payment of the principal and Redemption Price of, and interest on, and Sinking Fund Installments for the Obligations and, on a parity basis, the Parity Debt, in accordance with their terms and the provisions of the Resolution, all right, title and interest of the Authority in and to the Trust Estate, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution. *The pledge created by the Resolution, insofar as it relates to any portion of the Trust Estate pledged to the payment of the Series 1993 Bonds, is (i) subordinate in all respects to the pledge thereof created by the 1993 Bond Resolution to secure the Series 1993 Bonds and (ii) subject to the covenants and agreements made with the owners of the Series 1993 Bonds; and, so long as any Prior Lien Obligations remain outstanding and unpaid, no payment shall be made therefrom, whether for interest, principal or premium on any of the Obligations, except as and to the extent permitted by the 1993 Bond Resolution.*

The pledge created by the Resolution shall in all respects secure on a pari passu basis all of the Obligations and Parity Debt and, except as expressly so provided, nothing contained in the Resolution shall be deemed to confer on the Owners of any Obligations or Parity Debt any rights in the Trust Estate superior or inferior to the Owners of any other Obligations or Parity Debt.

The pledge created by the Resolution shall be valid and binding from and after the date of issuance and delivery of the first Obligations, and the Trust Estate shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act, and the lien of such pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Issuer irrespective of whether such parties have notice thereof.

Subject to the provisions described above, and except as provided in the next paragraph, the Trust Estate is and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by the Resolution, and all corporate action on the part of the Issuer to that end has been duly and validly taken.

Notwithstanding any other provision of the Resolution, the pledge of the Trust Estate, insofar as such Trust Estate includes Operating Subsidies or reimbursements in anticipation of which Revenue Anticipation Notes shall at any time be issued, shall be subordinate to the pledge of any such Operating Subsidies or reimbursements securing such Revenue Anticipation Notes.

Nothing contained in this caption shall be construed as limiting any authority granted to the Authority elsewhere in the Resolution to issue or incur Obligation Anticipation Notes, Revenue Anticipation Notes, Subordinated Indebtedness or Subordinated Contract Obligations or shall be deemed a limitation upon the authority of the Authority to issue any other bonds, notes or other obligations under the Compact secured by any other amount or funds other than the Trust Estate.

Subordinated Indebtedness; Subordinated Contract Obligations

The Authority may, at any time, or from time to time, issue Subordinated Indebtedness or incur Subordinated Contract Obligations payable out of, and which may be secured by a pledge of and lien on, such amounts as may from time to time be available for transfer pursuant to the Resolution, provided, however, that, except as provided in the fourth paragraph of this caption, (a) such pledge shall be, and shall be expressed to be, subordinate in all respects to the pledge created by the Resolution as security for the Obligations and Parity Debt and (b) to the extent provided by Supplemental Resolution, any amounts so transferred shall thereafter be free and clear of any lien, pledge or claim of the Resolution. The Authority may establish such priorities of payment and security among Subordinated Indebtedness and Subordinated Contract Obligations as it deems appropriate.

Subordinated Indebtedness shall be issued for one or more of the purposes for which Obligations could be issued and the proceeds of such Subordinated Indebtedness shall be applied only for such purpose or purposes.

The Authority shall have the right to covenant with the Owners from time to time of Subordinated Indebtedness and with Persons to whom Subordinated Contract Obligations run to add to the conditions, limitations and restrictions under which any additional Obligations may be issued or Parity Debt may be incurred; provided, however, that the Supplemental Resolution or indenture or other agreement providing for the issuance of such Subordinated Indebtedness or the incurrence of such Subordinated Contract Obligations shall not permit the owners of such obligations to declare the same, nor to instruct such owners' trustee to declare the same, to be immediately due and payable prior to the time that all Obligations and Parity Debt have become due and payable.

In connection with any Subordinated Indebtedness or Subordinated Contract Obligations representing amounts made available under any federal or state program or guaranteed or otherwise supported or secured under any federal or state program, such Subordinated Indebtedness or Subordinated Contract Obligations, may, to the extent provided in the resolution or other agreement relating to such Subordinated Indebtedness or Subordinated Contract Obligation and upon the occurrence of certain bankruptcy related events as provided in such resolution or other agreement, be secured by a pledge of and security interest in the Trust Estate on a parity with the Obligations and Parity Debt.

Responsibilities of Fiduciaries

The recitals of fact contained in the Resolution and in the Obligations shall be taken as the statements of the Authority and no Fiduciary assumes any responsibility for the correctness of the same. No Fiduciary makes any representations as to the validity or sufficiency of the Resolution or of any Obligations issued thereunder or in respect of the security afforded by the Resolution, and no Fiduciary shall incur any liability in respect thereof. No Fiduciary shall be under any responsibility or duty with

respect to the issuance of the Obligations for value or the application of the proceeds thereof or the application of any money paid to the Authority. No Fiduciary shall be under any responsibility or duty with respect to the application of any money paid to any other Fiduciary. No Fiduciary shall be liable in connection with the performance of its duties under the Resolution, or for any losses, fees, taxes or other charges incurred upon the purchase or sale or redemption of any securities purchased for or held in any Fund under the Resolution, including any losses incurred by reason of having to sell securities prior to their maturity date, except in each case for its own willful misconduct, negligent action or negligent failure to act.

Resignation of Trustee

The Trustee may at any time resign and be discharged of the duties and obligations created by the Resolution by giving not less than 60 days' written notice to the Authority, and mailing notice thereof to the Owners of the Obligations, specifying the date when such resignation shall take effect, at least 45 days prior to the effective date, provided that such resignation shall take effect upon the later of (i) the day specified in such notice and (ii) the day a successor shall have been appointed by the Authority or the Owners of the Obligations and such successor shall have accepted such appointment as provided in the Resolution.

Removal of the Trustee

The Trustee may be removed at any time by an instrument or concurrent instruments in writing, filed with the Trustee, and signed by the Owners of a majority in principal amount of the Obligations then Outstanding or their attorneys-in-fact duly authorized, excluding any Obligations held by or for the account of the Authority. So long as no Event of Default, shall have occurred and be continuing and the Trustee is not pursuing any right or remedy available to it pursuant the Resolution, the Trustee may be removed at any time for failure to provide reasonably acceptable services, failure to charge reasonably acceptable fees or any other reasonable cause, all as determined by a certificate of an Authorized Officer filed with the Trustee. No such removal of the Trustee shall take effect until a successor Trustee has been appointed and shall have accepted such appointment.

Appointment of Successor Trustee

In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, a successor may be appointed by the Owners of a majority in principal amount of the Obligations then Outstanding, excluding any Obligations held by or for the account of the Authority, by an instrument or concurrent instruments in writing signed and acknowledged by such Owners of Obligations or by their attorneys-in-fact duly authorized and delivered to such successor Trustee, notification thereof being given to the Authority and the predecessor Trustee; provided, nevertheless, that unless a successor Trustee shall have been appointed by the Owners of Obligations as aforesaid, the Authority by a duly executed written instrument signed by an Authorized Officer of the Authority shall forthwith appoint a Trustee to fill such vacancy until a successor Trustee shall be appointed by the Owners of Obligations. The Authority shall mail notice of any such appointment made by it to all Owners within 20 days after such appointment. Any successor Trustee appointed by the Authority shall, immediately and without further act, be superseded by a Trustee appointed by the Owners of Obligations.

If in a proper case no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Section within 45 days after the Trustee shall have given to the Authority written notice

or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, the Trustee or the Owner of any Obligation may, at the expense of the Authority, apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

Any Trustee appointed in succession to the Trustee shall be a Bank that is organized under the laws of any state or is a national banking association organized under the laws of the United States of America, and having a capital and surplus aggregating at least \$100 million, if there be such a Bank willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the Resolution.

Definitions and Interpretations

The following terms, for all purposes of the Resolution, have the following meanings:

Account or *Accounts* means each account or all of the accounts established by the Resolution.

Accreted Value means with respect to any Capital Appreciation Obligations (i) as of any Valuation Date, the amount set forth for such date in the Supplemental Resolution authorizing such Capital Appreciation Obligations and (ii) as of any date other than a Valuation Date, the sum of (a) the Accreted Value on the preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date and (2) the difference between the Accreted Values for such Valuation Dates. For purposes of this definition, the number of days having elapsed from the preceding Valuation Date and the number of days from the preceding Valuation Date to the next succeeding Valuation Date shall be calculated on the basis of a 360-day year of 12 30-day months, unless otherwise provided pursuant to a Supplemental Resolution.

Accrued Debt Service means, as of any date of calculation, an amount equal to the sum of the amounts of accrued and unpaid Debt Service with respect to all Obligations and Parity Debt, calculating the accrued Debt Service with respect to each obligation at an amount equal to the sum of (i) as estimated by an Authorized Officer, interest on the Obligations and interest components of Parity Debt accrued and unpaid and to accrue to the end of the then current Quarter, and (ii) Principal Installments due and unpaid and that portion of the Principal Installment for such Obligations and Parity Debt next due which would have accrued (if deemed to accrue in the manner set forth in the definition of (“Debt Service”) to the end of such Quarter. For purposes of calculating Debt Service Fund deposits, Principal Installments shall not include amounts that an Authorized Officer has notified the Trustee are to be paid from sources other than Gross Revenues, nor shall Accrued Debt Service include any amounts that, as certified by an Authorized Officer, have been set aside under the Resolution or otherwise in trust for the payment thereof.

Air Rights means that space which (i) extends upward from the real property which constitutes all or any part of the Transit System, and (ii) is not used, or reasonably anticipated to be used, in connection with the operation of the Transit System.

Amortized Value, when used with respect to Authorized Investments purchased at a premium above or a discount below par, means the value of such Authorized Investments computed by using an industry standard constant yield method selected by an Authorized Officer of the Authority.

Appreciated Value means with respect to any Deferred Income Obligations (i) as of any Valuation Date, the amount set forth for such date in the Supplemental Resolution authorizing such Deferred Income Obligations, (ii) as of any date prior to the Interest Commencement Date other than a

Valuation Date, the sum of (a) the Appreciated Value on the preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which number of days from such preceding Valuation Date to the next succeeding Valuation Date and (2) the difference between the Appreciated Values for such Valuation Dates, and (iii) as of any date on and after the Interest Commencement Date, the Appreciated Value on the Interest Commencement Date. For purposes of this definition, the number of days having elapsed from the preceding Valuation Date and the number of days from the preceding Valuation Date to the next succeeding Valuation Date shall be calculated on the basis of a 360-day year of 12 30-day months, unless otherwise provided pursuant to a Supplemental Resolution.

Authority means the Washington Metropolitan Area Transit Authority, a body corporate and politic created and existing under and by virtue of the Compact, or, if said Washington Metropolitan Area Transit Authority shall be abolished, the officer, board, commission, authority, agency or instrumentality succeeding to the functions thereof or to whom the powers given by the Compact to the Authority shall be given by law.

Authorized Investments means and include any of the following, to the extent, at the time of the acquisition thereof, the same are legal for investment of the Authority's funds:

- (1) obligations of the United States Government or of any state of the United States of America (including the District of Columbia) or any political subdivision of any such state, provided that such obligations are rated in the 2 highest Rating Categories of each Rating Agency which rates such obligations;
- (2) obligations the timely payment of the principal and interest on which are unconditionally guaranteed by the United States Government or by any state of the United States of America (including the District of Columbia) or any political subdivision of any such state, provided that such obligations are rated in the 2 highest Rating Categories of each Rating Agency which rates such obligations;
- (3) certificates of deposit of banks or trust companies (located either within or without the United States of America), secured, if the Authority shall so require, by obligations of the United States of a market value equal at all times to the amount of the deposit;
- (4) banker's acceptances with a maturity of 90 days or less which are eligible for purchase by the federal reserve banks and whose rating at the time of purchase is in the highest Rating Category of each of the Rating Agencies that then rates such banker's acceptances;
- (5) obligations of any bank or corporation created under the laws of either the United States or any state of the United States maturing within 270 days, provided that such obligations are rated in the highest Rating Category of each of the Rating Agencies that then rates such obligations;
- (6) notes, bonds, debentures, mortgages and other evidences of indebtedness, issued or guaranteed at the time of the investment by the United States Postal Service, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Student Loan Marketing Association, the Federal Farm Credit Transit System, or any other United States government sponsored agency, provided that at the time of the investment such agency or its obligations receive ratings in the highest Rating Category of each of the Rating Agencies that then rates such agency or its obligations;

- (7) mutual funds whose investments are limited to obligations described in clause (1) above, obligations the principal and interest of which are guaranteed as described in clause (2) above, and that are rated in the highest Rating Category of each of the Rating Agencies that then rates such funds;
- (8) repurchase agreements with any provider, which agreement is secured by any one or more of the securities described in clauses (1), (2) or (6) above, which securities shall (A) at all times have a market value of not less than the full amount held or invested pursuant to the agreement and (B) be delivered to a Bank as defined in clause (1) or (2) of the definition thereof, as custodian, that is independent from the provider with whom the repurchase agreement is executed; and
- (9) any other investment in which the Authority is authorized from time to time to invest under applicable law with respect to which an Authorized Officer has, on or before the date thereof, delivered to the Trustee (A) a certificate to the Trustee designating the additional investment as an Authorized Investment and (B) a Rating Confirmation.

Any investment in any of the foregoing obligations may be made in the form of an entry made on the records of the Authority of the particular obligations or of a recognized securities depository.

Authorized Officer means (i) the Chairman and the Vice Chairman, (ii) the General Manager, the Deputy General Manager, the Assistant General Manager for Finance and Chief Financial Officer, the Comptroller, the Treasurer, the Secretary and any Assistant Secretary of the Authority, and (iii) any other Person authorized by the Authority pursuant to a duly adopted resolution of the Authority to perform the act or sign the document in question.

Average Aggregate Annual Debt Service means for any period of Fiscal Years, as of any date of calculation, the amount which shall be the quotient obtained by dividing the sum of the Debt Service for all Series of Obligations and Parity Debt for each Fiscal Year in said period by the number of such Fiscal Years.

Bank means any (i) bank or trust company organized under the laws of any state of the United States of America, (ii) national banking association, (iii) savings bank or savings and loan association chartered or organized under the laws of any state of the United States of America, or (iv) federal branch or agency pursuant to the International Banking Act of 1978 or any successor provisions of law, or domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America.

Business Day means any day of the year other than (i) a Saturday or a Sunday, (ii) any day on which Banks located in the City of New York, New York or the city in which the Principal Office of the Trustee is located or the District of Columbia are required or authorized by law or executive order to remain closed, or (iii) any day on which the New York Stock Exchange is closed.

Capital Appreciation Obligations means any Obligations denominated as such and issued as to which interest is payable only at the maturity or prior redemption of such Obligations. Except as otherwise provided by Supplemental Resolution, for the purposes of (i) receiving payment of the Redemption Price if a Capital Appreciation Obligation is redeemed prior to maturity, (ii) computing the principal amount of Obligations held by the registered owner of a Capital Appreciation Obligation in giving to the Authority or the Trustee any notice, consent, request, or demand pursuant to the Resolution for any purpose whatsoever or (iii) computing Debt Service, the principal amount of a Capital

Appreciation Obligation shall be deemed to be its Accreted Value (which in the case of clause (ii) may be the Accreted Value as of the immediately preceding Valuation Date).

Capital Budget means the Authority's capital budget, as amended or supplemented from time to time, adopted or in effect for a particular Fiscal Year, as provided in Section 23 of the Compact.

Capital Contributions means (i) the amounts paid to the Authority pursuant to the Capital Contributions Agreement by a Participating Jurisdiction thereunder, (ii) capital contributions or grants paid to the Authority by the Federal Government or any department or agency thereof, and (iii) any other or additional capital contributions or grants paid to the Authority by a Participating Jurisdiction. Capital Contributions shall include any rebate or return of insurance funds provided from Capital Contributions.

Capital Contributions Agreement means the Capital Contributions Agreement dated as of January 9, 1970, by and between the Authority and Washington Suburban Transit District, the District of Columbia and Arlington County and Fairfax County, Virginia, and the cities of Alexandria, Falls Church and Fairfax, Virginia, and the Guaranty Agreement, dated as of January 9, 1970, between Prince George's County, Maryland, Montgomery County, Maryland, and the Authority, as the same may have heretofore been amended or may hereafter be amended.

Capital Costs means the costs of the Authority related to the implementation of the Capital Budget.

Certificate of Determination means a certificate of an Authorized Officer fixing the terms, conditions and other details of Obligations, Parity Debt, Credit Facilities, Subordinated Indebtedness or Subordinated Contract Obligations in accordance with the delegation of power to do so under a Supplemental Resolution.

Compact means the Washington Metropolitan Area Transit Authority Compact entered into as an amendment of the Washington Metropolitan Area Transit Regulation Compact between the State of Maryland, the Commonwealth of Virginia and the District of Columbia and constituting Title III of said Washington Metropolitan Area Transit Regulation Compact, together with all amendments and supplements to said Title III heretofore entered into or which may be entered into in accordance with law.

Costs of Issuance means the costs of the authorization, sale and issuance of a Series of Obligations, Obligation Anticipation Notes, Subordinated Indebtedness, Parity Debt, Subordinated Contract Obligations or other obligations authorized under the Resolution, including with respect to any party to a transaction charges, document printing and reproduction costs, filing and recording fees, costs of credit ratings, fees and charges of the Trustee and other Fiduciaries and agents, legal fees and charges, professional consultants' fees, underwriting fees, fees and charges for execution, transportation and safekeeping of Obligations, premiums, fees and charges in order to obtain, renew, extend or terminate Credit Facilities and Qualified Swaps and other financial arrangements, costs and expenses of refunding such Obligations, Obligation Anticipation Notes, Subordinated Indebtedness, Parity Debt, Subordinated Contract Obligations or other obligations authorized under this Resolution, and other costs, charges and fees, including those of the Authority, in connection with the foregoing.

Costs of Issuance Account means the applicable Account by that name established in the Proceeds Fund for a Series of Obligations pursuant to the Resolution.

Counsel's Opinion or Opinion of Counsel or Opinion means an opinion signed by an attorney or firm of attorneys of recognized standing (who may be counsel to the Authority) selected by the Authority.

Credit Facility means any letter of credit, standby bond purchase agreement, line of credit, policy of bond insurance, surety bond, guarantee or similar instrument, or any agreement relating to the reimbursement of any payment thereunder (or any combination of the foregoing), which is obtained by the Authority and is issued by a financial institution, insurance provider or other Person and which provides security or liquidity in respect of any Outstanding Obligations, Parity Debt or Obligation Anticipation Notes.

