

DALLAS AREA RAPID TRANSIT

EIGHTEENTH SUPPLEMENTAL DEBT RESOLUTION

Authorizing

**DALLAS AREA RAPID TRANSIT
SENIOR SUBORDINATE LIEN SALES TAX REVENUE
COMMERCIAL PAPER NOTES, SERIES III**

Adopted November __, 2018

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EIGHTEENTH SUPPLEMENTAL DEBT RESOLUTION AUTHORIZING AND ESTABLISHING A COMMERCIAL PAPER PROGRAM UNDER WHICH WILL BE ISSUED FROM TIME TO TIME SENIOR SUBORDINATE LIEN OBLIGATIONS IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$125,000,000 AT ANY ONE TIME OUTSTANDING TO PROVIDE INTERIM FINANCING FOR PROJECT COSTS; AUTHORIZING SUCH OBLIGATIONS TO BE ISSUED, SOLD, AND DELIVERED AS SERIES III NOTES IN ONE OR MORE SERIES; APPROVING AND AUTHORIZING AUTHORIZED OFFICERS TO ACT ON BEHALF OF DART IN THE SALE AND DELIVERY OF SUCH SHORT TERM OBLIGATIONS, WITHIN THE LIMITATIONS AND PROCEDURES SPECIFIED HEREIN AND IN ACCORDANCE WITH APPLICABLE LAW; MAKING CERTAIN COVENANTS AND AGREEMENTS IN CONNECTION THEREWITH; RESOLVING OTHER MATTERS INCIDENT AND RELATED TO THE ISSUANCE, SALE, SECURITY, AND DELIVERY OF SUCH SHORT TERM OBLIGATIONS; APPROVING AN OFFERING MEMORANDUM AND ITS USE BY THE DEALER; ENACTING OTHER PROVISIONS INCIDENT AND RELATED TO THE SUBJECT AND PURPOSE OF THIS RESOLUTION; AND PROVIDING FOR AN EFFECTIVE DATE

WHEREAS, Dallas Area Rapid Transit (“DART”) is a regional transportation authority, public body corporate and politic, whose creation was confirmed at an election held on August 13, 1983, pursuant to the provisions and requirements of Chapter 452, Transportation Code, as amended (the “Act”); and

WHEREAS, the Subregional Board of Directors (the “Board of Directors” or the “Board”) of DART has heretofore adopted a certain “Master Debt Resolution” that establishes the provisions, terms, and conditions and security for DART’s bonds, notes, and other obligations that may be issued from time to time for its lawful purposes by (i) prescribing the terms and conditions upon the basis of which the Initial Senior Lien Obligations, Additional Senior Lien Obligations and Subordinate Lien Obligations, including Credit Agreement Obligations, may be issued and executed, and (ii) providing, establishing, and confirming the pledge, security, and liens securing DART’s obligations to pay all of such Obligations when due; and

WHEREAS, DART is a qualified “issuer” under Chapter 1371, Texas Government Code (“Chapter 1371”) and is authorized to issue all or any portion of the aforesaid obligations as Series III Notes, to execute and deliver one or more credit agreements (including related fee agreements) with respect to such Series III Notes and execute and deliver loan notes to evidence DART’s reimbursement obligations under such credit agreements, all as provided in the Act; and

WHEREAS, for the benefit of DART, the Board desires to establish, pursuant to the provisions of the Act, a commercial paper program known as the Dallas Area Rapid Transit Senior Subordinate Lien Sales Tax Revenue Commercial Paper Program Series III (“Program”), pursuant to which DART will from time to time issue Series III Notes in one or more series (the

Series III Notes of any such series, as further defined and described herein, the “Series III Notes”), for the purpose of providing DART with an interim financing program, as well as with ready access to capital as necessary to provide interim financing to pay project costs; and

WHEREAS, under the Program, DART shall be permitted to issue from time to time, Obligations permitted by Section 3 of the Master Debt Resolution as Series III Notes, the proceeds of which may be used for the purposes, shall have the characteristics, and shall be secured in the manner hereinafter described; provided however, the aggregate principal amount outstanding at any one time cannot exceed the maximum principal amount of Series III Notes hereunder authorized; and

WHEREAS, the Board hereby finds and determines that the issuance of short-term obligations in the form of one or more series of Series III Notes, subject to the terms, conditions and limitations hereinafter prescribed, should be approved and authorized at this time; and

WHEREAS, the Board hereby finds and determines that the authorization and establishment of the Program to permit the issuance of Series III Notes thereunder, and the adoption of this Supplemental Resolution, are in the best interests of DART, now, therefore,

BE IT RESOLVED BY THE BOARD OF DIRECTORS OF DALLAS AREA RAPID TRANSIT:

ARTICLE I DEFINITIONS

Section 1.01. **Definitions.** In addition to the definitions set forth in the preamble of this Eighteenth Supplemental Debt Resolution, the terms used in this Eighteenth Supplemental Debt Resolution and not otherwise defined shall have the meanings given in the Master Debt Resolution or in Exhibit A to this Eighteenth Supplemental Debt Resolution attached hereto and made a part hereof. This Resolution may be hereafter cited in other documents and without further description as the “Eighteenth Supplemental Debt Resolution” or “Resolution”.

Section 1.02. **Construction of Terms Utilized in This Resolution.** If appropriate in the context of this Eighteenth Supplemental Debt Resolution, words of the singular number shall be considered to include the plural, words of the plural number shall be considered to include the singular, and words of the masculine, feminine or neuter gender shall be considered to include the other genders.

Section 1.03 **Declarations and Additional Rights and Limitations Under Master Debt Resolution.** i) For all purposes of Master Debt Resolution, DART declares and provides as follows:

(i) The Series III Notes are Bond Obligations that are Senior Subordinate Lien Obligations authorized by Section 3.3(c) of the Master Debt Resolution. The Series III Notes are Interim Obligations under the Master Debt Resolution.

(ii) Administrative Expenses relating to the Series III Notes shall include (A) the fees and reasonable expenses owed to the Issuing and Paying Agent, (B) the amount

payable to the Trustee as reimbursement of its reasonable expenses, if any, (C) the fees and reasonable expenses payable to the Dealer under the Dealer Agreement, and (D) the amounts, if any, required by Applicable Law to be paid to the United States Internal Revenue Service as rebate of investment earnings on any fund or account subject to rebate under the Code.

(iii) The Issuing and Paying Agent is a Paying Agent and Registrar required by the Master Debt Resolution with respect to the Series III Notes.

(iv) Each Holder of Series III Notes is a Holder under the Master Debt Resolution.

(v) This Resolution is a Supplemental Resolution.

(vi) Each of the Authorized Officers is designated and appointed as an “officer” of DART for the purposes of administering this Resolution, the Dealer Agreement, and the Issuing and Paying Agent Agreement in accordance with Chapter 1371.

(vii) The Series III Notes, the Loans and the Administrative Expenses described in subparagraph (ii) in this Section 1.03(a) are secured solely by the lien on and pledge of Pledged Revenues as Senior Subordinate Lien Obligations, but, DART may, but is not required to, pay the same from any other legally available funds held by DART, including, without limitation, the proceeds of Obligations and amounts held in the General Operating Fund.

(b) For all purposes of the Outstanding Resolutions, the following additional rights and limitations are granted and imposed:

(i) In the event of the occurrence of an Event of Default, the right of acceleration of the Stated Maturity Dates and the Maximum Maturity Date of the Series III Notes is not granted as a remedy, and the right of acceleration is expressly denied.

ARTICLE II AUTHORIZATION OF SERIES III NOTES

Section 2.01. **General Authorization.** (a) *Maximum Principal Amount.* Pursuant to authority conferred by and in accordance with the provisions of the Constitution and laws of the State of Texas, particularly the Act and Chapter 1371, Series III Notes shall be and are hereby authorized to be issued in an aggregate principal amount not to exceed \$125,000,000 at any one time Outstanding for the purpose of financing Project Costs of Eligible Projects and to refinance, renew, or refund Series III Notes and Outstanding Obligations, including interest thereon, all in accordance with and subject to the terms, conditions, and limitations contained herein. For purposes of this Section 2.01, any portion of Outstanding Series III Notes to be paid from money on deposit with the Issuing and Paying Agent and from the available proceeds of Obligations of the Board issued on the day of calculation shall not be considered Outstanding. The authority to issue Series III Notes from time to time under the provisions of this Eighteenth Supplemental

Debt Resolution shall exist until the Maximum Maturity Date, regardless of whether at any time prior to the Maximum Maturity Date there are any Series III Notes Outstanding. Proceeds so received for such purpose shall be invested and secured in accordance with applicable law, including, without limitation, the provisions of Chapter 1207, Texas Government Code.

(b) *Issuance of Tax-Exempt Series III Notes and Taxable Series III Notes.* Series III Notes may be issued as Tax-Exempt Series III Notes and Taxable Series III Notes.

Section 2.02. **Series III Notes.** (a) *Tax-Exempt Series III Notes.* Under and pursuant to the authority granted hereby and subject to the limitations contained herein, Tax-Exempt Series III Notes to be designated "**Dallas Area Rapid Transit Senior Subordinate Lien Sales Tax Revenue Commercial Paper Notes, Tax-Exempt Series III**" are hereby authorized to be issued and sold and delivered from time to time in such principal amounts as determined by an Authorized Officer in denominations of \$100,000 or in integral multiples of \$1,000 in excess thereof, numbered in ascending consecutive numerical order in the order of their issuance, and shall mature and become due and payable on such dates as an Authorized Officer shall determine at the time of sale; provided that, (a) the Original Maturity Date for each Tax-Exempt Series III Note shall be not less than 1 day nor greater than the Maximum Original Maturity Days from its Issue Date and (b) the Extended Maturity Date for each Tax-Exempt Series III Note shall not be greater than 270 calendar days from its Issue Date.

(b) *Taxable Series III Notes.* Under and pursuant to the authority granted hereby and subject to the limitations contained herein, Taxable Series III Notes to be designated "**Dallas Area Rapid Transit Senior Subordinate Lien Sales Tax Revenue Commercial Paper Notes, Taxable Series III**" are hereby authorized to be issued and sold and delivered from time to time in such principal amounts as determined by an Authorized Officer in denominations of \$100,000 or in integral multiples of \$1,000 in excess thereof, numbered in ascending consecutive numerical order in the order of their issuance, and shall mature and become due and payable on such dates as an Authorized Officer shall determine at the time of sale; provided that, (a) the Original Maturity Date for each Taxable Series III Note shall be not less than 1 day nor greater than the Maximum Original Maturity Days from its Issue Date and (b) the Extended Maturity Date for each Taxable Series III Note shall not be greater than 270 calendar days from its Issue Date.

(c) *General.* Subject to the limitations contained herein, Series III Notes herein authorized shall be dated as of their date of issuance (the "Note Date") and shall bear no interest or bear interest at such rate or rates per annum computed, with respect to the Tax-Exempt Series III Notes, on the basis of actual days elapsed and on a 365-day or 366-day (as applicable) year (but in no event to exceed the Maximum Interest Rate) and, with respect to the Taxable Series III Notes, on the basis of actual days elapsed and on a 360-day year (but in no event to exceed the Maximum Interest Rate), as may be determined by an Authorized Officer. The Series III Notes shall bear interest from the Note Date until the Original Maturity Date at the Original Rate. Interest, if any, on Series III Notes shall be payable on any Original Maturity Date. The foregoing notwithstanding, on any Original Maturity Date, if the Authorized Officer exercises the option to extend the Original Maturity Date to an Extended Maturity Date, the Series III Notes will bear interest from the Original Maturity Date to the Extended Maturity Date at the

Extended Rate. If the Authorized Officer exercises the option in accordance with this Eighteenth Supplemental Debt Resolution to extend the Original Maturity Date of any Series III Note to an Extended Maturity Date, the accrued but unpaid interest on the Series III Note, but not the principal of the Series III Note, shall be paid on its Original Maturity Date. The Extended Rate will be determined by the Issuing and Paying Agent based on the Prevailing Ratings available as of 10:30 a.m. New York, New York time on the Original Maturity Date and on each Thursday thereafter until the Extended Maturity Date or the date fixed for redemption of such Series III Notes, and will apply from that Thursday through the following Wednesday, the Extended Maturity Date, or the date fixed for redemption of such Series III Notes, as the case may be. If the Original Maturity Date is before the 15th day of the month, interest shall be payable on the first Business Day of the next month and on the first Business Day of each month thereafter and on the Extended Maturity Date for this Series III Note. If the Original Maturity Date is on or after the 15th day of the month, interest shall be payable on the first Business Day of the second succeeding month and on the first Business Day of each month thereafter, and on the Extended Maturity Date for this Series III Note or the date fixed for redemption of such Series III Notes, as the case may be.

Series III Notes may be payable to the bearer or may be issued in registered form, without coupons, or may be issued in book-entry only form pursuant to Section 2.03(b) as determined by an Authorized Officer. Both principal of and interest on the Series III Notes shall be payable in lawful money of the United States of America, without exchange or collection charges to the Holder thereof in the manner provided in the Form of Series III Notes set forth in Exhibit B to this Eighteenth Supplemental Debt Resolution.

Series III Notes issued hereunder may contain terms and provisions for the payment, redemption or prepayment thereof prior to maturity, subject to any applicable limitations contained herein, as provided herein or otherwise as shall be determined by an Authorized Officer.

Subject to applicable terms, limitations, and procedures contained herein, the Series III Notes may be sold in such manner at public or private sale and at par or at such discount or premium (within the interest rate and yield restrictions provided herein) as an Authorized Officer shall approve at the time of the sale thereof.

(d) *Notice of Extension.* The Authorized Officer shall deliver to the Issuing and Paying Agent and the Dealer an Extension Request by no later than 10:00 a.m. New York, New York on the Original Maturity Date if the option to extend the Original Maturity Date of a Series III Note to an Extended Maturity Date is exercised. The Issuing and Paying Agent shall correspondingly notify (i) DTC by no later than 12:00 noon New York, New York time on the Original Maturity Date and (ii) each Rating Agency then maintaining a rating on the Series III Notes by the close of business in New York, New York on the Original Maturity Date, that the maturity of such Series III Note is being extended to the Extended Maturity Date. Even if the requisite notices are not given, if payment of the principal of and interest on a Series III Note does not occur on the Original Maturity Date, the maturity of the Series III Note shall be extended automatically to the Extended Maturity Date. With the consent of the Issuing and Paying Agent and the Dealer, the

Authorized Officer may modify the notification provisions contained in this Section 2.02(d) if deemed appropriate to conform to DTC's rules and procedures.

(e) *No Redemption Prior to Original Maturity Date.* The Series III Notes shall not be subject to redemption prior to their Original Maturity Date.

(f) *Redemption following Extension of Original Maturity Date.* In the event the Board, acting through an Authorized Officer, exercises its option to extend the maturity of any Series III Note from its Original Maturity Date to an Extended Maturity Date, that Series III Note may be redeemed on any date after its Original Maturity Date, at the option of the Board, at a redemption price equal to par (100%), plus accrued and unpaid interest to the redemption date. To exercise its redemption option, an Authorized Officer shall provide not less than five (5) nor more than twenty five (25) calendar days' notice to the Issuing and Paying Agent. The Issuing and Paying Agent will notify the DTC of the Series III Notes to be redeemed within one Business Day of receipt of such notice.

(g) *No Default.* In no event shall an extension of the Original Maturity Date constitute a default or a breach of any covenant under this Eighteenth Supplemental Debt Resolution.

Section 2.03. Issuing and Paying Agent and Book-Entry Only System. (a) *Issuing and Paying Agent.* The Board covenants to maintain and provide an Issuing and Paying Agent at all times while the Series III Notes are outstanding, which shall be a national or state banking association or corporation organized and doing business under the laws of the United States of America or of any State and authorized under such laws to exercise trust powers. The initial Issuing and Paying Agent for the Series III Notes shall be Zions Bancorporation, National Association. The Board covenants and agrees to keep and maintain the Registration Books at the corporate office of the Issuing and Paying Agent designated as the place of payment and transfers of the Series III Notes (the "Designated Trust Office"), all as provided herein and pursuant to such reasonable rules and regulations as the Issuing and Paying Agent may prescribe. Should a change in the Issuing and Paying Agent for the Series III Notes occur after the appointment of the initial Issuing and Paying Agent by the Authorized Officer, the Board agrees to promptly cause a written notice thereof to be (i) sent to each Holder of the Series III Notes then outstanding by United States mail, first class, postage prepaid and (ii) published in a financial newspaper or journal of general circulation in The City of New York, New York, once during each calendar week for at least two calendar weeks; provided, however, that the publication of such notice shall not be required if notice is given to each Holder in accordance with clause (i) above. Such notice shall give the address of the successor Paying Agent/Registrar. A successor Issuing and Paying Agent may be appointed without the consent of the Holders.

The Board and the Issuing and Paying Agent may treat the bearer (in the case of Series III Notes so registered) or the Registered Owner of any Series III Note as the absolute owner thereof for the purpose of receiving payment thereof and for all purposes, and, to the extent permitted by law, the Board and the Issuing and Paying Agent shall not be affected by any notice or knowledge to the contrary.

(b) *Book-Entry Only System.* If an Authorized Officer determines that it is possible and desirable to provide for a book-entry only system of Series III Note registration with DTC, such Authorized Officer, acting for and on behalf of the Board, is hereby authorized to approve, execute, and deliver a Letter of Representations to DTC and to enter into such other agreements and execute such instruments as are necessary to implement such book-entry only system, such approval to be conclusively evidenced by the execution thereof by said Authorized Representative. Under the initial book-entry only system with DTC, (i) no physical Series III Note certificates will be delivered to DTC and (ii) there will be executed and delivered to the Issuing and Paying Agent, as custodian for DTC, a master note relating to the Tax-Exempt Series III Notes (the "Tax-Exempt Master Note") and a master note relating to the Taxable Series III Notes (the "Taxable Master Note" and, together with the Tax-Exempt Master Note, referred to collectively herein as the "Master Note"), respectively, in substantially the forms set forth in Exhibit C. Except as provided herein, the ownership of the Series III Notes shall be registered in the name of Cede & Co., as nominee of DTC, which will serve as the initial securities depository for the Series III Notes. Ownership of beneficial interests in the Series III Notes shall be shown by book entry on the system maintained and operated by DTC and DTC Participants, and transfers of ownership of beneficial interests shall be made only by DTC and the DTC Participants by book entry, and the Board and the Issuing and Paying Agent shall have no responsibility therefor. DTC will be required to maintain records of the positions of the DTC Participants in the Series III Notes, and the DTC Participants and persons acting through the DTC Participants will be required to maintain records of the purchasers of beneficial interests in the Series III Notes. Except as provided in clause (i) of this Section 2.03(b), the Series III Notes shall not be transferable or exchangeable, except for transfer to another securities depository or to another nominee of a securities depository.

With respect to Series III Notes registered in the name of DTC or its nominee, neither the Board nor the Issuing and Paying Agent shall have any responsibility or obligation to any DTC Participant or to any person on whose behalf a DTC Participant holds an interest in the Series III Notes. Without limiting the immediately preceding sentence, neither the Board nor the Issuing and Paying Agent shall have any responsibility or obligation with respect to (i) the accuracy of the records of DTC or any DTC Participant with respect to any ownership interest in the Series III Notes, (ii) the delivery to any DTC Participant or any other person, other than a registered owner of the Series III Notes, as shown on the Registration Books, of any notice with respect to the Series III Notes, including any notice of redemption, and (iii) the payment to any DTC Participant or any other person, other than a registered owner of the Series III Notes, as shown in the Registration Books, of any amount with respect to principal of and premium, if any, or interest on the Series III Notes.

Whenever, during the term of the Series III Notes, the beneficial ownership thereof is determined by a book entry at DTC, the requirements in this Eighteenth Supplemental Debt Resolution of holding, registering, delivering, exchanging, or transferring the Series III Notes shall be deemed modified to require the appropriate person or entity to meet the requirements of DTC as to holding, registering, delivering, exchanging, or transferring the book entry to produce the same effect.

Either the Board or DTC may determine to discontinue the book-entry only system and in such case, unless a new book-entry only system is put in place, physical certificates in the form set forth in Exhibit B shall be provided to the beneficial holders of the Series III Notes under the DTC book-entry only system.

If at any time, DTC ceases to hold the Series III Notes in its book-entry only system, all references herein to DTC shall be of no further force or effect.

Whenever the beneficial ownership of the Series III Notes is determined by a book entry at DTC, delivery of Series III Notes for payment at maturity shall be made pursuant to DTC's payment procedures as are in effect from time to time and the DTC Participants shall transmit payment to beneficial owners whose Series III Notes have matured. The Board and each Issuing and Paying Agent and Dealer are not responsible for transfer of payment to the DTC Participants or beneficial owners.

(c) *Resignation and Removal.* The Issuing and Paying Agent may at any time resign and be discharged of the duties and obligations created by this Eighteenth Supplemental Debt Resolution by giving at least sixty (60) days' written notice to the Dealer and the Board. The Issuing and Paying Agent may be removed at any time by an instrument signed by an Authorized Officer and filed with the Issuing and Paying Agent. No such resignation or removal shall become effective, however, until a successor Issuing and Paying Agent has been selected by the Board and has agreed in writing to assume the duties of the Issuing and Paying Agent hereunder.

In the event of the resignation or removal of the Issuing and Paying Agent, the Issuing and Paying Agent shall pay over, assign and deliver any moneys held by it in such capacity to its successor. The Issuing and Paying Agent shall make any representations and warranties to the Board as may be reasonably requested by the Board in connection with any such assignment.

Should a change in the Issuing and Paying Agent for the Series III Notes occur, the Board agrees to cause a written notice thereof to be sent promptly to each Registered Owner, if any, of the Series III Notes then Outstanding by United States mail, first class, postage prepaid. Such notice shall give the address of the successor Issuing and Paying Agent. A successor Issuing and Paying Agent may be appointed without the consent of the Holders.

(c) *Books and Records.* The Issuing and Paying Agent shall at all times keep or cause to be kept proper records in which accurate entries shall be made of all transactions made by it relating to the proceeds of the Series III Notes and any funds and accounts established and maintained by the Issuing and Paying Agent pursuant to this Eighteenth Supplemental Debt Resolution. Such records shall be available for inspection by the Authorized Officer on each Business Day upon regular notice during reasonable business hours, and by any Registered Owner or its agent or representative duly authorized in writing at reasonable hours and under regular circumstances.

The Issuing and Paying Agent shall provide to the Authorized Officer each month, and more frequently upon written request, a report or statement of the amounts deposited in each fund and account held by it, and the amount disbursed from such funds and accounts, the

earnings thereon, the ending balance in each of such funds and accounts, the investments in each such fund and account, and the yield on each investment calculated in accordance with the directions of an Authorized Officer. Such report or statement shall also include or be accompanied by such information regarding the issuance of Series III Notes during the subject month as an Authorized Officer shall request.

The Issuing and Paying Agent shall maintain such books, records and accounts as may be necessary to evidence the obligations of the Board resulting from the Series III Notes, the principal amounts owing thereunder, the maturity schedule therefor, the respective rates of interest thereon, and the principal and interest paid from time to time thereunder.

Section 2.04. Form of Series III Notes. (a) *Physical Delivery.* If not issued in book-entry only form as provided in Section 2.03(b), the Series III Notes and the Certificate of Authentication to appear on each of the Series III Notes shall be substantially in the form set forth in Exhibit B to this Eighteenth Supplemental Debt Resolution with such appropriate insertions, omissions, substitutions, and other variations as are permitted or required by this Eighteenth Supplemental Debt Resolution and may have such letters, numbers, or other marks of identification (including identifying numbers and letters of the Committee on Uniform Securities Identification Procedures of the American Bankers Association) ("CUSIP" numbers) and such legends and endorsements thereon as may, consistently herewith, be approved by an Authorized Officer. Any portion of the text of any Series III Notes may be set forth on the reverse thereof, with an appropriate reference thereto on the face of the Series III Notes and the Series III Notes shall be printed, lithographed, or engraved or produced in any other similar manner, or typewritten, all as determined and approved by an Authorized Officer.

(b) *Book-Entry Only System.* If the Series III Notes are issued in book-entry only form pursuant to Section 2.03(b), they shall be issued in the form of the Tax-Exempt Master Note and the Taxable Master Note, as the case may be, in substantially the form attached hereto as Exhibit C, to which there shall be attached the respective forms of Series III Notes set forth in Exhibit B; and it is hereby declared that the applicable form of Series III Note as set forth in Exhibit B are incorporated into and shall be a part of the applicable Master Note. It is further provided that this Eighteenth Supplemental Debt Resolution, the Master Resolution, and the forms of Series III Notes set forth in Exhibit B shall constitute the "Underlining Records" referred to in the Master Notes.

Section 2.05. Execution - Authentication. Under authority granted by Section 1371.055, Texas Government Code, the Series III Notes shall be executed on behalf of the Board by the Chair of the Board, under the seal reproduced or impressed thereon, and attested by the Secretary of the Board. The signature of said officers on the Series III Notes may be manual or facsimile. Notwithstanding the other provisions of this Section 2.05, each Master Note shall be executed on behalf of the Board by the manual signature of the Chair of the Board. Series III Notes bearing the manual or facsimile signatures of individuals who are or were the proper officers of the Board on the date of such execution shall be deemed to be duly executed on behalf of the Board, notwithstanding that such individuals or either of them shall cease to hold such offices at the time of the initial sale and delivery of Series III Notes authorized to be issued

hereunder and with respect to Series III Notes delivered in subsequent sales, exchanges, and transfers, all as authorized and provided in Chapter 1201, Texas Government Code.

Other than pursuant to Section 2.03(b), no Series III Note shall be entitled to any right or benefit under this Eighteenth Supplemental Debt Resolution, or be valid or obligatory for any purpose, unless there appears on such Series III Note a certificate of authentication substantially in the form provided in Exhibit B to this Eighteenth Supplemental Debt Resolution, executed by the Issuing and Paying Agent by manual signature, and such certificate upon any Series III Note shall be conclusive evidence, and the only evidence, that such Series III Note has been duly certified or registered and delivered.

Section 2.06. Series III Notes Mutilated, Lost, Destroyed, or Stolen. If any Series III Note shall become mutilated, the Board, at the expense of the Holder thereof, shall execute and the Issuing and Paying Agent shall authenticate and deliver a new Series III Note of like tenor and number in exchange and substitution for the Series III Note so mutilated, but only upon surrender to the Issuing and Paying Agent of the Series III Note so mutilated. If any Series III Note shall be lost, destroyed, or stolen, evidence of such loss, destruction, or theft may be submitted to the Board and the Issuing and Paying Agent. If such evidence is satisfactory to them and indemnity satisfactory to them shall be given, the Board, at the expense of the Holder, shall execute and the Paying Agent shall authenticate and deliver a new Series III Note of like tenor in lieu of and in substitution for the Series III Note so lost, destroyed, or stolen. In the event any such Series III Note shall have matured, the Issuing and Paying Agent instead of issuing a duplicate Series III Note may pay the same without surrender thereof after making such requirement as it deems fit for its protection, including a lost instrument bond. Neither the Board nor the Issuing and Paying Agent shall be required to treat both the original Series III Note and any duplicate Series III Note as being outstanding for the purpose of determining the principal amount of Series III Notes which may be issued hereunder, but both the original and the duplicate Series III Note shall be treated as one and the same. The Board and the Issuing and Paying Agent may charge the Holder of such Series III Note with their reasonable fees and expenses for such service.

Section 2.07. Negotiability, Registration, and Exchangeability. The Series III Notes shall be, and shall have all of the qualities and incidents of a negotiable instrument under the laws of the State of Texas, and each successive Holder, in accepting any of the obligations, shall be conclusively deemed to have agreed that such obligations shall be and have all of the qualities and incidents of a negotiable instrument under the laws of the State of Texas.

Registration Books relating to the registration, payment, and transfer or exchange of the Series III Notes shall at all times be kept and maintained by the Board at the Designated Trust Office of the Issuing and Paying Agent, and the Issuing and Paying Agent shall obtain, record, and maintain in the Registration Books the name, and to the extent provided by or on behalf of the Holder, the address of each Holder of the Series III Notes, except for Series III Notes registered to bearer. A copy of the Registration Books shall be provided to and held by the Board. Any Series III Note may, in accordance with its terms and the terms hereof, be transferred or exchanged for Series III Notes of like tenor and character and of other authorized denominations upon the Registration Books by the Holder in person or by his duly authorized

agent, upon surrender of such Series III Note to the Issuing and Paying Agent for cancellation, accompanied by a written instrument of transfer or request for exchange duly executed by the Holder or by his duly authorized agent, in form satisfactory to the Registrar.

Upon surrender for transfer of any Series III Note at the designated office of the Registrar, the Issuing and Paying Agent shall register and deliver, in the name of the designated transferee or transferees, one or more new Series III Notes executed on behalf of, and furnished by, the Board of like tenor and character and of authorized denominations and having the same maturity, bearing interest at the same rate and of a like aggregate principal amount as the Series III Note or Series III Notes surrendered for transfer.

Furthermore, Series III Notes may be exchanged for other Series III Notes of like tenor and character and of authorized denominations and having the same maturity, bearing the same rate of interest and of like aggregate principal amount as the Series III Notes surrendered for exchange, upon surrender of the Series III Notes to be exchanged at the designated office of the Registrar. Whenever any Series III Notes are so surrendered for exchange, the Issuing and Paying Agent shall register and deliver new Series III Notes of like tenor and character as the Series III Notes exchanged, executed on behalf of and furnished by, the Board to the Holder requesting the exchange.

The Board and the Issuing and Paying Agent may charge the Holder a sum sufficient to reimburse them for any expenses incurred in making any exchange or transfer after the first such exchange or transfer. The Issuing and Paying Agent or the Board may also require payment from the Holder of a sum sufficient to cover any tax, fee, or other governmental charge that may be imposed in relation thereto. Such charges and expenses shall be paid before any such new Series III Note shall be delivered.

The Board and the Issuing and Paying Agent shall not be required to transfer or exchange any Series III Note selected, called, or being called for redemption in whole or in part.

New Series III Notes delivered upon any transfer or exchange shall be valid special obligations of the Board, evidencing the same debt as the Series III Notes surrendered, shall be secured by this Eighteenth Supplemental Debt Resolution and shall be entitled to all of the security and benefits hereof to the same extent as the Series III Notes surrendered.

The Board reserves the right to change the above registration and transferability provisions of the Series III Notes at any time on or prior to the delivery thereof in order to comply with applicable laws and regulations of the United States in effect at the time of issuance thereof. In addition, to the extent that the provisions of this Section conflict with or are inconsistent with the provisions of the Form of Series III Note set forth in Exhibit B, such other provisions shall control. The Board further reserves the right to change the registration and transferability provisions to implement a book-entry only registration system with a securities depository.

Section 2.08. Note Payment Fund. There shall be created a fund at the Issuing and Paying Agent entitled the "Dallas Area Rapid Transit Senior Subordinate Lien Sales Tax

Revenue Commercial Paper Note Payment Fund – Series III" (the "Note Payment Fund"). Within the Note Payment Fund, there shall be established a " Dallas Area Rapid Transit Senior Subordinate Lien Sales Tax Revenue Commercial Paper Note Payment Account – Series III" (the "Tax-Exempt Series III Note Payment Account") and a " Dallas Area Rapid Transit Senior Subordinate Lien Sales Tax Revenue Commercial Paper Note Payment Account – Series III" (the "Taxable Series III Note Payment Account"). The proceeds from the sale of Obligations issued for the purpose of refunding and retiring Series III Notes Outstanding under this Eighteenth Supplemental Debt Resolution shall be paid to the Issuing and Paying Agent for deposit to the credit of the Tax-Exempt Series III Note Payment Account or the Taxable Series III Note Payment Account, as directed by an Authorized Officer, and used for such purpose. In addition, all amounts required to be paid to the Issuing and Paying Agent for deposit by the Board pursuant to Section 2.09(b) shall be paid to the Issuing and Paying Agent for deposit to the Tax-Exempt Series III Note Payment Account or the Taxable Series III Note Payment Account, as the case may be, and shall be used to pay principal of, premium, if any, and interest on Tax-Exempt Series III Notes or Taxable Series III Notes, as the case may be, at the respective interest payment, maturity or redemption of such Series III Notes as provided herein.

The foregoing notwithstanding, if all of the Series III Notes are held in a book-entry only system as provided in Section 2.03(b), all such moneys derived from the sources described above in this Section may be transferred directly to DTC by the Board or the Issuing and Paying Agent.

Section 2.09. Issuance of Senior Subordinate Lien Obligations; Security and Pledge.

(a) *Series III Notes as Senior Subordinate Lien Obligations.* This Eighteenth Supplemental Debt Resolution provides for the authorization, issuance, sale, delivery, form, characteristics, provisions of payment and redemption, and security of the Series III Notes, which are a series of Senior Subordinate Lien Obligations. The Master Debt Resolution is incorporated herein by reference and as such made a part hereof for all purposes, except to the extent modified and supplemented hereby and the Series III Notes are hereby declared to be Senior Subordinate Lien Obligations under the Master Debt Resolution.

(b) *Pledge of Pledged Revenues.* The Series III Notes are special obligations of the Board payable from and secured solely by the Pledged Revenues pursuant to the Master Debt Resolution and this Eighteenth Supplemental Debt Resolution. The Board agrees to make payments into the Tax-Exempt Series III Note Payment Account and the Taxable Series III Note Payment Account, as the case may be, at such times and in such amounts as are necessary to provide for the full payment of the principal of, premium, if any, and the interest on the Tax-Exempt Series III Notes and the Taxable Series III Notes, as the case may be, when due, in accordance with the terms and conditions set forth in this Eighteenth Supplemental Debt Resolution.

Section 2.10. Cancellation. All Series III Notes which at maturity are surrendered to the Issuing and Paying Agent for the collection of the principal and interest thereof or are surrendered for transfer or exchange pursuant to the provisions hereof or are refunded through an Advance shall, upon payment or issuance of new Series III Notes, be cancelled by the Issuing and Paying Agent and forthwith transmitted to the Board, and thereafter the Board shall have custody of such cancelled Series III Notes.

Section 2.11. **Liquidity.** The Board reserves the option, but is not required, to provide liquidity in support of all or any of the Series III Notes to be Outstanding under this Eighteenth Supplemental Debt Resolution from its available funds, in amounts as further provided in Sections 4.02(b) and 4.03 of this Eighteenth Supplemental Debt Resolution. The Board reserves the option, but is not required, to enter into one or more liquidity or credit agreements to provide liquidity or credit in such amounts as determined by the Board in support of all or any of the Series III Notes to be Outstanding under this Eighteenth Supplemental Debt Resolution, and to execute all necessary instruments in connection therewith. The Board agrees to provide written notice to the Dealer, the Issuing and Paying Agent and each Rating Agency then maintaining a rating on the Series III Notes, at least thirty (30) days prior to the date on which DART provides liquidity from internal sources, and, in the case of liquidity or credit to be provided in accordance with the terms of a liquidity and/or credit agreement, a copy of the proposed form of such agreement.

Section 2.12. **Fiscal and Other Agents.** In furtherance of the purposes of this Eighteenth Supplemental Debt Resolution, the Board may from time to time appoint and provide for the payment of such additional fiscal, paying, or other agents or trustees as it may deem necessary or appropriate in connection with the Series III Notes.

ARTICLE III ISSUANCE AND SALE OF NOTES

Section 3.01. **Issuance and Sale of Series III Notes.** (a) *Sale by Authorized Officer.* All Series III Notes shall be sold in the manner determined by the Authorized Officer to be most economically advantageous to the Board.

(b) *Terms of Series III Notes.* The terms of the Series III Notes shall be established and they shall be delivered by the Issuing and Paying Agent in accordance with telephonic, computer, or written instructions of any Authorized Officer and in the manner specified below and in the Issuing and Paying Agent Agreement. To the extent such instructions are not written, they shall be confirmed in writing within 24 hours of the transmission or communication thereof. Said instructions shall specify such principal amounts, Note Dates, purchase price, the Original Rate of each Series III Note, the Original Maturity Date and Extended Maturity Date for each Series III Note, and other terms and conditions which are hereby authorized and permitted to be fixed by any Authorized Officer at the time of sale of the Series III Notes. Such instructions shall also contain provisions representing that all action on the part of the Board necessary for the valid issuance of the Series III Notes then to be issued has been taken, that all provisions of Texas and federal law necessary for the valid issuance of such Series III Notes with provision for original issue discount and interest exclusion from federal income taxation (in the case of Tax-Exempt Series III Notes) have been complied with, and that such Series III Notes will be valid and enforceable special obligations of the Board according to their terms, subject to the exercise of judicial discretion in accordance with general principles of equity and bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that in the case of Tax-Exempt Series III Notes, based upon the advice of Bond Counsel, the earned original issue discount on

the Series III Notes or stated interest on the Series III Notes, as the case may be, is, subject to the conditions set forth in the opinion of Bond Counsel delivered concurrently with the commencement of the issuance of Series III Notes, excludable from gross income of the owners thereof for federal income tax purposes. Such instructions shall also certify that, as of the date of such certificate:

(i) the Board has been advised by Co-Bond Counsel that the projects to be financed or refinanced by the Series III Notes will constitute Eligible Projects, and, further, should the Series III Notes be issued as Tax-Exempt Series III Notes, that the proposed issuance will not cause the Board to be in violation of its covenants set forth in Section 5.01 hereof;

(ii) the Board is in compliance with the covenants set forth in Article IV as of the date of such instructions;

(iii) the interest rate borne by the Series III Note is not in excess of the Maximum Interest Rate in effect on the date of issuance of such Series III Note; and

(iv) after the proposed issuance of Series III Notes, the principal amount of Series III Notes to be Outstanding after such issuance does not exceed the aggregate principal amount of Series III Notes authorized to be issued under this Eighteenth Supplemental Debt Resolution.

Should the Series III Notes be held in a book-entry only system form in accordance with the provisions of Section 2.03(b), and the Board acts in the capacity of Issuing and Paying Agent during the time such book-entry only system is in effect, the terms of the Series III Notes shall be established by the Authorized Officer consistent with the procedures of DTC regarding the issuance of the applicable Master Note.

For purposes of this Eighteenth Supplemental Debt Resolution, such instructions described above shall constitute an Issuance Request.

(c) *Receipt of Issuance Request.* Upon receipt of an Issuance Request, the Issuing and Paying Agent shall, by 3:00 p.m. on such day the Issuance Request is received, complete each Series III Note as to amount, Note Date, Original Maturity Date and Original Rate specified therein, and deliver each such Series III Note to or upon the order of the Dealer upon receipt of payment therefor; provided, however, that no such Series III Notes shall be delivered by the Issuing and Paying Agent if such delivery would cause the sum of the aggregate principal amount of Series III Notes Outstanding to exceed the limitation set forth in Section 4.01 of this Eighteenth Supplemental Debt Resolution. If an Issuance Request is received after 12:00 p.m. on a given day, the Issuing and Paying Agent shall not be obligated to deliver the requested Series III Notes until the next succeeding Business Day.

(d) *Receipt of Extension Request.* Upon receipt of an Extension Request, the Issuing and Paying Agent shall, by 3:00 p.m. on such day the Extension Request is received, complete each Series III Note as to amount, Note Date and Extended Maturity Date specified therein, and

deliver each such Series III Note to or upon the order of the Dealer, as requested; provided, however, that no such Series III Notes shall be delivered by the Issuing and Paying Agent if such delivery would cause the sum of the aggregate principal amount of Series III Notes Outstanding to exceed the limitation set forth in Section 4.01 of this Eighteenth Supplemental Debt Resolution. If an Extension Request is received after 11:30 a.m. on a given day, the Issuing and Paying Agent shall not be obligated to deliver the requested Series III Notes until the next succeeding Business Day.

Section 3.02. Proceeds of Sale of Series III Notes. The proceeds of the sale of any Series III Notes (net of all expenses and costs of sale and issuance) shall be applied, consistent with the terms of this Eighteenth Supplemental Debt Resolution, for any or all of the following purposes as directed by an Authorized Officer:

- (i) used for the payment and redemption or purchase of Outstanding Series III Notes or other Obligations at or before maturity; or
- (ii) used for the purpose of financing Project Costs of Eligible Projects.

Section 3.03. Issuing and Paying Agent Agreement. The Board hereby approves the appointment of the Issuing and Paying Agent designated in Section 2.03 to serve as Paying Agent and Registrar. Any Authorized Officer is hereby authorized to execute and deliver, on behalf of the Board, to the Issuing and Paying Agent the Issuing and Paying Agent Agreement in substantially the form set forth in Exhibit F. Any Authorized Officer is hereby authorized to enter into any supplemental agreements to the Issuing and Paying Agent Agreement with the Issuing and Paying Agent or with any successor Issuing and Paying Agent as may be necessary and proper to for such purpose.

Section 3.04. Dealer Agreement. The Board hereby approves the appointment of Morgan Stanley & Co. LLC as the Dealer, under the terms of a Dealer Agreement with such Dealer, in substantially the form set forth in Exhibit G. Any Authorized Officer is hereby authorized and directed to execute and deliver, on behalf of the Board, the Dealer Agreement to carry out the purpose and intent of the Board in authorizing the issuance of Series III Notes in accordance with the terms of this Eighteenth Supplemental Debt Resolution. Any Authorized Officer is hereby authorized to enter any supplemental agreements to the Dealer Agreement with the Dealer or with any successor Dealer as may be necessary and proper for such purpose.

Any Authorized Officer is further authorized and directed from time to time to review the performance of the Dealer and of the Series III Note program authorized hereby and to periodically solicit and review the qualifications of the Dealer and of any additional investment banking firms interested in serving as Dealer. Based upon such review, the number of Dealers selected, which Dealers are selected and the amount of Series III Notes for which each Dealer is responsible may be changed and additional or different Dealers may be selected and new Dealer Agreements entered into based upon a determination that such changes are expected to result in the lowest overall cost of the Series III Note Program authorized hereby after taking into account not only the fees to be paid to the Dealers but the expectations as to the performance of each

Dealer in providing broad distribution of the Series III Notes and creating competitive pricing without adversely affecting investor liquidity.

ARTICLE IV GENERAL COVENANTS

Section 4.01. **Limitation on Issuance.** Unless this Eighteenth Supplemental Debt Resolution is amended and modified by the Board in accordance with the provisions of Section 6.01, the Board covenants that there will not be issued under the terms of this Eighteenth Supplemental Debt Resolution and Outstanding at any time more than \$125,000,000 in principal amount of Series III Notes.

Section 4.02. **Provisions for Payment.** (a) *Payment of Series III Notes.* The Board covenants to maintain, or cause to be provided in the manner described in Section 4.03(a) of this Eighteenth Supplemental Debt Resolution, available funds in an amount equal to the principal amount of Series III Notes for which liquidity is provided then Outstanding, plus interest on the Series III Notes then Outstanding. In furtherance of the foregoing covenant, the Board agrees that it will not issue any Series III Notes or make any borrowings which will result in a violation of such covenant.

(b) *Liquidity Support.* Should the Board determine that it is necessary or desirable to provide liquidity, either from internal funds or external sources, in support of all or any of the Series III Notes, the Board shall provide liquidity in an amount equal to the total principal amount of such Outstanding Series III Notes plus interest to accrue thereon for the following 270 calendar days. In furtherance of the foregoing covenant, the Board agrees that if it is to provide liquidity from internal funds, it will not issue any Series III Notes or make any borrowings which will result in a violation of such covenant. Any agreement to provide liquidity or credit from external sources in support of the Series III Notes shall be presented to the Board for its approval.

Section 4.03. **Available Funds.** (a) *Obligations.* To the extent Series III Notes cannot be issued to renew or refund Outstanding Series III Notes, the Board shall provide funds or shall in good faith endeavor to sell a sufficient principal amount of Obligations or other obligations of the Board in order to have funds available, together with other moneys available therefor, to pay the Series III Notes and the interest thereon, or any renewals thereof, as the same shall become due.

(b) *Lawfully Available Funds.* Notwithstanding anything to the contrary contained herein, to the extent that the Dealer cannot sell Series III Notes to renew or refund Outstanding Series III Notes on their maturity, the Board covenants to use lawfully available funds to purchase Series III Notes issued to renew and refund such maturing Series III Notes. Such payment, issuance and purchase are not intended to constitute an extinguishment of the obligation represented by such maturing Series III Notes and the Board may issue Series III Notes to renew and refund the Series III Notes held by it when the Dealer is again able to sell Series III Notes. While such Series III Notes are held by the Board they shall bear interest at the rate being earned by the funds used to purchase such Series III Notes on the date of purchase.

Section 4.04. **Covenant to Refinance.** (a) *Issuance of Refunding Obligations.* The Board covenants that it will undertake its best efforts to issue and deliver Obligations at the times and in the amounts necessary to refinance the Series III Notes that are maturing on the applicable Extended Maturity Date and apply the proceeds of such Obligations to retire such Series III Notes, either at maturity or redemption prior to maturity. Notwithstanding the foregoing, the Authorized Officer shall not deliver an Issuance Request for Series III Notes that could not be refinanced on or before the Maximum Maturity Date.

(b) The receipts derived from the refinancing of the Series III Notes, whether by other Series III Notes or other Obligations, and all amounts in the funds and accounts created or maintained pursuant to this Eighteenth Supplemental Debt Resolution or the Issuing and Paying Agent Agreement, including earnings on such amounts, are hereby pledged as security for the payment of the Series III Notes and constitute trust funds held for that purpose, subject only to the provisions of this Eighteenth Supplemental Debt Resolution and the Issuing and Paying Agent Agreement permitting the application thereof for the purposes and on the terms and conditions set forth herein and therein. The pledge herein made shall be irrevocable until all of the Series III Notes to be refinanced have been paid and retired. The granting of this pledge by the Board does not limit in any manner the rights of the Board to issue or incur any other Obligations.

Section 4.05. **Opinion of Co-Bond Counsel.** The Board shall cause the legal opinion of Bond Counsel as to the validity of the Series III Notes and, with respect to Series III Notes issued as Tax-Exempt Series III Notes, as to the exclusion of interest on the Series III Notes from gross income of the owners thereof for federal income tax purposes, to be furnished to DTC if the Series III Notes are held in a book-entry only system, or to any Holder without cost.

ARTICLE V FEDERAL INCOME TAXATION COVENANTS

Section 5.01. **Tax-Exempt Series III Notes.** (a) *General.* DART intends that the interest on the Tax-Exempt Series III Notes shall be excludable from gross income of the Holders thereof for federal income tax purposes pursuant to sections 103 and 141 through 150, inclusive, of the Code. DART covenants and agrees not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, would (i) cause the interest on the Tax-Exempt Series III Notes to be includable in gross income, as defined in section 61 of the Code, for federal income tax purposes or (ii) result in the violation of or failure to satisfy any applicable provision of Section 103 and 141 through 150, inclusive, of the Code. In particular, DART covenants and agrees to comply with each requirement of this Section 5.01; provided, however, that DART will not be required to comply with any particular requirement of this Section 5.01 if DART has received an opinion of nationally recognized bond counsel (“Counsel’s Opinion”) that (i) such noncompliance will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Tax-Exempt Series III Notes or (ii) compliance with some other requirement set forth in this Section 5.01 will satisfy the applicable requirements of the Code and the Regulations, in which case compliance with such

other requirement specified in such Counsel's Opinion will constitute compliance with the corresponding requirement specified in this Section 5.01.

(b) *No Private Use or Payment and No Private Loan Financing.* DART covenants and agrees that it will make such use of the proceeds of the Tax-Exempt Series III Notes, including interest or other investment income derived from Tax-Exempt Series III Note proceeds, regulate the use of property financed, directly or indirectly, with such proceeds, and take such other and further action as may be required so that the Tax-Exempt Series III Notes will not be "private activity bonds" within the meaning of section 141 of the Code. DART will certify, through an authorized officer, employee or agent, based upon all facts and estimates known or reasonably expected to be in existence on the date the Tax-Exempt Series III Notes are delivered, that the proceeds of the Tax-Exempt Series III Notes will not be used in a manner that would cause the Tax-Exempt Series III Notes to be "private activity bonds" within the meaning of section 141 of the Code.

(c) *No Federal Guarantee.* DART covenants and agrees not to take any action, or knowingly omit to take any action within its control, that if taken or omitted, respectively, would cause the Tax-Exempt Series III Notes to be "federally guaranteed" within the meaning of section 149(b) of the Code, except as permitted by section 149(b)(3) of the Code.

(d) *No Advance Refundings.* DART covenants to refrain from using the proceeds of the Tax-Exempt Series III Notes or proceeds of any prior notes to pay debt service on another issue more than 90 days after the date of issue of such notes in contravention of the requirements of section 149(d) of the Code (relating to advance refundings).

(e) *No Hedge Bonds.* DART covenants and agrees not to take any action, or knowingly omit to take any action within its control, that if taken or omitted, respectively, would cause the Tax-Exempt Series III Notes to be "hedge bonds" within the meaning of section 149(g) of the Code.

(f) *No Arbitrage.* DART covenants and agrees that it will make such use of the proceeds of the Tax-Exempt Series III Notes, including interest or other investment income derived from Tax-Exempt Series III Note proceeds, regulate investments of proceeds of the Tax-Exempt Series III Notes, and take such other and further action as may be required so that the Tax-Exempt Series III Notes will not be "arbitrage bonds" within the meaning of section 148(a) of the Code. Moreover, DART will certify, through an authorized officer, employee or agent, based upon all facts and estimates known or reasonably expected to be in existence on the date the Tax-Exempt Series III Notes are delivered, that the proceeds of the Tax-Exempt Series III Notes will not be used in a manner that would cause the Tax-Exempt Series III Notes to be "arbitrage bonds" within the meaning of section 148(a) of the Code.

In furtherance hereof, DART covenants to account for the expenditure of sale proceeds and investment earnings to be used for the purposes described in this Resolution on its books and records in accordance with the requirements of the Code. DART recognizes that in order for the proceeds to be considered used for the reimbursement of costs, the proceeds must be allocated to expenditures within 18 months of the later of the date that (1) the expenditure is made, or (2) the Project is completed; but in no event later than three years after the date on which the original

expenditure is paid. The foregoing notwithstanding, DART recognizes that in order for proceeds to be expended under the Code, the sale proceeds or investment earnings must be expended no more than 60 days after the earlier of (1) the fifth anniversary of the delivery of the Tax-Exempt Series III Notes, or (2) the date the Tax-Exempt Series III Notes are retired. The Issuer agrees to obtain the advice of nationally-recognized bond counsel if such expenditure fails to comply with the foregoing to assure that such expenditure will not adversely affect the tax-exempt status of the Tax-Exempt Series III Notes. For purposes hereof, the issuer shall not be obligated to comply with this covenant if it obtains Counsel's Opinion that such failure to comply will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Tax-Exempt Series III Notes.

(g) *Arbitrage Rebate.* If DART does not qualify for an exception to the requirements of Section 148(f) of the Code relating to the required rebate to the United States, DART will take all necessary steps to comply with the requirement that certain amounts earned by DART on the investment of the “gross proceeds” of the Tax-Exempt Series III Notes (within the meaning of section 148(f)(6)(B) of the Code), be rebated to the federal government. Specifically, DART will (i) maintain records regarding the investment of the gross proceeds of the Tax-Exempt Series III Notes as may be required to calculate the amount earned on the investment of the gross proceeds of the Tax-Exempt Series III Notes separately from records of amounts on deposit in the funds and accounts of DART allocable to other bond issues of DART or moneys that do not represent gross proceeds of any bonds of DART, (ii) determine at such times as are required by applicable Regulations, the amount earned from the investment of the gross proceeds of the Tax-Exempt Series III Notes which is required to be rebated to the federal government, and (iii) pay, not less often than every fifth anniversary date of the delivery of the Tax-Exempt Series III Notes, or on such other dates as may be permitted under applicable Regulations, all amounts required to be rebated to the federal government. Further, DART will not indirectly pay any amount otherwise payable to the federal government pursuant to the foregoing requirements to any person other than the federal government by entering into any investment arrangement with respect to the gross proceeds of the Tax-Exempt Series III Notes that might result in a reduction in the amount required to be paid to the federal government because such arrangement results in a smaller profit or a larger loss than would have resulted if the arrangement had been at arm's length and had the yield on the issue not been relevant to either party.

(h) *Information Reporting.* DART covenants and agrees to file or cause to be filed with the Secretary of the Treasury, not later than the 15th day of the second calendar month after the close of the calendar quarter in which the Tax-Exempt Series III Notes are issued, an information statement concerning the Tax-Exempt Series III Notes, all under and in accordance with section 149(e) of the Code.

(i) *Record Retention.* DART will retain all pertinent and material records relating to the use and expenditure of the proceeds of the Tax-Exempt Series III Notes until three years after the last Tax-Exempt Series III Note is redeemed, or such shorter period as authorized by subsequent guidance issued by the Department of Treasury, if applicable. All records will be kept in a manner that ensures their complete access throughout the retention period. For this purpose, it is acceptable that such records are kept either as hardcopy books and records or in an electronic storage and retrieval system, provided that such electronic system includes reasonable

controls and quality assurance programs that assure the ability of DART to retrieve and reproduce such books and records in the event of an examination of the Tax-Exempt Series III Notes by the Internal Revenue Service.

(j) *Registration.* The Tax-Exempt Series III Notes will be issued in registered form.

(k) *Deliberate Actions.* DART will not take a deliberate action (as defined in section 1.141-2(d)(3) of the Regulations) that causes the Tax-Exempt Series III Notes to fail to meet any requirement of section 141 of the Code after the issue date of the Tax-Exempt Series III Notes unless an appropriate remedial action is permitted by section 1.141-12 of the Regulations, DART takes such action, and an opinion of Bond Counsel is obtained that such remedial action cures any failure to meet the requirements of section 141 of the Code.

