

*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 2017A 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 2017A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In addition, in the opinion of Bond Counsel, interest on the Series 2017A Bonds is exempt from all current Maryland, Virginia and District of Columbia personal income taxes. See "TAX MATTERS" herein.*

**\$197,370,000**  
**WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY**  
**Gross Revenue Transit Refunding Bonds**

**\$148,515,000**  
**Series 2017A-1**

**\$48,855,000**  
**Series 2017A-2**  
**(2019 Crossover)**



**Dated: Date of Delivery**

**Due: July 1, as shown on inside cover**

**The Series 2017A Bonds.** The above-captioned Bonds (collectively, the "Series 2017A 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 2017A Refunding Supplemental Bond Resolution adopted by the Authority on June 22, 2017 (collectively, the "Resolution"). The Series 2017A Bonds will be issued in authorized denominations of \$5,000 or any integral multiple thereof.

**Purpose.** Proceeds of the Series 2017A Bonds will be used to (i) refund the Refunded Bonds (as defined herein) and (ii) pay certain costs of issuing the Series 2017A Bonds. As more fully described herein, only a portion of the Refunded Bonds will be legally defeased upon issuance of the Series 2017A Bonds. See "INTRODUCTION" and "PLAN OF FINANCE AND SOURCES AND USES OF FUNDS" herein.

**Security.** The following paragraphs are qualified in all respects by the information in this Official Statement under the caption "SECURITY AND SOURCES OF PAYMENT OF THE BONDS" and the documents referenced under such caption.

The Series 2017A Bonds, together with all other bonds issued under the Resolution (the "Bonds"), are special obligations of the Authority 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.

*The Series 2017A 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 of America and the Participating Jurisdictions are not pledged to the payment of the Series 2017A Bonds, and none of the foregoing are liable thereon. The Authority has no taxing power.*

**Redemption.** The Series 2017A Bonds are subject to redemption prior to maturity, as described in "THE SERIES 2017A BONDS – Redemption."

**Additional Obligations.** The Authority has reserved the right to issue additional bonds and certain other obligations secured on a parity basis with the Series 2017A Bonds under the circumstances and upon satisfaction of certain conditions set forth in the Resolution and described herein. See "SECURITY AND SOURCES OF PAYMENT OF THE BONDS – Parity Liens and Additional Indebtedness."

**Interest Payment Dates.** The Series 2017A Bonds will bear interest at the rates set forth on the inside cover page hereof. Interest on the Series 2017A Bonds is payable semiannually on each January 1 and July 1, commencing January 1, 2018, computed on the basis of a 360-day year comprised of twelve 30-day months.

**Tax Status.** For information on the tax status of the Series 2017A Bonds, see the italicized language at the top of this cover page and "TAX MATTERS" herein.

**Delivery Date.** It is expected that the Series 2017A Bonds will be available for delivery to Depository Trust Company on or about July 12, 2017.

**This cover page contains certain information for quick reference only. It is not a summary of the Series 2017A Bonds or this Official Statement. Investors must read the entire Official Statement, including the Appendices, which are an integral part hereof, to obtain information essential to the making of an informed investment decision regarding the Series 2017A Bonds.**

*The Series 2017A Bonds are offered when, as and if issued by the Authority and accepted by the Underwriters. Legal matters with respect to the Series 2017A Bonds are subject to the approval of Hawkins Delafield & Wood LLP, Bond Counsel. Certain legal matters will be passed upon for the Authority by its General Counsel, Patricia Y. Lee, Esq. Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, Washington, D.C. Hawkins Delafield & Wood LLP, as Disclosure Counsel to the Authority, will deliver an opinion regarding certain matters to the Authority and the Underwriters.*

**J.P. Morgan**  
**Academy Securities**  
**PNC Capital Markets LLC**

**Cabrera Capital Markets, LLC**  
**BofA Merrill Lynch**  
**Ramirez & Co., Inc.**

**MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS, PRICES, AND CUSIPS<sup>†</sup>****\$197,370,000****Washington Metropolitan Area Transit Authority  
Gross Revenue Transit Refunding Bonds****\$148,515,000****Series 2017A-1**

<b><u>Maturity</u> <u>(July 1)</u></b>	<b><u>Principal</u> <u>Amount</u><sup>*</sup></b>	<b><u>Interest</u> <u>Rate</u></b>	<b><u>Yield</u></b>	<b><u>Price</u></b>	<b><u>CUSIP</u></b>
2020	\$9,165,000	5.000%	1.220%	110.990	938782EG0
2021	\$9,615,000	5.000%	1.360%	114.018	938782EH8
2022	\$10,090,000	5.000%	1.500%	116.699	938782EJ4
2023	\$10,595,000	5.000%	1.620%	119.157	938782EK1
2024	\$11,120,000	5.000%	1.730%	121.382	938782EL9
2025	\$11,675,000	5.000%	1.900%	122.824	938782EM7
2026	\$12,255,000	5.000%	2.100%	123.595	938782EN5
2027	\$12,865,000	5.000%	2.220%	124.739	938782EP0
2028	\$13,505,000	5.000%	2.350%*	123.429*	938782EQ8
2029	\$14,180,000	5.000%	2.460%*	122.334*	938782ER6
2030	\$14,895,000	5.000%	2.540%*	121.545*	938782ES4
2031	\$15,640,000	5.000%	2.610%*	120.859*	938782ET2
2032	\$2,915,000	5.000%	2.650%*	120.469*	938782EU9

**\$48,855,000****Series 2017A-2  
(2019 Crossover)**

<b><u>Maturity</u> <u>(July 1)</u></b>	<b><u>Principal</u> <u>Amount</u><sup>*</sup></b>	<b><u>Interest</u> <u>Rate</u></b>	<b><u>Yield</u></b>	<b><u>Price</u></b>	<b><u>CUSIP</u></b>
2032	\$13,530,000	5.000%	2.650%*	120.469*	938782EV7
2033	\$17,250,000	5.000%	2.700%*	119.984*	938782EW5
2034	\$18,075,000	5.000%	2.750%*	119.501*	938782EX3

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\* Price and yield to the first par call date of July 1, 2027.

<sup>†</sup> CUSIP is a registered trademark of the American Bankers Association (the “ABA”). CUSIP data is provided by CUSIP Global Services, which is managed on behalf of the ABA by S&P Global Markets Intelligence, a part of S&P Global, Inc. The CUSIP numbers listed above are being provided solely for the convenience of the holders of Series 2017A Bonds only at the time of issuance of the Series 2017A Bonds and the Authority, the Trustee, and the Underwriters do not make any representation with respect to such CUSIP numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP numbers are subject to being changed after the issuance of the Series 2017A Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of the Series 2017A Bonds or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that may be applicable to all or a portion of the Series 2017A Bonds.

**WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY**

600 Fifth Street, N.W.  
Washington, D.C. 20001  
(202) 962-2882  
Attention: Treasurer's Office

**BOARD OF DIRECTORS**

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Corbett A. Price, District of Columbia	Carol Carmody, Federal Government
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**AUTHORITY EXECUTIVE STAFF**

Paul J. Wiedefeld, General Manager and Chief Executive Officer  
Dennis Anosike, Chief Financial Officer  
Joseph Leader, Chief Operating Officer  
Patricia Y. Lee, Esq., General Counsel  
Craig Gross, Treasurer  
Patrick Lavin, Chief Safety Officer

**BOND COUNSEL AND DISCLOSURE COUNSEL**

Hawkins Delafield & Wood LLP

**FINANCIAL ADVISOR**

PFM Financial Advisors, LLC  
Chicago, Illinois

**AUDITOR**

RSM US LLP  
Washington, D.C.

**No Offering May Be Made Except by this Official Statement.** No dealer, broker, salesperson or other person has been authorized by the Authority or the Underwriters 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 or the Underwriters.

**No Unlawful Offers or Solicitations.** 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 2017A Bonds by any person, in any jurisdiction in which such sale would be unlawful.

**Use of this Official Statement.** This Official Statement is submitted in connection with the sale of the Series 2017A Bonds described in this Official Statement and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract or agreement among the Authority, the Underwriters, and the purchasers or owners of any offered Series 2017A Bonds. 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: [www.munios.com](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.

**Preparation of this Official Statement.** 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 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.

**Order and Placement of Materials.** 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 cover page, the inside cover pages and 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 2017A Bonds is made only by means of this entire Official Statement.

**Estimates and Forecasts.** The statements contained in this Official Statement and the Appendices hereto that are not purely historical are forward-looking statements. Such forward-looking statements can be identified, in some cases, by terminology such as “may,” “will,” “should,” “expects,” “intends,” “plans,” “anticipates,” “believes,” “estimates,” “projects,” “predicts,” “potential,” “illustrate,” “example,” and “continue,” or the singular, plural, negative or other derivations of these or other comparable terms. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to such parties on the date of this Official Statement, and the Authority assumes no obligation to update any such forward-looking statements. The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including, but not limited to, risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in various important factors. Accordingly, actual results may vary from the projections, forecasts and estimates contained in this Official Statement and such variations may be material, which could affect the ability to fulfill some or all of the obligations under the Series 2017A Bonds.

**Public Offering Prices.** In connection with the offering of the Series 2017A Bonds, the Underwriters may overallocate or effect transactions which stabilize or maintain the market price of the Series 2017A Bonds at levels above those which might otherwise prevail in the open market. Such stabilization, if commenced, may be discontinued at any time.

**No Recommendation or Registration.** The Series 2017A Bonds 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. The Series 2017A Bonds have not been registered with the Securities and Exchange Commission (the “SEC”) under the Securities Act of 1933, as amended, in reliance upon the exemption contained in Section 3(a)(2) of such act; and the Indenture has not been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon certain exemptions contained in such act.

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## Summary

*The following summary is subject in all respects to more complete information contained elsewhere in this Official Statement, and in no event should this summary be separated from 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.*

<b>Issuer:</b>	Washington Metropolitan Area Transit Authority
<b>Issue:</b>	\$148,515,000 Gross Revenue Transit Refunding Bonds, Series 2017A-1 (the “Series 2017A-1 Bonds”) and \$48,855,000 Gross Revenue Transit Refunding Bonds, Series 2017A-2 (2019 Crossover) (the “Series 2017A-2 Bonds,” and together with the Series 2017A-1 Bonds, the “Series 2017A Bonds”)
<b>Dated Date:</b>	Date of Delivery
<b>Denominations:</b>	\$5,000 and integral multiples thereof
<b>Interest:</b>	The Series 2017A Bonds will bear interest at the rates set forth on the inside cover page hereof, semiannually on January 1 and July 1, commencing January 1, 2018, computed on the basis of a 360-day year comprised of twelve 30-day months.
<b>Redemption:</b>	The Series 2017A Bonds are subject to redemption prior to maturity as described under “THE SERIES 2017A BONDS – Redemption” herein.
<b>Security for the Series 2017A Bonds:</b>	The Resolution pledges the Trust Estate as security for the payment of the Bonds. See “SECURITY AND SOURCES OF PAYMENT OF THE BONDS.”
<b>Certain Key Definitions:</b>	<p>“<i>Authority</i>” 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.</p> <p>“<i>Capital Costs</i>” 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.</p> <p>“<i>Capital Funding Agreement</i>” means the agreement among the Authority and the Participating Jurisdictions to provide for the funding of the Capital Improvement Program. The Capital Funding Agreement is scheduled to expire on June 30, 2017. On March 23, 2017 and April 27, 2017, the Board authorized a one-year extension of the Capital Funding Agreement, which the Authority and the Participating Jurisdictions expect to execute on or before June 30, 2017. Such extension is expected to provide funding for the Approved Fiscal Year 2018 Capital Budget (as defined herein). For more information on the Capital Funding Agreement and the Approved Fiscal Year 2018 Capital Budget, see THE TRANSIT SYSTEM – Funding of the Capital Costs of the Transit System” and “CERTAIN AUTHORITY FINANCIAL INFORMATION – Annual Budgets – Fiscal Year 2018 Budget” and “– Capital Improvement Program” herein.</p> <p>“<i>Compact</i>” means the Washington Metropolitan Area Transit Authority Compact by and among the State of Maryland, the Commonwealth of Virginia, and the District of Columbia.</p>

*“Fiscal Year”* means, when referring to the Authority, the twelve-month period from July 1 to June 30 in each year. The Authority fiscal year is identified by the calendar year in which it ends. For example, the Fiscal Year 2018 is the fiscal year that begins July 1, 2017 and ends on June 30, 2018.

*“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.

*“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 2017A Refunding Supplemental Bond Resolution adopted by the Authority on June 22, 2017.

*“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; 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.

*“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 amounts from the Stable and Reliable Funding Sources, are subject to appropriation by each Participating Jurisdiction.

*“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.

**Budgeting:**

The Authority’s operating budget, including debt service payments, is funded from passenger revenues and operating contributions from the Participating Jurisdictions. The Authority’s capital budget is funded from capital contributions of the federal government and the Participating Jurisdictions. The Authority has entered into the Capital Funding Agreement with the Participating Jurisdictions and is expected to execute an extension of such agreement on or before June 30, 2017, to provide funding for the Approved Fiscal Year 2018 Capital Budget.

Amounts to be paid by the Participating Jurisdictions to the Authority to fund the Authority’s budget are subject to appropriation by each Participating Jurisdiction. 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 the Capital Costs of the Transit System” and “– Funding of the 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.” The Authority has satisfied the Rate Covenant by, in part, utilizing available unspent capital funds to pay operating expenses. See “THE TRANSIT SYSTEM – Funding of the Capital Costs of the Transit System – *Ongoing Funding*” and “ONGOING FINANCIAL AND OPERATIONAL CONCERNS – Capital Budget Expenditures.”

**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.

Obligations may be issued to pay, or to provide for the payment of, all or part of Capital Costs. 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. For information on the conditions precedent to the issuance of additional indebtedness, see “SECURITY AND SOURCES OF PAYMENT OF THE BONDS – Parity Liens and Additional Indebtedness.”

In the third quarter of calendar year 2017, the Authority expects to issue an additional Series of Obligations for the payment of Capital Costs in the Approved Fiscal Year 2018 Capital Budget. The Authority provides no assurance as to the timing, amount, or completion of any such financing.

**Ratings:**

Fitch and S&P have assigned ratings to the Series 2017A Bonds of “AA-” (with a stable outlook) and “AA-” (with a stable outlook), respectively. See “RATINGS” herein.

## **OFFICIAL STATEMENT**

**Relating to**

**\$197,370,000**

### **WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY GROSS REVENUE TRANSIT REFUNDING BONDS**

**\$148,515,000  
Series 2017A-1**

**\$48,855,000  
Series 2017A-2  
(2019 Crossover)**

## **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 \$148,515,000 Gross Revenue Transit Refunding Bonds, Series 2017A-1 (the “Series 2017A-1 Bonds”) and \$48,855,000 Gross Revenue Transit Refunding Bonds, Series 2017A-2 (2019 Crossover) (the “Series 2017A-2 Bonds,” and together with the Series 2017A-1 Bonds, the “Series 2017A Bonds”). The Series 2017A 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 2017A Refunding Supplemental Bond Resolution adopted by the Authority on June 22, 2017 (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 a paratransit service (“MetroAccess”) under the Americans With Disabilities Act (“ADA”), each offering 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 Anne Arundel, Charles, 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, 2016, the Authority provided more than 191.3 million Metrorail trips, 127.4 million Metrobus trips, and 2.2 million MetroAccess trips.

Proceeds of the Series 2017A-1 Bonds will be used to (i) refund all or a portion of the Authority’s outstanding Series 2009A Bonds (the “Series 2009A Refunded Bonds”) and (ii) pay certain costs of issuing the Series 2017A-1 Bonds.

Proceeds of the Series 2017A-2 Bonds will be used to (i) refund in a crossover refunding all or a portion of the Authority's outstanding Series 2009B Bonds (the "Series 2009B Refunded Bonds," and together with the Series 2009A Refunded Bonds, the "Refunded Bonds") and (ii) pay certain costs of issuing the Series 2017A-2 Bonds.

For more information on the issuance of the Series 2017A Bonds and the Refunded Bonds, see "PLAN OF FINANCE AND SOURCES AND USES OF FUNDS." The Authority expects to refund the Refunded Bonds set forth in APPENDIX E. Only the Series 2009A Refunded Bonds will be legally defeased upon issuance of the Series 2017A Bonds. At such time, the Series 2009A Refunded Bonds will no longer be secured by the Trust Estate under the Resolution and will be paid from the Series 2009A Refunded Bond Escrow Fund (as defined herein) established under the Series 2009A Refunded Bonds Escrow Agreement (as defined herein). The refunding of the Refunded Bonds is subject to market conditions and to the delivery of the Series 2017A Bonds.

On June 9, 2009, the Authority issued \$242,675,000 Gross Revenue Transit Bonds, Series 2009A (Tax-Exempt) (the "Series 2009A Bonds") and \$55,000,000 Gross Revenue Transit Bonds, Series 2009B (Federally Taxable – Issuer Subsidy – Build America Bonds) (the "Series 2009B Bonds," and together with the Series 2009A Bonds, the "Series 2009 Bonds") under the Resolution. The Series 2009B Bonds will remain outstanding following the issuance of the Series 2017A Bonds and are sometimes referred to herein as the "Non-Refunded Series 2009 Bonds." On June 8, 2016, the Authority issued its Gross Revenue Transit Bonds, Series 2016A, in the original aggregate principal amount of \$220,000,000 (the "Series 2016A Bonds") under the Resolution. The Non-Refunded Series 2009 Bonds, the Series 2016A Bonds, and the Series 2017A 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." For more information on the Non-Refunded Series 2009 Bonds and the Series 2016A Bonds, see "CERTAIN AUTHORITY FINANCIAL INFORMATION – Outstanding Debt" herein.

**The Series 2017A Bonds are special obligations of the Authority payable solely from the Trust Estate pledged by the Resolution. The Series 2017A 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 of America and the Participating Jurisdictions are not pledged to the payment of the Series 2017A 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 2017A 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.

This Official Statement contains information relating principally to the organization, operation, and economic resources of the Authority, and includes certain financial and other information supplementing the most recent basic financial statements of the Authority, which can be found in the Authority's Comprehensive Annual Financial Report ("CAFR") for Fiscal Year 2016. The following portion of the CAFR for Fiscal Year 2016 is incorporated herein by reference: the information under the heading "Financial Section," from pages 3-87, inclusive (collectively, the "Fiscal Year 2016 Audited Financial Statements"). The Authority's CAFR for Fiscal Year 2016 and the Fiscal Year 2016 Audited Financial Statements can be found at [https://wmata.com/about/records/public\\_docs/upload/CAFR-Final-12-15-16.pdf](https://wmata.com/about/records/public_docs/upload/CAFR-Final-12-15-16.pdf). Unless expressly stated otherwise herein, no other information is incorporated by reference

in this Official Statement. Persons considering a purchase of the Series 2017A Bonds should rely only on information contained in this Official Statement or expressly incorporated by reference herein.

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

## **THE SERIES 2017A BONDS**

### **General**

The Series 2017A 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, 2018, 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 2017A 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 2017A Bonds shall be payable to the registered owners upon the surrender of Series 2017A Bonds at the principal corporate trust office of the Trustee. Interest on the Series 2017A 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 2017A 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 2017A 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 2017A 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 2017A Bonds maturing on or after July 1, 2028, 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, 2027, 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.

#### *Selection of Series 2017A Bonds to be Redeemed in Partial Redemption*

If less than all of the Outstanding Series 2017A 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 2017A Bonds to be redeemed and portions of any thereof to be redeemed in part. Series 2017A Bonds of denominations equal or less than the minimum authorized denomination thereof may be redeemed only as a whole. Series 2017A 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 2017A Bond which is not redeemed is an authorized denomination). If the Series 2017A 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 2017A 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 the Authority and the beneficial owners be made in accordance with these same proportional provisions. However, the 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.

### *Notice of Redemption*

Upon notification from the Authority of its election to redeem the Series 2017A Bonds, the Trustee is required under the Resolution to give notice of such redemption to the holders of the Series 2017A Bonds. Under the Resolution, the redemption notice must include: (i) CUSIP numbers; (ii) maturities; (iii) interest rate (if any maturity bears interest at different rates and all Series 2017A Bonds of such maturity are not being redeemed); (iv) the letters, numbers, or other distinguishing marks (if less than all Series 2017A Bonds of any like tenor, maturity, and interest rate are being redeemed); (v) if a partial redemption, the portions of the principal amount to be redeemed; and (vi) the redemption date and place. If a redemption is conditional, the redemption notice must include all conditions that must be satisfied. A redemption notice will also include the redemption price, together with interest accrued to the redemption date, and that from and after such date interest thereon will cease to accrue and be payable. Under the Resolution, a redemption notice must be given to the holders of the Series 2017A Bonds to be redeemed not less than 30 days nor more than 45 days before the redemption date.

Failure to give any such notice to any particular bondholder will not affect the validity of the proceedings for the redemption of the Series 2017A Bonds not owned by such bondholder and failure of any bondholder to receive such notice will not affect the validity of the proposed redemption of the Series 2017A Bonds. 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 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. The Trustee will notify affected bondholders of such rescission as promptly as practicable upon the failure of such condition or the occurrence of such other event.

### **Book-Entry-Only System**

The Series 2017A 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"). Beneficial ownership interests in the Series 2017A Bonds will be available in book-entry-only form. Purchasers of beneficial ownership interests in the Series 2017A Bonds will not receive certificates representing their interests in the Series 2017A Bonds purchased. See "APPENDIX C – BOOK-ENTRY-ONLY SYSTEM PROCEDURES."