Debt Service for any period means, as of any date of calculation and with respect to any Series of Obligations or any Parity Debt outstanding, the sum of: (i) interest on the Obligations of such Series and the interest components of Parity Debt accruing during such period and (ii) that portion of each Principal Installment for such Obligations and Parity Debt that would accrue during such period if such Principal Installment were deemed to accrue daily in equal amounts from the preceding Principal Installment payment date on Outstanding Obligations and Parity Debt; provided, however, that, unless otherwise set forth in a Supplemental Resolution, no Principal Installment shall be deemed to begin accruing until the later of one year prior to such Principal Installment's due date or the date of issuance or incurrence of the related Obligation or Parity Debt; provided further, for purposes of calculating Debt Service Fund deposits, and with respect to any Series of Obligations or any Parity Debt, the Authority may compute such sum based on the following adjustments:

- (1) Interest on Variable Interest Rate Obligations may be based on the Estimated Average Interest Rate applicable thereto.
- (2) Interest on any Obligation or Parity Debt in respect of which the Authority has entered into a Qualified Swap may be based on:
 - (a) the fixed rate or rates of the Qualified Swap if the Authority has entered into what is generally referred to as a "floating-to-fixed" Qualified Swap (where the Authority pays a fixed rate and receives a floating rate); or
 - (b) the lower of (i) the Estimated Average Interest Rate and (ii) the effective capped rate of any Obligation or Parity Debt if the Authority has entered into a Qualified Swap that is generally referred to as an "interest rate cap" (where the Authority receives a payment if a variable rate exceeds a certain amount); or
 - (c) the Estimated Average Interest Rate of the Qualified Swap if the Authority has entered into either what is generally referred to as a "fixed-to-floating" Qualified Swap (where the Authority pays a variable rate and receives a fixed rate) or a "floating-to-floating" Qualified Swap (where the Authority pays a variable rate and receives a different variable rate).
- (3) If the Authority has irrevocably deposited Authorized Investments or money with the Trustee (or otherwise in trust) for the payment of any portion of Debt Service, the expected future cash flow from such Authorized Investments and money may be deducted from Debt Service.
- (4) If the Authority has, at any time, irrevocably called for redemption one or more Series of Obligations, including pursuant to a covenant to apply any portion of the Trust Estate to redeem Obligations or Parity Debt (which particular Obligations or Parity Debt need not be specifically identified in advance, except as to interest rate and maturity), the Authority may take into account such redemption.

- (5) With respect to Parity Reimbursement Obligations, accelerated payments of principal shall only be taken into account if, at the time of calculation, such amounts are payable due to a draw under a credit or liquidity facility.

Debt Service Fund means the Fund by that name established by the Resolution.

Debt Service Payment Date means, with respect to any portion of Debt Service, the date on which the Debt Service shall be payable.

Defeasance Security means

- (a) an obligation of the United States Government or an obligation the timely payment of the principal of and interest on which are guaranteed by the United States Government, which in each case is not redeemable at the option of the issuer thereof,
- (b) an Authorized Investment as specified in clause (i), (ii), (iii) or (vi) of the definition thereof, which is not redeemable at the option of the issuer thereof and which shall be rated at the time of the investment in the highest long-term Rating Category by each Rating Agency,
- (c) any depositary receipt issued by a Bank as custodian with respect to any Defeasance Security which is specified in clause (a) above and held by such Bank for the account of the holder of such depositary receipt, or with respect to any specific payment of principal of or interest on any such Defeasance Security which is so specified and held; provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depositary receipt from any amount received by the custodian in respect of the Defeasance Security or the specific payment of principal or interest evidenced by such depositary receipt,
- (d) any certificate of deposit specified in clause (iii) of the definition of Authorized Investments, including certificates of deposit issued by the Trustee or by a Paying Agent, secured by obligations specified in clause (a) above of a market value equal at all times to the amount of the deposit, which shall be rated at the time of the investment in the highest long-term Rating Category by each Rating Agency, or
- (e) any other Authorized Investment designated in a Supplemental Resolution as a Defeasance Security for purposes of defeasing the Series of Obligations authorized by such Supplemental Resolution, which is not redeemable at the option of the issuer thereof and which shall be rated at the time of the investment in the highest long-term Rating Category by each Rating Agency.

Deferred Income Obligation means any Obligation (A) as to which interest accruing thereon prior to the Interest Commencement Date of such Obligation is (i) compounded on each Valuation Date for such Deferred Income Obligation and (ii) payable only at the maturity or prior redemption of such Obligations and (B) as to which interest accruing after the Interest Commencement Date is payable on the first interest payment date succeeding the Interest Commencement Date and periodically thereafter on the dates specified in or determined by Supplemental Resolution. Except as otherwise provided by Supplemental Resolution, for the purposes of (i) receiving payment of the Redemption Price if a Deferred

Income Obligation is redeemed prior to maturity, (ii) computing the principal amount of Obligations held by the registered owner of a Deferred Income Obligation in giving to the Authority or the Trustee any notice, consent, request, or demand pursuant to the Resolution for any purpose whatsoever or (iii) computing Debt Service, the principal amount of a Deferred Income Obligation shall be deemed to be its Appreciated Value (which in the case of clause (ii) may be the Appreciated Value as of the immediately preceding Valuation Date).

Estimated Average Interest Rate means, as to any Variable Interest Rate Obligations or Qualified Swap and as of any date of calculation, the average interest rate or rates anticipated to be borne by such Obligations or Qualified Swap, or by the combination of such arrangements, over the period or periods for which such rate or rates are anticipated to be in effect, all as estimated by an Authorized Officer.

Events of Default means the events defined as such in the Resolution.

Federal Operating Subsidies means amounts paid by the Federal Government, or any department or agency thereof, to the Authority in respect of the operating costs of the Transit System.

Fiduciary or *Fiduciaries* means the Trustee, any Registrar, any Paying Agent, any tender agent or any or all of them, as may be appropriate, or any Person appointed to act as a Fiduciary as provided in the Resolution.

Final Judgment means any judgment or order of any court of competent jurisdiction, or of any arbitrator or panel of arbitrators, as to which all appeals have been exhausted.

Fiscal Year means the then current annual accounting period of the Authority for its general accounting purposes, which period, as of September 18, 2003, is the twelve month period commencing on July 1 of each calendar year and ending on June 30 of the next calendar year.

Fund or *Funds* means each fund or all of the funds established in or pursuant to the Resolution.

Gross Revenues means (i) the Revenues exclusive of the Lease Related Revenues, and (ii) the Stable and Reliable Funding Sources and (iii) all other revenues, receipts, grants, contributions, subsidies and funds received by the Authority in respect of the Transit System which can be lawfully pledged under the Resolution, provided that the Capital Contributions and the Federal Operating Subsidies shall be excluded from Gross Revenues.

Interest Commencement Date means, with respect to any particular Deferred Income Obligation, the date determined by Supplemental Resolution after which interest accruing on such Obligation shall be payable on the first interest payment date succeeding such Interest Commencement Date and periodically thereafter on the dates determined pursuant to such Supplemental Resolution.

Joint Development Project means property interests owned and/or controlled by the Authority (including property interests constituting a part of the Transit System) which the Authority markets to one or more office, retail/commercial, recreational/entertainment or residential developers with the objective of developing one or more transit-oriented development projects; provided, the Authority has notified the Trustee in writing that (i) such property interests shall not be part of the Transit System, (ii) the manner in which such property interests will be applied for such development, and (iii) the Authority has determined that applying such property interests in such manner will not impede or restrict the operation of the Transit System.

Lease Obligations means obligations of the Authority under (A) (i) the Facility Lease Agreement between the Fairfax County Economic Development Authority and the Authority, dated as of July 1, 1989 (Vienna Metrorail Station Project), the Facility Lease Agreement between the Fairfax County Economic Development Authority and the Authority, dated as of July 1, 1990 (Huntington Metrorail Station Project), the Surcharge Implementation Agreement, dated as of May 12, 1989, between Fairfax County, Virginia and the Authority, relating to such Lease Agreements, and (ii) such similar leases and subleases and surcharge implementation agreements relating to parking projects as the Authority has heretofore executed or may hereafter execute from time to time, and (B) agreements for the sale-leaseback or lease-leaseback of any portion of the Transit System or other similar contractual arrangements, the effect of which is that the Authority at the time of entering into such arrangements, reasonably expects to continue to have the ability to control such portion of the Transit System for use in its operations.

Lease Related Revenues means those portions or amounts of Revenues that are (i) dedicated, assigned or otherwise required for the payment of rentals or other purposes as provided under part (A) of the definition of Lease Obligations, or (ii) received in respect of arrangements described in part (B) of the definition of Lease Obligations.

1993 Bond Resolution means the Gross Revenue Transit Bond Resolution, adopted by the Authority on November 18, 1993, as the same from time to time may be amended or supplemented in accordance with its terms.

Obligation Anticipation Notes means any such notes issued and delivered pursuant to the Resolution, except to the extent (but only to the extent) that all or any portion of such notes either are not payable, or are anticipated by the Authority not to be paid, from the proceeds of the Obligations in anticipation of which such notes are being issued.

Obligations means any bonds, notes, commercial paper or other form of indebtedness of the Authority payable from the Debt Service Fund, authorized by and delivered pursuant to the Resolution, but excluding Obligation Anticipation Notes to the extent payable from, and expected by an Authorized Officer to be paid from, the proceeds of Obligations or other Obligation Anticipation Notes.

Opinion of Bond Counsel means an opinion signed by any attorney or firm of attorneys of nationally recognized standing in the field of law relating to the issuance of obligations by state and municipal entities, selected by the Authority.

Outstanding, when used with reference to Obligations or Obligations of a Series, means, as of any date, Obligations or Obligations of such Series theretofore or thereupon to be delivered under the Resolution except:

- (1) Any Obligations canceled at or prior to such date;
- (2) Obligations the principal and Redemption Price, if any, of and interest on which have been paid in accordance with the terms thereof;
- (3) Obligations in lieu of or in substitution for which other Obligations shall have been delivered pursuant to the Resolution;
- (4) Obligations deemed to have been paid as provided in the Resolution;
- (5) Put Obligations tendered or deemed tendered in accordance with the provisions of the Supplemental Resolution authorizing such Obligations on the applicable tender date, if

the Purchase Price thereof and interest thereon shall have been paid or amounts are available and set aside for such payment as provided in such Supplemental Resolution, except to the extent such tendered Put Obligations thereafter may be resold pursuant to the terms thereof and of such Supplemental Resolution; and

- (6) For the purpose of any consent to be given or other action to be taken by or upon the direction of Owners of a specified portion of Obligations Outstanding, Obligations excluded pursuant to the provisions of the Resolution.

The principal component of any Parity Debt shall be deemed to be Outstanding in a principal amount equal to the principal amount of the obligation then owed by the Authority thereunder in lieu of the related Obligation, regardless of the authorized amount of the principal component of such Parity Debt or the related Obligation and provided that, unless otherwise required pursuant to the related Supplemental Resolution, the principal component of such Parity Debt shall not by itself increase the Outstanding principal amount of Obligations.

Owner, or any similar terms, means the registered owner of any Obligation as shown on the books for the registration and transfer of Obligations maintained in accordance with the Resolution.

Parity Debt means any Parity Reimbursement Obligation, any Parity Swap Obligation or any other contract, agreement or other obligation of the Authority designated as constituting "Parity Debt" in a certificate of an Authorized Officer delivered to the Trustee; provided, however, that any such Parity Reimbursement Obligation, Parity Swap Obligation, or other contract, agreement or other obligation shall not constitute Parity Debt solely to the extent of any obligations to pay termination or other fees, expenses, indemnification or other similar payments to the counterparty to such arrangement; provided further that Parity Reimbursement Obligations may include accelerated principal amortization provisions to the extent permitted by the Resolution.

Parity Reimbursement Obligation has the meaning provided in the Resolution.

Parity Swap Obligation has the meaning provided in the Resolution.

Parking Facilities means parking facilities relating to the Transit System which the Authority has notified the Trustee in writing shall not be a part of the Transit System.

Paying Agent means any paying agent for the Obligations of any Series and its successor or successors and any other Person which may at any time be substituted in its place pursuant to the Resolution.

Person means any individual, corporation, firm, partnership, joint venture, association, joint-stock company, trust, unincorporated association, limited liability company or other legal entity or group of entities, including any public benefit corporation, public instrumentality, quasi-governmental or governmental entity or any agency or subdivision thereof.

Principal Installments means, as of any date of calculation and with respect to any Series of Obligations or any Parity Debt, as applicable, (a) the principal amount of Outstanding Obligations of such Series, due on the dates and in the amounts specified by a related Supplemental Resolution, reduced by the principal amount of such Obligations which would be retired by reason of the payment when due and application in accordance with the Resolution of Sinking Fund Installments payable before such dates, plus the unsatisfied balance of any Sinking Fund Installments due on any certain future date for Obligations of such Series, together with such redemption premiums, if any, applicable on any such future

date, and (b) with respect to any Parity Debt, the amount due thereunder on the dates and in the amounts established in accordance with the terms and provisions of the Resolution as a principal component of such Parity Debt payable on a parity with the Obligations.

Principal Office of the Trustee means the designated corporate trust office of the Trustee.

Proceeds Account means the applicable Account by that name established in the Proceeds Fund for a Series of Obligations pursuant to the Resolution.

Proceeds Fund means the Fund by that name established by the Resolution.

Purchase Price means, with respect to any Obligation, 100% of the principal amount thereof plus accrued interest, if any, plus in the case of an Obligation subject to mandatory tender for purchase on a date when such Obligation is also subject to optional redemption at a premium, an amount equal to the premium that would be payable on such Obligation if redeemed on such date.

Put Obligations means Obligations which by their terms may be tendered at the option of the Owner thereof, or are subject to a mandatory tender other than at the election of the Authority, for payment or purchase prior to the stated maturity or redemption date thereof.

Qualified Swap means, to the extent from time to time permitted by law, with respect to Obligations, any financial arrangement (i) which is entered into by the Authority with an entity that is a Qualified Swap Provider at the time the arrangement is entered into, (ii) which is a cap, floor or collar; forward rate; future rate; swap (such swap may be based on an amount equal either to the principal amount of such Obligations of the Authority as may be designated or a notional principal amount relating to all or a portion of the principal amount of such Obligations); asset, index, price or market-linked transaction or agreement; other exchange or rate protection transaction agreement; other similar transaction (however designated); or any combination thereof; or any option with respect thereto, in each case executed by the Authority for the purpose of moderating interest rate fluctuations, reducing debt service costs or creating either fixed interest rate Obligations or Variable Interest Rate Obligations on a synthetic basis or otherwise, and (iii) which has been designated in writing to the Trustee by an Authorized Officer as a Qualified Swap with respect to such Obligations.

Qualified Swap Provider means, subject to any applicable restrictions contained in the Compact, an entity whose senior long term obligations, other senior unsecured long term obligations, financial program rating, counterparty rating, or claims paying ability, or whose payment obligations under a Qualified Swap are guaranteed by an entity whose senior long term debt obligations, other senior unsecured long term obligations, financial program rating, counterparty rating, or claims paying ability, are rated either at least as high as (i) the third highest Rating Category of each Rating Agency then maintaining a rating for the Qualified Swap Provider or (ii) any such lower Rating Categories which each such Rating Agency indicates in writing to the Authority and the Trustee will not, by itself, result in a reduction or withdrawal of its rating on the Outstanding Obligations subject to such Qualified Swap that is in effect prior to entering into such Qualified Swap.

Quarter means during each calendar year, as applicable, the following, respective periods of time: from January 1 through March 31; from April 1 through June 30; from July 1 through September 30; and from October 1 through December 31.

Rating Agency means each nationally recognized statistical rating organization then maintaining a rating on the Obligations at the request of the Authority.

Rating Category means one of the generic rating categories of any Rating Agency without regard to any refinement or gradation of such rating by a numerical modifier or otherwise.

Rating Confirmation means evidence that no rating then in effect from a Rating Agency will be withdrawn or reduced solely as the result of an action to be taken hereunder; provided, however, that no action requiring Rating Confirmation shall be undertaken unless at least one Rating Agency at that time maintains a rating on Obligations.

Record Date, except as otherwise provided by Supplemental Resolution or a certificate of an Authorized Officer, means the last Business Day preceding a payment date or other date on which an action is to be taken.

Redemption Price means, with respect to any Obligation, 100% of the principal amount thereof plus the applicable premium, if any, payable upon the redemption thereof pursuant to the Resolution.

Refunding Obligations means all Obligations authenticated and delivered on original issuance pursuant to the Resolution.

Registrar means any registrar for the Obligations of any Series and its successor or successors and any other Person which may at any time be substituted in its place pursuant to the Resolution.

Reimbursement Obligation has the meaning provided in the Resolution.

Resolution means the Gross Revenue Bond Resolution, as from time to time amended or supplemented by Supplemental Resolutions in accordance with the terms thereof.

Responsible Officer means any officer assigned to the corporate trust office of the Trustee, or any other officer of the Trustee customarily performing functions similar to those performed by any of such officers and who has direct responsibility for the administration of the Resolution, and also, with respect to a particular matter, any other officer, to whom such matter is referred because of such officer's knowledge of and familiarity with the particular subject.

Revenue Anticipation Notes means any note or notes (a) the proceeds of which are used for working capital or operating costs of the Transit System, and issued by the Authority (i) having a final maturity date of not more than eighteen months from the date of issuance, (ii) authorized by the Authority only in anticipation of the receipt of (x) operating subsidies or (y) reimbursements relating to operating costs of the Transit System which are anticipated to be sufficient to pay in full the principal of and any net interest, on such Revenue Anticipation Notes, (iii) secured in whole or in part by a lien prior to the lien and pledge of the Resolution on such operating subsidies or such reimbursements and (iv) meeting any other requirements of the Resolution.

Revenue Fund means the Revenue Fund by that name established by the Resolution.

Revenues means all (i) all fares, rates, fees, charges, rents, revenues and other income received by the Authority from the operation of the Transit System and amounts paid to the Authority by the Federal Government or any Participating Jurisdiction on account of fares or service rendered by the Authority, (ii) proceeds of any business interruption insurance relating to the Transit System, and (iii) interest received on any moneys or securities, other than the Capital Contributions, of the Authority; provided, until the same is paid to the Authority for services of the Transit System. Revenues shall not include amounts collected by the Authority in respect of fare media that the owners thereof can apply to pay to Persons other than the Authority for goods or services.

Securities Depository means a recognized securities depository selected by the Authority to maintain a book-entry system in respect to all or any portion of a Series of Obligations (including, as appropriate, any nominee thereof), and shall include any substitute for or successor to the Securities Depository initially acting as Securities Depository.

Separately Financed Project means any project described in the Resolution.

Series means all of the Obligations delivered on original issuance pursuant to a single Supplemental Resolution and denominated therein a single series, and any Obligations thereafter delivered in lieu of or in substitution therefor pursuant to the terms and provisions of the Resolution, regardless of variations in maturity, interest rate, or other provisions.

Series 1993 Bond or Bonds means the \$334,015,000 Gross Revenue Transit Refunding Bonds, Series 1993 of the Authority at any time outstanding under the 1993 Bond Resolution.

Sinking Fund Installment means, as of a particular date, any Sinking Fund Installment established pursuant to the Resolution.

Stable and Reliable Funding Sources means the amounts paid by the Participating Jurisdictions to the Authority in respect of the Transit System's operating costs and debt service, which amounts are paid by the Participating Jurisdictions under the following legislative enactments: D.C. Code §§ 1-2451 et seq.; Va. Code §§ 15.1-37.3:5, 58.1-638 and 58.1-1720; Arlington County Code § 27-15; Fairfax County Code §§ 4-5-4; Md. Transportation Code Ann. § 10-205; Montgomery County Code § 52-13; Code of Prince George's County § 10-255; Alexandria City Ordinance No. 2707, dated June 22, 1982; Fairfax City Ordinance No. 1982-23, dated June 29, 1982; and City of Falls Church Ordinance dated May 24, 1982; and shall include the funds paid by any Participating Jurisdiction for such purposes in-lieu-of such amounts.