(l) *Continuing Obligation.* Notwithstanding any other provision of this Resolution, DART's obligations under the covenants and provisions of this Section 5.01 will survive the defeasance and discharge of the Tax-Exempt Series III Notes for as long as such matters are relevant to the exclusion from gross income of interest on the Tax-Exempt Series III Notes for federal income tax purposes.

Section 5.02. **Taxable Series III Notes.** The Board does not intend to issue the Taxable Series III Notes in a manner such that the Taxable Series III Notes would constitute obligations described in section 103(a) of the Code and the Regulations.

ARTICLE VI AMENDMENTS

Section 6.01. **Amendment of Supplement.** (a) *Amendments Without Consent.* This Eighteenth Supplemental Debt Resolution and the rights and obligations of the Board and of the owners of the Outstanding Series III Notes may be modified or amended at any time without notice to or the consent of any owner of the Series III Notes or any other Obligations, solely for any one or more of the following purposes:

(i) to add to the covenants and agreements of the Board contained in this Eighteenth Supplemental Debt Resolution, other covenants and agreements thereafter to be observed, or to surrender any right or power reserved to or conferred upon the Board in this Eighteenth Supplemental Debt Resolution;

(ii) to cure any ambiguity or inconsistency, or to cure or correct any defective provisions contained in this Eighteenth Supplemental Debt Resolution, upon receipt by the Board of an opinion of Bond Counsel, that the same is needed for such purpose, and will more clearly express the intent of this Eighteenth Supplemental Debt Resolution;

(iii) to supplement the security for the Outstanding Series III Notes issued hereunder, replace or provide additional credit facilities, or change the form of the Outstanding Series III Notes or make such other changes in the provisions hereof, including extending the Maximum Maturity Date, as the Board may deem necessary or

desirable and which shall not, in the judgment of the Board, materially adversely affect the interests of the owners of the Outstanding Series III Notes;

(iv) to make any changes or amendments requested by any bond rating agency then rating or requested to rate Series III Notes, as a condition to the issuance or maintenance of a rating, which changes or amendments do not, in the judgment of the Board, materially adversely affect the interests of the owners of the Outstanding Series III Notes; or

(v) to increase the principal amount of Series III Notes which may be Outstanding pursuant to the terms of this Eighteenth Supplemental Debt Resolution.

(b) *Amendments With Consent.* Subject to the other provisions of this Eighteenth Supplemental Debt Resolution, the owners of Outstanding Series III Notes aggregating at least a majority in Outstanding shall have the right from time to time to approve any amendment, other than amendments described in subsection (a) of this Section, to this Eighteenth Supplemental Debt Resolution which may be deemed necessary or desirable by the Board, provided, however, that nothing herein contained shall permit or be construed to permit, without the approval of the owners of all of the Outstanding Series III Notes, the amendment of the terms and conditions in this Eighteenth Supplemental Debt Resolution or in the Series III Notes so as to:

(i) make any change in the maturity of the Outstanding Series III Notes (other than the extension of the Original Maturity Date of a Series III Note to an Extended Maturity Date);

(ii) reduce, or change the formula by which the interest rate is calculated, of interest borne by Outstanding Series III Notes;

(iii) reduce the amount of the principal payable on Outstanding Series III Notes;

(iv) modify the terms of payment of principal of or interest on the Outstanding Series III Notes, or impose any conditions with respect to such payment (except as is provided in this Eighteenth Supplemental Debt Resolution with respect to establishing an Extended Maturity Date for a Series III Note);

(v) affect the rights of the owners of less than all Series III Notes then Outstanding; or

(vi) change the minimum percentage of the Outstanding Principal Amount of Series III Notes necessary for consent to such amendment.

(c) *Notice.* If at any time the Board shall desire to amend this Eighteenth Supplemental Debt Resolution pursuant to subsection (b), the Board shall cause notice of the proposed amendment to be provided in writing to either to DTC, if the Series III Notes are held in a book-entry only system, or to each Holder of Series III Notes, if the Series III Notes are not held in a

book-entry only system. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file at the principal office of the Issuing and Paying Agent for inspection by all Holders of Series III Notes issued hereunder. A copy of such notice also shall be provided in writing to each Rating Agency.

(d) *Receipt of Consents.* Whenever at any time not less than thirty (30) days, and within one year, from the date of the first publication of said notice or other service of written notice of the proposed amendment the Board shall receive an instrument or instruments executed by all of the Holders or the Holders of at least a majority in Outstanding Principal Amount of the Series III Notes, as appropriate, which instrument or instruments shall refer to the proposed amendment described in said notice and which specifically consent to and approve such amendment in substantially the form of the copy thereof on file as aforesaid, the Board may adopt the amendatory resolution in substantially the same form.

(e) *Effect of Amendments.* Upon the adoption by the Board of any resolution to amend this Eighteenth Supplemental Debt Resolution pursuant to the provisions of this Section, this Eighteenth Supplemental Debt Resolution shall be deemed to be amended in accordance with the amendatory resolution, and the respective rights, duties, and obligations of the Board and all the owners of then Outstanding Series III Notes and all future Series III Notes shall thereafter be determined, exercised, and enforced under the Master Resolution and this Eighteenth Supplemental Debt Resolution, as amended.

(f) *Consent Irrevocable.* Any consent given by any Holder of Series III Notes pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date of the first publication or other service of the notice provided for in this Section, and shall be conclusive and binding upon all future Holders of the same Series III Notes during such period. Such consent may be revoked at any time after six months from the date of the first publication of such notice by the Holder who gave such consent, or by a successor in title, by filing notice thereof with the Issuing and Paying Agent and the Board, but such revocation shall not be effective if the Holders of at least a majority in Outstanding Principal Amount of Series III Notes prior to the attempted revocation consented to and approved the amendment.

(g) *Ownership.* For the purpose of this Section, the ownership and other matters relating to all Series III Notes registered as to ownership shall be determined from the Registration Books kept by the Issuing and Paying Agent therefor. The fact of the owning of Series III Notes issued hereunder not registered as to ownership by any Holder and the amount and the numbers of such Series III Notes and the date of the holding of the same may be proved by the affidavit of the person claiming to be such Holder if such affidavit shall be deemed by the Issuing and Paying Agent to be satisfactory, or by a certificate executed by any trust company, bank, banker or any other depository, wherever situated, if such certificate shall be deemed by Issuing and Paying Agent to be satisfactory, showing that at that date therein mentioned such person had on deposit with such trust company, bank, banker or other depository the Series III Notes described in such certificate. The Issuing and Paying Agent may conclusively assume that such ownership continues until written notice to the contrary is served upon the Issuing and Paying Agent.

ARTICLE VII EVENTS OF DEFAULT AND REMEDIES

Section 7.01. **Events of Default.** Each of the following events shall constitute and is referred to in this Eighteenth Supplemental Debt Resolution as an "Event of Default":

(a) a failure by the Board to pay the principal of any Series III Note for five (5) Business Days after the date the same shall have become due and payable on an Extended Maturity Date;

(b) a failure by the Board to pay any installment of interest on any Series III Note for five (5) Business Days after the date such interest shall have become due and payable on an Extended Maturity Date or in accordance with Section 2.02(c) hereof;

(c) a failure by the Board to apply the proceeds of Obligations issued to refund Series III Notes having a maturity on an Extended Maturity Date to the payment thereof on the applicable Extended Maturity Date or date of redemption prior to such Extended Maturity Date;

(d) a failure by the Board to observe and perform any covenant, condition, agreement or provision (other than as specified in paragraphs (a) and (b) of this Section) contained in the Series III Notes, the Master Resolution or in this Eighteenth Supplemental Debt Resolution to be observed or performed, which materially, adversely affects the rights of the Registered Owners, including, but not limited to, their prospect or ability to be repaid in accordance with the Master Resolution and this Eighteenth Supplemental Debt Resolution, and which failure shall continue for a period of sixty (60) days after written notice, specifying such failure and requesting that it be remedied, shall have been given to the Board by the Dealer, the Issuing and Paying Agent or any Registered Owner; or

(e) bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, including, without limitation, proceedings under the United States Bankruptcy Code (as the same may from time to time be hereafter amended), or other proceedings for relief under any federal or State bankruptcy law or similar law for the relief of debtors are instituted by or against DART, and, if instituted against DART, said proceedings are consented to or are not dismissed within sixty (60) days after such institution.

If any Event of Default has occurred, but is subsequently cured or waived, then such Event of Default shall no longer constitute an Event of Default hereunder.

Section 7.02. **Remedies for Default.**

(a) *Rights of Registered Owners.* Upon the happening of any Event of Default, any Registered Owner or an Authorized Officer thereof, including, but not limited to, a trustee or trustees therefore, may proceed against the Board, as appropriate, for the purpose of protecting and enforcing the rights of the Registered Owners under the Master Resolution and this Eighteenth Supplemental Debt Resolution, by mandamus or other suit, action or special proceeding in equity or at law, in any court of competent jurisdiction, for any relief permitted by law, including the specific performance of any covenant or agreement contained herein, or

thereby to enjoin any act or thing that may be unlawful or in violation of any right of the Registered Owners hereunder or any combination of such remedies. It is provided that all such proceedings shall be instituted and maintained for the equal benefit of all Registered Owners of Series III Notes then Outstanding.

(b) *Remedies.* No remedy herein conferred or reserved is 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 hereunder or under the Series III Notes or now or hereafter existing at law or in equity; provided, however, that notwithstanding any other provision of the Master Resolution or this Eighteenth Supplemental Debt Resolution, the right to accelerate the debt evidenced by the Series III Notes shall not be available as a remedy under the Master Resolution or this Eighteenth Supplemental Debt Resolution.

(c) By accepting the delivery of a Series III Note authorized under this Eighteenth Supplemental Debt Resolution, a Registered Owner agrees that the certifications required to effectuate any covenants or representations contained in this Eighteenth Supplemental Debt Resolution do not and shall never constitute or give rise to a personal or pecuniary liability or charge against the officers or employees of DART.

ARTICLE VIII MISCELLANEOUS

Section 8.01. **Eighteenth Supplemental Debt Resolution to Constitute a Contract; Equal Security.** In consideration of the acceptance of the Series III Notes by those who shall hold the same from time to time, this Eighteenth Supplemental Debt Resolution shall be deemed to be and shall constitute a contract between the Board and the Holders from time to time of the Series III Notes and the pledge made in this Eighteenth Supplemental Debt Resolution by the Board and the covenants and agreements set forth in this Eighteenth Supplemental Debt Resolution to be performed by the Board shall be for the equal and proportionate benefit, security, and protection of all Holders of the Series III Notes, without preference, priority, or distinction as to security or otherwise of any of the Series III Notes over any of the others by reason of time of issuance, sale, or maturity thereof or otherwise for any cause whatsoever, except as expressly provided in or permitted by this Eighteenth Supplemental Debt Resolution.

Section 8.02. **Individuals Not Liable.** All covenants, stipulations, obligations, and agreements of the Board contained in this Eighteenth Supplemental Debt Resolution shall be deemed to be covenants, stipulations, obligations, and agreements of the Board to the full extent authorized or permitted by the Constitution and laws of the State of Texas. No covenant, stipulation, obligation, or agreement herein contained shall be deemed to be a covenant, stipulation, obligation, or agreement of any member of the Board or agent or employee of the Board in his individual capacity and neither the members of the Board nor any officer thereof shall be liable personally on the Series III Notes or be subject to any personal liability or accountability by reason of the issuance thereof.

Section 8.03. **Additional Actions.** (a) *Execution and Delivery of Documents.* Each Authorized Officer, and all other officers, employees, and agents of DART, and each of them,

jointly and severally, shall be and they are hereby expressly authorized, empowered, and directed from time to time and at any time to do and perform all such acts and things and to execute, acknowledge, and deliver in the name and under the corporate seal and on behalf of DART all such instruments, whether or not herein mentioned, as may be necessary or desirable in order to carry out the terms and provisions of this Eighteenth Supplemental Debt Resolution, the Dealer Agreement, the Issuing and Paying Agent Agreement, and the Depository Trust Company Letter of Representation. In addition, the Chairman of the Board, the Vice Chairman of the Board, each Authorized Officer, and Co-Bond Counsel are hereby authorized to approve, subsequent to the date of this adoption of this Eighteenth Supplemental Debt Resolution but before any Series III Notes are Outstanding, any amendments to the above named documents, and any technical amendments to this Eighteenth Supplemental Debt Resolution as may be required by a Rating Agency, or as a condition to the granting of a rating on the Series III Notes.

(b) *Notice to Rating Agencies and Bondholders.* An Authorized Officer shall promptly give written notice to each Rating Agency then providing a rating on the Series III Notes at the request of DART of any changes or amendments to this Eighteenth Supplemental Debt Resolution, any execution and delivery of an agreement to provide liquidity or credit support for Series III Notes, any amendment, substitution or termination of any such liquidity or credit agreement then in effect (including the expiration thereof), of any amendment or substitution of the Dealer Agreement or the Issuing and Paying Agent Agreement, or any change or amendment to any other operative document used in connection with the issuance from time to time of the Series III Notes. Notice of any of the aforementioned events also shall be given to Holders in accordance with and in the manner described in Section 6.01(c).

Section 8.04. Severability of Invalid Provisions. If any one or more of the covenants, agreements, or provisions herein contained shall be held contrary to any express provisions of law or contrary to the policy of express law, though not expressly prohibited, or against public policy, or shall for any reason whatsoever be held invalid, then such covenants, agreements, or provisions shall be null and void and shall be deemed separable from the remaining covenants, agreements or provisions and shall in no way affect the validity of any of the other provisions hereof or of the Series III Notes issued hereunder.

Section 8.05. Payment and Performance on Business Days. Whenever under the terms of this Eighteenth Supplemental Debt Resolution or the Series III Notes, the performance date of any provision hereof or thereof, including the payment of principal of or interest on the Series III Notes, shall occur on a day other than a Business Day, then the performance thereof, including the payment of principal of and interest on the Series III Notes, need not be made on such day but may be performed or paid, as the case may be, on the next succeeding Business Day with the same force and effect as if made on the date of performance or payment is scheduled.

Section 8.06. Limitation of Benefits With Respect to the Eighteenth Supplemental Debt Resolution. With the exception of the rights or benefits herein expressly conferred, nothing expressed or contained herein or implied from the provisions of this Eighteenth Supplemental Debt Resolution or the Series III Notes is intended or should be construed to confer upon or give to any person other than the Board, the Holders, the Issuing and Paying Agent, and the Dealer any legal or equitable right, remedy or claim under or by reason of or in

respect to this Eighteenth Supplemental Debt Resolution or any covenant, condition, stipulation, promise, agreement, or provision herein contained. This Eighteenth Supplemental Debt Resolution and all of the covenants, conditions, stipulations, promises, agreements, and provisions hereof are intended to be and shall be for and inure to the sole and exclusive benefit of the Board, the Holders, the Issuing and Paying Agent, and the Dealer as herein provided and as provided in the Issuing and Paying Agent Agreement and the Dealer Agreement.

Section 8.07. **Approval of Attorney General.** No Series III Notes herein authorized to be issued shall be sold or delivered by an Authorized Officer until the Attorney General of the State of Texas shall have approved this Eighteenth Supplemental Debt Resolution, and other agreements and proceedings as may be required in connection therewith.

Section 8.08. **Approval of Offering Memorandum.** The Offering Memorandum in substantially the form set forth in Exhibit G is hereby approved with any amendments, updates and supplements thereto as are approved by the Authorized Officer. The Dealers are hereby authorized to use the Offering Memorandum in connection with the sale of the Series III Notes.

Section 8.09. **Public Notice.** It is hereby found and determined that each of the officers and members of the Board was duly and sufficiently notified officially and personally, in advance, of the time, place, and purpose of the Meeting at which this Eighteenth Supplemental Debt Resolution was adopted, and that this Eighteenth Supplemental Debt Resolution would be introduced and considered for adoption at said meeting; that said meeting was open to the public, and public notice of the time, place, and purpose of said meeting was given, all as required by Chapter 551, Texas Government Code.

Section 8.10. **Ongoing Continuing Disclosure Covenant.** To the extent required by the provisions of U.S. Securities and Exchange Commission Rule 15c2-12 (Rule 15c2-12), DART agrees to enter into an agreement to file financial information and operating data with respect to the Series III Notes with such entities as are designated pursuant to the terms of said Rule 15c2-12. Under the provisions of said Rule 15c2-12, as they exist on the date this Resolution is adopted, DART is exempted from complying with the undertaking described in the first sentence of this Section, as the Notes are to be issued in the form of Series III Notes.

Section 8.11. **DART's Consent to Provide Information and Documentation to the Texas MAC.** The Municipal Advisory Council of Texas (the "Texas MAC"), a non-profit membership corporation organized exclusively for non-profit purposes described in section 501(c)(6) of the Internal Revenue Code and which serves as a comprehensive financial information repository regarding municipal debt issuers in Texas, requires provision of written documentation regarding the issuance of municipal debt by the issuers thereof. In support of the purpose of the Texas MAC and in compliance with applicable law, DART hereby consents to and authorizes any Authorized Officer, Bond Counsel to DART, and/or Financial Advisor to DART to provide to the Texas MAC information and documentation requested by the Texas MAC relating to the Series III Notes; provided, however, that no such information and documentation shall be provided prior to the delivery of the Series III Notes. This consent and authorization relates only to information and documentation that is a part of the public record concerning the issuance of the Series III Notes.

Section 8.12. **Attorney General Modification.** In order to obtain the approval of the Bonds by the Attorney General of the State of Texas, any provision of this Eighteenth Supplemental Debt Resolution may be modified, altered or amended after the date of its adoption if required by the Attorney General in connection with the Attorney General's examination as to the legality of the Series III Notes and approval thereof in accordance with the applicable law. Such changes, if any, shall be provided to the Board secretary and shall insert such changes into this Eighteenth Supplemental Debt Resolution as if approved on the date hereof.

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EXHIBIT A DEFINITIONS

All terms not herein defined shall have the meanings given to said terms by the Master Resolution or as otherwise defined in this Eighteenth Supplemental Debt Resolution. As used in this Eighteenth Supplemental Debt Resolution, the terms below defined shall be construed, are used and are intended to have the following meanings, unless the text hereof specifically indicates otherwise:

The term "*Act*" shall mean, Chapter 452, Texas Transportation Code, as amended.

The terms "*Authorized Officer*" shall mean President/Chief Executive Officer, the Chief Financial Officer, Treasurer, and the Assistant Treasurer of DART, including any successor thereto or person holding any such position on an acting or interim basis.

The term "*Board*" shall mean the Board of Directors of DART.

The term "*Business Day*" shall mean any day which is not a Saturday, Sunday, legal holiday, or a day on which banking institutions in the City of Dallas, Texas, The City of New York, New York or in the city where the Designated Trust Office of the Paying Agent/Registrar is located are authorized by law or executive order to close.

The term "*Code*" shall mean the Internal Revenue Code of 1986, as amended.

The terms "*Series III Note*" shall mean any Taxable Series III Note or Tax-Exempt Series III Note issued pursuant to the provisions of the Master Resolution and this Eighteenth Supplemental Debt Resolution, with a final maturity, whether extended or not as described herein, of not more than 270 calendar days from the Issue Date and having the terms and characteristics specified in Section 2.02 and in the forms set forth in Exhibit B to this Eighteenth Supplemental Debt Resolution.

The term "*Dealer*" shall mean, initially Morgan Stanley and Co. LLC for as long as such firm acts as a dealer for the Board, and each dealer appointed by the Board pursuant to Section 3.04 hereof and any successor thereto.

The term "*Designated Trust Office*" shall have the meaning given said term in Section 2.03(a) of this Eighteenth Supplemental Debt Resolution.

The term "*DTC*" shall mean The Depository Trust Company, New York, New York, or any successor securities depository.

The term "*DTC Participant*" shall mean securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations on whose behalf DTC was created to hold securities to facilitate the clearance and settlement of securities transactions among DTC Participants.

The term "*Eighteenth Supplemental Debt Resolution*" shall mean this resolution adopted by the Board on November 13, 2018, authorizing the Series III Notes.

The term "*Eligible Project*" shall mean the acquisition, purchase, construction, improvement, enlargement, and/or equipping of any property, program or improvement authorized by Applicable Law for, on behalf of or as part of DART.

The term "*Extended Maturity Date*" shall mean, for each Series III Note, the date specified in the Issuance Request as the maturity date to which the maturity of such Series III Note may extended, which maturity date shall be a Business Day (which shall be specified in the confirmation sent to the Holder of the Series III Note); provided, that an Extended Maturity Date shall not be established in violation of the provisions of Section 2.02(a) or 2.02(b) of this Eighteenth Supplemental Debt Resolution.

The term "*Extended Rate*" shall mean the rate of interest per annum determined by the following formula:

For Tax-Exempt Series III Notes: [The greater of (SIFMA Index + *E*) or *F*]

For Taxable Series III Notes: [The greater of (LIBOR Index + *E*) or *F*]

The Extended Rate applicable to a Series III Note will be determined by the Issuing and Paying Agent as provided in Section 2.02(c) of this Eighteenth Supplemental Debt Resolution. As used in the formula set forth above in this definition, the *E* and *F* variables shall be the fixed percentage rates, expressed in basis points and yields, respectively, determined based on the Prevailing Ratings of Moody's and S&P, if then rating the Series III Notes at the request of DART, as follows:

Prevailing Rating

<u>Moody's</u>	<u>S&P</u>	<u>E Variable</u>	<u>F Variable</u>
P-1	A-1+	250 bps	7.00%
-	A-1	350 bps	7.50%
P-2	A-2	550 bps	8.00%
Lower than P-2 (or rating withdrawn for credit reasons)	Lower than A-2 (or rating withdrawn for credit reasons)	Max Rate	Max Rate

If the individual Prevailing Ratings indicate different *E* or *F* variables as a result of split ratings assigned to the Series III Notes, the *E* or *F* variable shall be the arithmetic average of those indicated by the Prevailing Ratings. If DART obtains another rating on the Series III Notes from a credit rating agency, the Issuing and Paying Agent shall, upon written direction of the Authorized Officer, following consultation with the Authorized Officer and the Dealer, determine how the credit rating agency's rating categories shall be treated for the purpose of

indicating an *E* or *F* variable. In no event shall the Extended Rate exceed the Maximum Interest Rate.

The term "*Extension Request*" shall mean the instructions provided to the Issuing and Paying Agent and the Dealer by an Authorized Officer to extend the Original Maturity Date of a Series III Note to an Extended Maturity Date, in substantially the form set forth in Exhibit D to this Eighteenth Supplemental Debt Resolution.

The terms "*Holder*" or "*Noteholder*" shall mean the Registered Owner or any person, firm, association, or corporation who is in possession of any Series III Note issued to bearer or in blank.

The term "*Issuance Request*" shall mean the instructions provided to the Issuing and Paying Agent by an Authorized Officer in the manner set forth in Section 3.01 of this Eighteenth Supplemental Debt Resolution.

The terms "*Issuing and Paying Agent*" and "*Paying Agent*", "*Paying Agent/Registrar*" and "*Registrar*" shall mean with respect to the Series III Notes the agent appointed pursuant to Section 2.03, or any successor to such agent.

The term "*LIBOR Index*" means for any date the London interbank offered rate for U.S. dollar deposits for a one-month period, as reported on the Reuters Screen LIBOR01 Page (or any successor) as of 11:00 a.m., London time, on the second Business Day preceding such date. If LIBOR Index has been permanently discontinued, the Dealer will use, as a substitute for LIBOR Index and for each future interest rate calculation, the alternative reference rate selected by the central bank, reserve bank, monetary authority or any similar institution (including any committee or working group thereof) that is consistent with accepted market practice. As part of such substitution, the Dealer will, after consultation with DART, make such adjustments to such alternate rate or the spread thereon, as well as the business day convention, and related provisions and definitions, in each case that are consistent with accepted market practice for the use of such alternate rate for debt obligations such as such the Series III Notes.

The term "*Master Notes*" shall mean the DTC master notes, in substantially the forms set forth in Exhibit C to this Eighteenth Supplemental Debt Resolution.

The term "*Master Resolution*" shall mean the "Master Debt Resolution," adopted by the Board on January 23, 2001 as amended.

The term "*Maximum Interest Rate*" or "*Max Rate*" shall mean the lesser of: (i) nine percent (9%) per annum and (ii) the maximum net effective interest rate permitted by law to be paid on obligations issued or incurred by the Board in the exercise of its borrowing powers (prescribed by Chapter 1204, Texas Government Code, as amended).

The term "*Maximum Maturity Date*" shall mean fortieth (40th) anniversary of the date of passage of this Eighteenth Supplemental Debt Resolution.

The term "*Maximum Original Maturity Days*" means 90 calendar days or such lesser number of days specified in an Issuance Request.

The term "*Moody's*" shall mean Moody's Investors Service or, if such entity is dissolved or liquidated or otherwise ceases to perform securities rating services, such other nationally recognized securities rating agency as may be designated in writing by the Board.

The term "*Note Date*" shall have the meaning given in Section 2.02(c).

The term "*Note Payment Fund*" shall mean that fund created pursuant to Section 2.08.

The term "*Original Maturity Date*" shall mean, for each Series III Note, the date specified in the Issuance Request and in confirmation sent to the Holder of such Series III Note as the date of maturity of the Series III Note; provided that the Original Maturity Date shall be a Business Day not less than 1 day and not greater than the Maximum Original Maturity Days from the Issue Date, and shall not extend beyond the Maximum Maturity Date.

The term "*Original Rate*" shall mean, for each Series III Note, the rate of interest per annum borne by such Series III Note to the Original Maturity Date as specified in the applicable Issuance Request.

The term "*Project Costs*" shall mean all costs and expenses incurred in relation to Eligible Projects, including without limitation design, planning, engineering and legal costs, acquisition costs of land, interests in land, right of way and easements, construction costs, costs of machinery, equipment, and other capital assets incident and related to an Eligible Project, financing costs, (including the payment of any previously or subsequently issued Senior Subordinate Lien Obligations, the proceeds of which were used to finance Project Costs), interest during construction and thereafter, underwriter's discount and/or fees, legal, financial, and other professional services, and reimbursement for such Project Costs attributable to Eligible Projects incurred prior to the issuance of any Series III Notes.

The term "*Prevailing Rating*" shall mean, at the time of determination and with respect to each Rating Agency then providing a rating on the Series III Notes at the request of DART, the rating assigned to the Series III Notes by such Rating Agency, or any comparable future designation by such Rating Agency, as the case may be.

The term "*Rating Agency*" shall mean Moody's and S&P, if such entity is then providing a rating on the Series III Notes at the request of DART.

The term "*Registered Owner*" shall mean the person or entity in whose name any Series III Note is registered in the Registration Books.

The term "*Registration Books*" shall mean books or records relating to the registration, payment, and transfer or exchange of the Series III Notes maintained by the Issuing and Paying Agent pursuant to Section 2.03.

The term "*Regulations*" shall mean all applicable temporary, proposed and final regulations and procedures promulgated under the Code or promulgated under the Internal Revenue Code of 1954, to the extent applicable to the Code.

The term "*S&P*" shall mean S&P Global Ratings, a Standard & Poor's Financial Services LLC business, or, if such entity is dissolved or liquidated or otherwise ceases to perform securities rating services, such other nationally recognized securities rating agency as may be designated in writing by the Board.

The term "*SIFMA*" means the Securities Industry and Financial Markets Association.

The term "*SIFMA Index*" means (i) the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data and published or made available by SIFMA or any person acting in cooperation with or under the sponsorship of SIFMA or (ii) if such index is not published, such other publicly available rate as the Dealer (or if the Dealer fails to do so, DART, acting through an Authorized Officer) shall deem most nearly equivalent thereto. Such index may be expressed as a percentage of (more or less than, or equal to, 100%) and/or a fixed spread to another index.

The term "*Taxable Series III Note*" shall mean a Series III Note issued pursuant to the provisions of the Master Resolution and this Eighteenth Supplemental Debt Resolution, the interest on which is not exempt from federal income taxation under the Code.

The term "*Taxable Series III Note Payment Account*" shall mean the account created pursuant to Section 2.08.

The term "*Tax-Exempt Series III Note*" shall mean a Series III Note issued pursuant to the provisions of the Master Resolution and this Eighteenth Supplemental Debt Resolution, the interest on which is exempt from federal income taxation under the Code.

The term "*Tax-Exempt Series III Note Payment Account*" shall mean the account created pursuant to Section 2.08.

EXHIBIT B
FORM OF SERIES III NOTES

United States of America
State of Texas
DALLAS AREA RAPID TRANSIT
SENIOR SUBORDINATE LIEN TAX REVENUE
COMMERCIAL PAPER NOTE, [TAX-EXEMPT]¹ [TAXABLE]² SERIES III

Note Number _____ Interest Rate _____ Note Date _____ \$ _____

On _____ (the "Original Maturity Date") for value received, DALLAS AREA RAPID TRANSIT (the "DART")

Promises To Pay To The Order of _____
The Principal Sum Of _____
Payable At _____
(the "Issuing and Paying Agent"),

and to pay interest, if any, on said principal amount, specified above, from the above specified Note Date on said Original Maturity Date at the per annum Interest Rate specified above (computed on the basis of actual days elapsed and a [365-day or 366-day year, as applicable]¹ [360-day year]²) solely from the sources hereinafter identified and as hereinafter stated.

If the Original Maturity Date shall have been extended to the Extended Maturity Date, as provided in the Supplemental Resolution (hereinafter defined), the interest accrued on this Series III Note to the Original Maturity Date will be paid on the Original Maturity Date. The principal amount of this Series III Note will be payable on the Extended Maturity Date, and after the Original Maturity Date, this Series III Note shall bear interest from the Original Maturity Date to the Extended Maturity Date, at the per annum Extended Rate described below (computed on the basis of actual days elapsed and a 365-day or 366-day year, as applicable) solely from the sources hereinafter identified and as hereinafter stated.

Both principal and interest on this Series III Note shall be payable in immediately available lawful money of the United States of America at the principal corporate office of the Issuing and Paying Agent, specified above, or its successor.

No interest will accrue on the principal amount hereof after said Original Maturity Date or, if the Original Maturity Date shall have been extended to the Extended Maturity Date, after said Extended Maturity Date, or the date fixed for redemption of this Series III Note.

¹ To be included only for Series III Notes being issued as Tax-Exempt Series III Notes.

² To be included only for Series III Notes being issued as Taxable Series III Notes.

If the Original Maturity Date is before the 15th day of the month, and DART exercises its option in accordance with the Supplemental Resolution to extend the Original Maturity Date of this Series III Note to an Extended Maturity Date, interest accruing after the Original Maturity Date shall be payable on the first Business Day of the next month and on the first Business Day of each month thereafter and on the Extended Maturity Date for, or the date fixed for redemption of, this Series III Note. If the Original Maturity Date is on or after the 15th day of the month, and the DART exercises its option in accordance with the Supplemental Resolution to extend the Original Maturity Date of this Series III Note, interest shall be payable on the first Business Day of the second succeeding month and on the first Business Day of each month thereafter and on the Extended Maturity Date for, or the date fixed for redemption of, this Series III Note.

The Extended Rate shall be the rate of interest per annum determined by the following formula:

$$[\text{The greater of (SIFMA Index} + E) \text{ or } F]^3$$

$$[\text{The greater of (LIBOR Index} + E) \text{ or } F]^4$$

The Extended Rate applicable to this Series III Note will be determined weekly by the Issuing and Paying Agent based on the Prevailing Ratings and other information available as of 11:00 a.m., New York, New York time, on the Original Maturity Date of this Series III Note and each Thursday thereafter and will apply from that date through the following Wednesday or, if earlier, the applicable Extended Maturity Date, or the date fixed for redemption of this Series III Note. As used in the formula, the *E* and *F* variables shall be the fixed percentage rates, expressed in basis points and yields, respectively, determined based on the Prevailing Ratings of the Rating Agencies then rating the Series III Notes at the request of DART, as follows:

Prevailing Rating

<u>Moody's</u>	<u>S&P</u>	<u>E Variable</u>	<u>F Variable</u>
P-1	A-1+	250 bps	7.00%
-	A-1	350 bps	7.50%
P-2	A-2	550 bps	8.00%
Lower than P-2 (or rating withdrawn for credit reasons)	Lower than A-2 (or rating withdrawn for credit reasons)	Max Rate	Max Rate

If the individual Prevailing Ratings indicate different E or F variables as a result of split ratings assigned to the DART, the E or F variable shall be the arithmetic average of those indicated by the Prevailing Ratings. In no event shall the Extended Rate exceed the Maximum Interest Rate.

This Series III Note is one of an issue of Series III Notes (the "Series III Notes") which has been duly authorized and issued in accordance with the provisions of a master resolution, as

³ To be included only for Series III Notes being issued as Tax-Exempt Series III Notes.

⁴ To be included only for Series III Notes being issued as Taxable Series III Notes.

amended, (the "Master Resolution") and the Eighteenth Supplemental Debt Resolution thereto (the "Supplemental Resolution"; the provisions of the Master Resolution are incorporated by reference in the Supplemental Resolution and the Master Resolution and the Supplemental Resolution shall hereinafter be referred to collectively as the "Resolution") passed by the Board, a subregional transit authority, for the purpose of financing Project Costs of Eligible Projects (each as defined in the Resolution) and to refinance, renew and refund the Notes and other Obligations; all in accordance and in strict conformity with the provisions of the Constitution and laws of the State of Texas, including but not limited to, Chapter 452, Texas Transportation Code, as amended, and Chapter 1371, Texas Government Code, as amended. Capitalized terms used herein and not otherwise defined shall have the meaning given in the Resolution.

This Series III Note shall not be subject to redemption at the option of DART to its Original Maturity Date. If DART exercises its option to extend the maturity of this Series III Note to the Extended Maturity Date, this Series III Note may be redeemed on any date after its Original Maturity Date, at the option of DART, at a redemption price equal to par (100%), plus accrued and unpaid interest to the redemption date. To exercise its redemption option, DART shall provide not less than five (5) or more than twenty-five (25) calendar days' notice to the Issuing and Paying Agent. The Issuing and Paying Agent will notify DTC of the Series III Notes to be redeemed within one Business Day of receipt of such notice.

This Series III Note, together with the other Notes and other Senior Subordinate Lien Obligations, is payable from and equally secured by the Pledged Revenues; provided, however, that the lien on and pledge of the Pledged Revenues is on parity with Senior Subordinate Lien Obligations. The Notes do not constitute a legal or equitable pledge, charge, lien, or encumbrance upon any property of the Board, except with respect to the Pledged Revenues as described in the Resolution, and the Holder hereof shall never have the right to demand payment of this obligation from any sources or properties of DART except as described in the Resolution. THE NOTES DO NOT CONSTITUTE OR CREATE A DEBT OR LIABILITY OF THE STATE OF TEXAS, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING AUTHORITY OF THE STATE OF TEXAS IS IN ANY MANNER PLEDGED, GIVEN, OR LOANED TO THE PAYMENT OF THE NOTES.

[This Series III Note is not an obligation described in section 103(a) of the Code.]⁵

Reference is hereby made to the Resolution, copies of which may be obtained upon request to the Board, and by acceptance of this Series III Note the Holder hereof hereby assents to all of the terms and provisions of the Resolution, including, but not limited to, provisions relating to definitions of terms; the description of and the nature of the security for the Notes and the Pledged Revenues; the conditions upon which the Resolution may be amended or supplemented with or without the consent of the Holders of the Notes; and the right to issue obligations payable from and secured by the Pledged Revenues.

It is hereby certified and recited that all acts, conditions, and things required by law and the Resolution to exist, to have happened, and to have been performed precedent to and in the issuance of this Series III Note, do exist, have happened, and have been performed in regular and

⁵ To be included only for Series III Notes being issued as Taxable Series III Notes.

in due time, form, and manner as required by law and that the issuance of this Series III Note, together with all other Notes, is not in excess of the principal amount of Notes permitted to be issued under the Resolution.

This Series III Note has all the qualities and incidents of a negotiable instrument under the laws of the State of Texas.

This Series III Note may be registered to bearer or to any designated payee. Title to any Series III Note registered to bearer shall pass by delivery. If not registered to bearer, this Series III Note may be transferred only on the books of the Board maintained at the designated office of the Issuing and Paying Agent. Upon surrender hereof at the designated office of the Issuing and Paying Agent, this Series III Note may be exchanged for a like aggregate principal amount of fully registered (which registration may be to bearer) Series III Notes of authorized denominations of like interest rate and maturity, but only in the manner, and subject to the limitations, and upon payment of the charges provided in the Resolution and upon surrender and cancellation of this Series III Note.

This Series III Note shall not be entitled to any benefit under the Resolution or be valid or become obligatory for any purpose until this Series III Note shall have been authenticated by the execution by the Issuing and Paying Agent of the Certificate of Authentication hereon.

DART covenants to pay the principal of and interest on this Series III Note when due, whether by reason of maturity or redemption prior to maturity.

IN WITNESS WHEREOF, the Board has authorized and caused this Series III Note to be executed and attested on its behalf by the manual or facsimile signatures of the Chairman of the Board, President/Executive Director and the Secretary of the Board and the official seal of DART impressed or a facsimile thereof to be printed hereon.

Chair, Board of Directors
Dallas Area Rapid Transit

COUNTERSIGNED:

President/Executive Director
Dallas Area Rapid Transit

Secretary, Board of Directors
Dallas Area Rapid Transit
(SEAL)

ISSUING AND PAYING AGENT'S
CERTIFICATE OF AUTHENTICATION

This Note is one of the Notes delivered pursuant to the within mentioned Resolution.

_____,
as Issuing and Paying Agent

By: _____
Authorized Signatory

[The remainder of this page intentionally left blank.]

ASSIGNMENT

FOR VALUE RECEIVED the undersigned hereby sells, assigns, and transfers unto (print or typewrite name, address, and zip code of transferee): _____

(Social Security or other identifying number: _____)
the within Note and all rights thereunder, and hereby irrevocably constitutes and appoints

attorney to transfer the within Note on the books kept for registration thereof, with full power substitution in the premises.

DATED: _____
Signature Guaranteed

NOTICE: The signature of the registered owner must be guaranteed by a member of the New York Stock Exchange or a commercial bank or trust company.

NOTICE: The signature on this Assignment must correspond with the name of the registered owner as it appears upon the face of the within Note in every particular.

[The remainder of this page intentionally left blank.]

EXHIBIT C
FORM OF MASTER NOTES

The Depository Trust Company
A subsidiary of The Depository Trust & Clearing Corporation

MUNICIPAL COMMERCIAL PAPER — DART MASTER NOTE

Tax Exempt

(Date of Issuance)

DALLAS AREA RAPID TRANSIT ("Issuer"), for value received, hereby promises to pay to Cede & Co., as nominee of The Depository Trust Company, or to registered assigns: (i) the principal amount, together with unpaid accrued interest thereon, if any, on the maturity date of each obligation identified on the records of Issuer (the "Underlying Records") as being evidenced by this Master Note, which Underlying Records are maintained by _____, ("Paying Agent"); (ii) interest on the principal amount of each such obligation that is payable in installments, if any, on the due date of each installment, as specified on the Underlying Records; and (iii) the principal amount of each such obligation that is payable in installments, if any, on the due date of each installment, as specified on the Underlying Records. Interest shall be calculated at the rate and according to the calculation convention specified on the Underlying Records. Payments shall be made solely from the sources stated on the Underlying Records by wire transfer to the registered owner from Paying Agent without the necessity of presentation and surrender of this Master Note.

REFERENCE IS HEREBY MADE TO THE FURTHER PROVISIONS OF THIS MASTER NOTE SET FORTH ON THE REVERSE HEREOF.

This Master Note is a valid and binding obligation of Issuer.

Not Valid Unless Countersigned for Authentication by Paying Agent.

DALLAS AREA RAPID TRANSIT

By: _____
(Authorized Countersignature)

By: _____
(Authorized Signature)



**The Depository Trust &
Clearing Corporation**

The provisions of the Board of Directors, Dallas Area Rapid Transit Senior Subordinate Lien Sales Tax Revenue Commercial Paper Note, Tax-Exempt Series III, a form of which is attached hereto, are incorporated herein and made a part hereof for all purposes.

At the request of the registered owner, Issuer shall promptly issue and deliver one or more separate note certificates evidencing each obligation evidenced by this Master Note. As of the date any such note certificate or certificates are issued, the obligations which are evidenced thereby shall no longer be evidenced by this Master Note.

FOR VALUE RECEIVED, the undersigned hereby sells, assigns, and transfers unto

(Name, Address, and Taxpayer Identification Number of Assignee)

the Master Note and all rights thereunder, hereby irrevocably constituting and appointing _____ attorney to transfer said Master Note on the books of Issuer with full power of substitution in the premises.

Date:

Signature(s) Guaranteed:

(Signature)

Notice: The signature on this assignment must correspond with the name as written upon the face of this Master Note, in every particular, without alteration or enlargement or any change whatsoever.

Unless this certificate is presented by an Authorized Officer of The Depository Trust Company, a New York corporation ("DTC"), to Issuer or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an Authorized Officer of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an Authorized Officer of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

The Depository Trust Company
A subsidiary of The Depository Trust & Clearing Corporation

MUNICIPAL COMMERCIAL PAPER — DART MASTER NOTE

Taxable

(Date of Issuance)

DALLAS AREA RAPID TRANSIT ("Issuer"), for value received, hereby promises to pay to Cede & Co., as nominee of The Depository Trust Company, or to registered assigns: (i) the principal amount, together with unpaid accrued interest thereon, if any, on the maturity date of each obligation identified on the records of Issuer (the "Underlying Records") as being evidenced by this Master Note, which Underlying Records are maintained by _____, ("Paying Agent"); (ii) interest on the principal amount of each such obligation that is payable in installments, if any, on the due date of each installment, as specified on the Underlying Records; and (iii) the principal amount of each such obligation that is payable in installments, if any, on the due date of each installment, as specified on the Underlying Records. Interest shall be calculated at the rate and according to the calculation convention specified on the Underlying Records. Payments shall be made solely from the sources stated on the Underlying Records by wire transfer to the registered owner from Paying Agent without the necessity of presentation and surrender of this Master Note.

REFERENCE IS HEREBY MADE TO THE FURTHER PROVISIONS OF THIS MASTER NOTE SET FORTH ON THE REVERSE HEREOF.

This Master Note is a valid and binding obligation of Issuer.

Not Valid Unless Countersigned for Authentication by Paying Agent.

DALLAS AREA RAPID TRANSIT

By: _____
(Authorized Countersignature)

By: _____
(Authorized Signature)



*The Depository Trust &
Clearing Corporation*

EXHIBIT E
OFFERING MEMORANDUM



Offering Memorandum

Dated Date: November ____, 2018

Ratings

Moody's: P-1

S&P: A-1+

See "Ratings of Series III Notes" herein

NEW ISSUE – BOOK-ENTRY ONLY

This Offering Memorandum supplements our Annual Disclosure Statement, dated March 13, 2018 (the "Annual Disclosure Statement"), as updated by our Quarterly Disclosure Updates, for the three-month period ended December 31, 2017, the six-month period ended March 31, 2018 and the nine-month period June 30, 2018, respectively. The Annual Disclosure Statement, the Quarterly Disclosure Updates and this Offering Memorandum have been filed as public records with the Municipal Securities Rulemaking Board and are posted on the Internet at our website at <http://www.dart.org>.

\$125,000,000**Dallas Area Rapid Transit****Senior Subordinate Lien Sales Tax Revenue****Commercial Paper Notes, Series III**

The Dealer set forth below (the "Dealer") is offering for sale on behalf of Dallas Area Rapid Transit ("DART") the above captioned extendible commercial paper notes (the "Series III Notes"). Capitalized terms used in this Offering Memorandum shall have the meanings assigned to such terms in the Resolution (as defined herein), except as otherwise indicated herein. The Series III Notes are authorized pursuant to the Constitution and the laws of the State of Texas, including Chapter 452, Texas Transportation Code, as amended, and Chapter 1371, Texas Government Code, as amended, a certain Master Debt Resolution, adopted January 23, 2001, as amended (the "Master Debt Resolution") and the Eighteenth Supplemental Debt Resolution, adopted by the Board of Directors of DART (the "Board") on November 13, 2018 (the "Eighteenth Supplement," together with the Master Debt Resolution, the "Resolution").

The Series III Notes will be sold at par as interest-bearing obligations in minimum denominations of \$100,000 or in integral multiples of \$1,000 in excess thereof, with interest payable at maturity, or as described under "Interest Payment During Extended Rate" herein. Each issuance of Series III Notes shall be dated its respective date of issuance and mature on the "Original Maturity Date," which may range from 1 day to 90 days from the date of issuance, or, if any Series III Notes are unpaid at their Original Maturity Date, then on the "Extended Maturity Date," which may range from the Original Maturity Date to not more than 270 days from the date of issuance, as specified by DART. The Series III Notes initially will be issued in book-entry-only form through The Depository Trust Company ("DTC"), New York, New York. Series III Notes within a single series may bear different Issue Dates, Original Maturity Dates, Extended Maturity Dates and interest rates. In connection with the issuance of the Series III Notes, DART has entered into the Issuing and Paying Agent Agreement, dated as of November 15, 2018 (the "Issuing and Paying Agent Agreement"), with Zions Bancorporation, National Association (formerly Amegy Bank National Association), Houston, Texas, as issuing and paying agent (the "Issuing and Paying Agent").

The Series III Notes will provide interim and/or short-term financing of various capital projects and other lawful purposes, as described herein. The Series III Notes may be used for the purpose of financing Project Costs of Eligible Projects and to refinance, renew, or refund Series III Notes and Outstanding Obligations, including interest thereon. Capitalized terms not defined herein shall have the meaning ascribed to them in the Resolution. The Series III Notes are subject to redemption after their Original Maturity Date and prior to their Extended Maturity Date as described herein.

The Series III Notes are payable from and are secured by a pledge of and lien on Pledged Revenues (as defined herein) consisting of (i) the Gross Sales Tax Revenues that we receive from the levy and collection of a 1% sales and use tax (the "Sales Tax") and the investment earnings thereon while held by the Trustee in the Gross Sales Tax Revenue Fund, (ii) certain Pledged Farebox Revenues (as defined herein) and (iii) such additional revenues of DART which by a Supplemental Resolution are expressly and specifically pledged to Obligations. The lien securing the Series III Notes is subordinate to Senior Lien Obligations, but is senior to Junior Subordinate Lien Obligations, that DART may issue or execute from time to time under the Master Debt Resolution. The lien securing the Series III Notes is on parity with other senior subordinate lien obligations, including commercial paper notes currently outstanding and additional commercial paper notes DART may issue in the future.

This Offering Memorandum may be used to offer and sell the Series III Notes only if it is accompanied by our Annual Disclosure Statement and our Quarterly Disclosure Updates.

Morgan Stanley & Co LLC, Dealer

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IMPORTANT NOTICES

We are providing information to you about the Series III Notes in five separate documents: (1) the Annual Disclosure Statement, dated March 13, 2018, (2) the Quarterly Disclosure Update for the three-month period ended December 31, 2017, (3) the Quarterly Disclosure Update for the six-month period ended March 31, 2018, (4) the Quarterly Disclosure Update for the nine-month period ended June 30, 2018 and (5) this Offering Memorandum, which describes the specific terms of the Series III Notes. All references herein to the “Disclosure Statement” mean the Annual Disclosure Statement, as updated by the Quarterly Disclosure Updates and this Offering Memorandum.

Our Disclosure Statement includes a detailed discussion of the Pledged Revenues that we have pledged as security for the Series III Notes, the previously issued Senior Lien Bonds, the previously issued or authorized Senior Subordinate Lien Obligations, and other Obligations that we may issue or enter into in the future, of our rights to issue additional Bond Obligations and related Credit Agreement Obligations, of the financial tests that are imposed as preconditions to their issuance and of other matters relating to our organization and our public transportation system. We refer you to specific captions within the Disclosure Statement where additional information may be found regarding specific subjects.

Our most recently audited financial statements, for the Fiscal Year ended September 30, 2017, are included with the Independent Auditors’ Report that is attached to the Annual Disclosure Statement as Appendix C thereto. When we issue Series III Notes, you should rely only on the information contained or incorporated by reference in this Offering Memorandum and the disclosure statements attached hereto in Appendices C-F. We have not authorized anyone to provide you with other information. If information varies between this Offering Memorandum and the Annual Disclosure Statement, you should rely on the information in this Offering Memorandum.

We will not offer the Series III Notes in any state where their offer is not permitted. We do not claim that the information contained in the Annual Disclosure Statement, the Quarterly Disclosure Updates and in this Offering Memorandum is accurate as of any date other than the Dated Date stated on their respective cover pages.

The Dealers may use this Offering Memorandum, the Annual Disclosure Statement and the Quarterly Disclosure Updates in connection with the sale of Series III Notes from time to time. For that reason, this document may be amended from time to time to update certain information.

The summary of the Eighteenth Supplemental Debt Resolution contained herein in Appendix A hereto is not intended to be comprehensive and is qualified in its entirety by reference to the entire document. You may obtain a copy of the Master Debt Resolution and the Eighteenth Supplemental Debt Resolution on the Internet at our website, www.dart.org, or by contacting our Senior Vice President of Finance and Interim Chief Financial Officer, DART, 1401 Pacific Avenue, Dallas, Texas 75202, (214) 749-3148.

In this Offering Memorandum, “we,” “our,” “us,” and “DART” refer to Dallas Area Rapid Transit. If we use a capitalized term in this Offering Memorandum and do not define the term in this document, its definition is given or summarized in Appendix A to this Offering Memorandum and/or in Appendix B to the Annual Disclosure Statement.

The Dealer has provided the following sentence for inclusion in this Offering Memorandum. The Dealer has reviewed the information in this Offering Memorandum in accordance with and as part of its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Dealer does not guarantee the accuracy or completeness of such information.

SEC Rule 15c2-12. SEC Rule 15c2-12 does not require DART to enter into a written agreement for the benefit of holders of the Series III Notes to provide continuing disclosure. DART regularly files continuing disclosure in connection with other debt offerings. See “CONTINUING DISCLOSURE OF INFORMATION” herein.

SUMMARY OF THE TERMS OF THE SERIES III NOTES PROGRAM

This Summary is subject in all respects to more complete information contained in this Offering Memorandum (and to the documents referenced herein and therein) and should not be considered to be a complete statement of the facts material to making an investment decision. The offering of the Series III Notes to potential investors is made only by means of the entire Offering Memorandum.

Issuer:	Dallas Area Rapid Transit
Designation:	Senior Subordinate Lien Sales Tax Revenue Commercial Paper Notes, Series III
Amount:	Maximum principal amount outstanding of \$125,000,000
Ratings:	Series III Notes: “___” (S&P) and “___” (Moody’s)
Security:	The Series III Notes are payable from and are secured by a pledge of and lien on Pledged Revenues (as defined herein) consisting of (i) the Gross Sales Tax Revenues that we receive from the levy and collection of a 1% sales and use tax (the “Sales Tax”) and the investment earnings thereon while held by the Trustee in the Gross Sales Tax Revenue Fund, (ii) certain Pledged Farebox Revenues (as defined herein) and (iii) such additional revenues of DART which by a Supplemental Resolution are expressly and specifically pledged to Obligations. The lien securing the Series III Notes is subordinate to Senior Lien Obligations, but is senior to Junior Subordinate Lien Obligations, that we may issue or execute from time to time under the Master Debt Resolution. The lien securing the Series III Notes is on parity with other senior subordinate lien obligations, including commercial paper notes currently outstanding and additional commercial paper notes we may issue in the future.
Liquidity:	DART has elected <u>not</u> to enter into any liquidity agreements at this time. Timely payment of principal and interest on maturing Series III Notes is therefore dependent on DART’s receipt of the Pledged Revenues due and payable by the Resolution and on the ability of DART to sell rollover Series III Notes or issue Refunding Bonds.
Offering Price:	100% of principal amount.
Extendable Maturities:	The Series III Notes shall mature on the Original Maturity Date or, if any Series III Notes shall remain unpaid at its Original Maturity Date, then on the Extended Maturity Date; provided, however, that (i) the Original Maturity Date for Series III Notes shall not be less than one day nor greater than 90 days after and including its issue date, and (ii) the Extended Maturity Date for the Series III Notes shall be no greater than 270 days after and including its issue date.
Principal Amounts and Minimum Purchase:	\$100,000 minimum principal amount and integral multiples of \$1,000 in excess thereof.
Interest Payments:	Tax-Exempt Series III Notes/Taxable Series III Notes - based on a 365 or 366 day year and actual number of days elapsed; Taxable Series III Notes - based on a 360 day year and actual number of days elapsed. Each Series III Note shall bear interest at the Original Rate from its Issue Date to its Original Maturity Date and shall be payable on the Original Maturity Date. If DART exercises its option in accordance with the Master Debt Resolution to extend the maturity date of an Series III Note, accrued interest from the Issue Date to the Original Maturity Date shall be paid on the Original Maturity Date, and the Series III Note shall bear interest from its Original Maturity Date at the Extended Rate, and no additional interest shall accrue on the accrued but unpaid interest from the Issue Date to the Original Maturity Date. If the Series III Note is extended to the Extended Maturity Date and the Original Maturity Date is before the 15th day of the month, interest shall be payable on the first Business Day of the next month and on the first Business Day of each month thereafter and on the Extended Maturity Date for such Series III Note. If the Series III Notes are extended to the Extended Maturity Date and the Original Maturity Date is on or after the 15th day of the month, interest shall be payable on the first Business Day of the second succeeding month and on the first Business Day of each month thereafter and on the Extended Maturity Date for such Series III Note.

Form: DTC Book-Entry-Only.