Principal and interest on the Series 2017A Bonds are payable, so long as the Series 2017A Bonds are in book-entry form, through a securities depository as described in APPENDIX C.

*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 2017A Bonds; (iii) the payment by DTC or any DTC Participant of any amount received with respect to the Series 2017A Bonds; (iv) any consent given or other action taken by DTC or its nominee as the owner of the Series 2017A Bonds; or (v) any other related matter.*

## **PLAN OF FINANCE AND SOURCES AND USES OF FUNDS**

### **Series 2017A-1 Bonds**

Proceeds of the Series 2017A-1 Bonds will be used to (i) refund the Series 2009A Refunded Bonds and (ii) pay certain costs of issuing the Series 2017A-1 Bonds.

A portion of the proceeds of the Series 2017A-1 Bonds will be (i) deposited in an escrow fund (the “Series 2009A Refunded Bond Escrow Fund”) established under a Series 2009A Refunded Bonds Escrow Agreement, dated the date of delivery of the Series 2017A Bonds (the “Series 2009A Refunded Bond Escrow Agreement”), between the Authority and The Bank of New York Mellon, as Trustee and Escrow Agent, and (ii) invested in Defeasance Securities, with the monies therefrom applied to the payment of the interest on and redemption price of the Series 2009A Refunded Bonds, as they become due and payable, to and including July 1, 2019, the date fixed for the redemption of the Series 2009A Refunded Bonds. See “VERIFICATION OF MATHEMATICAL COMPUTATIONS” herein.

### **Series 2017A-2 Bonds**

Proceeds of the Series 2017A-2 Bonds will be used to (i) make a deposit into an escrow fund (the “Crossover Escrow Fund”) established under a Series 2009B Gross Revenue Transit Bonds Escrow Deposit Agreement (the “Series 2009B Refunded Bond Escrow Agreement”), dated the date of delivery of the Series 2017A Bonds, between the Authority and The Bank of New York Mellon, as Trustee and Escrow Agent, for purposes of refunding the Series 2009B Refunded Bonds (as further described in the succeeding paragraph), and (ii) pay certain costs of issuing the Series 2017A-2 Bonds. See “VERIFICATION OF MATHEMATICAL COMPUTATIONS” herein.

The refunding of the Series 2009B Refunded Bonds is being structured as a crossover refunding and such bonds will not be legally defeased upon issuance of the Series 2017A-2 Bonds. Accordingly, prior to the Crossover Date (as defined herein), the Series 2009B Refunded Bonds will not be secured or payable from amounts held by the Escrow Agent under the 2009B Refunded Bond Escrow Agreement, but will continue to be secured by and payable from the Trust Estate on a parity with all Obligations under the Resolution.

The amounts held by the Escrow Agent in the Crossover Escrow Fund will be invested in certain Authorized Investments. The portfolio of such investments will be structured, as to maturity and redemption, to pay (i) the interest coming due on the principal amount of the Series 2017A-2 Bonds to and including July 1, 2019 (the “Crossover Date”), and (ii) the Redemption Price of the Series 2009B Refunded Bonds upon the redemption thereof on the Crossover Date. The Series 2009B Refunded Bond Escrow Agreement provides that the Redemption Price of the Series 2009B Refunded Bonds will be paid on the Crossover Date using amounts held in the Crossover Escrow Fund. Pursuant to the Series 2009B Refunded Bond Escrow Agreement, the Authority irrevocably elects to call all of the outstanding Series 2009B Refunded Bonds for redemption on the Crossover Date at a Redemption Price equal to 100% of

the principal amount thereof to be redeemed without premium. See “VERIFICATION OF MATHEMATICAL COMPUTATIONS” herein.

For more information on the Refunded Bonds, see APPENDIX E hereto.

#### Sources and Uses of Funds

	<u>Series 2017A-1 Bonds</u>	<u>Series 2017A-2 Bonds</u>
<b><u>Sources</u></b>		
Par Amount	\$148,515,000.00	\$48,855,000.00
Original Issue Premium	<u>30,585,491.80</u>	<u>9,741,501.45</u>
<b>Total Sources</b>	<b><u>\$179,100,491.80</u></b>	<b><u>\$58,596,501.45</u></b>
<b><u>Uses</u></b>		
Deposit to the Series 2009A Refunded Bond Escrow Fund	\$178,135,204.86	-
Deposit to the Crossover Escrow Fund	-	\$58,233,611.07
Deposit to the Costs of Issuance Account	476,291.49	156,506.44
Underwriters' Discount	<u>488,995.45</u>	<u>206,383.94</u>
<b>Total Uses</b>	<b><u>\$179,100,491.80</u></b>	<b><u>\$58,596,501.45</u></b>

#### Expected Future Financing

In the third quarter of calendar year 2017, the Authority expects to issue an additional Series of Obligations, in an aggregate principal amount not to exceed \$575.2 million (as authorized by the Board), for the payment of Capital Costs in the Approved Fiscal Year 2018 Capital Budget. The Authority provides no assurance as to the timing, amount, or completion of any such financing.



## ANNUAL DEBT SERVICE REQUIREMENTS

Fiscal Year Ending June 30,	Series 2017A-1 Bonds				Series 2017A-2 Bonds			
	Existing Debt Service <sup>(2)</sup>	LESS: Series 2009A Refunded Bonds Debt Service <sup>(2),(3)</sup>	Principal	Interest	Principal	Interest	LESS: Interest Payments from the Escrow Account	Adjusted Total Debt Service <sup>(1)</sup>
2018	\$79,703,171	\$4,307,597	-	\$3,485,977	-	\$1,146,735	\$1,146,735	\$78,881,551
2019	111,567,796	8,615,194	-	7,425,750	-	2,442,750	2,442,750	110,378,352
2020	107,730,171	9,912,933	-	7,425,750	-	2,442,750	1,221,375	106,464,363
2021	21,006,596	21,006,596	\$9,165,000	7,196,625	-	2,442,750	-	18,804,375
2022	20,989,665	20,989,665	9,615,000	6,727,125	-	2,442,750	-	18,784,875
2023	20,974,384	20,974,384	10,090,000	6,234,500	-	2,442,750	-	18,767,250
2024	20,959,178	20,959,178	10,595,000	5,717,375	-	2,442,750	-	18,755,125
2025	20,942,471	20,942,471	11,120,000	5,174,500	-	2,442,750	-	18,737,250
2026	20,927,559	20,927,559	11,675,000	4,604,625	-	2,442,750	-	18,722,375
2027	20,907,734	20,907,734	12,255,000	4,006,375	-	2,442,750	-	18,704,125
2028	20,891,159	20,891,159	12,865,000	3,378,375	-	2,442,750	-	18,686,125
2029	20,870,865	20,870,865	13,505,000	2,719,125	-	2,442,750	-	18,666,875
2030	20,855,743	20,855,743	14,180,000	2,027,000	-	2,442,750	-	18,649,750
2031	20,842,084	20,842,084	14,895,000	1,300,125	-	2,442,750	-	18,637,875
2032	20,823,165	20,823,165	15,640,000	536,750	-	2,442,750	-	18,619,500
2033	20,827,750	20,827,750	2,915,000	72,875	\$13,530,000	2,104,500	-	18,622,375
2034	20,788,002	20,788,002	-	-	17,250,000	1,335,000	-	18,585,000
2035	20,732,922	20,732,922	-	-	18,075,000	451,875	-	18,526,875
<b>Total<sup>(1)</sup></b>	<b>\$612,340,414</b>	<b>\$336,174,998</b>	<b>\$148,515,000</b>	<b>\$68,032,852</b>	<b>\$48,855,000</b>	<b>\$39,236,610</b>	<b>\$4,810,860</b>	<b>\$575,994,018</b>

1. Totals may not sum due to rounding.

2. The Series 2009B Bonds were issued by the Authority under the Resolution as Build America Bonds (“BABs”). The American Recovery and Reinvestment Act of 2009 created the BABs program. Under such program, the Authority receives a federal debt service subsidy for such bonds (35% of the corresponding interest payable on the related bond). Since federal Fiscal Year 2013, federal debt service subsidies have been cut by 6.8% to 8.7%. This table assumes that the federal debt service subsidy for the Series 2009B Bonds will continue to be reduced in each applicable fiscal year by 6.9%. For more information on the Series 2009B Bonds, see footnote 7 to Table 1 and “CERTAIN AUTHORITY FINANCIAL INFORMATION – Outstanding Debt.”

3. Debt service on the Series 2009B Bonds will be paid by the Authority until the Crossover Date.

## **SECURITY AND SOURCES OF PAYMENT OF THE BONDS**

### **Limited Obligations**

The Series 2017A Bonds, together with the Non-Refunded Series 2009 Bonds and the Series 2016A 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. The Series 2017A 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 of America and the Participating Jurisdictions are not pledged to the payment of the Series 2017A 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 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 the 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.

In the 2017A Refunding Supplemental Resolution and as permitted under the Resolution, the Authority has provided notification to the Trustee that all parking facilities under the control, ownership or management of the Authority constitute Parking Facilities (as defined in the Resolution and described in APPENDIX A hereto) and Revenues derived therefrom are excluded from Gross Revenues.

For Gross Revenues collected by the Authority in Fiscal Years 2012 through 2016 and projected amounts for Fiscal Years 2017 and 2018, see Table 1 below.

### *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 (i) operating and maintaining the Transit System and (ii) debt service that is in excess of (a) other revenues received by the Authority from the operation of the Transit System; and (b) any federal subsidies contributed for operating expenses of the Transit System. Each Participating Jurisdiction adopted legislation, described below, that identified certain local revenue sources that would be used by such Participating Jurisdiction to meet its contribution described in the preceding sentence.

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 payments for operation and maintenance expenses and debt service; the payments can be made from all available funds of the Participating Jurisdiction. Payments by the Participating Jurisdictions, including amounts from the Stable and Reliable Funding Sources, are subject to appropriation by each Participating Jurisdiction. Only after such payments are appropriated and transferred to the Authority do such payments from the Participating Jurisdictions become subject to the pledge under the Resolution.

The following paragraphs describe Stable and Reliable Funding Sources in the District of Columbia, the State of Maryland, and the Commonwealth of Virginia.

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 that certain District revenues are to be deposited in the District’s General Fund for allocation to a Metrorail/Metrobus Account. As part of the District’s annual budget, these revenues are applied first to satisfy the District’s proportionate share of the Authority’s operation and maintenance expenses and debt service. However, if those revenue sources are insufficient to fully satisfy the District’s contribution, the District is required to find other available sources of funds to make such deposit. These payments are subject to annual appropriations in accordance with the amounts stated in the District’s budget. See “THE TRANSIT SYSTEM – Funding of the Operating Expenses of the Transit System.” The District also contributes a portion of the Authority’s Capital Costs through the Capital Funding Agreement. See “THE TRANSIT SYSTEM – Funding of the Capital Costs of the Transit System – *Ongoing Funding.*”

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 the Authority’s operation and maintenance expenses 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. See “THE TRANSIT SYSTEM – Funding of the Operating Expenses of the Transit System.” The State also contributes a portion of the Authority’s Capital Costs through the Capital Funding Agreement. See “THE TRANSIT SYSTEM – Funding of the Capital Costs of the Transit System – *Ongoing Funding.*”

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 (now found at Section 58.1-2295). Such act, as amended, imposes, in addition to all other taxes imposed by law, a tax upon every distributor who engages in the business of selling fuels at wholesale to retail dealers for retail sale in any county or city that 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 tax of 2.1% of the sales price charged by a distributor for fuels sold to a retail dealer for retail sale in any such county or city. Such tax is imposed at the time of sale by the distributor to the retail dealer.

The Participating Jurisdictions located in the Commonwealth are all members of the Northern Virginia Transportation Commission (“NVTC”). The tax described in the preceding paragraph is collected by the Commonwealth, and remitted to NVTC where it is held in trust for its member jurisdictions’ restricted use. The Participating Jurisdictions located in the Commonwealth use the tax to fund their respective shares of the Authority’s operation and maintenance expenses and debt service. See “THE TRANSIT SYSTEM – Funding of the Operating Expenses of the Transit System.” The Participating Jurisdictions in the Commonwealth also contribute a portion of the Authority’s Capital Costs through the Capital Funding Agreement. See “THE TRANSIT SYSTEM – Funding of the Capital Costs of the Transit System – *Ongoing Funding*.”

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 the Stark-Harris Act. 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 (Alexandria, Falls Church, and Fairfax cities have agreed to the arrangement 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.

For additional information on Stable and Reliable Funding Sources, see “THE TRANSIT SYSTEM – Funding of the Operating Expenses of the Transit System.”

### **Obligations of the Participating Jurisdictions**

The Authority has covenanted in the Resolution to 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 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.

Pursuant to the Compact, 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 Capital 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.

### **Annual Debt Service Payments under the Capital Funding Agreement**

As more fully described in “THE TRANSIT SYSTEM – Funding of the Capital Costs of the Transit System – *Ongoing Funding*,” the Capital Funding Agreement permits the Authority to issue debt to finance all, or a portion of, its then-current Capital Improvement Program. Under such agreement, each Participating Jurisdiction has the option to fund its share of an Authority debt financing either through a Prepayment (as defined herein) at the time of issuance or a commitment to make Annual Debt Service Payments (as defined herein) necessary in order for the Authority to pay debt service on the related obligations. Such commitment to make Annual Debt Service Payments survives the expiration of the Capital Funding Agreement and remains in effect throughout the term of the related Authority debt issuance.

In connection with the issuance of the Series 2017A Bonds, three of the Participating Jurisdictions (the District of Columbia and Montgomery and Prince George’s counties in Maryland) elected to satisfy their payment obligations by making Annual Debt Service Payments and one of the Participating Jurisdictions (the City of Falls Church, Virginia), who made a partial Prepayment in connection with the issuance of the Series 2009 Bonds, has elected to fund its remaining portion of the debt service on the Series 2017A Bonds with Annual Debt Service Payments. The remaining Participating Jurisdictions made Prepayments in connection with the issuance of the Series 2009 Bonds and, as such, were not required to make any election with respect to debt service on the Series 2017A Bonds. Prepayments, since they are Capital Contributions, are not Gross Revenues and therefore are not pledged as part of the Trust Estate for the payment of debt service on the Bonds.

For more information on the process for funding Capital Costs and the Capital Funding Agreement, see “THE TRANSIT SYSTEM – Funding of the Capital Costs of the Transit System.”

### **Remedies; Contractual Obligations**

The obligations of the Participating Jurisdictions are unsecured, contingent obligations under the Compact and related agreements and statutes, including the Capital 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 the Capital Costs of the Transit System” and “– Funding of the Operating Expenses of the Transit System.”

## Historical and Projected Gross Revenues

The table below shows Gross Revenues (as defined in the Resolution and described above) collected by the Authority in Fiscal Years 2012 through 2016 and projected amounts for Fiscal Years 2017 and 2018.

**Table 1. Gross Revenues and Debt Service Coverage, Fiscal Years 2012–2018<sup>(1)</sup>**  
(\$ in thousands)

	Historical					Projected	
	2012	2013	2014	2015	2016	2017 <sup>(4)</sup>	2018 <sup>(4)</sup>
Passenger Revenues	\$731,974	\$771,975	\$765,014	\$807,879	\$764,368	\$795,250	\$716,091
Other Pledged Revenues <sup>(2)</sup>	59,263	56,332	59,769	65,291	57,669	60,989	58,878
Operating Subsidies <sup>(3)</sup>	680,385	711,103	743,875	826,096	895,973	866,498	1,000,723
<b>Total Gross Revenues</b>	<b>\$1,471,622</b>	<b>\$1,539,410</b>	<b>\$1,568,658</b>	<b>\$1,699,266</b>	<b>\$1,718,010</b>	<b>\$1,722,737</b>	<b>\$1,775,692</b>
Debt Service <sup>(5), (6), (7), (8)</sup>	\$48,485	\$43,062	\$34,845	\$26,827	\$21,174	\$26,619	\$80,792 <sup>(9)</sup>
Debt Service Coverage Ratio	30x	36x	45x	63x	81x	65x	22x

1. The Authority is on a July 1 to June 30 Fiscal Year.
2. "Other Pledged Revenues" is the aggregate of the amounts in Table 4 under the headings "Advertising Revenue," "Rental Revenue," and "Other Revenue" under "Operating Revenues," and "Investment Income" and "Other" under "Nonoperating Revenues."
3. These amounts reflect payments received from the Participating Jurisdictions from the Stable and Reliable Funding Sources or other sources for their respective shares of operating and maintenance costs of the Transit System, excluding Fiscal Years 2017 and 2018, which are the Authority's projections. Note that Table 4 includes such amounts as a component of the "Jurisdictional subsidies, capital grants, and capital subsidies" line item rather than as part of "Total Revenues."
4. The amounts shown for Fiscal Years 2017 and 2018 are projections of the Authority.
5. The amounts shown for debt service are presented on a cash basis.
6. As described herein, Operating Subsidies, once received by the Authority, are pledged by the Authority for debt service on the Bonds.
7. The Series 2009B Bonds were issued under the Resolution as BABs. The American Recovery and Reinvestment Act of 2009 created the BABs program, which authorized the issuance of state and local governments, such as the Authority, to issue BABs as taxable bonds to finance any capital expenditures for which they otherwise could issue tax-exempt governmental bonds. Under the BABs program, the Authority receives a federal debt service subsidy for such bonds, which is set at 35% of the corresponding interest payable on the related bond. Upon receipt by the Authority, such federal debt service subsidy payment becomes part of the Trust Estate pledged to pay debt service on such bonds. No assurances are provided that the Authority will receive such federal debt service subsidy payments. Such payments do not constitute a full faith and credit guarantee of the United State of America, but such payments, if appropriated, are required to be paid by the United States Department of the Treasury.
8. The amount of such federal debt service subsidy is subject to change by the United States Congress ("Congress"). Since federal Fiscal Year 2013, federal sequestration, a budgetary procedure, has resulted in subsidy cuts ranging from 6.8% to 8.7%. For Fiscal Years 2012-2018, debt service reflects the receipt by the Authority of the federal debt service subsidy payments for the Series 2009B Bonds (35% of the corresponding interest payable thereon). Note the following: (i) for Fiscal Years 2012-2013, the Authority received the full amount of federal debt service subsidy payments for the Series 2009B Bonds; (ii) for Fiscal Years 2014-2017, such federal debt service subsidy payments were reduced by approximately (a) \$107,126, (b) \$97,694, (c) \$94,999, and (d) \$92,304, respectively; and (iii) for Fiscal Year 2018, the Authority expects the federal debt service subsidy for the Series 2009B Bonds to be reduced by approximately \$92,978. Such subsidy reductions are not reflected in the figures in Table 1. For more information on the Series 2009B Bonds, see "CERTAIN AUTHORITY FINANCIAL INFORMATION – Outstanding Debt" and footnote 2 to Table 9.
9. For Fiscal Year 2018, the amount of debt service includes the following: (i) an assumption that the Authority issues an additional Series of Obligations, in an aggregate principal amount not to exceed \$575.2 million, in the third quarter of calendar year 2017, and a debt service projection of approximately \$1.2 million relating to such issuance and (ii) the July 1, 2017 maturity of the Series 2016A Bonds in the amount of \$50 million.

The payment of debt service on the Series 2017A Bonds is secured by a pledge of the Trust Estate, a principal component of which is Gross Revenues. “Gross Revenues” as defined in the Resolution and as used in Table 1 above differs from the accounting concept of “Revenues” as reflected in the Authority’s audited financial statements and Table 4 herein. Table 2 below compares these two concepts, and uses Fiscal Year 2016 for purposes of such comparison.