Subaccount or Subaccounts means each subaccount or all of the subaccounts established in or pursuant to the Resolution.

Subordinated Contract Obligation means any payment obligation (other than a payment obligation constituting Parity Debt or Subordinated Indebtedness) arising under (a) any Credit Facility which has been designated as constituting a "Subordinated Contract Obligation" in a certificate of an Authorized Officer delivered to the Trustee, (b) any Qualified Swap or portion thereof which has been designated as constituting a "Subordinated Contract Obligation" in a certificate of an Authorized Officer delivered to the Trustee; and (c) any other contract, agreement or other obligation of the Authority designated as constituting a "Subordinated Contract Obligation" in a certificate of an Authorized Officer delivered to the Trustee. Each Subordinated Contract Obligation shall be payable and secured in a manner permitted by the Resolution, and any lien on and pledge of any portion of the Trust Estate securing Subordinated Contract Obligations shall be junior and inferior to the lien on and pledge of the Trust Estate herein created for the payment of the Obligations and Parity Debt.

Subordinated Indebtedness means any bond, note or other indebtedness authorized by Supplemental Resolution or other resolution of the Authority and designated as constituting "Subordinated Indebtedness" in a certificate of an Authorized Officer delivered to the Trustee, which shall be payable and secured in a manner permitted by the Resolution, and any lien on and pledge of any portion of the Trust Estate securing Subordinated Indebtedness shall be junior and inferior to the lien on and pledge of the Trust Estate herein created for the payment of the Obligations and Parity Debt.

Supplemental Resolution means any resolution supplemental to or amendatory of the Resolution adopted by the Authority in accordance with the Resolution and, except as the context may otherwise require, including any related Certificate of Determination.

Taxable Obligations means any Obligations which are not Tax-Exempt Obligations.

Tax-Exempt Obligations means any Obligations the interest on which is intended by the Authority to be generally excluded from gross income for federal income tax purposes and which are designated as Tax-Exempt Obligations in the Supplemental Resolution authorizing such Obligations.

Transit System means the facilities, including all real and personal property and all rights, interests, property and appurtenances incidental thereto or used or useful in connection therewith, constructed or acquired by the Authority as part of its regional rail and bus transit system, but excluding Air Rights, Parking Facilities and Joint Development Projects.

Trust Estate means, collectively, but subject to the terms and provisions of the Resolution, all right, title and interest of the Authority in:

- (1) all Gross Revenues;
- (2) the proceeds of the sale of the Obligations;
- (3) all Funds, Accounts and Subaccounts established by the Resolution (other than funds, and any accounts and subaccounts therein, established pursuant to a Supplemental Resolution in connection with Variable Interest Rate Obligations, Put Obligations, Parity Debt, Subordinated Indebtedness or Subordinated Contract Obligations; provided however, that such funds, accounts and subaccounts are specifically excepted from the Trust Estate by the Supplemental Resolution authorizing such Variable Interest Rate Obligations, Put Obligations, Parity Debt, Subordinated Indebtedness or Subordinated Contract Obligations), including the investments, if any, thereof;
- (4) all funds, moneys and securities and any and all other rights and interests in property, whether tangible or intangible, from time to time hereafter by delivery or by writing of any kind conveyed, mortgaged, pledged, assigned or transferred as and for additional security under the Resolution for the Obligations by the Authority, or by anyone on its behalf, or with its written consent, to the Trustee, which is hereby authorized to receive any and all such property at any and all times, and to hold and apply the same subject to the terms hereof

Trustee means the Bank of New York Mellon and its successor or successors and any other Person which may at any time be substituted in its place pursuant to the Resolution.

Valuation Date means (i) with respect to any Capital Appreciation Obligations the date or dates set forth in the Supplemental Resolution authorizing such Obligations on which specific Accreted Values are assigned to the Capital Appreciation Obligations and (ii) with respect to any Deferred Income Obligations, the date or dates on or prior to the Interest Commencement Date set forth in the Supplemental Resolution authorizing such Obligations on which specific Appreciated Values are assigned to the Deferred Income Obligations.

Variable Interest Rate means a variable interest rate to be borne by any Obligation. The method of computing such variable interest rate shall be specified in the Supplemental Resolution authorizing such Series of Obligations.

Variable Interest Rate Obligations means Obligations which bear a Variable Interest Rate.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX B

**AUDITED FINANCIAL STATEMENTS FOR THE
FISCAL YEAR ENDED JUNE 30, 2008**

[THIS PAGE INTENTIONALLY LEFT BLANK]

WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY

Basic Financial Statements

Years ended June 30, 2008 and 2007 with Independent Auditors' Report

[THIS PAGE INTENTIONALLY LEFT BLANK]

Independent Auditor's Report

To the Board of Directors
Washington Metropolitan Area Transit Authority

We have audited the accompanying statement of net assets, and the related statements of revenues, expenses and changes in net assets, and cash flows of Washington Metropolitan Area Transit Authority (the Authority) as of and for the year ended June 30, 2008. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The prior year comparative information has been derived from the Authority's 2007 financial statements. Those financial statements were audited by other auditors whose report dated September 28, 2007, expressed an unqualified opinion.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2008, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 13 to the financial statements, subsequent to June 30, 2008, the Authority's tax leases have been impacted by events in the financial markets. This subsequent event and its effects are not reflected in the accompanying financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2008 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 12 and the Schedules of Funding Progress - Pension Plan and Postemployment Benefits Other than Pensions are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clifton Henderson LLP

Calverton, Maryland
October 28, 2008

Management's Discussion and Analysis

As management of the Washington Metropolitan Area Transit Authority (Authority), we offer readers of the basic financial statements this overview and analysis of the financial activities of the Authority as of June 30, 2008, 2007 and 2006 and for the years ended June 30, 2008, 2007 and 2006. This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities and to identify any noteworthy changes in financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements taken as a whole.

Fiscal Year 2008 Financial Highlights

- Net assets decreased by \$231.1 million or 2.8 percent due to increased capital borrowing and a decrease in the investment portfolio in support of the capital improvement program (CIP).
- Capital assets before depreciation increased by \$418.2 million, largely attributable to new rail car purchases, facilities enhancements, and rail rehabilitation. Capital contributions were \$240.5 million.
- Current liabilities increased by \$202.0 million or 26.3 percent, largely due to the increase in the usage of commercial paper required to support the capital improvements program and an outstanding line of credit balance.
- Operating revenues increased by \$65.5 million or 10.5 percent, due to an increase in ridership, and a mid-year fare increase. Special capital region events such as sporting events, the Papal Mass, as well as an increase in gas prices all contributed to the increase in revenue and ridership.
- Operating expenses increased by \$197.0 million or 12.3 percent, due primarily to an increase in certain non-cash expenses, including an increase in Postemployment Benefits Other than Pensions (OPEB) due to the adoption of Governmental Accounting Standards Board (GASB) Statement No. 45; a prepaid pension cost adjustment; and depreciation and amortization. Additionally, the upsurge of the Authority's paratransit service, propulsion power usage and rising fuel costs also contributed to this increase in expenses.

Overview of the Basic Financial Statements

This required annual report consists of three parts: Management's Discussion and Analysis, Basic Financial Statements and Required Supplementary Information. The basic financial statements also include notes that provide in more detail some of the information in the basic financial statements.

Basic Financial Statements. The Authority's basic financial statements are prepared in conformity with generally accepted accounting principles in the United States of America (GAAP) as applied to an enterprise using the accrual basis of accounting. Under this basis, revenues are recognized in the period in which they are earned, and expenses are recognized in the period in which they are incurred.

The Authority's basic financial statements are the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows.

The Statements of Net Assets report the Authority's net assets. Net assets, the difference between assets and liabilities, are one way to measure the financial position of the Authority. This is only one measure, however, and the reader should consider other indicators, such as the rate of growth of operating subsidies, passenger fare levels, ridership, general economic conditions in the metropolitan area and the age and condition of capital assets used by the Authority.

The Statements of Revenues, Expenses and Changes in Net Assets report all of the revenues earned and expenses incurred during the reporting periods.

The Statement of Cash Flows provide information on cash receipts and cash payments during the reporting periods.

The basic financial statements can be found on pages 13-17 of this report.

Management's Discussion and Analysis

Overview of the Basic Financial Statements (Continued)

Notes to the Basic Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 18-48 of this report.

Required Supplementary Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Authority's progress in funding its obligation to provide pension benefits and OPEB to its employees. Required supplementary information can be found on pages 49-50 of this report.

Financial Analysis

Statements of Net Assets

As noted earlier, net assets may serve over time as an indicator of the Authority's financial position. This is only one measure; however, the reader should consider other indicators, such as the age and condition of the Authority's three-decade system, as well as its need for increasing operating subsidies and ridership levels. The following table provides an overview of the Authority's financial position for the years ended June 30, 2008, 2007 and 2006:

Table 1
Condensed Statements of Net Assets
June 30, 2008, 2007 and 2006
(in thousands)

	2008	2007	2006
Current and other assets	\$2,175,759	\$2,270,758	\$ 2,351,726
Capital assets	8,253,361	8,234,163	8,136,494
Total assets	<u>10,429,120</u>	<u>10,504,921</u>	<u>10,488,220</u>
Current liabilities	969,625	767,616	552,638
Noncurrent liabilities	1,544,510	1,591,253	1,651,760
Total liabilities	<u>2,514,135</u>	<u>2,358,869</u>	<u>2,204,398</u>
Net assets:			
Investment in capital assets, net of related debt	7,709,648	7,880,168	7,904,568
Restricted	205,337	265,884	379,254
Total net assets	<u>\$ 7,914,985</u>	<u>\$ 8,146,052</u>	<u>\$ 8,283,822</u>

Current Year

Net assets decreased by \$231.1 million or 2.8 percent due to increased capital borrowing and a decrease in the investment portfolio in support of the capital improvement program (CIP).

Management's Discussion and Analysis

Statement of Net Assets (Continued)

Current Year (Continued)

The largest portion of the Authority's net assets, \$7.7 billion or 97.4 percent, reflects its investment in capital assets (e.g., land, buildings, transit facilities and revenue vehicles), less any related debt used to acquire those assets. The Authority uses these capital assets to provide public transportation services for the metropolitan area. Consequently, these assets are not available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the Authority's net assets, \$205.3 million or 2.6 percent, represents resources that are subject to external restrictions set by the governing jurisdictions. Restricted net assets include advance contributions for future construction, reimbursable projects and other targeted programs.

Capital assets before depreciation increased by \$418.2 million, largely attributable to new rail car purchases, facilities enhancements, and rail rehabilitation. Capital contributions were \$240.5 million.

Current liabilities increased by \$202.0 million or 26.3 percent, largely due to increase in usage of commercial paper required to support the capital improvements program and an outstanding line of credit balance.

Prior Year

Net assets decreased by \$137.7 million or 1.7 percent during the current fiscal year, due to an increase in spending for capital expenditures and the method of jurisdictional funding for such capital expenditures.

The largest portion of the Authority's net assets, \$7.9 billion or 96.7 percent, reflects its investment in capital assets (e.g., land, buildings, transit facilities and revenue vehicles), less any related debt used to acquire those assets. The Authority uses these capital assets to provide public transportation services for the metropolitan area. Consequently, these assets are not available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the Authority's net assets, \$265.9 million or 3.3 percent, represents resources that are subject to external restrictions set by the governing jurisdictions. Restricted net assets include advance contributions for future construction, reimbursable projects and other targeted programs.

Capital assets increased by \$97.7 million or 1.2 percent, largely attributable to bus purchases, facilities enhancements and rail rehabilitation.

Current liabilities increased by \$215.0 million or 38.9 percent, mainly due to the issuance of commercial paper notes for the purpose of funding Metro Matters.

Noncurrent liabilities decreased by \$60.5 million or 3.7 percent, largely due to bond repayments and decreases in outstanding lease agreement obligations.

Management's Discussion and Analysis

Statements of Revenues, Expenses, and Changes in Net Assets

The following financial information was derived from the Statements of Revenues, Expenses, and Changes in Net Assets and reflects how the Authority's net assets changed during the fiscal year:

Table 2
Statements of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2008, 2007 and 2006
(in thousands)

	2008	2007	2006
OPERATING REVENUES			
Passenger revenue	\$ 625,607	\$ 563,356	\$ 555,262
Charter and contract revenue	8,047	6,767	3,909
Advertising revenue	35,296	33,000	30,000
Rental revenue	20,451	20,777	17,108
Other revenue	1,171	1,192	1,199
Total operating revenues	<u>690,572</u>	<u>625,092</u>	<u>607,478</u>
NONOPERATING REVENUES			
Investment income	5,068	4,718	3,981
Interest income from leasing transactions	80,802	87,874	88,548
Other	16,328	12,281	9,413
Total nonoperating revenues	<u>102,198</u>	<u>104,873</u>	<u>101,942</u>
Total revenues	<u>792,770</u>	<u>729,965</u>	<u>709,420</u>
OPERATING EXPENSES			
Labor	571,589	573,514	536,439
Fringe benefits	415,453	302,416	271,577
Services	143,816	117,867	102,081
Materials and supplies	148,467	144,584	123,439
Utilities	84,725	72,286	67,010
Casualty and liability costs	23,445	28,223	44,688
Leases and rentals	2,349	2,925	3,999
Miscellaneous	1,211	3,452	5,205
Depreciation and amortization	412,341	361,141	306,955
Total operating expenses	<u>1,803,396</u>	<u>1,606,408</u>	<u>1,461,393</u>
NONOPERATING EXPENSES			
Interest expense	90,335	99,712	98,526
Total nonoperating expenses	<u>90,335</u>	<u>99,712</u>	<u>98,526</u>
Total expenses	<u>1,893,731</u>	<u>1,706,120</u>	<u>1,559,919</u>
Loss before capital grants/subsidies	(1,100,961)	(976,155)	(850,499)
Jurisdictional subsidies:			
Operations	610,001	606,031	531,618
Interest	7,654	8,983	11,926
Capital contributions	252,239	223,371	471,037
Change in net assets	<u>(231,067)</u>	<u>(137,770)</u>	<u>164,082</u>
Net assets, beginning of year	<u>8,146,052</u>	<u>8,283,822</u>	<u>8,119,740</u>
Net assets, ending of year	<u>\$ 7,914,985</u>	<u>\$ 8,146,052</u>	<u>\$ 8,283,822</u>

Management's Discussion and Analysis

Statements of Revenues, Expenses, and Changes in Net Assets (Continued)

Revenues

Current Year

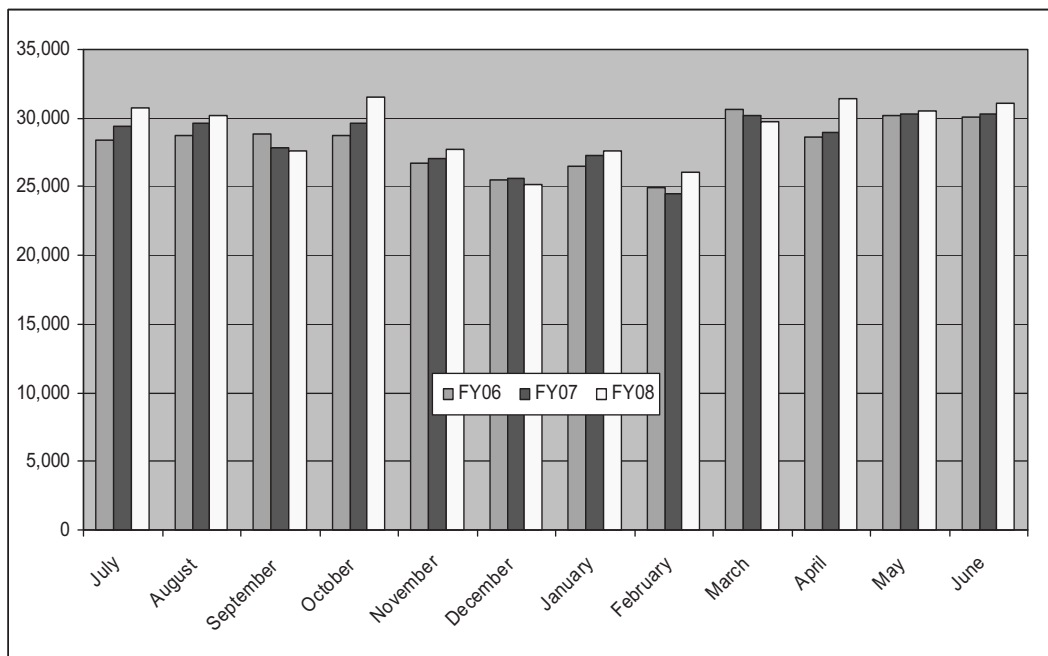
Total revenues for Fiscal Year 2008 totaled \$792.8 million. Operating revenues, which include passenger revenue, totaled \$690.6 million, an increase of \$65.5 million or 10.5 percent as described below.

Passenger revenue, a significant portion of the Authority's operating revenues, increased by \$62.3 million or 11.1 percent. The increase can be attributed to a mid-year fare increase as well as higher ridership, which reached record levels in Fiscal Year 2008.

Metrorail ridership climbed to a record level of over 215.0 million annual trips for an increase of 3.9 percent. Metrobus ridership grew to 132.8 million annual trips resulting in an increase of 1.0 percent. Sporting events, such as the Washington Wizards and the Washington Redskins home games, and national capital events, such as the Independence Day Celebration, the Cherry Blossom Festival, and the Papal Mass contributed to the increase in passenger revenue and ridership. Additionally, record gas prices also contributed to the increase in annual trips.

A strong regional economy and the Authority's ability to attract and retain riders contributed to higher transit usage. Passenger trips for the last three years are shown below:

Passenger Trips
(in thousands)



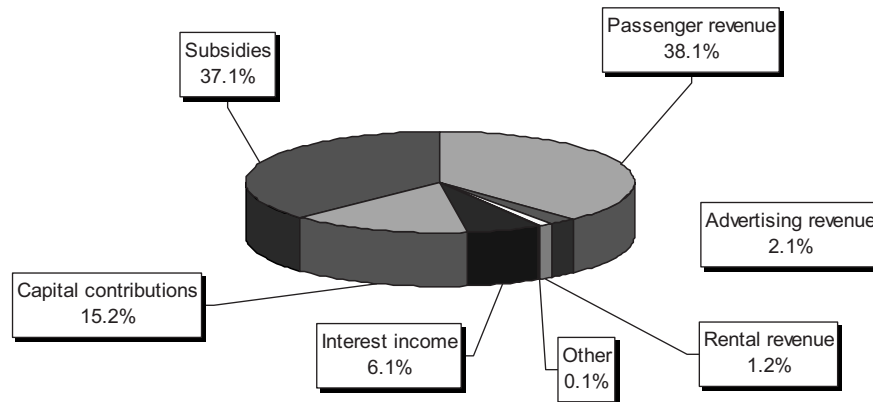
Management's Discussion and Analysis

Statements of Revenues, Expenses, and Changes in Net Assets (Continued)

Revenues (Continued)

Charter and contract revenue for rail increased by \$1.3 million or 18.9 percent, primarily due to new reimbursable projects such as the yellow line to Fort Totten rail service extension, and the red line Grosvenor Turnback.