Maximum Rate: As of any time, the lesser of the rate of nine percent (9%) per annum and the maximum rate of interest at the time permitted by law (currently 15%).

Redemption: Series III Notes are not subject to redemption prior to its Original Maturity Date. On any day after its Original Maturity Date, Series III Notes may be redeemed at a redemption price equal to 100% of the principal amount, plus accrued interest to the date of payment, and without premium, upon not less than 5 nor more than 25 calendar days' notice to the Issuing and Paying Agent.

Tax Status: In the opinion of Co-Bond Counsel to DART, interest on the Tax Exempt Series III Notes will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions on the date thereof, subject to the matters described under "TAX MATTERS" herein. The Taxable Series III Notes are not obligations described in Section 103(a) of the Internal Revenue Code of 1986. See "TAX MATTERS" herein.

SEC Filing Status: The Series III Notes are exempt securities under Section 3(a)(2) of the Securities Act of 1933.

Issuing and Paying Agent: Zions Bancorporation, National Association (formerly Amegy Bank National Association), Houston, Texas

Dealer: Morgan Stanley & Co LLC
Keith Fell
212-761-9102
muni-short-term@morganstanley.com

Issuer Contact: Dallas Area Rapid Transit
1401 Pacific Avenue
Dallas, Texas 75202
(214) 749-3148
Attention: Joe Costello, Senior Vice President of Finance/Interim Chief Financial Officer

FORWARD-LOOKING STATEMENTS

We make “forward-looking statements” in this document by using forward-looking words such as “may,” “will,” “should,” “intends,” “expects,” “believes,” “anticipates,” “estimates,” or others. You are cautioned that forward-looking statements are subject to a variety of uncertainties that could cause actual results to differ from the projected results. Those risks and uncertainties include general economic and business conditions, conditions in the financial markets, our financial condition, receipt of federal grants, and various other factors which may be beyond our control. Because we cannot predict all factors that may affect future decisions, actions, events, or financial circumstances, what actually happens may be different from what we include in forward-looking statements.

GENERAL INFORMATION ABOUT DART

The following general information about DART is a summary only and is not intended to be comprehensive. This information should be read together with the information in the Annual Disclosure Statement under the heading “INFORMATION ABOUT DART.”

DART is a subregional transportation authority of the State of Texas. We were created and confirmed by passage of a referendum on August 13, 1983, pursuant to Article 1118y of Vernon’s Annotated Civil Statutes, as amended and recodified as Chapter 452, Texas Transportation Code. Our current boundaries include the territory lying within the corporate limits of the following Participating Municipalities: the Cities of Carrollton, Cockrell Hill, Dallas, Farmers Branch, Garland, Glenn Heights, Irving, Plano, Richardson, Rowlett and University Park and the Towns of Addison and Highland Park. We are governed by a 15-member Subregional Board of Directors.

Our administrative office is located in Dallas, Texas, and our boundaries include approximately 700 square miles and a population of approximately 2.4 million persons, according to the most recent estimate available from the North Central Texas Council of Governments.

The Participating Municipalities have certain limited rights to withdraw from DART, subject to the continuing collection of the Sales Tax within the withdrawing municipality until its share of all obligations of DART are collected and paid to DART. See, the Annual Disclosure Statement, “INFORMATION ABOUT DART—DART’s Boundaries, Additions, Withdrawal Rights.”

Mr. David Leininger, DART’s Executive Vice President/Chief Financial Officer, retired in May 2018. His duties have been assumed by Joseph Costello, Senior Vice President of Finance and Interim Chief Financial Officer.

On September 11, 2018 the Board appointed Mr. Gene Gamez, DART’s Senior Assistant General Counsel to serve as Interim General Counsel.

Sources of Revenue

For additional information regarding the Sales Tax, farebox revenues and other sources of revenue and funds, see the Annual Disclosure Statement, “DART’S FINANCIAL PRACTICES AND RESOURCES.” In addition, see information herein under the heading “THE SERIES III NOTES – Pledge and Security for Series III Notes” regarding the pledge of Pledged Farebox Revenues to Obligations, including the Series III Notes.

Outstanding Debt

On the date hereof, we currently have outstanding approximately \$3.21 billion in principal amount of Senior Lien Bonds, all of which bear interest at fixed rates to maturity. In addition to the Series III Notes, we currently have outstanding \$110 million in principal amount of Senior Subordinate Lien Sales Tax Revenue Commercial Paper Notes, Series I with a maximum authorization of \$125 million.

Future Debt

On August 28, 2018, we approved the Fifteenth Amended and Restated Supplemental Debt Resolution which authorized the issuance of up to \$908 million in principal amount of Senior Lien Sales Tax Revenue Bonds to finance the "Cotton Belt Corridor Regional Rail Project (the "Cotton Belt"), a 26-mile passenger rail line from DFW Airport to Plano, and the Sixteenth Amended and Restated Supplemental Debt Resolution which authorized the issuance of up to \$1.09 billion in principal amount of Senior Lien Sales Tax Revenue Bonds to finance the "Second Central Business District Light Rail Alignment Project" ("D2"), a major sub-way and surface alignment in downtown Dallas. Such Senior Lien Obligations are secured by a senior lien on our Sales Tax Revenues and Pledged Farebox Revenues and have a priority over the lien pledged to the Series III Notes. It is anticipated that the Senior Lien Obligations for the Cotton Belt will be authorized by the Board in the form of a RRIFF Loan Agreement with the United States Department of Transportation to be entered into in the next few months and funded over the next one to two years. DART expects to issue its Senior Lien Bonds to finance D2 project in the next two to three years.

In addition, we are authorizing up to \$125 million of additional Senior Subordinate Lien Obligations in one or more series of commercial paper notes (the "Series II Notes). Such Senior Subordinate Lien Obligations will be a parity as to security and payment with the Series I Notes and the Series III Notes.

THE SERIES III NOTES

The following description of the Series III Notes is a summary only and is not intended to be comprehensive. The description should be read together with the description of the terms and provisions of the Eighteenth Supplemental Debt Resolution, as amended, set forth in Appendix A hereto, "SUMMARY OF CERTAIN TERMS OF THE EIGHTEENTH SUPPLEMENTAL DEBT RESOLUTION" and with the description of the terms and provisions of the Master Debt Resolution provided in Appendix B to the Annual Disclosure Statement, "SUMMARY OF CERTAIN TERMS OF THE MASTER DEBT RESOLUTION."

General

Series III Notes may be issued under the Resolution in the aggregate principal amount outstanding at any one time not to exceed \$125,000,000. Series III Notes may be issued either as Tax-Exempt Series III Notes or as Taxable Series III Notes. Whether a series of Series III Notes are issued as Tax-Exempt or Taxable shall be determined in a "Tax Certificate" executed and delivered on behalf of DART on the date upon which a series of Series III Notes is initially issued and delivered.

The Series III Notes will have varying maturities of not more than 270 days from their respective dates of issuance.

The Series III Notes are issuable as interest-bearing obligations in minimum denominations of \$100,000 and integral multiples of \$1,000 in excess of such amount. Series III Notes will bear interest from their date of issuance at a rate not in excess of the Maximum Rate, computed on a 365 or 366 day year for the Tax-Exempt Series III Notes and on a 360 day year for the Taxable Series III Notes.

All Series III Notes shall be issued in book-entry-only form through The Depository Trust Company ("DTC"), New York, New York. The Series III Notes will be issued as fully registered obligations and registered in the name of Cede & Co., as registered owner and nominee for ("DTC"). Beneficial ownership interests in the Series III Notes will be available in book-entry form only, and purchasers of the Series III Notes will not receive physical certificates representing their interests in the Series III Notes purchased. While held in book-entry-only form, all payments of principal of and interest on the Series III Notes will be made by wire transfer to DTC or its nominee as the sole registered owner of the Series III Notes. Payments to the beneficial owners are the responsibility of DTC and its participants. See Appendix B – "Summary of Master Debt Resolution".

The Resolution provides that the Board may from time to time elect to enter into a liquidity agreement with one or more liquidity providers (which includes any standby purchaser in the case of a standby purchase agreement) to provide one or more liquidity facilities. The Board has elected not to enter into any liquidity agreements at this time, and the Series III Notes are not secured by any liquidity facility. Timely payment of principal and interest on

maturing Series III Notes is therefore dependent on the Board's receipt of sufficient Pledged Revenues and on the ability of the Board to sell rollover Series III Notes or to issue refunding bonds. See the "Annual Disclosure Statement - "OUTSTANDING OBLIGATIONS AND OUR FINANCING PLANS—Security for the Obligations—Flow of Funds," and "Summary of Certain Terms of the Master Debt Resolution- Defaults and Remedies. See "General Information About DART-Future Debt."

DART has created a \$375,000,000 commercial paper program (the "Program") pursuant to which multiple series of commercial paper notes may be issued in an aggregate principal amount at any one time outstanding under all series under the Program not to exceed \$375,000,000. The Eighteenth Supplement established DART's third commercial paper program (the "Series III Notes Program") pursuant to which the Series III Notes, may be issued in an aggregate principal amount at any one time outstanding not to exceed \$125,000,000. Concurrently with the Series III Notes Program, DART has authorized \$125,000,000 "Senior Subordinate Lien Sales Tax Revenue Commercial Paper Notes, Series II" (consisting of the "Series IIA Notes" and the "Series IIB Notes") all under the Program. The Series IIA Notes will be periodically sold, retired and reissued in installments. Prior to each maturity, they are expected to be sold in the public markets to provide the funds needed to pay the principle due on the maturing Series IIA Notes. The Series IIB Notes are to be directly placed with the Bank pursuant to a separate purchase agreement (the "Series IIB Note Purchase Agreement") and are not currently eligible to be publicly marketed as sold. DART has initially issued, and expects to remain outstanding for the duration of the time of the Series IIB Note Purchase Agreement, \$100,000 of Series IIB Notes, which the Bank has purchased pursuant to such Series IIB Note Purchase Agreement. This Offering Memorandum describes only the Series III Notes and not the Series II Notes. DART previously authorized the Series I Notes under the Program in a maximum amount of \$125,000,000 of which \$110,000,000 is currently outstanding.

The Resolution prescribes certain procedures and conditions that must be complied with by DART prior to and in connection with the issuance of Series III Notes. For a description of these procedures and conditions, see Appendix B – "Summary of the Master Debt Resolution – Conditions to Delivery Pursuant to Issuance Request".

Authority for Issuance

The Series III Notes are authorized pursuant to the Constitution and the laws of the State of Texas, including Chapter 452, Texas Transportation Code, as amended, and Chapter 1371, Texas Government Code, as amended, a certain Master Debt Resolution, adopted January 23, 2001, as amended (the "Master Debt Resolution") and the Eighteenth Supplemental Debt Resolution, adopted by the Board of Directors (the "Board") of DART on November 18, 2018 (the "Eighteenth Supplement," together with the Master Debt Resolution, the "Resolution").

Purpose

Proceeds of the Series III Notes will be issued for the purpose of financing Project Costs of Eligible Projects and to refinance, renew, or refund Series III Notes and Outstanding Obligations, including interest thereon.

The particular project or projects to be financed by the issuance of Series III Notes will be determined by DART from time to time as and when funds are needed or projected to be needed.

Extendible Commercial Paper

The Series III Notes are "extendible commercial paper notes". Each issuance of Series III Notes shall be dated its respective date of issuance and mature on such dates as shall be determined by DART at the time of sale. If any Series III Notes shall remain unpaid at its Original Maturity Date, then such Series III Notes shall mature on the Extended Maturity Date; provided, however, that (i) the Original Maturity Date for each issuance of Series III Notes shall not be less than one day nor greater than 90 days after and including its issue date, and (ii) the Extended Maturity Date for each issuance of the Series III Notes shall be no greater than 270 days after and including its issue date.

In no event shall the extension of the Original Maturity Date to the Extended Maturity Date constitute an event of default under the Series III Notes or a breach of any covenant under the Resolution.

"Business Day" means any day (a) when banks are open for business in Dallas, Texas, and (b) when banks are not authorized to be closed in New York, New York.

Interest Payments

Each Series III Note shall bear interest at the original rate from its issue date to its Original Maturity Date and shall be payable on the Original Maturity Date. Principal and accrued interest shall be payable on the Original Maturity Date, unless DART exercises its option to extend the Original Maturity Date to the Extended Maturity Date. The stated interest rate, Original Maturity Date, Extended Maturity Date and other terms of the Series III Notes, as long as not inconsistent with the terms of the Resolution, shall be set forth in the Issuance Request prepared by DART directing the issuance of Series III Notes. If DART exercises its option in accordance with the Resolution to extend the maturity date of an Series III Note, accrued interest from the issue date to the Original Maturity Date shall be paid on the Original Maturity Date, and the Series III Note shall bear interest from its Original Maturity Date at the Extended Rate, and no additional interest shall accrue on the accrued but unpaid interest from the issue date to the Original Maturity Date.

If a Series III Note is extended to the Extended Maturity Date, and the Original Maturity Date is before the 15th day of the month, interest shall be payable on the first business day of the next month and on the first business day of each month thereafter and on the Extended Maturity Date for such Series III Note. If a Series III Note is extended to the Extended Maturity Date, and the Original Maturity Date is on or after the 15th day of the month, interest shall be payable on the first business day of the second succeeding month and on the first business day of each month thereafter and on the Extended Maturity Date for such Series III Note.

Extended Rate

If an Series III Note is extended to the Extended Maturity Date, such Series III Note shall bear interest at the Extended Rate from the Original Maturity Date to the Extended Maturity Date. The "Extended Rate" is the rate of interest per annum, established in accordance with the formula below, for each weekly period from and after the Original Maturity Date.

The Extended Rate for Tax-Exempt Series III Notes shall be the rate of interest per annum determined by the following formula, provided that such Extended Rate shall not exceed the Maximum Interest Rate:

The greater of (SIFMA Index + E) or F

The Extended Rate for Taxable Series III Notes shall be the rate of interest per annum determined by the following formula; provided that such Extended Rate shall not exceed the Maximum Interest Rate:

The greater of (LIBOR Index + E) or F

If LIBOR has been permanently discontinued, the Calculation Agent will use, as a substitute for LIBOR and for each future interest rate calculation, the alternative reference rate selected by the central bank, reserve bank, monetary authority or any similar institution (including any committee or working group thereof) that is consistent with accepted market practice (the "Alternative Rate"). As part of such substitution, the Calculation Agent will, after consultation with DART and the Dealer, make such adjustments to the Alternative Rate or the spread thereon, as well as the business day convention, the dates that interest are determined, and related provisions and definitions, in each case that are consistent with accepted market practice for the use of such Alternative Rate for debt obligations such as such the Series III Notes.

The Extended Rate applicable to a Series III Note will be determined weekly by the Issuing and Paying Agent based on the Prevailing Ratings and other information available as of 11:00 a.m., New York, New York time, on the Original Maturity Date of the Series III Notes and each Thursday thereafter and will apply from that date through the following Wednesday or, if earlier, the applicable Extended Maturity Date. As used in the formula, the E and F variables shall be the fixed percentage rates, expressed in basis points and yields, respectively, determined based on the Prevailing Ratings of the Rating Agencies then rating the Series III Notes, as follows:

<u>Moody's</u>	<u>S&P</u>	<u>E Variable</u>	<u>F Variable</u>
P-1	A-1+	250 bp	7.00%
-	A-1	350 bp	7.50%
P-2	A-2	550 bp	8.00%
Lower than P-2 (or rating withdrawn for credit reasons)	Lower than A-2 (or rating withdrawn for credit reasons)	Maximum Interest Rate	Maximum Interest Rate

If the individual Prevailing Ratings indicate different E or F variables as a result of split ratings assigned to DART, the E or F variable shall be the arithmetic average of those indicated by the Prevailing Ratings. If another credit rating agency becomes a Rating Agency, the Issuing and Paying Agent shall, upon written direction of DART's Authorized Representative, following consultation with DART's Authorized Representative and each Dealer, determine how the agency's rating categories shall be treated for the purpose of indicating an *E* or *F* variable.

Redemption Provisions

Series III Notes are not subject to redemption prior to the Original Maturity Date. Upon extension of the Original Maturity Date to the Extended Maturity Date, Series III Notes shall, after being extended, be subject to redemption at 100% of the principal thereof at the option of DART in accordance with the terms of the Resolution. To exercise its redemption option, DART shall provide not less than 5 nor more than 25 calendar days' notice to the Issuing and Paying Agent. The Issuing and Paying Agent will notify the applicable securities depository of the Series III Notes to be redeemed within one business day of receipt of such notice. Failure to pay the principal of and accrued but unpaid interest on Series III Notes on the Extended Maturity Date shall be an event of default under the Resolution. See "Article VII – Eighteenth Supplement – Events of Default and Remedies".

SECURITY FOR SERIES III NOTES

Sources of Repayment

The Series III Notes are payable from and are secured by a pledge of and lien on the following, subject to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth therein: (i) the proceeds from the sale of other Series III Notes from time to time issued to pay the principal amount of outstanding Series III Notes; (ii) the proceeds from the sale of Senior Lien Bonds or other obligations issued by DART, if any, from time to time for the purpose of paying the principal and interest on the Series III Notes, (iii) proceeds held in the Note Payment Fund for the Series III Notes, and (iv) certain Pledged Farebox Revenues that are junior and subordinate to Senior Lien Obligations. The lien on Pledged Revenues is on a parity with other Senior Subordinate Lien Obligations, including currently outstanding commercial paper notes and additional commercial paper notes, we may issue in the future. For additional information regarding the Sales Tax and Gross Sales Tax Revenues, see the Annual Disclosure Statement, "OUTSTANDING OBLIGATIONS AND OUR FINANCING PLANS—Security for the Obligations—Flow of Funds."

Pursuant to the provisions of the Seventh Supplemental Debt Resolution authorizing the issuance of our Senior Lien Sales Tax Revenue Bonds, Taxable Series 2010B (Build America Bonds – Direct Payment to Issuer) (the "Series 2010B Bonds"), we pledged the Pledged Farebox Revenues as security for all of the Obligations, including the Series III Notes. The Pledged Farebox Revenues include all fares collected by or on behalf of DART for its bus, rail and paratransit services in an amount equal to 97.3% of the debt service accruing on the Series 2010B Bonds after deducting the 35% federal subsidy applicable to such bonds.

Liquidity Support

The Board has elected not to enter into any liquidity agreements at this time. Timely payment of principal and interest on maturing Series III Notes is therefore dependent on the Board's receipt of sufficient Pledged Revenues and on the ability of the Board to sell rollover Series III Notes or issue refunding bonds.

Notices and Consents

The Eighteenth Supplement provides that DART shall give to each credit rating agency that has issued a rating on the Series III Notes notice of the following: (a) material changes to Eighteenth Supplement or related documents authorizing the issuance of the Series III Notes; (b) any change of the Issuing and Paying Agent; and (c) a determination by DART that the Program has been terminated.

Defeasance

Under the Resolution, Series III Notes shall be treated as Defeased Debt when, among other things, there shall have been irrevocably deposited with an eligible bank or trust company noncallable Government Obligations which mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to provide for the payment of all principal and interest with respect to such Series III Notes to the due date or dates thereof. The Resolution also provides that, with respect to a defeasance of Series III Notes, the term "Government Obligations" shall mean (i) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of the purchase thereof are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the financial arrangements are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent.

BOOK-ENTRY SYSTEM

The information in this Section concerning DTC and DTC's Book-Entry system has been obtained from the Depository Trust Company. DART and the Board take no responsibility for the accuracy thereof.

The Depository Trust Company ("DTC"), New York, NY, acts as securities depository for the Series III Notes. The Series III Notes are 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 Note certificate has been and will be issued for each series of the Series III Notes, each in the aggregate principal amount of such issue and has been deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both

U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

To facilitate subsequent transfers, all Series III Notes 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 III Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series III Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series III Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series III Notes unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to DART 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 Series III Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series III Notes 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 DART or the Issuing and Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Series III Notes held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Issuing and Paying Agent, or DART, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of DART or the Issuing and Paying Agent; disbursement of such payments to Direct Participants will be the responsibility of DTC; and reimbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series III Notes at any time by giving reasonable notice to DART or the Issuing and Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, certificates are required to be printed and delivered.

DART may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Note certificates will be printed and delivered.

Use of Certain Terms in Other Sections of this Offering Memorandum. In reading this Offering Memorandum it should be understood that while the Series III Notes are in the Book-Entry-Only System, references in other sections of this Offering Memorandum to registered owners should be read to include the person for which the Participant acquires an interest in the Series III Notes, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only-System, and (ii) except as described above, notices that are to be given to registered owners under the Resolution will be given only to DTC.

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, DART or the Dealer.

Issuing and Paying Agent

The initial Issuing and Paying Agent is Zions Bancorporation, National Association (formerly Amegy Bank National Association). In the Resolution, DART retains the right to replace the Issuing and Paying Agent. DART covenants to maintain and provide an Issuing and Paying Agent at all times until the Series III Notes are duly paid and any successor Issuing and Paying Agent shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Issuing and Paying Agent for the Series III Notes. Upon any change in the Issuing and Paying Agent for the Series III Notes, DART agrees to promptly cause a written notice thereof to be sent to each registered owner of the Series III Notes by United States mail, first class, postage prepaid, which notice shall also give the address of the new Issuing and Paying Agent.

Transfer, Exchange And Registration

In the event the Book-Entry-Only-System should be discontinued, the Series III Notes will be printed and delivered to the beneficial owners thereof, and thereafter the Series III Notes may be transferred and exchanged on the registration books of the Issuing and Paying Agent only upon presentation and surrender to the Issuing and Paying Agent and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Series III Notes may be assigned by the execution of an assignment form on the respective Series III Notes or by other instrument of transfer and assignment acceptable to the Issuing and Paying Agent. New Series III Notes will be delivered by the Issuing and Paying Agent, in lieu of the Notes being transferred or exchanged, at the designated office of the Issuing and Paying Agent, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Series III Notes issued in an exchange or transfer of Series III Notes will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Series III Notes to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Issuing and Paying Agent. New Series III Notes registered and delivered in an exchange or transfer shall be in denominations of \$100,000 and integral multiple of \$1,000 in excess thereof and for a like aggregate designated amount as the Series III Notes surrendered for exchange or transfer. See "THE SERIES III NOTES – Book-Entry-Only-System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Series III Notes.

Limitation on Transfer of Notes

The Issuing and Paying Agent shall not be required to make any transfer, conversion or exchange (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or, (ii) with respect to any Series III Note or any portion thereof called, or being called, for redemption prior to maturity.

Payment of Interest

Each Series III Note shall bear interest at the original rate from its issue date to its Original Maturity Date and shall be payable on the Original Maturity Date. Principal and accrued interest shall be payable on the Original Maturity Date, unless DART exercises its option to extend the Original Maturity Date to the Extended Maturity Date. If DART exercises its option to extend the maturity date of an Series III Note, accrued interest from the issue date to the Original Maturity Date shall be paid on the Original Maturity Date, and the Series III Note shall bear

interest from its Original Maturity Date at the Extended Rate, and no additional interest shall accrue on the accrued but unpaid interest from the issue date to the Original Maturity Date.

If an Series III Note is extended to the Extended Maturity Date, and the Original Maturity Date is before the 15th day of the month, interest shall be payable on the first business day of the next month and on the first business day of each month thereafter and on the Extended Maturity Date for such Series III Note. If an Series III Note is extended to the Extended Maturity Date, and the Original Maturity Date is on or after the 15th day of the month, interest shall be payable on the first business day of the second succeeding month and on the first business day of each month thereafter and on the Extended Maturity Date for such Series III Note.

Noteholders' Remedies

The Resolution defines "Event of Default" with respect to the Series III Notes as any of the following: (a) a failure by DART to pay the principal of any Series III Note for five Business Days after the date the same shall have become due and payable on an Extended Maturity Date; (b) a failure by DART to pay any installment of interest on any Series III Notes for five Business Days after the date such interest shall have become due and payable on the Original Maturity Date or an Extended Maturity Date; (c) a failure by DART to apply the proceeds of Refunding Bonds to the payment of maturing Series III Notes on the applicable Extended Maturity Date; (d) a failure by DART to observe and perform any covenant, condition, agreement or provision (other than as specified in clauses (a) and (b) of this paragraph) contained in the Series III Notes or in the Resolution on the part of DART to be observed or performed, which materially, adversely affects the rights of the registered owner of the Series III Notes, including, but not limited to, their prospect or ability to be repaid in accordance with the Resolution and which failure shall continue for a period of 60 days after written notice, specifying such failure and requesting that it be remedied, shall have been given to DART by a Dealer, the Issuing and Paying Agent or any registered owner of the Series III Notes; (e) bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, including, without limitation, proceedings under the United States Bankruptcy Code (as the same may from time to time be hereafter amended), or other proceedings for relief under any federal or State bankruptcy law or similar law for the relief of debtors are instituted by DART; or (f) the occurrence of any other Event of Default as is provided in an amended and restated Resolution.

Upon the occurrence of an Event of Default the registered owners may seek a writ of mandamus to compel DART or DART officials to carry out the legally imposed duties with respect to the Series III Notes if there is no other available remedy at law to compel performance of the Series III Notes or the Resolution and DART's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Series III Notes in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year.

The Resolution does not provide for the appointment of a trustee to represent the interest of the Series III Noteholders upon any failure of DART to perform in accordance with the terms of the Resolution, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3rd 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the DART's sovereign immunity from a suit for money damages, Series III Noteholders may not be able to bring such a suit against DART for breach of the Series III Notes or Resolution covenants in the absence of DART action. Chapter 1371, Texas Government Code ("Chapter 1371"), which pertains to the issuance of public securities by issuers such as DART, permits DART to waive sovereign immunity in the proceedings authorizing its bonds, but in connection with the issuance of the Series III Notes, DART has not waived sovereign immunity.

Even if a judgment against DART could be obtained, it could not be enforced by direct levy and execution against DART's property. Further, the registered owners cannot themselves foreclose on property within DART or sell property within DART to enforce the tax lien on taxable property to pay the principal of and interest on the Series III Notes. Furthermore, DART is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, such provision is subject to judicial construction. Chapter 9 also includes an automatic

stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Series III Noteholders of an entity which has sought protection under Chapter 9. Therefore, should DART avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it.

The opinion of Co-Bond Counsel will note that all opinions relative to the enforceability of the Series III Notes are qualified with respect to the customary rights of debtors relative to their creditors.

INVESTMENT CONSIDERATIONS

The following information, which you should carefully consider, identifies certain investment considerations associated with the purchase of Series III Notes. You should also carefully consider the information set forth under “INVESTMENT CONSIDERATIONS” in the Annual Disclosure Statement.

The lien on Pledged Revenues that secures the Series III Notes is subordinate to the lien securing Senior Lien Obligations. We currently have outstanding approximately \$3.21 billion in principal amount of Senior Lien Obligations. See the Annual Disclosure Statement, “OUTSTANDING OBLIGATIONS AND OUR FINANCING PLANS,” and “General Information About DART—Future Debt,” herein.

The Master Debt Resolution permits us to issue Additional Senior Lien Obligations only if we can satisfy the financial tests and limitations contained in the Master Debt Resolution, and in Supplemental Resolutions. The subordination of the Series III Notes to Senior Lien Obligations increases the likelihood that Holders of Senior Lien Obligations will regularly receive the full amount of scheduled payments of principal and interest due them, and it protects the Holders of Senior Lien Obligations against potential losses. Under the Master Debt Resolution, if our Gross Sales Tax Revenues are not sufficient to pay the principal of and/or interest on both the Senior Lien Obligations and on the Series III Notes, we will use such revenues first to pay the Holders of Senior Lien Obligations. **There is no credit agreement or other third party agreement that provides credit support or liquidity for the Series III Notes.** See in the Annual Disclosure Statement, “OUTSTANDING OBLIGATIONS AND OUR FINANCING PLANS—Security for the Obligations—Flow of Funds.”

Deposits of Gross Sales Tax Revenues to the Senior Subordinate Lien Debt Service Fund are made and accumulated as such revenues are received from the Comptroller. The principal of the Series III Notes is payable first from the proceeds of the sale of additional installments of Series III Notes. Such proceeds are deposited to the Issuing and Paying Agent Fund and are used to pay the principal of the Series III Notes. While that procedure is in effect, deposits to the Senior Subordinate Lien Debt Service Fund on account of the principal of the Series III Notes are not required. If (1) we cannot market additional installments of Series III Notes, and (2) we do not otherwise make payment from unencumbered funds, and (3) we have not arranged for a timely refinancing of the amounts due, an Event of Default will occur under the Master Debt Resolution. In this circumstance, payment of the Series III Notes will be delayed until the Trustee accumulates in the Senior Subordinate Lien Debt Service Fund, from future distributions of Gross Sales Tax Revenues from the Comptroller, amounts of Gross Sales Tax Revenues that are sufficient to make full payment of the matured and unpaid Series III Notes. Such accumulation must be made in accordance with the lien priorities established in the Master Debt Resolution. See, “THE COMMERCIAL PAPER NOTES—Uses of Proceeds of Series III Notes.”

The Budget Control Act of 2011 which went into effect as of March 1, 2013, has resulted in the sequestration of the federal Build America Bond Subsidy DART was entitled to receive with respect to Senior Lien Sales Tax Revenue Bonds, Series 2009B and its Senior Lien Sales Tax Revenue Bond, Series 2010B. The percentage of the sequestration has varied over the ensuing years with the sequestration for Fiscal Year 2018 being 6.2% or \$1.89 million. DART’s annual formula funds of approximately \$52 million in Fiscal Year 2018 are exempt from sequestration. Overall DART does not anticipate that sequestration will have a material adverse impact on its cash flow and will not materially impact on its ability to provide service to our customers.

The Master Debt Resolution permits us to issue Additional Senior Lien Obligations only if we can satisfy the financial tests and limitations contained in the Master Debt Resolution, in Supplemental Resolutions, and in Credit

Agreements. The subordination of the Series III Notes to Senior Lien Obligations increases the likelihood that Holders of Senior Lien Obligations will regularly receive the full amount of scheduled payments of principal and interest due them, and it protects the Holders of Senior Lien Obligations against potential losses. Under the Master Debt Resolution, if our Gross Sales Tax Revenues are not sufficient to pay the principal of and/or interest on both the Senior Lien Obligations and on the Series III Notes, we will use such revenues first to pay the Holders of Senior Lien Obligations. **There is no credit agreement or other third party agreement that provides credit support or liquidity for the Series III Notes.** See in the Annual Disclosure Statement, “OUTSTANDING OBLIGATIONS AND OUR FINANCING PLANS—Security for the Obligations—Flow of Funds.”

Ratings

The Series III Notes are currently rated by nationally recognized rating agencies, as shown below. A rating reflects the rating agency’s assessment of how likely it is that holders of a class of securities will receive the payments to which they are entitled. A rating may not remain in effect for any given period of time, and a rating agency may lower or withdraw a rating entirely. A rating is not a recommendation to purchase, hold, or sell securities because it does not address the market price of the securities or the suitability of the securities for any particular investor.

RATINGS

Moody’s Investors Service	P-1 (short-term rating of Series III Notes)
S&P Global Ratings	A-1+ (short-term rating of Series III Notes)

An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations. We make no representation as to the appropriateness of the ratings. We can provide no assurance that such ratings will continue for any given period of time or that they will not be revised or withdrawn entirely by any or all rating companies, if in the judgment of any or all companies, circumstances so warrant. Any downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of such the Series III Notes.

CONTINUING DISCLOSURE AND ACCESS TO INFORMATION

The offering and sale of the Series III Notes are exempt from the rules of the Securities and Exchange Commission relating to the continuing disclosure of annual financial and operating information and certain material events.

TAX MATTERS

In General

The following discussion is a summary of certain expected material Federal income tax consequences of the purchase, ownership and disposition of the Series III Notes and is based on the Internal Revenue Code of 1986, as amended (the “Code”), the regulations promulgated thereunder, published rulings and pronouncements of the Internal Revenue Service (“IRS”) and court decisions currently in effect (“Existing Law”). There can be no assurance that the IRS will not take a contrary view, and no ruling from the IRS, has been, or is expected to be, sought on the issues discussed herein. Any subsequent changes or interpretations may apply retroactively and could affect the opinion and summary of Federal income tax consequences discussed herein.

The following discussion is not a complete analysis or description of all potential U.S. federal tax considerations that may be relevant to, or of the actual tax effect that any of the matters described herein will have on particular holders of the Taxable Series III Notes and the Tax Exempt Series III Notes and does not address U.S. federal gift or estate tax or (as otherwise stated herein) the alternative minimum tax, state, local or other tax consequences. This summary does not address special classes of taxpayers (such as partnerships, or other pass-thru entities treated as a partnerships for U.S. federal income tax purposes, S corporations, mutual funds, insurance companies, financial institutions, small business investment companies, regulated investment companies, real estate investment trusts,

grantor trusts, former citizens of the U.S., broker-dealers, traders in securities and Tax Exempt organizations, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be subject to or personal holding company provisions of the Code or taxpayers qualifying for the health insurance premium assistance credit) that are subject to special treatment under U.S. federal income tax laws, or persons that hold Series III Notes as a hedge against, or that are hedged against, currency risk or that are part of hedge, straddle, conversion or other integrated transaction, or persons whose functional currency is not the "U.S. dollar". This summary is further limited to investors who will hold the Series III Notes as "capital assets" (generally, property held for investment) within the meaning of Section 1221 of the Code. This discussion is based on Existing Law which is subject to change or modification, retroactively.

As used herein, the term "U.S. Holder" means a beneficial owner of an Series III Note who or which is: (i) an individual citizen or resident of the United States, (ii) a corporation or partnership created or organized under the laws of the United States or any political subdivision thereof or therein, (iii) an estate, the income of which is subject to

U.S. Federal income tax regardless of the source; or (iv) a trust, if (a) a court within the U.S. is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (b) the trust validly elects to be treated as a U.S. person for U.S. Federal income tax purposes. As used herein, the term "Non-U.S. Holder" means a beneficial owner of an Series III Note that is not a U.S. Holder.

THIS SUMMARY IS INCLUDED HEREIN FOR GENERAL INFORMATION ONLY AND DOES NOT DISCUSS ALL ASPECTS OF THE U.S. FEDERAL INCOME TAXATION THAT MAY BE RELEVANT TO A PARTICULAR HOLDER OF SERIES III NOTES IN LIGHT OF THE HOLDER'S PARTICULAR CIRCUMSTANCES AND INCOME TAX SITUATION. PROSPECTIVE HOLDERS OF THE SERIES III NOTES SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE SERIES III NOTES BEFORE DETERMINING WHETHER TO PURCHASE THE SERIES III NOTES. THE FOLLOWING DISCUSSION IS NOT INTENDED OR WRITTEN TO BE USED TO AVOID PENALTIES THAT MIGHT BE IMPOSED ON THE TAXPAYER IN CONNECTION WITH THE MATTERS DISCUSSED THEREIN. INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX IMPLICATIONS OF RECENTLY ENACTED LEGISLATION OR THE PURCHASE, OWNERSHIP OR DISPOSITION OF THE BONDS UNDER APPLICABLE STATE OR LOCAL LAWS, OR ANY OTHER TAX CONSEQUENCE.

FOREIGN INVESTORS SHOULD ALSO CONSULT THEIR OWN TAX ADVISORS REGARDING THE TAX CONSEQUENCES UNIQUE TO NON-U.S. HOLDERS.

Information Reporting and Backup Withholding

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Series III Notes will be sent to each registered holder and to the IRS. Payments of interest and principal may be subject to withholding under sections 1471 through 1474 or backup withholding under Section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

Opinions

Taxable Series III Notes. Co-Bond Counsel to DART will render their respective opinions that the Taxable Series III Notes are not obligations described in Section 103(a) of the Code. Accordingly the stated interest paid or original issue discount, if any, accrued on the Taxable Series III Notes will be included in "gross income" within the meaning of section 61 of the Code of the owners and be subject to Federal income taxation when received or accrued, depending

upon the tax accounting method applicable to the owner thereof. See Appendix C-Form of Opinions of Co-Bond Counsel.

Tax Exempt Series III Notes. Co-Bond Counsel to DART will render their respective opinions that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Tax Exempt Series III Notes for Federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Tax Exempt Series III Notes are not "specified private activity bonds" within the meaning of section 57(a)(5) of the Code. Except as stated above, Co-Bond Counsel to DART will express no opinion as to any other Federal, state or local tax consequences of the purchase, ownership or disposition of the Series III Notes. See Appendix C - Form of Opinion of Co-Bond Counsel.

The opinions of Co-Bond Counsel may be relied upon for Tax Exempt Series III Notes issued after the date of issuance until a date on which a new opinion relating to the matters covered in the initial opinions related to the Tax-Exempt Series III Notes. Such initial opinions may be relied upon to the extent that after the date of issuance of the Tax-Exempt Series III Notes (i) there is no change in applicable existing Federal or State law; (ii) the provisions of the Resolution in so far as the provisions affect the term and conditions pursuant to which the Tax Exempt Series III Notes are issued and held have not been materially amended or supplemented; (iii) the representations and covenants of the parties contained in the Resolution, the Issuing and Paying Agent Agreement, the Federal tax certificates and certain other certificates dated the date of the opinions of Co-Bond Counsel remain true and accurate and are complied with in all material respects; and, (iv) no litigation affecting the issuance and validity of the Tax Exempt Series III Notes are pending at the time of delivery of any such Series III Notes.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Tax Exempt Series III Notes in order for interest on the Tax Exempt Series III Notes to be, and to remain excludable from gross income for Federal income tax purposes. In rendering their respective opinions, Co-Bond Counsel to DART will rely upon and assume compliance with covenants of DART contained in the Tax Exempt Series III Note documents relating to such requirements, including arbitrage and the use of the proceeds of the Tax Exempt Series III Notes and the property financed or refinanced therewith. Failure by DART to observe the aforementioned covenants relating to such requirements could cause the interest on the Tax Exempt Series III Notes to become taxable retroactively to the date of issuance. The opinions of Co-Bond Counsel to DART assume compliance by DART with such requirements, and Co-Bond Counsel to DART has not been retained to monitor compliance with these covenants and requirements subsequent to the date of issuance of its opinions.

Co-Bond Counsel's opinions regarding the Tax Exempt Series III Notes represents their legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Co-Bond Counsels opinions related to the Tax Exempt Series III Notes are not a guarantee of a result. Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Tax Exempt Series III Notes. Each Co-Bond Counsel assumes no obligation to update its opinion after the date hereof to reflect any future action, fact or circumstance or change in law or interpretation, or otherwise. Each Co-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 Tax Exempt Series III Notes, or under state and local tax law.

Collateral Federal Income Tax Consequences

Taxable Series III Notes. Each Taxable Series III Note is a "short-term obligation" for Federal income tax purposes and, as such, it is subject to special rules contained in sections 1281 through 1283 of the Code if such Taxable Series III Note (a "Section 1281 Bond") is (i) held by an accrual method taxpayer, bank, regulated investment company, common trust fund or certain types of pass-through entities, (ii) held primarily for sale to customers, (iii) identified under section 1256(e)(2) as part of a hedging transaction, or (iv) a stripped bond or coupon and held by the person responsible for the underlying stripping transaction. Interest on, and "acquisition discount" with respect to a Section 1281 Bond accrues on a ratable, straight-line basis, unless elected by a U.S. Holder to be accrued on a constant yield basis. For purposes of the preceding sentence, the term "acquisition discount" means the excess

of the stated redemption price of a Section 1281 Bond which is payable at maturity over the holder's tax basis therefor.

A U.S. Holder of a Taxable Series III Note not described in the preceding paragraph, including a cash method taxpayer, must report interest income in accordance with its own regular method of tax accounting. In the absence of an irrevocable election to accrue discount income currently, no accrual of acquisition discount is required by such a holder.

Tax Exempt Series III Notes. Under section 6012 of the Code, U.S. Holders of Tax Exempt obligations, such as the Tax Exempt Series III Notes, may be required to disclose interest received or accrued during each taxable year on their returns of Federal income taxation.

In Notice 94-84, 1994-2 C.B. 559, the IRS has generally provided that until further guidance is given on how to treat stated interest payable at maturity on short-term Tax Exempt bonds, taxpayers may treat such interest either as includible in the stated redemption price at maturity of the bond or as qualified stated interest for all Tax Exempt bonds issued after April 4, 1994. Taxpayers should consult their own tax advisors with respect to the tax consequences of purchase, ownership and disposition of Tax Exempt Series III Notes.

Future and Proposed Legislation

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 Tax Exempt Series III Notes under Federal or state law and could affect the market price or marketability of the Tax Exempt Series III Notes. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for Tax Exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Series III Notes should consult their own tax advisors regarding the foregoing matters.

APPROVALS AND LEGAL OPINIONS

In connection with the issuance of the Series III Notes we received an opinion of the Attorney General of Texas approving the proceedings authorizing the Series III Notes pursuant to the Master Debt Resolution and the Eighteenth Supplemental Debt Resolution.

All legal matters incident to the legality and enforceability of the Series III Notes are subject to the approval of Bracewell LLP, Dallas, Texas, McCall, Parkhurst & Horton LLP, Dallas, Texas, and West & Associates, L.L.P., Dallas, Texas, our Co-Finance Counsel and Co-Bond Counsel.

Our Co-Bond Counsel have reviewed the information describing the Obligations in the Annual Disclosure Statement and the information describing the Series III Notes contained in this Offering Memorandum to verify that such information conforms to the provisions of the Master Debt Resolution and the Eighteenth Supplemental Debt Resolution.

AUTHORIZATION OF OFFERING MEMORANDUM

The execution and distribution of this Offering Memorandum have been duly authorized by DART.

/s/ Sue S. Bauman

Chair, Board of Directors

ATTEST:

/s/ Michele Wong Krause

Secretary, Board of Directors

/s/ Gary C. Thomas

President/Executive Director, Dallas Area Rapid Transit

APPENDIX A

SUMMARY OF CERTAIN TERMS OF THE EIGHTEENTH SUPPLEMENTAL DEBT RESOLUTION

A Table of Contents and brief descriptions of certain provisions of the Eighteenth Supplemental Debt Resolution are included in the following pages of this Appendix A. The descriptions are not intended to be comprehensive or complete but are to be used as a guide to the full provisions of the Eighteenth Supplemental Debt Resolution. Unless otherwise indicated, references in this Appendix A to the “Eighteenth Supplemental Debt Resolution,” are to the Eighteenth Supplemental Debt Resolution. The full and complete text of the Eighteenth Supplemental Debt Resolution may be obtained directly from us without cost at the address given in the text of this document, and it may be viewed on the Internet at our website, www.dart.org. See, “IMPORTANT NOTICES.” Specific Article and Section numbers are identified in “italics” throughout this Summary.

NEEDS UPDATING

[APPENDIX A

**SUMMARY OF CERTAIN TERMS OF THE
EIGHTEENTH SUPPLEMENTAL DEBT RESOLUTION**

DEFINITIONS AND OTHER PRELIMINARY MATTERS

{Article I}

Definitions {Section 1.2}

The following are definitions of certain terms used in this Summary. Unless otherwise noted Section references are to the Eighteenth Supplemental Debt Resolution. Capitalized terms used in this Summary that are not defined herein have the meanings given to such terms in the Master Debt Resolution. See Appendix B to the Annual Disclosure Statement—"SUMMARY OF CERTAIN TERMS OF THE MASTER DEBT RESOLUTION—Definitions."

The term "*Act*" shall mean, Chapter 452, Texas Transportation Code, as amended.

The terms "*Authorized Officer*" shall mean President/Chief Executive Officer, the Chief Financial Officer, Treasurer, and the Assistant Treasurer of DART, including any successor thereto or person holding any such position on an acting or interim basis.

The term "*Board*" shall mean the Board of Directors of DART.

The term "*Business Day*" shall mean any day which is not a Saturday, Sunday, legal holiday, or a day on which banking institutions in the City of Dallas, Texas, The City of New York, New York or in the city where the Designated Trust Office of the Paying Agent/Registrar is located are authorized by law or executive order to close.

The term "*Code*" shall mean the Internal Revenue Code of 1986, as amended.

The terms "*Series III Note*" shall mean any Taxable Series III Note or Tax-Exempt Series III Note issued pursuant to the provisions of the Master Resolution and this Eighteenth Supplemental Debt Resolution, with a final maturity, whether extended or not as described herein, of not more than 270 calendar days from the Issue Date and having the terms and characteristics specified in Section 2.02 and in the forms set forth in Exhibit B to this Eighteenth Supplemental Debt Resolution.

The term "*Dealer*" shall mean, initially Morgan Stanley and Co. LLC for as long as such firm acts as a dealer for the Board, and each dealer appointed by the Board pursuant to Section 3.04 hereof and any successor thereto.

The term "*Designated Trust Office*" shall have the meaning given said term in Section 2.03(a) of this Eighteenth Supplemental Debt Resolution.

The term "*DTC*" shall mean The Depository Trust Company, New York, New York, or any successor securities depository.

The term "*DTC Participant*" shall mean securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations on whose behalf DTC was created to hold securities to facilitate the clearance and settlement of securities transactions among DTC Participants.

The term "*Eighteenth Supplemental Debt Resolution*" shall mean this resolution adopted by the Board on November 13, 2018, authorizing the Series III Notes.

The term "*Eligible Project*" shall mean the acquisition, purchase, construction, improvement, enlargement, and/or equipping of any property, program or improvement authorized by Applicable Law for, on behalf of or as part of DART.

The term "*Extended Maturity Date*" shall mean, for each Series III Note, the date specified in the Issuance Request as the maturity date to which the maturity of such Series III Note may be extended, which maturity date shall be a Business Day (which shall be specified in the confirmation sent to the Holder of the Series III Note); provided, that an Extended Maturity Date shall not be established in violation of the provisions of Section 2.02(a) or 2.02(b) of this Eighteenth Supplemental Debt Resolution.

The term "*Extended Rate*" shall mean the rate of interest per annum determined by the following formula:

For Tax-Exempt Series III Notes: [The greater of (SIFMA Index + *E*) or *F*]

For Taxable Series III Notes: [The greater of (LIBOR Index + *E*) or *F*]

The Extended Rate applicable to a Series III Note will be determined by the Issuing and Paying Agent as provided in Section 2.02(c) of this Eighteenth Supplemental Debt Resolution. As used in the formula set forth above in this definition, the *E* and *F* variables shall be the fixed percentage rates, expressed in basis points and yields, respectively, determined based on the Prevailing Ratings of Moody's and S&P, if then rating the Series III Notes at the request of DART, as follows:

Prevailing Rating

<u>Moody's</u>	<u>S&P</u>	<u>E Variable</u>	<u>F Variable</u>
P-1	A-1+	250 bps	7.00%
-	A-1	350 bps	7.50%
P-2	A-2	550 bps	8.00%
Lower than P-2 (or rating withdrawn for credit reasons)	Lower than A-2 (or rating withdrawn for credit reasons)	Max Rate	Max Rate

If the individual Prevailing Ratings indicate different *E* or *F* variables as a result of split ratings assigned to the Series III Notes, the *E* or *F* variable shall be the arithmetic average of those indicated by the Prevailing Ratings. If DART obtains another rating on the Series III Notes from a credit rating agency, the Issuing and Paying Agent shall, upon written direction of the Authorized Officer, following consultation with the Authorized Officer and the Dealer, determine how the credit rating agency's rating categories shall be treated for the purpose of indicating an *E* or *F* variable. In no event shall the Extended Rate exceed the Maximum Interest Rate.

The term "*Extension Request*" shall mean the instructions provided to the Issuing and Paying Agent and the Dealer by an Authorized Officer to extend the Original Maturity Date of a Series III Note to an Extended Maturity Date, in substantially the form set forth in Exhibit D to this Eighteenth Supplemental Debt Resolution.

The terms "*Holder*" or "*Noteholder*" shall mean the Registered Owner or any person, firm, association, or corporation who is in possession of any Series III Note issued to bearer or in blank.

The term "*Issuance Request*" shall mean the instructions provided to the Issuing and Paying Agent by an Authorized Officer in the manner set forth in Section 3.01 of this Eighteenth Supplemental Debt Resolution.

The terms "*Issuing and Paying Agent*" and "*Paying Agent*", "*Paying Agent/Registrar*" and "*Registrar*" shall mean with respect to the Series III Notes the agent appointed pursuant to Section 2.03, or any successor to such agent.

The term "*LIBOR Index*" means for any date the London interbank offered rate for U.S. dollar deposits for a one-month period, as reported on the Reuters Screen LIBOR01 Page (or any successor) as of 11:00 a.m., London time, on the second Business Day preceding such date. If LIBOR Index has been permanently discontinued, the Dealer will use, as a substitute for LIBOR Index and for each future interest rate calculation, the alternative reference rate selected by the central bank, reserve bank, monetary authority or any similar institution (including any committee or working group thereof) that is consistent with accepted market practice. As part of such substitution, the Dealer will, after consultation with DART, make such adjustments to such alternate rate or the spread thereon, as well as the business day convention, and related provisions and definitions, in each case that are consistent with accepted market practice for the use of such alternate rate for debt obligations such as such the Series III Notes.

The term "*Master Notes*" shall mean the DTC master notes, in substantially the forms set forth in Exhibit C to this Eighteenth Supplemental Debt Resolution.

The term "*Master Resolution*" shall mean the "Master Debt Resolution," adopted by the Board on January 23, 2001 as amended.

The term "*Maximum Interest Rate*" or "*Max Rate*" shall mean the lesser of: (i) nine percent (9%) per annum and (ii) the maximum net effective interest rate permitted by law to be paid on obligations issued or incurred by the Board in the exercise of its borrowing powers (prescribed by Chapter 1204, Texas Government Code, as amended).

The term "*Maximum Maturity Date*" shall mean fortieth (40th) anniversary of the date of passage of this Eighteenth Supplemental Debt Resolution.

The term "*Maximum Original Maturity Days*" means 90 calendar days or such lesser number of days specified in an Issuance Request.

The term "*Moody's*" shall mean Moody's Investors Service or, if such entity is dissolved or liquidated or otherwise ceases to perform securities rating services, such other nationally recognized securities rating agency as may be designated in writing by the Board.

The term "*Note Date*" shall have the meaning given in Section 2.02(c).

The term "*Note Payment Fund*" shall mean that fund created pursuant to Section 2.08.

The term "*Original Maturity Date*" shall mean, for each Series III Note, the date specified in the Issuance Request and in confirmation sent to the Holder of such Series III Note as the date of maturity of the Series III Note; provided that the Original Maturity Date shall be a Business Day not less than 1 day and not greater than the Maximum Original Maturity Days from the Issue Date, and shall not extend beyond the Maximum Maturity Date.

The term "*Original Rate*" shall mean, for each Series III Note, the rate of interest per annum borne by such Series III Note to the Original Maturity Date as specified in the applicable Issuance Request.

The term "*Project Costs*" shall mean all costs and expenses incurred in relation to Eligible Projects, including without limitation design, planning, engineering and legal costs, acquisition costs of land, interests in land, right of way and easements, construction costs, costs of machinery, equipment, and other capital assets incident and related to an Eligible Project, financing costs, (including the payment of any previously or subsequently issued Senior Subordinate Lien Obligations, the proceeds of which were used to finance Project Costs), interest during construction and thereafter, underwriter's discount and/or fees, legal, financial, and other professional services, and reimbursement for such Project Costs attributable to Eligible Projects incurred prior to the issuance of any Series III Notes.

The term "*Prevailing Rating*" shall mean, at the time of determination and with respect to each Rating Agency then providing a rating on the Series III Notes at the request of DART, the rating assigned to the Series III Notes by such Rating Agency, or any comparable future designation by such Rating Agency, as the case may be.

The term "*Rating Agency*" shall mean Moody's and S&P, if such entity is then providing a rating on the Series III Notes at the request of DART.

The term "*Registered Owner*" shall mean the person or entity in whose name any Series III Note is registered in the Registration Books.

The term "*Registration Books*" shall mean books or records relating to the registration, payment, and transfer or exchange of the Series III Notes maintained by the Issuing and Paying Agent pursuant to Section 2.03.

The term "*Regulations*" shall mean all applicable temporary, proposed and final regulations and procedures promulgated under the Code or promulgated under the Internal Revenue Code of 1954, to the extent applicable to the Code.

The term "*S&P*" shall mean S&P Global Ratings, a Standard & Poor's Financial Services LLC business, or, if such entity is dissolved or liquidated or otherwise ceases to perform securities rating services, such other nationally recognized securities rating agency as may be designated in writing by the Board.

The term "*SIFMA*" means the Securities Industry and Financial Markets Association.

The term "*SIFMA Index*" means (i) the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data and published or made available by SIFMA or any person acting in cooperation with or under the sponsorship of SIFMA or (ii) if such index is not published, such other publicly available rate as the Dealer (or if the Dealer fails to do so, DART, acting through an Authorized Officer) shall deem most nearly equivalent thereto. Such index may be expressed as a percentage of (more or less than, or equal to, 100%) and/or a fixed spread to another index.

The term "*Taxable Series III Note*" shall mean a Series III Note issued pursuant to the provisions of the Master Resolution and this Eighteenth Supplemental Debt Resolution, the interest on which is not exempt from federal income taxation under the Code.

The term "*Taxable Series III Note Payment Account*" shall mean the account created pursuant to Section 2.08.

The term "*Tax-Exempt Series III Note*" shall mean a Series III Note issued pursuant to the provisions of the Master Resolution and this Eighteenth Supplemental Debt Resolution, the interest on which is exempt from federal income taxation under the Code.

The term "*Tax-Exempt Series III Note Payment Account*" shall mean the account created pursuant to Section 2.08. The Series III Notes are Bond Obligations that are Senior Subordinate Lien Obligations authorized by Section 3.03(c) of, and are Interim Obligations under, the Master Debt Resolution. The Series III Notes Senior Subordinate Lien Obligations, and, together with related Administrative Expenses, are secured solely by the lien on and pledge of the Pledged Revenues as Senior Subordinate Lien Obligations. DART may, but is not obligated, to pay such Obligations from other legally available funds, including the proceeds of Obligations and amounts held in the General Operating Fund.