**Table 2. Gross Revenues (Resolution) vs. Revenues (Audited Financials) Comparison  
(in thousands)**

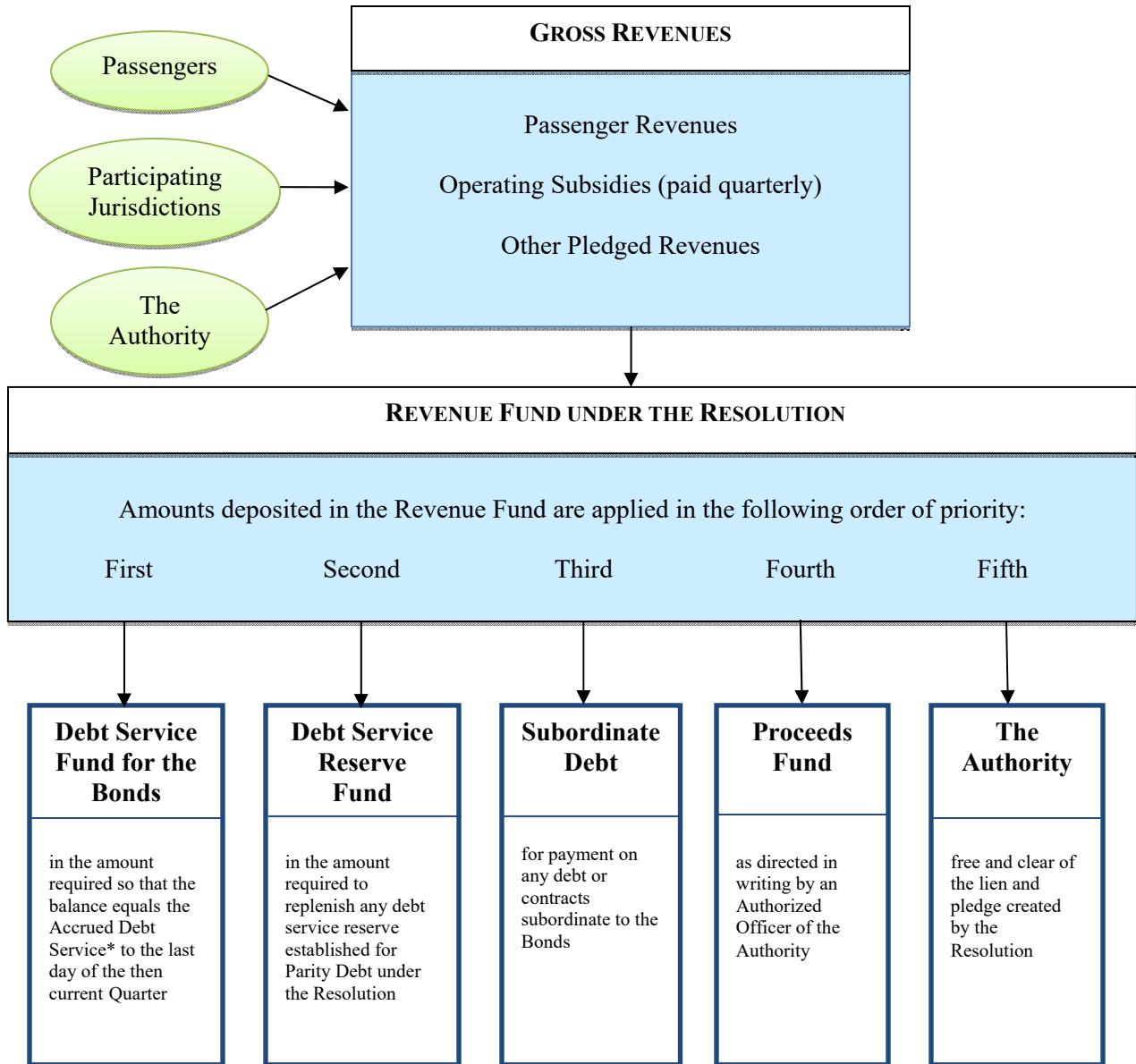
<b>Financial Statements</b>	<b>Fiscal Year 2016 Amounts</b>	<b>A component of pledged “Gross Revenues” under the Resolution<sup>(1)</sup></b>
Operating Revenues:		
Passenger	\$764,368	✓
Parking	45,039	X
Advertising	22,792	✓
Rental	26,722	✓
Other	244	✓
Nonoperating Revenues:		
Investment Income	224	✓
Interest Income from Leasing Transactions	10,621	X
Other	7,687	✓
Jurisdictional Subsidies:		
Capital	341,924 <sup>(2)</sup>	X
Operational	895,973	✓
Federal Funds (grants and subsidies): <sup>(3)</sup>	609,975 <sup>(2)</sup>	X

1. “✓” indicates revenues that are included in “Gross Revenues” and “X” indicates revenues that are not included in “Gross Revenues.”
2. Cash amounts. Such amounts are not discreetly reported in the Fiscal Year 2016 Audited Financial Statements, but are included as part of capital contributions therein.
3. “Federal Operating Subsidies” are referred to in the definition of Gross Revenues and specifically excluded therefrom. The federal government no longer provides operating subsidies to the Authority.



## Flow of Funds

The following chart 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.



\* "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 Program of the Authority, which may result in the issuance of additional Obligations, and certain outstanding debt of the Authority, see “CERTAIN AUTHORITY FINANCIAL INFORMATION – Capital Improvement Program” 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. 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, 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 or Parity Debt being refunded; or (ii) the Gross Revenue test summarized in the preceding paragraph.

Expected Future Financing. In the third quarter of calendar year 2017, the Authority expects to issue an additional Series of Obligations, in an aggregate principal amount not to exceed \$575.2 million (as authorized by the Board), for the payment of Capital Costs in the Approved Fiscal Year 2018 Capital Budget. The Authority provides no assurance as to the timing, amount, or completion of any such financing.

## **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.”

## **ONGOING FINANCIAL AND OPERATIONAL CONCERNS**

### **Introduction**

*The Authority is addressing a number of significant financial, operational, managerial, and other concerns facing the Transit System, which a prospective investor should consider carefully. These concerns are described in various sections of this Official Statement and are summarized below:*

- *Structural deficit (expenses exceeding revenues on a recurring basis); lack of a dedicated funding source;*
- *Safety concerns and related matters;*
- *Litigation exposure from Metrorail accidents;*
- *Additional oversight;*
- *Drop in ridership levels;*
- *Internal control deficiencies, improper accounting for expenditure of grant funds, and resulting restricted procedures on drawing grant funds;*
- *Inability to spend capital funds in a timely fashion, despite significant capital needs; and*
- *As a routine budgetary matter, transferring capital funds to pay operating expenses.*

## **Structural Deficit; Lack of a Dedicated Funding Source**

### *General*

Pursuant to the Compact, the Participating Jurisdictions established a policy, subject to certain conditions and limitations, 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 operation and maintenance expenses and debt service, although each Participating Jurisdiction is not limited to the identified revenue sources in order to provide all required payments. The Participating Jurisdictions also provide funds to the Authority for Capital Costs through the Capital Funding Agreement. The funds to be provided by or on behalf of each Participating Jurisdiction are subject to annual appropriation. As such, the Authority lacks a dedicated funding source (e.g., a sales tax, a property tax, a gas tax, etc.) to fund its operations and capital program. The lack of such a funding source is one factor that contributes to the ongoing structural deficit.

The Approved Fiscal Year 2018 Budget includes a net jurisdictional operating subsidy of \$979.5 million (excluding debt service) to eliminate the projected operating deficit of the Transit System (a \$134.2 million increase in such contribution (\$845.3 million in Fiscal Year 2017)). The operating deficit for Fiscal Year 2018 would be larger but for the use of capital funds for preventive maintenance activities to support safety-related maintenance requirements (approximately \$60 million). Such preventive maintenance activities are supported by FTA and permitted under FTA's regulations. See "– Transfers of Capital Funds for Operating Expenses."

During the Fiscal Year 2018 budget process, senior management of the Authority presented to the Board the structural challenges facing the Authority. In the proposed Fiscal Year 2018 budget process materials, the gap between revenues and expenses was approximately \$290 million. Such funding gap can be broken down into three main categories – reduced FTA grant funding for maintenance (\$100 million), a decrease in ridership and passenger fare revenue (\$103 million), and expense growth (\$87 million). The Authority is studying options to reduce this gap between revenues and expenses. The Authority has identified that closing this structural gap will be critical to ensuring its long-term financial stability. The proposed Fiscal Year 2018 budget materials included projections for Fiscal Years 2019 and 2020 where jurisdictional operating subsidies are expected to reach approximately \$1.05 billion and \$1.15 billion, respectively.

### *The "Keeping Metro Safe, Reliable & Affordable" Plan*

On April 19, 2017, the Authority released a plan entitled "Keeping Metro Safe, Reliable & Affordable," which is aimed at addressing the Transit System's \$25 billion in unfunded capital needs and exploring changes to the Authority's business model, among other things.

Such plan outlines how the Transit System needs \$15.5 billion over the next 10 years for critical capital projects in order to remain safe and reliable, \$12 billion of which would need to come from the Participating Jurisdictions. To maintain a safe and reliable bus and rail network, the Authority projects that it needs a \$1.5 billion average annual capital investments program. The plan calls for commitments from federal and regional stakeholders to address the substantial capital needs. On the federal side, the plan calls for a reauthorization of the Passenger Rail Investment and Improvement Act of 2008 (Pub. L. 110-432) ("PRIIA") at a current funding level of \$1.5 billion over 10 years (PRIIA is currently scheduled to expire at the end of Fiscal Year 2018). On the regional side, the plan calls for the establishment of a new dedicated revenue stream and capital trust fund to provide \$500 million annually to be used exclusively for capital projects.

The plan also notes that, if left unaddressed, the Authority's operating subsidy requirement from Participating Jurisdictions for day-to-day operations could grow to \$1.6 billion annually by 2027. The projected growth in the Authority's operating subsidy needs is driven principally by increases in employee and fringe benefits costs (more than 70% of total operating expenses). The plan outlines three areas of focus – (i) improving efficiency (eliminating inefficient business practices, strengthening management, providing more reliable service, and developing new technologies, among other things); (ii) changing policy (modifying labor-related arbitration practices, capping future annual increases of jurisdictional subsidies at 3%, avoiding unfunded service expansion, and establishing reserve funds); and (iii) stabilizing workforce costs (establishing and funding a trust for other post-employment benefits ("OPEB"), protecting the current pension system for current, eligible employees, providing new employees with 401K-style benefit plans, and reducing reliance on excess overtime, among other things).

#### *Other Potential Long-Term Funding Solutions*

Potential long-term funding solutions for the Authority have been proposed and are being considered by regional associations and local governments. Such proposals explore dedicated revenue opportunities, among other things. Any such proposals or recommendations (which could contain fees and taxes) must be accepted and implemented by the Participating Jurisdictions. The Participating Jurisdictions are subject to varying State and local laws and financial limitations, as well as priorities, which could impact the creation of a uniform funding program.

While the Authority continues to monitor the various proposals for establishing a dedicated funding source for operating expenses and/or capital costs of the Transit System, there can be no assurance that any of the potential long-term funding solutions discussed above or any other legislation establishing a dedicated funding source will be enacted by any of the Participating Jurisdictions.

For more information on the funding of the Transit System, see "THE TRANSIT SYSTEM." For more information on the Authority's annual budgeting, see "CERTAIN AUTHORITY FINANCIAL INFORMATION – Annual Budgets." For more information on the Capital Improvement Program, see "CERTAIN AUTHORITY FINANCIAL INFORMATION – Capital Improvement Program."

### **Safety Concerns and Related Actions**

#### *General*

Since 2008, the Authority has experienced a series of serious rail incidents, some of which resulted in passenger and employee fatalities and serious injuries. The occurrence of these accidents and other incidents resulted in a number of safety directives and recommendations actions by FTA and the National Transportation Safety Board (the "NTSB") to evaluate and correct the Authority's safety matters. Metrorail also experienced an unplanned closure on March 16, 2016, for safety-related inspections and repairs related to certain parts of the Metrorail track.

As described below under "*Authority Oversight*," FTA has assumed direct safety oversight over the Authority's transit operations from the TOC. In accordance with such oversight authority, FTA is responsible for ensuring and verifying that the Authority implement the corrective actions required by each FTA safety directive.

"Safety Directives" and "Special Directives" set forth required actions that the Authority must take to address the specified safety concerns. Within the timeframe established by the directive, the Authority must submit (i) a comprehensive corrective action plan to FTA that identifies the specific actions that will be performed to address the required actions; (ii) the milestone schedule for completing the actions; the responsible parties for action; and (iii) the verification strategy for ensuring the

completion of required work. FTA reviews and approves (with revisions as necessary) the Authority's comprehensive corrective action plan, then subsequently monitors and verifies the agency's progress in resolving each required action. Upon FTA acceptance of the Authority's corrective action plan, the required actions become corrective actions. In order for any corrective action to be closed, FTA must verify that the Authority has demonstrated successful implementation of a corrective action plan.

The findings in the six safety and special directives issued by FTA since it assumed oversight of the Authority relate to, among other items, the following categories:

- Fire/Life Safety & Emergency Preparedness;
- Rail Operations and Control Center;
- System-wide Maintenance;
- Tunnel Ventilation System;
- Automatic Train Control;
- Collisions;
- Derailments;
- Emergency Egress;
- Red Signal Violations;
- Roadway Worker Protection Program Implementation; and
- Track Quality Oversight

The Authority and FTA track Corrective Action Plans ("CAPs") and individual actionable items using different terminology and on a different update schedule. For example, as of May 22, 2017, FTA documents indicate that of the 268 CAPs set forth in such directives, 71 have been closed, 16 are under FTA review, 109 are past due, and 72 are not yet due. As of May 26, 2017, the Authority's documents indicate that of 268 CAPs: 71 are closed, 85 are under review, and 111 in development.

### *The SafeTrack Plan*

After collaboration with the Participating Jurisdictions and FTA, in spring 2016, "SafeTrack" was launched as a programmatic plan to remediate safety concerns by rehabilitating the Metrorail system and improving service reliability (the "SafeTrack Plan"). The SafeTrack Plan (i) includes the expansion of track-work hours on weeknights, weekends, and during certain rush hours (above ground and in Metrorail tunnels); (ii) aims to achieve safety and state of good repair of basic track structure; (iii) advances critical safety recommendations from the NTSB and FTA; (iv) includes line segment shutdowns of varying lengths; and (v) utilizes contractors to augment existing workforce. The SafeTrack Plan aims to consolidate three years of maintenance and other capital investments into approximately one year.

The SafeTrack Plan has had an impact on Metrorail riders and the Authority has encouraged riders to use alternate travel options during outages. During the SafeTrack Plan, the Authority has offered (i) buses to provide alternate service; (ii) 8-car trains on lines where capacity is reduced (as opposed to 6-car trains); and (iii) additional customer support at certain stations. At this time, the Authority is unable to quantify the long-term impact the SafeTrack Plan may have on ridership and its operating revenues. For Fiscal Year 2018, the Authority estimates losses of approximately \$46.7 million in operating revenues as a result of service reductions under the SafeTrack Plan. See "CERTAIN AUTHORITY FINANCIAL INFORMATION – Annual Budgets – *Fiscal Year 2018 Budget*."

The Authority continues to monitor the maintenance and safety needs of the Metrorail system and work with FTA to prioritize critical repairs. As such, revisions to the SafeTrack Plan and prioritizing

other Metrorail maintenance may be necessary, any of which could result in additional service disruptions that cannot be anticipated at this time.

In addition, FTA assigned a Project Management Oversight Contractor (“PMOC”) on June 13, 2016 and approved an additional \$20 million in safety-related federal funding towards the SafeTrack Plan. The PMOC prepares monthly reports on the SafeTrack Plan that summarize its oversight activities performed each month. The most up-to-date information on the SafeTrack Plan, including progress reports, are available on the Authority’s website.

GAO Report on the SafeTrack Plan. On March 14, 2017, the U.S. Government Accountability Office (the “GAO”) delivered to Congress a report on the SafeTrack Plan (the “GAO SafeTrack Report”). The GAO SafeTrack Report states that the SafeTrack Plan could have benefitted from improved planning and coordination and many of such aspects of the plan did not, at implementation, align with leading practices. The Authority has stated that, given the urgent need of many of the projects under the SafeTrack Plan, it did not have adequate time to utilize planning and coordination practices expected when commencing transit rehabilitation projects. Communication and coordination with regional partners have improved as the SafeTrack Plan has progressed.

The GAO SafeTrack Report indicates that the Authority is now using several leading practices to implement the SafeTrack Plan and improve the quality of completed work. As work on the SafeTrack Plan has progressed, the Authority has developed a new quality control and assurance framework.

According to the GAO SafeTrack Report, the Authority has accomplished a substantial amount of repair work to bring its track infrastructure closer to a state of good repair through the SafeTrack Plan and has shown that it is better equipped to identify and address issues in future large-scale rehabilitation projects. During the course of the SafeTrack Plan, the report notes that the Authority has shown a commitment to preventative maintenance, including repairing track assets before they break and cause additional cost and safety impacts for Metrorail riders.

***In addition to FTA review, the Authority continues to monitor the progress of the SafeTrack Plan; however, there can be no assurance that the safety concerns that prompted the launch of the SafeTrack Plan will not recur in the future. As Metrorail continues to age, the Authority anticipates that future preventative maintenance projects will be undertaken to rehabilitate the Metrorail system and improve service reliability. Even after the SafeTrack Plan is completed, the Authority has planned extended track work to take place over the next year on parts of the Green, Red, and Yellow lines of Metrorail. The projects are expected to involve the closure of certain stations on such lines and each project is expected to last approximately two weeks.***

#### *Authority Oversight*

Pursuant to the Intermodal Surface Transportation Efficiency Act of 1991, Congress directed FTA to establish the State Safety Oversight (the “SSO”) program, which went into effect in 1997. The SSO program requires each state to establish a state safety oversight agency (a “SSOA”) responsible for establishing requirements for rail transit safety and monitoring the performance of rail transit agencies in accordance with those requirements. The Tri-State Oversight Committee (the “TOC”) was created pursuant to a memorandum of understanding between the Virginia Department of Rail and Public Transportation, the Department of Transportation of Maryland and the Department of Transportation of the District of Columbia, to serve as the SSOA for the Authority. The TOC is required to develop and adopt a system safety program standard, a document that establishes the relationship between the TOC and the Authority and that specifies the requirements that the Authority must follow. The program standard must include requirements for safety practices to reduce the likelihood of unintentional events

that may lead to death, injury, or property damage and security practices to reduce intentional wrongful or criminal acts or terrorist activities. The TOC has no legal authority for enforcement of its findings and recommendations concerning the safety of the Authority's rail system, and consequently must rely on the Authority to respond appropriately and timely to any such findings and recommendations.

In 2015, a Safety Management Inspection led the United States Secretary of Transportation (the "Secretary") to direct the FTA to take immediate responsibility for safety oversight of the Authority's rail system until the District of Columbia, the State of Maryland, and the Commonwealth of Virginia replace the TOC with a SSOA that satisfies the requirements of the FTA. Such FTA oversight authority tracks and verifies that the Authority implements the corrective actions required by each FTA safety directive. FTA's discretionary enforcement authority includes the ability to (i) withhold up to 25% of the federal financial assistance due to the Authority, (ii) restrict service on or require closure of the Metrorail system to address unsafe conditions or practices that present a substantial risk of death or personal injury, and (iii) require the Authority to use federal financial assistance to correct safety deficiencies before such funds are spent on other Authority project.

As of the date of this Official Statement, each jurisdiction has enacted required legislation to establish the Metro Safety Commission ("MSC") as the SSOA. Congressional approval is required for the establishment of this interstate compact authority and the legislation must also be signed by the President. The Senate approved the MSC on May 16, 2017. On June 14, 2017, the legislation was approved by the House of Representatives Judiciary Committee and will next be considered by the full House of Representatives. The President will also have to consider and sign the legislation for it to become effective.

The MSC's system safety program, which will establish safety oversight practices aimed to reduce safety related events that may lead to death, injury, or property damage and security policies that reduce criminal or terrorist activities has been submitted to the FTA for approval. Until the MSC is approved by Congress and certified by FTA, the FTA WMATA Oversight Office continues to serve as the designated SSOA for the Authority with direct oversight and enforcement responsibilities. In addition, NTSB, as an independent federal agency, is charged with investigating and determining the probable cause of all civil transportation accidents and promoting transportation safety. At this time, the Authority has begun compliance with NTSB's recommendation to retire all 1000 Series railcars and has no open investigations with NTSB. The Authority efforts to comply with corrective actions plans and safety recommendations is tracked by FTA and related information is accessible on FTA's website.

### **Litigation Exposure from Metrorail Accidents**

For a discussion of the Authority's litigation exposure from Metrorail accidents and other matters, see "LITIGATION" herein.

### **Drop in Ridership Levels**

Over the course of the past several years, the Authority has experienced ridership declines and challenges with customer satisfaction. In May 2017, the Authority's management presented to the Board the Fiscal Year 2017 Third Quarter Financial Update, which included, among other things, an update on current trends in Metrorail ridership. Through the third quarter of Fiscal Year 2017, total Metrorail ridership was 130.0 million trips, a decline of 9% or 12.9 million trips compared to the same period last year. Ridership was down broadly across all time periods, days of the week, and individual stations and can be attributed to the SafeTrack Plan and related service interruptions, general reliability challenges, and market factors (such as new competitors in the transportation market, gas prices, telecommuting, etc.), among other factors.



As described in “CERTAIN AUTHORITY FINANCIAL INFORMATION – Transit System Ridership and Passenger Fare Revenues,” for Fiscal Year 2018, (i) total rail ridership is projected at approximately 178.5 million trips, a decline of approximately 25.0 million (-12.3%) compared to the current projection for Fiscal Year 2017; (ii) total bus ridership is projected at approximately 117.0 million, a decline of approximately 18.6 million (-13.7%) compared to the current projection for Fiscal Year 2017; and (iii) MetroAccess ridership is expected to decrease by 20,000 trips, a reduction of 0.8% compared to the current projection for Fiscal Year 2017.

While the population of the greater Washington, DC metropolitan area continues to grow (a 13% increase from 2007-2016), total ridership for the Transit System has declined (a 8% decrease over the same period). In recent years, total ridership has been falling and total ridership for Fiscal Year 2018 (297.9 million trips) is projected to be at its lowest level in over twenty years. As a result of reduced ridership, revenue from passenger fares in the Approved Fiscal Year 2018 Budget is projected to be approximately \$716.1 million, a decline of approximately \$79.2 million (-10.0%) compared to the current projection for Fiscal Year 2017.

For information on continued declines in bus and rail ridership in Fiscal Year 2017, see “CERTAIN AUTHORITY FINANCIAL INFORMATION – Annual Budgets – *Quarterly Financial Report (Third Quarter – Fiscal Year 2017)*.”