Fiscal Year 2008 Revenues



Prior Year

Total revenues for Fiscal Year 2007 totaled \$730.0 million. Operating revenues, which include passenger revenue, totaled \$625.1 million, an increase of \$17.6 million or 2.9 percent as described below.

Passenger revenue, a significant portion of the Authority's operating revenues, increased by \$8.1 million or 1.5 percent. The increase can be attributed to higher ridership, which reached record levels in Fiscal Year 2007.

Metrорail ridership climbed to a record level of over 207 million annual trips for an increase of 1.1 percent. Metrobus ridership grew to 131.5 million annual trips resulting in an increase of 0.5 percent. Sporting events, such as the Washington Redskins and the Washington Nationals home games, and national capital events, such as the Independence Day Celebration and the Cherry Blossom Festival, contributed to the increase in passenger revenue and ridership. Additionally, record gas prices and construction or closure of several main roadways leading into the District of Columbia also attributed to the increase in annual trips.

Charter and contract revenue for bus increased by \$2.9 million or 73.1 percent, primarily due to new contracts for the DC Circulator, the yellow line to Fort Totten rail service extension, the red line Grosvenor Turnback and the Metro Extra 79 Georgia Avenue bus route.

Capital contributions to the Authority decreased by \$247.7 million or 52.6 percent, primarily due to a decrease in funding for transit construction projects.

Management's Discussion and Analysis

Statements of Revenues, Expenses, and Changes in Net Assets (Continued)

Expenses

Current Year

Total expenses increased by \$187.6 million or 11.0 percent to \$1.9 billion in Fiscal Year 2008 as compared to \$1.7 billion for Fiscal Year 2007. A review of significant changes in operating expenses is described below.

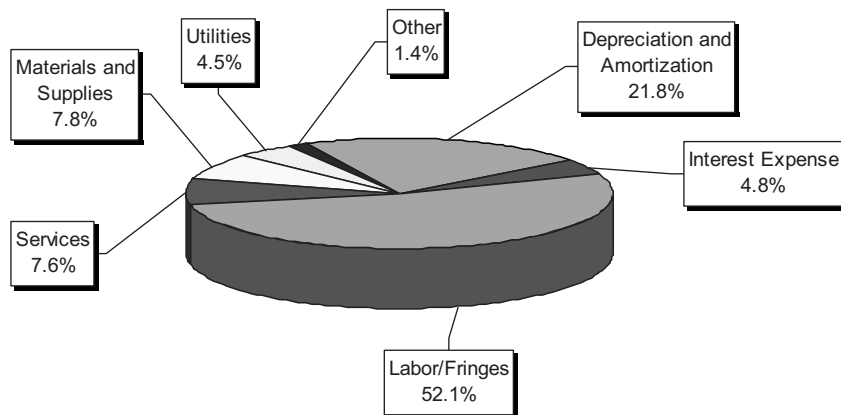
Salaries and benefits increased by \$111.1 million or 12.7 percent. Salaries and benefits were driven by increased workers compensation claims, pension plan contributions, including a prepaid pension cost adjustment, and an increase in OPEB as a result of the adoption of GASB Statement 45.

Services increased by \$25.9 million or 22.0 percent. Service expenses were \$143.8 million as compared to Fiscal Year 2007 with costs of \$117.9 million. The increase in costs was primarily driven by the increased usage of MetroAccess and transportation consultation services.

Materials and supplies increased by \$3.9 million or 2.7 percent. The largest rise in expenses for materials and supplies can be attributed to purchases of bus tires and write-offs of obsolete inventory. Additionally, increased outlays for pc equipment, propulsion parts and brake parts also helped drive expenses.

Utilities increased by \$12.4 million or 17.2 percent, due to increased propulsion usage to operate eight-car passenger trains and higher natural gas costs.

Fiscal Year 2008 Expenses



Management's Discussion and Analysis

Statements of Revenues, Expenses, and Changes in Net Assets (Continued)

Expenses (Continued)

Prior Year

Total expenses increased by \$131.7 million or 8.4 percent to \$1.7 billion in Fiscal Year 2007 as compared to \$1.6 billion for Fiscal Year 2006. A review of significant changes in operating expenses is described below.

Salaries and benefits increased by \$67.9 million or 8.4 percent. Salaries and benefits were driven by contractual wage increases and increased levels of revenue vehicle maintenance and system enhancements. Additional Transit Police were added for general safety and security as well as for Washington sporting events, national capital events and festivals.

Services increased by \$15.8 million or 15.5 percent. Service Expenses were \$117.9 million as compared to Fiscal Year 2006 with costs of \$102.1 million. The increase in costs was primarily driven by the increased usage of MetroAccess, SmartCard service and transportation consultation services.

Materials and supplies increased by \$21.1 million or 17.1 percent. The steadily increasing cost for fuel accounted for the largest portion of this increase.

Utilities increased by \$5.3 million or 7.9 percent, due to increased propulsion usage to operate eight-car passenger trains and higher natural gas costs.

Capital Assets and Debt Administration

The following table shows the capital assets of the Authority:

Table 3
Schedules of Capital Assets
June 30, 2008, 2007 and 2006
(in thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Land	\$ 448,586	\$ 431,291	\$ 431,291
Buildings and improvements	611,867	453,633	448,921
Transit facilities	7,365,743	7,431,297	7,126,154
Revenue vehicles	2,212,266	1,933,396	1,745,241
Other equipment	1,832,165	1,296,290	1,205,935
Construction in progress	322,826	871,245	1,033,335
Intangible costs	1,199,067	1,157,217	1,157,217
	<u>13,992,520</u>	<u>13,574,369</u>	<u>13,148,094</u>
Less accumulated depreciation and amortization	5,739,159	5,340,206	5,011,600
Net capital assets	<u>\$ 8,253,361</u>	<u>\$ 8,234,163</u>	<u>\$ 8,136,494</u>

Management's Discussion and Analysis

Capital Assets and Debt Administration (Continued)

Capital Assets

Current Year

Net capital assets increased by \$19.2 million or 0.2 percent, as described below.

Revenue vehicles increased by \$278.9 million or 14.4 percent, as a result of placing new rail cars into service. In addition, costs associated with railcar rehabilitation also contributed to the increase.

Construction in progress decreased by \$548.4 million or 62.9 percent, as a result of transferring a number of completed projects to transit facilities and equipment.

Additional information on the Authority's capital assets can be found in note 5 on pages 27-28 of this report.

Prior Year

Net capital assets increased by \$97.7 million or 1.2 percent, as described below.

Revenue vehicles increased by \$188.1 million or 10.8 percent, as a result of placing into service rail cars and clean natural gas transportation vehicles. In addition, costs associated with railcar rehabilitation also contributed to the increase.

Construction in progress decreased by \$162.1 million or 15.7 percent, as a result of transferring a number of completed projects to transit facilities and equipment.

Future Capital Plans

During Fiscal Year 2008, Metro Matters funds were used for the maintenance of the Authority's infrastructure. Maintenance includes such work as replacing deteriorated or damaged track, repairing cracks and leaks in stations and tunnels, replacing obsolete communications and train control equipment, and performing general building maintenance at many WMATA facilities.

The Metro Matters Rail Cars and Facilities program will allow Metrorail to have an estimated fifty percent of its trains operating in an eight-car configuration during peak hour. To achieve these goals, WMATA is procuring 122 rail cars (6000-series), and expanding and making other necessary improvements to rail yards and maintenance facilities. By December 2008, eight-car train operations are expected to achieve a 50 percent service rate.

Bonds and Other Debt

The Authority's total outstanding bond debt as of June 30, 2008 and 2007 was \$153.1 million and \$178.9 million, respectively. By insuring its bonds, the Authority has obtained a AAA rating from Standard and Poor's for existing issuances. The bonds' uninsured rating is A minus.

The Authority's total outstanding Commercial Paper Notes, Series A debt as of June 30, 2008 was \$330 million.

Management's Discussion and Analysis

Bonds and Other Debt (Continued)

Additional information on the Authority's bonds and other debt can be found in note 6 on pages 29-31 of this report.

Lease Obligations

Information on these transactions can be found in note 11 on pages 45-46 of this report.

Economic Factors

Employment in the Washington, D.C. metropolitan area was stable throughout the Fiscal Year performing above the national average. According to the U.S. Department of Labor, Bureau of Labor Statistics, the employed labor force was 2.9 million at June 2008, an increase of 25,000 jobs or 0.8 percent. The region benefits from a low unemployment rate of 3.9 percent at June 2008. This compares favorably with the national unemployment rate of 6.1 percent at June 2008. The region is the seat of the federal government, which accounts for more than 32.0 percent of the region's economy, according to George Mason University Center for Regional Analysis.

Requests for Information

This financial report is designed to provide interested readers with a general overview of the Authority's finances. Questions concerning this report or requests for additional financial information should be directed to the Office of Accounting, Washington Metropolitan Area Transit Authority, 600 Fifth St., NW, Washington, D.C. 20001, telephone number (202) 962-1605.

Statements of Net Assets

June 30, 2008 and 2007

(in thousands)

	<u>2008</u>	<u>2007</u>
ASSETS		
Current assets:		
Cash and deposits (note 3)	\$ 13,670	\$ 9,576
Investments (note 3)	232,481	280,872
Contributions receivable (note 4)	90,611	102,443
Accounts receivable and other assets (net of uncollectible accounts of \$.06 million in 2008 and \$.05 million in 2007)	52,814	26,676
Current portion of prefunded lease commitments (note 11)	162,925	132,264
Materials and supplies inventory (net of allowance of \$10,000 in 2008 and \$8,441 in 2007)	88,416	82,603
Total current assets	<u>640,917</u>	<u>634,434</u>
Noncurrent assets:		
Long-term portion of contributions receivable (note 4)	149,506	138,727
Net pension asset (note 8)	172,651	202,789
Prefunded lease commitments (notes 11 and 12)	1,212,685	1,294,808
Capital assets (note 5):		
Construction in progress	322,826	871,245
Land	448,586	431,291
Transit facilities and equipment, net	7,481,949	6,931,627
Total noncurrent assets	<u>9,788,203</u>	<u>9,870,487</u>
Total assets	<u>10,429,120</u>	<u>10,504,921</u>

The accompanying notes are an integral part of these basic financial statements.

Statements of Net Assets (Continued)

June 30, 2008 and 2007

(in thousands)

	<u>2008</u>	<u>2007</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	207,168	189,227
Accrued salaries and benefits	80,996	77,920
Accrued interest payable	4,628	5,177
Deferred revenue	69,209	77,881
Current portion of estimated liability for injury and damage claims (notes 10 and 12)	39,220	34,394
Current portion of retainage on contracts (note 12)	1,847	4,508
Current portion of deferred lease revenue (note 12)	5,469	5,469
Current portion of bonds payable and other debt (notes 6 and 12)	398,163	240,776
Current portion of obligations under lease agreements (notes 11 and 12)	162,925	132,264
Total current liabilities	<u>969,625</u>	<u>767,616</u>
Noncurrent liabilities:		
Estimated liability for injury and damage claims (notes 10 and 12)	72,305	62,870
Retainage on contracts (note 12)	30,292	29,729
Deferred lease revenue (note 12)	45,018	50,720
Bonds payable and other debt (notes 6 and 12)	124,963	153,126
Obligations under lease agreements (notes 11 and 12)	1,212,685	1,294,808
Unfunded OPEB Liability	59,247	-
Total noncurrent liabilities	<u>1,544,510</u>	<u>1,591,253</u>
Total liabilities	<u>2,514,135</u>	<u>2,358,869</u>
Commitments and contingencies (note 8, 9, 10 and 11)		
NET ASSETS		
Invested in capital assets, net of related debt	7,709,648	7,880,168
Restricted	205,337	265,884
Total net assets	<u>\$ 7,914,985</u>	<u>\$ 8,146,052</u>

The accompanying notes are an integral part of the basic financial statements.

Statements of Revenues, Expenses, and Changes in Net Assets

For the Years Ended June 30, 2008 and 2007

(in thousands)

	2008	2007
OPERATING REVENUES		
Passenger revenue	\$ 625,607	\$ 563,356
Charter and contract revenue	8,047	6,767
Advertising revenue	35,296	33,000
Rental revenue	20,451	20,777
Other revenue	1,171	1,192
Total operating revenues	<u>690,572</u>	<u>625,092</u>
OPERATING EXPENSES		
Labor	571,589	573,514
Fringe benefits	415,453	302,416
Services	143,816	117,867
Materials and supplies	148,467	144,584
Utilities	84,725	72,286
Casualty and liability costs	23,445	28,223
Leases and rentals	2,349	2,925
Miscellaneous	1,211	3,452
Depreciation and amortization	412,341	361,141
Total operating expenses	<u>1,803,396</u>	<u>1,606,408</u>
Operating loss	<u>(1,112,824)</u>	<u>(981,316)</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	5,068	4,718
Interest income from leasing transactions	80,802	87,874
Interest expense from leasing transactions	(80,802)	(87,874)
Interest expense	(9,533)	(11,838)
Other	16,328	12,281
Jurisdiction subsidies:		
Operations	610,001	606,031
Interest	7,654	8,983
Total nonoperating revenues (expenses), net	<u>629,518</u>	<u>620,175</u>
Loss before capital contributions	<u>(483,306)</u>	<u>(361,141)</u>
Revenue from capital contributions	<u>252,239</u>	<u>223,371</u>
Change in net assets	<u>(231,067)</u>	<u>(137,770)</u>
Total net assets, beginning of year	<u>8,146,052</u>	<u>8,283,822</u>
Total net assets, ending of year	<u>\$ 7,914,985</u>	<u>\$ 8,146,052</u>

The accompanying notes are an integral part of these basic financial statements.

Statement of Cash Flows

For the Years Ended June 30, 2008 and 2007

(in thousands)

	2008	2007
CASH FLOW FROM OPERATING ACTIVITIES		
Cash received from operations	\$ 655,763	\$ 628,206
Cash paid to suppliers	(370,539)	(352,578)
Cash paid to employees	(894,580)	(866,453)
Cash paid for operating claims	(9,185)	(16,132)
Net cash used in operating activities	(618,541)	(606,957)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from jurisdictional subsidies	623,299	547,503
Net cash provided by noncapital financing activities	623,299	547,503
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Construction of capital assets	(431,952)	(459,212)
Capital contributions	233,953	202,400
Interest paid on bonds and other debt	(10,082)	(11,558)
Principal paid on bonds and other debt	(1,186,825)	(548,865)
Proceeds from commercial paper	1,316,800	740,000
Interest subsidy for revenue bonds	7,654	8,983
Net cash used in capital and related financing activities	(70,452)	(68,252)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturities of investments	356,875	368,881
Purchases of investments	(307,513)	(254,630)
Interest received from operational investments	20,426	16,815
Net cash provided by investing activities	69,788	131,066
Net change in cash and deposits	4,094	2,114
Cash and deposits, beginning of year	9,576	7,462
Cash and deposits, end of year	\$ 13,670	\$ 9,576

The accompanying notes are an integral part of these basic financial statements.

Statement of Cash Flows (Continued)

For the Years Ended June 30, 2008 and 2007

(in thousands)

	2008	2007
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$(1,112,824)	\$ (981,316)
Adjustments to reconcile operating loss to net cash used in Operating activities:		
Depreciation and amortization expense	412,341	361,141
On behalf of payments by jurisdictions	-	16,392
(Increase) decrease in accounts receivables (net) and other assets	(26,138)	(5,547)
(Increase) decrease in materials and supplies inventory	(5,813)	(2,858)
(Increase) decrease in net pension asset	30,138	(16,392)
Increase (decrease) in accounts payable and accrued expenses	17,941	(14,400)
Increase (decrease) in accrued salaries and benefits	3,076	9,477
Increase (decrease) in estimated liability for injury and damage claims	14,261	12,092
Increase (decrease) in deferred revenue	(8,671)	8,661
Increase (decrease) in retainage on contracts	(2,099)	5,793
Increase (decrease) in OPEB obligation	59,247	-
Total adjustments	494,283	374,359
Net cash used in operating activities	<u>\$ (618,541)</u>	<u>\$ (606,957)</u>
Noncash operating, investing, capital and financing activities:		
Increase (decrease) in fair value of investments	\$ 528	\$ (1,663)
Interest expense from leasing transaction	<u>\$ (80,802)</u>	<u>\$ (87,874)</u>
Interest income from leasing transaction	<u>\$ 80,802</u>	<u>\$ 87,874</u>

Notes to Basic Financial Statements

June 30, 2008 and 2007

(1) Summary of Significant Accounting Policies

(a) Organization

The Washington Metropolitan Area Transit Authority (Authority) was created, effective February 20, 1967, by the Interstate Compact (Compact) by and between Maryland, Virginia and the District of Columbia, pursuant to Public Law 89-774, approved November 6, 1966. The Authority was created to plan, construct, finance and operate a public transit system serving the Washington Metropolitan Area Transit Zone (Zone). The Zone includes the following participating local jurisdictions: the District of Columbia; the cities of Alexandria, Falls Church, Fairfax, Manassas and Manassas Park; and the counties of Arlington, Fairfax, Loudoun and Prince William in Virginia, and Montgomery, Anne Arundel, Charles and Prince George's in Maryland.

The Authority is governed by a Board of six Directors and six Alternates, composed of two Directors and two Alternates from each signatory to the Compact. The Directors and Alternates for Virginia are appointed by the Northern Virginia Transportation Commission from among its members; for the District of Columbia, by the City Council from among its members and mayoral nominees; and, for Maryland, by the Washington Suburban Transit Commission from among its members.

The Board of Directors (Board) governs and sets policy for the Authority. Subject to policy direction and delegations from the Board, the General Manager is responsible for all activities of the Authority. The staff carries out these activities through the approved organizational structure of the Authority.

Based upon the provisions of GAAP, as applicable to government entities in the United States of America, management of the Authority has determined that it is a joint venture of the participating local jurisdictions.

(b) Financial Reporting Entity

In evaluating the Authority as a reporting entity, management has addressed all potential component units that may fall within the Authority's oversight and control and, as such, be included within the Authority's basic financial statements. As defined by GAAP, established by the Governmental Accounting Standards Board (GASB), a legally separate, tax-exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met:

- 1) The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
- 2) The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
- 3) The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

Notes to Basic Financial Statements

June 30, 2008 and 2007

(1) Summary of Significant Accounting Policies (Continued)

The relative importance of each criterion must be evaluated in light of specific circumstances. The decision to include or exclude a potential component unit is left to the professional judgment of management. Included within the Authority's financial reporting entity are the planning, development and operation of the transit facilities serving the Washington, D.C. metropolitan area which are funded from the combined resources of the U.S. Government, the State of Maryland, the Commonwealth of Virginia, the District of Columbia, the participating local jurisdictions, and the Authority's operations. The Authority does not report any component units within its financial reporting entity.

(c) Basis of Accounting

The Authority prepares its basic financial statements using the accrual basis of accounting. The activities of the Authority are similar to those of proprietary funds of local jurisdictions and, therefore, are reported in conformity with governmental accounting and financial reporting principles issued by GASB. The Authority had applied all applicable Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins, issued on or before November 30, 1989 that did not conflict with or contradict GASB pronouncements. The government has elected not to follow subsequent private sector guidance.