PURPOSES, PLEDGE AND SECURITY

{Article II}

Purpose of the Eighteenth Supplemental Debt Resolution {Section 2.01}

The purposes of the Eighteenth Supplemental Debt Resolution are to prescribe the specific terms of the Series III Notes, to extend expressly the pledge, lien and security of Master Debt Resolution to and for the benefit of the Holders of the Series III Notes, as Senior Subordinate Lien Obligations, and to authorize the sale and resale of the Series III Notes pursuant to the Dealer Agreements.

Pledge, Security for and Sources of Payment of Series III Notes {Section 2.2}

The pledge, the security and the filing provisions of Sections 2.03, 2.04, and 2.05, respectively, of the Master Debt Resolution are restated and granted to the Holders of the Series III Notes and the Lenders. The Noteholders have the right to receive payment of the principal of or the interest on the Series III Notes from money on deposit in the Senior Subordinate Lien Debt Service Fund only to the extent money is not available therefor in the Issuing and Paying Agent Fund, in either case in amounts sufficient to make such payments in accordance with the provisions of Section 2.09.

**AUTHORIZATION; GENERAL TERMS AND PROVISIONS
RELATING TO THE NOTES**

{Article III}

Authorization {Section 3.01}

The Series III Notes, entitled “Dallas Area Rapid Transit Senior Subordinate Lien Sales Tax Revenue Commercial Paper Notes, Series III,” are authorized to be issued in an aggregate principal amount that from time to time may be Outstanding under the Eighteenth Supplemental Debt Resolution.

The Notes may be issued for the purposes of financing Project Costs of Eligible Projects and to refinance, renew, or refund Series III Notes and Outstanding Obligations, including interest thereon.

If DART issues Series III Notes that are not being issued to refinance or refund Outstanding Series III Notes, and the Stated Maturity Date of such Series III Notes occurs during the Debt Service Accrual Period during which the Series III Notes are issued, DART is required to deposit to the Senior Subordinate Lien Debt Service Fund on the date of such issuance an amount sufficient to pay interest on such Series III Notes on their Stated Maturity Date.

Terms, Forms, Registration and Book Entry System; Issuing and Paying Agent {Sections 2.03.2 through 3.9}

Subject to Sections 2.02 and 2.03, the Series III Notes may be issued in installments in such principal amounts and maturing on the dates as determined by DART. No Note shall have a Stated Maturity Date (i) that is not a Business Day, or (ii) that is later than the Maximum Maturity Date. Series III Notes shall bear interest (or shall be issued at a discount without interest) at such rate per annum, not to exceed the Maximum Interest Rate, computed on the basis of actual days elapsed and on a 365 day year, as approved by DART. Series III Notes shall be in registered form as provided in the Eighteenth Supplemental Debt Resolution. The Series III Notes shall be substantially in the forms set forth in the Eighteenth Supplemental Debt Resolution. The Issuing and Paying Agent shall keep the Note Register providing for the registration and transfer of the Series III Notes. Series III Notes may be exchanged for other Series III Notes as provided in the Eighteenth Supplemental Debt Resolution, and may be issued in book entry only form through DTC. DART agrees to maintain an Issuing and Paying Agent at all times while the Series Notes are Outstanding.

ISSUANCE, SALE, USES OF PROCEEDS, AND PAYMENT OF SERIES III NOTES

{Article IV}

Proceeds of Sale of SERIES III Notes {Section ____}

The proceeds from the sale of the Series III Notes (net of all expenses and costs of sale and issuance) shall be deposited to a Note Payment Fund and shall be applied in the following priority and for the following purposes:

- (a) first, to the payment of _____; and
- (b) second, any amounts remaining in a Note Payment Fund _____ and used in accordance with the provisions of the Eighteenth Supplemental Debt Resolution and the Master Debt Resolution

as directed by DART for any of the purposes specified in Section 2.01 of the Eighteenth Supplemental Debt Resolution.

Excess Proceeds in the System Expansion and Acquisition Fund {Section ____}

Any proceeds of the Series III Notes remaining

CREATION OF SPECIAL FUNDS; APPLICATION OF MONEYS

{Article ____}

The following funds and accounts are hereby created (i) the Issuing and Paying Agent Fund consisting of Note Payment Fund, Note Payment Account and such other separate accounts as may be required, and (ii) the Rebate Fund. The Issuing and Paying Agent Fund shall be held by the Issuing and Paying Agent and shall be administered pursuant to Section 5.02 and the Issuing and Paying Agent Agreement.

Issuing and Paying Agent Fund. The Issuing and Paying Agent shall deposit: (i) all proceeds from the sale of Series III Notes to a Note Proceeds Account, which amounts shall be applied as provided in Section 4.02(b); and (ii) amounts received from the Trustee pursuant to Section 5.03(a) of the Master Debt Resolution that relate to the payment of principal of or interest on ECPNotes to the Note Payment Account, which amounts shall be used solely for the purpose of paying the principal of and interest on the ECPNotes on their Stated Maturity Date.

Rebate Fund. All amounts deposited in the Rebate Fund shall be held by DART in trust for payment to the United States of America, and neither DART, any Holder, nor the Lenders shall have any rights in or claim to such money.

Investment Limitations. Amounts on deposit in the Issuing and Paying Agent Fund and the Rebate Fund shall be invested in Investment Securities as directed by DART, subject to the restrictions imposed by this Article and by Article VI. Amounts on deposit in any Note Proceeds Account and the Note Payment Account and the Loan Payment Account shall be held by the Issuing and Paying Agent uninvested in trust for the exclusive benefit of the Persons entitled to be paid from such accounts separate and apart from all other funds of DART or the Issuing and Paying Agent. Any other amounts on deposit in the Issuing and Paying Agent Fund shall be invested in direct obligations of the United States of America maturing no later than the earlier of the date on which funds so invested are needed for the purposes specified herein and 30 days after the date on which such securities are purchased, or in money market mutual funds regulated by the Securities and Exchange Commission, consisting entirely of direct obligations of the United States of America or repurchases thereof, having a dollar weighted average stated maturity of 90 days or fewer, and an investment objective of maintaining a stable net asset value of \$1 for each share.

SPECIAL COVENANTS RELATING TO THE ECPNOTES

{Article IV}

Exemption from Federal Income Tax {Section 6.1}

DART covenants and agrees to do and perform all acts and things within its power and authority necessary to comply with each applicable requirement of the Code in order to maintain the exclusion from gross income of the interest on the ECPNotes for federal income tax purposes and to refrain from any action which would adversely affect the status of the ECPNotes, as described in the First Supplemental Debt Resolution.

THE ISSUING AND PAYING AGENT

{Article IV}

The Issuing and Paying Agent is required to perform such duties as are set forth in the Issuing and Paying Agency Agreement. The Issuing and Paying Agent may resign or be replaced in accordance with and subject to the terms of the First Supplemental Debt Resolution, upon qualification and acceptance by a successor issuing and paying agent.

The Issuing and Paying Agent shall not have any power or be required to take any action during the existence of any event of default under the Master Debt Resolution.

The Issuing and Paying Agent is required to calculate and furnish calculations of Accrued Aggregate Debt Service for the Series IIA Notes upon request of the Trustee as provided in Section 5.03(c) of the Master Debt Resolution and to deposit any amounts received from the Trustee pursuant to such Section as directed in Section 5.02.]

APPENDIX B

OPINIONS OF CO-BOND COUNSEL

The signed opinions of our Co-Bond Counsel, McCall, and Parkhurst & Horton LLP, Dallas, Texas, Bracewell LLP, Dallas, Texas, and West & Associates, L.L.P., Dallas, Texas, , will be delivered with respect to any Notes issued on and after November 30, 2018 in substantially the forms and substance included in the following pages of this Appendix B.

APPENDIX B

FORMS OF OPINIONS OF CO-BOND COUNSEL

\$125,000,000

DALLAS AREA RAPID TRANSIT SENIOR
SUBORDINATE LIEN SALES TAX REVENUE
COMMERCIAL PAPER NOTES
SERIES III

APPENDIX C
ANNUAL DISCLOSURE STATEMENT



DALLAS AREA RAPID TRANSIT
Annual Disclosure Statement (for the period ended September 30, 2017)

This Annual Disclosure Statement for the period ended September 30, 2017 replaces our Annual Disclosure Statement for the period ended September 30, 2016 and dated March 7, 2017. This Annual Disclosure Statement has been posted on the Internet at our website, www.dart.org, and has been filed with the Municipal Securities Rulemaking Board and is available at www.emma.msrb.org. We intend to update this Annual Disclosure Statement after the first, second, and third quarters of our fiscal year and to replace it annually. We reserve the right to suspend or stop postings on the DART website and quarterly updates at any time. However, we will always provide the annual and periodic information called for under our undertaking in compliance with SEC Rule 15c2-12.

This Annual Disclosure Statement relates to the following securities that we have issued and intend to issue from time to time: Senior Lien Obligations, Senior Subordinate Lien Obligations, and other Bond Obligations (defined below), but does not replace the Supplemental Official Statement or Supplemental Disclosure Statement and Offering Memorandum prepared for a particular series of debt securities.

You should carefully consider the information under the caption "INVESTMENT CONSIDERATIONS" herein.

DART is a subregional transportation authority created pursuant to Chapter 452 of the Texas Transportation Code (the "Act"). Our boundaries include the corporate limits of 13 North Texas cities and towns, and our headquarters are located in Dallas, Texas. Under the Act, we are authorized to provide public transportation and complementary services within such cities and towns.

Our Board of Directors has adopted a "Master Debt Resolution" that authorizes the issuance and execution of various types of debt instruments (the "Bond Obligations"). Bond Obligations that are issued in the form of bonds, notes, or other securities will be issued in multiple series, and each series will be classified as either "Senior Lien Obligations," "Senior Subordinate Lien Obligations," or "Junior Subordinate Lien Obligations." The Senior Lien Obligations are secured by a first lien on Pledged Revenues; the Senior Subordinate Lien Obligations are secured by a second lien on Pledged Revenues; and the Junior Subordinate Lien Obligations are secured by a third lien on Pledged Revenues. These liens are senior to any other claim against the Pledged Revenues. Pursuant to the Master Debt Resolution, we have issued and have outstanding both Senior Lien Obligations and Senior Subordinate Lien Obligations (together, referred to herein as "Bond Obligations"). See, "OUTSTANDING OBLIGATIONS AND OUR FINANCING PLANS."

Under the Master Debt Resolution, Pledged Revenues consist of: (i) the gross revenues that we receive from a 1% sales and use tax (the "Sales Tax"), and the investment earnings thereon while held by the Trustee in the Gross Sales Tax Revenue Fund; (ii) Pledged Farebox Revenues (as defined herein); (iii) with respect to Senior Lien Obligations, Federal Interest Subsidy payments that are deposited to the Senior Lien Debt Service Fund; and (iv) any additional revenues of DART which by a Supplemental Resolution are expressly and specifically pledged to the payment of Bond Obligations. However, the Federal Interest Subsidy is not used to pay or secure the TIFIA (defined herein) bond debt service. The Sales Tax is imposed on items and services that are sold, rented, or purchased, or acquired for use within our boundaries, and that are subject generally to the Texas sales and use tax. See, "DART'S FINANCIAL PRACTICES AND RESOURCES—Principal Source of Revenue—The Sales Tax." Bond Obligations will be issued for any one or more of the following purposes: refunding outstanding indebtedness, obtaining capital funds for the expansion of our public transportation system, creating reserves, paying interest during limited periods, paying our costs of issuance, or for other purposes if permitted by applicable law.

Unless otherwise indicated, capitalized terms used herein have the meanings assigned to them in the Master Debt Resolution.

This Annual Disclosure Statement may be used to offer and sell a series of Senior Lien Obligations, Senior Subordinate Lien Obligations, or other Bond Obligations only if it is accompanied by the Supplemental Official Statement or Supplemental Disclosure Statement and Offering Memorandum for that series.

Dated Date: March 13, 2018

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Appendix A – Independent Auditors’ Report, with Audited Financial Statements for the Fiscal Years ended September 30, 2017 and 2016

Appendix B – Summary of Certain Terms of the Master Debt Resolution

IMPORTANT NOTICES

We have included cross-references to captions in the Table of Contents where you can find further discussions of summarized information.

We do not claim that the information in this Annual Disclosure Statement is accurate as of any date other than the Dated Date stated on the front cover, except for financial information which is accurate as of its stated date. We will update this Annual Disclosure Statement as described on the cover page. In addition, the summary of the Master Debt Resolution presented in Appendix B is not intended to be comprehensive. You may obtain copies of the Master Debt Resolution, or any updates to this Annual Disclosure Statement, from the Municipal Securities Rulemaking Board's ("MSRB's") website at www.emma.msrb.org, from our website on the internet at www.dart.org, or by contacting our Senior Vice President, Finance, Interim Chief Financial Officer at our corporate address or telephone number to request a free copy: Chief Financial Officer, DART, 1401 Pacific Avenue, Dallas, Texas 75202, 214-749-3148.

In this Annual Disclosure Statement, "we," "our," "us," and "DART" refer to Dallas Area Rapid Transit, a subregional transportation authority under the Act.

FORWARD-LOOKING STATEMENTS

We make "forward-looking statements" in this Annual Disclosure Statement by using forward-looking words such as "may," "will," "should," "intends," "expects," "believes," "anticipates," "estimates," or others. You are cautioned that forward-looking statements are subject to a variety of uncertainties that could cause actual results to differ from the projected results. Those risks and uncertainties include general economic and business conditions, conditions in the financial markets, our financial condition, receipt of federal grants, and various other factors which are beyond our control. Because we cannot predict all factors that may affect future decisions, actions, events, or financial circumstances, what actually happens may be different from what we include in forward-looking statements.

OUTSTANDING OBLIGATIONS AND OUR FINANCING PLANS

As of September 30, 2017, we have thirteen series of Senior Lien Obligations outstanding – our Senior Lien Sales Tax Revenue Refunding Bonds, Series 2007 (the "Series 2007 Bonds"), outstanding in the aggregate principal amount of \$118,395,000; our Senior Lien Sales Tax Revenue Bonds, Series 2008 (the "Series 2008 Bonds"), outstanding in the aggregate principal amount of \$18,340,000; our Senior Lien Sales Tax Revenue Bonds, Series 2009A (the "Series 2009A Bonds") outstanding in the aggregate principal amount of \$36,630,000; our Senior Lien Sales Tax Revenue Bonds, Taxable Series 2009B (Build America Bonds – Direct Payment to Issuer) (the "Series 2009B Bonds"), outstanding in the aggregate principal amount of \$829,615,000; our Senior Lien Sales Tax Revenue Refunding Bonds, Series 2010A (the "Series 2010A Bonds"), outstanding in the aggregate principal amount of \$59,125,000; our Senior Lien Sales Tax Revenue Bonds, Taxable Series 2010B (Build America Bonds – Direct Payment to Issuer) (the "Series 2010B Bonds"), outstanding in the aggregate principal amount of \$729,390,000; our Senior Lien Sales Tax Revenue Bonds, Series 2012 (the "Series 2012 Bonds"), outstanding in the aggregate principal amount of \$118,900,000; our Senior Lien Sales Tax Revenue Bond, Taxable Series 2012A issued to evidence a Transportation Infrastructure Finance and Innovation Act Loan (the "TIFIA Bond"), outstanding in the aggregate principal amount of up to \$102,968,481; our Senior Lien Sales Tax Revenue Refunding Bonds, Series 2014A (the "Series 2014A Bonds"), outstanding in the aggregate principal amount of \$379,480,000; our Senior Lien Sales Tax Revenue Refunding Bonds, Series 2014B (the "Series 2014B Bonds"), outstanding in the aggregate principal amount of \$46,555,000; our Senior Lien Sales Tax Revenue Refunding Bonds, Series 2015 (the "Series 2015 Bonds"), outstanding in the aggregate principal amount of \$116,030,000; our Senior Lien Sales Tax Revenue Refunding Bonds, Series 2016A (the "Series 2016A Bonds"), outstanding in the aggregate principal amount of \$482,530,000; and our Senior Lien Sales Tax Revenue Refunding Bonds, Series 2016B, outstanding in the aggregate principal amount of \$228,900,000.

Bond Obligations We Expect to Issue in 2018

We currently plan to seek a federal loan in the amount of \$908,000,000 in Railroad Rehabilitation Improvement Financing (known as “RRIF”) for the Cotton Belt Project in Fiscal Year 2018.

Preconditions to Issuance of Bond Obligations—Financial Coverage Tests

– Conditions to Issuance of Senior Lien Obligations

There are thirteen series of Senior Lien Obligations outstanding comprised of the Series 2007 Bonds, the Series 2008 Bonds, the Series 2009A and Series 2009B Bonds, the Series 2010A and Series 2010B Bonds, the Series 2012 Bonds, the Series 2012A TIFIA Bond, the Series 2014A and Series 2014B Bonds, the Series 2015 Bonds, and the Series 2016A and 2016B Bonds. Under the Master Debt Resolution, we cannot issue additional Senior Lien Obligations unless:

(1) An independent professional economist broadly experienced in economic forecasting in the North Texas region, or an independent certified public accountant or accounting firm, reports to us projections of Gross Sales Tax Revenues and the projections show that the estimated Gross Sales Tax Revenues for each of three consecutive Fiscal Years, beginning with the first Fiscal Year in which Debt Service will be due on the proposed Additional Senior Lien Obligations, are equal at least to 200% of the Debt Service that will be due on all Senior Lien Obligations that will be outstanding after the proposed new issue during each of such three Fiscal Years; or

(2) During either our most recent Fiscal Year or during 12 out of the most recent 18 months, our Gross Sales Tax Revenues were equal to at least 200% of the maximum Debt Service that will be due on any outstanding Obligations and the proposed Additional Senior Lien Obligations during any of the current or any future Fiscal Year; and

(3) Our Executive Vice President/Chief Financial Officer (or Interim individual serving as Chief Financial Officer), or the Senior Vice President, Finance, certifies that we will receive Gross Sales Tax Revenues, during each of three consecutive Fiscal Years beginning with the Fiscal Year in which Debt Service is due on the proposed Additional Senior Lien Obligations, which will be sufficient to pay all Senior Lien Obligations and all Subordinate Lien Obligations during such three Fiscal Years; and

(4) We satisfy any additional financial tests that may be contained in a Supplemental Resolution or Credit Agreement.

– Conditions to Issuance of Subordinate Lien Obligations

The Master Debt Resolution does not itself impose financial tests as preconditions to the issuance of additional Senior Subordinate Lien Obligations or Junior Subordinate Lien Obligations beyond the requirement that we demonstrate the ability to pay them when due.

We cannot issue additional Senior Lien Obligations or Senior Subordinate Lien Obligations unless:

(1) We satisfy the financial tests contained in the Master Debt Resolution summarized above; and

(2) An independent economist broadly experienced in economic forecasting in the North Texas region, or an independent certified public accountant or accounting firm, reports to us projections of Gross Sales Tax Revenues and the projections show that the estimated Gross Sales Tax Revenues for each of the three following and consecutive Fiscal Years, beginning with the first Fiscal Year in which Debt Service will be due on the proposed Bond Obligations, are equal at least to 150% of the Debt Service that will be due on all Bond Obligations that are issued as

Senior Lien Obligations and Senior Subordinate Lien Obligations that will be outstanding after the proposed new issue during each of such three Fiscal Years; and

(3) During any four (4) of the most recent six (6) calendar quarters immediately preceding the issuance date of the proposed Bond Obligations, our Gross Sales Tax Revenues must have been equal at least to 200% of the Debt Service on our Bond Obligations that were outstanding during such four (4) calendar quarters plus Debt Service on the proposed Bond Obligations, assuming that they were outstanding during such period and after taking into account any reduction in Debt Service that may result from the issuance of the proposed Bond Obligations; and

(4) If the proposed Bond Obligations are Senior Subordinate Lien Obligations, our Chief Financial Officer certifies that estimated Gross Sales Tax Revenues during each of the three consecutive Fiscal Years beginning with the Fiscal Year in which Debt Service is due on the proposed Additional Senior Subordinate Lien Obligations will be sufficient to pay 200% of the Debt Service due on all Senior Lien Obligations, Senior Subordinate Lien Obligations, and Junior Lien Obligations during such three Fiscal Years.

We expect that future Credit Providers and general market requirements will, from time to time, impose different or additional financial tests as preconditions to the issuance of additional Bond Obligations. Any such additional requirements will be contained in a Supplemental Resolution or in a Credit Agreement. See, Appendix B, SUMMARY OF CERTAIN TERMS OF THE MASTER DEBT RESOLUTION—Permitted DART Indebtedness.

Method of Issuing Bond Obligations

To issue any series of Bond Obligations, the Master Debt Resolution requires our Board to adopt a Supplemental Resolution establishing the specific terms of the series to be issued. When we issue Bond Obligations, you should purchase them on the basis of this Annual Disclosure Statement only if you have also obtained a “Supplemental Official Statement” or a “Supplemental Annual Disclosure Statement and Offering Memorandum” relating to the series of Bond Obligations you are considering.

Security for the Obligations—Flow of Funds

Our Gross Sales Tax Revenues consist of the money we are entitled to receive under the Act and other state law from the levy and collection of the voter-approved Sales Tax that is levied on taxable items and services that are sold or used within our boundaries. That revenue and the investments thereof, if any, while held by the Trustee in the Gross Sales Tax Revenue Fund are Pledged Revenues that secure all of the Bond Obligations. Additionally, pursuant to the provisions of the Seventh Supplemental Debt Resolution authorizing the issuance of our Series 2010A and Series 2010B Bonds, we pledged the “Pledged Farebox Revenues” as security for all of the Bond Obligations. The Pledged Farebox Revenues include all fares collected by or on behalf of DART for its bus, rail, and paratransit services in an amount equal to 97.3% of the debt service accruing on the Series 2010 Bonds after deducting the Federal Interest Subsidy applicable to such bonds. The annual amount of the Pledged Farebox Revenues varies each year based on the actual debt service on the Series 2010B Bonds. The amount constituting Pledged Farebox Revenues ranges from \$22.9 million in 2012 to \$71.4 million in 2049. In addition, Federal Interest Subsidy Payments that are deposited to the Senior Lien Debt Service Fund are pledged to the payment of Senior Lien Obligations. We reserved the rights (1) to pledge the other farebox revenues as security for the payment of Bond Obligations or any other obligations of DART and (2) to exclude any specified portion of farebox revenues from Pledged Farebox Revenues (including Special Revenues) by Supplemental Resolution, provided that the aggregate amount of Pledged Farebox Revenues then expected to be collected in all future Debt Service Accrual Periods shall not be reduced as a result.

State law requires the sellers and suppliers of taxable items and services to collect the Sales Tax from consumers and to pay collected taxes to the Texas Comptroller of Public Accounts. The Comptroller receives and collects all such taxes that are imposed throughout the state and pays them over to the agencies, such as DART, that levy them, net of a 2% collection fee and reserves for possible refunds.

The Master Debt Resolution establishes (1) the procedure for handling the Gross Sales Tax Revenues from the point of release of the revenues by the Comptroller to the Trustee to the point they are released by the Trustee to us; (2) the priorities of the liens that are created for the benefit of the Senior Lien Obligations, the Senior Subordinate Lien Obligations, and the Junior Subordinate Lien Obligations; and (3) the permissible investments thereof at our direction.

The law requires the Comptroller to deliver the net amount of the collected taxes to us or for our benefit not less frequently than quarterly. Under current practice, the Comptroller delivers net tax collections monthly directly to the Trustee for the benefit of the Holders of Bond Obligations under the Master Debt Resolution.

The Trustee is required to deposit money received from the Comptroller to the Gross Sales Tax Revenue Fund. On the day of receipt, the Trustee is required to withdraw that money and to make deposits to three debt service funds (the Senior Lien Debt Service Fund, the Senior Subordinate Lien Debt Service Fund, and the Junior Subordinate Lien Debt Service Fund, collectively referred to herein as "Debt Service Fund(s)") in amounts equal to the Accrued Aggregate Debt Service on the Bond Obligations of each lien ranking, beginning first with the Senior Lien Debt Service Fund, then the Senior Subordinate Lien Debt Service Fund, and finally the Junior Subordinate Lien Debt Service Fund, before any monies are released to us for other uses.

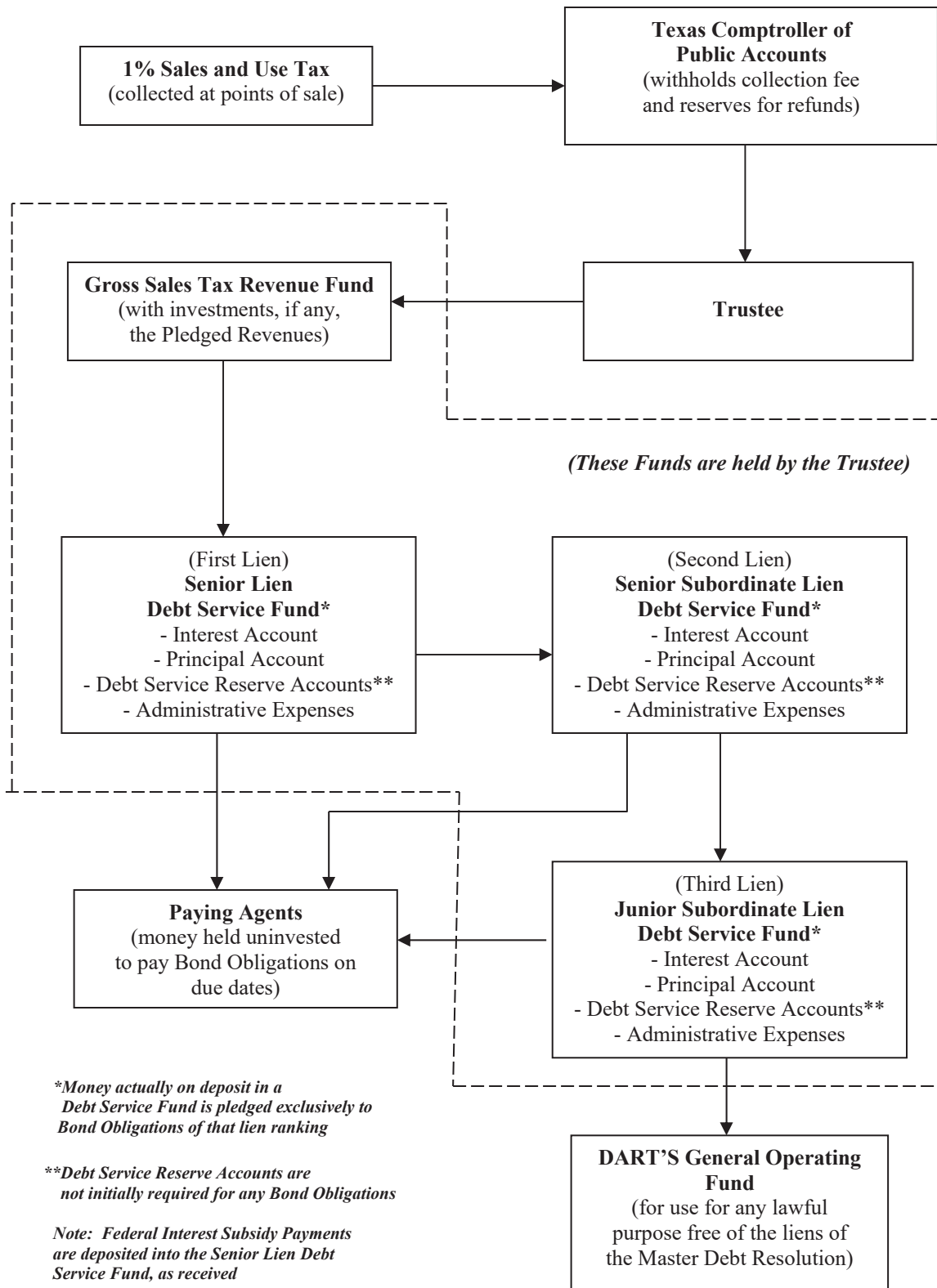
Money actually on deposit in a Debt Service Fund is pledged exclusively and irrevocably to the Bond Obligations of the applicable lien ranking.

If the monies received from the Comptroller are not sufficient to fill all three of the Debt Service Funds to the level of current requirements, they are filled in the order of lien ranking and any deficiencies are restored with the next available Gross Sales Tax Revenues. If amounts on deposit in any Debt Service Fund are not sufficient on any Interest Payment Date, Mandatory Redemption Date or Stated Maturity Date, the Trustee is also required to deposit all the Pledged Farebox Revenues to the Debt Service Funds in the same order of priority as Gross Sales Tax Revenues.

If there is an excess of money over the amounts needed to make the required deposits to all three Debt Service Funds, and after restoring deficiencies, if any, the Trustee is required to deliver the excess revenue to DART, free and clear of the liens of the Master Debt Resolution.

When payments are due on Bond Obligations, the Trustee sends the required amounts from the applicable Debt Service Fund to the Paying Agent(s) for the maturing Bond Obligations, as shown in the following chart of the flow of funds:

Flow of Funds (cont'd)



**Money actually on deposit in a Debt Service Fund is pledged exclusively to Bond Obligations of that lien ranking*

***Debt Service Reserve Accounts are not initially required for any Bond Obligations*

Note: Federal Interest Subsidy Payments are deposited into the Senior Lien Debt Service Fund, as received

Note: Pledged Farebox Revenues are held in the General Operating Fund and are only required to be transferred to the Senior Lien Debt Service Fund if the amounts therein are insufficient to pay debt service on the Bond Obligations.

INFORMATION ABOUT DART

DART is a subregional transportation authority and governmental agency of the State of Texas, created and confirmed by a referendum passed on August 13, 1983, pursuant to Article 1118y of Vernon's Annotated Texas Civil Statutes, as amended and recodified into the Act. The Act authorizes us to provide public transportation and complementary services within the corporate limits of those cities and towns in which the voters have confirmed the creation of or joinder with DART and approved the imposition of the Sales Tax under the Act.

DART's Boundaries, Additions, Withdrawal Rights

Our current boundaries include the following Participating Municipalities: The Cities of Carrollton, Cockrell Hill, Dallas, Farmers Branch, Garland, Glenn Heights, Irving, Plano, Richardson, Rowlett, and University Park and the Towns of Addison and Highland Park, Texas. Our boundaries encompass approximately 700 square miles and contains an estimated 2017 population of 2.4 million persons, according to information obtained from the North Central Texas Council of Governments.

If a municipality that we do not currently serve is located at least in part in a county that we serve, the municipality may become a Participating Municipality by holding an election in accordance with the Act at which its joinder with DART and the imposition of the Sales Tax is approved by its voters.

Under the Act, a Participating Municipality has the right to call an election at which its voters may vote to withdraw as a Participating Municipality every sixth calendar year. This process can be initiated by either official action of the Participating Municipality's governing body or by citizen petition. The next year in which withdrawal elections may be held is 2020.

If a withdrawal election is held and voters approve withdrawal from DART, all of our public transportation services to and within the withdrawing municipality must cease on the day following the canvass of the election returns. The Comptroller must continue to collect the Sales Tax within that municipality, however, until we have collected an amount equal to the withdrawing municipality's pro-rata share of our financial obligations that existed at the time of withdrawal. Accordingly, the Act limits the impact a municipality's withdrawal might have on our ability to repay our indebtedness, including any Bond Obligations.

Under the Act, our Board must calculate a withdrawing municipality's financial obligation to us as of the date of withdrawal. This financial obligation shall equal such municipality's portion of the total amount of the following:

- Our outstanding obligations under contract and authorized in our current budget;
- Our outstanding contractual obligations for capital and other expenditures payable from sources other than proceeds of notes, bonds, or other obligations;
- Payments due or to become due in all subsequent years on notes, bonds, or other securities or obligations for debt issued by us;
- Our required reserves for all years to comply with financial covenants made with lenders, note or bond Holders, or other creditors or contractors; and
- The amount necessary for the full and timely payment of our existing obligations, to avoid a default or impairment of those obligations, including contingent liabilities.

Any of our financial obligations that specifically relate to such withdrawing municipality will be allocated completely to it.

DART's General Powers and Purposes

We exercise public and essential governmental functions under the Act, and the Act grants us certain powers to carry out these functions. The Act authorizes us to acquire, construct, develop, plan, own, operate, and maintain all real and personal property needed by us for public transportation or complementary transportation purposes. Complementary transportation services include the following services:

- Special transportation services for elderly or disabled persons;
- Medical transportation services;
- Assistance in street modifications to accommodate our public transportation system;
- The purchase, construction, or renovation of general aviation facilities that are not served by certificated air carriers in order to relieve air traffic congestion at existing facilities; and
- Any other service that complements our public transportation system, such as parking garages.

The Act grants to us the right to acquire property by eminent domain for our public transportation system, so long as the governing body (in a city or town) or the commissioners court of the county (in unincorporated areas) having jurisdiction over the property approves the acquisition. The Act also authorizes us to lease to or contract with a private operator to operate a public transportation system or any part thereof, and to contract with any non-participating city, county, or other political subdivision to provide public transportation services to any area outside our boundaries.

The Board of Directors

We are governed by a 15-member Subregional Board of Directors. The governing bodies of the Participating Municipalities appoint members to our Board according to the ratio of the population of each Participating Municipality to the total population within our boundaries. A Participating Municipality having a population which entitles it to make a fraction of an appointment may combine that fraction with one or more other Participating Municipalities to make one appointment, but no Participating Municipality may appoint more than 65% of the members of the Board. The Board is restructured whenever there is a change in the member municipalities or every fifth year after the date census data or population estimates become available.

Each Board member serves at the pleasure of the governing municipal unit that appoints the member. Board members serve staggered two-year terms. Eight of the member terms begin on July 1 of odd-numbered years and seven of the member terms begin July 1 of even-numbered years. Each member is entitled to receive \$50 for each Board meeting attended and is reimbursed for necessary and reasonable expenses incurred in the discharge of the member's duties.

The following table sets forth information regarding our current Board of Directors. The Board appoints from its members a chair, vice chair, secretary, and assistant secretary as shown in the table.

CURRENT MEMBERS AND OFFICERS OF THE BOARD OF DIRECTORS			
NAME	REPRESENTS	YEAR OF APPOINTMENT TO BOARD	OCCUPATION
Sue S. Bauman, <i>Chair</i>	Dallas	2016	Faculty, Richland College
Paul N. Wageman, <i>Vice Chair</i>	Plano	2012	Attorney
Michele Wong Krause, <i>Secretary</i>	Dallas	2014	Attorney
Jonathan R. Kelly, <i>Assistant Secretary</i>	Garland	2016	Investment Advisor
Amanda Moreno	Dallas	2013	Entrepreneur
Catherine Cuellar	Dallas and Cockrell Hill	2017	Social Enterpriser
Dominique P. Torres	Dallas	2017	Attorney
Faye Moses Wilkins	Plano and Farmer Branch	1999	Telecommunications & System Integration Consultant
Gary Slagel	Richardson, University Park, Addison, and Highland Park	2011	Technology Executive
Jon-Bertrell Killen	Dallas	2017	Architect
Mark C. Enoch	Garland, Rowlett, and Glenn Heights	1997	Attorney
Patrick Kennedy	Dallas	2016	Urban Planner
Ray Jackson	Dallas	2017	Attorney
Richard H. Stopfer	Irving	2013	Retired Automotive Consultant and Mayor, City of Irving
Timothy A. Hayden	Carrollton and Irving	2015	Safety and Risk Control Consultant

Significant Board Policies and Planning Documents

Our Board has adopted a mission statement, strategic priorities, goals, financial and business planning policies, and general policies that provide management a framework within which the agency must operate. The Board has also adopted Bylaws and Rules of Procedure to ensure that it acts in a consistent and orderly manner. Each year, for planning purposes, DART issues an annual business plan (the “Business Plan”) which includes components of the following:

— The Strategic Plan – The Strategic Plan provides a foundation for all other management actions. Beginning with DART’s mission statement and vision, the Strategic Plan includes priorities, goals, objectives, and performance measures that guide decision-making throughout the agency. The other plans and documents described in this section are also considered to be part of DART’s Strategic Plan because they provide significant guidance for agency activities and require alignment of processes and activities to achieve their full functionality and value. Elements of the Strategic Plan are periodically reviewed and updated to reflect the current environment. The mission statement and vision are the most constant elements of the Strategic Plan while individual project plans and employee performance plans are reviewed and revised at least once each year.

— Service Plan and Transit System Plan – The Service Plan, required by DART’s enabling legislation, specifically describes the service provided including the locations of major transit facilities and fixed guideways. The Transit System Plan, which is not required by law, is the financially constrained long-range planning tool that is updated to incorporate changes in the service area. It provides the vision and direction for DART’s future capital projects and operating programs that will be needed to improve regional mobility. The Transit System Plan is closely coordinated with development of the North Central Texas Council of Governments’ Metropolitan

Transportation Plan (MTP) and is revised periodically. The last revision was completed in Fiscal Year 2007 and focuses on transit needs and opportunities within the context of a 2030 horizon. The DART is nearing completion of an update to the 2030 Transit System Plan through the horizon year of 2040. The draft 2040 Transit System Plan was completed and presented to the DART Board October 2017; the final draft is expected to be available in the Calendar Year 2018.

— Annual Budget – DART’s enabling legislation requires the Board to develop, recommend, and approve an annual budget. The Board must make its proposed annual budget available to the governing bodies of the cities in the service area for review and comment at least 30 days prior to its final adoption. The annual budget, which corresponds to the first year of the Twenty-Year Financial Plan, enumerates the amounts authorized for operating expenses, capital and non-operating costs, and debt service.

— Twenty-Year Financial Plan – The Twenty-Year Financial Plan addresses the affordability of the Transit System Plan and the timing of service and capital expansion projects. The Twenty-Year Financial Plan details projected sources and uses of cash for twenty years. The approved Annual Budget is used as the first year of the plan, and the Business Plan is reflected in the first five years of the plan. The final 15 years of the plan validate the affordability of our long-range Transit System Plan, and include our commitments for future system expansion and the issuance and repayment of debt.

— Business Plan – DART’s Business Plan provides a comprehensive summary of the Agency’s plans and commitments and outlines how DART will employ projected resources to achieve its goals and strategic priorities.

— Financial Standards – The Board’s Financial Standards establish limits for capital expansion, the issuance of debt, and the maintenance of cash reserves. These standards are the basis for our Financial Plan projections. The Board has also approved Business Planning Parameters that establish operating service levels, management performance objectives, and policy limitations for projecting major sources and uses of cash.

— Key Performance Indicators – The Business Plan provides a detailed outline of our performance projections and commitments for each mode of service and DART as a whole. The Plan includes "scorecards" addressing key operating, financial, and quality measures (called “Key Performance Indicators”) and identifying initiatives necessary to improve performance. The Business Plan defines how management will achieve the key initiatives presented in the Strategic Plan.

— Five-Year Action Plan – The Five-Year Action Plan provides detailed discussions of our plans to increase bus and rail ridership through service improvements for a five-year period.

DART’s Management

The Board appoints our President/Executive Director, who also serves as our Chief Executive Officer. The Chief Executive Officer’s duties include:

- Administering our daily operations, including the hiring, compensation, and removal of employees;
- Awarding contracts for services, supplies, capital acquisitions, real estate, and construction without Board approval if the amount of any such contract does not exceed \$100,000; and
- Awarding contracts of up to \$250,000 without Board approval for standard off-the-shelf commercial products.

Additional staff positions that report directly to the Board include the General Counsel, a Director of Internal Audit, and a Director of the Office of Board Support.

A summary of our executive management team is shown in the following table:

DART'S EXECUTIVE MANAGEMENT		
NAME	POSITION	JOINED DART
Gary C. Thomas	President/Executive Director	1998
Jesse Oliver	Deputy Executive Director	2012
Carol Wise	Executive Vice President, Chief Operations Officer	2012
David Leininger	Executive Vice President, Business Solutions and Innovation	2008
Timothy H. McKay	Executive Vice President, Growth and Regional Development	2001
John Adler	Vice President, Procurement	2006
Albert Bazis	Director of Internal Audit	2001
Scott Carlson	General Counsel	2012
Joseph G. Costello	Senior Vice President, Finance, Interim Chief Financial Officer	2014
Doug Douglas	Vice President, Mobility Management Services	1990
Nicole Fontayne-Bardowell	Vice President, Chief Information Officer	2014
Garrome Franklin	Vice President, Chief Safety Officer	2015
Nevin Grinnell	Vice President, Chief Marketing Officer	2011
Michael Holbrook	Vice President, Rail Operations	2008
Nancy Johnson	Director of the Office of Board Support	1999
Morgan Lyons	Vice President, External Relations	1996
Michael Miles	Vice President, Government Relations	1982
Michael Muhammad	Vice President, Diversity/Innovative Services	2004
Bonnie Murphy	Vice President, Commuter Rail	2017
Cheryl Orr	Vice President, Chief People Officer	2015
Todd Plesko	Vice President, Planning & Development	2009
John Rhone	Vice President, Capital Design & Construction	2002
Stephen Salin	Vice President, Rail Planning	2000
David Schulze	Vice President, Policy & Strategy	1994
James Spiller	Vice President, DART Chief of Police and Emergency Management	2001
Robert W. Strauss	Vice President, Real Property and Transit Oriented Development	2016
Vacant	Vice President, Bus Operations	N/A

Employees and Employee Relations

DART currently has 3,816 budgeted positions for full-time salaried and hourly employees. Bus operators, mechanics, and call center personnel are represented by The Amalgamated Transit Union, Local 1338. As a Texas governmental agency, we do not collectively bargain or sign labor contracts with these employee representatives. We do, however, meet and confer with these representatives on hourly employee issues, compensation, and benefits.

Pension, Retirement, Deferred Compensation Plans, and Other Post-Employment Benefits

We operate three employee benefit plans. Information about the plans is contained in Note 17 to the Audited Financial Statements attached hereto as Appendix A. In addition to pension benefits, we provide post-retirement health care and life insurance benefits in accordance with DART policy to certain employees. Information about such benefits is contained in Note 18 to the Audited Financial Statements attached hereto as Appendix A. We have implemented GASB Statement No. 45 “Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions.”

Significant Contract Services

We use contracted services extensively, including the following:

- MV Transportation, Inc., for Mobility Management Services (ADA Paratransit operations and On-Call Services);
- Herzog Transit Services, Inc. for our Commuter Rail services;
- Echo T&C for University of Texas at Dallas shuttle services;
- Metropolitan Security Services for armed security guard services;
- Triad Commercial Services for janitorial services (Rail and Bus facilities) and property management;
- HealthScope as the third-party administrator over the Agency’s health benefits;
- HDR Engineering, Inc. for General Planning Consultant services; and
- Clean Energy for CNG fuel station maintenance.

We also utilize contracts for a major portion of the planning, design, and construction of major capital programs.

Insurance

We maintain a comprehensive insurance program, including the following:

- We self-insure for auto liability, general liability, and workers’ compensation claims arising out of transit operations. Segregated cash reserves are maintained for these programs.
- We carry all-risk property insurance for full repair or replacement in the event of loss with a \$500 million limit for any one loss or any one location.
- We carry \$300 million liability coverage for the light rail system and the Trinity Railway Express commuter rail service with a \$3 million self-insured retention. This policy covers DART and the Fort Worth Transportation Authority.
- We purchase \$10 million of liability coverage for leased premises to comply with the terms of our lease agreements with third parties. We also purchase insurance to cover non-owned automobile liability, directors and officer’s liability, cyber liability, forgery, theft, disappearance and destruction, computer fraud, and employee dishonesty.
- DART is currently evaluating the option to implement our fifth Owner Controlled Insurance Program (OCIP) for our upcoming construction projects including the Red and Blue Line Platform Extensions project, the Cotton Belt Regional Rail Corridor and Second Central Business District (CBD) light rail alignment project (D2 subway). If implemented, the OCIP will provide all eligible enrolled contractors with statutory workers’ compensation coverage, general and excess liability insurance, railroad protective liability and builders’ risk insurance.

As a public entity, we are protected in many instances by governmental immunity. In cases where our governmental immunity does not apply, our liability is often limited by the Texas Tort Claims Act to \$100,000 per person or \$300,000 per occurrence for bodily injury and \$100,000 per occurrence for property damage. Workers’ compensation payments are statutory and regulated by the Department of Labor and the Texas Department of Insurance’s Division of Workers’ Compensation.

DART'S FINANCIAL PRACTICES AND RESOURCES

Audits of Financial Information

DART's Fiscal Year is from October 1 through September 30. We maintain our records of accounts in accordance with generally accepted accounting principles. Our financial accounts and records are audited at the close of each Fiscal Year by an independent, outside auditing and accounting firm approved by the Board. The audits are usually presented to us not later than 120 days after the close of each Fiscal Year. The Independent Auditors' Report, with our audited annual financial statements for the Fiscal Years ended September 30, 2017 and 2016, is presented as a part of this Annual Disclosure Statement as Appendix A. Each subsequent annual revision of this Annual Disclosure Statement will include our most recent audited annual financial statements and our analysis of the financial results for the year.

Principal Source of Revenue—The Sales Tax

Our principal revenue source is the Sales Tax that is levied on taxable items that are sold, rented, or purchased, or acquired for use, within the boundaries of our Participating Municipalities. The Act and the Limited Sales, Use, and Excise Tax Act, Chapter 151, Texas Tax Code, as amended, contain a full description of the items and services subject to and exempted from the sales and use tax.

The Texas Legislature has modified the sales and use tax base from time to time to add or subtract certain items to or from our taxable base, and even to exempt from taxes certain items purchased during a defined time window. In 1999, the Legislature created an annual three-day "sales tax holiday" just prior to the opening of each new school year which exempts from State and local sales taxes the purchase of certain clothing, school supplies, and footwear. The sales tax holiday exempts these purchases from the Sales Tax as well. While the law establishing the sales tax holiday currently permits us to repeal the temporary exemption from our Sales Tax, we do not intend to repeal this exemption unless it will adversely impact our ability to repay any outstanding Bond Obligations.

The following table shows our Net Sales Tax Revenues for each of the most recent 10 Fiscal Years. The Net Sales Tax Revenues show actual receipts in a given Fiscal Year, and may differ from the sales tax revenues shown on our financial statements. When DART is notified of an overpayment of sales tax, an accounting adjustment is made to reflect the reduction in sales tax revenues in that same fiscal year. In two cases where sizeable overpayments were determined to have been made, DART entered into a repayment plan. The table below shows sales tax receipts less any repayment installments. Since the financial statements reflect a reduction in sales tax revenues for the Fiscal Year in which an overpayment is determined to have been made, rather than in the Fiscal Years over which an overpayment is repaid, the sales tax revenues shown on the financial statements may differ from the Net Sales Tax Revenues shown below.

Net Sales Tax Revenues* (in millions)	
Fiscal Year ended 9/30	Receipts
2008	\$416.1*
2009	\$377.6
2010	\$375.5
2011	\$402.4
2012	\$432.5
2013	\$455.7
2014	\$485.7
2015	\$518.6
2016	\$545.1
2017	\$566.6

*The amount shown for 2008 includes \$3.6 million that the State Comptroller has determined to be overpayments. In 2006, there was a \$13.2 million overpayment. Such amounts are being repaid by DART in quarterly payments through March 2027. See "DART's Operations and Performance Results – Sales Tax Revenues and the Net Operating Subsidy."

Secondary Revenues—Farebox Collections

We collect fares from our bus, rail, and paratransit users. The Act permits us to set fares based upon a zone system or by another classification that we determine to be reasonable and nondiscriminatory.

We receive other miscellaneous revenues, primarily from advertising and leases. We refer to these and the farebox revenues as “Operating Revenues.” The following table lists our operating revenues and expenses for the past 10 fiscal years.

Operating Revenues & Expenses (in millions)		
Fiscal Year ended 9/30	Operating Revenues	Operating Expenses*
2008	\$59.8	\$512.2
2009	\$57.4	\$523.6
2010	\$63.2	\$572.5
2011	\$69.4	\$629.0
2012	\$80.1	\$645.8
2013	\$83.7	\$701.7
2014	\$84.5	\$704.5
2015	\$85.4	\$705.3
2016	\$81.9	\$739.3
2017	\$79.6	\$745.5

- Includes depreciation expense

Federal Grant Funds

We receive federal grant funds primarily from the Federal Transit Administration (“FTA”). We utilize these proceeds to fund a portion of our eligible capitalized maintenance expenses and capital programs. Congress allocates transit funds on both a formula basis and a discretionary basis. We are eligible to receive both types of funds.

Federal grants are on a reimbursement basis, so receipts will not match annual appropriation. The following table reflects actual federal and state cash receipts of DART by Fiscal Year for the past 10 years.

Federal/State Receipts (in millions)		
Fiscal Year	Federal Receipts	State Receipts
2008	\$173.6	\$2.3
2009	\$300.8	\$0.1
2010	\$200.1	\$2.7
2011	\$165.2	\$1.1
2012	\$175.8	\$19.9
2013	\$141.4	\$2.7
2014	\$128.3	\$1.6
2015	\$104.9	\$10.9
2016	\$47.1	\$3.1
2017	\$78.2	\$1.2

Lease/Leaseback Transactions

As authorized by the Act, we entered into ten separate economically defeased lease transactions which, in general, involved our lease and leaseback of specified, depreciable property to various trustee entities, acting on behalf of private investors. As of the date hereof, one of such transaction is still outstanding. The one outstanding transaction involves the lease and leaseback of light rail cars used as a part of our transit system. Although we retain legal title to the leased property, this transaction was structured so as to result in a sale of the leased property to the private

investors for federal income tax purposes. The rent due for the full term of the leases was prepaid to us, and the trustees have no further obligation to pay us any rent under the lease. The trustee subleased the property back to us for a sublease term that is shorter than the term of the lease. At a specified date on or before the end of the sublease term, we have the right to purchase the trustee's interest in the lease.

We paid a portion of the advance rental payments received by us from the trustees to purchase contractual undertakings from certain financial institutions, rated "AA" or better at that time by recognized rating agencies, pursuant to which such financial institutions assumed and agreed to pay to the trustee the sublease rental payments due and owing by us through our purchase option date, together with the purchase option price owed by us if we determine to exercise our purchase option rights. In other leases, we deposited a portion of such advance rental payments with a custodian, whom we instructed to purchase direct obligations of the United States Government and other securities that will mature on the dates and in the amounts required to pay sublease rental payments and the purchase option price.

The excess amounts of the advance rental payments received by us over the costs of the contractual undertakings and the amounts of the custodial deposits, after paying for certain other costs incurred in connection with the transactions, was retained and utilized by us. After closing the transactions, we continue to have the right to uninterrupted use and possession of the leased property so long as we are not otherwise in default under the contractual terms of the lease documents. Notwithstanding such contractual undertakings and custodial deposits, we remain obligated to pay all amounts owed by us under the sublease, including sublease rent and the purchase option price should we exercise it, in the event of the insolvency of or other failure to pay by the financial institution or a failure of the custodial deposits.

We have successfully terminated or repaired all lease/leaseback transactions that were non-compliant with their respective operative documents. As of September 30, 2017, one lease/leaseback transaction was active and is in full compliance with the operative documents, as amended. See Note 11 to the Audited Financial Statements attached hereto as Appendix A.

DART OPERATIONS AND PERFORMANCE RESULTS

The Independent Auditors' Report on DART's financial statements for the fiscal year ended September 30, 2017, is attached as Appendix A. The information contained under this heading presents the comments, observations, and interpretations of financial and other facts and practices by our management and its opinions as to those facts, practices, and circumstances affecting DART. We do not warrant or guarantee that the conclusions we have drawn therefrom are accurate or complete or provide any assurances as to future financial and/or operating results of DART. The financial information discussed in this section is derived from the financial statements attached as Appendix A and other identified sources.

Sales Tax Revenues and the Net Operating Subsidy

Sales tax revenues contributed 72% and 74% of total revenues (which includes capital contributions and grants) in Fiscal Year 2017 and Fiscal Year 2016, respectively. Sales tax revenues in Fiscal Year 2017 were \$567.4 million, a \$21.5 million (3.9%) increase over Fiscal Year 2016. Net receipts were \$566.6 million versus a Sales Tax Budget of \$563.6 million. Our sales taxes highly correlate with personal income and retail sales in the region. Our principal revenue source is the sales tax. Sales tax revenues received by us from the State Comptroller reflect sales transactions that occur approximately two months prior to receipt by us. The sales tax revenues discussed in this section are derived from our annual financial statements which reflect accounting adjustments made as a result of overpayments of sales taxes to DART. As a result of these accounting adjustments, sales tax revenues shown on our financial statements may differ from the Net Sales Tax Revenues (which represent actual receipts in a Fiscal Year) shown in the table on page 12. As a result of overpayments to DART of \$13.2 million in Fiscal Year 2006 and \$3.6 million in Fiscal Year 2008, DART entered into a repayment plan with the State Comptroller which commenced in December 2006, and currently extends to March 2027. Pursuant to the repayment plan, the State Comptroller deducts quarterly repayments from sales tax revenues that would otherwise be owed to DART.

The Fiscal Year 2018 Budget projects Net Sales Tax Revenues of \$593.9 million compared to \$563.6 million for Fiscal Year 2017. This represents a 5.4% increase from the 2017 budget and a 4.8% increase over the 2017 Actual Sales Tax Receipts. For the first three months of Fiscal Year 2018, sales tax receipts are 5.0% over the first three months of Fiscal Year 2017 and 1.2% above our Fiscal Year 2018 sales tax budget for the first three months.