***The SafeTrack Plan and the various safety recommendations and directives described in this section, as well as any additional maintenance plans and initiatives or any service disruptions, may have a further adverse effect on ridership and passenger fare revenues.***

## **Financial Management Oversight**

### *FTA Financial Management Oversight*

As part of its oversight of its grant recipients, FTA evaluates adherence to grant administration requirements through a comprehensive oversight program. FTA’s master agreement, which grantees and FTA sign (the “FTA Master Agreement”), specifies these requirements. FTA determines compliance through self-certification and/or site visits. One area of oversight is the review of a grantee’s procurement and financial systems. Such reviews are typically conducted when the grantee is considered at-risk of noncompliance or out of compliance with respect to these systems.

In 2013, an independent accounting firm, Milligan & Company, LLC (“Milligan”), was hired by FTA to conduct a full scope systems review of the Authority’s financial management systems. On January 24, 2014, Milligan issued a report detailing its review of such systems (the “FMO Report”). In the FMO Report, Milligan identified material weaknesses and significant deficiencies in the Authority’s internal control over compliance with FTA financial management system requirements. Following a review and comment period by FTA and the Authority, Milligan issued a final FMO Report on June 10, 2014.

In the FMO Report, the Authority’s (i) budget controls; (ii) controls over reporting of federal expenditures; and (iii) controls over procurement, were found to have material weaknesses, while the Authority’s (a) audit committee oversight of compliance and internal controls, (b) cash and grant management controls, (c) controls over FTA funded assets, (d) access controls over the financial management system, (e) controls over job order contracts, and (f) federal financial reporting process and procedures, were found to have significant deficiencies. The FMO Report also included 38 financial management recommendations to address these material weaknesses and significant deficiencies. Such recommendations resulted in 65 corrective action plans.

As of the date of this Official Statement, FTA’s validation process of the final three open items under the FMO Report continues.

#### *Federal Grant Restrictions*

Under the FTA Master Agreement, most grant recipients are reimbursed for expenses with grant funds through the FTA Electronic Clearinghouse Operation Web System, an automated clearinghouse payment method (the “ECHO System”). Under the ECHO System, grantees follow certain procedures by which they drawdown grant funds without direct FTA approval. FTA does not generally review drawdowns when made, but reserves the right to review drawdowns at a later time. Such drawdowns may be subject to an audit under financial oversight review, a triennial review, or another audit. FTA may revoke or suspend a recipient’s access to the ECHO System as the result of certain violations of federal regulations, the FTA Master Agreement, or grant agreements.

As a result of the findings in the FMO Report, FTA suspended the Authority’s access to the ECHO System, commencing in March 2014. On December 22, 2016, FTA informed the Authority that the necessary corrective actions had been taken and sufficient progress had been made by the Authority to address the issues raised in the FMO Report to warrant the removal of the ECHO System restrictions for all grants awarded after July 1, 2015. The ECHO System restrictions still apply to grants awarded before such date and the Authority continues to work with FTA to implement the additional requirements necessary to eliminate all ECHO System restrictions.

As of June 2017, the unreimbursed balance on the remaining ECHO-restricted grants was approximately \$95 million. The Authority and FTA have agreed on a recovery plan to allow the Authority to receive such monies, which involves the substitution of safety-focused maintenance expenses for the expenses previously charged to the grants that have not yet been reimbursed. In order to obtain the unreimbursed FTA grant funds, the Board has authorized the Authority to make necessary budgetary or other financial adjustments to obtain such reimbursements. Such adjustments are not expected to have a net impact on contributions from the Participating Jurisdictions and any such changes must be in compliance with applicable laws, regulations, and accounting requirements.

#### *GAO Report*

On July 15, 2015, GAO issued a report that summarized, in part, its review of the Authority’s progress in responding to FTA’s recommendations in the FMO Report (the “GAO Report”). In the GAO Report, GAO assessed the extent to which the Authority’s financial management controls incorporate the risk assessment and monitoring components of internal control. In its report, GAO recommended that the Board, working with the General Manager and Chief Executive Officer, direct the appropriate officials to (i) develop and implement a policy and related procedures for assessing the Authority’s financial management-related risks; and (ii) develop and implement a policy and related written procedures for the Authority’s Office of Internal Control and Compliance to monitor the design and operating effectiveness of internal controls related to financial management. The Authority has taken all required actions outlined in the GAO recommendations. The Authority and GAO are working to validate the implementation of such recommendations.

#### **Capital Budget Expenditures**

In recent Fiscal Years, the Authority has experienced challenges in spending the full amount of its approved capital budgets. On January 14, 2016, the Authority’s senior management presented a report on its capital program to the Board’s finance and administration committee (the “Capital Program Review”). According to the Capital Program Review, insufficient management controls had been put in place to

establish formal processes and procedures to initiate projects, efficiently monitor progress based on scope and schedule, and validate budget requests for future years based on schedule. Contract delays were also highlighted as a key factor contributing to capital budget underspending.

In Fiscal Years 2011-2015, the Authority spent 71%, 74%, 79%, 79%, and 65%, respectively, of its approved capital budget. In Fiscal Year 2014 and Fiscal Year 2015, investment through the capital program decreased for various reasons, including vendor delays in bus and railcar deliveries, the purchase of materials requiring longer manufacturing times, and construction projects starting later than forecasted.

For Fiscal Year 2016, the Authority spent 85% of its approved capital budget. As of the end of the third quarter of Fiscal Year 2017, the Authority had spent \$874 million in capital investments, which represents 79% of the approved capital budget for Fiscal Year 2017. Total capital expenditures for Fiscal Year 2017 are on pace to total \$1.1 billion by the end of Fiscal Year 2017, which would exceed the amount budgeted by \$150 million. On May 25, 2017, the Board approved an additional \$75 million in capital expenditures for Fiscal Year 2017 to support additional investment in railcar acquisition, railcar maintenance and overhaul, fixed rail improvements, and bus maintenance facilities.

For more information on the funding of the Capital Costs of the Transit System, see “THE TRANSIT SYSTEM – Funding of the Capital Costs of the Transit System.” For more information on the Approved Fiscal Year 2017 Budget and the third quarter results for Fiscal Year 2017, see “CERTAIN AUTHORITY FINANCIAL INFORMATION – Annual Budgets – *Fiscal Year 2017 Budget*” and “– *Quarterly Financial Report (Third Quarter – Fiscal Year 2017)*.” For more information on the Approved Fiscal Year 2018 Capital Budget, see “CERTAIN AUTHORITY FINANCIAL INFORMATION – Annual Budgets – *Fiscal Year 2018 Budget*” and “– Capital Improvement Program.”

### **Transfers of Capital Funds for Operating Expenses**

In the Approved Fiscal Year 2018 Operating Budget, the Authority has budgeted to use certain capital funds for preventive maintenance activities to support safety-related maintenance requirements (approximately \$60 million). The Authority’s projected operating deficit for Fiscal Year 2018 would be larger but for the use of funds for such preventive maintenance activities. Preventive maintenance activities are supported by FTA and permitted expenditures under FTA’s regulations. In the Approved Fiscal Year 2018 Operating Budget, the Authority has decreased the amount of eligible preventive maintenance activities funded through the capital budget from \$95 million in Fiscal Year 2017 to \$60 million in Fiscal Year 2018. For more information on the Approved Fiscal Year 2018 Operating Budget, “CERTAIN AUTHORITY FINANCIAL INFORMATION – Annual Budgets – *Fiscal Year 2018 Budget*.”

### **Liquidity and Unrestricted Cash**

Currently, the Authority maintains lines of credit with various credit providers totaling \$350 million. As of May 31, 2017, the Authority had drawn \$85 million on such lines of credit, which were renewed in March 2017 and expire in March 2018. Any amounts outstanding on the lines of credit would be due by such date. The Authority’s repayment obligations under the lines of credit are subordinate to the Bonds.

The renewal of the lines of credit involves various internal and external factors and no assurances are provided that such lines of credit will be renewed or what credit terms any such renewal or future lines of credit may contain. Without the lines of credit, the Authority’s unrestricted cash position would be limited. For more information on the Authority’s lines of credit, see “CERTAIN AUTHORITY FINANCIAL INFORMATION – Outstanding Debt.”

## 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. 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 the Board, which is composed of eight voting directors and eight alternate directors from each signatory to the Compact and from the federal government (the “Directors”). The Directors for the Commonwealth are appointed by the NVTC; for the District, by the Council; for the State, by the Washington Suburban Transit Commission (“WSTC”); and for the federal government, by the Secretary. Alternate directors to the Board (“Alternate Directors”) 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 Director may act in the event of a District Director’s absence.

Subject to policy direction and delegations from the Board, the General Manager and Chief Executive Officer is responsible for the operations and functions of the Authority and directs staff in implementing and carrying out the programs and initiatives of the Authority.

#### *The Board*

The present Directors, the jurisdiction represented, the date of each Director’s appointment to the Board, the expiration date of each Director’s term on the Board, and their occupations are set forth in the following table.

<b><u>Name of Director</u></b>	<b><u>Jurisdiction Represented</u></b>	<b><u>Date of Appointment/ End of Term</u></b>	<b><u>Occupation</u></b>
Jack Evans, Chairman	District of Columbia	January 2015; no expiration date set on term; serves at the pleasure of the District City Council	Member of the District City Council (Ward 2)
Keturah D. Harley, First Vice Chairman	State of Maryland	April 2015; term expires June 30, 2017	Attorney
Jim Corcoran, Second Vice Chairman	Commonwealth of Virginia	February 2015; term expires January 9, 2018	President and Chief Executive Officer of the Northern Virginia Chamber of Commerce
Corbett A. Price	District of Columbia	March 2015; term expires June 30, 2019	Chairman and Chief Executive Officer of Quantix Health Capital, LLC
Carol Carmody	Federal Government	June 2016; term expires May 31, 2020	Former Vice Chairman of the NTSB
David Strickland	Federal Government	June 2016; term expires May 31, 2019	Former Administrator of the National Highway Safety Administration
Michael Goldman	State of Maryland	June 2013; term expires June 30, 2017	Attorney
Catherine Hudgins	Commonwealth of Virginia	January 2004; term expires January 5, 2021	Member of the Fairfax County Board of Supervisors
<b><u>Alternate Directors</u></b>			
Tom Bulger	District of Columbia	July 2011; no expiration date set on term; serves at the pleasure of the District City Council	President of Government Relations Inc.
Leif A. Dormsjo	District of Columbia	March 2015; term expires June 30, 2018	Director of the District Department of Transportation
Anthony E. Costa	Federal Government	July 2014; term expires May 31, 2018	Senior Advisor to the Administrator of the General Services
Robert Lauby	Federal Government	June 2016; term expires May 31, 2018	Chief Safety Officer of the FRA
Malcolm Augustine	State of Maryland	July 2015; term expires May 30, 2019	Customer Relations Executive at Intra Mail Network
Kathy Porter	State of Maryland	January 2011; term expires May 31, 2017 <sup>(1)</sup>	Former Mayor of Takoma Park and board member of various transportation agencies
Christian Dorsey	Commonwealth of Virginia	January 2016; term expires January 9, 2019	Member of the Arlington County Board
Paul C. Smedberg	Commonwealth of Virginia	January 2016; term expires January 2, 2020	Member of the Alexandria City Council

1. While such Director's term has expired, such appointment to the Board remains valid until a successor is confirmed or for one year after the term expires, whichever comes first.

## *Management*

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

**Paul J. Wiedefeld, General Manager and Chief Executive Officer.** Paul J. Wiedefeld became the General Manager and Chief Executive Officer in November 2015. He has more than 35 years of public and private sector transportation management experience. Prior to joining the Authority, he twice served as the Executive Director and Chief Executive Officer of the Maryland Aviation Administration, managing the Baltimore/Washington International Thurgood Marshall Airport ("BWI"). Under Mr. Wiedefeld's leadership from 2009 to 2015, BWI grew to provide service to 22 million passengers annually, becoming the leading airport in the Washington, D.C. region through route expansion and significant airport development. During his tenure from 2002-2005, Mr. Wiedefeld managed the largest expansion in BWI's history that included the design and construction of a 26-gate terminal, an 8,400-space parking garage, and a modern consolidated rental car facility. From 2007-2009, Mr. Wiedefeld served as Administrator of the Maryland Transit Administration, managing the day-to-day operations of the nation's 13th largest transit system, including commuter rail, subway, light rail, buses, and paratransit. During his tenure, the agency expanded the number of locomotives and railcars for the Maryland commuter rail system and negotiated contracts with labor unions. He received a Bachelor of Science degree in Political Science and a Master's degree in City and Regional Planning from Rutgers University.

**Joseph Leader, Chief Operating Officer.** Joseph Leader was appointed as Chief Operating Officer on August 1, 2016, and leads the entire operation of the Authority, including rail, bus, support services, paratransit services, and Metro Transit Police. He has more than 30 years of experience from New York City Transit ("NYC Transit") where he was Senior Vice President of the Department of Subway. In that role, he oversaw North America's largest rail system with 27,000 employees, 800 miles of track, 469 stations, and an operating budget of \$3.7 billion. While at NYC Transit, he led a comprehensive maintenance program that accelerated track work and improved safety and productivity. He also served as Chief of Safety Investigations for NYC Transit and formerly served as a consultant to the General Manager/CEO on rail organizational and fleet management as an associate for Bianco Associates. Mr. Leader has an electrical engineering degree from Manhattan College and served as a local volunteer firefighter.

**Dennis Anosike, Chief Financial Officer.** Dennis Anosike was appointed Chief Financial Officer in July 2014. He came to the Authority with over 25 years of financial experience including 11 years as the Chief Financial Officer/Treasurer for the Chicago Transit Authority ("CTA"). At CTA, he oversaw the offices of budget, comptroller, capital investment, treasury and financial reporting. He also served one year as CTA's budget director. He also worked in the Office of Budget and Management for the City of Chicago, ultimately becoming Deputy Budget Director. Other positions of note include Director of Finance for the Chicago Department of Police, Senior Vice President for Northern Trust Company, President of United Investment Managers, Inc., and Senior Director of Management and Performance for the United States Department of Commerce.

**Patricia Y. Lee, Esq., General Counsel.** Patricia Y. Lee was appointed as General Counsel in July 2016. She came to the Authority with 26 years of public and private legal experience, domestic and global, in directing and managing all legal affairs of corporate legal functions, including mergers and acquisitions, complex commercial transactions, regulatory compliance, litigation, intellectual property and licensing, and labor and employment. She has been a key member of executive leadership teams and the chief legal adviser to CEOs, senior management, boards of directors, and business leaders across all regions of companies. She formerly served as Group General Counsel and Executive Vice President for Unify and held senior legal positions at Northrop Grumman Corporation and Cable & Wireless plc, and

was a partner at Holland & Knight LLP. Ms. Lee was also a trial attorney with the U.S. Department of Justice, Civil Division, and a litigation attorney at the international law firm of White & Case LLP. Ms. Lee received a Bachelor of Arts degree, *summa cum laude*, in Psychology from the University of Maryland and a Juris Doctor from the Harvard Law School. Ms. Lee is a member of the bars of Maryland, the District of Columbia, Virginia, and New York.

**Craig Gross, Treasurer.** Craig Gross was appointed as Treasurer effective February 13, 2017. He has an extensive background in financial management, with an emphasis in treasury systems and risk management with more than 33 years of experience in public and private organizations with responsibility for Corporate Treasury and strategy. He was Vice President, Corporate Treasury & Risk Management for American Capital, Ltd., served as Director of Treasury at Amtrak and was Assistant Treasurer at Towers-Watson, a global risk and financial company. His experience includes overseeing commercial banking relationships, investments, capital market activities, and risk management. Mr. Gross holds a Bachelor of Science degree in Finance and Business Administration from Minnesota State University and is a Chartered Financial Analyst and Certified Treasury Professional.

**Patrick Lavin, Chief Safety Officer.** Patrick Lavin joined the Authority as Chief Safety Officer on May 9, 2016. Mr. Lavin comes to the Authority with more than 30 years' experience in rail operations and maintenance, as well as safety investigations. Prior to joining the Authority, Mr. Lavin worked at New York City Transit ("NYCT"), where he was second in command of that agency's Office of System Safety. Mr. Lavin spent the first two decades of his career in NYCT's Division of Signals, where he gained extensive knowledge of rail operations, maintenance, testing and inspection processes. As part of NYCT's safety department, Mr. Lavin performed in-depth investigations into rail and bus accidents, including mainline rail incidents such as derailments and collisions. Mr. Lavin has a Master's degree in Transportation Planning and Management from NYU Polytechnic Institute and a Bachelor's degree in Labor Studies from Empire State College.

## Labor Relations

The Authority has approximately 11,700 employees. Approximately 9,800 of these employees are represented by five unions. See Table 3 below. Union representation and bargaining conditions are governed by the Compact. Collective bargaining agreements (“CBAs”) are subject to binding arbitration pursuant to the terms of the Compact and the terms of each CBA.

The Authority has not experienced an employee strike or work stoppage since September 1979. Each of the CBAs with the Authority contains a clause that prohibits a strike by any of the unions or a lockout by management. The Compact requires any labor dispute, where collective bargaining does not result in an agreement, to be subject to final and binding arbitration.

**Table 3. Union Membership and Representation**

<b>Union</b>	<b>Approximate Membership<sup>(1)</sup></b>	<b>Types of Employees Represented</b>	<b>Agreement Effective Dates<sup>(2)</sup></b>
International Brotherhood of Teamsters, Local 639 (“Local 639”)	121	Guards	October 1, 2013 – September 30, 2016
International Brotherhood of Teamsters, Local 922 (“Local 922”)	384	Bus Operators and Mechanics	November 1, 2012 – October 31, 2016
Amalgamated Transit Union, Local 689 (“Local 689”)	7,925	Train and Bus Operators Station Managers, Maintenance (bus and rail fleet), General Maintenance, and Clerical and Administrative	July 1, 2012 – June 30, 2016
Office and Professional Employees International, Local 2 (“Local 2”)	1,015	Professional, Clerical, and Technical	July 1, 2012– June 30, 2016
Fraternal Order of Police/Metro Transit Police Labor Committee	343	Metro Transit Police	October 1, 2010 – September 30, 2017

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1. As of May 5, 2017.

2. Following the stated expiration date of each collective bargaining agreement, such agreement continues in effect from year to year thereafter unless either party gives written notice at least sixty (60) days or ninety (90) days, as applicable, prior to any expiration date of an intent to modify such agreement.

The Authority commenced negotiations for new CBAs with Local 689 on May 19, 2016, and with Local 2 on June 21, 2016. Negotiations are on-going. Negotiations for new CBAs with the remaining unions (Local 639, Local 922, and FOP) are expected to commence during Fiscal Year 2018. Under the terms of the existing CBAs for such unions, each agreement remains in effect until the parties agree on the terms of a new CBA or an impasse is declared by one of the parties and a tripartite panel of arbitrators issues a majority decision establishing a new CBA. As of May 2017, neither the Authority nor any of the unions have declared an impasse.



## THE TRANSIT SYSTEM

### Introduction

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 118-mile, 91-station rapid rail system (see the following map of Metrorail). The Authority has over 1,100 rail transit vehicles in operation. Rail ridership through the third quarter of Fiscal Year 2017 was 130 million trips. In Fiscal Year 2018, Metrorail is projected to provide approximately 177.1 million passenger trips. The Authority currently operates parking facilities at its Metrorail stations with approximately 59,421 spaces.

In March 2009, construction began on the extension of the Metrorail system to Washington Dulles International Airport (the “Dulles Extension”) in Loudoun County, Virginia. Phase 1 of the Dulles Extension (“Silver Line Phase 1”), which extended service 11.6 miles to Reston, Virginia, opened in July 2014 and was incorporated into the Metrorail system on such date. The second phase of the Dulles Extension (“Silver Line Phase 2”), which will provide for an additional 11.4 miles of service and six new rail stations, is expected to open to passengers in 2020. Funding for the Dulles Extension was and is expected to continue to be provided by the federal government, the Commonwealth, Fairfax County, Loudoun County, and the Metropolitan Washington Airports Authority (“MWAA”). The Authority has not and is not expected to provide funds for the construction of the Dulles Extension. Upon completion of Silver Line Phase 2, MWAA will request that Silver Line Phase 2 be added to the Metrorail system. At such time and if approved by the Authority, Silver Line Phase 2 would become a capital asset of the Authority, the Authority would fund its operation, and Loudoun County would become a Participating Jurisdiction. In addition to Silver Line Phase 2, the Authority will add a new Metrorail station at Potomac Yard on the Yellow and Blue Lines in the City of Alexandria, Virginia. Other than these items, the Authority has no concrete plans for further expansion of the Metrorail system at this time.

The Authority also operates a comprehensive bus system – Metrobus – 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 restructured to feed the rail system. Metrobus operates 245 routes covering over 2,155 street miles of service throughout the Washington, D.C. metropolitan area. A bus vehicle fleet of approximately 1,583 buses provides between approximately 340,086 and 449,874 weekday passenger trips. Through the third quarter of Fiscal Year 2017, bus ridership was 91 million trips. Approximately 115 million trips are projected to be taken on Metrobus in Fiscal Year 2018.

In addition to Metrobus, the Authority operates MetroAccess, an ADA paratransit service for the Washington, D.C. metropolitan area. MetroAccess is sponsored by the Authority, local governments, and the other local fixed-route transit systems in the Washington metropolitan area. MetroAccess provides door-to-door transportation service for eligible riders. MetroAccess has 42,812 registrants as of April 29, 2017, and provides service through contract carriers operating over 675 Authority-owned vehicles. Through the third quarter of Fiscal Year 2017, MetroAccess provided 1.8 million trips and expects to provide 2.44 million trips in Fiscal Year 2018.