(d) Receivables and Payables

The major components of the accounts receivable balance are payments due from governmental agencies (50.7 percent), companies (49.1 percent) and other receivables (0.2 percent).

The major components of the accounts payable balance are payments due to vendors and contractors (64.9 percent), governmental agencies (26.3 percent) and other payables (8.8 percent).

(e) Revenues and Expenses

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses are those that result from providing services in connection with the Authority's principal ongoing operation. The principal operating revenues of the Authority are charges to customers for transportation which result in passenger revenues. Passenger revenues are recorded as revenue at the time services are performed. Cash received for services that have not been performed are recorded as deferred revenue.

Operating revenues and expenses also include all revenues and expenses not associated with capital and related financing, noncapital financing, or investing activities.

Nonoperating revenues and expenses include investment income and expense from the Authority's pension assets that represents the excess or shortage of contributions over the annual required contributions.

(f) Investments

Investments are stated at fair value, which is based on quoted market prices. Investments consist primarily of advanced contributions and interest earned on such contributions. These advanced contributions are restricted for specific future capital projects.

Notes to Basic Financial Statements

June 30, 2008 and 2007

(1) Summary of Significant Accounting Policies (Continued)**(g) Materials and Supplies Inventory**

Materials and supplies inventory is stated at the lower of cost or market using average cost, net of an allowance for obsolete and excess inventory.

(h) Transit Facilities and Equipment

Transit facilities and equipment are stated at cost, less accumulated depreciation and amortization.

Determinations of the cost of rapid rail assets placed in service are made with the assistance of the Authority's consulting engineers. Such cost determinations are based upon the historical costs of the project provided by the Modular Input Output System (MIOS) reports. Interest expense related to construction and amounts expended in operating and testing each phase of the rail system prior to commencement of revenue-producing operations are capitalized as intangible costs.

Transit facilities and equipment in service are depreciated or amortized using the straight-line method over the estimated useful lives of the assets. The useful lives employed in computing depreciation and amortization on principal classes of transit facilities and equipment are as follows:

Buildings and improvements	20-45 years
Rail transit facilities	10-75 years
Revenue vehicles	12-35 years
Other equipment	2-20 years
Intangible costs	40 years

Capital assets include repairable assets, which are replacement parts with a unit cost of \$500 or more. Other capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Any donated capital assets are recognized at their fair value on the date of donation.

The Authority's policy is to expense maintenance and repair costs as incurred.

(i) Grants

Capital grants and operating grants, such as jurisdictional, operating and interest subsidies, are recognized as revenue when all applicable eligibility requirements have been met.

The determination of the Authority's jurisdictional subsidies is based on its operating loss and nonoperating revenues, and does not include depreciation expense and OPEB expense. As a result, the Authority's change in net assets represents revenues from capital grants and subsidies, less depreciation expense.

Notes to Basic Financial Statements

June 30, 2008 and 2007

(1) Summary of Significant Accounting Policies (Continued)**(j) Investment Income**

Interest income is generated from the following sources: advanced contributions for capital and operating needs, construction grant funds and capital improvement grant funds. Interest from these sources is recognized when earned and is included in the Statements of Revenues, Expenses and Changes in Net Assets. Interest earned on construction grant funds is classified as restricted net assets until used for the designated capital projects at which time it is transferred to "Invested in capital assets, net of related debt."

(k) Restricted Net Assets

The Authority separates net assets that are subject to external restrictions based on individual agreements. The restrictions are established by the Authority's governing jurisdictions. These restricted net assets include advance contributions for future construction programs, reimbursable projects and other targeted programs.

(l) Fuel Price Swap Arrangement

The Authority enters into agreements to fix the price associated with the purchase of fuel for specified periods of time. These agreements enable the Authority to plan its fuel costs for the year and to protect itself against increases in the market price of fuel. These agreements are disclosed at fair value and amounts due to the Authority are included in "Accounts receivable and other assets" and amounts owed by the Authority are included in "Accounts payable and accrued expenses."

(m) Use of Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(n) Recent Pronouncements

The Authority, in fiscal year 2008, adopted the following GASB Statements:

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, provided guidance on all aspects of other postemployment benefits (OPEB) reported by employers. The adoption of this GASB statement had an effect on the basic financial statements of the Authority.

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, established criteria for ascertaining whether certain transactions should be regarded as sales or a collateralized borrowings. This Statement also includes disclosure requirements for future revenues that are pledged or sold. The adoption of this GASB statement had no material effect on the basic financial statements of the Authority.

Notes to Basic Financial Statements

June 30, 2008 and 2007

(1) Summary of Significant Accounting Policies (Continued)

(n) Recent Pronouncements (Continued)

GASB Statement No. 50, *Pension Disclosures*, provided guidance to more closely align the financial reporting requirements for pensions with those for other postemployment benefits. The adoption of this GASB statement had no material effect on the basic financial statements of the Authority.

(o) Tax Status

The Authority is not subject to federal, state, or local income taxes and accordingly, no provision for income taxes is recorded.

(p) Reclassifications

Certain reclassifications were made to Fiscal Year 2007 financial statements to conform to the Fiscal Year 2008 financial statement presentation.

(2) Plans of Financing

The planning, development and operation of the transit facilities serving the Washington, D.C. metropolitan area are funded from the combined resources of the U.S. Government, the State of Maryland, the Commonwealth of Virginia, the District of Columbia, the participating local jurisdictions, and the Authority's operations.

The Authority's operations are funded primarily by farebox revenues from passengers and operating subsidy payments from participating jurisdictions. In establishing its budget each year, the Authority makes an estimate of the revenues it expects to receive from operation of the system based on the current or projected fare schedule and ridership. The majority of the balance of the Authority's operating budget is provided through operating subsidy payments from the participating jurisdictions.

Funding of these subsidy payments is authorized by the participating jurisdictions through their budgeting processes. Any subsequent operations funding requirements in excess of the initially budgeted estimates are due two years thereafter and are included in the accompanying basic financial statements as contributions receivable. Any excess funding is credited to individual jurisdictional accounts for refund or for use as payment on current or future obligations as determined by the funding jurisdiction.

The Authority's Capital Improvement Program (CIP) is based on the results of an extensive needs assessment and the requirement to align resources to rehabilitate the existing systems adequately and to grow ridership. The Authority's capital budget is funded by grants that use federal funds and substantial local contributions provided by participating jurisdictions, in excess of federal match requirements.

Notes to Basic Financial Statements

June 30, 2008 and 2007

(3) Cash, Deposits and Investments

As provided in the amended Compact, any monies of the Authority may, at the discretion of the Board and subject to any agreement or covenant between the Authority and the holders of its obligations limiting or restricting classes of investments, be invested in the following:

- 1) Direct obligation of, or obligations guaranteed by, the United States;
- 2) Bonds, debentures, notes, or other evidences of indebtedness issued by agencies of the United States;
- 3) Domestic and Eurodollar certificates of deposit;
- 4) Securities that qualify as lawful investments and may be accepted as security for fiduciary, trust and public funds under the control of the United States or any officer or officers thereof or securities eligible as collateral for deposits of monies of the United States; or
- 5) Bonds, debentures, notes or other evidences of indebtedness issued by a domestic corporation provided that such obligations are nonconvertible and at the time of their purchase are rated in the highest rating categories by one or more nationally recognized bond rating agency.

(a) Cash and Deposits

The Authority's bank balances as of June 30, 2008 and 2007 are grouped to give an indication of the level of custodial risk assumed by the Authority as follows (in thousands):

	2008		2007	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
<u>Cash and Deposits</u>				
Deposits insured or collateralized	\$ 487	\$ 674	\$ 604	\$ 674
Deposits uninsured or uncollateralized	<u>6,745</u>	<u>7,857</u>	<u>2,656</u>	<u>3,138</u>
Total deposits	7,232	8,531	3,260	3,812
Cash on hand	<u>6,438</u>	<u>-</u>	<u>6,316</u>	<u>-</u>
Total cash and deposits	<u><u>\$ 13,670</u></u>	<u><u>\$ 8,531</u></u>	<u><u>\$ 9,576</u></u>	<u><u>\$ 3,812</u></u>

Notes to Basic Financial Statements

June 30, 2008 and 2007

(3) Cash, Deposits and Investments (Continued)**(b) Investments**

As of June 30, 2008, the Authority had the following investments and maturities (in thousands):

<u>Investment Type</u>	<u>Investment Maturities</u>				
	<u>Fair Value</u>	<u>Less than 6 Months</u>	<u>7 Months - 1 Year</u>	<u>1-3 Years</u>	<u>More than 3 Years</u>
Money market funds	\$ 19,330	\$ 19,330	\$ -	\$ -	\$ -
Repurchase agreements	161,350	161,350	-	-	-
United States treasuries	7,344	5,000	-	-	2,344
United States agencies	44,014	6,012	11,019	9,069	17,914
	<u>232,038</u>	<u>191,692</u>	<u>11,019</u>	<u>9,069</u>	<u>20,258</u>
Accrued interest	443	443	-	-	-
Total	<u>\$ 232,481</u>	<u>\$ 192,135</u>	<u>\$ 11,019</u>	<u>\$ 9,069</u>	<u>\$ 20,258</u>

As of June 30, 2007, the Authority had the following investments and maturities (in thousands):

<u>Investment Type</u>	<u>Investment Maturities</u>				
	<u>Fair Value</u>	<u>Less than 6 Months</u>	<u>7 Months - 1 Year</u>	<u>1-3 Years</u>	<u>More than 3 Years</u>
Money market funds	\$ 8,506	\$ 8,506	\$ -	\$ -	\$ -
Repurchase agreements	129,410	129,410	-	-	-
United States treasuries	12,169	4,997	-	4,987	2,185
United States agencies	129,352	39,294	37,847	26,521	25,690
	<u>279,437</u>	<u>182,207</u>	<u>37,847</u>	<u>31,508</u>	<u>27,875</u>
Accrued interest	1,435	1,435	-	-	-
Total	<u>\$ 280,872</u>	<u>\$ 183,642</u>	<u>\$ 37,847</u>	<u>\$ 31,508</u>	<u>\$ 27,875</u>

Additional information on the Authority's investments can be found in note 13 on page 47 of this report.

Interest Rate Risk

As a means of limiting its exposure to fair value losses caused by rising interest rates, the Authority's practice is to structure its investment portfolio maturities to meet cash flow requirements. This results in short term maturities for investments for operations and medium/intermediate maturities for capital projects investments. On average, maturities are less than two years at June 30, 2008 and 2007.

Notes to Basic Financial Statements

June 30, 2008 and 2007

(3) Cash, Deposits and Investments (Continued)**Credit Risk**

The Authority's investments in repurchase agreements and issues of governmental agencies, which have the implicit guarantee of the United States government, were, at the time of purchase, awarded the highest rating by one or more of the nationally recognized rating organizations: Standard and Poor's, Moody's Investor Service or Fitch Ratings.

Custodial Credit Risk

In the event of failure of the counterparty, the Authority will be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority is not exposed to custodial risk because all securities are in the Authority's name and held exclusively for the use of the Authority. The custodial risk, in regard to cash, is mitigated up to the FDIC limit.

(4) Contributions Receivable (including Jurisdictional Operating Subsidy)

Since inception, the Authority has operated at a loss, which has been fully subsidized each year by the participating jurisdictions. For purposes of determining the current year's operating loss to be funded by the local participating jurisdictions, the Authority calculates the results of transit operations on an agreed-upon basis different from that reflected in the Statements of Revenues, Expenses and Changes in Net Assets, as follows at June 30, 2008 and 2007 (in thousands):

	<u>2008</u>	<u>2007</u>
Jurisdictional operating subsidy per financial statements	\$ 610,001	\$ 606,031
Add (deduct) operating costs (not) requiring current funding:		
Preventive maintenance subsidy	(20,700)	(20,700)
Prepaid pension cost adjustment	(30,138)	-
Unrealized (loss) gain from investments	528	(1,663)
Agreed-upon funding of employee vacations liability and related taxes	(1,532)	(3,999)
Agreed-upon funding of claims for injuries and damages	(9,247)	(14,982)
Rail repairable parts	130	252
Maximum fare assistance	5,484	4,870
Fare Increase	36,200	-
Operating expenses funded by capital grants	<u>(103,100)</u>	<u>(88,883)</u>
Jurisdictional operating subsidy - funding basis	<u><u>\$ 487,626</u></u>	<u><u>\$ 480,926</u></u>

Notes to Basic Financial Statements

June 30, 2008 and 2007

(4) Contributions Receivable (including Jurisdictional Operating Subsidy) (Continued)

The cumulative effects of the different agreed-upon basis, which result in long-term contributions receivable, are as follows at June 30, 2008 and 2007 (in thousands):

	<u>2008</u>	<u>2007</u>
Agreed-upon funding of employee vacation liability and related taxes	\$ 42,995	\$ 41,463
Agreed-upon funding of claims for injuries and damages	<u>106,511</u>	<u>97,264</u>
Total accumulated difference	<u>\$ 149,506</u>	<u>\$ 138,727</u>

The current portion of contributions receivable at June 30, 2008 and 2007 of \$90,611 and \$102,443 respectively are related primarily to federal grants.

Notes to Basic Financial Statements

June 30, 2008 and 2007

(5) Capital Assets

Capital assets activity for the years ended June 30, 2008 and 2007, was as follows (in thousands):

	<u>June 30, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2008</u>
Capital assets not being depreciated:				
Land	\$ 431,291	17,295	\$ -	\$ 448,586
Construction in progress	871,245	430,887	(979,306)	322,826
Total capital assets not being depreciated	<u>1,302,536</u>	<u>448,182</u>	<u>(979,306)</u>	<u>771,412</u>
Capital assets being depreciated:				
Buildings and improvements	453,633	158,234	-	611,867
Transit facilities	7,431,297	-	\$ (65,554)	7,365,743
Revenue vehicles	1,933,396	286,040	(7,170)	2,212,266
Other equipment	1,296,290	546,637	(10,762)	1,832,165
Intangible costs:				
Bond interest capitalized	244,358	-	-	244,358
Construction supervision and consulting	480,765	-	-	480,765
Project and executive management	321,916	-	-	321,916
Pre-rail operations and testing	110,178	41,850	-	152,028
Total capital assets being depreciated	<u>12,271,833</u>	<u>1,032,761</u>	<u>(83,486)</u>	<u>13,221,108</u>
Less accumulated depreciation and amortization for:				
Buildings and improvements	220,196	25,118	-	245,314
Transit facilities	2,185,270	132,773	-	2,318,043
Revenue vehicles	954,656	91,855	(7,170)	1,039,341
Other equipment	1,028,765	145,724	(6,631)	1,167,858
Intangible costs	951,319	17,284	-	968,603
Total accumulated depreciation and amortization of intangible costs	<u>5,340,206</u>	<u>412,754</u>	<u>(13,801)</u>	<u>5,739,159</u>
Total capital assets being depreciated, net	<u>6,931,627</u>	<u>620,007</u>	<u>(69,685)</u>	<u>7,481,949</u>
Total capital assets, net	<u>\$ 8,234,163</u>	<u>\$1,068,189</u>	<u>\$(1,048,991)</u>	<u>\$ 8,253,361</u>

Notes to Basic Financial Statements

June 30, 2008 and 2007

(5) Capital Assets (Continued)

	June 30, 2006	Additions	Reductions	June 30, 2007
Capital assets not being depreciated:				
Land	\$ 431,291	\$ -	\$ -	\$ 431,291
Construction in progress	1,033,335	345,984	(508,074)	871,245
Total capital assets not being depreciated	<u>1,464,626</u>	<u>345,984</u>	<u>(508,074)</u>	<u>1,302,536</u>
Capital assets being depreciated:				
Buildings and improvements	448,921	4,712	-	453,633
Transit facilities	7,126,154	305,143	-	7,431,297
Revenue vehicles	1,745,241	217,130	(28,975)	1,933,396
Other equipment	1,205,935	94,316	(3,961)	1,296,290
Intangible costs:				-
Bond interest capitalized	244,358	-	-	244,358
Construction supervision and consulting	480,765	-	-	480,765
Project and executive management	321,916	-	-	321,916
Pre-rail operations and testing	110,178	-	-	110,178
Total capital assets being depreciated	<u>11,683,468</u>	<u>621,301</u>	<u>(32,936)</u>	<u>12,271,833</u>
Less accumulated depreciation and amortization for:				
Buildings and improvements	198,685	21,511	-	220,196
Transit facilities	2,009,422	175,848	-	2,185,270
Revenue vehicles	902,617	81,014	(28,975)	954,656
Other equipment	965,969	66,757	(3,961)	1,028,765
Intangible costs:	<u>934,907</u>	<u>16,412</u>	<u>-</u>	<u>951,319</u>
Total accumulated depreciation and amortization of intangible costs	<u>5,011,600</u>	<u>361,542</u>	<u>(32,936)</u>	<u>5,340,206</u>
Total capital assets being depreciated, net	<u>6,671,868</u>	<u>259,759</u>	<u>-</u>	<u>6,931,627</u>
Total capital assets, net	<u>\$ 8,136,494</u>	<u>\$ 605,743</u>	<u>\$ (508,074)</u>	<u>\$ 8,234,163</u>

Notes to Basic Financial Statements

June 30, 2008 and 2007

(6) Bonds Payable and Other Debt**(a) Bonds Payable**

Pursuant to the Compact and the Bond Resolution of the Authority, the following bonds were outstanding at June 30, 2008 and 2007 (in thousands):

	2008			2007
	Principal	Unamortized Issuance Cost Net of Premium	Net	Net
Series 1993, 5.18% dated November 1, 1993, due semi-annually through July 1, 2010	\$ 32,465	\$ (476)	\$ 31,989	\$ 41,454
Series 2003, 4.60% dated October 23, 2003, due semi-annually through July 1, 2014	98,670	5,241	103,911	114,870
Series 2003B, 4.06% dated November 20, 2003, due semi-annually through July 1, 2010	16,330	896	17,226	22,578
	<u>\$147,465</u>	<u>\$ 5,661</u>	<u>\$ 153,126</u>	<u>\$ 178,902</u>

The Authority is required to make semi-annual payments of principal and interest on each Series of Bonds. The Authority must comply with certain covenants associated with these outstanding bonds; the more significant of which are:

- The Authority must punctually pay principal and interest according to provisions in the bond document.
- Except for certain instances, the Authority cannot sell, mortgage, lease, or otherwise dispose of transit system assets without filing a certification by the General Manager and Treasurer with the Trustee and Bond Insurers that such action will not impede or restrict the operation of the transit system.
- The Authority must at all times maintain certain insurance or self-insurance covering the assets and operations of the transit system.

The Authority is in full compliance with all significant bond covenants.