We maintain various cash reserves including a Financial Reserve Account that is funded with sales tax collections, if any, that exceed budget during a given year. In addition, a Capital Project Reserve Account was established. If the Financial Reserve Account exceeds \$50 million, excess funds are placed in the Capital Project Reserve Account. An affirmative vote of two-thirds of the Board is required to draw upon the Financial and Capital Project Reserves and the funds may be used for any purpose approved by the Board. As of September 30, 2017, the balance in the Financial Reserve Account was \$50.0 million and the balance in the Capital Project Reserve Account was \$23.7 million. For Fiscal Year 2017, our sales tax receipts exceeded our sales tax budget by \$3.0 million. DART has entered into an Equity Security Agreement on one of our lease/leaseback obligations that requires us to set aside certain investments as security. As of September 30, 2017, DART has \$7.8 million set aside in the Financial Reserve for this purpose. In addition, we are required by our Financial Standards to maintain a working cash balance in the general operating fund equal to at least one month of expenses that are projected to be paid from sales tax collections. As of September 30, 2017, the balance in the general operating fund was \$460.5 million which equals approximately 7.4 months of expenditures.

Results for Fiscal Year 2017 reflect a loss before capital contribution and grants of \$136.4 million compared to \$193.9 million for 2016. This loss in 2017 is less than that of 2016 due to an increase in sales tax revenues, a reduction in other non-operating expenses and debt service costs, and an increase of other federal grant receipts.

Net operating subsidy measures the amount of sales tax dollars required to subsidize the operating costs of our public transit system. We calculate “net operating subsidy” in the following manner: operating expenses minus extraordinary items and depreciation minus operating revenues. Our goal is for the sales tax revenues to increase by a higher percentage than net operating subsidy. In Fiscal Year 2017, net operating subsidy increased as compared to 2016 due to reduced operating revenues because of reduced ridership.

Sales Tax Revenues for Operating Expenses

Sales tax revenues for operating expenses measures the percentage of sales tax revenues required to subsidize net operating costs. Conversely, this ratio also measures the amount of funding available for debt service and future capital expenditures. The sales taxes for operations calculation is as follows: net operating subsidy (define above) less interest income divided by sales taxes. This ratio moves lower if sales taxes grow by a higher percentage than net subsidy. The ratio decreased from 75.5% in Fiscal Year 2016 to 74.2% in Fiscal Year 2017 due primarily to sales tax increasing faster than operating costs.

Subsidy Per Passenger

Subsidy per passenger measures the efficiency of our services. Specifically, it measures the amount of tax subsidy required each time a passenger uses our services. It is calculated as follows: operating expenses minus depreciation minus extraordinary items minus operating revenues divided by passenger boardings. Our goal is to minimize subsidy per passenger each year. For this to happen, ridership must grow at a higher percentage than net subsidy. Total system subsidy per passenger in Fiscal Year 2017 was \$6.36, a \$0.46 (7.8%) increase from Fiscal Year 2016. Fixed-route subsidy per passenger in Fiscal Year 2017 was \$5.98, a \$0.45 (8.14%) increase from Fiscal Year 2016. Subsidy per passenger for Fiscal Year 2017 ranged from a high of \$41.47 for paratransit service to a low of \$0.54 for vanpool service.

INFORMATION ABOUT DART’S TRANSPORTATION SYSTEM

The Current System

Our current mass transit services include:

- Bus Transit service (including DART On-Call and Flex services);
- DART Mobility Management services including ADA Complementary Paratransit services;
- Light rail transit service;
- Commuter rail service;
- Transportation Demand Management (TDM) services including RideShare matching services for carpools and vanpools; and

Special events service provided through the modes listed above.

During Fiscal Year 2017, we moved 65.8 million passengers. The following table highlights total system ridership by mode for the last ten years.

Fiscal Year	Bus	LRT*	Commuter Rail	HOV	Paratransit	TDM	Total**
2008	45.0	19.4	2.7	48.1	0.7	0.7	116.9
2009	43.1	18.9	2.8	51.0	0.8	0.9	117.5
2010	38.0	17.8	2.5	50.1	0.8	0.9	110.1
2011	37.2	22.3	2.4	48.0	0.8	1.0	111.8
2012	38.7	27.7	2.3	34.4	0.8	1.0	104.9
2013	38.0	29.5	2.1	36.3	0.7	0.9	107.5
2014	37.4	29.4	2.3	21.4	0.7	0.9	92.1
2015	36.5	29.9	2.2	22.3	0.8	0.9	92.5
2016	33.7	29.7	2.1	N/A	0.8	0.8	67.1
2017	32.1	30.1	2.1	N/A	0.8	0.7	65.8

* Automatic Passenger Counter (APC) data used beginning in 2012. These counters have proven to be considerably more accurate than our current manual ridership counting methodology. The APCs show that we have been underreporting ridership by approximately 15.5%.

* Streetcar ridership is included in the LRT totals.

**Reporting of HOV ridership was discontinued effective 10/01/2015. Total Agency Ridership will not match previously reported totals without HOV.

The system ridership and fixed-route ridership numbers are highlighted in the analysis given above. Fixed-route service includes bus, light rail, and commuter rail operations. Total system ridership includes fixed-route, paratransit, and vanpools. Ridership figures are based on the number of unlinked passenger boardings (each passenger boarding is counted as one trip). Total system ridership in Fiscal Year 2017 was 65.8 million, a decrease of 1.3 million (2.0%) from Fiscal Year 2016.

We contract for all of our paratransit and commuter rail services. While we remain responsible for these programs, our contracts establish operating performance standards which the contractors are expected to meet. We maintain an aggressive program to monitor and audit contractor compliance.

— ***Bus Transit (48.7% of total system ridership in Fiscal Year 2017)***

Our bus system provides local, express, crosstown, on-call, flex, feeder bus routes and site-specific shuttles. Local routes are focused on the Dallas Central Business District and serve the largest and densest concentration of employment in the service area. The routes are characterized by stops at one to two block intervals along their stop segments. Service is provided six to seven days a week.

— ***Light Rail Transit (45.8% of total system ridership in Fiscal Year 2017)***

Light Rail Transit is an electrically powered rail system that generally operates at street level A 20-mile “Starter System,” opened in phases from June 1996 through May 1997, connects South and West Oak Cliff, downtown Dallas, and the North Central Expressway corridor as far north as Park Lane in Dallas. In 2002, DART’s light rail was extended to North Dallas, Garland, Richardson, and Plano. In 2009, the first phase of the Green Line opened southeast of downtown Dallas with the remainder opening in 2010. In July 2012, the first segment of the Orange Line to Irving opened for service. In December 2012, Irving-2 and the Rowlett extension of the Blue Line opened for service. In August 2014, rail service opened at the Dallas-Fort Worth International Airport. A Blue Line extension to the University of North Texas – Dallas opened in October 2016, bringing the total light rail system to 93 miles.

— ***Commuter Rail (3.2% of total system ridership in Fiscal Year 2017)***

Our commuter rail system, commonly referred to as the Trinity Railway Express (the “TRE”), provides diesel powered passenger railroad services on the TRE Corridor between Dallas and Fort Worth, in mixed traffic with freight railroad operations. The 34-mile corridor is jointly owned by DART and the Fort Worth Transportation Authority (the “FWTA”). TRE service is provided pursuant to an interlocal agreement between DART and the FWTA. This agreement was originally entered into in 1994 and was restated and adopted by both Boards in 2003.

Pursuant to Trackage Rights Agreements, the Burlington Northern Santa Fe, the Dallas Garland and Northeastern, and the Union Pacific railroads pay a fee for the right to operate freight services on the TRE corridor. TRE, through its contractor, Herzog Transit Services, Inc., dispatches and maintains the corridor as well as operates the service and maintains the rolling stock used in the service.

— ***Paratransit (1.2% of total system ridership in Fiscal Year 2017)***

We are responsible for providing complementary paratransit service in accordance with the Americans with Disabilities Act of 1990 (“ADA”). In Fiscal Year 2013, we changed our delivery model to contractor-provided vehicles and per trip billing replacing per hour billing and a new contractor, MV Transportation, Inc. (MV), for providing Paratransit service. MV provides, operates, and maintains a fleet of 80 Starcraft vehicles in dedicated service. MV also oversees and manages a fleet of approximately 115 Dodge Entervans outfitted by Braun, which are taxi vehicles provided and operated by Irving Holdings.

— ***Transportation Demand Management (1.1% of total system ridership in Fiscal Year 2017)***

We work with area employers to develop strategies for reducing employee trips, such as carpools, vanpools, and flexible work schedules. We provide up to 179 vans for our vanpool program through a third-party contractor. We also assist customers in forming carpools. Prospective carpools can call in and provide us with information for our RideShare database. We then work to link-up customers with common trip origins and destinations.

Financial Plan

On September 26, 2017, the Board of Directors formally adopted the FY 2018 Annual Budget and Twenty-Year Financial Plan by Resolution numbers 170105, and 170104, respectively. Highlights of the FY 2018 Budget and Financial Plan are:

- The FY 2018 Annual Budget totals \$982.1 million; \$523.0 million in operating; \$265.3 million in capital; and \$193.8 million in debt service.
- DART is advancing a Program of Interrelated Projects to address capacity needs under the Federal Transit Administration (FTA) Capital Investment Grant Program. The Program consists of three significant projects: the second light rail alignment in the central business district (CBD) known as D2, platform modifications at 28 stations on the Red and Blue lines to accommodate three-car trains, and a central streetcar link in downtown Dallas. The Financial Plan also includes revenue service along the Cotton Belt Corridor in 2022. This service will connect with DART’s Green Line in Carrollton, the Red Line in Richardson and Plano, and the Orange Line at DFW Airport. Several regional sources of funds and scope modifications are detailed in the FY 2018 Business Plan (including the FY 2018 Annual Budget and Twenty-Year Financial Plan) posted on our website at www.dart.org.

Future Expansions

The Board periodically updates our Transit System Plan. The most recent update, the 2030 Transit System Plan, was adopted in October 2006. Several projects in the Transit System Plan have recently been completed or are in the planning and design stage. The Blue Line southern extension to the University of North Texas Dallas Campus (South Oak Cliff-3) opened in October 2016. In addition, the FTA has authorized DART to enter into Project Development for two projects under the FTA Core Capacity program: 1) the Red and Blue Line Platform Extensions project; and 2) the Dallas CBD Second Light Rail Alignment (D2). The Platform Extension project has completed the Project Development, and engineering was initiated in 2017 to support a completion date in 2021. The D2 project is currently under refinement from a mostly at-grade option to a subway running route. The project schedule was updated after selection of a refined alternative in summer 2017, at which time the Environmental Impact Statement (EIS) and preliminary engineering (PE) was reinitiated. In addition, as part of the adoption of the FY 2018 Twenty-Year Financial Plan, the DART Board restated the schedule for the Cotton Belt regional rail project, which is included in the FY 2018 Financial Plan and has a revenue service date of 2022. The PE/EIS effort was completed in 2017 to support the new service date of 2022.

DART has completed a draft of an update to the Transit System Plan for the year 2040, which is being developed in two phases. Phase 1 is completed and included a comprehensive operations analysis (COA) of the bus system and resulted in a Bus Service Plan that will be phased in over time. Phase 2 is underway and will identify long-term programs and projects. Several projects identified in the 2030 Transit System Plan remain deferred and are being reassessed for potential inclusion in the 2040 Transit System Plan. The new plan will also focus on system sustainability including low-cost initiatives to grow ridership, maintaining the system in a state of good repair, and regional opportunities. A draft 2040 Transit System Plan was completed in Calendar Year 2017 and will also be financially constrained.

LITIGATION

In Ordinary Course of Business

Typically, a number of claims, administrative appeals, and/or lawsuits arise from individuals and businesses in the ordinary course of our business that seek compensation for additional construction costs, labor, and employment claims, personal injuries, death, and/or property damage resulting from routine operation and development of our public transportation system. We do not believe that the outcome of these claims, administrative appeals, and/or lawsuits will have a material adverse effect on our financial condition. We have accrued an estimate of losses on such matters and have included this accrual in accounts payable and accrued liabilities in our consolidated balance sheets.

INVESTMENT CONSIDERATIONS

Source of Payment is Limited

The Bond Obligations will be special obligations of DART and will be secured by a lien on the Pledged Revenues.

The Bond Obligations are not debts or obligations of the State of Texas; nor are they the debt or obligation of any Participating Municipality. The Holders of Bond Obligations will never have the right to demand payment out of any of our funds other than the Pledged Revenues, unless we, in the case of Subordinate Lien Obligations, expressly and specifically pledge Special Revenues to such payment. We do have the right, however, but are not obligated, to enter into Credit Agreements with respect to any issue of Bond Obligations having any lien ranking as to Pledged Revenues. If we do so, the Holders of the issue of Bond Obligations to which a Credit Agreement relates will have such additional security as the Credit Agreement may provide, such as municipal bond insurance policies, bank-issued letters of credit, or other forms of credit enhancement.

Our Ability to Make Payments on Bond Obligations is Dependent Upon the Amount of Gross Sales Tax Revenues Actually Generated

Except for Bond Obligations that may be supported by a Credit Agreement, as discussed above, the only sources of security for the Bond Obligations will be the Gross Sales Tax Revenues collected by the Comptroller and remitted to the Trustee and the investments thereof, Federal Interest Subsidy, and the Pledged Farebox Revenues. Sales Tax receipts are impacted by changes in the economic activity and conditions of a municipality or geographic area, and the amount of Gross Sales Tax Revenues generated in any future year is not certain.

The Collection of the Sales Tax is Beyond Our Control

Generally, the seller of taxable items and services collects the Sales Tax from the consumer at the point of a taxable transaction and remits these taxes to the Comptroller. We do not control the Comptroller's collection efforts, and the Comptroller's collection efforts against a private seller of goods and services are subject to applicable State law and to federal bankruptcy code provisions with respect to the protection of debtors.

The Comptroller May Reduce Future Payments of our Gross Sales Tax Revenues or Require Us to Make Repayments to Provide for the Repayment of Overpayments of Gross Sales Tax Revenues that Occurred in Prior Periods

The Comptroller periodically identifies underpayments and overpayments of Gross Sales Tax Revenues and responds to claims by taxpayers. In the event that the Comptroller determines that we received an overpayment, our Gross Sales Tax Revenues for future periods are subject to reduction or we may be required to make a repayment in order to reimburse the overpayment. Under State law, DART has no legal standing or ability to intervene or appeal the Comptroller's determination. We have previously entered into two repayment agreements with the Comptroller regarding overpayments, approximately \$16.8 million (identified in 2006 and 2008) that will result in a reduction of our Gross Sales Tax Revenues in equal amounts of \$206,000 through March 2027.

We May Receive Payment of Gross Sales Tax Revenues Less Frequently

State law requires the Comptroller to remit Gross Sales Tax Revenues to us only on a quarterly basis. As a matter of convenience and accommodation to local taxing entities, the Comptroller remits Gross Sales Tax Revenues to us and other taxing entities on a monthly basis. While we have no reason to believe that the Comptroller's current practice will be discontinued, there is no assurance that the Comptroller will continue to remit Gross Sales Tax Revenues to us on a monthly basis. Thus, temporary cash flow irregularities could occur.

We May Experience Variations in our Gross Sales Tax Revenues

Variations in the amount of receipts can be adversely affected by a number of variables, including (1) changes in State laws and administrative practices governing the remittance and allocation of Sales Tax receipts, (2) changes in the tax base against which the Sales Tax is assessed, (3) changes in the economic activity and conditions of a municipality or geographic area, and (4) the withdrawal from DART of one or more of the Participating Municipalities. See, "DART'S FINANCIAL PRACTICES AND RESOURCES."

Ratings of the Obligations Do Not Assure Their Payment

The Bond Obligations may be rated by one or more nationally recognized rating agencies. Each Supplemental Disclosure Statement and Offering Memorandum and each Supplemental Official Statement will describe any rating(s) that may be applicable to a series of Bond Obligations. A rating reflects the rating agency's assessment of how likely it is that Holders of a class of securities will receive the payments to which they are entitled. A rating may not remain in effect for any given period of time, and a rating agency may lower or withdraw a rating entirely. A rating is not a recommendation to purchase, hold, or sell securities because it does not address the market price of the securities or the suitability of the securities for any particular investor.

CONTINUING DISCLOSURE OF INFORMATION

We have agreed voluntarily to replace this Annual Disclosure Statement on an annual basis and to update it after the first, second and third quarters of our fiscal year. These disclosure documents will be filed with the Municipal Securities Rulemaking Board ("MSRB") identified below, and will be posted on the Internet at our website, www.dart.org. We reserve the right to suspend or stop postings on the Internet and the annual and quarterly updates at any time.

However, we intend to comply fully with the terms of our agreement in the Master Debt Resolution undertaken pursuant to Rule 15c2-12 under the Securities Exchange Act of 1934 (the "Rule") for the benefit of the Holders and beneficial owners of Bond Obligations that are subject to the Rule. Under this agreement, so long as any covered Bond Obligations remain outstanding we will provide certain updated financial information and operating data annually, and timely notice of specified material events, to the MSRB.

Annual Reports Required by the Rule

We will provide certain updated financial information and operating data with respect to us and the System to the MSRB annually. This information includes all quantitative financial information and operating data with respect to us and our transportation system of the general type included in this Annual Disclosure Statement and in each Supplemental Disclosure Statement, if any, that is approved by a Supplemental Resolution with respect to Bond Obligations subject to the Rule.

We will update and provide this information within six months after the end of each fiscal year. We will provide the updated information to the MSRB in electronic format, which will be available to the public free of charge via the Electronic Municipal Access (“EMMA”) system at www.emma.msrb.org.

The updated information will include audited financial statements if they are completed by the required time. If audited financial statements are not available by the required time, we will provide unaudited financial statements by the required time, and will provide audited financial statements when and if an audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix A or such other accounting principles as we may be required to employ from time to time pursuant to state law or regulation.

Our fiscal year ends on September 30. Accordingly, we must provide updated information by the last day of March in each year, unless we change our fiscal year. If we change our fiscal year, we will notify the MSRB of the change.

Over and during the last five years, a notice of defeasance and redemption was not timely filed with respect to certain of its Senior Lien Sales Tax Revenue Refunding Bonds, Series 2007 that were refunded in December 2015. Also, certain annual and material filings inadvertently were not linked to certain of the related outstanding bonds. DART has updated its annual filings through EMMA and remedied any incorrect or missing CUSIP linkages for any series of bonds of which it is aware.

Material Event Notices Required by the Rule

We will also provide timely notices of any material events to the MSRB, in not more than ten Business Days after the occurrence, thereof, of any of the following events:

- (i) Principal and interest payment delinquencies;
- (ii) Nonpayment related default, 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-TED) or other material notices or determinations with respect to the tax status of Obligations, or other material events affecting the tax status of Obligations;
- (vii) Modifications to rights of Holders of Bond Obligations, if material;
- (viii) Bond Obligation call, if material and tender offers;
- (ix) Defeasances;
- (x) Release, substitution, or sale of property securing repayment of Bond Obligations, if material; or

- (xi) Rating changes;
- (xii) Bankruptcy, insolvency, receivership, or similar event of DART, which shall occur as described below;
- (xiii) The consummation of a merger, consolidation, or acquisition involving DART or the sale of all or substantially all of its assets, 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 paying agent/registrar or change in the name of the Paying Agent/Registrar, if material.

For these purposes, any event described in the immediately preceding clause (xii) is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for DART in a proceeding under the United States 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 DART, 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 of governmental authority having supervision or jurisdiction over substantially all of the assets or business of DART.

In addition, we will provide timely notice of any failure by us to provide information, data, or financial statements in accordance with our agreement under the Rule.

Availability of Information From MSRB

The information will be available to Holders of Bond Obligations free of charge through the MSRB's EMMA system at www.emma.msrb.org.

BOND RATINGS

The current underlying ratings for all the outstanding Senior Lien Obligations are "Aa2" by Moody's Investors Service, Inc. and "AA+" by Standard & Poor's Ratings Services, a Standard and Poor's Financial Service LLC business. The Series 2007 Bonds and the Series 2008 Bonds are rated "AA-" by Fitch Ratings.

OBLIGATIONS AS LEGAL INVESTMENTS

Under the Act, the Bond Obligations are authorized investments for banks, savings banks, trust companies, savings and loan associations, and insurance companies, and are eligible to secure the deposit of public funds of the State, a political subdivision of the State and any other political corporation of the State. For political subdivisions in Texas that have adopted investment policies and guidelines in accordance with the Public Funds Investment Act, a rating of "A" or better as to investment quality of the Bond Obligations by a national rating agency may be required before such obligations are eligible for investments for sinking funds and other public funds. We have not reviewed the laws in other states to determine whether our obligations are legal investments for various institutions in those states.

TRUSTEE AND PAYING AGENTS

The Trustee under the Master Debt Resolution is Amegy Bank, a division of ZB, National Association and its successors. A Paying Agent for each series of Bond Obligations issued under the Master Debt Resolution will be specified in the Supplemental Resolution creating such series.

LEGAL COUNSEL

The law firms of Bracewell LLP, 1445 Ross Avenue, Suite 3800, Dallas, Texas 75202, and West & Associates L.L.P., 320 S. R.L. Thornton Freeway, Suite 300, Dallas, Texas 75203, serve as our Co-Finance Counsel and as our Co-Bond Counsel with respect to the Obligations and other financial matters.

Subsequent to the close of fiscal year 2016, DART retained the services of a third firm, McCall Parkhurst & Horton, LLP, 717 N. Harwood Street, Suite 900, Dallas, Texas 75201, to serve as Co-Finance Counsel and Co-Bond Counsel with respective bond and note obligations relating to the Cotton Belt commuter rail corridor.

This Annual Disclosure Statement, in substantially the form and content presented above, was approved by the Board of Directors of DART on March 13, 2018.

/s/ Sue S. Bauman
Chair, Board of Directors

ATTEST:

/s/ Michele Wong Krause
Secretary, Board of Directors

/s/ Gary C. Thomas
President/Executive Director,
Dallas Area Rapid Transit

APPENDIX A

**Independent Auditors' Report with Audited Financial Statements
for the Fiscal Years ended September 30, 2017 and 2016**

Dallas Area Rapid Transit Dallas, Texas

Financial Statements and Supplemental Information
Years Ended September 30, 2017 and 2016 and
Independent Auditor's Report

**DALLAS AREA RAPID TRANSIT
DALLAS, TEXAS
FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED
SEPTEMBER 30, 2017 AND 2016**

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Directors
Dallas Area Rapid Transit
Dallas, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the Dallas Area Rapid Transit ("DART"), as of and for the years ended September 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise DART's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DART, as of September 30, 2017 and 2016, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Net Pension Liability, the Schedule of Employer's Contributions, and the Schedule of Funding Progress for Other Post Employment Benefits as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2018 on our consideration of DART's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering DART's internal control over financial reporting and compliance.



Crowe Horwath LLP

Dallas, Texas
January 26, 2018

**DALLAS AREA RAPID TRANSIT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016 (Dollars in Thousands)**

The management of Dallas Area Rapid Transit (DART) offers the users of DART's financial statements this narrative overview and analysis of the financial activities for the fiscal years ended September 30, 2017 and 2016. This discussion and analysis is designed to assist the reader to focus on significant financial activities and identify any significant changes in the financial position of DART. It should be read in conjunction with the financial statements that follow this section. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

As of September 30, 2017 and 2016, total assets and deferred outflows of resources of DART exceeded total liabilities by \$1,445,038 and \$1,570,583, respectively. The amount of unrestricted net position as of September 30, 2017, was \$543,815 compared to \$621,414 as of September 30, 2016.

The net position of DART decreased by \$125,545 during the current fiscal year compared to a decrease of by \$188,923 last year. The decreases in both 2017 and 2016 are due to expenses being higher than revenues.

DART's total debt decreased by \$81,971 (2%) during the current fiscal year compared to a decrease of \$218,168 (6%) in 2016. The decrease in 2017 was due to principal payments of bond, capital lease, and commercial paper notes. The decrease in 2016 was due to principal payments and advance refunding, and a termination of one of the two outstanding lease/leaseback obligations. Debt information is summarized on page 12 of this management discussion and analysis.

Sales and use tax revenue was \$567,418 in 2017 compared to \$545,907 in 2016. It increased by 4% (\$21,511) in 2017 compared to a 5% (\$26,459) increase in 2016.

Capital contributions from federal, state and local governments were \$10,843 in 2017 and \$5,026 in 2016. Such contributions were used to finance DART's transit system expansion projects and acquisition of light rail vehicles, buses and equipment.

Other federal grants were \$68,564 in 2017 compared to \$43,731 in 2016.

For fiscal year 2017, total expenses exceeded total revenues resulting in a loss before capital contributions of \$136,388 compared to \$193,949 for 2016. The loss in 2017 is lower than that of 2016 due to increases in sales tax and grant revenues and decreases in total expenses as shown on page 8.

BASIC FINANCIAL STATEMENTS

Management's Discussion and Analysis serves as an introduction to DART's basic financial statements. DART's basic financial statements are comprised of four components: Statements of Net Position; Statements of Revenues, Expenses, and Changes in Net Position; Statements of Cash Flows; and Notes to the Financial Statements.

The Statements of Net Position present information on all of DART's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Assets plus deferred outflows of resources, less liabilities, less deferred inflows of resources equals net position. Over time, increases or decreases in net position may serve as a useful indicator of changes in the financial position of DART. The Statements of Net Position are shown on page 14 of this report.

The Statements of Revenues, Expenses, and Changes in Net Position present information on revenues, expenses, capital contributions, and how DART's net position changed during the two most recent fiscal years. All changes in net position are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of related cash flows. Thus, revenues, expenses, and capital contributions are reported in the statements for some items that result in cash flows only in future fiscal periods. The increase or decrease in net position may serve as an indicator of the effect of DART's current year operation on its financial position. The Statements of Revenues, Expenses, and Changes in Net Position are shown on page 15 of this report.

**DALLAS AREA RAPID TRANSIT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016 (Dollars in Thousands)**

The Statements of Cash Flows summarize all of DART's cash flows into four categories: cash flows from operating activities; cash flows from non-capital financing activities; cash flows from investing activities; and cash flows from capital and related financing activities. The statements of cash flows, along with related notes and information in other financial statements, can be used to assess the following: DART's ability to generate positive cash flows and pay its debt as the debt matures; the reasons for differences between DART's operating cash flows and operating income (loss); and the effect of cash and non-cash investing, capital, and financing activities on DART's financial position. The Statements of Cash Flows are shown on pages 16-17 of this report.

Notes to the Financial Statements provide additional information that is essential to fully understand the data provided in the Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, and Statements of Cash Flows. The Notes to the Financial Statements are shown on pages 18-43 of this report.

DART's activities are accounted for as a proprietary fund and are presented in the financial statements of DART as business type activities. The activities of DART are supported by a 1% sales and use tax within the member jurisdictions, fare collections, federal, state, and local financial assistance, and other receipts such as advertising and rental income.

The financial statements of DART include the accounts and operations of blended component units Regional Rail Right-of-Way Corporation and Dallas Area Rapid Transit Bus Service, LGC.

FINANCIAL ANALYSIS

Statements of Net Position – DART's total assets and deferred outflows of resources exceeded total liabilities by \$1,445,038 and \$1,570,583 as of September 30, 2017 and 2016, respectively. The largest portion of this excess (58% in 2017 and 56% in 2016) was net investment in capital assets (capital assets less related outstanding debt). DART uses these capital assets to provide public transportation services to customers and member jurisdictions; consequently, these assets are not available for future spending. Although DART's investments in capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be obtained from other sources such as sales and use tax and farebox revenues, since the capital assets themselves cannot be used to liquidate these liabilities.

Condensed Summary of Assets, Liabilities, Deferred Inflows of Resources, and Net Position			
	2017	2016	2015
Current assets	\$886,981	\$969,600	\$1,123,204
Other non-current assets	136,856	136,246	232,349
Capital assets (net of accumulated depreciation)	4,391,215	4,543,656	4,681,920
Total assets	5,415,052	5,649,502	6,037,473
Deferred outflows of resources	86,293	101,279	45,682
Total assets and deferred outflows of resources	5,501,345	5,750,781	6,083,155
Current liabilities	439,762	476,029	527,781
Non-current liabilities	3,614,367	3,699,634	3,793,857
Total liabilities	4,054,129	4,175,663	4,321,638
Deferred inflows of resources	2,178	4,535	2,011
Total liabilities and deferred inflows of resources	4,056,306	4,180,198	4,323,649
Net position			
Net investment in capital assets	837,067	881,241	938,644
Restricted for:			
Debt service	56,405	59,368	49,757
Security for lease/leaseback liabilities	7,751	8,560	9,334
Unrestricted	543,815	621,414	761,771
Total net position	\$1,445,038	\$1,570,583	\$1,759,506

**DALLAS AREA RAPID TRANSIT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016 (Dollars in Thousands)**

Current assets decreased by \$82,619 in 2017 compared to a decrease of \$153,604 in 2016. The decreases in both 2017 and 2016 were due to spending on acquisition and construction of capital assets.

Other non-current assets increased by \$610 in 2017 compared to a decrease of \$96,103 in 2016. The increase in 2017 is mainly due to a gain on investment in HOV lanes. The decrease in 2016 is due to a decrease in restricted investments held for lease/leaseback obligations as a result of a capital lease that was terminated in November 2015.

As of September 30, 2017, \$7,751 of DART's net position is restricted to satisfy the requirements of an amended lease/leaseback agreement compared to \$8,560 as of September 30, 2016. The unrestricted portion of net position, \$543,815 in 2017 and \$621,414 in 2016 represent resources available to meet DART's ongoing obligations. The DART Board committed \$86,110 and \$71,876 of the unrestricted net position for self-insurance, financial, and capital reserves in 2017 and 2016. The decrease in unrestricted net position of \$77,599 (12%) in 2017 was due to spending on capital projects. The decrease in unrestricted net position of \$140,357 (18%) in 2016 was due to an increase in expenses and payment of commercial paper notes and a decrease in grant revenue.

Statements of Revenues, Expenses, and Changes in Net Position – During fiscal year 2017, DART's activities resulted in a decrease in net position of \$125,545 compared to a decrease in net position of \$188,923 in 2016. The decrease during both 2017 and 2016 are due to expenses being higher than revenues. The key elements of the changes in net position for the fiscal years ended September 30, 2017 and 2016 with comparative information for 2015 are shown in the following table.

Summary of Revenues, Expenses, and Changes in Net Position			
	2017	2016	2015
Operating revenues			
Passenger revenues	\$65,412	\$67,749	\$71,012
Advertising, rent and other	14,175	14,121	14,412
Total operating revenues	79,587	81,870	85,424
Operating expenses			
Labor	239,382	229,795	220,723
Benefits	103,288	96,528	96,432
Services	40,883	41,998	35,785
Materials and supplies	43,203	43,458	38,487
Purchased transportation	52,531	50,316	45,608
Depreciation	239,381	246,794	239,439
Utilities	18,830	18,008	17,983
Taxes, leases, and other	4,778	4,835	4,829
Casualty and liability	3,238	7,536	5,983
Total operating expenses	745,514	739,268	705,269
Operating loss	(665,927)	(657,398)	(619,845)
Non-operating revenues (expenses)			
Sales and use tax revenue	567,418	545,907	519,448
Investment income	13,815	14,888	23,479
Build America Bonds tax credit	28,381	28,391	28,289
Other federal grants	68,564	43,731	82,112
Other non-operating revenues	17,552	16,412	24,371
Interest expense	(163,620)	(172,340)	(185,933)
Gain (loss) on HOV lane investments	600	(3,100)	(66,465)
Street improvements for member cities	(20)	(501)	(560)
Other non-operating expenses	(3,151)	(9,939)	(13,691)
Transfer of assets to the City of Dallas	-	-	(19,041)
Total net non-operating revenues	529,539	463,449	392,009
Loss before capital contributions and grants	(136,388)	(193,949)	(227,836)
Capital contributions	10,843	5,026	18,400
Decrease in net position	(125,545)	(188,923)	(209,436)
Net position, beginning of the year (as restated)	1,570,583	1,759,506	1,968,942
Net position, end of the year	\$1,445,038	\$1,570,583	\$1,759,506

Significant changes in revenues and expenses are shown and explained on the following pages.

**DALLAS AREA RAPID TRANSIT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016 (Dollars in Thousands)**

REVENUES

The following table summarizes revenues for fiscal years 2017 and 2016 with comparative information for 2015:

REVENUES AND CAPITAL CONTRIBUTIONS

Revenues	2017	2016	2015
Passenger revenues	\$65,412	\$67,749	\$71,012
Advertising, rent and other	14,175	14,121	14,412
Sales and use tax revenue	567,418	545,907	519,448
Other federal grants	68,564	43,731	82,112
Investment income	13,815	14,888	23,479
Capital contributions	10,843	5,026	18,400
Build America Bonds tax credit	28,381	28,391	28,289
Other revenues	18,152	16,412	24,371
Total	\$786,760	\$736,225	\$781,523

Passenger revenues – Include farebox receipts, monthly and annual pass revenues, paratransit revenue, and special event fares. Passenger revenues decreased by \$2,337 (3%) in 2017 compared to a decrease of \$3,263 (5%) in 2016. The decreases in both 2017 and 2016 were due to decreases in ridership.

Advertising, rent and other – Advertising income includes revenues from advertisements at transit stations, on DART buses, and electronic signs on light rail cars. Rental income includes revenue from the rental of land along the rail corridor and other properties. Advertising, rent and other income increased by less than 1% (\$54) in 2017 compared to a decrease of 2% (\$291) in 2016. The increase in 2017 is because of increased rental income as a result of higher use of DART rail right-of-way track miles by railroad companies. The decrease in 2016 is because no media partnership advertising revenue (barter advertising) was recognized during 2016.

Sales and use tax revenue – Sales and use tax revenue is a dedicated 1% tax imposed on certain items within DART's member jurisdictions or service area. Sales and use tax revenue increased by 4% (\$21,511) in 2017 compared to an increase of 5% (\$26,459) in 2016. The increases in both 2017 and 2016 are due to a relative improvement in the local economy resulting in better than previous years' retail sales. Sales and use tax revenue constituted approximately 72% of DART's total revenues in 2017 compared to 74% in 2016.

Other federal grants – Other federal grant revenues increased by 57% (\$24,833) in 2017 compared to a decrease of 47% (\$38,381) in 2016. The increase in 2017 is due to receipt of delayed federal funding. The decrease in 2016 was due to less federal grant money made available to DART.

Capital contributions – Capital contributions include federal, state and local grants and contributions. Capital contributions increased by 116% (\$5,817) in 2017 compared to a decrease of 73% (\$13,374) in 2016. The increase in 2017 is due to receipt of delayed federal funding. The decrease 2016 was mainly due to lower federal and state capital contributions as a result of completion of projects funded with such grants.

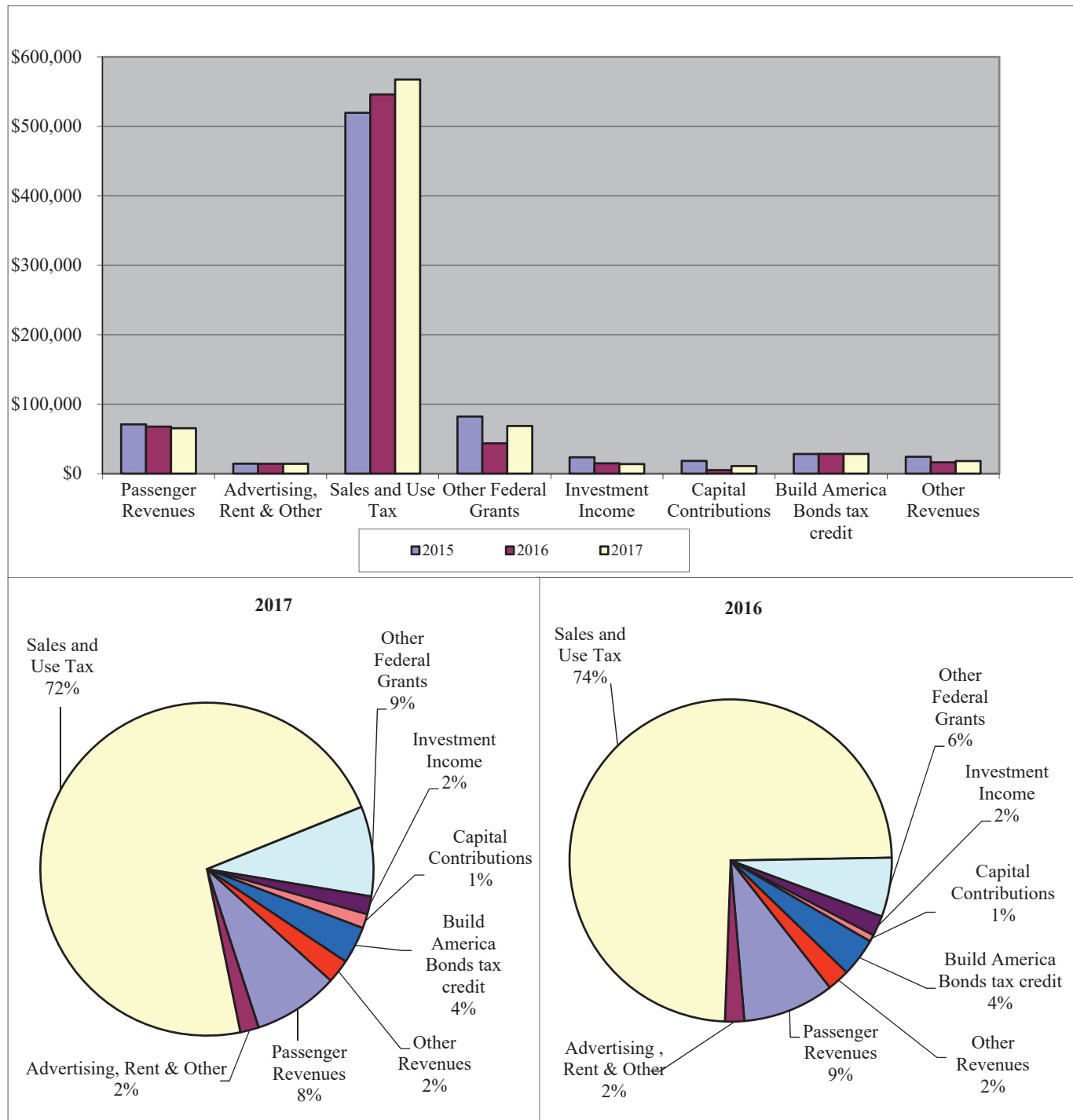
Investment income – Investment income decreased by 7% (\$1,073) in 2017 compared to a decrease of 37% (\$8,591) in 2016. The decrease in 2017 is due to a decrease in total investments and a decrease in the market value of investments held at year-end. The decrease in 2016 is due to a decrease in investments held to pay lease/leaseback obligations as a result of the termination of one of the two remaining capital lease obligations and a decrease in the market value of the DART investment portfolio.

Build America Bonds tax credit – The Build America Bonds (BABs) tax credit decreased by \$10 in 2017 compared to an increase of \$102 in 2016. The changes in both 2017 and 2016 were due to changes in the rate of budget cut by the federal government compared to prior years.

Other revenues – Other revenues increased by 11% (\$1,740) in 2017 compared to a decrease of 33% (\$7,959) in 2016. Other revenues include: revenues from billings to the Fort Worth Transportation Authority (The T) for their share of the Trinity Railway Express (TRE) commuter rail service; billings to the University of Texas at Dallas (UTD) for their share of the UTD shuttle service; and recognition of Toll Credits received from the State of Texas. The increase in 2017 is due to a gain on sale of twelve rail diesel cars. The decrease in 2016 was due to a lower amount of Toll Credits received from the State of Texas compared to the previous year.

**DALLAS AREA RAPID TRANSIT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016 (Dollars in Thousands)**

The following charts summarize revenues for fiscal years 2015 through 2017:



**DALLAS AREA RAPID TRANSIT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016 (Dollars in Thousands)**

EXPENSES

The following table summarizes expenses for fiscal year 2017 and 2016 with comparative information for 2015:

Expenses	EXPENSES BY OBJECT CLASS		
	2017	2016	2015
Labor	\$239,382	\$229,795	\$220,723
Benefits	103,288	96,528	96,432
Services	40,883	41,998	35,785
Materials and supplies	43,203	43,458	38,487
Purchased transportation	52,531	50,316	45,608
Depreciation and amortization	239,381	246,794	239,439
Utilities	18,830	18,008	17,983
Taxes, leases and other	4,778	4,835	4,829
Casualty and liability	3,238	7,536	5,983
Street improvements for member cities	20	501	560
Interest and financing expenses	163,620	172,340	185,933
Other non-operating expense	3,151	9,939	13,691
Loss on HOV lane investments	-	3,100	66,465
Transfer of assets to the City of Dallas	-	-	19,041
Total	\$912,305	\$925,148	\$990,959

Labor – Labor costs increased by 4% (\$9,587) in 2017 compared to an increase of 4% (\$9,072) in 2016. The increases in both 2017 and 2016 are due to merit increases and more positions filled.

Benefits – Benefits increased by 7% (\$6,760) in 2017 compared to an increase of 0.1% (\$96) in 2016. The increase in 2017 was due to an increase in employee medical claims and an increased contribution requirement to the retiree healthcare and life insurance plan. The increase in 2016 is due to workers' compensation claims as a result of large claims.

Services – Services include contracted services such as: security, vehicles, equipment and right-of-way maintenance, advertising, marketing, computing, communication, legal, governmental, and environmental services. Services decreased by 3% (\$1,115) in 2017 compared to an increase of 17% (\$6,213) in 2016. The decrease in 2017 is due to completion of some of the right-of-way maintenance projects resulting in lower expenditures. The increase in 2016 is due to increased spending on maintenance of rail right of way and other facilities, software maintenance and license, and technology-related consulting.

Materials and supplies – Materials and supplies include the cost of fuel, parts and supplies used to operate and maintain vehicles, equipment, and facilities. Materials and supplies expenses decreased by 1% (\$255) in 2017 compared to an increase of 13% (\$4,971) in 2016. The decrease in 2017 was due to savings on the fuel hedge contract payment because of a relative increase in the market price of fuel. The increase in 2016 was due to the need for more bus and rail parts as vehicles aged. Investments made in upgrading DART technology software and hardware also contributed to the increase.

Purchased transportation – Purchased transportation represents the costs of contracted transportation services such as commuter rail, paratransit, DART on-call, and shuttle services. Purchased transportation expenses increased by 4% (\$2,215) in 2017 compared to an increase of 10% (\$4,708) in 2016. The increase in 2017 is mainly due to increases in University of Texas at Dallas (UTD) shuttle service costs, and commuter rail fuel cost. Both DART and UTD contribute to the cost of the UTD shuttle service. DART's share of the cost increased when DART took over the service contract for the UTD shuttle service in 2017. The increase in 2016 is due to rate increases in the commuter rail and paratransit services contracts.

Depreciation – Depreciation expenses decreased by 3% (\$7,413) in 2017 compared to an increase of 3% (\$7,355) in 2016. The decrease in 2017 was due to rail diesel cars that were fully depreciated in the previous year. The increase in 2016 is due to a change in the estimated useful lives of some commuter rail vehicles which resulted in additional depreciation expense being booked during 2016.

Utilities – Utilities represent the cost of electricity, telecommunications, water, sewer, and natural gas. Utilities increased by 5% (\$822) in 2017 compared to an increase of less than 1% (\$25) in 2016. The increase in 2017 is due to greater electricity consumption because of expanded light rail and street car services. Also, an increased use of computer data lines contributed to the increase in utilities expense. The slight increase in 2016 is due to more consumption of electricity for the streetcar service.

**DALLAS AREA RAPID TRANSIT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016 (Dollars in Thousands)**

Taxes, leases, and other – Taxes, leases, and other includes fuel and lube taxes, equipment rentals, leases of operating and passenger facilities, training, travel, business meetings, membership dues, subscriptions, employee programs and allowance for uncollectible receivables. Taxes, leases, and other expenses decreased slightly by 1% (\$57) in 2017 compared to an increase of 0.1% (\$6) in 2016.

Casualty and liability – Casualty and liability expenses decreased by 57% (\$4,298) in 2017 compared to an increase of 26% (\$1,553) in 2016. The decrease in 2017 and increase in 2016 were due to changes in estimates of claim losses.

Street improvements – Local assistance is provided to eligible member jurisdictions in the form of technical and financial assistance to reduce traffic congestion and complement bus and public transit operations. The street improvement program costs decreased by 96% (\$481) in 2017 compared to a decrease of 11% (\$59) in 2016. The decrease in both 2017 and 2016 was due to less work on intelligent transportation systems because of projects getting close to completion.

Interest and financing expenses – Interest expense decreased by 5% (\$8,720) in 2017 compared to a decrease of 7% (\$13,593) in 2016. The decreases in both 2017 and 2016 were due to savings in interest expense because of bond refunding (refinancing). A decrease in capital lease/leaseback obligations due to termination of one of the two remaining lease/leaseback transactions in November 2015 also contributed to the decreases.

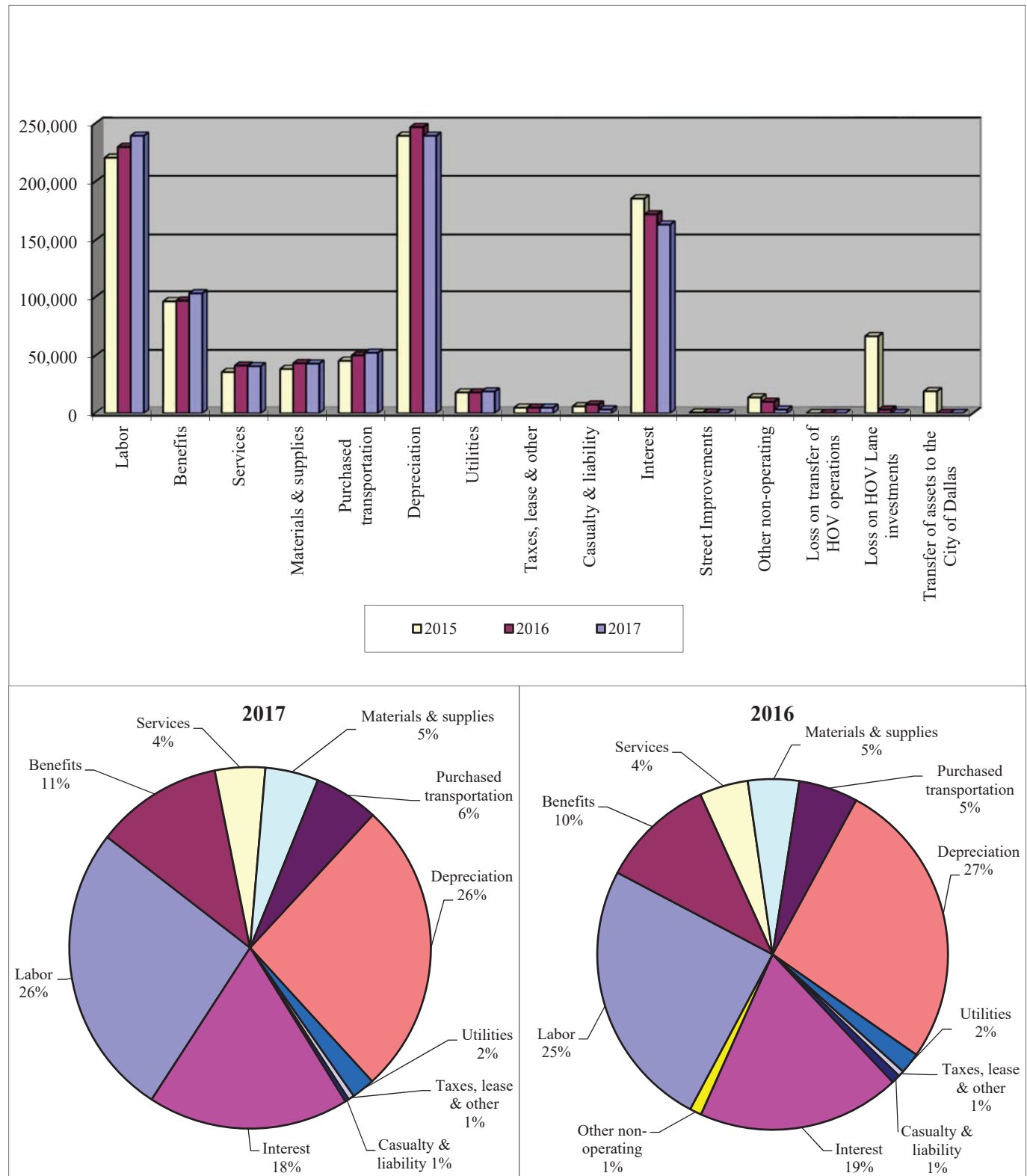
Other non-operating expenses – Other non-operating expenses decreased by 68% (\$6,788) in 2017 compared to a decrease of 27% (\$3,752) in 2016. During 2017, no payment related to HOV Lane projects was made and this resulted in a decrease in non-operating expenses. In 2016, a lower amount of Toll Credit related expenses were incurred compared to 2015 resulting in lower non-operating expenses.

Gain (loss) on HOV lane investments – DART and TxDOT entered into agreements related to two managed HOV lane projects. In anticipation that DART would participate in a toll revenue stream, DART provided a portion of the funding for the two projects. DART's portion of the funding is recorded as Investment in Managed HOV Lane Agreements on the Statements of Net Assets. Every year a financial analysis of the value of DART investment in Managed HOV Lane projects is performed. As of September 30, 2017 and 2016, the value is estimated to be \$11.1 million and \$10.5 million, respectively. A decline in value in the amount of \$3,100 in 2016 was recorded as a loss on HOV lane investments whereas a gain of \$600 was recorded in 2017.

Transfer of assets to the City of Dallas – DART and the City of Dallas entered into various agreements related to the Dallas Streetcar programs and one transit related development project. Under these agreements, DART plays the role of project manager for the City of Dallas to build/acquire assets and the City owns, maintains and uses the assets. With respect to such projects, DART bought the initial two streetcar vehicles by paying up to \$9 million of the cost with its own money, and transferred the ownership of the vehicles to the City of Dallas. In the remaining two projects, DART is the grant recipient of the funding obtained from the Federal Transit Administration for the projects. As a result, DART kept the assets on its books and transferred them to the City of Dallas when the assets were placed in service. The transfer of assets worth \$19 million took place during 2015. This was shown in the Statements of Revenues, Expenses, and Changes in Net Position as Transfer of assets to the City of Dallas in the 2015 fiscal year.

**DALLAS AREA RAPID TRANSIT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016 (Dollars in Thousands)**

The following charts summarize expenses for fiscal years 2015 through 2017:

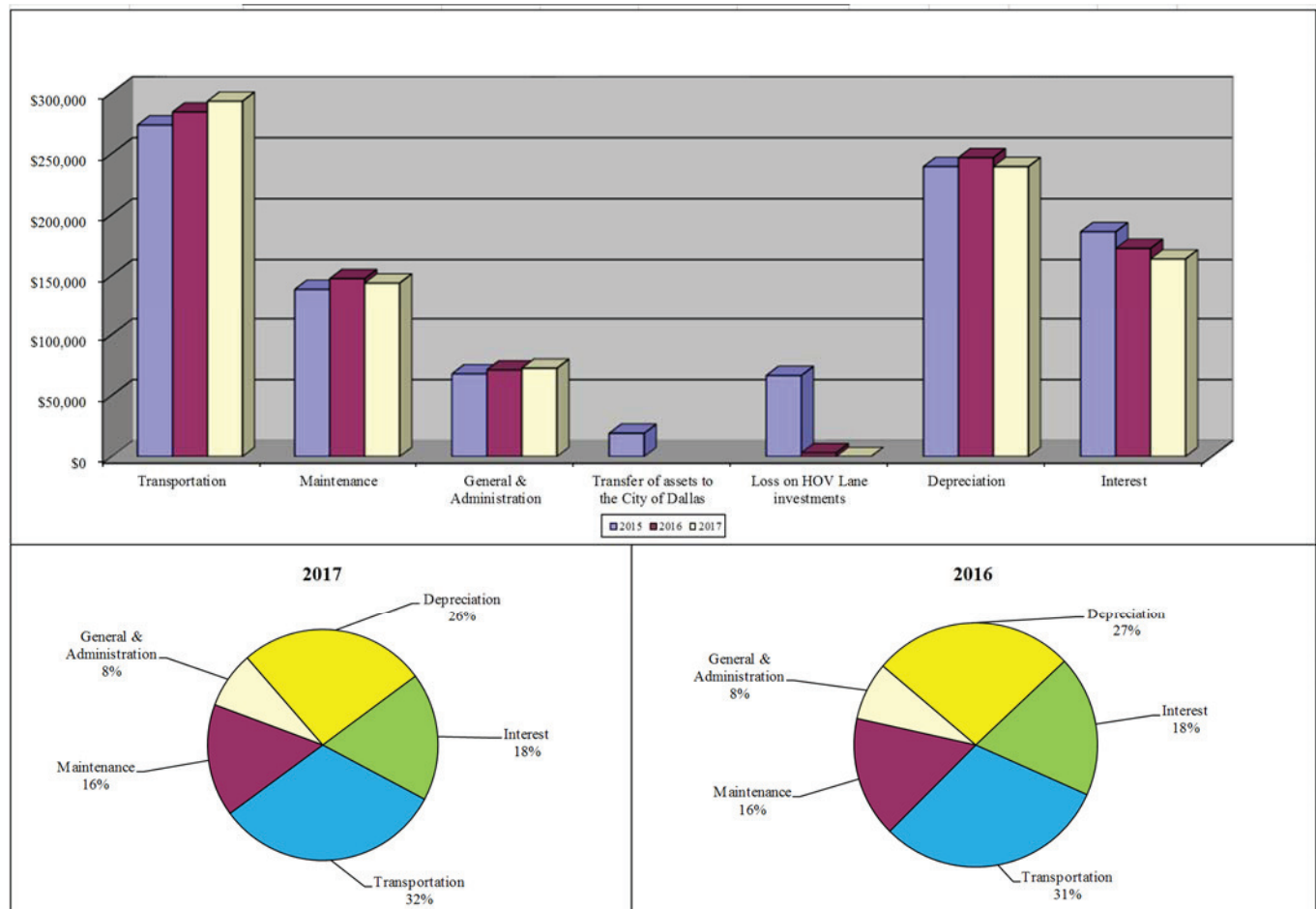


**DALLAS AREA RAPID TRANSIT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016 (Dollars in Thousands)**

Expenses by function – *Transportation* - includes expenses that are directly related to the operation of bus, light rail, commuter rail, vanpool, paratransit, and DART on-call and shuttle services. These expenses include such items as wages and benefits for operators, transit center service employees, transportation supervisors and managers, DART police, cost of fuel, tires and tubes, propulsion power, purchased transportation, customer service, revenue collection, and other related costs. *Maintenance* – includes labor costs and benefits for vehicle and facility maintenance, materials and supplies, utilities, and all other costs incurred for maintenance purposes. *General and administration* – includes administrative personnel costs, benefits, accident, general liability and contract claims, street improvements, and other related costs. *Depreciation* – includes depreciation expense on all depreciable capital assets. *Interest* – includes interest expense incurred on debt net of capitalized interest.