## **Regional Demographics**

The Transit System serves the Washington, D.C. metropolitan area, which, as of July 1, 2016, had a population of approximately 6.1 million individuals (based on data from the U.S. Census Bureau). Based on data reported in the 2016 Public Transportation Fact Book published by the American Public Transportation Association for report year 2014, Metrorail is the second-largest heavy rail system in the country, while Metrobus is the sixth-largest bus network in the country. There are several large international companies with headquarters in the region, including military defense contractors, hospitality companies, consultants, and insurance companies, among others. Unemployment rates in the region are consistently below the national rate. For calendar year 2016, the non-seasonally adjusted unemployment rate in the region was 3.8% versus 4.9% nationally (such figures are based on data from the Bureau of Labor Statistics). Per capita personal income and per capita real gross domestic product are consistently above the national levels. For calendar year 2015, per capita personal income for the region was \$64,882 versus \$49,827 nationally and per capita real gross domestic product was \$72,558 versus \$52,896 nationally (such figures are based on data from the Bureau of Economic Analysis).

# Metro System Map

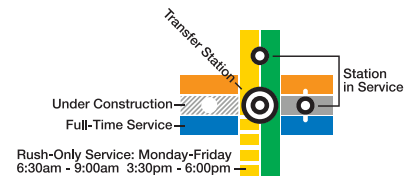
wmata.com  
Customer Information Service: 202-637-7000  
TTY Phone: 202-962-2033  
Metro Transit Police: 202-962-2121

## Legend

- Red Line • Glenmont / Shady Grove
- Orange Line • New Carrollton / Vienna
- Blue Line • Franconia-Springfield / Largo Town Center
- Green Line • Branch Ave / Greenbelt
- Yellow Line • Huntington / Fort Totten
- Silver Line • Wiehle-Reston East / Largo Town Center

- Station Features
- Bus to Airport
  - Parking
  - Hospital
  - Airport

- Connecting Rail Systems
- VRE
  - MARC



**Metro**  
**Operating Times**  
**Mon-Fri**  
5am-midnight  
**Sat-Sun**  
7am-midnight  
Times are approximate

N  
Map is not to scale

REV. 12/9/15



No Smoking



No Eating or Drinking



No Animals (except service animals)



No Audio (without earphones)



No Littering or Spitting



No Dangerous or Flammable Items

## **Funding of the Capital Costs of the Transit System**

Funds for the capital development of Metrorail have been provided on a shared basis between the federal government and the Participating Jurisdictions. All of the required Capital Contributions of Participating Jurisdictions described under this caption are subject to appropriation. **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.**

### *Initial and Prior 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, prior to 2004, through multi-year interim capital contributions agreements (collectively, the “Interim Capital Contributions Agreements”) that specified the matching commitment due from each jurisdiction during each year of the federally authorized construction program. In 2004, the Authority entered into a capital funding agreement (the “Metro Matters Funding Agreement”) with the Participating Jurisdictions to fund its capital program through Fiscal Year 2010. The six-year capital funding program codified in the Metro Matters Funding Agreement (the “Metro Matters Program”) had a total multi-year budget of \$3 billion, all of which was invested. The Metro Matters Funding Agreement required the Participating Jurisdictions, during each Fiscal Year, to make cash contributions needed to fund capital contracts due in such Fiscal Year.

The Metro Matters Funding Agreement also permitted the Authority to issue debt to assist in the financing of the Metro Matters Program. In the event of any such debt issuance, the Metro Matters Funding Agreement allowed each Participating Jurisdiction to elect: (i) to fund their share through a single, upfront cash payment (a “Prepayment”) on the date of issuance of the debt; or (ii) to commit, in accordance with the Metro Matters Funding Agreement, to make the pro rata annual contributions (the “Annual Debt Service Payments”) necessary in order for the Authority to make payments of debt service on such debt. A portion of the proceeds of the Series 2009 Bonds were used to finance Capital Cost components of the Metro Matters Program. In connection with such issuance, four of the Participating Jurisdictions elected to completely fund their Metro Matters Program Obligations by making a Prepayment, three of the Participating Jurisdictions (the District of Columbia and Montgomery and Prince George’s counties in Maryland) elected to satisfy their payment obligations by making Annual Debt Service Payments, and one of the Participating Jurisdictions (the City of Falls Church, Virginia) opted to make a partial Prepayment and to fund the remainder with Annual Debt Service Payments. Prepayments, since they are Capital Contributions, are not Gross Revenues and therefore are not pledged as part of the Trust Estate for the payment of debt service on the Bonds. See “SECURITY AND SOURCES OF PAYMENT OF THE BONDS.”

Each Participating Jurisdiction has made all of the Capital Contributions required pursuant to the Interim Capital Contributions Agreements and the Metro Matters Funding Agreement. In addition, the Participating Jurisdictions that elected to make Annual Debt Service Payments have timely made all such payments.

### *Ongoing Funding*

Following the expiration of the Metro Matters Funding Agreement in 2010, the Authority and the Participating Jurisdictions entered into the Capital Funding Agreement, which requires the Authority to adopt a six-year capital program each year (each a “Capital Improvement Program”). For more information on the most recently approved Capital Improvement Program, see “CERTAIN AUTHORITY FINANCIAL INFORMATION – Capital Improvement Program” herein.

The Capital Funding Agreement requires each Participating Jurisdiction “to use all reasonable efforts . . . and 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 its obligations thereunder. In accordance with the Capital Funding Agreement, each Participating Jurisdiction is responsible for a portion of the cost of each Capital Improvement Program, determined using allocation formulas recalculated every three years based upon the Authority’s then-current approved operating budget. The most recent recalculation (which allocated jurisdictional capital contributions through Fiscal Year 2018) occurred prior to the adoption of the Approved Fiscal Year 2018 Budget. Notwithstanding these allocation formulae, the Capital Funding Agreement requires each Participating Jurisdiction’s Capital Contribution to be no less than its annual share of any matching funds required for federal grants.

For the District of Columbia, Maryland, and Virginia, the percentage of such Participating Jurisdiction’s Capital Contribution for Fiscal Year 2018 is projected to be approximately 37%, 36%, and 27%, respectively. For more information on the percentages of each Participating Jurisdiction’s Capital Contribution, including a further breakdown of such contributions for jurisdictions within Maryland and Virginia, see Table 6 herein.

The Capital Funding Agreement permits the Authority to issue debt to finance all, or a portion of, its then-current Capital Improvement Program. Like the Metro Matters Funding Agreement, the Capital Funding Agreement permits each Participating Jurisdiction to fund its share of an Authority debt financing either through a Prepayment or a commitment to make the Annual Debt Service Payments necessary in order for the Authority to pay debt service on the related obligations. The Capital Funding Agreement requires any such commitment to survive the expiration of the agreement and to remain in effect throughout the term of the related Authority debt issuance.

In connection with the issuance of the Series 2017A Bonds, three of the Participating Jurisdictions (the District of Columbia and Montgomery and Prince George’s counties in Maryland) elected to satisfy their payment obligations by making Annual Debt Service Payments and one of the Participating Jurisdictions (the City of Falls Church, Virginia), who made a partial Prepayment in connection with the issuance of the Series 2009 Bonds, has elected to fund its remaining portion of the debt service on the Series 2017A Bonds with Annual Debt Service Payments. The remaining Participating Jurisdictions made Prepayments in connection with the issuance of the Series 2009 Bonds and, as such, were not required to make any election with respect to debt service on the Series 2017A Bonds. Prepayments, since they are Capital Contributions, are not Gross Revenues and therefore are not pledged as part of the Trust Estate for the payment of debt service on the Bonds. See “SECURITY AND SOURCES OF PAYMENT OF THE BONDS.”

Prior to the adoption of any Capital Improvement Program, the Capital Funding Agreement requires each Participating Jurisdiction to certify that its required Capital Contributions “are reasonable and accurate reflections of funds to be made available.” Each Participating Jurisdiction has made all of the Capital Contributions required pursuant to the Capital Funding Agreement. If a Participating Jurisdiction were to fail to include in its budget a required Capital Contribution, or, following such inclusion and appropriation, were to fail to make such payment to the Authority, the Authority could bring suit to compel compliance under the Capital Funding Agreement. 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 assuming that, in accordance with the Capital Funding Agreement, the Participating Jurisdiction used all reasonable efforts and pursued all legally available means to secure the appropriation.

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 that 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.

#### *Future Funding*

The Capital Funding Agreement is scheduled to expire on June 30, 2017. On March 23, 2017 and April 27, 2017, the Board authorized a one-year extension of the Capital Funding Agreement, which the Authority and the Participating Jurisdictions expect to execute on or before June 30, 2017. Such extension is expected to provide funding for the Approved Fiscal Year 2018 Capital Budget (as defined herein), various plans, including dedicated revenue sources and a capital trust fund to be used exclusively for capital projects, have been proposed by the Authority and regional stakeholders to address future capital funding arrangements. Such future capital funding arrangements are expected to reflect, in part, (i) the addition of Loudoun County as a Participating Jurisdiction prior to the scheduled opening of Silver Line Phase 2; and (ii) a funding prioritization for those projects identified as “most critical to safe, reliable and high quality transit service.” No assurance can be given that any proposed future capital funding arrangements or any legislation establishing a dedicated funding source will be agreed to, or enacted, by any of the Participating Jurisdictions. See “ONGOING FINANCIAL AND OPERATIONAL CONCERNS – Structural Deficit; Lack of a Dedicated Funding Source.”

For more information on the Approved Fiscal Year 2018 Capital Budget, see “CERTAIN AUTHORITY FINANCIAL INFORMATION – Annual Budgets – *Fiscal Year 2018 Budget*” and “– Capital Improvement Program.”

#### *Capital Needs Inventory Report*

In November 2016, the Authority’s senior management submitted a report on the Capital Needs Inventory of the Authority (the “Capital Needs Inventory Report”). Such report identifies \$25 billion in capital needs over a 10-year period in order for the Authority to advance or maintain a state of good repair, meet regulatory compliance, and invest in safety enhancements. For information on the Approved Fiscal Year 2018-2023 Capital Improvement Program, see “CERTAIN AUTHORITY FINANCIAL INFORMATION – Annual Budgets – *Fiscal Year 2018 Budget*” and “– Capital Improvement Program.”

## **Funding of 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, Stable and Reliable Funding Sources have been identified by the Participating Jurisdictions to make their respective operating and maintenance and debt service contributions to the Authority, as well as their respective capital payment obligations. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Gross Revenues – *Stable and Reliable Funding Sources*."

The Participating Jurisdictions are 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, incidental license and lease fees, 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 where proper budgetary procedures were followed.

In addition to the contractual remedy described above, the Board could decide to hold a public hearing as to whether to terminate the provision of Transit System service within any Participating Jurisdiction that 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 Transit System – *Ongoing Funding*."

The Authority's current rate schedule, which became effective June 25, 2017, provides for peak period base passenger fares of approximately \$2.25 for Metrorail and \$2.00 for Metrobus. 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 forty-five percent (45%) 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.

See "CERTAIN AUTHORITY FINANCIAL INFORMATION – Financial Information" herein for information concerning the Authority's revenues and expenses for Fiscal Year 2016, as well as the changes in revenues, expenses, and net assets for Fiscal Years 2012 through 2016. See Table 6 under the caption "CERTAIN AUTHORITY FINANCIAL INFORMATION – Annual Budgets – *Fiscal Year 2018 Budget*" for information on state and local funds that the Authority has received or expects to receive from the Participating Jurisdictions in the Approved Fiscal Year 2017 Budget and the Approved Fiscal Year 2018 Budget. For information concerning the Transit System's ridership levels, see "CERTAIN AUTHORITY FINANCIAL INFORMATION – Transit System Ridership and Passenger Fare Revenues."

## **CERTAIN AUTHORITY FINANCIAL INFORMATION**

Management strives to control costs of the Transit System aggressively, while assuring that all maintenance is carried out, albeit with some deferred maintenance that the Authority plans to correct, 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 has adopted both goals and policies within the Capital Improvement Program designed to maintain the Transit System at its current level or, as necessary, invest in upgrades to the Transit System.

### **Financial Information**

#### *Revenues*

Total revenues for Fiscal Year 2016 were \$877.6 million. Operating revenues, which include passenger revenue, totaled \$859.1 million, a decrease of \$39.4 million (-4.4%). Such decrease is attributable to a reduction in rail and bus ridership, which amounted to a 20.4 million decrease in passenger trips (-6%). The decrease in passenger trips is in large part due to safety measures undertaken by the Authority and service reliability, which caused baseline ridership to drop starting in August 2015. Ridership levels were impacted by the following significant events during Fiscal Year 2016:

- Full two-day closure of Metrorail, Metrobus and MetroAccess due to the January 2016 blizzard, as well as reduced or modified operating schedules in the days following the blizzard.
- In March 2016, the Metrorail system was closed for emergency safety inspections.
- Initiation of the SafeTrack Plan that commenced in June 2016 to address safety recommendations and rehabilitate the Metrorail system.

Nonoperating revenues were \$18.5 million, a decrease of \$13.9 million from the prior year (-42.9%).

For Fiscal Year 2016, federal and jurisdiction subsidies increased by \$88.4 million to offset operating expenses. Jurisdictional operating subsidy accounted for approximately 31% of total revenues in Fiscal Year 2016. In Fiscal Year 2016, capital contributions decreased by \$2.9 billion (-72.1%) due primarily to the noncash transfer of the Silver Line Phase 1 assets in July 2014, which resulted in a capital



contribution figure for Fiscal Year 2015 that was disproportionately large. The capital contribution for Fiscal Year 2016 represents an 86% increase over the capital contribution for Fiscal Year 2014.

### *Expenses*

Total expenses for Fiscal Year 2016 were \$2.65 billion, an increase of \$78.8 million. Operating expenses totaled \$2.62 billion, an increase of \$81.6 million (3.2%). For Fiscal Year 2016, the increase in operating expenses can be attributed to depreciation expense, which increased by \$86.9 million, due primarily to an increase in depreciable assets placed into service, which included the Silver Line and other assets. Another operating expense – utilities – decreased by approximately \$4.5 million, or 5.2%, due primarily to the reduction of fuel prices.

### *Net Position*

For Fiscal Year 2016, the Authority's assets exceeded its liabilities by \$10.5 billion. The Authority's total net position increased \$305.6 million, primarily due to donated assets.

### *Capital Assets*

The Authority's capital assets, net balance was \$12.2 billion as of June 30, 2016, an increase of \$393 million (3.3%). Such increase is primarily attributable to an increase in capital spending. The Authority purchased 50 new 7000 series railcars for \$130 million and 125 new hybrid buses for \$147 million. In August 2015, Montgomery County, Maryland donated the Silver Spring Transit Center to the Authority, which consisted of \$9 million in land and \$135.1 million in transit facilities. In addition, \$76.9 million of assets relating to Phase 1 of the Silver Line were transferred to the Authority.

Table 4 below summarizes the changes in revenues, expenses, and net position of the Authority for Fiscal Years 2012 through 2016.

**Table 4. Changes in Revenues, Expenses, and Net Assets  
For Fiscal Years 2012–2016  
(in thousands)**

	<b>2012 (as restated)<sup>(1)</sup></b>	<b>2013 (as restated)<sup>(1)</sup></b>	<b>2014<sup>(1)</sup></b>	<b>2015<sup>(2)</sup></b>	<b>2016<sup>(2)</sup></b>
<u>Operating Revenues</u>					
Passenger revenue <sup>(3)</sup>	\$731,974	\$771,975	\$765,014	\$807,879	\$764,368
Parking revenue <sup>(3)</sup>	45,554	45,640	46,614	46,513	45,039
Advertising revenue	18,284	16,732	19,846	22,422	22,792
Rental revenue	20,604	22,246	22,826	21,601	26,722
Other revenue	254	236	280	229	244
<b>Total Operating Revenues</b>	<b>816,670</b>	<b>856,829</b>	<b>854,580</b>	<b>898,644</b>	<b>859,165</b>
<u>Nonoperating Revenues</u>					
Investment income	1,309	818	585	769	224
Interest income from leasing transactions	34,882	32,936	19,053	11,407	10,621
Other	18,812	16,300	16,232	20,270	7,687
<b>Total Nonoperating Revenues</b>	<b>55,003</b>	<b>50,054</b>	<b>35,870</b>	<b>32,446</b>	<b>18,532</b>
<b>Total Revenues</b>	<b>871,673</b>	<b>906,883</b>	<b>890,450</b>	<b>931,090</b>	<b>877,697</b>
<u>Operating Expenses</u>					
Labor	656,553	655,141	699,143	701,723	752,270
Fringe benefits	475,104	524,383	544,069	618,169	558,684
Services	214,309	227,379	183,689	222,156	224,087
Materials and supplies	139,418	145,155	148,523	134,021	135,533
Utilities	79,413	81,561	84,691	87,905	83,364
Casualty and liability costs	24,764	26,461	26,354	25,020	27,174
Leases and rentals	4,000	4,969	5,925	6,658	6,749
Miscellaneous	467	2,604	2,998	4,422	6,927
Depreciation and amortization	528,720	622,409	642,519	747,379	834,311
<b>Total Operating Expenses</b>	<b>2,122,748</b>	<b>2,290,062</b>	<b>2,337,911</b>	<b>2,547,453</b>	<b>2,629,099</b>
<u>Nonoperating Expenses</u>					
Interest expense from leasing transactions	34,882	32,936	19,053	11,407	10,621
Interest expense	16,495	15,114	15,513	16,181	14,138
<b>Total Nonoperating Expenses</b>	<b>51,377</b>	<b>48,050</b>	<b>34,566</b>	<b>27,588</b>	<b>24,759</b>
<b>Total Expenses</b>	<b>2,174,125</b>	<b>2,338,112</b>	<b>2,372,477</b>	<b>2,575,041</b>	<b>2,653,858</b>
Jurisdictional subsidies, capital grants, and capital subsidies	1,000,712	1,391,240	1,377,897	4,977,864	2,081,722
Net position, beginning of year	8,377,565	8,075,825	8,035,836	7,931,706	10,219,508
Restatement due to the adoption of GASB 68 and 71	-	-	-	(1,046,111)	-
Net position, beginning of year, as restated	-	-	-	6,885,595	-
<b>Net position, ending of year</b>	<b>\$8,075,825</b>	<b>\$8,035,836</b>	<b>\$7,931,706</b>	<b>\$10,219,508</b>	<b>\$10,525,069</b>

1. From the audited financial statements for the Fiscal Year ended June 30, 2014.

2. From the Fiscal Year 2016 Audited Financial Statements.

3. Provided by the Authority.

***The following discussion of the Approved Fiscal Year 2017 Budget and Approved Fiscal Year 2018 Budget is based, in part, on projections and forward-looking statements related to such Fiscal Years. No assurance can be given that the applicable budget estimates and forward-looking statements will be realized. The accuracy of such budget estimates and forward-looking statements cannot be verified until after the close of the applicable Fiscal Year and the completion of the related audit.***

## **Annual Budgets**

### *Budgetary Process*

The Authority's annual budget generally consists of three budgets: an operating budget, a capital budget, and a reimbursable projects budget (consisting of operating reimbursable projects and capital reimbursable projects). For Fiscal Year 2018, the Approved Fiscal Year 2018 Budget collapses the reimbursable projects budget into the operating budget and capital budget, as applicable.

The focus of the operating budget is on the personnel, 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. Passenger fare revenue makes up more than 94% of all operating revenue. Aside from ridership 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 more than 70% of the total annual operating cost, not including depreciation. 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 non-personnel related expenses use differing forecast assumptions regarding inflation and escalation based on the category of expense. 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 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 and Chief Executive Officer 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, and power systems, among others. Budgetary issues for the capital budget typically 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 budget are those unique services, programs, or projects sponsored or directed by Participating Jurisdictions and for which separate funding has been provided by such sponsors.

#### *Fiscal Year 2017 Budget*

The Authority's Fiscal Year 2017 annual budget, totaling approximately \$2.8 billion, was approved by the Board on March 24, 2016 (the "Approved Fiscal Year 2017 Budget").

The net operating portion of the Authority's overall budget is \$1.75 billion, which provides for the personnel, supplies, fuel and propulsion power, and services needed to operate Metrobus, Metrorail, and MetroAccess. Funding for the operating budget comes primarily from passenger fares and contributions from the Participating Jurisdictions.

The reimbursable portion of the Authority's overall budget is \$86.2 million for both operating and capital, which provides for personnel and services needed for unique projects requested on behalf of the Participating Jurisdictions and outside partners. The approved operating reimbursable budget is \$34.2 million and the capital reimbursable budget is \$52 million.

The \$950 million capital budget provides for the assets and infrastructure to support Metrobus, Metrorail, and MetroAccess service. Funding for the capital budget comes from federal grants, the Participating Jurisdictions and debt.

The Approved Fiscal Year 2017 Budget includes a 3.8% operating expense decrease, paired with an anticipated 3.1% decrease in ridership.

#### *Quarterly Financial Report (Third Quarter – Fiscal Year 2017)*

At the end of each quarter during the Fiscal Year, the Authority releases a financial report detailing key financial performance results and operating and capital budget summaries. The quarterly financial report for the third quarter of Fiscal Year 2017 (covering the period of January 1- March 31, 2017) is described below.

Operating Budget. Through the third quarter of Fiscal Year 2017, the Authority's operating expenses were \$1.23 billion, favorable to budget by \$76 million or 6% below budget, while operating revenues were \$575 million, \$87 million or 13% below budget.