Notes to Basic Financial Statements

June 30, 2008 and 2007

(6) Bonds Payable and Other Debt (Continued)**(b) Bonds Debt Service Requirements**

Debt service requirements for the bonds payable are as follows (in thousands):

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 26,380	\$ 6,960	\$ 33,340
2010	27,815	5,520	33,335
2011	29,330	4,000	33,330
2012	24,655	2,818	27,473
2013	20,475	1,570	22,045
2014-2015	18,810	859	19,669
	<u>147,465</u>	<u>21,727</u>	<u>169,192</u>
Plus unamortized premium net of issuance cost	5,661	-	5,661
	<u>\$153,126</u>	<u>\$21,727</u>	<u>\$174,853</u>

(c) Refunding of Debt

On November 30, 1993, the Authority issued \$334,015,000 of Series 1993 Gross Revenue Transit Refunding Bonds, with an average interest rate of 5.2 percent, to refund \$332,333,000 of outstanding A, B, C, D, and E Series Transit Bonds. The federal government provided the Authority with the funds necessary to redeem the remaining \$664,667,000 of such bonds. As a result, the outstanding A, B, C, D, and E Series Transit Bonds were retired.

On October 23, 2003, the Authority issued \$163,495,000 of Series 2003 Gross Revenue Transit Refunding Bonds, with an average interest rate of 4.6 percent, to refund \$168,490,000, the callable amount of outstanding Series 1993 Gross Revenue Transit Refunding Bonds.

On November 20, 2003, the Authority issued \$35,640,000 of Series 2003B Gross Revenue Transit Bonds, with an average interest rate of 4.1 percent, to accelerate the Authority's Vertical Transportation Modernization Program and other capital projects.

The Authority refunded the A, B, C, D and E Series Transit Bonds to reduce its total debt service payments over the next 20 years by approximately \$288,000,000 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$4,700,000. The Authority partially refunded the Series 1993 Gross Revenue Transit Refunding Bonds to reduce its total debt service payments over the next 10 years by approximately \$13,000,000 and to obtain an economic gain of approximately \$1,697,000. As of June 30, 2008 and 2007, the unamortized cost of refunding the bonds was \$2,510,000 and \$2,981,000, respectively. This unamortized cost relates primarily to the call premium on the Series E Transit Bond, and the Series 1993 Gross Revenue Transit Refunding Bonds, which are being amortized over the life of the outstanding bonds.

Notes to Basic Financial Statements

June 30, 2008 and 2007

(6) Bonds Payable and Other Debt (Continued)**(d) Commercial Paper Notes Payable, Series A**

Pursuant to the Compact and the Note resolution of the Authority, Commercial Paper Notes, (Series A) were issued during Fiscal Year 2008. The Series A Notes activity for the year ended June 30, 2008 was as follows (amounts in thousands):

		<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
Commercial Paper Notes, Series A	\$215,000	\$1,276,800	\$1,161,800	\$330,000	

The Series A Notes are authorized to be issued and reissued from time to time in denominations of any integral multiple of \$5,000 equal to, or, in excess of \$100,000 and to mature no later than 270 days from the respective dates of issuance. The maximum principal amount of Series A Notes currently authorized to be outstanding at any time is \$330,000,000. The principal and redemption price of and interest on the Series A Notes are special obligations of the Authority payable solely from and secured solely by the funds pledged pursuant to the Note Resolution including the proceeds of sale of Series A Notes and Gross Revenues of the Authority. Such pledge of Gross Revenues is subject and subordinate to pledges securing certain outstanding and future indebtedness of the Authority. The Series A Notes are further secured by an irrevocable direct pay letter of credit issued by a major national bank. The issuance of Series A Notes does not constitute a debt or legal obligation and will not create a lien upon the revenues of the participating jurisdictions or the Federal Government or Federal Government agencies.

(e) Letter of Credit

Pursuant to the Compact and the Letter of Credit Resolution of the Authority, a 364 day Letter of Credit for \$100,000,000 was secured during fiscal year 2008. The note is due and payable in consecutive monthly payments of accrued interest only commencing on June 1, 2008. All principal and accrued interest, computed based on the London Interbank Offered Rate (LIBOR), will be due and payable 364 days from the date of the note. The LIBOR rate at June 30, 2008 was 2.46 percent.

For the year ending June 30, 2008, the outstanding debt on the Letter of Credit was \$40,000,000.

(f) Interest Expense

Interest expense on bonds for the years ended June 30, 2008 and 2007 was \$7,654,000 and \$8,983,000.

Interest expense on the Series A Notes for the year ended June 30, 2008 was \$7,763,000 and \$5,884,000 was capitalized.

The interest expense for the Letter of Credit was \$46,000.

Notes to Basic Financial Statements

June 30, 2008 and 2007

(7) Termination Benefits

The General Manager may authorize a general reduction, in the work force, which is accomplished by a reduction in positions and may result in the termination of personnel. This course of action is approved by the Authority's Board of Directors and outlined in the Authority's Personnel Policies and Procedures Manual which details the basis for severance pay to be made to employees subject to a reduction-in-force. On June 30, 2008, the financial statements of the Authority contained a liability and expense of \$744,080 representing benefits to be paid to employees affected by a reduction-in-force implemented in the fiscal year ended June 30, 2008.

(8) Pension Plans

The Authority is the administrator of five defined benefit, single-employer retirement plans covering substantially all of its employees: Salaried Personnel, Transit Police, Union Local 689, Union Local 922 and Union Local 2. Each plan issues an available financial report which may be obtained by writing or calling the plan administrator.

WMATA Retirement Plan
c/o WMATA, HRMP, Benefits Branch
600 Fifth Street, N.W.
Washington, D.C. 20001
(202) 962-1076

WMATA Transit Employees' Retirement Plan
c/o WMATA, HRMP, Benefits Branch
600 Fifth Street, N.W.
Washington, D.C. 20001
(202) 962-1076

WMATA Transit Police Retirement Plan
c/o WMATA, HRMP, Benefits Branch
600 Fifth Street, N.W.
Washington, D.C. 20001
(202) 962-1076

WMATA Local 922 Retirement Plan
c/o WMATA, HRMP, Benefit Branch
600 Fifth Street, N.W.
Washington, D.C. 20001
(202) 962-1076

WMATA Local 2 Retirement Plan
c/o WMATA, HRMP, Benefit Branch
600 Fifth Street, N.W.
Washington, D.C. 20001
(202) 962-1076

(a) Plan Descriptions**(i) Salaried Personnel Plan**

All full-time regular management and non-union employees hired prior to January 1, 1999, certain Transit Police Officials and Special Police Officers represented by Teamsters Union Local 639 are eligible to participate in the Salaried Personnel Plan. The plan is governed by the Authority's Board of Directors with consideration of both the applicable union agreements and Authority personnel practices. The normal retirement age is 65, and such retirees are entitled to annual retirement benefits equal to 1.6 percent of final average compensation multiplied by years of credited services, plus 0.9 percent of final average compensation in excess of the Social Security breakpoint multiplied by years of credited service not in excess of 20 years. Unreduced retirement benefits are available upon reaching age 55 and meeting the "Rule of 83" with years of service and age. The maximum normal retirement benefit is not to exceed 80 percent of final average compensation. The plan provides retired participants annual cost-of-living increases, permits both early and later

Notes to Basic Financial Statements

June 30, 2008 and 2007

(8) Pension Plans (Continued)**(i) Salaried Personnel Plan (Continued)**

retirement, and provides for benefits in the event of death, disability and terminated employment. The Authority contributes the total cost of the plan. The vesting requirement was five years.

(ii) Transit Police Plan

Transit Police Officers and Transit Police Officials of the Authority are eligible to participate in the Transit Police Plan. The plan is governed by the terms of the employees' collective bargaining agreement. The normal retirement age is upon completing 25 years of credited service, but in no event later than the attainment of age 65. The normal retirement benefit is 2.56 percent of final average earnings multiplied by years of credited service. The resulting benefit, if paid following the participant's 66th birthday, will be reduced by 0.5 percent of final average earnings for each year of credited service. Additionally, a Deferred Retirement Option Program (DROP) was instituted and remained in effect until September 30, 2007. Employees are required to contribute 7.27 percent of compensation beginning October 1, 2003. The Authority is responsible for contributions required in excess of the employee contribution level. The Authority may limit the amount of contribution to 17.05 percent of gross earnings in any plan year and defer any balance. This deferral can be for no more than three consecutive plan years or for no more than four plan years out of any consecutive seven years. The benefit provisions and employee contribution obligations are established pursuant to a collective bargaining agreement between the Authority and the Fraternal Order of Police. The plan provides retired participants annual cost-of-living increases, permits both early and later retirement, and provides for benefits in the event of death, disability and terminated employment disability benefits. The vesting requirement is 10 years.

(iii) Union Local 689 Plan

Any regular full-time or part-time Authority employee, who is a member of Union Local 689 of the Amalgamated Transit Union (Local 689), after a 90-day probationary period is eligible to participate in the Union Local 689 Plan. The plan is governed by the terms of the employees' collective bargaining agreement. Employees are eligible for the normal retirement allowance upon either attainment of age 70; attainment of age 65 and the completion of 10 years of continuous service; upon completion of 27 years of continuous service regardless of age; or after the sum of years of service plus attained age is 83 or more. The normal retirement monthly pension is 1.85 percent of the highest 4-year average monthly total compensation times the number of years of continuous service up to 27 years; plus 1.95 percent of average compensation time continuous service in excess of 27 years of service. The minimum benefit is \$600 monthly. The Authority contributes the total cost of the plan. For each fiscal year, the Authority shall contribute that percentage of total covered payroll determined necessary to pay the normal cost of the plan as determined by the plan actuary. The plan also provides early retirement, disability and pre-retirement spouse death benefits. The vesting requirement is 10 years.

Notes to Basic Financial Statements

June 30, 2008 and 2007

(8) Pension Plans (Continued)**(iv) Union Local 922 Plan**

All regular full-time and part-time employees, who are members of Union Local 922, after a 90-day probationary period, are eligible to participate in the Union Local 922 Plan. The plan is governed by the terms of the employees' collective bargaining agreement. Employees are eligible for the normal pension benefits after attaining age 65 and 10 years of service; upon completion of 27 years of service regardless of age; or after the sum of years of service plus attained age is not less than 83. The normal retirement monthly pension is the sum of 1.0 percent for years of service prior to May 1, 1973 plus 1.85 percent for years of service after May 1, 1973 of the highest 4-year average earnings with a minimum benefit of \$175 monthly. The plan provides retired participants annual cost-of-living increases, permits early retirement, and provides for benefits in the event of death, disability and terminated employment. The Authority contributes that amount required to fund the normal cost of the plan plus an additional amount necessary to amortize the unfunded actuarial accrued liability as required by the collective bargaining agreement between the Authority and Union Local 922. The vesting requirement is 10 years.

(v) Union Local 2 Plan

All full-time employees covered by the Union Local 2 bargaining agreement hired prior to January 1, 1999 are eligible to participate in the Local 2 Plan. The plan is governed by the Authority's Board of Directors with consideration of both the applicable union agreements and Authority personnel practices. The normal retirement age is 65, and such retirees are entitled to annual retirement benefits equal to 1.6 percent of final average compensation multiplied by years of credited services, plus 0.9 percent of final average compensation in excess of the Social Security breakpoint multiplied by years of credited service not in excess of 20 years. Unreduced retirement benefits are available upon reaching age 55 and meeting the "Rule of 83" with years of service and age. The maximum normal retirement benefit is not to exceed 80 percent of final average compensation. The plan provides retired participants annual cost-of-living increases, permits both early and later retirement, and provides for benefits in the event of death, disability, and terminated employment. The Authority contributes the total cost of the plan. The vesting requirement is 5 years.

(b) Funding Status and Annual Pension Cost**(i) Salaried Personnel Plan**

The Salaried Personnel Plan's funding policy, as approved by the Board of Directors, provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits when due. The actuarial cost method is the individual entry age normal method of funding. The surplus at July 1, 2003 is amortized over 15 years. Any subsequent changes in the unfunded actuarial accrued liability due to changes in plan benefits, actuarial methods, actuarial assumptions, or actuarial gains and losses are amortized over a 15-year period from the date of the change.

Notes to Basic Financial Statements

June 30, 2008 and 2007

(8) Pension Plans (Continued)

(ii) Transit Police Plan

The Transit Police Plan's funding policy, as set forth in the collective bargaining agreement, provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to fund the current year's normal cost. The percentage of payroll that the Authority contributes is actuarially determined using the aggregate cost funding method.

(iii) Union Local 689 Plan

The Union Local 689 Plan's funding policy, as set forth in the collective bargaining agreement, provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to fund the normal cost of the plan. The actuarial funding method used to compute the contribution requirements is the aggregate cost method.

(iv) Union Local 922 Plan

The Union Local 922 Plan's funding policy, as set forth in the collective bargaining agreement, provides for periodic contributions, expressed both in dollar amounts and as a percentage of covered payroll, sufficient to cover normal costs and amortize any unfunded actuarial accrued liability over the 30-year period that began on the valuation date. The actuarial method used to compute the contribution requirements is the projected unit credit method.

(v) Union Local 2 Plan

The Union Local 2 Plan's funding policy, as approved by the Board of Directors, provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits when due. The actuarial cost method is the individual entry age normal method of funding. The surplus at July 1, 2003 is amortized over 15 years. Any subsequent changes in the unfunded actuarial accrued liability due to changes in plan benefits, actuarial methods, actuarial assumptions, or actuarial gains and losses are amortized over a 15-year period from the date of the change.

Notes to Basic Financial Statements

June 30, 2008 and 2007

(8) Pension Plans (Continued)

(vi) The Authority's annual pension cost (APC) and related assumptions for the current year follows (dollars in thousands):

	Salaried Personnel Plan	Transit Police Plan	Union Local 689 Plan	Union Local 922 Plan	Union Local 2 Plan
Contribution rates:*					
Authority	31.8%	21.3%	4.2%	15.6%	17.2%
Employees (Plan Members)	0.0%	7.3%	0.0%	0.0%	0.0%
Annual pension cost	\$ 11,327	\$ 5,441	\$ 26,524	\$ 3,495	\$ 4,037
Contributions made:					
Authority	\$ 11,327	\$ 5,441	\$ 23,011	\$ 3,590	\$ 4,037
Actuarial valuation date	7/1/2007	1/1/2007	1/1/2007	1/1/2007	7/1/2007
Actuarial cost method	Individual entry age	Aggregate cost	Aggregate cost	Projected unit credit	Individual entry age
Amortization method	Level dollar	N/A	N/A	Level dollar	Level dollar
Amortization period	15 years	N/A	N/A	30 years	15 years
Remaining amortization period	Open	N/A	N/A	Open	Open
Asset valuation method	Smoothed market value	Smoothed market value	3-yr assumed yield	Acturial value of assets	Smoothed market value
Actuarial assumptions:					
Investment rate of return	8.0%	8.0%	8.0%	7.0%	8.0%
Projected salary increases	3.5-8.0%	4.75-9%	3.5%	4.5%	3.5-8.0%
Post-retirement benefit	3.5%	up to 6%	3.0%	4.0%	3.5%
Inflation rate	2.5%	2.5%	3.0%	3.0%	2.5%

*As a percentage of covered payroll

Notes to Basic Financial Statements

June 30, 2008 and 2007

(8) Pension Plans (Continued)

The significant components of the APC and changes in the net pension obligation (asset) are as follows (in thousands):

	Salaried Personnel Plan	Transit Police Plan	Union Local 689 Plan	Union Local 922 Plan	Union Local 2 Plan
	<u>7/1/2007</u>	<u>1/1/2007</u>	<u>1/1/2007</u>	<u>1/1/2007</u>	<u>7/1/2007</u>
Net pension assets beginning of year	\$ (1,145)	\$ -	\$ (198,249)	\$ (3,029)	\$ (366)
Annual required contribution	11,327	5,441	18,724	3,495	4,037
Interest on net pension assets	-	-	(13,642)	-	-
Adjustment to annual required contribution	-	-	21,442	-	-
Annual pension cost (income)	11,327	5,441	26,524	3,495	4,037
Net pension obligations (assets) before contributions	10,182	5,441	(171,725)	466	3,671
Adjustments to beginning balance	(1,015)	-	27,726	-	9
Contributions made	<u>(11,327)</u>	<u>(5,441)</u>	<u>(23,011)</u>	<u>(3,590)</u>	<u>(4,037)</u>
Net pension assets end of year	<u>\$ (2,160)</u>	<u>\$ -</u>	<u>\$ (167,010)</u>	<u>\$ (3,124)</u>	<u>\$ (357)</u>
	<u>7/1/2006</u>	<u>1/1/2006</u>	<u>1/1/2006</u>	<u>1/1/2006</u>	<u>7/1/2006</u>
Net pension assets beginning of year	\$ -	\$ -	\$ (183,564)	\$ (2,833)	\$ -
Annual required contribution	10,373	5,098	6,001	3,377	3,035
Interest on net pension assets	(179)	-	(14,685)	(220)	(30)
Adjustment to annual required contribution	262	-	-	237	43
Annual pension cost (income)	10,456	5,098	(8,684)	3,394	3,048
Net pension obligations (assets) before contributions	10,456	5,098	(192,248)	561	3,048
Adjustments to beginning balance	(2,243)	-	-	(315)	(370)
Contributions made	<u>(9,358)</u>	<u>(5,098)</u>	<u>(6,001)</u>	<u>(3,275)</u>	<u>(3,044)</u>
Net pension assets end of year	<u>\$ (1,145)</u>	<u>\$ -</u>	<u>\$ (198,249)</u>	<u>\$ (3,029)</u>	<u>\$ (366)</u>

Notes to Basic Financial Statements

June 30, 2008 and 2007

(8) Pension Plans (Continued)**(c) Trend Information**

A summary of trend information for each plan follows (dollars in thousands):

	Fiscal Year Ended	Annual Pension Cost (Income)	Percentage of APC Contribution	Net Pension Asset
Salaried Personnel Plan	7/01/07	\$ 11,327	100.0%	\$ (2,160)
	7/01/06	\$ 10,456	89.5%	\$ (1,145)
	7/01/05	\$ 9,156	100.0%	\$ -
Transit Police Plan	1/01/07	\$ 5,441	100.0%	\$ -
	1/01/06	\$ 5,098	100.0%	\$ -
	1/01/05	\$ 5,427	100.0%	\$ -
Union Local 689	1/01/07	\$ 26,524	87.0%	\$ (167,010)
	1/01/06	\$ (8,684)	N/A	\$ (198,249)
	1/01/05	\$ 14,483	N/A	\$ (183,564)
Union Local 922	1/01/07	\$ 3,495	102.7%	\$ (3,124)
	1/01/06	\$ 3,394	96.5%	\$ (3,029)
	1/01/05	\$ 3,228	99.0%	\$ (2,833)
Union Local 2	7/01/07	\$ 4,037	100.0%	\$ (367)
	7/01/06	\$ 3,048	100.0%	\$ (366)
	7/01/05	\$ 3,065	100.0%	\$ -

Schedules related to the funded status of the pension plans included in this footnote are located in the Required Supplementary Information located on pages 49 and 50 of these financial statements.

(d) Defined Contribution Retirement Plan

The Authority offers a defined contribution retirement plan, Washington Metropolitan Area Transit Authority Defined Contribution Retirement Plan and Trust, for salaried employees under the terms of the Internal Revenue Code 401(a). The 401(a) plan, adopted on December 10, 1998 for employees hired on or after January 1, 1999, provides for the Authority to contribute an amount equivalent to 4 percent of the employee's base salary into a trust. The employee is not required to make contributions into the 401(a) plan; however, if the employee contributes up to 3 percent of base salary to the 457 Deferred Compensation plan, the Authority will contribute an additional amount of up to 3 percent to the 401(a) plan to equal the employee's contribution to the 457 plan. Employees are 100 percent vested after three years of service. A year of vesting is 1,000 hours of service in a calendar year. There is no interim vesting. Accrued 401(a) benefits will be paid to the employee (or rolled over) upon leaving Authority employment any time after full vesting. The provisions of the plan can be amended by the Board of Directors. This right to amend the plan is subject to the condition that all of the plan assets be used exclusively for the benefit of the participants, retired participants and their beneficiaries under the plan.