EXPENSES BY FUNCTION

	2017	2016	2015
Transportation	\$293,060	\$284,136	\$273,552
Maintenance	143,845	147,499	138,662
General and administration	72,399	71,279	67,867
Loss on HOV lane investments	-	3,100	66,465
Transfer of assets to the City of Dallas	-	-	19,041
Depreciation and amortization	239,381	246,794	239,439
Interest	163,620	172,340	185,933
Total	\$912,305	\$925,148	\$990,959



**DALLAS AREA RAPID TRANSIT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016 (Dollars in Thousands)**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets – Investment in capital assets includes: land and rights-of-way; transitways; buildings and improvements; revenue and non-revenue vehicles and equipment; and furniture, fixtures, and leasehold improvements. DART's investment in capital assets as of September 30, 2017, is \$4,391,215 compared to \$4,543,656 in 2016. The net decrease in capital assets during 2017 is \$152,441 (3%) compared to a decrease of \$138,264 (3%) in 2016.

The following table summarizes capital assets net of depreciation as of September 30, 2017 and 2016 with comparative information for 2015.

Capital Assets (Net of Depreciation)			
	2017	2016	2015
Land and rights-of-way	\$619,026	\$615,709	\$616,728
Projects in progress	66,867	190,992	101,124
Transitways	2,695,295	2,671,832	2,800,198
Buildings and improvements	358,555	382,561	406,635
Revenue and non-revenue vehicles and equipment	645,335	676,793	750,296
Furniture, fixtures, and leasehold improvements	6,137	5,769	6,939
Total	<u>\$4,391,215</u>	<u>\$4,543,656</u>	<u>\$4,681,920</u>

The net decreases in both 2017 and 2016 are due to depreciation. However, there were increases before depreciation in both fiscal years due to the cost of planning, designing and building the Light Rail Transit (LRT) Phase III expansions and new buses placed in service. The Phase III light rail build-out consists of approximately a three-mile extension of the Blue Line from Ledbetter Station toward the University of North Texas (UNT) Dallas Campus located at the southeast corner of Camp Wisdom Road and University Hills Blvd.

Additional information on DART's capital assets is shown in note 7 on pages 27-28.

Outstanding debt – Outstanding debt includes sales tax revenue commercial paper notes, senior lien revenue bonds, TIFIA bonds payable, and capital lease/leaseback liabilities. As of September 30, 2017, DART had total outstanding debt of \$3,518,574 compared to \$3,600,545 as of September 30, 2016. Outstanding debt decreased by 2% (\$81,971) in 2017 compared to a decrease of 6% (\$218,168) in 2016.

The following table summarizes DART's total outstanding debt.

	2017	2016	2015
Sales tax revenue commercial paper notes	\$140,000	\$170,000	\$200,000
Senior lien revenue bonds payable	3,163,890	3,215,820	3,312,615
TIFIA bonds payable	102,968	105,000	105,000
Capital lease/leaseback liabilities	111,716	109,725	201,098
Total debt	<u>\$3,518,574</u>	<u>\$3,600,545</u>	<u>\$3,818,713</u>

The sales tax revenue commercial paper notes outstanding balance was \$140,000 as of September 30, 2017, compared to \$170,000 as of September 30, 2016. Commercial paper notes are issued as a senior subordinate lien to sales and use tax revenues and are payable from the 1% sales and use tax receipts. The decreases during both 2017 and 2016 were due to payments made on commercial paper notes.

Senior lien revenue bonds outstanding are \$3,163,890 as of September 30, 2017, and \$3,215,820 as of September 30, 2016. These are senior lien bonds secured by and payable from the 1% sales and use tax receipts and farebox revenues (pledged revenues). The decrease of \$51,930 is due to principal payment during 2017. The decrease of \$96,795 is due to principal payment and advance refunding during 2016. Although the face value of the bonds increased, overall financing costs decreased during 2016. The senior lien revenue bonds shown above are at face value. The amounts shown in the Statements of Net Position include the unamortized balance of original issuance premium of \$201,935 and \$221,664 as of September 30, 2017 and 2016, respectively.

During 2017, DART maintained a AA+ credit rating from Standard & Poor's, Aa2 from Moody's, and AA from Fitch for its bonds.

**DALLAS AREA RAPID TRANSIT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)****FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016 (Dollars in Thousands)**

TIFIA bonds payable are \$102,968 as of September 30, 2017, compared to \$105,000 as of September 30, 2016. On December 13, 2012, DART entered into a Transportation Infrastructure Finance and Innovation Act (TIFIA) financing agreement with the U.S. Department of Transportation (DOT). Under this loan agreement, DART issued a Senior Lien Obligation bond to borrow up to \$105,000 from the DOT. The proceeds from the bond were used to pay for the cost of the third phase of DART's light rail Orange Line extension project, which extends DART's light rail service from Irving to the Dallas Fort Worth International Airport. The TIFIA financing agreement is reimbursement-based and DART requested the money after paying for the capital project costs. The TIFIA bond is a Senior Lien Obligation and is secured by and payable from Pledged Revenues on parity with other Senior Lien Obligations.

Capital lease/leaseback liabilities are \$111,716 and \$109,725 as of September 30, 2017 and 2016, respectively. The increase in 2017 is due to accrued interest. Of the decrease in capital lease/leaseback liabilities in 2016, \$91,373 (45%) was due to a termination of one of the outstanding lease/leaseback obligations in November 2015.

Additional information on DART's outstanding debt is shown in notes 11-16.

ECONOMIC OUTLOOK

Sales and use tax is the largest source of revenue for DART, representing 72% of total revenues in 2017 compared to 74% in 2016. Sales and use tax revenues are affected by changes in the local economy. During fiscal year 2017, DART's sales and use tax revenues showed a 4% increase compared to the previous year. Actual sales and use tax revenues in 2017 are \$567,418 compared to \$545,907 in 2016. The sales and use tax budget for 2018 is \$593,873 compared to \$567,418 actual for 2017. The budget for 2018 represents a 4.7% increase from the 2017 actual sales and use tax revenues.

REQUESTS FOR INFORMATION

This financial report is designed to provide our member jurisdictions, customers, investors, and creditors with a general overview of DART's finances. If you have questions concerning any of the information provided in this report or need additional financial information, contact the Chief Financial Officer at Dallas Area Rapid Transit, 1401 Pacific Avenue, P.O. Box 660163, Dallas, TX 75266-7220.

**DALLAS AREA RAPID TRANSIT
STATEMENTS OF NET POSITION**

SEPTEMBER 30, 2017 AND 2016 (Dollars in Thousands)

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$39,938	\$53,651
Investments	498,204	562,223
Sales and use tax receivable	95,344	94,308
Transit revenue receivable, net	8,528	5,610
Due from federal and other governments	19,959	29,865
Materials and supplies inventory, net	34,856	33,828
Prepaid transit expense and other	4,176	4,385
Restricted investments held by trustee for debt service	111,734	112,301
Restricted investments held for advance funding agreements	67,868	67,055
Restricted investments held to pay capital lease/leaseback liabilities	6,374	6,374
TOTAL CURRENT ASSETS	886,981	969,600
NONCURRENT ASSETS		
Restricted investments held as security for capital lease/leaseback liabilities	7,751	8,560
Investment in joint venture	12,030	13,128
Investment in managed HOV lane agreements	11,100	10,500
Capital assets		
Land and rights-of-way	619,026	615,709
Projects in progress	66,867	190,992
Depreciable capital assets, net of depreciation	3,705,322	3,736,955
Restricted investments held to pay capital lease/leaseback liabilities	105,342	103,351
Unamortized bond insurance premium and other	633	707
TOTAL NONCURRENT ASSETS	4,528,071	4,679,902
TOTAL ASSETS	5,415,052	5,649,502
DEFERRED OUTFLOWS OF RESOURCES	86,293	101,279
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	5,501,345	5,750,781
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	60,806	56,011
Commercial paper notes payable	140,000	170,000
Current portion of capital lease/leaseback liabilities	6,374	6,374
Current portion of repayment due to State Comptroller	824	824
Local Assistance Program payable	685	685
Retainage payable	6,968	23,205
Unearned revenue and other liabilities	112,840	112,035
Accrued interest payable from restricted assets	55,329	52,933
Current portion of senior lien revenue bonds payable	55,936	53,962
TOTAL CURRENT LIABILITIES	439,762	476,029
NONCURRENT LIABILITIES		
Accrued liabilities	37,113	36,313
Net pension liability	52,127	63,697
Repayment due to State Comptroller	6,927	7,751
Senior lien revenue bonds payable	3,311,980	3,385,554
Transportation Infrastructure Finance and Innovation Act (TIFIA) bonds payable	100,878	102,968
Capital lease/leaseback liabilities	105,342	103,351
TOTAL NONCURRENT LIABILITIES	3,614,367	3,699,634
TOTAL LIABILITIES	4,054,129	4,175,663
DEFERRED INFLOWS OF RESOURCES	2,178	4,535
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	4,056,307	4,180,198
NET POSITION		
Net investment in capital assets	837,067	881,241
Restricted for debt service	56,405	59,368
Restricted as security for capital lease/leaseback liabilities	7,751	8,560
Unrestricted	543,815	621,414
TOTAL NET POSITION	\$1,445,038	\$1,570,583

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

**DALLAS AREA RAPID TRANSIT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016 (Dollars in Thousands)**

	2017	2016
OPERATING REVENUES		
Passenger revenues	\$65,412	\$67,749
Advertising, rent, and other	14,175	14,121
TOTAL OPERATING REVENUES	<u>79,587</u>	<u>81,870</u>
OPERATING EXPENSES		
Labor	239,382	229,795
Benefits	103,288	96,528
Services	40,883	41,998
Materials and supplies	43,203	43,458
Purchased transportation	52,531	50,316
Depreciation and amortization	239,381	246,794
Utilities	18,830	18,008
Taxes, leases, and other	4,778	4,835
Casualty and liability	3,238	7,536
TOTAL OPERATING EXPENSES	<u>745,514</u>	<u>739,268</u>
NET OPERATING LOSS	<u>(665,927)</u>	<u>(657,398)</u>
NON-OPERATING REVENUES (EXPENSES)		
Sales and use tax revenue	567,418	545,907
Investment income	5,450	5,552
Interest income from investments held to pay capital lease/leaseback	8,365	9,336
Interest expense on capital lease/leaseback	(8,365)	(9,336)
Gain(loss) on HOV lane investments	600	(3,100)
Street improvements	(20)	(501)
Interest and financing expenses	(155,255)	(163,004)
Build America Bonds tax credit	28,381	28,391
Other federal grants	68,564	43,731
Other non-operating revenues	17,552	16,412
Other non-operating expenses	(3,151)	(9,939)
NET NON-OPERATING REVENUES	<u>529,539</u>	<u>463,449</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	<u>(136,388)</u>	<u>(193,949)</u>
CAPITAL CONTRIBUTIONS AND GRANTS		
Federal capital contributions	9,957	3,656
State capital contributions	885	1,217
Local capital contributions	1	153
TOTAL CAPITAL CONTRIBUTIONS AND GRANTS	<u>10,843</u>	<u>5,026</u>
CHANGE IN NET POSITION	(125,545)	(188,923)
TOTAL NET POSITION – BEGINNING OF YEAR	1,570,583	1,759,506
TOTAL NET POSITION – END OF YEAR	<u>\$1,445,038</u>	<u>\$1,570,583</u>

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

**DALLAS AREA RAPID TRANSIT
STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016 (Dollars in Thousands)**

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$75,623	\$78,983
Cash flows from other sources	16,323	17,487
Payments to suppliers of goods and services	(115,245)	(146,646)
Payments to purchased transportation service providers	(51,172)	(48,434)
Payments to employees	(238,290)	(236,396)
Benefit payments on behalf of employees	(110,379)	(99,110)
NET CASH USED BY OPERATING ACTIVITIES	(423,140)	(434,116)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Sales and use tax receipts	565,559	538,461
Other federal grants	69,782	43,889
Other non-capital financing receipts	-	17
Build America Bonds tax credit	28,360	28,391
Local Assistance Program and street improvements	(20)	(1,152)
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	663,681	609,606
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	5,555	7,249
Proceeds from sales and maturity of investments	437,652	900,615
Purchase of investments	(373,146)	(748,733)
Increase in restricted assets	(245)	(2,828)
Investment in managed HOV lane agreements	(600)	-
NET CASH USED BY INVESTING ACTIVITIES	69,216	156,303
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(86,985)	(109,486)
Proceeds from the issuance of commercial paper notes	800,000	880,000
Payment on commercial paper notes	(830,000)	(910,000)
Payment of debt issuance costs	-	(9,730)
Principal payment on revenue bonds	(53,962)	(48,115)
Interest and financing expenses	(164,072)	(153,744)
Federal capital contributions	7,394	1,693
State capital contributions	1,437	3,927
Local capital contributions	1	153
Proceeds from the sale of capital assets	2,717	175
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(323,470)	(345,127)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(13,713)	(13,334)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	53,651	66,985
CASH AND CASH EQUIVALENTS, END OF YEAR	\$39,938	\$53,651

(Continued)

**DALLAS AREA RAPID TRANSIT
STATEMENTS OF CASH FLOWS**

FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016 (Dollars in Thousands)

	2017	2016
RECONCILIATION OF OPERATING LOSS TO CASH USED BY OPERATING ACTIVITIES		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net operating loss	\$(665,927)	\$(657,398)
ADJUSTMENTS TO RECONCILE NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Depreciation and amortization	239,381	246,794
Miscellaneous non-operating income	15,435	16,199
Miscellaneous non-operating expenses	(3,151)	(13,018)
Changes in assets and liabilities:		
Increase in transit receivable	(2,771)	(1,222)
Decrease in due from federal & other governments	593	3,681
Decrease (increase) in materials and supplies inventory	(1,027)	1,847
Decrease (increase) in prepaid expenses and other current assets	452	(1,192)
Increase (decrease) in net pension liability	(11,570)	1,507
Increase (decrease) in accounts payable and accrued liabilities	2,385	(23,666)
Increase (decrease) in unearned revenue and other liabilities	3,060	(7,648)
NET CASH USED BY OPERATING ACTIVITIES	<u>\$(423,140)</u>	<u>\$(434,116)</u>
NON-CASH OPERATING, INVESTING, AND FINANCING ACTIVITIES		
Interest income from investments held to pay capital lease/leaseback	\$8,365	\$9,336
Interest expense on capital lease/leaseback	(8,365)	(9,336)
Increase in capital lease/leaseback obligations	1,991	91,373
Increase in investments held to pay capital lease/leaseback	(1,991)	(91,373)
Decrease in fair value of investments	(1,337)	(680)
Amortization of premium, discount, bond insurance premium costs, and loss on debt refunding	(11,269)	(4,479)
Purchases of capital assets in accounts payable at year-end	13,703	10,503
Gain (loss) on HOV lane investments	600	(3,100)
Toll Credits	-	22
Decrease in deferred outflows of resources – derivative instrument	284	1,423
Proceeds from the issuance of revenue bonds paid into escrow	-	961,340
Payment for advance refunding of revenue bonds	-	(967,191)

(Concluded)

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

**DALLAS AREA RAPID TRANSIT
NOTES TO FINANCIAL STATEMENTS****FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016 (Dollars in Thousands)**

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Dallas Area Rapid Transit (DART) is a regional transportation authority of the State of Texas, created and confirmed by passage of a referendum on August 13, 1983, pursuant to Article 1118y of the Vernon's Annotated Texas Civil Statutes, as amended, and recodified into Section 452 of the Texas Transportation Code (the Code) effective September 1, 1995. DART is organized to provide public and general transportation services to 13 member jurisdictions in five counties: Dallas, Collin, Ellis, Denton, and Rockwall. The member jurisdictions in which the voters elected to be included in DART consist of the cities of Carrollton, Cockrell Hill, Dallas, Farmers Branch, Garland, Glenn Heights, Irving, Plano, Richardson, Rowlett, and University Park, and the towns of Addison and Highland Park. Fifteen Board members represent the 13 member jurisdictions. Board members are appointed according to the ratio of the population of a member jurisdiction to the total population of the service area. One Board member may represent multiple jurisdictions.

Amendments to DART's enabling legislation require approval of the Texas State Legislature, which holds its regular session every two years. Past legislative changes allowed the issuance of lease/leaseback transactions (see Note 11), changed the collection period of sales taxes from quarterly to monthly, and allowed a joint pledge of sales and use tax and farebox revenues as security for long-term debt. Future changes to DART's enabling legislation could have a material impact on DART's financial position. The next session of the State Legislature is scheduled to begin in January 2019.

On August 12, 2000, the voters of the DART Service Area passed a referendum that allows DART to issue up to \$2.9 billion of bonds or notes that are solely payable from and secured by the DART sales and use tax revenue, have maturities beyond five years, and are issued pursuant to the authority granted at the election. On August 9, 2001, DART issued \$400 million of the authorized \$2.9 billion bonds. On September 10, 2002, \$98.7 million of the authorized bonds were issued. On March 8, 2007, an additional \$770.3 million of the authorized bonds were issued. From the \$770.3 million, \$317.7 million was issued to refund part of the 2001 and 2002 bonds. The remaining \$452.6 million was issued to payoff commercial paper notes. In April 2008, the Board approved the fourth issuance of Bonds (Series 2008), for \$731.4 million as authorized by the Master Debt Resolution. This issuance included \$341 million to refund commercial paper notes.

A change to DART's enabling legislation was enacted during the 2009 Texas Legislative Session allowing DART to pledge multiple revenue sources as a first lien on Senior Lien Long-Term Bonds. This legislative change allowed DART to issue more than \$2.9 billion in long-term debt, provided that DART issues multi-revenue bonds. On July 23, 2012, DART filed a Bond Validation Petition in District Court 160 in Dallas County. DART sought a judicial ruling clarifying whether a \$2.9 billion limitation on "solely" pledged Sales Tax Revenue Bonds applies to "combined" Pledged Revenue Bonds. The hearing was conducted on August 13, 2012, and the Court concurred with DART's position. As a result, DART is no longer limited to \$2.9 billion in long-term debt so long as the debt is backed by a combined pledge of revenues (sales taxes plus another revenue source).

In May 2009, the Board approved the fifth issuance of Bonds (Series 2009A and Series 2009B), for \$1 billion as authorized by the Master Debt Resolution (see Note 13). In September 2010, the Board approved the sixth issuance of Bonds (Series 2010A and Series 2010B), for \$824.6 million as authorized by the Master Debt Resolution (see Note 13). On November 15, 2012, DART issued and sold \$127,775 in Senior Lien Sales Tax Revenue Bonds (Series 2012 Bonds). Series 2012 Bonds were issued to refund \$150,000 Commercial Paper Notes. The Commercial Paper Notes were issued to finance capital expenditures for DART's system expansion and acquisition. On December 13, 2012 DART entered into a Transportation Infrastructure Finance and Innovation Act (TIFIA) financing agreement with the U.S. Department of Transportation (see note 14). Under this agreement, DART borrowed \$105,000 from the U.S. Department of Transportation. The proceeds from the bond were used to pay for the cost of the third phase of DART's light rail Orange Line extension project, which extended DART's light rail service from Irving to the Dallas Fort Worth International Airport. These bonds are Senior Lien Revenue Bonds that are secured by, and payable from, a senior lien on Pledged Revenues. On December 11, 2014, DART issued and sold \$426,035 in Senior Lien Sales Tax Revenue Bonds (\$379,480 in Series 2014A Bonds and \$46,555 in Series 2014B Bonds). The Series 2014A and 2014B bonds were issued to refund part of the 2007 and 2008 bonds. On December 15, 2015, DART issued and sold \$117,470 in Series 2015 Senior Lien Sales Tax Revenue Bonds to refund part of the 2007 bonds. On February 18, 2016, DART issued and sold \$482,530 Series 2016A Senior Lien Sales Tax Revenue Bonds to refund part of the 2008 bonds; and on September 21, 2016 DART issued and sold \$228,900 Series 2016B Senior Lien Sales Tax Revenue Bonds to refund part of the 2007, 2008, and 2009A bonds.

DART received approximately \$567,418 in 2017 from a 1% sales and use tax imposed on certain items within its member jurisdictions compared to \$545,907 in 2016. These revenues constituted approximately 72% of DART's total revenues during fiscal year 2017 compared to 74% during 2016. Approximately 50%, 14%, and 11% of these sales and use tax revenues were collected from sales in the cities of Dallas, Plano, and Irving during both fiscal years 2017 and 2016.

Basis of Accounting – The activities of DART are accounted for as proprietary funds and therefore are reported as an enterprise fund in accordance with governmental accounting and financial reporting principles issued by the Governmental Accounting Standards Board (GASB). Accordingly, DART uses the accrual basis of accounting.

Reporting Entity – DART has two component units, Regional Rail Right-Of-Way Corporation (RRROW) and Dallas Area Rapid Transit Bus Service, LGC (LGC).

**DALLAS AREA RAPID TRANSIT
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Regional Rail Right of Way – The RRROW is a not-for-profit Corporation formed under Article 1396-1.01 of the Texas Non-Profit Corporation Act on October 9, 1990 to facilitate the acquisition of certain properties and right-of-way for DART. On July 9, 2002, The DART Board of Directors authorized the transfer to DART of real estate interest for certain railroad right of way held by RRROW and granted easement rights to RRROW to continue freight rail operations on all of DART active freight rail corridors. DART retains all real estate interests in the active freight rail corridors and RRROW is the common carrier authority under the freight operating easement. RRROW discharges the common carrier obligations through existing trackage rights agreements that are managed by DART personnel on behalf of RRROW. RRROW collects all trackage rights fees from freight operations on active DART owned railroad corridors. At the end of each fiscal year DART receives income earned by the Corporation that is not needed to pay the Corporation's expenses or obligations. DART retains the right to use the railroad corridors for reasonable purposes provided such uses do not materially interfere with common carrier freight service on the railroad corridors.

All powers of the RRROW corporation are vested in a Board of Directors, each member of which is appointed by the DART Board. The RRROW Board of Directors consist of not fewer than three nor more than five directors of which DART is the sole corporate member. Any director may be removed from office at any time, with or without cause, by the DART Board. The DART Board may review and revise the structure, organization, and activities of the Corporation. The property and affairs of RRROW are subject to the restrictions imposed by the DART Board. In the event of dissolution all assets will be turned over to DART.

Dallas Area Rapid Transit Bus Service – The LGC is a not-for-profit Corporation formed on March 6, 2012 under Subchapter D of Chapter 431, Texas Transportation Code, to aide and act on behalf of DART in performance of its governmental purpose of providing a public transportation system by bus primarily outside the DART service area. The Corporation can issue bonds, notes or other obligations and it can also acquire real property, all subject to prior approval of the DART Board of Directors. The LGC must comply with all DART policies and, when applicable, with all Federal Transit Administration requirements in performance of its duties.

There are five members on the LGC Board: Chairman of the DART Board of Directors; one other DART Board member that is appointed by the DART Board of Directors; and three DART employees recommended by the President/Executive Director of DART and subject to the approval from the DART Board of Directors. DART is the sole corporate member of the LGC. The DART Board of Directors may remove any member from the LGC board, with or without cause. Any vacancy on the Board shall be filled by a majority vote of the DART Board of Directors. Staff functions for the Corporation are performed by DART employees, as directed by the DART President/Executive Director. The DART Board of Directors may at any time consider and approve a resolution directing the LGC Board of Directors to proceed with the dissolution of the Corporation in which case, all assets will be turned over to DART. At the end of each fiscal year, DART receives income earned by the Corporation that is not needed to pay the Corporation's expenses or obligations.

Both RRROW and LGC meet the criteria of a blended component unit for the following reasons: They are both non-profit corporations in which the agency is the sole corporate member. DART Board appoints/approves the voting majority of each Board. The DART Board can impose its will on the corporations and may at any time consider and approve a resolution directing their Boards to proceed with the dissolution of the Corporation in which case, all assets will be turned over to DART. Also, the DART Board may remove any member from the LGC or RRROW Board at any time, with or without cause. In the case of RRROW, the corporation provides services that benefit the primary government (DART) by discharging the common carrier obligations through DARTs existing trackage rights agreements and collecting the related trackage rights fees. DART is legally entitled to or can otherwise access the organizations resources as it retains the right to use the railroad corridors and at the end of each fiscal year receives income earned by RRROW via the trackage right fees received. In the case of LGC, the LGC benefits DART by aiding and acting on behalf of DART in performance of its governmental purpose of providing a public transportation system. The LGC also provides a financial benefit to DART. At the end of each fiscal year DART receives the income earned by the LGC that is not needed to pay the Corporation's expenses or obligations.

The financial information of the RRROW and LGC are included in the accompanying financial statements of DART as blended component units in accordance with GASB Statement No. 61 and GASB Statement No. 80.

Internally prepared financial statements for either RRROW or LGC may be obtained by contacting the Chief Financial Officer at Dallas Area Rapid Transit, 1401 Pacific Avenue, P.O. Box 660163, Dallas, TX 75266-7220.

New Accounting Pronouncements – In June 2015, GASB issued statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. The provisions in Statement 74 became effective for DART OPEB Plan during fiscal year 2017.

**DALLAS AREA RAPID TRANSIT
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In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The provisions in Statement 77 became effective for DART during fiscal year 2017.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan. The provisions in Statement 78 became effective for DART during fiscal year 2017 but are not applicable to DART since DART does not participate in a Multiple-Employer Defined Benefit Pension Plan.

In January 2016, GASB issued Statement No. 80 *Blending Requirements for Certain Component Units – An amendment of GASB Statement No. 14*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The provisions in Statement 80 became effective for DART during fiscal year 2017.

In March 2016, GASB issued Statement No. 82 *Pension Issues-an amendment of GASB Statements No. 67, No.68 and No. 73. Investment Pools and Pool Participants*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement 82 became effective for DART during fiscal year 2017.

Implementation of these Statements did not have an impact on the financial statements.

Cash and Cash Equivalents – DART considers investments in unrestricted funds with original maturities of less than 90 days at the date of purchase to be cash equivalents. Cash and cash equivalents were \$39,938 and \$53,651 as of September 30, 2017, and 2016, respectively.

Investments – The investment balances, other than investments held to pay lease/leaseback obligations (see Note 3), on September 30, 2017, and 2016 are stated at fair value except for money market funds which are valued at amortized cost. Fair value is the amount at which an investment may be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. DART utilizes quoted market prices or other measurements on September 30, 2017, and 2016, as the equivalent of the fair value of investments. When both restricted and unrestricted funds are available, it is DART's policy to spend restricted funds first on eligible expenditures.

Material and Supplies Inventory – An inventory of supplies and parts is maintained at different DART warehouses for use in the operation and is recorded as an expense when consumed or placed in service. Inventory is stated at average cost.

Capital Assets – Capital assets are assets with an initial individual cost of more than five thousand dollars (\$5,000) and an estimated useful life in excess of one year. Such assets are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets as indicated in Note 7. Major improvements to buildings and equipment are capitalized. Maintenance and repairs are charged to expense as incurred. Improvements and betterments that extend the useful lives of capital assets or add new functionality are capitalized. Transit system development costs for services such as project-related design, construction, construction management, and project management costs are capitalized when incurred. Interest expense incurred during the construction phase of a capital asset is capitalized. In 2017, total interest and financing expense of \$156,317 was incurred, and \$1,062 of this total was capitalized. In 2016, total interest and financing expense of \$168,267 was incurred, and \$5,263 of this total was capitalized. Donated assets are capitalized at estimated acquisition value on the date of donation.

Federal, State and Local Capital Contributions, and Grants – Grant funds used for the acquisition of property and equipment are recorded as capital contribution revenues when the related grant eligibility requirements are met and qualified expenditures are incurred. DART received \$10,843 in federal, state and local capital contributions during 2017 compared to \$5,026 during 2016. None of the total capital contributions received during 2017 were based on capital expenditures made during the previous years. In addition to capital contributions, DART also received \$68,564 in 2017 compared to \$43,731 in 2016 in the form of other federal grants. Included in these amounts are grants that are substantially related to capital maintenance grants from the federal government.

Paid Time Off, Vacation and Sick Leave – Salaried exempt and non-exempt employees are eligible for a "Paid Time Off" (PTO) benefits program. Accumulated PTO hours have no cash value unless the employee has five or more years of service. Upon termination of employment, a percentage of unused PTO hours will be paid in a lump sum based on number of years of continued service with DART. Hourly employees earn vacation and sick leave, which may be taken or accumulated up to certain levels, until paid upon retirement or termination. The liability for PTO, vacation, and sick leave has been calculated in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, and is included in the accounts payable and accrued liabilities line item in the accompanying Statements of Net Position.

**DALLAS AREA RAPID TRANSIT
NOTES TO FINANCIAL STATEMENTS**

FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016 (Dollars in Thousands)

Operating Revenues and Expenses – Operating revenues are generated from activities related to providing public transportation services such as bus, light rail, commuter rail, paratransit, and vanpool to DART customers. DART’s operating revenues include passenger fare revenues, advertising revenues, and certain rental income. Non-operating revenues are revenues not directly related to the operations of DART’s transit service. Sales and use tax revenues, Build America Bond tax credit, and investment income are classified as non-operating revenues.

Operating expenses are incurred for activities directly related to providing public transportation services to DART customers. Such activities include transportation, maintenance, transit police, and general and administrative functions. Non-operating expenses include interest and financing costs, general planning and consulting work not related to current service, and the local assistance provided to eligible member jurisdictions.

Revenue Recognition – Operating revenues are recognized when transit service is provided. Monthly tickets and annual passes are sold for revenue service, including bus and rail operations. An estimate of unused tickets and passes is recorded as unearned transit revenue and is included in the unearned revenue and other liabilities line item in the accompanying Statements of Net Position.

Sales and Use Tax Revenues – Sales and use tax revenues are recognized when the underlying transactions occur. Sales and use tax revenues are subject to audits by the State Comptroller, which sometimes results in refunds to the State.

Self-Insurance Liabilities – DART administers and maintains self-insured reserves for employee medical, operational workers’ compensation, auto, and general liability (including bus/rail accidents), directors’ and officers’ liability, and light rail construction workers’ compensation and general liability claims. These programs are administered by DART, or in some instances, a third party. DART accrues the estimated cost of self-insurance liabilities based on actuarial review and the estimate is included in the accounts payable and accrued liabilities line item in the accompanying Statements of Net Position.

The estimate includes incurred but not reported (IBNR) claims. Changes in the liabilities in 2017 and 2016 for DART’s self-insured programs are as follows:

Description	2017	2016
Beginning balance	\$17,445	\$16,017
Current year claims and changes in estimates	5,707	6,719
Payments	(5,182)	(5,291)
Ending balance	<u>\$17,970</u>	<u>\$17,445</u>
Amounts due in one year	<u>\$5,158</u>	<u>\$4,909</u>

DART purchases liability insurance coverage for all-risk property, commuter rail, leased premises, crime, directors and officers and light rail project-specific professional liability and light rail build-out workers’ compensation and general liability. Coverage is evaluated annually and adjusted as necessary based upon exposure and claim payments. There was no significant reduction in insurance coverage from the previous year, and the settlement amounts did not exceed insurance coverage for each of the past three fiscal years.

Premium and Discounts on Revenue Bonds – Premiums and discounts on Senior Lien Revenue Bonds are amortized using the effective interest method. Bond insurance premiums and gains/losses on refunding are also amortized using the effective interest method over the life of the bonds.

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the DART Employees Defined Benefit Retirement Plan and Trust (the DB Plan) and additions to/deductions from the DB Plan’s fiduciary net position have been determined on the same basis as they are reported by the DB Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net position – *Net Investment in Capital Assets*, includes capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. *Restricted* consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is DART’s policy to use restricted resources first, and then unrestricted resources when they are needed. *Unrestricted* resources consist of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

**DALLAS AREA RAPID TRANSIT
NOTES TO FINANCIAL STATEMENTS**

FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016 (Dollars in Thousands)

2. SERVICE AGREEMENTS

DART has entered into several long-term agreements with contractors to provide paratransit, commuter rail, DART on-call and shuttle services. Payments to service providers are recorded as purchased transportation in the accompanying Statements of Revenues, Expenses, and Changes in Net Position.

Summary of major services rendered in 2017 and 2016 and the current contract terms, including option periods is shown as follows:

Contractor's Name	Service Type	Annual Payments		Contract Terms	
		2017	2016	Began	Expires
Herzog Transit Services, Inc.	Commuter Rail Service	20,611	\$20,087	10/1/2015	9/30/2025
MV Contract Transportation, Inc.	Paratransit, and On-call services	26,032	25,541	10/1/2012	9/30/2019
Others	Various	5,888	4,688	Various	Various
Total		<u>\$52,531</u>	<u>\$50,316</u>		

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and investments, excluding investments held for lease/leaseback liabilities, as of September 30 are classified in the Statements of Net Position as follows:

	9/30/2017	9/30/2016
Cash and cash equivalents	\$39,938	\$53,651
Investments	498,204	562,223
Restricted investments held by trustee for debt service	111,734	112,301
Restricted investments held for advance funding agreements	67,868	67,055
Restricted investments held as security for capital lease/leaseback liabilities	7,751	8,560
Total cash and investments	<u>\$725,495</u>	<u>\$803,790</u>

Cash and investments as of September 30 consist of the following:

	9/30/2017	9/30/2016
Cash on hand	\$1,599	\$1,605
Cash equivalents	38,339	52,046
Investments	685,557	750,139
Total cash and investments	<u>\$725,495</u>	<u>\$803,790</u>

Deposits

State statutes authorize DART's cash to be deposited in demand deposits, time deposits, or certificates of deposit and require that all deposits be fully collateralized or insured.

On September 30, 2017, the carrying amount of DART's deposits was \$1,599 compared to \$1,605 at September 30, 2016. Bank balances at September 30, 2017 and 2016 were entirely covered either by Federal Depository Insurance or by collateral held by DART's agent in DART's name.

Custodial Credit Risk – Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, DART will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. DART's policy requires that all deposits with financial institutions must be collateralized to the extent not protected by F.D.I.C. insurance. Securities that can be accepted as collateral are limited to U.S. Government Securities, Federal Agency Securities, and Municipal Securities.

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Investments

In accordance with the Texas Public Funds Investment Act and DART's investment policy, DART invests in, among others, obligations of the United States or its agencies and instrumentalities, and obligations of states, agencies, counties, cities, and other state political subdivisions with ratings from a nationally recognized investment rating firm of not less than "A" or its equivalent and commercial paper with ratings of not less than "A1" or "P1." In addition, State statutes authorize DART to invest funds in other cash equivalents such as money market mutual funds among other things. All DART investments are subject to the Texas Public Funds Investment Act. The following table identifies the investment types that are authorized by DART's Investment Policy. The table also identifies certain provisions of DART Investment Policy that address interest rate risk, credit risk and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer at the time of purchase
U.S. Government Securities	None	None	None
Federal Agency Securities	None	None	25%
Municipal Securities	None	None	10%
Repurchase and Reverse Repurchase Agreements	90 days	50%	5%
Money Market Mutual Funds	10 years	None	None
Commercial Paper	270 days	None	5%
Banker's Acceptance	270 days	None	5%
Certificate of Deposit	10 years	None	None

Interest Rate Risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that DART manages exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of it matures evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of DART investments to market interest rate fluctuations as of September 30 is provided in the following tables, which show the distribution of DART investments by maturity.

Investment Type	Total Amount	Remaining Maturity (in months) as of September 30, 2017		
		12 Months or Less	12 to 24 Months	24 to 60 Months
Federal Home Loan Bank	\$168,952	\$38,035	\$17,974	\$112,943
Federal Farm Credit Banks	112,410	48,291	29,816	34,303
Federal Home Loan Mortgage Corporation	107,456	61,635	31,809	14,012
Federal National Mortgage Association	111,543	25,926	43,488	42,129
Commercial Paper	40,242	40,242	-	-
Money Market Funds	183,293	183,293	-	-
Total	\$723,896	\$397,422	\$123,087	\$203,387

Investment Type	Total Amount	Remaining Maturity (in months) as of September 30, 2016		
		12 Months or Less	12 to 24 Months	24 to 60 Months
Federal Home Loan Bank	\$149,786	\$97,679	\$48,087	\$4,020
Federal Farm Credit Banks	131,505	53,634	67,859	10,012
Federal Home Loan Mortgage Corporation	157,058	70,261	54,851	31,946
Federal National Mortgage Association	103,971	4,650	25,929	73,392
Commercial Paper	179,812	179,812	-	-
Money Market Funds	61,344	61,344	-	-
US Treasury Note	18,709	18,709	-	-
Total	\$802,185	\$486,089	\$196,726	\$119,370

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Credit Risk - Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized rating agency. The following tables show actual ratings as of September 30 for each investment type. Money market funds listed are SEC regulated 2a.7 funds.

Rating as of September 30, 2017				
Investment Type	Total Amount	AA+/ Aaa	A1/P1	AAA/ Aaa
Federal Home Loan Bank	\$168,952	\$168,952	\$ -	\$ -
Federal Farm Credit Banks	112,410	112,410	-	-
Federal Home Loan Mortgage Corporation	107,456	107,456	-	-
Federal National Mortgage Association	111,543	111,543	-	-
Commercial Paper	40,242	-	40,242	-
Money Market Funds	183,293	177,290	-	6,003
Total	<u>\$723,896</u>	<u>\$677,651</u>	<u>\$40,242</u>	<u>\$ 6,003</u>

Rating as of September 30, 2016				
Investment Type	Total Amount	AA+/ Aaa	A1/P1	AAA/ Aaa
Federal Home Loan Bank	\$149,786	\$139,722	\$ 10,064	\$ -
Federal Farm Credit Banks	131,505	108,881	22,624	-
Federal Home Loan Mortgage Corporation	157,058	116,509	40,549	-
Federal National Mortgage Association	103,971	103,971	-	-
Commercial Paper	179,812	-	179,812	-
Money Market Funds	61,344	54,831	-	6,513
US Treasury Note	18,709	18,709	-	-
Total	<u>\$802,185</u>	<u>\$542,623</u>	<u>\$253,049</u>	<u>\$ 6,513</u>

On August 5, 2011, Standard and Poor's, one of three nationally recognized raters of US debt and securities, downgraded the rating of long-term United States sovereign debt from AAA to AA+ for the first time since 1941 with a negative outlook. The two other national raters, Moody's and Fitch, continue to have the highest ratings, but also have the debt on their watch lists. Included in DART's investment portfolio as of September 30, 2017 is \$500,361 compared to \$487,792 as of September 30, 2016 are securities with credit ratings of AAA to AA+ by Standard and Poor's.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of DART's investment in a single issuer. DART's Investment Policy contains limitations on the amount that can be invested in any one issuer as shown in the table on page 23. Investments in any one issuer that represent 5% or more of total investment portfolio of DART as of September 30 are as shown below:

September 30, 2017		
Investment type/Issuer	Reported Amount	Percentage of Total Portfolio
Federal Home Loan Bank	\$168,952	23%
Federal Farm Credit Banks	112,410	16%
Federal National Mortgage Association	111,543	15%
Federal Home Loan Mortgage Corporation	107,456	15%
Logic	97,043	13%
TexPool	80,247	11%

September 30, 2016		
Investment type/Issuer	Reported Amount	Percentage of Total Portfolio
Federal Home Loan Mortgage Corporation	\$157,058	20%
Federal Home Loan Bank	149,786	19%
Federal Farm Credit Banks	131,505	16%
Federal National Mortgage Association	103,971	13%

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Custodial Credit Risk – The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, DART will not be able to recover the value of its investment or collateral securities that are in the possession of another party. All of DART's investments except for money market mutual funds, which by design provide ownership of shares within the fund, are registered in DART's name as of September 30, 2017 and 2016 and are not exposed to custodial credit risk.

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. None of DART's investment are in foreign currency-denominated investments.

DART categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs and are valued using a matrix pricing model. Level 3 inputs are significant unobservable inputs. DART investment fair value measurements as of September 30, 2017 and 2016 are shown on the next page.

DART has the following fair value measurements as of September 30, 2017 and 2016.

Fair Value Measurements as of September 30, 2017				
Investment Type	Total Amount	Level 1	Level 2	Level 3
Federal Home Loan Bank	\$168,952	\$ -	\$168,952	\$ -
Federal Farm Credit Banks	112,410	-	112,410	-
Federal Home Loan Mortgage Corporation	107,456	-	107,456	-
Federal National Mortgage Association	111,543	-	111,543	-
Commercial Paper	40,242	-	40,242	-
Total	<u>\$540,603</u>	<u>\$ -</u>	<u>\$540,603</u>	<u>\$ -</u>
Fair Value Measurements as of September 30, 2016				
Investment Type	Total Amount	Level 1	Level 2	Level 3
Federal Home Loan Bank	\$149,786	\$ -	\$149,786	\$ -
Federal Farm Credit Banks	131,505	-	131,505	-
Federal Home Loan Mortgage Corporation	157,058	-	157,058	-
Federal National Mortgage Association	103,971	-	103,971	-
Commercial Paper	179,812	-	179,812	-
US Treasury Note	18,709	-	18,709	-
Total	<u>\$740,841</u>	<u>\$ -</u>	<u>\$740,841</u>	<u>\$ -</u>

Restricted investments held to pay capital lease/leaseback liabilities – As of September 30, 2017, DART had one outstanding lease/leaseback obligation. When DART entered into the capital lease/leaseback transactions it received advance rental payments. A portion of the advance rental payment received by DART was used to purchase contractual undertakings from certain financial institutions. These institutions assumed and agreed to pay the sublease rental payments due through the purchase option date, together with the purchase option price owed if DART were to exercise the purchase option rights. For other leases, DART deposited a portion of the advance rental payment with a trustee, who was to purchase direct obligations of the US government and other securities that would mature on the dates in the amounts required to pay sublease rental payments and the respective purchase option price. These investments are held by the trustee in the name of DART and are invested in U.S. Treasury strips, U.S. government sponsored enterprise obligations, and guaranteed investment contracts. They include a combination of investments with short-term and long-term maturities which minimizes the exposure to interest rate risk. Because these investments are insured by a third party and are held in U.S. Treasuries and government investment contracts they are not recorded at fair value but are recorded at amortized cost in the Statements of Net Position.

Assigned assets – The DART Board has assigned certain cash and investment balances to be maintained for self-insurance and financial reserve. These amounts are shown as unrestricted investments in the accompanying financial statements. The assets for self-insurance include amounts assigned by the Board to fund future claims and workers' compensation liabilities. The Board established the financial reserve to accumulate sales and use taxes in years when sales and use tax revenues exceed the budgeted amount. Sales and use tax revenues, net of annual repayments to the State Comptroller, were \$3,016 more than budget for fiscal year 2017 compared to \$2,705 for fiscal year 2016. In addition, the Board of Directors authorized the establishment of a Capital Project Reserve Account. Should the Financial Reserve exceed \$50 million, excess funds are placed in the Capital Project Reserve Account.

**DALLAS AREA RAPID TRANSIT
NOTES TO FINANCIAL STATEMENTS****FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016 (Dollars in Thousands)**

An affirmative vote of two-thirds of the Board is required to draw upon the Financial and Capital Project Reserves, and the funds may be used for any purpose approved by the Board. During 2011, the DART Board approved a request to set aside a portion of the financial reserve investments for potential collateral as required by an amendment to one of the lease/leaseback agreements. The amount set aside for this purpose is \$7,751 as of September 30, 2017, compared to \$8,560 as of September 30, 2016. These amounts are shown as restricted investments held as security for capital lease/leaseback liabilities in the Statements of Net Position and are excluded from the financial reserve amount of September 30, 2017 and 2016 shown as follows:

Assigned for	2017	2016
Self-Insurance	\$12,236	\$ 10,111
Financial Reserve*	42,425	41,473
Capital Reserve	23,699	20,292
Total	<u>\$ 78,360</u>	<u>\$ 71,876</u>

*The financial reserve amounts shown here are net of \$7,751 as of September 30, 2017, and \$8,560 as of September 30, 2016. These amounts are set aside as collateral security for a certain lease/leaseback obligation.

4. RESTRICTED ASSETS

As security for the Senior Lien Obligations (Bonds) and Senior Subordinate Lien Obligations (Commercial Paper Notes), DART is required to maintain a certain amount of money in trust accounts created for this purpose. The money maintained in the trust accounts is reported as *Investments held by trustee for debt service* in the Statements of Net Position. The trustee uses all the monies and investments in the account for payment of principal, interest for bonds and commercial paper notes, and administrative expenses.

Restricted assets shown in the Statements of Net Position also include bond proceeds which will be used to fund capital expenditures.

DART entered into three advance funding agreements with the Texas Department of Transportation and received money for construction of three parking lots. DART also entered into an inter-local agreement with the City of Dallas to plan and design a modern streetcar system for the City of Dallas and received money for this purpose. The remaining balances of these monies are shown as restricted investments held for advance funding agreements in the Statements of Net Position as of September 30, 2017 and 2016.

DART also entered into an additional Equity Security Agreement that requires it to set aside certain investments as security for a certain lease/leaseback obligation. As of September 30, 2017, DART has set aside \$7,751 compared to \$8,560 as of September 30, 2016, for this purpose. These amounts are shown as investments restricted as security for lease/leaseback liabilities in the Statements of Net Position.

5. INVESTMENT IN JOINT VENTURE

DART and the Fort Worth Transportation Authority ("The T") jointly provide commuter rail service between downtown Dallas and downtown Fort Worth. The authorities have adopted the name *Trinity Railway Express* ("TRE") to provide this service. The operation and maintenance of commuter rail service is contracted to Herzog Transit Services, Inc. The cost of operating TRE, net of operating revenues, is shared between DART and The T based on revenue seat miles operated in Dallas County and Tarrant County, respectively. The transit authorities separately contributed the capital for the passenger stations and track storage areas in their respective counties, including fixtures and fare collection equipment at those stations. DART has separately contributed the capital for thirteen rail diesel cars (RDCs) purchased for the initial TRE commuter rail service. DART and The T have jointly contributed the capital for seven rehabilitated locomotives, two new locomotives, ten rehabilitated bi-level coaches, five new bi-level coaches, two rehabilitated bi-level cab cars, and five new bi-level cab cars. The book value of DART's share of these capital assets jointly owned with The T is recorded as Investment in Joint Venture in the Statements of Net Position in accordance with GASB Statement No. 61. There are no separate financial statements for the TRE. Each authority includes its share of revenues, operating costs and capital assets in its own financial statements.

**DALLAS AREA RAPID TRANSIT
NOTES TO FINANCIAL STATEMENTS**

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6. INVESTMENT IN MANAGED HOV LANE AGREEMENTS

In October 2010, DART entered into agreements with TxDOT to invest in managed HOV lane projects that fall under the Regional Transportation Council's (RTC) policy for Excess Toll Revenue Sharing. RTC's policy allows local governments and transportation authorities to invest in Comprehensive Development Agreement (CDA) projects. Any excess revenue will be returned to the funding partners in proportion to their shares and be used to fund future transportation projects. As of September 30, 2017 and 2016, a financial analysis of the value of DART investment managed HOV lane projects is determined to be \$11.1 million and \$10.5 million, respectively. As a result, a gain in value of \$0.6 million is recorded in the Statements of Changes in Net Position as of September 30, 2017, compared to \$3.1 million decline value as of September 30, 2016. These investments are shown on the Statements of Net Position at fair value as of September 30, 2017 and 2016 and will be reviewed annually for a decline in value. As of September 30, 2017, the Statements of Net Position reflects these Investments in Managed HOV Lane Agreements totaling \$11,100 compared to \$10,500 as of September 30, 2016. The fair value of these Investments in Managed HOV Lane Agreements is measured using Level 3 inputs within the fair value hierarchy established by GAAP. The Investments in Managed HOV Lane Agreements in Level 3 is valued using future projected cash flows.

7. CAPITAL ASSETS

Changes in capital assets for the years ended September 30, 2017 and 2016 are shown as follows:

	Beginning Oct. 1, 2016	Additions	Disposals	Net Transfers/ Adjustments	Ending Sept. 30, 2017
Non-Depreciable Assets					
Land and right-of-way	\$615,709	\$ -	\$(464)	\$3,781	\$619,026
Capital projects in progress	190,992	86,300	-	(210,425)	66,867
Total non-depreciable assets	806,701	86,300	(464)	(206,644)	685,893
Depreciable Assets					
Transitways	3,861,876	-	-	157,991	4,019,867
Buildings and improvements	749,160	-	-	700	749,860
Revenue and non-revenue vehicles and equipment	1,282,270	-	(24,616)	44,226	1,301,880
Furniture, fixtures, and Leasehold improvements	65,909	-	-	3,727	69,636
Total depreciable assets	5,959,215	-	(24,616)	206,644	6,141,243
Less accumulated depreciation					
Transitways	1,190,044	134,528	-	-	1,324,572
Buildings and improvements	366,599	24,706	-	-	391,305
Revenue and non-revenue vehicles and equipment	605,467	75,688	(24,610)	-	656,545
Furniture, fixtures, and Leasehold improvements	60,150	3,349	-	-	63,499
Total accumulated depreciation	2,222,260	238,271	(24,610)	-	2,435,921
Depreciable assets, net	3,736,955	(238,371)	(6)	206,644	3,705,322
Total capital assets	\$4,543,656	\$(151,971)	\$(470)	\$ -	\$4,391,215

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NOTES TO FINANCIAL STATEMENTS**

FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016 (Dollars in Thousands)

	Beginning Oct. 1, 2015	Additions	Disposals	Net Transfers/ Adjustments	Ending Sept. 30, 2016
Non-Depreciable Assets					
Land and right-of-way	\$616,728	\$ -	\$(1,023)	\$4	\$615,709
Capital projects in progress	101,124	103,183	-	(13,315)	190,992
Total non-depreciable assets	717,852	103,183	(1,023)	(13,311)	806,701
Depreciable Assets					
Transitways	3,860,836	-	-	1,040	3,861,876
Buildings and improvements	748,445	-	(42)	757	749,160
Revenue and non-revenue vehicles and equipment	1,287,039	-	(13,197)	8,428	1,282,270
Furniture, fixtures, and Leasehold improvements	64,523	-	(943)	2,329	65,909
Total depreciable assets	5,960,843	-	(14,182)	12,554	5,959,215
Less accumulated depreciation					
Transitways	1,060,638	129,406	-	-	1,190,044
Buildings and improvements	341,810	24,831	(42)	-	366,599
Revenue and non-revenue vehicles and equipment	536,743	82,507	(13,026)	(757)	605,467
Furniture, fixtures, and Leasehold improvements	57,584	3,463	(897)	-	60,150
Total accumulated depreciation	1,996,775	240,207	(13,965)	(757)	2,222,260
Depreciable assets, net	3,964,068	(240,207)	(217)	13,311	3,736,955
Total capital assets	\$4,681,920	\$(137,024)	\$(1,240)	\$ -	\$4,543,656

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Description	Years
Buildings and improvements	20-30
Buses and equipment	4-12
Furniture, fixtures, and leasehold improvements	3-10
Facilities and transitways (LRT System and HOV lanes)	20-30
Light rail transit vehicles and commuter rail vehicles	25
Rebuilt/Remanufactured rail cars	10

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES AND REPAYMENT DUE TO STATE COMPTROLLER

Accounts payable and accrued liabilities at September 30 are as follows:

Description	2017	2016
Accounts payable and accrued liabilities		
Payroll	\$9,753	\$9,624
Accrued paid time off, vacation and sick leave	25,889	24,938
Self-insurance liabilities	17,970	17,445
Other operating liabilities	30,594	29,814
Total operating expense related	84,206	81,821
Non-operating expense and capital related	13,713	10,503
Total accounts payable and accrued liabilities	97,919	92,324
Non-current	37,113	36,313
Current	\$60,806	\$56,011

**DALLAS AREA RAPID TRANSIT
NOTES TO FINANCIAL STATEMENTS**

FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016 (Dollars in Thousands)

The Texas State Comptroller collects the 1% sales and use tax from taxpayers for DART. Sales and use tax revenues are subject to audits by the State Comptroller, which sometimes results in repayments to the State. Outstanding repayments and changes in the repayments due to the State Comptroller at September 30 are as follows:

Description	2017	2016
Beginning balance	\$8,575	\$9,399
Payments	(824)	(824)
Ending balance	7,751	8,575
Non-current	6,927	7,751
Current	\$824	\$824

9. ACCRUED PAID TIME OFF (PTO) VACATION AND SICK LEAVE

Changes in accrued PTO, vacation, and sick leave for the years ended September 30 are shown in the following table.