Total transit ridership through the third quarter of Fiscal Year 2017 was 222.6 million trips, a decrease of 16.9 million trips or 7% compared to the same period in the prior fiscal year. Ridership in Fiscal Year 2017 was originally forecasted to increase slightly and third quarter budgeted trips were below budgeted trips by 28.7 million trips. Significant ridership declines began in August 2015 and have continued. On a year-over-year basis, July 2016 ridership was down sharply with more moderate declines in August and September of 2016. There were sharper declines again in October and December of 2016. During the third quarter of Fiscal Year 2017, ridership increased sufficiently to improve the year-to-date variance to budgeted ridership from 12% below budget at the end of the second quarter of Fiscal Year 2017 to 11% below budget at the end of the third quarter. Due to the Presidential Inauguration and the Women's March (as well as major snow disruptions in the previous year), rail and bus ridership increased by 14% over the prior January. However, the reduction in ridership experienced in the first half of Fiscal Year 2017 returned in February and March.

Total Metrorail ridership through the third quarter of Fiscal Year 2017 was 130 million trips, a decline of 9% compared to the same period last year. This decline resulted in a 11% drop in rail revenue when compared to the prior year and a 15% reduction in rail revenue compared with what the Authority budgeted for Fiscal Year 2017 through the third quarter.

Total Metrobus ridership through the third quarter of Fiscal Year 2017 was 91 million trips, a decline of 4.1 million trips (-4%) compared to the same period last year. Metrobus revenue declined by 10% compared to the same period in the prior year and was 15% below budget for the quarter. Metrobus revenues are impacted by various discounted fares offered by the Authority. As such, there is not always a direct correlation to the change in ridership volume and the change in Metrobus revenues.

Through the first three quarters of Fiscal Year 2017, these revenue impacts have been offset by expense savings. Personnel expenses for this period, including salaries, wages and fringe benefits, were \$925.5 million, which is \$57.6 million or 6% less than the budgeted amount. This variance is attributable to eliminated positions, a 4.6% vacancy rate among remaining positions and preventative maintenance transfers that result in certain personnel expenses being shifted to the capital budget. As part of management's actions to reduce expenses in Fiscal Year 2017 to offset reduced ridership and revenue, the Authority eliminated approximately 700 non-safety critical positions. As of the end of the third quarter, 653 vacant and filled positions have been eliminated. Overtime expenses of \$64 million through the end of the third quarter were over budget by \$4.3 million or 7.2%. This negative variance from the Fiscal Year 2017 Budget was primarily driven by additional labor hours to perform inspections, track repair work, and other track maintenance activities.

Non-personnel expenses were \$306.4 million through March, \$18.3 million or 5.6% below budget. Savings in services and fuel were partially offset by increased expenses in materials and supplies.

Capital Budget. Total capital investment through the third quarter of Fiscal Year 2017 is \$874 million, 79% of the approved capital budget for Fiscal Year 2017. This amount includes \$260.9 million invested in railcars as a result of accelerated delivery rates on new rail cars and \$86 million in track and structures rehabilitation. An additional \$84.6 million was invested in railcar maintenance and \$24.6 million was spent on improvements to railcar maintenance facilities. Rail systems investments, which includes propulsion and signals and communications programs received \$47.7 million in investment. Capital investment in tracks and structures rehabilitation was \$117.9 million and capital investment in Authority stations and rail passenger facilities was \$115 million. The Authority spent \$185.8 million on bus acquisition, bus maintenance, and bus passenger facilities and systems.

Total capital expenditures for Fiscal Year 2017 are on pace to total \$1.1 billion by the end of Fiscal Year 2017, which would exceed the amount budgeted by \$150 million. On May 25, 2017, the

Board approved an additional \$75 million in capital expenditures for Fiscal Year 2017 to support additional investment in railcar acquisition, railcar maintenance and overhaul, fixed rail improvements and bus maintenance facilities.

#### *Fiscal Year 2018 Budget*

The Authority's Fiscal Year 2018 annual budget, comprised of (i) the operating budget totaling approximately \$1.846 billion (inclusive of the operating reimbursable projects and debt service costs) (the "Approved Fiscal Year 2018 Operating Budget") and (ii) the capital budget totaling \$1.534 billion (inclusive of the capital reimbursable projects) (the "Approved Fiscal Year 2018 Capital Budget"), was approved by the Board on March 23, 2017 and April 27, 2017 (collectively, the "Approved Fiscal Year 2018 Budget").

Operating Budget. The Approved Fiscal Year 2018 Operating Budget provides for the personnel, supplies, fuel and propulsion power, and services needed to operate Metrobus, Metrorail, and MetroAccess. Funding for the operating budget comes primarily from passenger fares and contributions from the Participating Jurisdictions.

The Approved Fiscal Year 2018 Operating Budget is designed to respond to the financial challenges facing the Authority resulting from declining fare revenues produced by lower ridership. The Approved Fiscal Year 2018 Operating Budget includes increases in fares and operating subsidies, as well as service reductions and cost savings from the Fiscal Year 2017 reduction in Authority personnel of approximately 700 positions. In addition to reducing headcount, the approved budget seeks to implement changes to healthcare for non-represented employees, which brings such benefit programs in line with programs for other public employees in the region. The approved budget is supported by \$814.3 million of projected operating revenues, and with \$1.032 billion of subsidies from the Participating Jurisdictions.

For information on the funding of the operating expenses of the Transit System, see "THE TRANSIT SYSTEM – Funding of the Operating Expenses of the Transit System" and "ONGOING FINANCIAL AND OPERATIONAL CONCERNS – Structural Deficit; Lack of a Dedicated Funding Source."

Capital Budget. The Approved Fiscal Year 2018 Capital Budget provides for provides for the assets and infrastructure to support Metrobus, Metrorail, and MetroAccess service. Funding for the Approved Fiscal Year 2018 Capital Budget comes from federal grants, the Participating Jurisdictions and debt. The Fiscal Year 2018 Capital Budget includes \$284.2 million in capital investment authorized in previous years that is expected to be financed through the issuance of long-term Authority debt.

For information on the capital investment needs of the Authority, see "– Capital Improvement Program," "THE TRANSIT SYSTEM – Funding of the Capital Costs of the Transit System – *Ongoing Funding*" and "ONGOING FINANCIAL AND OPERATIONAL CONCERNS – Capital Budget Expenditures."

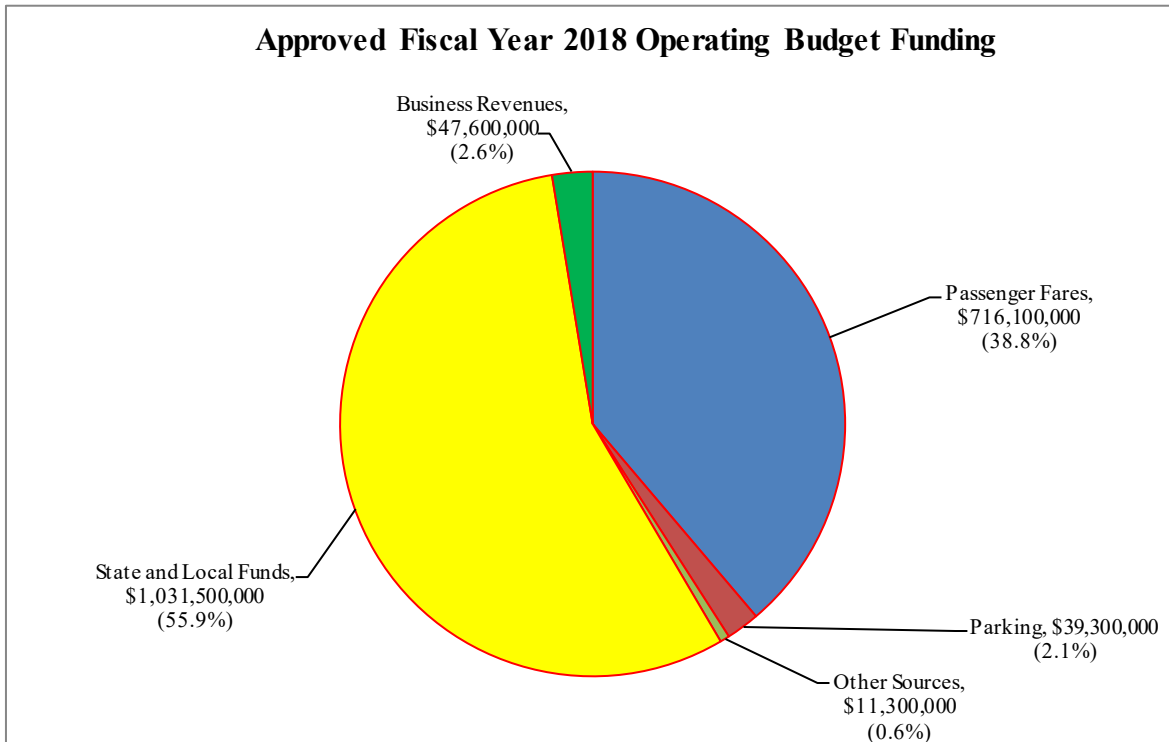
Table 5 compares the operating and capital budgets and the components thereof for the Approved Fiscal Year 2017 Budget and the Approved Fiscal Year 2018 Budget. The table includes operating and capital portions of the reimbursable projects budget and such figures are separately broken out.

**Table 5. Summary of Funding by Program and Source**  
**(\$ in millions)**

	<u>Fiscal Year 2017</u> <u>(Approved Budget)</u>	<u>Fiscal Year 2018</u> <u>(Approved Budget)</u>
<b>Operating Budget</b>		
Passenger Fares & Parking	\$839.0	\$755.4
State and Local Funds <sup>(1)</sup>	900.7	1031.5
Business Revenues	47.0	47.6
Other Sources	14.0	11.3
<b>Subtotal</b>	<b>\$1,800.7</b>	<b>\$1,845.8</b>
<b>Capital Budget</b>		
Federal Formula/Other Grants	\$317.3	\$311.9
Federal Dedicated Funds (PRIIA) <sup>(2)</sup>	172.0	148.5
State and Local Funds/Metro 2025 Investment <sup>(3)</sup>	394.8	374.4
Other Sources	59.7	124.2
Planned Long-Term Financing	58.3	575.2 <sup>(4)</sup>
<b>Subtotal</b>	<b>\$1,002.0</b>	<b>\$1,534.2</b>
<b>Total</b>	<b>\$2,802.7</b>	<b>\$3,380.0</b>

1. Includes the net subsidies from the Participating Jurisdictions and debt service.
2. Such funds are made available under PRIIA and are subject to annual appropriation and certain other conditions. Title VI of PRIIA authorizes federal funding of capital and preventive maintenance projects of the Authority in the amount not to exceed \$1.5 billion to be available in increments over ten fiscal years beginning in fiscal year 2009, or until expended. Each fiscal year since PRIIA was passed, the Authority has received \$150 million thereunder, less FTA adjustments. By its terms, PRIIA funding for the Authority will expire at the end of fiscal year 2019 or when all \$1.5 billion authorized thereunder is expended, unless Congress extends the law or increases funding thereunder.
3. Includes the State and Local PRIIA matching funds. Such funds can only be used on capital and preventive maintenance projects of the Authority and are made available thereto pursuant to the applicable laws of the District of Columbia, the State of Maryland, and the Commonwealth of Virginia. Such funds are subject to annual appropriation by such jurisdictions.
4. Includes \$284.2 million in financing authorized in prior years.

The chart below illustrates the components of the Approved Fiscal Year 2018 Operating Budget, as set forth in Table 5. Percentages may not total 100% due to rounding.



The chart below illustrates the components of the Approved Fiscal Year 2018 Capital Budget, as set forth in Table 5. Percentages may not total 100% due to rounding.

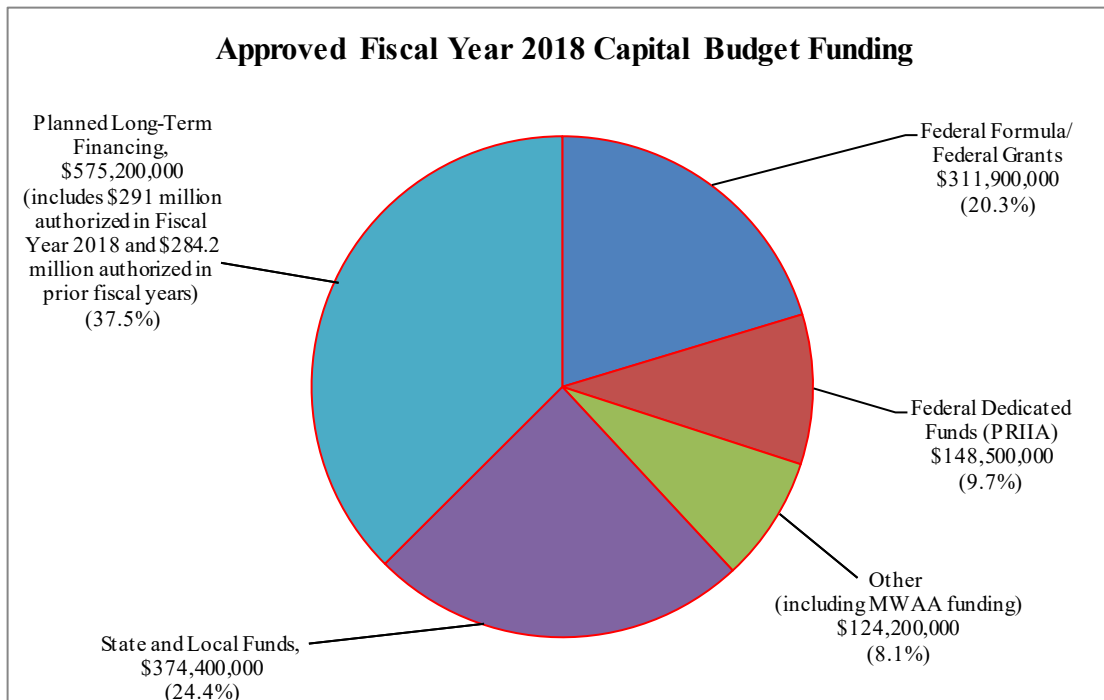




Table 6 shows the state and local funds that the Authority has received or expects to receive from the Participating Jurisdictions in the Approved Fiscal Year 2017 Budget and the Approved Fiscal Year 2018 Budget.

**Table 6. Summary of State and Local Funding for Operating and Capital Budgets<sup>(1), (2), (3)</sup>**  
**(\$ in millions)**

	Operating Budget				Capital Budget <sup>(4)</sup>			
	Operating Subsidy		Debt Service		Fiscal Year 2017 (Budget)	Fiscal Year 2018 (Budget) <sup>(5)</sup>		
	Fiscal Year 2017 (Budget)	Fiscal Year 2018 (Budget)	Fiscal Year 2017 (Budget)	Fiscal Year 2018 (Budget)			Fiscal Year 2018	
							Total	As Percent of Total
District of Columbia	\$312.5	\$364.6	\$10.7	\$10.7	\$185.8 <sup>(6)</sup>	\$361.5 <sup>(7)</sup>	\$736.8	37.3%
Maryland								
Montgomery County	140.0	161.4	4.9	4.9	45.9	137.0	303.3	15.4%
Prince George’s County	180.4	202.4	5.5	5.5	47.6	136.1	344.0	17.4%
Regional	0.0	0.0	0.0	0.0	59.3	54.5	54.5	2.8%
Subtotal	\$320.4	\$363.7	\$10.5	\$10.5	\$152.8	\$327.6	\$701.8	35.5%
Virginia								
Alexandria	33.0	40.3	0.0	0.0	12.1	43.0	83.3	4.2%
Arlington County	56.6	70.9	0.0	0.0	22.6	68.5	139.4	7.1%
City of Fairfax	1.8	2.2	0.0	0.0	0.7	2.2	4.4	0.2%
Fairfax County	118.7	135.3	0.0	0.0	39.5	118.1	253.4	12.8%
City of Falls Church	2.4	2.7	0.1	0.1	0.8	2.3	5.1	0.3%
Regional	0.0	0.0	0.0	0.0	61.7	50.9	50.9	2.6%
MWAA	-	-	-	-	37.1 <sup>(8)</sup>	-	-	-
Subtotal	\$212.4	\$251.3	\$0.1	\$0.1	\$174.5	\$285.0	\$536.4	27.2%
Total	\$845.3	\$979.5	\$21.2	\$21.2	\$513.1	\$973.9	\$1,974.6	100%

1. Totals may not sum due to rounding.
2. For Fiscal Year 2017, this table excludes \$8.1 million in other funding from (i) Safety & Security Grants (\$4.7 million), (ii) Joint Development & Adjacent Construction Projects (\$2.8 million), and (iii) Bus Bridges/Transit Works (\$0.6 million).
3. For Fiscal Year 2018, this table excludes \$6.4 million in other funding from (i) Safety & Security Grants (\$3.6 million), (ii) Joint Development & Adjacent Construction Projects (\$2.0 million), and (iii) Neutral Host (\$0.8 million).
4. Includes Metro 2025 Investment.
5. Includes additional contributions or debt (including financing authorized in prior years) totaling \$575.2 million.
6. Includes \$26.1 million for the District of Columbia from the Fiscal Year 2017 Reimbursable Projects Budget.
7. Includes \$24.4 million for the District of Columbia from the Fiscal Year 2017 Reimbursable Projects Budget.
8. From the Fiscal Year 2017 Reimbursable Projects Budget.

## Capital Improvement Program

The Approved Fiscal Year 2018-2023 Capital Improvement Program, including the Approved Fiscal Year 2018 Capital Budget, totals \$7.18 billion (excluding \$284.2 million in financing authorized in prior years for Fiscal Year 2018). Table 7 shows funding sources for the Approved Fiscal Year 2018-2023 Capital Improvement Program in the year in which funding is anticipated to be expended.

**Table 7. Approved Fiscal Year 2018-2023 Capital Improvement Program  
Financial Plan – Funding Sources<sup>(1)</sup>  
(in millions)**

	Fiscal Year 2018–2023 Plan						Total
	Fiscal Year 2018 Budget	Fiscal Year 2019 Plan	Fiscal Year 2020 Plan	Fiscal Year 2021 Plan	Fiscal Year 2022 Plan	Fiscal Year 2023 Plan	
<b>Federal</b>							
Federal Formula Programs	\$ 301.1	\$ 302.7	\$ 302.7	\$ 302.7	\$ 302.7	\$ 302.7	\$ 1,814.4
Federal PRIIA	148.5	148.5	148.5	148.5	148.5	148.5	891.0
Other Federal Grants	10.8	9.5	7.2	7.8	8.0	8.3	51.6
Subtotal Federal	\$ 460.5	\$ 460.7	\$ 458.4	\$ 458.9	\$ 459.2	\$ 459.5	\$ 2,757.1
<b>State and Local</b>							
Match to Federal Formula	\$ 75.5	\$ 76.3	\$ 76.0	\$ 77.4	\$ 75.8	\$ 75.9	\$ 456.9
System Performance	135.0	344.8	421.8	419.0	293.7	269.8	1,884.0
Match to Resiliency Grant	148.5	148.5	148.5	148.5	148.5	148.5	891.0
Other State and Local	15.3	4.5	3.9	4.0	4.1	4.2	36.0
Subtotal State and Local	\$ 374.4	\$ 574.0	\$ 650.1	\$ 649.00	\$ 522.1	\$ 498.3	\$ 3,267.9
<b>MWAA</b>	\$ 118.2	\$ 33.2	\$ 32.2	\$ 69.2	\$ 35.2	\$ 5.0	\$ 293.0
<b>Other</b>	\$ 6.0	\$ 8.0	\$ 1.0	-	-	-	\$ 15.0
<b>Long-Term Financing</b>	\$ 291.0	\$ 202.7	\$ 132.1	\$ 150.0	\$ 7.5	\$ 66.7	\$ 850.0
<b>Total</b>	<b>\$ 1,250.0</b>	<b>\$ 1,278.6</b>	<b>\$ 1,273.8</b>	<b>\$ 1,327.1</b>	<b>\$ 1,024.0</b>	<b>\$ 1,029.5</b>	<b>\$ 7,183.0</b>
<b>Financing Authorized in Prior Years</b>	\$ 284.2	-	-	-	-	-	\$ 284.2
<b>Grand Total</b>	<b>\$ 1,534.2</b>	<b>\$ 1,278.6</b>	<b>\$ 1,273.8</b>	<b>\$ 1,327.1</b>	<b>\$ 1,024.0</b>	<b>\$ 1,029.5</b>	<b>\$ 7,467.2</b>

1. Totals may not sum due to rounding.

### *Capital Improvement Projects for Fiscal Year 2018*

The Approved Fiscal Year 2018-2023 Capital Improvement Program includes \$1.25 billion in capital projects for Fiscal Year 2018 (excludes \$284.2 million in financing authorized in prior years; see Table 7). Such projects focus on (i) railcar investments, including investment in new rolling stock and upgrading components for portions of the existing legacy fleet; (ii) bus and paratransit vehicles, with the goal of ensuring a safe, reliable and efficient bus and paratransit fleet; (iii) stations and passenger facilities, with the goal of ensuring safe, clean, reliable, and customer-friendly stations; (iv) rail systems, with the goal of maintaining rail propulsion power systems and upgrading signal and communication systems; (v) track and structures rehabilitation, with the goal of maintaining safe and reliable Metrorail track and track infrastructure; and (vi) business support focused on supporting investments in critical operational and business requirements.