The Authority contributed \$3,697,000 and \$3,209,600 for the years ended June 30, 2008 and 2007, respectively.

Notes to Basic Financial Statements

June 30, 2008 and 2007

(8) Pension Plans (Continued)

(e) Deferred Compensation

The Authority offers a deferred compensation plan for salaried employees under the terms of the Internal Revenue Section 457(g). Under the 457 plan, employees are permitted to defer up to 100 percent of salary not to exceed \$15,500 annually on a pre-tax basis. Deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency. The Authority does not match employees' contributions to the 457 plan.

Notes to Basic Financial Statements

June 30, 2008 and 2007

(9) Postemployment Benefits Other than Pensions (OPEB)**Plan Descriptions**

The Authority contributes to four single-employer defined benefit healthcare plans: Union Local 689, Union Local 2, Transit Police and Non-represented. Each plan provides healthcare, prescription drug and life insurance benefits to retirees and their dependents.

The Union Local 689, Union Local 2, and Transit Police plans are governed by the terms of the employees' collective bargaining agreements. The Non-represented plan is governed by the Authority's Board of Directors.

Funding policy and Annual OPEB Cost

For the Union Local 689, Union Local 2, and Transit Police plans, contribution requirements of the plan members and the Authority are established and may be amended through negotiation between the Authority and the unions. For the Non-represented plan, the Board of Directors established and may amend the contribution requirements for the plan members and the Authority.

The Authority's OPEB cost for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The Authority's annual OPEB cost for the current year and the related information for each plan are as follows (dollar amounts in thousands):

	Union Local 689	Union Local 2	Transit Police	Non- Represented
Contributions rates				
Authority	Pay-as-you-go	Pay-as-you-go	Pay-as-you-go	Pay-as-you-go
Employees (Plan Members)	N/A	N/A	N/A	N/A
Annual required contribution	\$ 67,894	\$ 7,333	\$ 2,499	\$ 15,348
Interest on net OPEB obligation	-	-	-	-
Adjustment to annual required contribution	-	-	-	-
Annual OPEB cost	<u>\$ 67,894</u>	<u>\$ 7,333</u>	<u>\$ 2,499</u>	<u>\$ 15,348</u>
Contribution made	(28,598)	(1,504)	(102)	(3,623)
Increase in net OPEB obligation	<u>39,296</u>	<u>5,829</u>	<u>2,397</u>	<u>11,725</u>
Net OPEB obligation - beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net OPEB obligation - end of year	<u><u>\$ 39,296</u></u>	<u><u>\$ 5,829</u></u>	<u><u>\$ 2,397</u></u>	<u><u>\$ 11,725</u></u>

Notes to Basic Financial Statements

June 30, 2008 and 2007

(9) Postemployment Benefits Other than Pensions (OPEB) (Continued)

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligations for Fiscal Year 2008 for each of the plans were as follows (dollar amounts in thousands):

	Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
Union Local 689	6/30/2008	\$ 67,894	42.1%	\$ 39,296
Union Local 2	6/30/2008	\$ 7,333	20.5%	\$ 5,829
Transit Police	6/30/2008	\$ 2,499	4.1%	\$ 2,397
Non-Represented	6/30/2008	\$ 15,348	23.6%	\$ 11,725

Funded Status and Funding Progress. The funded status of the OPEB plans, as of June 30, 2008, was as follows (dollar amounts in thousands):

	Union Local 689	Union Local 2	Transit Police	Non- Represented	Total
Actuarial accrued liability (a)	\$ 975,740	\$ 97,425	\$ 32,128	\$ 225,066	\$ 1,330,359
Actuarial value of plan assets (b)	-	-	-	-	-
Unfunded actuarial accrued liability (funding excess) (a) - (b)	<u>\$ 975,740</u>	<u>\$ 97,425</u>	<u>\$ 32,128</u>	<u>\$ 225,066</u>	<u>\$ 1,330,359</u>
Funded ratio (b)/(a)	0.0%	0.0%	0.0%	0.0%	0.0%
Covered payroll (c)	N/A	N/A	N/A	N/A	\$ 663,000
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll {(a)-(b)}/ (c)	N/A	N/A	N/A	N/A	200.7%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will present multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time

Notes to Basic Financial Statements

June 30, 2008 and 2007

(9) Postemployment Benefits Other than Pensions (OPEB) (Continued)

relative to the financial accrued liabilities for benefits. The Authority's first OPEB actuarial valuation was performed for Fiscal Year 2008, therefore the schedule of funding progress reflects only one year.

Actuarial Methods and Assumptions

Projections of benefits are based on the substantive plan (the plan as understood by employer and plan members) and include the types of benefits in force at the valuation date and pattern of sharing benefits costs between the Authority and plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The Authority's significant methods and assumptions were as follows:

	Union Local 689	Union Local 2	Transit Police	Non- Represented
Actuarial valuation date	7/1/2007	7/1/2007	7/1/2007	7/1/2007
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level percentage of pay, open	Level percentage of pay, open	Level percentage of pay, open	Level percentage of pay, open
Remaining amortization period	Open	Open	Open	Open
Asset valuation method	N/A	N/A	N/A	N/A
Actuarial assumptions:				
Discount Rate	4.0%	4.0%	4.0%	4.0%
Projected salary increases	4.5%	4.5%	4.5%	4.5%

Defined Contribution Plans

The Authority contributes to two cost-sharing multiple-employer defined contribution healthcare plans: Union Local 922 and Union Local 639. Each plan provides healthcare, prescription drug and life insurance benefits to retirees and their dependents.

Notes to Basic Financial Statements

June 30, 2008 and 2007

(9) Postemployment Benefits Other than Pensions (OPEB) (Continued)**Union Local 922 Plan**

Effective November 1, 2005, the Authority, contributed to the 922/Employees Health Trust on behalf of each employees on its payroll covered by the Union Local 922 agreement and each retiree, a monthly contribution of \$750. The Health Trust determines the extent of any employee and retiree contributions necessary to fund the remaining cost of the benefits. The Authority contributed \$4,381,200 for the year ended June 30, 2008.

Union Local 639 (Metro Special Police)

The Authority contributes, to the Teamsters Local 639 Employers' Health Trust on behalf of each active employee covered by the Union Local 639 agreement, a monthly contribution of \$653.25. The Authority contributed \$271,800 for the year ended June 30, 2008.

(10) Commitments and Contingencies**(a) Litigation and Claims**

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; and natural disasters. The Authority has a self-insurance program for third-party public liability and property damage up to \$5,000,000 per occurrence. The Authority purchases commercial insurance for liabilities exceeding the self-insurance limits up to a maximum of \$100,000,000 per occurrence. Additionally, the Authority has a wholly self-insured program for workers' compensation. Settled claims have not exceeded this commercial coverage during any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. When a claim is either made against the Authority or when there is a sufficient reason to believe an incident has resulted in bodily injury or property damage for which the Authority may be liable, a dollar amount is reserved for that claim. Management calculates the "potential worth" of each claim and adjusts the reserves as the claim develops. Liabilities include an amount for losses that have been incurred but not reported.

Changes in the estimated liability for the years ended June 30, 2008 and 2007 are as follows (in thousands):

	2008	2007
Estimated liability for injury and damage claims, beginning of year	\$ 97,264	\$ 85,172
Incurred new claims	23,826	42,383
Changes in estimate for claims of prior periods	18,191	(10,637)
Payments on claims	(27,756)	(19,654)
Estimated liability for injury and damage claims, end of year	<u>\$ 111,525</u>	<u>\$ 97,264</u>
Due within one year	<u>\$ 39,220</u>	<u>\$ 34,394</u>

Notes to Basic Financial Statements

June 30, 2008 and 2007

(10) Commitments and Contingencies (Continued)**(a) Litigation and Claims (Continued)**

The Authority is a party to a number of claims arising from the construction of the transit system. These matters principally relate to contractor claims for additional compensation in excess of the original contract price. In the opinion of management, including its General Counsel, the ultimate resolution of these matters will not have a material effect on the Authority's financial position and results of operations.

(b) Leasing Commitment

In September 1999, the Authority entered into a 10-year operating lease for office space. The terms of the lease set forth scheduled rent increases to occur annually. Lease payments for years ended June 30, 2008 and 2007 are \$727,000 and \$706,000, respectively.

The Authority's minimum lease payments as of June 30, 2008 are as follows (in thousands):

<u>Fiscal Year</u>	<u>Total</u>
2009	\$ 749
2010	189
	<u>\$ 938</u>

In August 2008, the Authority entered into an agreement with Prince George Center I, Inc. to lease approximately 40,000 square feet of office space in Hyattsville, Maryland. The 10-year, \$10 million lease will begin April 1, 2009.

(c) Fuel Price Swap Agreement

The Authority entered into fuel price swap agreements to plan its fuel costs for the year and to protect itself against increases in the market price of fuel. The Authority executed six swap agreements with an effective date of July 01, 2007 and maturity dates not to extend beyond June 30, 2008. The fuel price swap agreement resulted in a savings of \$3,288,185, for year ended June 30, 2008, with an additional calculated savings receivable of \$3,017,624.

(d) Other

Construction and capital improvement costs are funded by federal grants, local matching funds, and third party agreements. As of June 30, 2008, the Authority is committed to expend approximately \$144,369,400 (unaudited) on future construction, capital improvement and other miscellaneous projects. The federal funding is subject to audit by the U.S. Government, in the opinion of management, disallowed costs if any, will not have a material effect on the financial position of the Authority.

Notes to Basic Financial Statements

June 30, 2008 and 2007

(11) Leasing Transactions

During fiscal year 1999, the Authority entered into 13 transactions to lease 680 rail cars to 13 equity investors (the "headlease") and simultaneously subleased the rail cars back (the "sublease"). Trusts were created coincident to these transactions to serve as the lessee/sublessor. Under the headlease agreements, the Authority retains the right to use the rail cars and is also responsible for their continued maintenance and insurance.

During fiscal year 2003, the Authority entered into two additional transactions to lease 78 rail cars. These transactions resulted in a net payment to the Authority in fiscal year 2003 of approximately \$8,700,000, which will be amortized over the life of the lease. Subsequent to the execution of the fiscal year 2003 leases, \$1,000,000 of the proceeds was reserved to cover any potential liabilities, in the event that the Authority is required to obtain a new lender.

In August 2003, the Authority entered into a lease transaction for 48 rail cars. This transaction resulted in a net payment to the Authority of approximately \$10,000,000, which was recorded as deferred lease revenue and will be amortized over the life of the lease. Of this amount, \$500,000 was reserved for any contingencies.

The Authority's sublease arrangements have been recorded similar to a capital lease arrangement in that the present value of the future lease payments have been recognized on the Statements of Net Assets as obligations under lease agreements.

At closing, the rail cars for fiscal year 1999 leases had a fair value of approximately \$1,200,000,000 and a net book value of approximately \$226,301,000. The rail cars for fiscal year 2003 leases had a fair value of approximately \$194,100,000 and a net book value of approximately \$66,834,000. The rail cars for the fiscal year 2004 lease had a fair value of \$130,780,000 and a net book value of approximately \$78,800,000.

As part of the headlease agreements, the Authority received prepayments equivalent to the net present value of the headlease obligations. The Authority transferred a portion of these proceeds to third party lenders/undertakers in accordance with the terms of debt and equity payment undertaking agreements. These agreements constitute commitments by the debt and equity payment undertakers to pay the Authority's sublease and buy-out options under the terms of the subleases. The debt and equity payment undertakers' performance under the agreement is guaranteed by their parent company. As the debt and equity payment undertaking agreements have been structured to meet all future obligations under the sublease, the Authority has recorded the amounts held by the payment undertakers as a prefunded lease commitment on the Statements of Net Assets.

The obligation under lease agreements and the prefunded lease commitment are adjusted annually to reflect the change in the net present value of the related sublease and buy-out options.

The excess of the prepayments received over the prepayment paid to the lease payment undertakers was recorded as deferred lease revenue and will be recognized by the Authority over the life of the lease.

Notes to Basic Financial Statements

June 30, 2008 and 2007

(11) Leasing Transactions (Continued)

The following table sets forth the aggregate amounts due under the sublease agreements (in thousands):

Future minimum payments due:	
2009	\$ 162,925
2010	127,917
2011	152,778
2012	146,733
2013	117,690
2014-2018	867,675
2019-2023	290,352
2024-2028	127,989
2029-2031	69,359
Total future minimum payments	2,063,418
Less imputed interest	687,808
	<u>\$ 1,375,610</u>
Present value of minimum lease payments	<u>\$ 1,375,610</u>

Additional information on the Authority's leases can be found in note 13 on page 47 of this report.

(12) Changes in Long-Term Liabilities

Long-term liabilities activity for the years ended June 30, 2008 and 2007, was as follows (in thousands):

	Injury & Damage Claims	Retainage on Contracts	Deferred Lease Revenue	Bonds Payable	Obligations Under Lease Agreements
Beginning balance, July 1, 2006	\$ 85,172	\$ 28,445	\$ 61,890	\$ 203,481	\$ 1,479,224
Additions	42,383	17,414	-	-	-
Reductions	(30,291)	(11,622)	(5,701)	(24,579)	(52,152)
Balance, June 30, 2007	97,264	34,238	56,189	178,902	1,427,072
Additions	23,826	24,165	-	-	-
Reductions	(9,565)	(26,264)	(5,702)	(25,776)	(51,462)
Ending balance, June 30, 2008	<u>\$ 111,525</u>	<u>\$ 32,139</u>	<u>\$ 50,487</u>	<u>\$ 153,126</u>	<u>\$ 1,375,610</u>
Due within one year	<u>\$ 39,220</u>	<u>\$ 1,847</u>	<u>\$ 5,469</u>	<u>\$ 28,163</u>	<u>\$ 162,925</u>
Noncurrent portion	<u>\$ 72,305</u>	<u>\$ 30,292</u>	<u>\$ 45,018</u>	<u>\$ 124,963</u>	<u>\$ 1,212,685</u>

Notes to Basic Financial Statements

June 30, 2008 and 2007

(13) Subsequent Events**(a) Investment Market Uncertainty**

During 2008, financial markets as a whole have incurred significant declines in values. As of June 30, 2008, the Authority's investment portfolio has not incurred a significant decline in the values reported in the accompanying financial statements. However, because the values of individual investments fluctuate with market conditions, the amount of investment losses that the Authority will recognize in its future financial statements, if any, cannot be determined.

(b) Leasing Disclosure

The lease agreements, described in note 11, allow the equity investors to replace the companies specified in the agreements as equity payment undertakers (EPU) in the event that the EPU's financial ratings are downgraded below a specified level. In the event a suitable replacement or federal government assistance cannot be obtained or other mutually acceptable solution cannot be reached, accelerated payment of the liability could be requested. Due to recent events in the financial markets, certain specified downgrades have occurred for all 16 lease agreements. To date, four of the equity investors have not exercised their rights and have not notified the Authority to request a change in the defeasance provider. Of the remaining 12 equity investors, eight have granted at least one extension and the Authority is negotiating additional extensions to allow time to find an additional defeasance provider or other mutually acceptable solution, two have agreed to terminate the agreement by accepting payments from the defeasance accounts, one has demanded a fee for the granting of an extension, and one has made demand for accelerated payment of the full liability as of the date of technical default (10/29/08).

The eight extensions are in various stages of negotiation with approved extension dates ranging from the end of October to December. Six of the equity investors are presently reviewing these requests for further extensions with approval pending. All eight have previously granted extension requests to date.

The two equity investors agreeing to terminate the agreements will be paid from the defeasance accounts with no or very minimal additional liability to the Authority. These termination agreements are expected to be executed prior to the end of December 2008.

The Authority is in the process of negotiating with the equity investor who demanded payment for the grant of an extension. Although not material to the financial statements, the Authority is disputing the requirement of payment to grant the waiver and is currently requesting reconsideration of this demand.

Management of the Authority intends to vigorously defend against the claim for accelerated payment as of the date of default with the remaining equity investor. Given the stage of this claim, and the fact that the technical default has not actually occurred, it cannot be determined if accelerated payments, in addition to the balance in the defeasance account will be required to be paid. As part of the extension and negotiation process, management of the Authority has obtained a commitment from another suitable guarantee provider for a five year period.

Notes to Basic Financial Statements

June 30, 2008 and 2007

(13) Subsequent Events (Continued)

(b) Leasing Disclosure (Continued)

The remaining period of these agreements ranges approximately from eight to twenty-four years. In addition, as a result of the impact of events in the financial markets, and on other major metropolitan transportation authorities, management is also pursuing discussion of assistance with this situation with the federal government. It is not known at this time what form that assistance would take.

In summary, as a result of the events described above it is currently unknown what the cost of the resolutions to the equity investors requests will be to the Authority, and as such, no liability has been recognized.

Required Supplementary Information

Historical Trend Information – Pension Plans

Schedules of Funding Progress

(dollars in thousands)

	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL) (Funding Excess)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll (Funding Excess)
Salaried Personnel Plan	7/1/2007	\$ 364,954	\$ 434,709	\$ 69,755	84.0%	\$ 35,598	196.0%
	7/1/2006	349,796	412,855	63,059	84.7%	37,769	167.0%
	7/1/2005	343,657	395,416	51,759	86.9%	40,750	127.0%
Union Local 2	7/1/2007	\$ 112,544	\$ 126,949	\$ 14,405	88.7%	\$ 17,893	80.5%
	7/1/2006	109,041	116,915	7,874	93.3%	17,628	44.7%
	7/1/2005	104,006	112,051	8,045	92.8%	18,754	42.9%
Union Local 689 Plan	1/1/2007	\$ 2,184,472	\$ 2,184,472	\$ -	100.0%	\$ 483,010	0.0%
	1/1/2006	2,068,831	2,068,831	-	100.0%	465,458	0.0%
	1/1/2005	1,977,425	1,710,543	(266,882)	115.6%	437,399	(61.0)%
Union Local 922 Plan	7/1/2007	\$ 113,133	\$ 116,139	\$ 3,006	97.4%	\$ 22,462	13.4%
	7/1/2006	99,332	113,544	14,212	87.5%	22,267	63.8%
	7/1/2005	91,191	103,395	12,204	88.2%	21,085	57.9%

Notes:

*** The Transit Police plan was not included in this schedule, because its actuarial valuation date was before June 15, 2007.