Description	2017	2016
Beginning balance	\$24,938	\$24,313
Additions	2,575	1,777
Payments	(1,624)	(1,152)
Ending balance	\$25,889	\$24,938
Amounts due in one year	\$1,345	\$1,161

10. LOCAL ASSISTANCE PROGRAM

In 1989, DART created a Local Assistance Program (LAP) to provide technical and financial assistance to cities for the implementation of projects to reduce traffic congestion and complement bus and public transit operations. Eligible member jurisdictions are responsible for developing and submitting projects to DART for approval in order to receive distribution of these funds. According to the terms of inter-local agreements, DART allocated a percentage of its annual sales and use tax collections for the LAP program. Eligible member jurisdictions received 15% of the estimated sales and use taxes collected within that jurisdiction, except Irving, which received 7.5%. Dallas, University Park, and Highland Park were not eligible. The LAP program ended in 2004. Accrued but unpaid funds were carried over to succeeding years and were recorded as a liability on the accompanying Statements of Net Position.

Changes in Local Assistance Program Payable for the years ended September 30 are as follows:

Description	2017	2016
Beginning balance	\$685	\$1,336
Payments	-	(651)
Ending balance	\$685	\$685

11. FINANCE OBLIGATIONS UNDER CAPITAL LEASE/LEASEBACK

DART has entered into lease transactions in which certain capital assets are leased to investors (headlease) and simultaneously leased back (sublease). Under these transactions, DART maintains the right to continued use and control of the assets through the end of the lease term and is required to insure and maintain the assets. The headleases and subleases have been recorded as capital lease/leaseback for accounting purposes. The following table summarizes DART capital lease/leaseback transactions as of the respective transaction date.

Lease Date	Property	Fair Value at Closing Date	Prepayment Received on Head Lease	Amount Invested to Satisfy Sublease Obligation	Cash Benefit	Repurchase Option Date	Sublease Termination Date
9/28/2000	28 Light rail cars	\$91,000	\$91,000	\$84,000	\$7,000	01/02/23	12/15/23
10/26/2000*	25 Light rail cars	81,000	81,000	74,700	6,300	-	11/23/15

**DALLAS AREA RAPID TRANSIT
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The subleases provide DART with an opportunity, at its sole discretion, to repurchase equipment on specified dates. As these dates approach, DART will complete a financial analysis on each specific lease to determine if it is financially beneficial to repurchase the equipment. At this point in time, DART anticipates that it will exercise the repurchase option on all of its remaining leases at the specified dates and has reflected this option in the amortization.

The following table shows the book value of the light rail cars under the lease/lease back agreements as of September 30, 2017 and 2016.

Lease Date	Property	Book value as of 9/30/2017	Book value as of 9/30/2016
9/28/2000	28 Light rail cars	\$22,008	\$25,059
10/26/2000*	25 Light rail cars	22,964	25,847

*On November 23, 2015, DART entered into a lease termination agreement and terminated the October 26, 2000 lease/leaseback transaction.

The net present value of the future sublease payments has been recorded as both a short-term and long-term liability in the accompanying Statements of Net Position. Prepayments received from the head lease were invested to satisfy the sublease obligations. Since the investments have been structured to meet all future obligations under the subleases at all times when due, the investment balances have been recorded to equal the sublease liabilities on the accompanying Statements of Net Position. The benefits from these transactions, net of transaction costs, were recorded as non-operating revenues in the Statements of Revenues, Expenses, and Changes in Net Position in the fiscal year each transaction occurred.

The capital lease/leaseback liabilities are reported as follows on the Statements of Net Position:

	2017	2016
Amounts due within one year	\$6,374	\$6,374
Amounts due in more than one year	105,342	103,351
Total	<u>\$111,716</u>	<u>\$109,725</u>

Each of the lease/leaseback transactions has specific performance requirements for DART when the financial rating of the Payment Undertaker insurer falls below a specified level. During fiscal year 2010, credit ratings of two of three financial institutions insuring DART's lease/leaseback transactions were downgraded below certain levels specified in the lease/leaseback agreements. As a result, DART has entered into an amended agreement to reset the acceptable credit rating to be maintained at or above BBB for one of these two transactions. For the other lease/leaseback obligation, DART also entered into an additional Equity Security Agreement that requires it to set aside certain investments as security. As of September 30, 2017, DART has set aside \$7,751 compared to \$8,560 as of September 30, 2016 for this purpose. These amounts are shown as investments restricted as security for lease/lease back liabilities in the Statements of Net Position.

On November 23, 2015, DART entered into a lease termination agreement and terminated the October 26, 2000 lease/lease back transaction. As a result of this lease termination agreement, DART has only one outstanding lease/lease back obligation as of September 30, 2017. The following amounts and those shown in the Statements of Net Position as September 30, 2017 reflect the effect of the termination agreement.

Changes in the capital lease/lease back obligations for the years ended September 30 are shown below:

Description	2017	2016
Beginning balance	\$109,725	\$201,098
Accrued interest	8,365	9,336
Retirements	(6,374)	(100,709)
Ending Balance	<u>\$111,716</u>	<u>\$109,725</u>

**DALLAS AREA RAPID TRANSIT
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The following schedule shows future minimum sublease payments as of September 30, 2017 for the outstanding lease capital lease/leaseback transactions.

Year Ending <u>September 30</u>	Minimum Sublease Payments
2018	\$6,374
2019	6,374
2020	6,374
2021	6,374
2022	18
2023 – 2024	135,292
Total minimum sublease payments due under capital lease/leaseback	160,806
Less: amount representing interest	(49,090)
Present value of minimum sublease payments	<u>\$111,716</u>

12. SENIOR SUBORDINATE LIEN SALES TAX REVENUE COMMERCIAL PAPER NOTES PAYABLE

In January 2001, the DART Board approved the issuance of up to \$650 million of Senior Subordinate Lien Sales Tax Revenue Commercial Paper Notes under the provisions of the Master Debt Resolution.

Commercial Paper Self-liquidity Program – after the Revolving Credit Agreement was terminated, the DART Board approved a new Commercial Paper Self-liquidity Program that allows DART to issue up to \$200 million in commercial paper notes backed by self-liquidity. Under this program, DART provides self-liquidity in an aggregate principal amount of \$200 million and 90 days interest calculated at an interest rate 12% of the outstanding commercial paper debt. DART also maintains at least 2.0 times the debt service coverage amount for the self-liquidity commercial paper notes and ensures that no more than \$35 million of the commercial paper notes mature within five days. During fiscal year 2017 and 2016, DART has complied with these requirements of the self-liquidity program. As of September 30, 2017, DART has \$140 million in outstanding commercial paper notes issued under the self-liquidity program.

Commercial paper notes are issued in blocks for terms from 1 to 270 days and recorded as current liabilities on the Statements of Net Position. The average interest rate on outstanding commercial paper was 0.90% at September 30, 2017, and 0.58% at September 30, 2016.

Changes in the Commercial Paper Notes for the years ended September 30 are shown below:

Description	2017	2016
Beginning balance	\$170,000	\$ 200,000
Additions	800,000	880,000
Retirement	(830,000)	(910,000)
Ending Balance	<u>\$140,000</u>	<u>\$ 170,000</u>

The maximum principal of outstanding Commercial Paper Notes did not exceed the \$200 million limit during either year.

**DALLAS AREA RAPID TRANSIT
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13. SENIOR LIEN REVENUE BONDS

The DART Board has approved several issuances in accordance with the Master Debt Resolution. These bonds are Senior Lien Revenue Bonds that are secured by, and payable from pledged revenues. Pertinent information related to each bond outstanding is shown below:

Bond Series	Board Approval Date	Original Issue Amount	Date issued	Interest rates (Yields) range		Maturity date range		Optional Redemption	
				From	To	From	To	Bonds maturing after	Earliest call date
2007 (a)	Jan. 2007	\$770,270	3/08/07	4.00%	5.30%	12/1/07	12/1/36	12/1/17	12/1/16
2008 (b)	Apr. 2008	731,415	6/23/08	4.50%	5.30%	12/1/09	12/1/48	12/1/18	12/1/17
2009A	May 2009	170,385	6/25/09	2.80%	4.30%	12/1/14	12/1/22	12/1/19	6/1/19
2009B	May 2009	829,615	6/25/09	6.00%	6.30%	12/1/23	12/1/44	12/1/34	5/31/19
2010A	Sep. 2010	95,235	10/7/10	2.00%	5.00%	12/1/13	12/1/23	12/1/21	12/1/20
2010B	Sep. 2010	729,390	10/7/10	4.90%	5.00%	12/1/37	12/1/48	Not applicable	
2012	April 2012	127,775	11/15/12	1.00%	5.00%	12/1/13	12/1/42	12/1/22	12/1/22
2014A (c)	Oct. 2014	379,480	12/11/14	2.00%	5.00%	12/1/17	12/1/36	12/1/25	12/1/24
2014B (c)	Nov. 2014	46,555	12/11/14	5.00%	5.30%	12/1/33	12/1/43	12/1/36 & 12/1/43	12/1/33 & 12/1/39
2015 (d)	Nov. 2015	117,470	12/15/15	2.06%	2.30%	12/1/16	12/1/27	Not applicable	
2016A (e)	Nov. 2015	482,530	02/18/16	5.00%	5.00%	12/1/26	12/1/48	12/1/25	12/1/25
2016B (f)	Mar. 2016	228,900	09/21/16	3.00%	5.00%	12/1/19	12/1/38	12/1/27	12/1/26

- a) The series 2007 bond issuance included \$328,235 to partially refund Series 2001 and 2002 bonds.
- b) The Series 2008 bonds maturing after December 1, 2018 are subject to optional redemption except for those maturing on December 1, 2029 and 2030.
- c) The series 2014A and 2014B were issued to refund series 2007 and 2008 bonds totaling \$453,125.
- d) The series 2015 were issued to refund a portion of series 2007 bonds totaling \$112,720. The Series 2015 bonds were issued with an initial taxable rate of 2.30% converting to tax-exempt rate of 2.06% on 12/01/2016.
- e) The series 2016A were issued to refund a portion of series 2008 bonds totaling \$512,370.
- f) The series 2016B were issued to refund a portion of series 2007, 2008, and 2009A bonds totaling \$252,440.

In June 2009, DART issued and sold \$170,385 in tax exempt Senior Lien Sales Tax Revenue Bonds (Series 2009A Bonds), and \$829,615 in taxable Senior Lien Sales Tax Revenue Bonds (Series 2009B Bonds) to finance capital expenditures for DART's system expansion and acquisition. The Series 2009B bonds are taxable bonds issued under the Build America Bond program of the American Recovery and Reinvestment Act of 2009 (ARRA). In accordance with ARRA, DART receives a tax credit from the United States Treasury in amounts equal to 35% of the interest payable amount on the Series 2009B Bonds. However, during fiscal years 2017 and 2016, this tax credit was reduced by 6.9% and 6.8% due to budget cuts or "sequestration" by the federal government.

In October 2010, DART issued and sold \$95,235 in tax exempt Senior Lien Sales Tax Revenue Bonds (Series 2010A Bonds), and \$729,390 in taxable Senior Lien Sales Tax Revenue Bonds (Series 2010B Bonds) to finance capital expenditures for DART's system expansion and acquisition. The Series 2010B bonds are taxable bonds issued under the Build America Bond program of the American Recovery and Reinvestment Act of 2009 (ARRA). In accordance with ARRA, DART receives a tax credit from the United States Treasury in amounts equal to 35% of the interest payable amount on the Series 2010B Bonds. However, during fiscal years 2017 and 2016 this tax credit was reduced by 6.9% and 6.8% respectively, due to budget cuts or "sequestration" by the federal government. During 2017, DART recorded tax credits of \$28,381 compared to \$28,391 for 2016 as Build America Bonds tax credit (for Series 2009B and 2010B bonds combined) in the Statements of Revenues, Expenses and Changes in Net Position.

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Additional bonds may not be issued unless gross sales and use tax revenues exceed maximum debt service by at least 200% for 12 of the last 18 months. Changes in revenue bonds (shown at par) for the years ended September 30, 2017 and 2016 are as shown below:

Bond Series	Balance, 9/30/2015	Additions	Retirement	Balance, 9/30/2016	Additions	Retirement	Balance, 9/30/2017	Amounts due in one year
2007	\$386,790	\$ -	\$(248,145)	\$138,645	\$ -	\$(20,250)	\$118,395	\$ -
2008	596,450	-	(569,605)	26,845	-	(8,505)	18,340	8,940
2009A	154,920	-	(101,265)	53,655	-	(17,025)	36,630	17,865
2009B	829,615	-	-	829,615	-	-	829,615	-
2010A	65,935	-	(4,435)	61,500	-	(2,375)	59,125	1,895
2010B	729,390	-	-	729,390	-	-	729,390	-
2012	123,480	-	(2,245)	121,235	-	(2,335)	118,900	2,410
2014A	379,480	-	-	379,480	-	-	379,480	12,110
2014B	46,555	-	-	46,555	-	-	46,555	-
2015	-	117,470	-	117,470	-	(1,440)	116,030	10,625
2016A	-	482,530	-	482,530	-	-	482,530	-
2016B	-	228,900	-	228,900	-	-	228,900	-
Total	\$3,312,615	\$828,900	\$(925,695)	\$3,215,820	\$ -	\$(51,930)	\$3,163,890	\$53,845

The revenue bonds shown above are at face value. The amounts shown in the Statements of Net Position include the unamortized balance of original issuance premium of \$201,935 and \$221,664 as of September 30, 2017 and 2016, respectively. Below is a summary of debt service requirements of the Senior Lien Revenue Bonds outstanding as of September 30, 2017:

Year Ended September 30	Principal	Interest	Total Debt Service	Build America Bonds tax credit	Net Debt Service
2018	\$53,845	\$161,302	\$215,147	\$(28,452)	\$186,695
2019	56,140	158,966	215,106	(28,452)	186,654
2020	57,760	156,429	214,189	(28,452)	185,737
2021	60,410	153,781	214,191	(28,452)	185,739
2022	63,105	151,085	214,190	(28,452)	185,738
2023 – 2027	357,825	706,655	1,064,480	(145,958)	918,522
2028 – 2032	438,430	605,606	1,044,036	(133,081)	910,955
2033 – 2037	551,845	472,337	1,024,182	(114,604)	909,578
2038 – 2042	655,385	315,635	971,020	(81,391)	889,629
2043 – 2047	648,750	132,341	781,091	(31,903)	749,188
2048 – 2049	220,395	11,158	231,553	(2,517)	229,036
TOTAL	\$3,163,890	\$3,025,295	\$6,189,185	\$(651,714)	\$5,537,471

14. TRANSPORTATION INFRASTRUCTURE FINANCE AND INNOVATION ACT (TIFIA) BONDS

On December 13, 2012, DART entered into a Transportation Infrastructure Finance and Innovation Act (TIFIA) financing agreement with the U.S Department of Transportation. Under this agreement, DART issued a Senior Lien Obligation bond to borrow up to \$119,972 from the U.S Department of Transportation at an interest rate of 2.91%. The proceeds from the bond were used to pay for the cost of the third phase of DART's light rail Orange Line extension project, which extended DART's light rail service from Irving to the Dallas Fort Worth International Airport. According to the TIFIA financing agreement, the U.S. Department of Transportation (DOT) reimburses DART for eligible capital project costs. DART received \$45,000 during fiscal year 2013, \$55,000 during fiscal year 2014 and \$5,000 during fiscal year 2015. Since the project cost is lower than budget, DART borrowed only \$105,000 instead of the maximum amount of \$119,972 allowed in the agreement. The TIFIA bond is a Senior Lien Obligation and is secured by and payable from Pledged Revenues on parity with other Senior Lien Obligations.

The table on the next page summarizes estimated debt service requirements of the TIFIA financing agreement executed on December 13, 2012.

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Summary of estimated debt service requirements of TIFIA bonds as of September 30, 2017 is as follows:

Year Ended September 30	Principal	Interest	Total TIFIA Bond Debt Service
2018	\$2,091	\$2,966	\$5,057
2019	2,151	2,904	5,055
2020	2,214	2,845	5,059
2021	2,279	2,772	5,051
2022	2,345	2,708	5,053
2023 – 2027	12,788	12,461	25,249
2028 – 2032	14,760	10,463	25,223
2033 – 2037	17,037	8,149	25,186
2038 – 2042	19,664	5,486	25,150
2043 – 2047	22,697	2,409	25,106
2048	4,943	72	5,015
TOTAL	\$102,969	\$53,235	\$156,204

The annual debt service requirements for the TIFIA bond range from \$5,015 in fiscal year 2048 to \$5,059 in fiscal year 2020.

15. PLEDGED REVENUES

DART has pledged sales and use tax and farebox revenues as security for revenue bonds, TIFIA Bonds and commercial paper debts. The amount of the pledge is equal to the remaining debt service requirements for these obligations. These obligations were issued to pay for DART's system expansion and acquisition costs. The pledge continues for the remaining life of these obligations, which is currently through fiscal year 2049. Total principal and interest remaining on the revenue bonds as of September 30, 2017 is \$6.2 billion before Build America Bonds tax credits of \$652 million and \$5.5 billion net of Build America Bonds tax credits (see the second table on page 33). The annual debt service requirements for these bonds, net of Build America Bonds tax credits, range from \$184,556 in fiscal year 2023 to \$113,057 in fiscal year 2049. For the current fiscal year, debt service on the bonds (including principal and interest net of Build America Bonds tax credits) is \$184,957. Bonds have a senior lien on pledged revenues.

Total principal and interest remaining on the revenue bonds (TIFIA bonds) as of September 30, 2017 is \$156,204 million. The annual debt service requirements for the TIFIA bonds range from \$5,015 in fiscal year 2048 to \$5,059 in fiscal year 2020. For fiscal year 2017, debt service on the TIFIA bonds (including principal and interest) is \$5,049. TIFIA bonds have a senior lien on pledged revenues.

Total principal and interest remaining on commercial paper as of September 30, 2017 is \$140,108 compared to \$170,122 as of September 30, 2016. Interest payments on commercial paper notes during the current fiscal year totaled \$1,068. Commercial Paper notes have a subordinate senior lien on pledged revenues.

16. DEBT REFUNDINGS

In December 2014, DART issued the Series 2014A and 2014B bonds to refund a portion of Series 2007 and 2008 bonds. As a result, the Series 2007 and 2008 bonds in the total amount of \$453,125 are considered to be defeased and the liability for those bonds, and the corresponding assets in the trust account have been removed from DART's Statements of Net Position. As a result of the 2014 refunding, DART recognized a book loss of \$29,477, a reduction in debt service of \$51,446 and an economic gain of \$35,555.

In December 2015, DART issued the Series 2015 bonds to refund a portion of Series 2007 bonds. As a result, the Series 2007 bonds in the total amount of \$112,720 are considered to be defeased and the liability for those bonds, and the corresponding assets in the trust account have been removed from DART's Statements of Net Position. As a result of the 2015 refunding, DART recognized a book loss of \$2,537, a reduction in debt service of \$17,173 and an economic gain of \$15,027.

In February 2016, DART issued the Series 2016A bonds to refund a portion of Series 2008 bonds. As a result, the Series 2008 bonds in the total amount of \$512,370 are considered to be defeased and the liability for those bonds, and the corresponding assets in the trust account have been removed from DART's Statements of Net Position. As a result of the 2016A refunding, DART recognized a book loss of \$47,493, a reduction in debt service of \$90,144 and an economic gain of \$49,263.

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In September 2016, DART issued the Series 2016B bonds to refund a portion of Series 2007, 2008 and 2009A bonds. As a result, a total amount of \$252,440 are considered to be defeased and the liability for those bonds, and the corresponding assets in the trust account have been removed from DART's Statements of Net Position. As a result of the 2016B refunding, DART recognized a book loss of \$8,764, a reduction in debt service of \$62,098 and an economic gain of \$44,534.

As of September 30, 2017 and 2016, the unamortized portion of the book loss of \$75,317 and \$83,776, respectively, have been included in the Statements of Net Position under the deferred outflows of resources section.

As of September 30, 2017, \$727,305 of these refunded DART bonds remains outstanding compared to \$1,281,655 as of September 30, 2016.

17. PENSION, RETIREMENT, AND DEFERRED COMPENSATION PLANS

DART operates several employee benefit plans. The plans include DART Employees' Defined Benefit Plan (formerly the Dallas Transit System [DTS] pension plan), DART Retirement Plan, and DART Capital Accumulation Plan and Trust. DART is the administrator of these retirement plans and has the authority to establish and amend the plans.

Defined Benefit Plan

GASB Statements No. 68 *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* and No.71 *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*

Plan description. The DART Employees Defined Benefit Retirement Plan and Trust (the DB Plan) is a single-employer defined benefit pension plan that was designed to provide retirement, death, and disability benefits to certain employees of DART. On October 1, 1995, the DTS Employees Retirement Plan (Plan A) was amended to become the DB Plan. Participants of the DB Plan are those employees who were members of the former plan on September 30, 1995. Those employees who elected to be covered under Plan A have eligibility, vesting, and benefit provisions different from those who elected the DB Plan. The DB Plan is a closed Plan and is not open to new employees.

Contributions. Contributions to the DB Plan, as stipulated by the "Sale, Purchase, and Transfer Contract Between the City of Dallas and Dallas Area Rapid Transit," are based upon Dallas Area Rapid Transit's agreement to contribute an amount at least equal to the minimum funding standard under Section 412 of the Internal Revenue Code of 1986, as if the Plan were subject to Section 412. An actuary determines the contribution amount that DART pays to the plan each year. Participants who were in the Plan on September 30, 1995 are required to contribute 3% of their base monthly salaries to the Plan. Other participants are not required to contribute to the DB Plan. DART's contribution amount is actuarially determined on an annual basis. Actual contributions made to the DB Plan during the years ended September 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Employer contributions	\$9,217	\$9,221
Employee contributions	<u>2</u>	<u>2</u>
	<u>\$9,219</u>	<u>\$9,223</u>

Benefit terms. Participants under the provisions of Original Plan A may elect normal retirement at age 60 or at the date at which the sum of their credited service and age equals 90. Participants who elected to remain under the provisions of the original plan receive monthly benefits equal to 2% times the years of credited service multiplied by the participant's final average monthly compensation. Participants in Amended Plan A are entitled to monthly benefits equal to: 2% times the number of years of credited service up to October 1, 1983; plus 1.5% times the number of years of credited service after October 1, 1983; times the participant's final average monthly compensation. A participant may elect early retirement at age 55 with 10 years of service (30 years of service for participants under the Original Plan A). Monthly income under this election will equal normal retirement benefits reduced by 5/12 of 1% for each full month by which the participant's early retirement date precedes the normal retirement date.

Cost of living adjustments. Annually each monthly retirement payment made to or on behalf of a retired participant, or a beneficiary, shall be subject to a cost of living adjustment. But such adjustment in any year shall only be made with respect to the benefits of persons whose immediate entitlement to benefits commenced prior to such year. The adjustment, up or down, shall be applied to each benefit so payable, except that in the case of commuted amounts and/or lump sum settlements no account shall be taken of future changes in cost of living adjustment occurring after the date as of which such settlement is made. The adjustment, up or down, shall for any year result in a percentage change in the base benefit.

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Employees covered by the benefit terms. The following participants were covered by the benefit terms as of October 1, 2016 and 2015:

	10/1/2016	10/1/2015
Inactive employees or beneficiaries currently receiving benefits	747	755
Inactive employee entitled to but not yet receiving benefits	155	163
Active employees	288	298
	<u>1,190</u>	<u>1,216</u>

Actuarial Assumptions – The total pension liability in the September 30, 2016 and 2015 actuarial valuation was determined using the following actuarial assumptions, applied to the periods included in the measurement:

Valuation Dates	September 30, 2016 and 2015
Inflation	2.5% per annum
Salary Increases	3.00% per annum per the September 30, 2016 valuation and 3.25% per annum per the September 30, 2017 valuation
Investment Return	6.75 at September 30, 2016 and 7% at September 30, 2015 compounded annually, net of expenses
Measurement Date	For the September 30, 2016 valuation, census data was collected as of October 1, 2015. Liabilities measured as of the census date were projected to September 30, 2016, assuming no demographic gains or losses.
	For the September 30, 2015 valuation, census data was collected as of October 1, 2014. Liabilities measured as of the census date were projected to September 30, 2015, assuming no demographic gains or losses.
Mortality	RP-2000 combined mortality table for males and females increased by 8.59% and projected generationally from 2000 by Scale AA.
Disability Mortality	RP-2000 disabled mortality tables for males and females.
Early Retirement Age	55
Normal Retirement Age	60
Actuarial Cost Method	Entry Age Normal (level percent of pay)

Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of September 30, 2016 and 2015 are summarized in the following table (note that the rates shown below include the inflation components):

September 30, 2016 Valuation	Target Allocation	Estimate of expected long-term rate of return
U.S. Market Equities	39%	4.25%
U.S. Market Fixed Income	40%	0.75%
International Equities	10%	5.00%
Real Estate	10%	4.75%
Cash	1%	-0.25%
September 30, 2015 Valuation	Target Allocation	Estimate of expected long-term rate of return
U.S. Market Equities	40%	6.8%
U.S. Market Fixed Income	40%	3.1%
International Equities	10%	8.0%
Opportunity Fund (hedge funds and other alternative investments)	10%	7.0%

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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Discount rate. The discount rate used to measure the total pension liability was 6.75% at September 30, 2016 and 7.00% at September 30, 2015. This was the only change in assumptions for the September 30, 2016 valuation. There were no changes in assumptions for the September 30, 2015 valuation. The projection of cash flows used to determine the discount rate assumed that DART contributions will continue to follow the current funding policy. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Had there been a point where assets were projected to be depleted, a municipal bond rate of 3.06% as of September 30, 2016 and 3.67% as of September 30, 2015 would have been used in the development of the blended GASB discount rate after that point. These rates are based on the S&P Municipal Bond 20 Year High Grade Rate Index.

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at 9/30/2015	\$219,019	\$156,829	\$62,190
Service cost	954	-	954
Interest	14,644	-	14,644
Differences between expected and actual experience	(5,082)	-	(5,082)
Benefit payments	(11,369)	(11,369)	-
Contributions-employer	-	8,706	(8,706)
Contributions-employee	-	2	(2)
Net investment income, net of expenses	-	520	(520)
Administrative expenses	-	(219)	219
Net Changes	(853)	(2,360)	1,507
Balance at 9/30/2016	\$218,166	\$154,469	\$63,697
Service cost	1,281	-	1,281
Interest	14,969	-	14,969
Differences between expected and actual experience	(2,815)	-	(2,815)
Changes in assumptions	63	-	63
Benefit payments	(11,203)	(11,203)	-
Contributions-employer	-	9,217	(9,217)
Contributions-employee	-	2	(2)
Net investment income, net of expenses	-	16,067	(16,067)
Administrative expenses	-	(218)	218
Net Changes	2,295	13,865	(11,570)
Balance at 9/30/2017	\$220,461	\$168,334	\$52,127

Sensitivity of the net pension liability to changes in discount rate. The following presents the net pension liability of DART, calculated using the discount rate of 6.75% at September 30, 2017, and 7.00% at September 30, 2016, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
DART's net pension liability, 9/30/2017	\$74,908	\$52,127	\$32,451
	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
DART's net pension liability, 9/30/2016	\$92,118	\$63,697	\$47,840

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued DART Employees Defined Benefit Retirement Plan and Trust financial report.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended September 30, 2017, DART recognized pension expense of \$2,316 compared to \$3,969 for fiscal year 2016.

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At September 30, 2017, DART reported deferred inflows/outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 1,408
Changes of assumptions	32	-
Net difference between projected and actual earnings on pension plan investments	944	-
Employer contribution made after measurement date	10,000	-
Total	<u>\$10,976</u>	<u>\$1,408</u>

The \$10,000 reported as deferred outflows of resources related to pensions resulting from DART contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in the pension expense as follows:

Year ended September 30:

2018	\$(875)
2019	503
2020	1,006
2021	(1,066)
2022	-
Thereafter	-

At September 30, 2016, DART reported deferred inflows/outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 2,541
Net difference between projected and actual earnings on pension plan investments	6,777	-
Employer contribution made after measurement date	9,217	-
Total	<u>\$ 15,994</u>	<u>\$ 2,541</u>

DART reported \$8,706 as a deferred outflows of resources related to pensions resulting from contributions paid subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended September 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in the pension expense as follows:

Year ended September 30:

2017	\$ (972)
2018	1,568
2019	1,569
2020	2,071
2021	-
Thereafter	-

Additional trend information for the DB Plan can be obtained by writing to the DB Plan, Dallas Area Rapid Transit, P.O. Box 660163, Dallas, Texas 75266-7240.

DART Retirement Plan

DART has adopted a defined contribution retirement plan for all employees not covered by the pension plans described above. DART contributes an amount equal to 7.7% of each participant's annual compensation to the plan. Participants hired before January 1, 2006 are vested in 25% of DART's contributions after two years of service, graduating to 100% vesting after five years. Participants hired after December 31, 2005 become 100% vested in DART's contributions to the Plan only after completing five years of service. Total expense to DART to fully fund this plan was approximately \$16,550 and \$15,334 for the years ended September 30, 2017 and 2016, respectively.

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DART Capital Accumulation Plan – 401(k)

DART has adopted a deferred compensation plan created in accordance with Internal Revenue Code Section 401(k), which allows employees to contribute up to 50% of their annual compensation to the plan subject to the annual contribution limits of the Internal Revenue Service. DART matches 50% of the employee's contribution up to a maximum of 3% of the employee's annual compensation. Participants hired before January 1, 2006 are vested in 25% of DART's contributions after two years of service, graduating to 100% vesting after five years. Participants hired after December 31, 2005 become 100% vested in DART's contributions to the Plan only after completing five years of service. Total expense to DART to fully fund this plan was approximately \$5,229 and \$5,159 for the years ended September 30, 2017 and 2016, respectively.

Annual financial statements for each of the three retirement plans discussed above may be obtained by contacting the Chief Financial Officer at Dallas Area Rapid Transit, 1401 Pacific Avenue, P.O. Box 660163, Dallas, TX 75266-7220.

18. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description – DART administers a single-employer defined benefit of other post-employment benefits (OPEB) Plan. The plan provides healthcare and life insurance for eligible retirees and their spouses through DART's group health plan and group life plan, which covers both active employees and retired members. Eligibility criteria for the post-employment health care and life insurance benefits are as follows: Participants of the defined benefit pension plan will be eligible at age 55 with a minimum of ten years of service to DART. Participants of the defined contribution pension plan will be eligible at age 60 with a minimum of ten years of service to DART. The plan does not issue separate stand-alone financial reports.

Funding Policy – DART's contribution to the retiree healthcare and life insurance is an annual required contribution (ARC) determined actuarially based on the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortization of any unfunded actuarial liabilities (funding excess) over a period not to exceed thirty years. The ARC is 2.8% and 2.4% of annual covered payroll for fiscal years 2017 and 2016. Retirees also make monthly contributions to the healthcare plan. Such contributions are determined annually by the plan administrator based on expected annual cost. For the years ended September 30, 2017 and 2016, DART's annual required contributions to other post-employment benefits (OPEB) trust were \$5,821 and \$4,625. These contribution amounts are the same as annual OPEB costs for both years. The OPEB trust was set up during the fiscal year 2008 for the first time and is not included in those financial statements. DART has 336 retirees and 3,586 active participants in the OPEB plan as of September 30, 2017, compared to 300 retirees and 3,516 active participants as of September 30, 2016.

Actuarial Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the type of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Actuarial evaluations were performed for the OPEB Plan as of September 30. The following two tables show the summaries of significant actuarial assumptions:

Valuation Date	September 30, 2017
Investment Return	7.00%
Future Participation	For future eligible retirees, 56% are assumed to elect medical coverage, while 100% are assumed to elect life coverage.
Health Care Trend rate	Starts with 6.75% in year 2018 and goes down to 5% in year 2025 and after for Pre-65. For Medicare it starts with 33.10% in year 2018 and goes down to 5% in year 2025 and after.
Inflation	3% included in health care cost trend.
Impact of Cadillac tax	3%
Mortality	RP-2014 Mortality Fully Generational using Projection Scale MP-2015.
Eligibility for Coverage	For Defined Benefit Pension Plan participants: age 55 and 10 years of service and for Defined Contribution Pension Plan participants: age 60 and 10 years of service.
Dependent coverage	For active employees, 40% are assumed to be married at retirement with the spouse electing coverage. Female spouses are assumed to be four (4) years younger than their husbands. Percent of future retirees with coverage who elect coverage on spouse is 100%. Any potential costs for children have not been considered for valuation purposes.
Actuarial Cost Method	Entry Age Actuarial Cost Method
Salary Increases	3.25% per annum
Measurement Date	September 30, 2017

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Valuation Date	September 30, 2016
Investment Return	7.00%
CPI increase	2.50%
Future Participation	For future eligible retirees, 56% are assumed to elect medical coverage, while 100% are assumed to elect life coverage
Health Care Trend rate	Initial (year 2017) 7%, ultimate 5%. Ultimate year 2025.
Inflation	3%
Mortality	For active employees and healthy retirees and dependents, the SOA RP-2014 Blue Collar Headcount-weighted mortality projected with the MP-2015 improvement scale on a fully generational basis. For disabled retirees, the SOA RP-2014 Disabled Headcount-weighted mortality projected with the MP-2015 improvement scale on a fully generational basis.
Aging Factor	3% per annum for Pre-65 and 2% for Post-65
Eligibility for Coverage	For Defined Benefit Pension Plan participants: age 55 and 10 years of service and for Defined Contribution Pension Plan participants: age 60 and 10 years of service
Dependent coverage	For active employees, 40% are assumed to be married at retirement with the spouse electing coverage. Female spouses are assumed to be four (4) years younger than their husbands. Any potential costs for children have not been considered for valuation purposes.
Actuarial Cost Method	Projected Unit Credit
Salary Increases	3.25% per annum
Amortization	30 Years Level Dollar Amortization Method, Open period
Measurement Date	September 30, 2015

Annual OPEB Cost and Net OPEB Asset – For plan years 2017 and 2016, annual OPEB cost and the net OPEB asset were as follows:

	2017	2016
Annual required contribution	\$5,821	\$4,625
Annual OPEB cost	5,821	4,625
Total employer contributions	5,821	4,625
Increase in net OPEB obligation (decrease in net OPEB asset)	-	-
Net OPEB asset (obligation), beginning of year	-	-
Net OPEB asset (obligation), end of year	\$ -	\$ -
Percentage of annual OPEB cost contributed	100%	100%

Funding Progress – The schedule of funding progress for the DART Other Postemployment Benefits (OPEB) is included in the Required Supplementary Information. The data for the two most recent valuations are as follows:

	Fiscal Year Ended	
	9/30/17	9/30/16
Actuarial value of assets	\$48,024	\$33,894
Actuarial accrued liability (AAL)*	58,230	\$57,520
Unfunded AAL (UAAL)	10,206	\$23,626
Funded ratio	82.5%	58.9%
Covered payroll	205,345	\$196,688
UAAL as a % of covered payroll	5.0%	12.0%

*AAL of \$58,230 at 9/30/2017 is based on 9/30/2016 actuarial valuation.

Actuarial valuations for OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These actuarially determined amounts are subject to continual revisions as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress presented immediately following the financial statements as required supplementary information, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

19. CLAIMS AND LITIGATION

In the ordinary course of business, a number of claims and lawsuits arise from individuals seeking compensation for personal injury, death, and/or property damage resulting from accidents occurring in the operation of the system. In addition, DART has been named as a defendant in a number of lawsuits relating to personnel and contractual matters. Management does not believe that the outcome of these claims will have a material adverse effect on DART's financial statements.

**DALLAS AREA RAPID TRANSIT
NOTES TO FINANCIAL STATEMENTS****FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016 (Dollars in Thousands)****20. COMMITMENTS AND CONTINGENCIES**

The Board has approved a Transit System Plan, which included the design and construction of a 46-mile light rail transit (LRT) extension from Downtown Dallas to Buckner Blvd. (the Southeast Corridor) and from Downtown Dallas to Farmers Branch, Carrollton, and Irving (the Northwest Corridor) and from downtown Garland to Rowlett (Rowlett extension) and the three miles extension of the Blue Line from Ledbetter Station toward the University of North Texas (UNT) Dallas Campus located at the southeast corner of Camp Wisdom Road and University Hills Blvd. The plan also includes the Cotton Belt Corridor and Dallas Central Business District (D2) Alignment. The Cotton Belt Corridor is a 26-mile long, regional rail corridor that extends from DFW International Airport through the northern portion of the DART service area to the existing DART Red Line, passing through the cities of Grapevine, Coppell, Carrollton, Addison, Dallas, Richardson, and Plano, with nine proposed stations along the way. The second CBD alignment (D2) will double the downtown LRT capacity, and connects Victory Station and the Green Line. The timing and completion of the Transit System Plan is based on economic assumptions made in DART's 20-year financial plan and is subject to change based on changing economic conditions. The FY 2018 Twenty-Year Financial Plan includes \$6.1 billion for capital and non-operating projects. The first section of the southeast extension, Bryan Street to Fair Park, opened for service on September 14, 2009. Other northwest and southeast extensions opened for service during 2011 and the first section of Irving line segment opened for service in July 2012. The second section of the Irving line segment and the northeast (Rowlett) extension opened for revenue service in December 2012. The third section of the Irving line (Irving-3) opened for service in August 2014. The Blue Line extension to the University of North Texas (UNT) Dallas Campus (UNT Dallas Station) opened for service on October 24, 2016. DART has entered into contract commitments for the LRT build out and other capital developments in the amount of \$3.51 billion and has spent approximately \$3.46 billion of the committed amount as of September 30, 2017.

DART participates in several federal and state grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies. In the opinion of management, no significant contingent liabilities exist relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

DART has entered into certain operating lease agreements. Operating lease expenses are approximately \$801 and \$896 in 2017 and 2016, respectively.

Future minimum lease payments for all non-cancelable operating leases are as follows:

<u>Fiscal Year</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Minimum Lease Payments	\$618	\$470	\$403	\$131	\$131

DART owns and operates a number of facilities. It also acquires new properties for light rail expansion projects. In some of these properties DART has discovered contamination that may require pollution remediation activity. DART is working with relevant state and federal agencies on pollution remediation plans. Management does not believe that the outcome of these remediation activities will have a material adverse effect on DART's financial position. Management has accrued an estimate which is included in the accounts payable and accrued liabilities line item in the accompanying Statements of Net Position.

21. DERIVATIVE INSTRUMENTSFuel Hedge

DART has fuel delivery contracts with suppliers for commuter rail vehicles and some DART buses and a gasoline contract for service vehicles. However, the price DART pays for the fuel fluctuates depending on market prices. This exposes DART to significant risk related to fluctuations in the amounts it pays for fuel. It also creates uncertainty in budgeting for fuel costs. In order to minimize the impact of fluctuating fuel market prices on its cash flow, DART has entered into fuel hedge contracts that run from May 1, 2015 to September 30, 2020. The fair values of the derivative instrument associated with this hedge contract were \$769 as of September 30, 2017 and \$486 as of September 30, 2016.

Objective and terms of the fuel hedge contracts –The objective of each of the derivative instruments (diesel fuel hedge contracts) is to hedge changes in cash flows due to market price fluctuations related to expected purchases of diesel fuel for DART buses, commuter rail cars, and service vehicles. The terms of the agreement include DART paying monthly fixed prices and receiving floating prices based on an average of daily mean of Platts US Gulf Coast ultralow sulfur diesel (ULSD) and Gasoline-UNIL 87 Gulf Cost (Pipeline) – Platts U. S. for each month.

**DALLAS AREA RAPID TRANSIT
NOTES TO FINANCIAL STATEMENTS**

FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016 (Dollars in Thousands)

Credit risk – The derivative instrument for diesel fuel for fiscal year 2018 to 2020 and for gasoline from 2017 to 2019 is held by the same counterparty. As of the end of fiscal year 2017, DART's position in the derivative instrument was a receivable of \$769. DART could have been exposed to credit risk if the counterparty to the transaction becomes insolvent but that did not happen. The S&P credit rating for the counterparty was A+ during 2017.

Termination risk – DART or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. The effect of termination risk on DART is that it will pay market prices for diesel fuel purchased for its operations. No termination event has occurred during fiscal year 2017 and the last contract for diesel fuel hedge will expire on 9/30/2020 and for gasoline will expire on 9/30/2019.

Contingencies – The fuel hedge contracts include provisions that require DART to post collateral in the event its credit rating falls below A- or A3 as issued by Standard & Poors or Moody's and if the exposure exceeds threshold amounts specified in the derivative instruments (contracts). DART maintained a AA+ credit rating from Standard & Poor's, Aa2 from Moody's, and AA from Fitch for its bonds.

Compressed Natural Gas (CNG) Delivery Contract

During fiscal year 2010, DART entered into a fixed price and indexed price CNG delivery contract for the CNG needed to operate these vehicles. The contract specifies monthly volumes of CNG to be used by DART from October 1, 2012 to September 30, 2020 with 85% of the monthly volumes at a fixed price and 15% at an indexed price. When DART uses lower than the volumes specified in the contract, the excess CNG has to be sold back to market at market price. The market price could be lower or higher than the fixed price and indexed price specified in the contract. The difference between the contract and market price can result in an exposure for DART. The amount of this exposure for DART is not expected to be material and no liability is included in the Statements of Net Position as of September 30, 2017 and 2016.

Objective and terms of the CNG delivery contract – The objectives of the CNG delivery contract are: to ensure that DART has delivery of natural gas for its transit buses and contractor owned and operated paratransit vehicles during the contract period; to fix the price for 85% of monthly volumes; and to minimize the fluctuations in cash flows caused by changes in market prices of CNG.

Early Termination – Subject to payment of early termination damages, either party to the delivery contract may terminate the CNG delivery contract by giving at least thirty (30) days written notice to the other party. The effect of termination risk on DART is that it will pay market prices for CNG purchased for its operations. No termination event occurred during fiscal years 2017 and 2016.

22. NEW ACCOUNTING PRONOUNCEMENTS

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017.

In March 2016, GASB issued Statement No. 81 *Irrevocable Split-Interest Agreements*. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

In November 2016, GASB issued Statement No. 83 *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

In January 2017, GASB issued Statement No. 84 *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

**DALLAS AREA RAPID TRANSIT
NOTES TO FINANCIAL STATEMENTS**

FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016 (Dollars in Thousands)

In March 2017, GASB issued Statement No. 85 *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

In May 2017, GASB issued Statement No. 86 *Certain Debt Extinguishment Issues*. This Statement establishes accounting and financial reporting requirements for when a government places cash and other monetary assets from existing resources (as opposed to debt proceeds) in an irrevocable trust to extinguish the debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

In June 2017, GASB issued Statement No. 87 *Leases*. This statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Management has not yet determined the impact of these statements on the basic financial statements.

**DALLAS AREA RAPID TRANSIT
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
DEFINED BENEFIT PENSION PLAN
SCHEDULE OF NET PENSION LIABILITY**

SEPTEMBER 30, 2017 and 2016 (Dollars in Thousands)

The schedule of changes in the DART's Net Pension Liability and Related Ratios (Dollar amounts in thousands)

	2017	2016	2015
<u>Total Pension Liability</u>			
Service cost	\$1,281	\$954	\$502
Interest	14,969	14,644	14,674
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(2,815)	(5,082)	-
Changes in assumptions	63	-	-
Benefit payments	(11,203)	(11,369)	(11,364)
Net change in total pension liability	2,295	(853)	3,812
Total pension liability – beginning	218,166	219,019	215,207
Total pension liability – ending (a)	220,461	218,166	219,019
<u>Plan Fiduciary Net Position</u>			
Contributions – employer	9,217	8,706	9,122
Contributions – employee	2	2	2
Net investment income, net of expenses	16,067	520	12,532
Benefit payments	(11,203)	(11,369)	(11,364)
Administrative expenses	(218)	(219)	(250)
Net change in plan fiduciary net position	13,865	(2,360)	10,042
Plan fiduciary net position – beginning	154,469	156,829	146,787
Plan fiduciary net position - ending (b)	168,334	154,469	156,829
DART's net pension liability (a) – (b)	\$52,127	\$63,697	\$62,190
Plan fiduciary net position as a percentage of total pension liability	76.36%	70.80%	71.61%
Covered payroll	\$18,914	\$19,129	\$19,438
DART's net pension liability as a percentage of covered payroll	275.61%	332.99%	319.94%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available. The amounts presented for each fiscal year were determined as of the year end that occurred one year prior.

Note to Schedule: In fiscal year 2017, the discount rate decreased from 7.00% to 6.75%. There were no significant changes in assumptions for other fiscal years.

**DALLAS AREA RAPID TRANSIT
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
DEFINED BENEFIT PENSION PLAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS
SEPTEMBER 30, 2017 (Dollars in Thousands)**

The schedule of DART Contribution to DB Pension Plan (Dollar amounts in thousands)

	9/30/17	9/30/16	9/30/15	9/30/14	9/30/13	9/30/12	9/30/11	9/13/10	9/30/09	9/30/08
Contractually required contribution	\$7,755	\$9,217	\$8,706	\$9,122	\$9,074	\$8,045	\$6,266	\$6,212	\$5,036	\$4,655
Contribution in relation to the contractually required contribution	10,000	9,217	8,706	9,122	9,074	8,045	6,266	6,212	5,036	4,655
Contribution deficiency (excess)	\$(2,245)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	N/A	\$19,129	\$19,129	\$19,438	\$19,467	\$19,306	\$23,727	\$23,904	\$24,721	\$24,832
Contribution as a percentage of covered payroll	N/A	48.18%	45.51%	46.93%	46.61%	41.67%	26.41%	25.99%	20.37%	18.75%

Notes to Schedule

Valuation date: Most recent valuation date is 10/1/2016.

Contractually required contribution rates are calculated by an actuary as of October 1, in the fiscal year in which contributions are reported. That is, the contribution calculated as of October 1, 2016 was made during the fiscal year ended September 30, 2017, and as of October 1, 2015 was made during the fiscal year ended September 30, 2016.

Methods and assumptions used to determine contribution rates include the following:

Funding Method	The minimum required contribution is based upon DART's agreement to contribute an amount at least equal to the minimum funding standard under Section 412 of the Internal Revenue Code of 1986, as if the Plan were subject to Section 412, per the stipulation of the "Sale, Purchase and Transfer contract between the City of Dallas and Dallas Area Rapid Transit
Actuarial Cost Method	Projected Unit Credit and changed to Entry Age Normal for measurement date 9/30/2016.
Asset valuation method	All assets are valued at market value with an adjustment made to uniformly spread actuarial investment gains and losses (as measured by actual market value investment return against expected market value investment return) over a five-year period.
Inflation	2.5%.
Investment Return	7.00% per year compounded annually, net of all expenses and lowered to 6.75% for 9/30/2016 measurement date.
Retirement age	10% at age 55 reaching 100% at age 70.
Salary Increases	3.25% and lowered to 3% for 9/30/2016 measurement date.
Mortality	Healthy Lives: RP-2000 Combined Healthy Table (sex distinct) with rates increased by 8.59% and with fully generational mortality improvement projections using Scale AA. Disabled Lives: RP-2000 Disabled Mortality Table (sex distinct). The assumed rates of mortality are reasonable as they sufficiently accommodate expected future mortality improvements.

**DALLAS AREA RAPID TRANSIT
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
OTHER POST EMPLOYMENT BENEFITS
SCHEDULE OF FUNDING PROGRESS
SEPTEMBER 30, 2017 (Dollars in Thousands)**

The schedule of funding progress for the DART Other Postemployment Benefits (OPEB) calculated by the actuaries is as follows: The data for the most recent valuation is based on payroll information as of September 30, 2016.

	Actuarial Valuation Date			
	9/30/2017	9/30/2016	9/30/2015	9/30/2014
Actuarial Value of Assets	\$48,024	\$33,894	\$36,235	\$30,243
Actuarial Accrued Liability (AAL)*	58,230	\$57,520	\$52,034	\$58,315
Unfunded AAL (UAAL)	10,206	\$23,626	\$15,799	\$28,072
Funded Ratio	82.5%	58.9%	69.6%	51.9%
Covered Payroll	205,345	\$196,688	\$185,181	\$174,557
UAAL as a % of Covered Payroll	5.0%	12.0%	8.5%	16.1%

**AAL of \$58,230 at 9/30/2017 is based on 9/30/2016 actuarial valuation.*

APPENDIX B

A Table of Contents and brief descriptions of certain provisions of the Master Debt Resolution, as amended, are included on the following pages of this Appendix B. The descriptions are not intended to be comprehensive or complete but are to be used as a guide to the full provisions of the Master Debt Resolution. The full and complete text of the Master Debt Resolution may be obtained directly from us without cost at the address given in the text of this document, and it may be viewed on the Internet at our website, www.dart.org. See, “IMPORTANT NOTICES.” Specific Article and Section numbers are identified in “*italics*” throughout this Summary.

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**SUMMARY OF CERTAIN TERMS OF
THE MASTER DEBT RESOLUTION**

DEFINITIONS*{Article I}*

The following are definitions of certain terms used in this Summary.

Accrued Aggregate Debt Service - means, for any specified Debt Service Accrual Period, and with respect to a specified series of Obligations, an amount equal to the sum of the Debt Service accruing during that Debt Service Accrual Period with respect to all of such Obligations that are Outstanding at the beginning of such Debt Service Accrual Period.

Accrued Aggregate Interest - means, for any Debt Service Accrual Period, that portion of the Accrued Aggregate Debt Service that is attributable to interest on Obligations for the Debt Service Accrual Period.

Act - means Chapter 452, Transportation Code, as amended.

Additional Senior Lien Obligations - means bonds, notes, commercial paper, or other evidences of indebtedness issued by DART on a parity as to the Pledged Revenues with the Initial Senior Lien Obligations pursuant to Section 3.2 of the Master Debt Resolution.

Administrative Expenses - means amounts owed to the Trustee under Section 8.4 of the Master Debt Resolution and, to the extent specified in a Supplemental Resolution, the fees, expenses, and indemnification liabilities payable to the Paying Agent, the Credit Providers, any Bondholder Representative, and others. Said term does not include Credit Agreement Obligations.

Applicable Law - means the Act and all other laws or statutes, rules or regulations, and any amendments thereto, of the State or of the United States by which DART and its powers, securities, bonds, notes, and other obligations, and its operations and procedures are, or may be, governed or from which such powers may be derived.

Authorized Officer - means the President and Executive Director, the Chief Financial Officer, the Senior Vice President, Finance, the Treasurer, the Assistant Treasurer, and such other officers or employees of DART as may be authorized to perform duties under the Master Debt Resolution.

Available Remaining Revenues - means the amount of the Gross Sales Tax Revenues, plus the Special Revenues that are available to DART for spending for lawful purposes and the uses of which are not restricted by Applicable Law, grant condition, or contract (i) after complying with the requirements of Article V of the Master Debt Resolution, and (ii) after applying all of the revenues received from the operation of the System to the purpose of operating and maintaining the System, as required by Section 452.357 of the Act.

Board - means the governing subregional board of directors of DART as authorized and required by, and selected in the manner provided in, Section 452.571 of the Act.

Bondholder Representative - means each Person appointed pursuant to Section 11.8 of the Master Debt Resolution.

Bond Obligation - means any Obligation that is issued in the form of bonds, notes, or other securities or other forms of indebtedness other than a Credit Agreement Obligation.

Business Day - means, unless another definition is provided in a Supplemental Resolution with respect to a series of Obligations, any day other than a Saturday, Sunday or legal holiday or other day on which banking institutions in the city where the designated payment/transfer office of the Paying Agent and/or Registrar is located, or where the principal office of the Trustee is located, are generally authorized or obligated by law or executive order to close.

Code - means the Internal Revenue Code of 1986, as amended, the regulations and published rulings promulgated or published pursuant thereto, and the provisions of any applicable section of a successor federal income tax law.

Comptroller - means the Constitutional Officer of the State of Texas known as the “Comptroller of Public Accounts” and any successor official or officer that may be charged by law with the duty of collecting the Sales Tax for the account of, and remitting Gross Sales Tax Revenues to, DART.

Costs of Acquisition and Construction - means all costs and expenses of planning, designing, acquiring, constructing, installing, extending, equipping, improving, repairing, replacing and financing any part or all of the System, placing the System in operation, and obtaining governmental approvals, certificates, permits and licenses with respect thereto, including acquisition of land and interests in land, working capital and reserves during construction periods, capitalized interest, and financing costs.

Credit Agreement - means any agreement between DART and a Credit Provider permitted by Applicable Law that is entered into for the purpose of providing credit enhancement or liquidity support for all or a part of a series of Bond Obligations.

Credit Agreement Obligations - means any liability of DART to pay principal, interest, or other payment on any debt or liability created under a Credit Agreement in favor of a Credit Provider that is declared by the terms of the Master Debt Resolution or a Supplemental Resolution to be a Senior Lien Obligation or a Subordinate Lien Obligation.

Credit Provider - means each party named in the Master Debt Resolution or a Supplemental Resolution that provides credit or liquidity support for a series of Bond Obligations, or other financial undertakings in a Credit Agreement.