### *Future Capital Improvement Projects*

The Approved Fiscal Year 2018-2023 Capital Improvement Program includes a total of \$7.18 billion in planned capital investments over the six-year period for safety and state of good repair (excludes \$284.2 million in financing authorized in prior years, which is included in the Approved Fiscal Year 2018-2023 Capital Improvement Program for Fiscal Year 2018; see Table 7). For investments by program, the Approved Fiscal Year 2018-2023 Capital Improvement Program includes (i) railcar investments of approximately \$2.534 billion; (ii) bus and paratransit investments of approximately \$1.270 billion; (iii) station and passenger facilities investments of \$1.425 billion; (iv) rail systems investments of \$858 million; (v) track and structures rehabilitation investments of \$760 million; and (vi) business support investments of \$336 million.

Planned funding for the Approved Fiscal Year 2018-2023 Capital Improvement Program is expected to come from (i) federal formula and PRIIA grants; (ii) required state/local matching funds for those federal grants; and (iii) additional system performance and/or debt funding from the Participating Jurisdictions. While such funding is expected to support core safety and state of good repair needs, additional capital investment would be required to address deferred projects, planning for future enhancements, and to address the long-term growth of the region and the Transit System. For information on the condition of the Authority's capital assets and the relationship between those assets and the results of the Authority's operations, see "THE TRANSIT SYSTEM – Funding of the Capital Costs of the Transit System – *Ongoing Funding*" and "ONGOING FINANCIAL AND OPERATIONAL CONCERNS – Capital Budget Expenditures."

## Transit System Ridership and Passenger Fare Revenues

Table 8 shows trends in ridership and passenger fare revenues over the period covering Fiscal Year 2007 through the current projections for Fiscal Years 2017 and 2018.

**Table 8. Ridership and Passenger Revenues for Fiscal Years 2007-2016 (Actual) and 2017-2018 (Projection)**  
(in thousands)

Fiscal Year	Base Fare		Metrorail	Metrobus	MetroAccess	Total Ridership	Passenger Fare Revenues
	Rail	Bus					
2007 (Actual)	\$1.35	\$1.25	207,907	131,489	1,468	340,864	\$517,056
2008 (Actual)	\$1.65	\$1.25	215,314	132,849	1,722	349,885	\$572,777
2009 (Actual)	\$1.65	\$1.25	222,859	133,775	2,108	358,742	\$628,750
2010 (Actual)	\$1.75	\$1.35	217,219	123,670	2,377	343,266	\$606,399
2011 (Actual)	\$1.95	\$1.50	217,053	125,089	2,336	344,478	\$720,603
2012 (Actual)	\$1.95	\$1.50	218,244	132,195	2,083	352,522	\$731,974
2013 (Actual)	\$2.10	\$1.60	208,969	132,065	2,033	343,067	\$771,975
2014 (Actual)	\$2.10	\$1.60	204,067	134,408	2,126	340,601	\$765,014
2015 (Actual)	\$2.15	\$1.75	206,396	132,902	2,238	341,536	\$807,879
2016 (Actual)	\$2.15	\$1.75	191,348	127,432	2,281	321,061	\$764,368
2017 (Projection)	\$2.15	\$1.75	203,500	135,600	2,420	341,520	\$795,250
2018 (Projection)	\$2.25	\$2.00	178,505	116,968	2,400	297,873	\$716,091

For Fiscal Year 2018, (i) total rail ridership is projected at approximately 178.5 million trips, a decline of approximately 25.0 million (-12.3%) compared to the current projection for Fiscal Year 2017; (ii) total bus ridership is projected at approximately 117.0 million, a decline of approximately 18.6 million (-13.7%) compared to the current projection for Fiscal Year 2017; and (iii) MetroAccess ridership is expected to decrease by 20,000 trips, a reduction of 0.8% compared to the current projection for Fiscal Year 2017. For information on continued declines in bus and rail ridership in Fiscal Year 2017, see “– Annual Budgets – *Quarterly Financial Report (Third Quarter – Fiscal Year 2017)*.”

## Outstanding Debt

The Authority's total outstanding bond debt as of June 30, 2016 and 2015 was \$498.9 million (including approximately \$22.6 million of unamortized premium) and \$274.1 million (including approximately \$10.0 million of unamortized premium), respectively. All of the Authority's outstanding bonds are issued on a parity basis and secured by a lien on Gross Revenues. Table 9 summarizes the outstanding Bonds of the Authority as of May 31, 2017.

**Table 9. Outstanding Bonds as of May 31, 2017**

	<u>Amount Outstanding</u>	<u>Final Maturity Date</u>	<u>Source of Payment</u>
<b>Series 2009A Bonds<sup>(1)</sup></b>	\$201,195,000	July 1, 2032	Gross Revenues
<b>Series 2009B Bonds<sup>(2)</sup></b>	\$55,000,000	July 1, 2034	Gross Revenues
<b>Series 2016A Bonds</b>	\$220,000,000	July 1, 2019	Gross Revenues

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1. The Series 2009A Bonds are being refunded and legally defeased with a portion of the proceeds of the Series 2017A-1 Bonds. See "PLAN OF FINANCE AND SOURCES AND USES OF FUNDS."

2. The Series 2009B Bonds were issued under the Resolution as BABs. The Authority receives a direct federal subsidy payment for a portion of their borrowing costs on BABs. While the Authority has received its direct subsidy payments as scheduled, the amount of such subsidies have been reduced in recent federal continuing resolutions and budgets, as applicable. See footnote 7 to Table 1. The Series 2009B Bonds are expected to be refunded and legally defeased on the Crossover Date with a portion of the proceeds of the Series 2017A-2 Bonds. See "PLAN OF FINANCE AND SOURCES AND USES OF FUNDS."

The total amounts available under the Authority's four "364-day" lines of credit were \$302.5 million in Fiscal Year 2016. The availability fees and accrued interest were payable either monthly or quarterly, depending on the terms of the agreements, commencing July 2010. All principal and interest are computed based on a spread to the London Interbank Offered Rate (LIBOR). As of June 30, 2016, the Authority's outstanding balance for its \$302.5 million lines of credit was \$160.0 million.

As of May 31, 2017, the Authority had drawn \$85 million on its \$350 million lines of credit. Such lines of credit were renewed in March 2017 and expire in March 2018. Any amounts outstanding on the lines of credit would be due by such date. The Authority's repayment obligations under the lines of credit are subordinate to the Bonds.

## Leveraged Lease Transactions

Between 1998 and 2003, the Authority entered into 16 leveraged lease transactions, 13 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.

Due to events in the financial markets, certain specified downgrades had occurred for all 16 Leases. As of June 20, 2017, the Authority had terminated 14 Leases (one in Fiscal Year 2017, one in Fiscal Year 2015, two in Fiscal Year 2014, one in Fiscal Year 2012, one in Fiscal Year 2011, three in Fiscal Year 2010, and five in Fiscal Year 2009). Termination payments on 13 of the 14 Leases were paid from the defeasance accounts with no or very minimal additional liability to the Authority. One Lease was terminated as part of a confidential settlement. The remaining two Leases have terms that range from approximately one to four years. For additional details relating to these leveraged lease transactions, see Note 12 in the Fiscal Year 2016 Audited Financial Statements.

## Pension Plans

The Authority participates in five single-employer defined benefit pension plans covering substantially all of its employees – (i) the WMATA Retirement Plan (the “Retirement Plan”); (ii) the WMATA Transit Employees’ Retirement Plan (the “Local 689 Plan”); (iii) the WMATA Transit Police Retirement Plan (the “Transit Police Plan”); (iv) the WMATA Local 922 Retirement Plan (the “Local 922 Plan”); and (v) the WMATA Local 2 Retirement Plan (the “Local 2 Plan,” together with the Retirement Plan, the Local 689 Plan, the Transit Police Plan, and the Local 922 Plan, the “Pension Plans”). Each of the Pension Plans is governed by a separate board of trustees responsible for administering such plan. Below is a summary of each Pension Plan’s respective membership for the Fiscal Year ended June 30, 2016.

**Table 10. Pension Plan Membership  
(for the Fiscal Year ended June 30, 2016)**

<b>Plan Membership</b>	<b>Retirement Plan</b>	<b>Local 689 Plan</b>	<b>Transit Police Plan</b>	<b>Local 922 Plan</b>	<b>Local 2 Plan</b>	<b>Total</b>
Active	295	9,244	433	430	89	10,491
Inactive (receiving benefits)	1,178	4,384	227	227	293	6,309
Inactive (not receiving benefits)	348	776	81	44	63	1,312
<b><u>Total Membership</u></b>	<b><u>1,831</u></b>	<b><u>14,404</u></b>	<b><u>741</u></b>	<b><u>701</u></b>	<b><u>445</u></b>	<b><u>18,112</u></b>

Source: Notes to the Basic Financial Statements 10 in the Fiscal Year 2016 Audited Financial Statements.

The discussion in this section focuses on the Retirement Plan and the Local 689 Plan, the two largest of the Pension Plans. For more information on the Pension Plans, see Notes to Basic Financial Statements 10 in the Fiscal Year 2016 Audited Financial Statements and the related required supplementary information included in the Authority's CAFR for Fiscal Year 2016.

### *Retirement Plan*

The Retirement Plan is administered by a board of trustees (the "Retirement Plan Board"), which is comprised of three members – two members appointed by the Authority and one member who is elected. All full-time regular management and non-union employees hired prior to January 1, 1999, certain Transit Police Officials who are not covered by any other Pension Plan, and Special Police Officers represented by Local 639, are eligible to participate in the Retirement Plan. As of February 25, 2016, new employees of Local 639 are not permitted to participate in the Retirement Plan.

The normal retirement eligibility is age 65 with 5 years of credited service. The maximum normal retirement benefit is not to exceed 80% of final average compensation. The Retirement 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 vested employment. After five years of service, participants are 100% vested.

Under the Retirement Plan, the Authority is required to contribute pursuant to the Compact an amount equal to the actuarially determined contribution (the "ADC"). The ADC is an amount sufficient to pay (i) the "normal cost," being the present value of the benefits expected to become payable in the future attributable to a current year's employment; and (ii) the amortization of unfunded actuarial liability ("UAL"). For Fiscal Year 2016, Authority contributions totaled \$19.9 million. Participants are not required to contribute to the Retirement Plan.

### *Local 689 Plan*

The Local 689 Plan is governed by the terms of its collective bargaining agreement, which is the basis by which benefit terms and contribution requirements are established and amended. The Local 689 Plan is administered by its retirement allowance committee, which consists of six members – three members appointed by the Authority and three members appointed by the union.

Any regular full-time or part-time Authority employee, who is a member of Local 689, after a 90-day probationary period, is eligible to participate in the Local 689 Plan. After ten years of service, participants are 100% vested.

The Local 689 Plan provides for normal retirement, early retirement, disability and pre-retirement spouse death benefits. Employees are eligible for the normal retirement allowance upon: (i) attainment of age 70; (ii) attainment of age 65 and the completion of 10 years of continuous service; (iii) upon completion of 27 years of continuous service regardless of age; or (iv) after the sum of years of service plus attained age is 83 or more.

Under the Local 689 Plan, the Authority is required to contribute an amount equal to the ADC, per the collective bargaining agreement for Local 689. For Fiscal Year 2016, employee and Authority contributions totaled \$22.1 million and \$127.5 million, respectively.

### *Net Pension Liability*

The table below shows the status of the Authority's pension plans, including net pension liability, as of June 30, 2016.

**Table 11. Status of Authority Pension Plans  
(in thousands)**

<u>Plan</u>	<u>Total Pension Liability</u> (A)	<u>Plan Fiduciary Net Position</u> (B)	<u>Net Pension Liability</u> (B-A)	<u>Funded Ratio</u> (B/A)
Retirement Plan	\$ 525,931 <sup>(1)</sup>	\$ 368,266	\$157,665	70.02%
Local 689	3,253,390 <sup>(1)</sup>	2,742,009	631,381	81.28%
Transit Police	239,394	179,847	59,547	75.13%
Local 922	209,407	177,626	31,781	84.82%
Local 2	169,554	142,326	27,228	83.94%
<b>Total Plans</b>	<b>\$4,517,676</b>	<b>\$3,610,074</b>	<b>\$907,602</b>	<b>79.91%</b>

Source: Required Supplementary Information (Unaudited) (Exhibit 4) to the Fiscal Year 2016 Financial Statements, reflecting a measurement date of June 30, 2015.

1. The total pension liabilities were determined using the following actuarial assumptions for the Retirement Plan: (i) a 2.5% inflation rate; (ii) salary/wage increases of 3.0% to 6.3%; and (iii) a 7.0% long-term rate of return (net of expense and including price inflation).
2. The total pension liabilities were determined using the following actuarial assumptions for the Local 689 Plan: (i) a 3.0% inflation rate; (ii) salary/wage increases of 3.0% to 3.5%; and (iii) a 7.9% long-term rate of return (net of expense and including price inflation).

### **Other Post-Employment Benefits**

#### *OPEB Plans*

In addition to the Pension Plans described above, the Authority contributes to four single-employer defined benefit healthcare plans (collectively, the "OPEB Plans"). The Authority funds the OPEB Plans on a pay-as-you-go basis.

For certain unionized employees (Local 689, Local 2, and Transit Police), the OPEB Plans are governed by the terms of their respective collective bargaining agreements. For the employees not represented by a union, the Board governs such OPEB Plan.

The OPEB Plans for Local 2 and Local 689 provide healthcare, prescription drug, and life insurance benefits to employees hired before January 1, 2010, while the OPEB Plans for Transit Police and employees not represented by a union, provide healthcare, prescription drug, and life insurance benefits to retirees and their dependents.



The annual payments made by the Authority for the OPEB Plans for the last five Fiscal Years are shown in Table 12 below.

**Table 12. Annual OPEB Payment  
(in thousands)**

<b>Fiscal Year ended June 30,</b>	<b>Annual OPEB Payment</b>				
	<b>Local 689</b>	<b>Local 2</b>	<b>Transit Police</b>	<b>Non-Represented</b>	<b>Total</b>
2012	\$82,535	\$13,583	\$7,878	\$33,345	\$137,341
2013	86,391	13,964	8,304	34,935	143,594
2014	51,547	10,167	6,477	32,544	100,735
2015	53,582	9,399	6,801	30,243	100,025
2016	60,126	9,357	6,716	32,270	108,469

Source: The Authority's audited financial statements for Fiscal Years 2014-2016.

For financial reporting purposes, although the Authority funds OPEB on a pay-as-you-go basis, it is required to include in its financial statements (in accordance with GASB Statement No. 45) a calculation similar to that performed to calculate its pension liability. Pursuant to GASB 45, an annual required contribution is calculated which, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any UAL over a period not to exceed 30 years. As of June 30, 2016, the UAL for the OPEB Plans was \$1.76 billion, the covered annual payroll was \$627.0 million, and the ratio of UAL to the covered payroll was 281.9%.

#### *Defined Contribution OPEB Plan*

The Authority contributes to one cost-sharing multiple-employer defined contribution healthcare plan for Local 922 (the "Local 922 Plan"). Such plan provides healthcare, prescription drug and life insurance benefits to retirees and their dependents. Effective November 1, 2007, the Authority began contributing \$800 per month for each employee on its payroll covered by the Local 922 Plan and each retiree under age 65. The Authority's contributions to the Local 922 Plan were \$4.3 million in Fiscal Year 2016.

For more information on the OPEB Plans and the Local 922 Plan, see Notes to the Basic Financial Statements 11 in the Fiscal Year 2016 Audited Financial Statements and the related required supplementary information included in the Authority's CAFR for Fiscal Year 2016.

#### *OPEB Trust*

In March 2017, the Board authorized the General Manager and Chief Executive Officer to create a trust to pre-fund the Authority's OPEB liabilities (the "OPEB Trust") by the fourth quarter of Fiscal Year 2018. Monies deposited to the OPEB Trust would be irrevocable, dedicated to providing benefits to retirees, and legally protected from the Authority's creditors. As noted above in Table 12, total annual OPEB payments for the Authority were \$108.5 million in Fiscal Year 2016.

Upon its creation, the Authority is expected to fund the OPEB Trust in an amount not to exceed \$3 million with future contributions thereto to be reviewed as part of the Authority's Fiscal Year 2019 budget discussions. The Authority expects that initiatives to control absenteeism, worker's compensation costs, and overtime will result in certain cost savings. Savings from such initiatives are expected to be used to fund the OPEB Trust.

## **LITIGATION**

There is no litigation now pending or threatened (i) to restrain or enjoin the issuance or sale of the Series 2017A Bonds; (ii) questioning or affecting the validity of the Series 2017A 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 2017A Bonds.

The Authority is involved in certain litigation and disputes incidental to its operations. Upon the basis of information presently available, the 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.

In order to manage the risk from litigation matters and other disputes, the Authority manages an insurance program that transfers the financial risks (above certain self-insured retentions or deductibles) to private insurance companies. The self-insured retentions of deductibles are referred to in this section as an “SIR.” The Authority’s program of insurance includes, but is not limited to: (i) Master Property; (ii) Excess Liability; (iii) Directors’ & Officers’ Liability; (iv) Employment Practices Liability; and (v) Crime (including Employee Dishonesty) coverage. To the extent applicable, the SIR associated with a matter in litigation is included in the following disclosures.

### **2015 L’Enfant Plaza Accident**

There have been numerous litigation matters filed against the Authority in connection with the January 12, 2015 accident near the L’Enfant Plaza Metrorail Station that resulted in one passenger fatality and the medical transportation of 68 passengers due to heavy smoke (the “2015 L’Enfant Plaza Accident”). For information on certain safety concerns and related actions, see “ONGOING FINANCIAL AND OPERATIONAL CONCERNS – Safety Concerns and Related Actions.”

The family and estate of the passenger killed as a result of the 2015 L’Enfant Plaza Accident filed a law suit against the Authority in January 2015. The suit alleges, in part, that the passenger’s death was the result of the Authority “negligently, carelessly, and wrongfully failing to take reasonable precautions to protect its passengers from injury and death” and seeks a judgment against the Authority in an amount of \$50,000,000 plus interest and costs. Approximately 108 other plaintiffs have also sued the Authority over the 2015 L’Enfant Plaza Accident. The court has stayed such litigation to give the parties a chance to mediate as many cases as possible. As of May 16, 2017, over half of the cases have settled as a result of the mediation. The Authority is working with its insurance carrier on such claims, which have been accepted for coverage (under a reservation of rights). The SIR for this matter is \$1,000,000.

### **Other Matters**

There was a recent bus accident which, when and if litigation commences, is likely to involve the Authority’s Excess Liability insurer. The Authority has put the insurer on notice; however, no decision on coverage has been made as of the date of this Official Statement. The SIR on this matter is \$5,000,000.

The Authority is party to an on-going class action suit alleging that the Authority violated Title VII of the Civil Rights Act related to background screening of certain employees and contractors. The Authority’s insurer has accepted coverage for this matter (subject to a reservation of rights). The

Authority has paid its SIR and the insurer has been making payments or reimbursements pursuant to the policy.

The Authority and certain of its employees have been named as defendants in a retaliation claim under D.C. law. The Authority believes that the claim is without merit. Neither the Authority nor its employees have been served in this matter; however, the Authority has placed its Employment Practices Liability (“EPLI”) insurer on notice for this claim. The SIR for this matter is \$1,000,000.

The Authority is engaged in litigation relating to the termination of five track walkers and supervisors relating to a derailment that took place on July 29, 2016, near the East Falls Church station. The Authority believes that those workers and supervisors were involved in the falsification of records that might have prevented that derailment. The Authority has placed its EPLI insurer on notice for this claim. The SIR for this matter is \$1,000,000.

## **LEGAL MATTERS**

Certain legal matters relating to the authorization and validity of the Series 2017A Bonds will be subject to the approving opinion of Hawkins Delafield & Wood LLP, Bond Counsel, which will be furnished at the expense of the Authority upon delivery of the Series 2017A Bonds and will be in substantially the form set forth as APPENDIX B.

Certain legal matters pertaining to the issuance of the Series 2017A Bonds will be passed upon for the Authority by its General Counsel, Patricia Y. Lee, Esq. Hawkins Delafield & Wood LLP, as 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, Orrick, Herrington & Sutcliffe LLP, Washington, D.C.

## **TAX MATTERS**

### **Series 2017A 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 2017A 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 2017A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. 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 2017A 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 2017A Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel, interest on the Series 2017A Bonds is exempt from all current 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 2017A 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 2017A 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 2017A Bonds in order that interest on the Series 2017A 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 2017A 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 2017A 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 2017A 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 2017A Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner of a Series 2017A 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 2017A Bonds.

Prospective owners of the Series 2017A 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 2017A 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.

#### *Bond Premium*

In general, if an Owner acquires a Series 2017A 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 2017A 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 2017A 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 2017A 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 2017A 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 2017A 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.

### **Miscellaneous**

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Series 2017A Bonds under federal or state law or otherwise prevent beneficial owners of the Series 2017A Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Series 2017A Bonds.

Prospective purchasers of the Series 2017A Bonds should consult their own tax advisors regarding the foregoing matters.

## **RATINGS**

Fitch Ratings, Inc. and S&P Global Ratings, a division of S&P Global Inc., have assigned ratings to the Series 2017A Bonds of “AA-” (with a stable outlook) and “AA-” (with a stable outlook), 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 2017A 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 2017A Bonds.