Required Supplementary Information

Historical Trend Information – Postemployment Benefits Other than Pensions (OPEB)

Schedules of Funding Progress

(dollars in thousands)

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - (b)	Unfunded Actuarial Accrued Liability (UAAL) (Funding Excess) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (Funding Excess) ((b-a))/c
Union Local 689	6/30/2008	\$ -	\$ 975,740	\$ 975,740	0.0%	N/A	N/A
Union Local 2	6/30/2008	\$ -	\$ 97,425	\$ 97,425	0.0%	N/A	N/A
Transit Police	6/30/2008	\$ -	\$ 32,128	\$ 32,128	0.0%	N/A	N/A
Non-Represented	6/30/2008	\$ -	\$ 225,066	\$ 225,066	0.0%	N/A	N/A
TOTAL			1,330,359	1,330,359	0.0%	663,000	200.7%

APPENDIX C

FORM OF OPINION OF BOND COUNSEL

[THIS PAGE INTENTIONALLY LEFT BLANK]

FORM OF OPINION OF BOND COUNSEL

[Date of Closing]

Board of Directors
Washington Metropolitan Area
Transit Authority
600 Fifth Street, N.W.
Washington, D.C. 20001

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance of \$297,675,000 aggregate principal amount of Gross Revenue Transit Bonds, \$242,675,000 Series 2009A (the “Series 2009A Bonds”) and \$55,000,000 Series 2009B (Federally Taxable – Issuer Subsidy – Build America Bonds) (the “Series 2009B Bonds,” and, together with the Series 2009A Bonds, the “Series 2009 Bonds”) of Washington Metropolitan Area Transit Authority (the “Authority”), a body corporate and politic, constituting an instrumentality and agency of the State of Maryland (“Maryland”), the Commonwealth of Virginia (“Virginia”) and the District of Columbia, created and existing under and by virtue of the Washington Metropolitan Area Transit Authority Compact, as amended (the “Compact”), by and between Maryland, Virginia and the District of Columbia.

All terms defined in the Resolution (hereinafter defined) and used herein shall have the meanings assigned in the Resolution, except where the context hereof requires otherwise.

The Series 2009 Bonds are issued under and pursuant to the Compact, and under and pursuant to proceedings of the Authority duly taken, including a resolution adopted by the Authority entitled “Gross Revenue Bond Resolution,” adopted on September 25, 2003, as supplemented by a resolution entitled “2009 Project Supplemental Bond Resolution,” adopted on May 28, 2009 (collectively, the “Resolution”).

The Series 2009 Bonds are dated, mature, are payable, bear interest and are subject to redemption, all as provided in the Resolution.

The Internal Revenue Code of 1986, as amended (the “Code”), establishes certain requirements that must be met subsequent to the issuance and delivery of the Series 2009A Bonds in order that interest on the Series 2009A Bonds be and remain excluded from gross income for federal income tax purposes under Section 103 of the Code. We have examined the Tax Certificate of the Authority, dated the date hereof (the “Tax Certificate”), in which the Authority has made representations, statements of intention and reasonable expectation, certifications of fact and covenants relating to the federal tax status of interest on the Series 2009A Bonds, including, but not limited to, certain representations with respect to the use of the proceeds of the Series 2009A Bonds and the investment of certain funds. The Tax Certificate obligates the Authority to take certain actions necessary to cause interest on the Series 2009A Bonds to be excluded from gross income pursuant to Section 103 of the Code. Noncompliance with the requirements of the Code may cause interest on the Series 2009A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance, irrespective of the date on which such noncompliance occurs or is ascertained. The Authority has covenanted in the Resolution to maintain the exclusion of the interest on the Series 2009A Bonds from gross income for federal income tax purposes pursuant to Section 103(a) of the Code.

In rendering the opinion in paragraph 4 hereof, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectation and certifications of fact contained in the Tax Certificate with respect to matters affecting the exclusion from gross income for

federal income tax purposes pursuant to Section 103 of the Code of interest on the Series 2009A Bonds, and (ii) compliance by the Authority with procedures and covenants set forth in the Tax Certificate as to such tax matters.

We have also examined one of said Series 2009 Bonds as executed and, in our opinion, the form of said Series 2009 Bond and its execution are regular and proper.

The Series 2009 Bonds are issued for the principal purposes of paying the maturing principal and interest due on the Authority's Commercial Paper Notes, Series A and paying certain Capital Costs of the Authority.

The Authority reserves the right to issue additional Obligations or incur Parity Indebtedness on the terms and for the purposes stated in the Resolution. Under the provisions of the Resolution, any Outstanding or additional Obligations or Parity Indebtedness will rank equally with the Series 2009 Bonds as to security and payment from the Trust Estate.

We are of the opinion that:

1. The Authority is duly created and validly existing under the provisions of the Compact.
2. The Authority has the right and power under the Compact to adopt the Resolution, and the Resolution has been duly and lawfully adopted by the Authority, is in full force and effect and is valid and binding upon the Authority and enforceable in accordance with its terms, and no other authorization for the Resolution is required. The Resolution creates the valid pledge which it purports to create of the Trust Estate (as defined in the Resolution), moneys, securities and funds, held or set aside under the Resolution, subject to the application thereof to the purposes and on the conditions permitted by the Resolution.
3. The Authority is duly authorized and entitled to issue the Series 2009 Bonds, and the Series 2009 Bonds are valid, binding and special and limited obligations of the Authority as provided in the Resolution, enforceable in accordance with their terms and the terms of the Resolution and entitled to the benefits of the Resolution and of the Compact, and the Series 2009 Bonds have been duly and validly authorized and issued in accordance with law, including the Compact, and in accordance with the Resolution.
4. Under existing statutes and court decisions (i) interest on the Series 2009A Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code, and (ii) interest on the Series 2009A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and such interest is not included in the adjusted current earnings of corporations for purposes of calculating the alternative minimum tax.
5. Interest on the Series 2009B Bonds is included in gross income for Federal income tax purposes. This opinion is not intended or provided by Bond Counsel to be used and cannot be used by an owner of the Series 2009B Bonds for the purpose of avoiding penalties that may be imposed on the owner of such Series 2009B Bonds. The opinion set forth in this paragraph is provided to support the promotion or marketing of the Series 2009B Bonds. Each owner of Series 2009B Bonds should seek advice based on its particular circumstances from an independent tax advisor.
6. Interest on the Series 2009 Bonds is exempt from all present Maryland, Virginia and District of Columbia personal income taxes.

The opinions expressed in paragraphs 2 and 3 are qualified to the extent that the enforceability of the Resolution and the Series 2009 Bonds, respectively, may be limited by any applicable bankruptcy, insolvency, debt adjustment, moratorium, reorganization or other similar laws, judicial decisions and principles of equity relating to the enforcement of creditors' rights generally or contractual obligations, and judicial discretion and the valid exercise of the sovereign police powers of Maryland, Virginia and the District of Columbia and of the constitutional power of the United States of America.

Except as stated in paragraphs 4, 5 and 6, we express no opinion regarding any other federal, state, local or foreign tax consequences with respect to the Series 2009 Bonds. We express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the federal income tax treatment of interest on the Series 2009 Bonds, or under state, local and foreign tax law.

We express no opinion as to the accuracy or sufficiency of any financial or other information which has been or will be supplied to purchasers of the Series 2009 Bonds.

This opinion letter is rendered solely with regard to the matters expressly opined on above and does not consider or extend to any documents, agreements, representations or other material of any kind not specifically opined on above. No other opinions are intended nor should they be inferred. This opinion letter is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion letter to reflect any future actions, facts or circumstances that may hereafter come to our attention, or any changes in law, or in interpretations thereof, that may hereafter occur, or for any reason whatsoever.

Very truly yours,

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX D

BOOK-ENTRY-ONLY SYSTEM PROCEDURES

[THIS PAGE INTENTIONALLY LEFT BLANK]

BOOK-ENTRY-ONLY SYSTEM PROCEDURES

The information contained in this Appendix has been extracted from a document prepared by DTC, entitled “SAMPLE OFFICIAL STATEMENT LANGUAGE DESCRIBING BOOK-ENTRY-ONLY ISSUANCE.”

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered Bonds registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for maturity of the Bonds, in the aggregate principal amount thereof, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the

Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Authority or Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority, the Underwriters and their respective counsel take no responsibility for the accuracy thereof.

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

[THIS PAGE INTENTIONALLY LEFT BLANK]

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Agreement”) dated June 9, 2009, is executed and delivered by the Washington Metropolitan Area Transit Authority (the “Authority”) in connection with the issuance and sale of the Authority’s \$297,675,000 Gross Revenue Transit Bonds, Series 2009A and Series 2009B Bonds (Federally Taxable - Issuer Subsidy - Build America Bonds) (collectively, the “Bonds”), issued pursuant the Act and the Resolution (as defined in the Official Statement). Capitalized terms used in this Agreement which are not otherwise defined in the Resolution shall have the respective meanings specified above or in Article IV hereof.

ARTICLE I

The Undertaking

Section 1.1. Purpose. This Agreement is being executed and delivered solely to assist the Underwriters in complying with subsection (b)(5) of the Rule.

Section 1.2. Annual Financial Information. (a) The Authority shall provide Annual Financial Information with respect to each fiscal year of the Authority, commencing with fiscal year ending June 30, 2009, by no later than four months after the end of the respective fiscal year, to each NRMSIR and the SID.

(b) The Authority shall provide, in a timely manner, notice of any failure of the Authority to provide the Annual Financial Information by the date specified in subsection (a) above to (i) either the MSRB or each NRMSIR, and (ii) the SID.

Section 1.3. Audited Financial Statements. If not provided as part of Annual Financial Information by the date required by Section 1.2(a) hereof because not available, the Authority shall provide Audited Financial Statements, when and if available, to each NRMSIR and the SID.

Section 1.4. Material Event Notices. (a) If a Material Event occurs, the Authority shall provide, in a timely manner, notice of such Material Event to (i) either the MSRB or each NRMSIR, (ii) the SID and (iii) the Trustee.

(b) Any such notice of a defeasance of Bonds shall state whether the Bonds have been escrowed to maturity or to an earlier redemption date and the timing of such maturity or redemption.

(c) Each Material Event Notice relating to the Bonds shall include the CUSIP numbers of the Bonds to which such Material Event Notice relates or, if the Material Event Notice relates to all bond issues of the Authority including the Bonds, such Material Event Notice need only include the CUSIP number of the Authority.

Section 1.5. Additional Disclosure Obligations. The Authority acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Authority and that, under some circumstances, compliance with this Agreement without additional disclosures or other action may not fully discharge all duties and obligations of the Authority under such laws.

Section 1.6. Additional Information. Nothing in this Agreement shall be deemed to prevent the Authority from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual

Financial Information or notice of Material Event hereunder, in addition to that which is required by this Agreement. If the Authority chooses to include any information in any Annual Financial Information or Material Event Notice in addition to that which is specifically required by this Agreement, the Authority shall have no obligation under this Agreement to update such additional information or include it in any future Annual Financial Information or notice of a Material Event hereunder.

Section 1.7. No Previous Non-Compliance. The Authority represents that in the previous five years it has not failed to comply in all material respects with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

ARTICLE II

Operating Rules

Section 2.1. Reference to Other Filed Documents. It shall be sufficient for purposes of Section 1.2 hereof if the Authority provides Annual Financial Information (but not Material Event notices) by specific reference to documents (i) either (1) provided to each NRMSIR existing at the time of such reference and the SID or (2) filed with the SEC, or (ii) if such document is a “final official statement” as defined in paragraph (f)(3) of the Rule, available from the MSRB.

Section 2.2. Submission of Information. Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time.

Section 2.3. Material Event Notices. Each notice of a Material Event hereunder shall be captioned “Notice of Material Event” and shall prominently state the title, date and CUSIP numbers of the Bonds.

Section 2.4 Filing with Certain Dissemination Agents or Conduits. The Authority may satisfy its obligations hereunder to file any notice, document or information with a NRMSIR or SID by filing the same with any dissemination agent or conduit, including any “central post office” or similar entity, assuming or charged with responsibility for accepting notices, documents or information for transmission to such NRMSIR or SID, to the extent permitted by the SEC or SEC staff or required by the SEC. For this purpose, permission shall be deemed to have been granted by the SEC staff if and to the extent the agent or conduit has received an interpretive letter, which has not been withdrawn, from the SEC staff to the effect that using the agent or conduit to transmit information to the NRMSIRs and the SID will be treated for purposes of the Rule as if such information were transmitted directly to the NRMSIRs and the SID.

Section 2.5. Transmission of Information and Notices. Unless otherwise required by law and, in the Authority’s sole determination, subject to technical and economic feasibility, the Authority shall employ such methods of information and notice transmission as shall be requested or recommended by the herein-designated recipients of the Authority’s information and notices.

Section 2.6. Fiscal Year. (a) The Authority’s current fiscal year begins July 1 and ends on June 30, and the Authority shall promptly notify (i) each NRMSIR, (ii) the SID and (iii) the Trustee of each change in its fiscal year.

(b) Annual Financial Information shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months.

ARTICLE III

Effective Date, Termination, Amendment and Enforcement

Section 3.1. Effective Date; Termination. (a) This Agreement shall be effective upon the issuance of the Bonds.

(b) The Authority's obligations under this Agreement shall terminate upon a legal defeasance, prior redemption or payment in full of all of the Bonds.

(c) This Agreement, or any provision hereof, shall be null and void in the event that the Authority (1) receives an opinion of Counsel to the effect that those portions of the Rule which require this Agreement, or such provision, as the case may be, do not or no longer apply to the Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) delivers copies of such opinion to each NRMSIR and the SID.

Section 3.2. Amendment. (a) This Agreement may be amended, by written agreement of the parties, without the consent of the holders of the Bonds if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Authority or the type of business conducted thereby, (2) this Agreement as so amended would have complied with the requirements of the Rule as of the date of this Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the Authority shall have received an opinion of Counsel to the same effect as set forth in clause (2) above, (4) the Authority shall have received an opinion of Counsel or a determination by a person, in each case unaffiliated with the Authority, to the effect that the amendment does not materially impair the interests of the holders of the Bonds, and (5) the Authority shall have delivered copies of such opinion(s) and amendment to each NRMSIR and the SID.

(b) This Agreement may be amended, by written agreement of the parties, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Agreement which is applicable to this Agreement, (2) the Authority shall have received an opinion of Counsel to the effect that performance by the Authority under this Agreement as so amended will not result in a violation of the Rule and (3) the Authority shall have delivered copies of such opinion and amendment to each NRMSIR and the SID.

(c) To the extent any amendment to this Agreement results in a change in the type of financial information or operating data provided pursuant to this Agreement, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(d) If an amendment is made pursuant to Section 3.2(a) hereof to the accounting principles to be followed by the Authority in preparing its financial statements, the Annual Financial Information for the fiscal year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

Section 3.3 Benefit; Third-Party Beneficiaries; Enforcement. (a) The provisions of this Agreement shall constitute a contract with and inure solely to the benefit of the holders from time to time of the Bonds, except that beneficial owners of Bonds shall be third-party beneficiaries of this Agreement. The provisions of this Agreement shall create no rights in any person or entity except as provided in this subsection (a) and subsection (b) of this Section.

(b) The obligations of the Authority to comply with the provisions of this Agreement shall be enforceable by any holder of Outstanding Bonds. The holders' rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the Authority's obligations under this Agreement. In consideration of the third-party beneficiary status of beneficial owners of Bonds pursuant to subsection (a) of this Section, beneficial owners shall be deemed to be holders of Bonds for purposes of this subsection (b).

(c) Any failure by the Authority to perform in accordance with this Agreement shall not constitute a default or an Event of Default under the Resolution, and the rights and remedies provided by the Resolution upon the occurrence of a default or an Event of Default shall not apply to any such failure.

(d) This Agreement shall be construed and interpreted in accordance with the Authority's Compact, and any suits and actions arising out of this Agreement shall be instituted in a court of competent jurisdiction; provided, however, that to the extent this Agreement addresses matters of federal securities laws, including the Rule, this Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

ARTICLE IV

Definitions

Section 4.1. Definitions. The following terms used in this Agreement shall have the following respective meanings:

(1) "Annual Financial Information" means, collectively:

A. (i) Audited Financial Statements, if available, or Unaudited Financial Statements for the immediately preceding fiscal year; and

(ii) the Authority's Comprehensive Annual Financial Report, if any is prepared, for the immediately preceding fiscal year, and if not prepared, such annual financial information as the Authority is advised by disclosure counsel or bond counsel would satisfy the definition of "annual financial information" in the Rule;

B. the tables in the Official Statement entitled (i) "Operating Expenses for Fiscal Years 2006-2008," (ii) "Participating Jurisdiction Subsidy Payments," (iii) "Changes in Revenues, Expenses and Net Assets for Fiscal Years 2004-2008," (iv) "Summary of State and Local Funding for Operating and Capital Budgets," (v) "Summary of Funding by Program and Source," (vi) "Pension and OPEB Summary," (vii) the table under the caption "Outstanding Debt," (viii) "Gross Revenues and Debt Service Coverage, Fiscal Years 2006 - 2010" and (ix) "Operating Statistics."

and

C. the information regarding amendments to this Agreement required pursuant to Sections 3.2(c) and (d) of this Agreement.

Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

The descriptions contained in Section 4.1(1) hereof of financial information and operating data constituting Annual Financial Information are of general categories of financial information and operating data. When such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided in lieu of such information. Any Annual Financial Information containing modified financial information or operating data shall explain, in narrative form, the reasons for the modification and the impact of the modification on the type of financial information or operating data being provided.

(2) “Audited Financial Statements” means the annual general purpose financial statements, if any, of the Authority, audited by such auditor as selected by the Authority or as shall otherwise then be required or permitted by law or the Resolution. Audited Financial Statements shall be prepared in accordance with GAAP; provided, however, that pursuant to Section 3.2(a) hereof, the Authority may from time to time, if required by Authority legal requirements, modify the accounting principles to be followed in preparing its financial statements. The notice of any such modification required by Section 3.2(a) hereof shall include a reference to the specific law or regulation describing such accounting principles, or other description thereof.

(3) “Counsel” means nationally recognized bond counsel or counsel expert in federal securities laws.

(4) “GAAP” means generally accepted accounting principles as prescribed from time to time for governmental units by the Governmental Accounting Standards Board, the Financial Accounting Standards Board, or any successor to the duties and responsibilities of either of them.

(5) “Material Event” means any of the following events with respect to the Bonds, whether relating to the Authority or otherwise, if material:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions or events affecting the tax-exempt status of the security;
- (vii) modifications to rights of security holders;
- (viii) bond calls;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the securities; and
- (xi) rating changes.

(6) “MSRB” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934.

(7) “NRMSIR” means, at any time, a then-existing nationally recognized municipal securities information repository, as recognized from time to time by the SEC for the purposes referred to

in the Rule. NRMSIRs currently are identified on the SEC website at <http://www.sec.gov/consumer/nrmsir.htm>.

(8) “Official Statement” means the Official Statement dated June 3, 2009, of the Authority relating to the Bonds.

(9) “Rule” means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CFR Part 240, §240.15c2-12), as in effect on the date of this Agreement, including any official interpretations thereof issued either before or after the effective date of this Agreement which are applicable to this Agreement.

(10) “SEC” means the United States Securities and Exchange Commission.

(11) “SID” means, at any time, a then-existing state information depository, if any, as operated or designated as such by or on behalf of the District of Columbia, or the state of Maryland or the Commonwealth of Virginia for the purposes referred to in the Rule. As of the date of this Agreement, there is no SID.

(12) “Unaudited Financial Statements” means the same as Audited Financial Statements, except that they shall not have been audited.

**WASHINGTON METROPOLITAN AREA
TRANSIT AUTHORITY**

By: _____

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