## **CONTINUING DISCLOSURE**

The Authority will undertake in a continuing disclosure agreement for the Series 2017A Bonds (the “2017 CDA”) to assist the Underwriters in complying with the provisions of Rule 15c2-12 (the “Rule”), promulgated by the SEC, by providing annual financial information, operating data, and event notices required by the Rule. As described in APPENDIX D, the 2017 CDA requires the Authority to provide only limited information at specified times. The filing deadline for the Authority’s annual continuing disclosure filings under the 2017 CDA is December 31 (which is also the deadline under the continuing disclosure agreement for the Series 2016A Bonds (the “2016 CDA”). The Authority’s continuing disclosure filings since July 2009 are available at [www.emma.msrb.org](http://www.emma.msrb.org).

Under its continuing disclosure agreement for the Series 2009 Bonds (the “2009 CDA”), the Authority is required to make its annual continuing disclosure filings with EMMA no later than four months after the end of its Fiscal Year (October 31).

For information on the filing dates of the Authority's audited financial statements, CAFRs, and annual updates to certain tables in the applicable official statements for the last five years, see the chart below.

	<b>Fiscal Year Ended June 30,</b>	<b>Date Posted on EMMA</b>	<b>Due Date</b>	<b>Days Late</b>	<b>Date of Failure to File Notice</b>
<b>Audited Financial Statements</b>					
	2012	December 31, 2012	October 31, 2012	61 days	May 17, 2016
	2013	October 28, 2013	October 31, 2013	---	---
	2014	August 11, 2015	October 31, 2014	284 days	May 17, 2016
	2015	December 17, 2015	October 31, 2015	47 days	May 17, 2016
	2016	October 27, 2016	October 31, 2016	---	---
<b>CAFR</b>					
	2012	April 12, 2016	October 31, 2012	1,259 days	May 17, 2016
	2013	April 12, 2016	October 31, 2013	894 days	May 17, 2016
	2014 <sup>(1)</sup>	N/A	---	N/A	N/A
	2015	April 12, 2016	October 31, 2015	164 days	May 17, 2016
	2016	December 16, 2016	October 31, 2016	46 days <sup>(2)</sup>	May 25, 2017
<b>Official Statement Tables</b>					
	2012	May 12, 2016	October 31, 2012	1,289 days	May 17, 2016
	2013	May 12, 2016	October 31, 2013	924 days	May 17, 2016
	2014	May 12, 2016	October 31, 2014	559 days	May 17, 2016
	2015	May 12, 2016	October 31, 2015	194 days	May 17, 2016
	2016	December 28, 2016	October 31, 2016	58 days <sup>(2)</sup>	May 25, 2017

<sup>1</sup> No CAFR prepared.

<sup>2</sup> Such filings were late under the 2009 CDA, but were timely under the 2016 CDA.

The Authority has updated its internal continuing disclosure procedures and checklist, which update is intended to enhance compliance with its future continuing disclosure obligations.

## UNDERWRITING

The Series 2017A Bonds are being purchased by the Underwriters named on the cover page of this Official Statement, subject to certain terms and conditions set forth in a Bond Purchase Agreement between the Authority and the Underwriters, at a purchase price of \$237,001,613.86, which includes the par amount of the Series 2017A Bonds, plus original issue premium of \$40,326,993.25, less an Underwriters' discount of \$695,379.39.

The Series 2017A Bonds are offered for sale to the public at prices set forth on the inside front cover page of this Official Statement. The Series 2017A Bonds may be offered and sold to certain dealers (including the Underwriters and other dealers depositing such Series 2017A Bonds into investment trusts) at prices lower than such offering prices, and such public offering prices may be changed from time to time by the Underwriters without prior notice.

The Underwriters and their affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Under certain circumstances, the Underwriters and their affiliates may have certain creditor and/or other rights against the Authority and its affiliates in connection with such activities. In the various course of their various business activities, the Underwriters and their affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the Authority (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the Authority. The Underwriters and their affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the Series 2017A Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co., Inc. ("CS&Co.") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Series 2017A Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Series 2017A Bonds that such firm sells.

Academy Securities, Inc. ("Academy Securities"), one of the Underwriters of the Series 2017A Bonds, has entered into distribution agreements with UBS Financial Services Inc., TD Ameritrade Inc., Stoeber, Glass & Company Inc., BNY Mellon Capital Markets LLC, Commonwealth Financial Network, R. Seelaus & Co., Douglas & Co. Municipals, Inc., Ross, Sinclair & Associates, Inc., W.H. Mell Associates, Inc., Intercoastal Capital Markets, Inc., and Janney Montgomery Scott LLC for the retail distribution of certain municipal securities at the original issue prices. Pursuant to such agreements (if applicable to this transaction), Academy Securities may share a portion of its underwriting compensation with these firms.



## **FINANCIAL ADVISOR**

PFM Financial Advisors, LLC served as independent financial advisor, to the Authority with respect to the sale of the Series 2017A 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 2017A 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.

## **VERIFICATION OF MATHEMATICAL COMPUTATIONS**

BondResource Partners, LP, will deliver to the Authority on or before the settlement date of the Series 2017A Bonds, its report indicating that it has verified the mathematical accuracy of schedules provided by the Authority and its representatives. Included in the scope of its engagement will be a verification of the mathematical accuracy of (i) the mathematical computations of the adequacy of the maturing principal of and interest on the Defeasance Securities in the escrow fund established under the Series 2009A Refunded Bond Escrow Agreement, to pay, when due, the maturing principal of, interest on and call premium requirements, if any, of the Series 2009A Refunded Bonds, (ii) the mathematical computations of the adequacy of the maturing principal and interest on the Authorized Investments in the Crossover Escrow Fund established under the Series 2009B Refunded Bond Escrow Agreement on the Crossover Date, to pay, when due, the maturing principal of, interest on and all call premium requirements, if any, on the Series 2009B Refunded Bonds, and (iii) the computations underlying the opinion of Bond Counsel that the Series 2017A Bonds are not “arbitrage bonds” under the Code and the regulations promulgated thereunder.

The verification performed by BondResource Partners, LP will be solely based upon data, information and documents provided to BondResource Partners, LP by the Authority and its representatives. The BondResource Partners, LP report of its verification will state that BondResource Partners, LP has no obligation to update the report because of events occurring, or data or information coming to their attention, subsequent to the date of the report.

## 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 2017A Bonds, the security for the payment of the Series 2017A 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's Office, 600 Fifth Street, N.W., Washington, DC 20001, (202) 962-1020, to PFM Financial Advisors, LLC, 222 North LaSalle, Suite 910, Chicago IL 60601 (312) 977-1570.

The execution and delivery of this Official Statement by the General Manager and Chief Executive Officer has been duly authorized by the Board.

**WASHINGTON METROPOLITAN AREA  
TRANSIT AUTHORITY**

By: /s/ Paul J. Wiedefeld  
Name: Paul J. Wiedefeld  
Title: General Manager and Chief Executive Officer

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## **APPENDIX A**

### **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.

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 than 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 Annual Aggregate 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 Average Annual Aggregate Debt Service, 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.

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## **APPENDIX B**

### **FORM OF OPINION OF BOND COUNSEL**

July 12, 2017

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 \$197,370,000 aggregate principal amount of Gross Revenue Transit Bonds, Series 2017A, consisting of the Series 2017A-1 Bonds (the “Series 2017A-1 Bonds”) and the Series 2017A-2 Bonds (the “Series 2017A-2 Bonds,” and, collectively with the Series 2017A-1 Bonds, the “Series 2017A 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 2017A 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 “2017 Refunding Supplemental Bond Resolution,” adopted on June 22, 2017 (collectively, the “Resolution”).

The Series 2017A 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 2017A Bonds in order that interest on the Series 2017A 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 2017A Bonds, including, but not limited to, certain representations with respect to the use of the proceeds of the Series 2017A Bonds and the investment of certain funds. The Tax Certificate obligates the Authority to take certain actions necessary to cause interest on the Series 2017A 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 2017A 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 2017A 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 2017A 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 2017A Bonds as executed and, in our opinion, the form of said Series 2017A Bond and its execution are regular and proper.

The Series 2017A Bonds are issued for the principal purposes of refunding certain Outstanding Obligations of the Authority, consisting of the Gross Revenue Transit Bonds, Series 2009A (tax exempt) (the “Series 2009A Bonds”) and Gross Revenue Transit Bonds, Series 2009B (Federally Taxable-Issuer Subsidy – Build America Bonds)(the “Series 2009B Bonds”).

A portion of the proceeds of the Series 2017A-1 Bonds is being used to refund the Outstanding Series 2009A Bonds issued pursuant to the General Resolution, such Series 2009A Bonds as described in the hereinafter defined Escrow Agreement as being refunded with proceeds of the Series 2017A-1 Bonds (the “Series 2009A Refunded Bonds”). A portion of the Series 2017A-1 Bonds, together with any other amounts made available by the Authority (the “Defeasance Deposit”), has been used to purchase Defeasance Securities in an aggregate amount sufficient, together with any amounts held uninvested, to pay when due the principal or Redemption Price and interest due and to become due on said Series 2009A Refunded Bonds (the “Defeasance Requirement”). Such Defeasance Deposit is being held in trust under the Series 2009A Gross Revenue Transit Bonds Escrow Agreement, dated July \_\_, 2017 (the “Escrow Agreement”), by and between the Authority and the Bank of New York Mellon, as escrow agent thereunder and as Trustee. The Authority has given the Trustee, in form satisfactory to it, irrevocable instructions to give notice in accordance with the Resolution of the redemption of the Series 2009A Refunded Bonds and the deposit of the Defeasance Deposit. BondResource Partners, LP have prepared a report stating that they have reviewed the accuracy of the mathematical computations of the adequacy of the Defeasance Deposit, as invested, to pay in full the Defeasance Requirement when due. We have undertaken no independent verification of the adequacy of the Defeasance Deposit.

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 2017A 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 2017A Bonds, and the Series 2017A 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 2017A 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 2017A Bonds is excluded from gross income for federal income tax purposes pursuant to the Code; and (ii) interest on the Series 2017A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations.

5. Interest on the Series 2017A Bonds is exempt from all current Maryland, Virginia and District of Columbia personal income taxes.

6. The Escrow Agreement has been duly authorized, executed and delivered by the Authority and, assuming the due authorization, execution and delivery by the Trustee, is a valid and binding obligation of the Authority, enforceable in accordance with its terms. The Series 2009A Refunded Bonds have been paid within the meaning and with the effect expressed in the Resolution, and the covenants, agreements and other obligations of the Authority to the holders of the Series 2009A Refunded Bonds have been discharged and satisfied.

The opinions expressed in paragraphs 2 and 3 are qualified to the extent that the enforceability of the Resolution and the Series 2017A 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 and 5, we express no opinion regarding any other federal, state, local or foreign tax consequences with respect to the Series 2017A 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 2017A 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 2017A 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,

## APPENDIX C

### BOOK-ENTRY-ONLY SYSTEM PROCEDURES

*The information set forth herein concerning DTC and the book-entry system described below has been extracted from materials provided by DTC for such purpose, is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Authority, the Trustee, or the Underwriters. The websites referenced below are included for reference only and the information contained therein is not incorporated by reference in this Official Statement.*

DTC will act as securities depository for the Series 2017A Bonds under a book-entry system with no physical distribution of the Series 2017A Bonds made to the public. The Series 2017A Bonds will initially be issued as fully-registered securities 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 each maturity of each series of the Series 2017A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest 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, as amended. 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 a Standard & Poor's rating of "AA+". The DTC rules applicable to its participants are on file with the Securities and Exchange Commission (the "SEC"). More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of the Series 2017A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2017A Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2017A 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 Series 2017A 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 the Series 2017A Bonds, except in the event that use of the book-entry system for the Series 2017A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2017A 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 Series 2017A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee does not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2017A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2017A 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 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 Series 2017A Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series 2017A Bonds, such as redemptions, defaults and proposed amendments to the bond documents. For example, Beneficial Owners of Series 2017A Bonds may wish to ascertain that the nominee holding the Series 2017A 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 Trustee 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 Series 2017A Bonds of a series within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity of the Series 2017A Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2017A 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 the Series 2017A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal and redemption price of, and interest on, the Series 2017A 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 the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect 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 Direct and Indirect Participants and not of DTC (or its nominee), the Authority or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and redemption price of, and interest on, the Series 2017A Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2017A Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Series 2017A 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, Series 2017A 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 the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

**The Authority, the Trustee, and the Underwriters cannot and do not give any assurances that DTC will distribute to its participants or that Direct Participants or Indirect Participants will distribute to Beneficial Owners of the Series 2017A Bonds (a) payments of principal or redemption price of, or interest on, the Series 2017A Bonds, or (b) confirmation of ownership interests in the Series 2017A Bonds, or (c) redemption or other notices, or that they will do so on a timely basis, or that DTC, Direct Participants, or Indirect Participants will serve and act in the manner described in this Official Statement. The current "rules" applicable to DTC are on file with the SEC and the current "procedures" of DTC to be followed in dealing with its participants are on file with DTC.**

**None of the Authority, the Trustee, or the Underwriters will have any responsibility or obligation to DTC participants, Beneficial Owners, or other nominees of such Beneficial Owners for: (a) sending transaction statements; (b) maintaining, supervising, or reviewing the accuracy of any records maintained by DTC or any DTC participant or other nominees of such Beneficial Owners; (c) payment or the timeliness of payment by DTC to any DTC participant, or by any DTC participant or other nominees of Beneficial Owners to any Beneficial Owner, of any amount due in respect of the principal or redemption price of, or interest on, the Series 2017A Bonds; (d) delivery or timely delivery by DTC to any DTC participant, or by any DTC participant or other nominees of Beneficial Owners to any Beneficial Owners, of any notice (including notice of redemption) or other communication, which is required to be given to holders or owners of the Series 2017A Bonds; (e) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Series 2017A Bonds; or (f) any action taken by DTC or its nominee as the registered owner of the Series 2017A Bonds.**

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## **APPENDIX D**

### **FORM OF CONTINUING DISCLOSURE AGREEMENT**

This Continuing Disclosure Agreement (the “Agreement”) dated July 12, 2017, is executed and delivered by the Washington Metropolitan Area Transit Authority (the “Authority”) in connection with the issuance and sale of the Authority’s \$148,515,000 Gross Revenue Transit Refunding Bonds, Series 2017A-1 (the “Series 2017A-1 Bonds”) and \$48,855,000 Gross Revenue Transit Refunding Bonds, Series 2017A-2 (2019 Crossover) (the “Series 2017A-2 Bonds,” and together with the Series 2017A-1 Bonds, the “Bonds”), issued pursuant to the Resolution (as defined in the Official Statement). Capitalized terms used in this Agreement which are not otherwise defined in the Official Statement or 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) Commencing with the Fiscal Year ending June 30, 2017, the Authority shall provide to the MSRB no later than December 31, 2017, and no later than each succeeding December 31 thereafter, Annual Financial Information with respect to each Fiscal Year of the Authority.

(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 the MSRB.

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 the MSRB.

Section 1.4. Notice Events. (a) If a Notice Event occurs, the Authority shall provide, in a timely manner not in excess of ten (10) business days after the occurrence of such Notice Event, notice of such Notice Event to (i) the MSRB and (ii) the Trustee.

(b) Any 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 Notice Event notice relating to the Bonds shall include the CUSIP numbers of the Bonds to which such Notice Event notice relates or, if the Notice Event notice relates to all bond issues of the Authority, including the Bonds, such Notice Event notice need only include the CUSIP number of the Authority.

Section 1.5. 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 Notice 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 Notice 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 Notice Event hereunder.

Section 1.6. 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 1.7. Previous Non-Compliance. The Authority represents that, except as disclosed in the Official Statement, 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 by specific reference to documents (i) available to the public on the MSRB Internet Web site (currently, [www.emma.msrb.org](http://www.emma.msrb.org)), or (ii) filed with the SEC. The provisions of this Section shall not apply to notices of Notice Events pursuant to Section 1.4 hereof.

Section 2.2. Submission of Information. Annual Financial Information may be set forth or provided in one document or a set of documents, and at one time or in part from time to time.

Section 2.3. Notice Events. Each notice of a Notice Event hereunder shall be captioned “Notice Event” and shall prominently state the title, date and CUSIP numbers of the Bonds.

Section 2.4. Dissemination Agents. The Authority may from time to time designate an agent to act on its behalf in providing or filing notices, documents and information as required of the Authority under this Agreement, and revoke or modify any such designation.

Section 2.5. Transmission of Notices, Documents and Information. (a) Unless otherwise required by the MSRB, all notices, documents and information provided to the MSRB shall be provided to the MSRB’s Electronic Municipal Markets Access (EMMA) system, the current Internet Web address of which is [www.emma.msrb.org](http://www.emma.msrb.org).

(b) All notices, documents and information provided to the MSRB shall be provided in an electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

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) the MSRB and (ii) 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 the MSRB.

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 to 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 an entity, in each case unaffiliated with the Authority (such as bond counsel or the Trustee), 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 the MSRB.

(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 the MSRB.

(c) 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) the Authority shall have received an opinion of Counsel to the effect that the amendment is permitted by rule, order or other official pronouncement, or is consistent with any interpretive advice or no-action positions of staff, of the SEC, and (2) the Authority shall have delivered copies of such opinion and amendment to the MSRB.

(d) 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.

(e) 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 in 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 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, (i) collectively, updated versions of the following financial information and operating data contained in the Official Statement, for each Fiscal Year of the Authority, as follows:

(a) Audited Financial Statements, if available, or Unaudited Financial Statements for the immediately preceding Fiscal Year; and

(b) to the extent such information is not contained in the Audited Financial Statements, the financial information and operating data with respect to the Authority, substantially similar to the type set forth in Tables 1, 4-6, and 8-12 in the Official Statement.

(ii) the information regarding amendments to this Agreement required pursuant to Sections 3.2(d) and (e) 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 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 the Authority or federal 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 the Authority’s 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 any 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) “MSRB” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the functions of the MSRB contemplated by this Agreement.

(6) “Notice Event” means any of the following events with respect to the Bonds, whether relating to the Authority or otherwise:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (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, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (vii) modifications to rights of Bondholders, if material;

- (viii) Bond calls, if material, and tender offers;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the Bonds, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership or similar event;
- (xiii) the consummation of a merger, consolidation, or acquisition involving the Authority or the sale of all or substantially all of the assets of the Authority, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

With regard to the reportable event described in subsection (xii) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Authority in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Authority, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Authority.

(7) “Official Statement” means the Official Statement dated June 29, 2017, of the Authority relating to the Bonds.

(8) “Rule” means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CFR Part 240, §240.15c2-12), as amended, 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.

(9) “SEC” means the United States Securities and Exchange Commission.

(10) “Unaudited Financial Statements” means the same as Audited Financial Statements, except that they shall not have been audited.



**WASHINGTON METROPOLITAN AREA  
TRANSIT AUTHORITY**

By: \_\_\_\_\_  
Name:  
Title:

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## APPENDIX E

### INFORMATION RELATING TO THE REFUNDED BONDS

The following table provides information regarding the Refunded Bonds. It is expected that all of the Outstanding Bonds of each maturity of the Series 2009A Bonds shown below will be refunded on the settlement date of the Series 2017A Bonds, and each maturity of the Series 2009B Bonds shown below will be refunded on the Crossover Date (see “PLAN OF FINANCE AND SOURCES AND USES OF FUNDS” in this Official Statement).

#### **Series 2009A** (Dated June 9, 2009)

<u>Par Amount</u>	<u>Maturity (July 1.)</u>	<u>Interest Rate</u>	<u>Redemption Date (July 1.)</u>	<u>Redemption Price</u>	<u>CUSIP* Number (Base # 938782)</u>
\$8,690,000	2017	5.00%	2019	100%	DL0
\$9,125,000	2018	5.00%	2019	100%	DM8
\$9,580,000	2019	5.00%	2019	100%	DN6
\$10,060,000	2020	5.25%	2019	100%	DP1
\$10,585,000	2021	5.25%	2019	100%	DQ9
\$11,140,000	2022	5.25%	2019	100%	DR7
\$11,725,000	2023	5.25%	2019	100%	DS5
\$12,340,000	2024	5.25%	2019	100%	DT3
\$12,990,000	2025	5.25%	2019	100%	DU0
\$13,670,000	2026	5.25%	2019	100%	DV8
\$14,390,000	2027	5.25%	2019	100%	DW6
\$15,145,000	2028	5.25%	2019	100%	DX4
\$3,125,000	2029	4.875%	2019	100%	DY2
\$12,815,000	2029	5.25%	2019	100%	DZ9
\$12,570,000	2032	5.00%	2019	100%	EA3
\$24,960,000	2032	5.125%	2019	100%	EB1

#### **Series 2009B (2019 Crossover)** (Dated June 9, 2009)

<u>Par Amount</u>	<u>Maturity (July 1.)</u>	<u>Interest Rate</u>	<u>Redemption Date (July 1.)</u>	<u>Redemption Price</u>	<u>CUSIP Number (Base # 938782)</u>
\$55,000,000	2034	7.00%	2019	100%	CW7

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\* CUSIP is a registered trademark of the American Bankers Association (the “ABA”). CUSIP data is provided by CUSIP Global Services, which is managed on behalf of the ABA by S&P Capital IQ, a division of McGraw Hill Financial, Inc. The CUSIP numbers listed above are being provided solely for the convenience of the holders of the Refunded Bonds. The Authority, the Trustee, and the Underwriters do not make any representation with respect to such CUSIP numbers or undertake any responsibility for their accuracy.

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