Debt Service - means, for any specified Debt Service Accrual Period or other period with respect to a specified series of Obligations, an amount equal to:

(i) the sum of (A) all interest that is due and payable (but unpaid) on the commencement of such Debt Service Accrual Period or other period, plus (B) interest accruing on such Obligations, including as to Interim Obligations, and as to Variable Interest Rate Obligations, if any, the amount estimated to accrue during such Debt Service Accrual Period or other period, but excluding interest that will be paid from the proceeds of Obligations or from Credit Agreements; and

(ii) the sum of (A) all Principal Installments that are due and payable (but unpaid) on the commencement of such Debt Service Accrual Period or other period, plus (B) that portion of next maturing Principal Installment on such Obligations which will accrue during such Debt Service Accrual Period or other period, other than a Principal Installment with respect to Interim Obligations and Credit Agreement Obligations that are to be paid either with the proceeds of Bond Obligations or with funds provided by a Credit Provider, and other than amounts scheduled to be paid by a counter party to a Swap

Agreement that is not in default, all as determined as provided in the Master Debt Resolution.

Debt Service Accrual Period - means the period commencing on, as applicable, the date of issuance or execution of any Obligation under the Master Debt Resolution, or the most recent date on which the Trustee has transferred Gross Sales Tax Revenues from the Gross Sales Tax Revenue Fund in accordance with Section 5.3(a) the Master Debt Resolution, whichever is later, and ending on, but excluding, the next date on which the Trustee is expected to transfer Gross Sales Tax Revenues to the Gross Sales Tax Revenue Fund, as such period is specified by the Trustee in its request to each Paying Agent as required by Section 5.3(i) of the Master Debt Resolution.

Event of Default - means the occurrence of any of the events or circumstances described as such in Section 7.1 of the Master Debt Resolution.

Federal Interest Subsidy – means the interest subsidy payment received by DART from the United States Treasury relating to the interest payable on the Series 2009B Bonds and the 2010B Bonds under Section 54AA of the Code.

First Supplemental Debt Resolution - means the Supplemental Resolution approved by the Board authorizing the issuance and setting forth the terms of the Senior Subordinate Lien Obligations authorized by Section 3.3(a) of the Master Debt Resolution.

Fiscal Year - means the twelve-consecutive month period established from time to time by the Board as DART's fiscal year. Until changed by resolution of the Board, the fiscal year shall be the period commencing October 1 and ending on the following September 30.

Force Majeure - means any act of God or the public enemy; strike, lockout, work slowdown or stoppage or other labor dispute; insurrection, riot or other civil disturbance; order of the government of the United States or of any state thereof or order of any other civil or military authority; failure of a public utility; or other condition or event beyond the reasonable control of DART, other than a financial condition, business condition or condition or event constituting frustration of purpose.

General Operating Fund - means the fund by that name reestablished and confirmed in Section 5.1 of the Master Debt Resolution.

Gross Sales Tax Revenue Fund - means the special trust fund by that name reestablished and confirmed in Section 5.1 of the Master Debt Resolution.

Gross Sales Tax Revenues - means all of the revenues due or owing to, or collected or received by or on behalf of, DART, or by the Trustee pursuant to the Master Debt Resolution, from or by reason of the levy of the Sales Tax, less any amounts due or owing to the Comptroller as charges for collection or retention by the Comptroller for refunds and to redeem dishonored checks and drafts, to the extent such charges and retentions are authorized or required by law. Such term expressly does not include any Special Revenues.

Holder - means, with respect to Bond Obligations, the registered owner of a Bond Obligation according to the Obligation Register relating to such Bond Obligation, and, with respect to each Credit Agreement Obligation, the related Credit Provider.

Initial Senior Lien Obligations - mean the Senior Lien Obligations that are authorized in Section 3.1(a) of the Master Debt Resolution.

Interest Payment Date(s) - means the date or dates on which interest on Obligations is payable (including a prepayment or redemption date), as said date or dates are specified in a Supplemental Resolution or in Credit Agreements, as appropriate.

Interim Obligations - mean Obligations, including commercial paper, notes, and similar Obligations (i) for or with respect to which no Principal Installments are required to be made other than on the Stated Maturity Date thereof, which date shall be no later than five (5) years from the date of their delivery to their initial purchasers, and (ii) which are authorized by a Supplemental Resolution in which they are designated as “Interim Obligations” that DART intends to refund, reissue, or refinance in whole or in part prior to or on such Stated Maturity Date.

Investment Securities - mean any and all of the investments permitted by Applicable Law for the investment of the public funds of DART, provided that such investments are at the time made included in and authorized by the official investment policy of DART as approved by the Board from time to time and are not prohibited by a Supplemental Resolution.

Junior Subordinate Lien Debt Service Fund - means the special trust fund so designated and established in Section 5.1 of the Master Debt Resolution.

Junior Subordinate Lien Obligations - means (i) bonds, notes, or other forms of indebtedness and obligations of DART that are by their terms made payable from the Junior Subordinate Lien Debt Service Fund and are secured by a lien on and pledge of Pledged Revenues that is junior and subordinate to the liens on and pledges of Pledged Revenues created in the Master Debt Resolution for the benefit of the Senior Lien Obligations and the Senior Subordinate Lien Obligations, and (ii) each Credit Agreement Obligation that is declared in a Supplemental Resolution to be a “Junior Subordinate Lien Obligation.”

Market Value - means the fair market value of Investment Securities calculated as set forth in the Master Debt Resolution.

Maximum Interest Rate - means, with respect to particular Variable Interest Rate Obligations, a numerical or other statement of the rate of interest, which shall be set forth in a Supplemental Resolution or in a Credit Agreement, authorizing such Obligations as appropriate, in each case as being the maximum rate of interest such Obligations may bear at a single time or over the period during which they are Outstanding or unpaid, but in no event exceeding the maximum amount or rate of interest permitted by Applicable Law.

Minimum Interest Rate - means, with respect to any particular Variable Interest Rate Obligations, a numerical rate of interest which may (but need not) be set forth in the Supplemental Resolution, or Credit Agreement, as appropriate, authorizing such Obligations that shall be the minimum rate of interest such Obligations will at any time bear.

Obligation Register - means, as to each series of Bond Obligations, the register or registers maintained pursuant to Section 4.5 of the Master Debt Resolution.

Obligations - mean the Senior Lien Obligations and the Subordinate Lien Obligations.

Outstanding - when used with reference to Bond Obligations, means, as of any date, Bond Obligations theretofore or thereupon being authenticated and delivered under the Master Debt Resolution or a Supplemental Resolution, except:

- (i) Bond Obligations which have been fully paid at or prior to their maturity or on or prior to a redemption date;

(ii) Bond Obligations (or portions thereof) for the payment of which moneys equal to the principal amount or redemption price thereof, as the case may be, with interest to the date of maturity or redemption, shall be held by a paying agent or a trustee in cash in trust and set aside for payment at maturity or redemption on a redemption date and for which notice of redemption has been given or provision has been made therefor;

(iii) Bond Obligations in lieu of or in substitution for which other Obligations have been authenticated and delivered pursuant to the Master Debt Resolution or a Supplemental Resolution; and

(iv) Bond Obligations for which payment has been provided by defeasance in accordance with Section 10.2 of the Master Debt Resolution.

When used with reference to Credit Agreement Obligations, the term “Outstanding” shall mean all principal amounts due and payable by DART under the applicable Credit Agreement until the later of the due or maturity date thereof, and the payment thereof in full, but only to the extent, and solely to the extent, that moneys (A) have been actually advanced or loaned to or for the account of DART (and have not been repaid) for the purpose of providing funds for the payment of the interest on or principal or Redemption Price of any Obligations on their maturity, due, or redemption date, or (B) have been paid (and have not been repaid) to or for the account of the Holder of an Obligation in order to honor such Holder’s right to tender Obligations for purchase prior to maturity in accordance with the terms and provisions of the applicable Supplemental Resolution or Credit Agreement.

Outstanding Obligations - means any Obligations while, when, after, to the extent, and for so long as any of the same are Outstanding.

Outstanding Resolutions - means the Master Debt Resolution, the First Supplemental Debt Resolution and all other Supplemental Resolutions when and as adopted by the Board.

Paying Agent - means any paying agent for a series or issue of Obligations appointed pursuant to a Supplemental Resolution as described in Section 4.6 of the Master Debt Resolution and its successor or successors.

Person - means any individual, corporation, partnership, (including a limited partnership) limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof, or any other legal entity.

Pledged Farebox Revenues - means with respect to any Debt Service Accrual Period, all fares collected by or on behalf of DART for its bus, rail and paratransit services in an amount equal to the Pledged Farebox Revenues Ratio multiplied by the Accrued Aggregate Debt Service applicable to the Series 2010B Bonds during such Debt Service Accrual Period after deducting the Federal Interest Subsidy accrued during such Debt Service Accrual Period.

Pledged Farebox Revenues Ratio – means the ratio derived by dividing the aggregate principal amount of the Series 2010B Bonds, less the amount of the Series 2010B Bonds set forth in the Pricing Certificate (for such Bonds) to be deducted from the amount of Bond Obligations DART may issue within the Voted Tax and Debt Limits, by the aggregate principal amount of the Series 2010B Bonds.

Pledged Revenues - means collectively (a) the Gross Sales Tax Revenues at the point where they are required to be first collected in accordance with the Act and other Applicable Law, and for so long as they are owed, but unpaid, to, or on behalf of DART, (b) the Gross Sales Tax Revenues upon and after receipt by DART or by the Trustee under the Master Debt Resolution

and while they are required to be or are on deposit in the Gross Sales Tax Revenue Fund, (c) Investment Securities or other investments or earnings, if any, credited to the Gross Sales Tax Revenue Fund that are not required by the Code to be rebated to the United States of America, (d) Pledged Farebox Revenues, Federal Interest Subsidy payments that are deposited to the Senior Lien Debt Service Fund, and (f) any additional revenues or money of DART which may be, by a Supplemental Resolution, expressly and specifically pledged to the payment of any and or all of the Obligations. (Pursuant to the Seventh Supplemental Debt Resolution, DART irrevocably pledged the Pledged Farebox Revenues as additional security for the Obligations, and such Pledged Farebox Revenues were made expressly and specifically subject to the pledge and lien of the Master Debt Resolution as Pledged Revenues.)

Principal Installment - means any amounts, other than interest payments, including any Sinking Fund Installments, which are stated to be due or required to be made on or with respect to an Obligation which, when made, would reduce the amount of such Obligation that remains Outstanding or would retire and pay the same in full.

Rebate Fund - means any fund established by a Supplemental Resolution in connection with the issuance of any Bond Obligation that is a Tax-Exempt Obligation, to ensure compliance with the provisions of Section 148 of the Code.

Required Percentage of Holders of Bond Obligations - means the Holders of: (i) 51% of the principal amount of Outstanding Bond Obligations that are Senior Lien Obligations; (ii) 51% of the principal amount of Outstanding Bond Obligations that are Senior Subordinate Lien Obligations; and (iii) 51% of the principal amount of Outstanding Bond Obligations that are Junior Subordinate Lien Obligations.

Resolution - means Master Debt Resolution as it may from time to time be amended, modified or supplemented by Supplemental Resolutions or by amendment in accordance with Article IX of the Master Debt Resolution.

Sales Tax - means the one-percent (1%) local sales and use tax authorized by the Act and other Applicable Law and heretofore approved at an election and then levied on taxable items and transactions, and confirmed and levied in the Master Debt Resolution, by DART within its boundaries, and hereafter required to be levied within any expanded areas included within DART pursuant to the Act, together with any increases in the rate thereof if provided and authorized by amendment to the Act, but subject to the requirements of the Voted Tax and Debt Limits.

Senior Lien Debt Service Fund - means the special trust fund so designated and established in Section 5.1 of the Master Debt Resolution.

Senior Lien Obligations - means (i) the Initial Senior Lien Obligations, (ii) any Additional Senior Lien Obligations, and (iii) each Credit Agreement Obligation that is declared in the Master Debt Resolution or a Supplemental Resolution to be a "Senior Lien Obligation."

Senior Subordinate Lien Debt Service Fund - means the special fund so designated and established in Section 5.1 of the Master Debt Resolution.

Senior Subordinate Lien Obligations - means (i) the Senior Subordinate Lien Obligations authorized and named in Section 3.3(a) of the Master Debt Resolution, (ii) any other bonds, notes, or other forms of indebtedness and obligations of DART that are, by their terms, made payable from the Senior Subordinate Lien Debt Service Fund and that are secured by a lien on and pledge of Pledged Revenues that are junior and subordinate to the lien on and pledge of Pledged Revenues created in the Master Debt Resolution for the benefit of Senior Lien Obligations, but that are senior in right to the lien on and pledge of Pledged Revenues and Pledged Funds created in the Master Debt Resolution for the benefit of Junior Subordinate Lien

Obligations, and (iii) each Credit Agreement Obligation that is declared in the Master Debt Resolution, or in a Supplemental Resolution to be a “Senior Subordinate Lien Obligation.”

Sinking Fund Installment - means, with respect to any Bond Obligations, the portion of the Accrued Aggregate Debt Service required by a Supplemental Resolution to be deposited to the Senior Lien Debt Service Fund, the Senior Subordinate Lien Debt Service Fund, or the Senior Subordinate Lien Debt Service Fund in all events on a future date to be held on deposit or applied, in either case, for the mandatory redemption or retirement, in whole or in part, of any of such Bond Obligations having a stated maturity after said future date. Said future date is deemed to be the date when such Sinking Fund Installment is due and payable.

Special Revenue Bonds - mean bonds, notes or other obligations issued for lawful purposes that (i) are made payable from Special Revenues pursuant to the right to issue the same reserved in Section 3.6 of the Master Debt Resolution, and (ii) are not payable from or secured by any part or portion of the Pledged Revenues.

Special Revenues - mean any and all revenues of DART, other than the Sales Tax, including, but not limited to, all of (i) any taxes or special charges, other than the Sales Tax, that DART is authorized by Applicable Law to impose and collect for its public purposes, (ii) fare-box revenues, rents, tolls, rates and charges imposed by DART for the use of any part or all of the System, as it exists from time to time, and (iii) the proceeds from grants for the purposes of the System made to DART by the State or by the United States of America.

Standard Assumptions - means the assumptions that are applicable to Interim Obligations and to Variable Interest Rate Obligations, as set forth and described in subsections (e) and (f), respectively, of Section 1.4 of the Master Debt Resolution.

State - means the State of Texas.

Stated Maturity Date - means the date on which an Obligation matures and the full amount owed thereon is in all events due and payable, as specified in a Supplemental Resolution or in a Credit Agreement, as appropriate.

Subordinate Lien Obligations - mean any and all Senior Subordinate Lien Obligations and any and all Junior Subordinate Lien Obligations.

Supplemental Resolution - means any resolution of the Board adopted concurrently with or subsequent to the adoption of this Resolution that supplements this Resolution for (i) the purpose of authorizing and providing the terms and provisions of Obligations, or (ii) any of the other purposes permitted by Article IX of the Master Debt Resolution.

Swap Agreement - means a Credit Agreement with respect to a series of Bond Obligations pursuant to which DART agrees to pay to a qualified counterparty an amount of money in exchange for the counterparty’s promise to pay an amount equal to all or a portion of the actual amount of interest due and payable on such series according to its terms as it becomes due. For the purposes of this definition, a counterparty is not qualified unless it holds a current rating for claims-paying ability by at least two nationally recognized rating agencies at least equal to the rating of each such rating agency assigned to the Initial Senior Lien Obligations without reference to any Credit Agreement.

System - means the public transportation system of DART, including complementary transportation services, and all of the properties and assets of DART that are defined in and permitted by the Act, whether owned or operated by DART directly or provided for or on behalf of DART by others pursuant to contracts executed for such purposes as provided in the Act.

System Expansion and Acquisition Fund - means the fund so designated and established in Section 5.1 of the Master Debt Resolution.

Tax-Exempt Obligation - means any Bond Obligation the interest on which is excludable from the gross income of the Holder for federal income tax purposes under Section 103 of the Code.

Trustee - means Bank One, NA, formerly known as Bank One, Texas, N.A., as the trustee under the Master Debt Resolution, and any successor to or replacement of such trustee appointed in accordance with the Master Debt Resolution.

Variable Interest Rate - means a variable or adjustable interest rate that varies from time to time based on a formula or reference to specified financial indicators, or by negotiation, auction, or revisions through another method from time to time and to be borne by all or a part of any Obligations, all as specified in a Supplemental Resolution or Credit Agreement, as applicable.

Variable Interest Rate Obligations - mean Obligations which bear a Variable Interest Rate.

Voted Tax and Debt Limits - means the limitations on (i) the maximum rate of the Sales Tax that DART may levy and collect, and (ii) the maximum amount of indebtedness that DART may incur that has a maturity longer than five (5) years, in either case without further elections in conformity with the Election Order as summarized in the preambles to the Master Debt Resolution.

Interpretations - Standard Assumptions {Sections 1.4(e) and (f)}

Wherever a calculation of Debt Service with respect to Interim Obligations is required by application of the Standard Assumptions, the Debt Service shall be computed by assuming (A) that the Outstanding principal amount of the series of Interim Obligations are bonds secured by a lien on Pledged Revenues on a parity with the Interim Obligations which will amortize over a period of not to exceed 25 years following the date of initial issuance of such Interim Obligations in such manner as will cause the maximum Debt Service for such series in any 12 month period not exceeding 110% of the minimum Debt Service for such series for any other 12 month period, and (B) such series will bear interest at a fixed interest rate reasonably estimated to be the interest rate such series would bear if issued on the date of such estimate.

Wherever a calculation of Debt Service with respect to Variable Interest Rate Obligations that are not Interim Obligations is required by application of the Standard Assumptions, the Debt Service shall be computed by assuming that such Obligations will bear interest at the highest of (i) the actual rate on the date of calculation, or, if such Obligations are not yet Outstanding, the initial rate, if established and binding, (ii) if the Obligations have been Outstanding for at least 12 months, the average rate over the 12 months immediately preceding the date of calculation, or (iii) (A) if the Obligations are Tax Exempt Obligations, the most recently published "Revenue Bond Index," published by the financial news publication presently known as The Bond Buyer, or by a comparable index if no longer published, plus fifty basis points, or (B) if the Obligations are not Tax Exempt Obligations, the interest rate on direct obligations of the United States with comparable maturities, plus fifty basis points or (C) if the Obligations are Credit Agreement Obligations, such rate as is specified in the Supplemental Resolution creating such Credit Agreement Obligations.

PURPOSES, PLEDGE AND SECURITY
{Article II}

Purposes of Resolution, Contract with Holders {Section 2.1}

The Master Debt Resolution establishes a lien and the security for, and prescribes minimum standards for issuing, Obligations; authorizes the issuance of the Initial Senior Lien Obligations, an initial series of Senior

Subordinate Lien Obligations and permits the issuance of Additional Senior Lien Obligations and other Subordinate Lien Obligations; reserves the right to issue Special Revenue Bonds; and prescribes other matters and the general rights of the Holders, DART, Credit Providers, any Bondholder Representative and the Trustee in relation to such Obligations. The provisions of the Master Debt Resolution constitute a contract of DART to and with the Holders and the Trustee.

Confirmation and Levy of Sales Tax {Section 2.2}

The levy and collection of the Sales Tax, at the rate voted at the election at which DART was created, is confirmed, and DART covenants that, as long as any Obligations are Outstanding, or any Administrative Expenses unpaid, it will levy and collect the Sales Tax to the extent it may legally do so at the highest rate permitted by Applicable Law, subject to requirements for an election under the Voted Tax and Debt Limits, and to take all action permitted to cause the Sales Tax to be collected and remitted to DART at the earliest permissible date.

Pledge and Security for Obligations {Section 2.3}

The Pledged Revenues are irrevocably pledged: (i) first, with respect to Outstanding Senior Lien Obligations, to the payment of Debt Service, to the maintenance of any reserve funds or accounts, and to the payment of Administrative Expenses; (ii) second, subject to the rights of the Holders of Senior Lien Obligations and the payment of related Administrative Expenses, with respect to Outstanding Senior Subordinate Lien Obligations, to the payment of Debt Service, to the maintenance of any reserve funds or accounts, and to the payment of Administrative Expenses; and (iii) third, subject to the rights of the Holders of Senior Lien Obligations and the Holders of Senior Subordinate Lien Obligations and the payment of related Administrative Expenses, with respect to Outstanding Junior Subordinate Lien Obligations, to the payment of Debt Service, to the maintenance of any reserve funds or accounts and to the payment of Administrative Expenses. Notwithstanding the pledge of Pledged Revenues to the payment of Bond Obligations, Federal Interest Subsidy payments are not security for nor may such amounts be used to pay principal of or interest on the TIFIA Bond.

All moneys and investments on deposit in the Senior Lien Debt Service Fund, the Senior Subordinate Lien Debt Service Fund and the Junior Subordinate Lien Debt Service Fund are irrevocably pledged to the payment of Debt Service on and Administrative Expenses with respect to the Senior Lien Obligations, the Senior Subordinate Lien Obligations and the Junior Subordinate Lien Obligations, respectively.

The Obligations and Administrative Expenses are special obligations of DART, and, unless otherwise provided in a Supplemental Resolution, are secured solely by a pledge of and a lien on the Pledged Revenues and the money on deposit, respectively, in the Senior Lien Debt Service Fund, the Senior Subordinate Lien Debt Service Fund and the Junior Subordinate Lien Debt Service Fund, that is exclusive, senior and superior to the rights of all other creditors of DART. Neither the Obligations nor the Administrative Expenses shall constitute a debt or obligation of the State, or of any city, town or county having appointment or other powers with respect to DART or the Board. The Holders of Obligations and payees of Administrative Expenses shall never have the right to demand payment out of any funds raised or to be raised by any system of ad valorem taxation or, unless otherwise provided in a Supplemental Resolution, from any other funds or revenues of DART.

Collection of Pledged Revenues, Assignment to Trustee {Section 2.4}

DART assigns to the Trustee all of the Pledged Revenues, in trust, for the benefit and security of Holders and the Credit Providers. DART appoints the Trustee as its agent and attorney-in-fact for the purpose of performing those duties of its treasurer which consist of collecting and receiving the Gross Sales Tax Revenues from the Comptroller and taking such steps as may be necessary to perfect and maintain the liens granted under the Master Debt Resolution. DART is required to cause the Comptroller to pay all Gross Sales Tax Revenues directly to the Trustee for deposit to the Gross Sales Tax Revenue Fund. If the Comptroller refuses or is not legally obligated to make transfers as directed by DART, the DART is required to cause the Gross Sales Tax Revenues to be transferred to the Trustee as received. All Gross Sales Tax Revenues received by the Trustee are required to be deposited to the Gross Sales Tax Revenue Fund and applied in accordance with the Master Debt Resolution. A specific series of Bond Obligations may be additionally payable from or secured by Credit Agreements and any Supplemental Resolution may provide that the security provided thereby not extend to other series of Obligations.

Security Agreement {Section 2.5}

The Master Debt Resolution constitutes a security agreement with the Trustee as the secured party. The grants, assignments, liens, pledges and security interests of the Trustee created in the Master Debt Resolution shall become effective upon the delivery of Obligations under the Master Debt Resolution, and shall be continuously effective for so long as any Obligations or Administrative Expenses are Outstanding.

PERMITTED DART INDEBTEDNESS
{Article III}

Initial Senior Lien Obligations {Section 3.1}

The Master Debt Resolution authorizes DART to issue up to \$500 Million of Initial Senior Lien Obligations, which amount may be increased, pursuant to the terms of one or more Supplemental Resolutions. DART may issue Additional Senior Lien Obligations upon compliance with the requirements set forth in the Master Debt Resolution. No obligations having a first lien on the Pledged Revenues, other than Senior Lien Obligations, may be issued by DART.

Additional Senior Lien Obligations {Section 3.2}

Subject to the Voted Tax and Debt Limits, DART reserves the right to issue Additional Senior Lien Obligations on a parity with Outstanding Senior Lien Obligations, pursuant to one or more Supplemental Resolutions. Prior to the issuance of Additional Senior Lien Obligations, either (A) Gross Sales Tax Revenues must be estimated to be, for each of the three consecutive Fiscal Years beginning with the First Fiscal Year in which Debt Service with respect to the proposed Additional Senior Lien Obligations is due, equal to at least 200% of the Debt Service that will be due on Senior Lien Obligations (exclusive of amounts payable on Credit Agreement Obligations) during each of such 3 consecutive Fiscal Years after taking into consideration any additional Debt Service to be paid during such period with respect to the Additional Senior Lien Obligations (exclusive of amounts payable on Credit Agreement Obligations) then proposed to be issued and any reduction in Debt Service that may result from the issuance thereof, determined in accordance with the requirements of the Master Debt Resolution; or (B) for either the most recent complete Fiscal Year, or for any consecutive 12 of the most recent 18 months, the Gross Sales Tax Revenues must have been equal to at least 200% of the maximum Debt Service with respect to all Outstanding Senior Lien Obligations (exclusive of amounts payable on Credit Agreement Obligations) including maximum Debt Service on the proposed Additional Senior Lien Obligations (exclusive of amounts payable on Credit Agreement Obligations) then proposed to be issued, determined in accordance with the requirements of the Master Debt Resolution, provided however, this requirement does not apply to the issuance of Interim Obligations. In addition, estimated Gross Sales Tax Revenues for each of the 3 consecutive Fiscal Years beginning with the first Fiscal Year in which Debt Service on the proposed Additional Senior Lien Obligations is due must equal at least (A) 100% (or such higher percentage required by a Supplemental Resolution) of the Debt Service on Senior Lien Obligations (exclusive of amounts payable on Credit Agreement Obligations) plus (B) 100% (or such higher percentage required by a Supplemental Resolution) of the Debt Service on Outstanding Subordinate Lien Obligations (exclusive of amounts payable on Credit Agreement Obligations) during each of such 3 consecutive Fiscal Years, determined in accordance with the requirements of the Master Debt Resolution. The Debt Service required to be calculated for a particular series of Obligations shall be calculated net of amounts payable to DART from or by the State or the United States for, on account of, or in reimbursement for the payment of principal and interest on such Obligations, if such amounts are, at the time of calculation, required to be deposited to the debt service fund for such Obligations.

The Debt Service required to be calculated for a particular series of Obligations under subsections (iii) and (iv) of Section 3.2(b) of the Master Debt Resolution shall be calculated net of amounts payable to DART from or by the State or the United States for, on account of, or in reimbursement for the payment of principal and interest on such Obligations (the “Federal Interest Subsidiary” payments).

Senior Subordinate Lien Obligations {Section 3.3}

The Master Debt Resolution authorizes DART to issue up to \$650 Million of commercial paper notes as Senior Subordinate Lien Obligations pursuant to the terms of one or more Supplemental Resolutions for the purposes of refunding all outstanding indebtedness of DART, paying Costs of Acquisition and Construction, and other purposes permitted by Applicable Law.

Additional Senior Subordinate Lien Obligations. Subject to the limitations and requirements set forth in the Master Debt Resolution, DART reserves the right to issue additional Senior Subordinate Lien Obligations pursuant to one or more Supplemental Resolutions for any purpose permitted by Applicable Law secured by and payable from a senior subordinate pledge of the Pledged Revenues and, at the option of DART, a pledge of Special Revenues. Additional Senior Subordinate Lien Obligations may only be issued if estimated Gross Sales Tax Revenues for each of the three consecutive Fiscal Years beginning with the first Fiscal Year in which Debt Service is due on the proposed Senior Subordinate Lien Obligations, plus the amount of the Special Revenues, if any, that are projected to be available and pledged to the Senior Subordinate Lien Obligations, are equal to at least (A) 100% (or such higher percentage required by a Supplemental Resolution) of the Debt Service on Senior Subordinate Lien Obligations (exclusive of amounts payable on Credit Agreement Obligations), plus (B) 100% of the Debt Service on all Outstanding Senior Lien Obligations and Junior Subordinate Lien Obligations (exclusive of amounts payable on Credit Agreement Obligations), in each case during each of such three consecutive Fiscal Years, computed as required under the Master Debt Resolution.

Junior Subordinate Lien Obligations {Section 3.4}

Subject to the limitations and requirements set forth in the Master Debt Resolution, DART reserves the right to issue Junior Subordinate Lien Obligations pursuant to one or more Supplemental Resolutions for any purpose permitted by Applicable Law, payable from and secured by a junior subordinate pledge of the Pledged Revenues and, at the option of DART, a pledge of Special Revenues. Junior Subordinate Lien Obligations may only be issued if estimated Gross Sales Tax Revenues for each of 3 consecutive Fiscal Years beginning with the first Fiscal Year in which Debt Service is due on the proposed Junior Subordinate Lien Obligations, plus the amount of the Special Revenues, if any, that are projected to be available and pledged to the Junior Subordinate Lien Obligations, are equal to at least (A) 100% (or such higher percentage required by a Supplemental Resolution) of the Debt Service on Junior Subordinate Lien Obligations (exclusive of amounts payable on Credit Agreement Obligations), plus (B) 100% of the Debt Service on all Outstanding Senior Lien Obligations and Senior Subordinate Lien Obligations (exclusive of amounts payable on Credit Agreement Obligations), in each case during each of such three consecutive Fiscal Years, computed as required under the Master Debt Resolution.

Credit Agreement Obligations {Section 3.5}

DART is authorized to enter into Credit Agreements, pursuant to Supplemental Resolutions, that create Credit Agreement Obligations that are secured and payable on a parity with other Outstanding Obligations. Credit Agreements may include rights and remedies which are in addition to the rights and remedies contained in the Master Debt Resolution and which may be enforced apart from the Master Debt Resolution.

Special Revenue Bonds {Section 3.6}

DART reserves the right to issue Special Revenue Obligations and to enter into related credit agreements without complying with the requirements of the Master Debt Resolution regarding the issuance of Obligations.

Other Encumbrances Prohibited {Section 3.8}

Except for the Pledge of the Pledged Revenues as security for the Obligations and Administrative Expenses in the order of priority established in Article II of the Master Debt Resolution, the Pledged Revenues may not be pledged or encumbered to or for the payment of any other obligation or liability of DART.

TERMS, PROVISIONS AND AUTHENTICATION OF BOND OBLIGATIONS*{Article IV}*

Bond Obligations may be issued in any form and manner permitted by Applicable Law, subject to the provisions of the Master Debt Resolution and any applicable Supplemental Resolution. Bond Obligations are to be issued pursuant to a Supplemental Resolution setting forth all of the terms, provisions and conditions pertaining to such Bond Obligations.

SPECIAL FUNDS, USES OF MONEYS*{Article V}****Creation of Funds and Accounts {Section 5.1}***

The Master Debt Resolution establishes the System Expansion and Acquisition Fund, the Senior Lien Debt Service Fund, consisting of an Interest Account and a Principal Installment Account; the Senior Subordinate Lien Debt Service Fund, consisting of an Interest Account and a Principal Installment Account; and the Junior Subordinate Lien Debt Service Fund, consisting of an Interest Account and a Principal Installment Account. The Master Debt Resolution reestablishes and reconfirms the Gross Sales Tax Revenue Fund and the General Operating Fund.

The Gross Sales Tax Revenue Fund is a special trust fund held by the Trustee for the benefit of the Holders of the Obligations and the payees of Administrative Expenses. The Senior Lien Debt Service Fund, the Senior Subordinate Lien Debt Service Fund and the Junior Lien Debt Service Fund are special trust funds held by the Trustee for the benefit of the Holders of the Senior Lien Obligations, the Senior Subordinate Lien Obligations and the Junior Subordinate Lien Obligations, respectively, and the payees of Administrative Expenses.

The System Expansion and Acquisition Fund, the General Operating Fund and all other funds or accounts of DART not expressly required by the Master Debt Resolution or by a Supplemental Resolution to be held by the Trustee, may be held in any bank or lawful depository and said funds and accounts and all moneys on deposit therein, including the Available Remaining Revenues, shall be free of any lien, pledge or trust created by the Master Debt Resolution.

System Expansion and Acquisition Fund {Section 5.2}

Money on deposit in the System Expansion and Acquisition Fund is to be used to pay Costs of Acquisition and Construction and will be funded as directed in Supplemental Resolutions. In the event of a default in the payment of Obligations the Board may, but is not required to, use moneys on deposit in the System Expansion and Acquisition Fund to cure such default. Amounts remaining after payment of Costs of Acquisition and Construction for which a series of Obligations was issued may, at the discretion of DART, be used to redeem such Obligations in advance of maturity or used to pay other Costs of Acquisition and Construction.

Gross Sales Tax Revenue Fund {Section 5.3}

The Trustee is required to deposit to the Gross Sales Tax Revenue Fund all Gross Sales Tax Revenues (and no other moneys) as received and, on the day received, to transfer all amounts deposited to the Gross Sales Tax Revenue Fund, first, to the Senior Lien Debt Service Fund (for the Debt Service Accrual Period that begins on the date of such deposit) and any reserve fund pertaining to Senior Lien Obligations, the amounts required to be deposited therein, and to pay Administrative Expenses pertaining to Senior Lien Obligations; second, to the Senior Subordinate Lien Debt Service Fund (for the Debt Service Accrual Period that begins on the date of such deposit) and any reserve fund pertaining to Senior Subordinate Lien Obligations, the amounts required to be deposited therein, and to pay Administrative Expenses pertaining to Senior Subordinate Lien Obligations; and, third, to the Junior Subordinate Lien Debt Service Fund (for the Debt Service Accrual Period that begins on the date of such deposit) and any reserve fund pertaining to Junior Subordinate Lien Obligations, the amounts required to be deposited therein, and to pay Administrative Expenses pertaining to Junior Subordinate Lien Obligations. The amounts required to be deposited to each of the Senior Lien Debt Service Fund, the Senior Subordinate Lien Debt

Service Fund and the Junior Subordinate Lien Debt Service Fund, respectively, is equal to the Accrued Aggregate Debt Service for the current Debt Service Accrual Period less any amounts required to be credited against the amounts transferred pursuant to Section 5.3(d) of the Master Debt Resolution, and are required to be allocated first to the respective Interest Account and then to the respective Principal Installment Account. If the amounts on deposit in the Gross Sales Tax Revenue Fund are not sufficient to make the full amount of a transfer or payment required to be made, the Trustee is required to transfer the amount to the fund or account where the deficiency occurs with the highest priority and is prohibited from making transfers to any fund or account with a lower priority. Any balance remaining in the Gross Sales Tax Revenue Fund after making the foregoing transfers and payments is to be deposited to the General Operating Fund.

The Trustee is required to notify each Paying Agent of the anticipated date of commencement of each Debt Service Accrual Period not less than 2 Business Days prior to the date the Trustee expects such Debt Service Accrual Period to begin. Each Paying Agent is required to certify to the Trustee the amount of Accrued Aggregate Debt Service for Obligations for the Debt Service Accrual Period specified by the Trustee which has not been paid from other sources.

***Senior Lien Debt Service Fund, Senior Subordinate Lien Debt Service Fund
and Junior Subordinate Lien Debt Service Fund {Sections 5.4, 5.5 and 5.6}***

The Trustee is required to pay from the Senior Lien Debt Service Fund, the Senior Subordinate Lien Debt Service Fund and the Junior Subordinate Lien Debt Service Fund, respectively, to the respective Paying Agents and Credit Providers for Outstanding Senior Lien Obligations, Outstanding Senior Subordinate Lien Obligations and Outstanding Junior Subordinate Lien Obligations, respectively, the amounts required to pay Debt Service on such Obligations when due, whether at the stated maturity or prior redemption; provided, however, that if less than the total amount required to pay such Obligations is on deposit in the Senior Subordinate Lien Debt Service Fund, the Senior Subordinate Lien Debt Service Fund or the Junior Subordinate Lien Debt Service Fund, respectively, Trustee is required to allocate to each Paying Agent and each Credit Provider, in order of priority, pro rata in proportion to the respective unpaid amounts.

If an Event of Default has occurred and is continuing, moneys in such funds are required to be applied as provided in Section 7.4 of the Master Debt Resolution.

General Provisions Applicable to Payments on Obligations {Section 5.7}

If a payment date is not a Business Day, then such payment date will be deemed to be the next succeeding Business Day of the Trustee or Paying Agent, as the case may be, and no interest will accrue between the stated day and the applicable succeeding Business Day.

Uses of General Operating Fund and of Available Remaining Revenues {Section 5.8}

Gross Sales Tax Revenues deposited in the General Operating Fund may be transferred to other funds and accounts of DART, free and clear of the lien of the Master Debt Resolution, and may be used for any purpose permitted or required by Applicable Law. In addition to contractual and other obligations incurred in the ordinary course of its business, DART may incur obligations payable from or secured by the Available Remaining Revenues.

Investment of Trust Funds and Accounts {Section 5.9}

Amounts in funds and accounts held by the Trustee may, to the extent permitted by Applicable Law, be invested in Investment Securities upon written instructions of DART. Investment Securities must mature in such amounts and at such times as is necessary to provide for timely payment from such fund or account. Investment Securities may be exchanged among funds and accounts, if required to meet payment obligations, and the Trustee may cause the liquidation prior to their maturities of Investment Securities; the Trustee is not to be liable for any resulting loss or penalty. Generally, Investment Securities and the earnings or losses thereon are part of the fund or account from which they were purchased except that transfers of earnings may be made in order to avoid investment in any manner that would cause any of the Obligations intended to be tax-exempt to be or become "arbitrage bonds"

within the meaning of the Code. Investments are required to be valued at least annually at the lower of original cost or the then market value thereof.

Effect of Deposits With Paying Agents {Section 5.10}

Upon the deposit with the applicable Paying Agent of moneys sufficient to pay the amounts due on Obligations, DART is released from further obligation with respect to the payment of such amounts or interest thereon and such Obligations will no longer be Outstanding. Moneys deposited with Paying Agents are held uninvested in trust for the benefit of the Holders or payees of such Obligations. Unclaimed moneys are required to be distributed in accordance with any applicable escheat laws.

Arbitrage {Section 5.11}

DART covenants that it will take no action or fail to take any action which would cause any Tax-Exempt Obligations to be "arbitrage bonds" within the meaning of the Code.

Deposits of Special Revenues {Section 5.12}

Special Revenues may be deposited to such funds and accounts of DART as may be required by Applicable Law, grant condition or contract, or as directed in the documents relating to the issuance of Special Revenue Bonds or to Subordinate Lien Obligations if Special Revenues are pledged to the payment thereof.

GENERAL COVENANTS AND REPRESENTATIONS
{Article VI}

Representations as to Pledged Revenues {Section 6.1}

DART represents and warrants that it is authorized to issue the Obligations, to adopt the Master Debt Resolution and to pledge the Pledged Revenues as provided in the Master Debt Resolution, and that the Pledged Revenues are and will remain free and clear of any pledge, lien, charge or encumbrance except as expressly permitted by Article II of the Master Debt Resolution. The Obligations and provisions of the Master Debt Resolution are valid and legally enforceable obligations of DART in accordance with their terms, subject only to any applicable bankruptcy or insolvency laws or to any Applicable Law affecting creditors' rights generally. DART and the Trustee will defend, preserve and protect the pledge of the Pledged Revenues and all of the rights of the Holders against all claims and will take appropriate steps for the collection of delinquencies in the collection of the Sales Tax.

Accounts, Periodic Reports and Certificates {Section 6.2}

DART covenants to keep proper books of record and account relating to the System and the funds and accounts established by the Master Debt Resolution which will be subject to inspection by Holders of not less than 5% in principal amount of Bond Obligations, each Bondholder Representative and each Credit Provider. DART will provide annually, within 180 days after the close of each fiscal year, to any requesting Holder of at least 25% of a single series of Outstanding Obligations, a copy of an annual report containing certain financial information for the fiscal year just ended and the preceding fiscal year.

DART will notify the Trustee and each Credit Provider immediately if it becomes aware of the occurrence of any Event of Default or of any fact, condition or event that, with the giving of notice or passage of time or both, could become an Event of Default, or of the failure of DART to observe any of its undertakings under the Master Debt Resolution or under any Supplemental Resolution or Credit Agreement.

Withdrawals of Units of Election {Section 6.4}

If any "unit of election," as defined in the Act, having once become a part of DART, withdraws from DART, the Board will take all lawful steps necessary to assure that all amounts due and owing on all Obligations

allocated to such unit of election will continue to be collected from within the withdrawing unit of election until such amounts are paid in full. Gross Sales Tax Revenues collected from within a withdrawn unit of election is required to be set aside by the Trustee in a special trust account and to be expended in such a manner as will permit the continued, timely payment when due of all amounts payable on Outstanding Obligations.

DEFAULTS AND REMEDIES *{Article VII}*

Events of Default {Section 7.1}

Each of the following occurrences or events constitutes an “Event of Default” under the Master Debt Resolution:

- (i) failure to timely pay any Debt Service on Bond Obligations;
- (ii) failure to timely pay any Credit Agreement Obligations;
- (iii) default by DART in the performance of any of the covenants, conditions, agreements and provisions contained in the Obligations or in any of the Outstanding Resolutions, the failure of which materially and adversely affects the rights of the Holders, and the continuation thereof for a period of 30 days after written notice of such default;
- (iv) issuing of an order by the Bankruptcy Court or a United States District Court or other court having jurisdiction, granting DART, in an involuntary proceeding, any relief under any applicable law relating to bankruptcy or providing for the appointment of a receiver or other similar official for DART or any substantial part of its property, affairs or assets, and the continuance of any such order unstayed and in effect for a period of 90 consecutive days; or
- (v) DART institutes or consents to the institution of insolvency or bankruptcy proceedings against it under any federal or state insolvency laws, or files or consents to the filing of any petition, application or complaint seeking the appointment of a receiver or other similar official for DART or of any substantial part of its property, affairs or assets.

Remedies for Default {Section 7.2}

Upon the happening and continuance of any of the Events of Default the Trustee is required to transfer future Gross Sales Tax Revenues in the order and priority set forth in Section 5.3(a) of the Master Debt Resolution as described above under “*SPECIAL FUNDS, USES OF MONEY—Gross Sales Tax Revenue Fund.*” Subject to certain restrictions on Holder’s actions set forth in Section 7.3 of the Master Debt Resolution, a Credit Provider, a Bondholder Representative and/or a trustee representing not less than 25% in principal amount of Outstanding Bond Obligations, may proceed against DART to protect and enforce the rights of the Holders. No Holder has the right to seek appointment of a receiver or administrator of the affairs and assets of DART. There is no right to accelerate the maturity of any Obligation under the Master Debt Resolution.

Thirty days after a default is cured DART will be restored to its former position under the Master Debt Resolution and any proceedings are required to be abandoned or dismissed.

Application of Revenues and Other Moneys After Default {Section 7.4}

During the continuance of an Event of Default, the Trustee shall apply all amounts on deposit in the Senior Lien Debt Service Fund, the Senior Subordinate Lien Debt Service Fund, and the Junior Subordinate Lien Debt Service Fund at the time of the default or deposited to such funds after the default, respectively, as follows: (i) to the

payment of Administrative Expenses with respect to the Senior Lien Obligations, the Senior Subordinate Lien Obligations, or the Junior Subordinate Lien Obligations, respectively, as applicable; and (ii) to the payment of Debt Service due on the Obligations, based on the foregoing priority and in the following order:

- Unless the principal of all applicable Outstanding Obligations is due, first, to the payment to the payment of interest then due in the order of maturity of such interest installments, and, if the amount available is not sufficient to pay all interest amounts then due, then to the payment of interest ratably, according to the amounts due on such installment, without any discrimination or preference; and second, to the payment of principal or redemption price then due, whether at maturity or by call for redemption, in the order of their due dates and, if the amount available is not sufficient to pay all of the applicable Obligations due on any date, then to the payment of principal or redemption price ratably, according to the amounts of principal due, without any discrimination or preference.
- If the principal of all of the applicable Outstanding Obligations is due, to the payment of the principal and interest then due and unpaid upon such Obligations without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any such Obligation over any other Obligation, ratably, according to the amounts due respectively for principal and interest, without any discrimination or preference.

Notice of Event of Default {Section 7.6}

The Trustee shall promptly give each Holder, by first class mail, notice of each Event of Default of which it has knowledge, unless such Event of Default has been remedied or cured before the giving of such notice, except in the case of an Event of Default specified in paragraph (i) or (ii) of “Events of Default” above, the Trustee may withhold such notice if it determines that the withholding of such notice is in the best interests of the Holders.

THE TRUSTEE
{Article VIII}

Amegy Bank N.A. is appointed as the Trustee under the Master Debt Resolution. The duties, rights and responsibilities of the Trustee, appointment of successor and co-trustees, and matters pertaining to the administration of the trust created in the Master Debt Resolution, are set forth in Article VIII.

AMENDMENTS TO RESOLUTION
{Article IX}

Supplemental Resolution Without Holders’ Consent {Section 9.2}

Subject to any limitations contained in a Supplemental Resolution or a Credit Agreement, DART may adopt Supplemental Resolutions without the consent of Holders of Obligations for the following purposes: (i) to cure any formal defect, omission or ambiguity in the Master Debt Resolution; (ii) to grant to the Trustee for the benefit of the Holders any additional rights, remedies, powers, authority or security; (iii) to add covenants and agreements of DART; (iv) to add limitations and restrictions to be observed by DART; (v) to confirm any pledge or lien of the Pledged Revenues or to subject to the lien or pledge of the Master Debt Resolution additional revenues, properties or collateral; (vi) to authorize the issuance and prescribe the terms of the Initial Senior Lien Obligations, Additional Senior Lien Obligations, Subordinate Lien Obligations, and Special Revenue Bonds, and to create such additional funds and accounts as may be necessary in connection with the issuance of such Obligations; (vii) to make modifications in the Master Debt Resolution or in a Supplemental Resolution that are necessary to comply with the requirements of federal tax or securities law or other Applicable Law and that do not materially adversely affect the rights and security of the Holders to be paid in full when due; or (viii) to make any other change to the Master Debt Resolution or any Supplemental Resolution that does not materially adversely affect the right of the Holders to be paid the full amounts due and payable on the Obligations when due.

Powers of Amendment {Section 9.3}

The Master Debt Resolution or any Supplemental Resolution and the rights and obligations of DART and of the Holders may be amended pursuant to a Supplemental Resolution with the written consent (i) of the Holders of a Required Percentage of Bond Obligations, or (ii) if less than all of the series of Obligations then Outstanding are affected by such amendment, of the Holders of a Required Percentage of the Bond Obligations so affected; provided, however, no amendment shall permit a change in the terms of payment of principal or redemption price of or interest of any Outstanding Bond Obligation without the consent of the Holder of such Obligation; and provided further that no such amendment may be made without the consent of such Credit Providers having the right of such consent.

Consent of Holders, Credit Providers or Bondholder Representatives {Section 9.4}

A Supplemental Resolution making amendments permitted by the Master Debt Resolution may take effect upon receipt of the required consents of the applicable Holders in accordance with the terms and provisions of the Master Debt Resolution. Any consent will be binding upon the Holder giving such consent and upon any subsequent Holder thereof unless such consent is revoked. DART will give notice of the effective date of any such Supplemental Resolution to the affected Holders. Unless such right is limited by a Supplemental Resolution, DART reserves the right to amend the Master Debt Resolution without the consent of or notice to the Holders of Bond Obligations if such amendment is approved by each Credit Provider and Bondholder Representative which is granted the right to give such consent by a Supplemental Resolution.

DISCHARGE OF RESOLUTION
{Article X}

Discharge by Payment {Section 10.1}

The pledge and lien of the Outstanding Resolutions will be released when all Bond Obligations, Credit Agreement Obligations, and Administrative Expenses have been paid or provided for.

Discharge by Defeasance {Section 10.2}

DART may discharge its obligations to pay Debt Service on all or any portion of the Obligations and related Administrative Expenses, and thereby obtain a release of the pledge and lien of the Master Debt Resolution and any applicable Supplemental Resolution as to such Obligations, by depositing irrevocably with a trustee or escrow agent moneys which, together with earnings thereon from investment in "Government Securities," as verified by a nationally recognized firm of independent certified public accountants or accounting firm, will be sufficient to pay such amounts on such Obligations to maturity or prior redemption, in all cases in accordance with the terms and provisions set forth in the Master Debt Resolution.

MISCELLANEOUS PROVISIONS
{Article XI}

Secondary Market Disclosure, Annual Reports {Section 11.1}

DART will provide such financial information and operating data necessary to comply with SEC Rule 15c2-12 relating to secondary market reporting requirements.

Meeting of Holders of Bond Obligations {Section 11.4}

Meetings of Holders of Bond Obligations may be called in the manner provided in the Master Debt Resolution to give any notice to DART or to the Trustee, to waive or consent to the waiving of any Event of Default, to remove or appoint a successor Trustee, to consent to the execution of a Supplemental Resolution or to take any other action authorized to be taken by or on behalf of the Holders of Bond Obligations.

Appointment of Bondholder Representative {Section 11.8}

Each Supplemental Resolution may designate a Bondholder Representative or establish for the means by which Holders of a series of Bond Obligations may appoint a Bondholder Representative.

APPENDIX D

**QUARTERLY DISCLOSURE UPDATE FOR THE
THREE-MONTH PERIOD ENDED DECEMBER 31, 2017**

DALLAS AREA RAPID TRANSIT



**Quarterly Disclosure Update
For the three-month period ended December 31, 2017**

This Quarterly Disclosure Update supplements the information contained in our Annual Disclosure Statement for the period ending September 30, 2017, and dated March 13, 2018. The Annual Disclosure Statement will be filed as a public record with the Municipal Securities Rulemaking Board's website at www.emma.msrb.org, and is posted on the Internet at our website, www.dart.org. You may also obtain a free copy of this Quarterly Disclosure Update by contacting us at the following address or telephone number: Senior Vice President, Finance/Interim Chief Financial Officer, DART, 1401 Pacific Avenue, Dallas, Texas 75202, (214) 749-3148.

GENERAL

We are posting and filing this Quarterly Disclosure Update to supplement our Annual Disclosure Statement for the period ending September 30, 2017, and dated March 13, 2018. We continue to reserve the right to suspend or stop the postings on the Internet and the quarterly updates at any time. However, we will always provide the annual and periodic information called for under any undertaking made in compliance with Rule 15c2-12 under the Securities Exchange Act of 1934.

Whenever we use capitalized words in this Quarterly Disclosure Update, they refer to the defined terms that are found in or incorporated by reference in the Annual Disclosure Statement for the period ending September 30, 2017 and dated March 13, 2018. See, Annual Disclosure Statement, Appendix B, "SUMMARY OF CERTAIN TERMS OF MASTER DEBT RESOLUTION."

In this Quarterly Disclosure Update, "we," "our," "us," and "DART" refer to Dallas Area Rapid Transit, a subregional transportation authority under the Act.

The information in this Quarterly Disclosure Update is as of the date stated below, except for the unaudited financial information included herein as Exhibit A, which is for the three-month period ended December 31, 2017.

YOU SHOULD CAREFULLY CONSIDER THE INVESTMENT CONSIDERATIONS IN THE ANNUAL DISCLOSURE STATEMENT.

FORWARD-LOOKING STATEMENTS

We make "forward-looking statements" in the Annual Disclosure Statement and in Quarterly Disclosure Updates by using forward-looking words such as "may," "will," "should," "intends," "expects," "believes," "anticipates," "estimates," or others. You are cautioned that forward-looking statements are subject to a variety of uncertainties that could cause actual results to differ from the projected results. Those risks and uncertainties include general economic and business conditions, conditions in the financial markets, our financial condition, our sales tax revenues, receipt of federal grants, and various other factors that are beyond our control. Because we cannot predict all factors that may affect future decisions, actions, events, or financial circumstances, what actually happens may be different from what we include in forward-looking statements.

Dated: March 27, 2018

QUARTERLY DISCLOSURE UPDATE

The Annual Disclosure Statement for the period ending September 30, 2017 and dated March 13, 2018, is updated by the following supplemental information:

Unaudited Financial Information

Audited financial statements for our fiscal year ended September 30, 2017, are attached as Appendix A to the Annual Disclosure Statement. An unaudited statement of our principal accounts for the three-month period ended December 31, 2017 is included as Exhibit A to this Quarterly Disclosure Update. Such quarterly financial statements should be read in conjunction with our annual financial statements. This information is taken from our internal books and records that are created, maintained, and administered by DART in accordance with generally accepted accounting principles. The use of reasonable estimates is a normal part of the preparation of financial statements. Sales tax revenues included in the unaudited quarterly financial statements were accrued using estimates. Actual sales tax receipts could, therefore, differ from those reported in the quarterly financial statements.

We believe that the unaudited financial information for the three-month period ended December 31, 2017, fairly represents the financial position and operating results of DART and is complete as of, but no later than, such date. However, you are cautioned that such financial information has not been audited or reviewed by any independent accountants. We do not warrant or guarantee that subsequent audited information for these accounts for this three-month period will not differ from the unaudited financial information presented herein and in Exhibit A.

Management's Comment Regarding First Quarter Financial Information

DART's unaudited financial statements for the three-month period ended December 31, 2017, and December 31, 2016, show sales tax revenues as \$153.8 million and \$146.4 million, respectively, which indicates an increase of 5.0% due to the continuing expansion in the local economy resulting in better retail sales in the DART Service Area. Our operating results for the three-month period ended December 31, 2017 reflect an operating loss of \$169.2 million, compared to an operating loss of \$158.9 million for the three-month period ended December 31, 2016. This was primarily due to decreased costs in labor, services, benefits and depreciation.

DART maintains various cash reserves including a Financial Reserve Account that is funded with sales tax collections that exceed budget during a given year, if any. In addition, the Board of Directors authorized the establishment of a Capital Reserve Account. Should the Financial Reserve exceed \$50 million, excess sales tax receipts are placed in the Capital Reserve Account. An affirmative vote of two-thirds of the Board is required to draw upon the Financial or Capital Reserves, and the funds may be used for any purpose approved by the Board. In Fiscal Year 2017, our sales tax receipts exceeded our sales tax budget by \$3.0 million. In December 2017, excess sales tax receipts for FY 2017 were transferred to the Capital Reserve because the Financial Reserve was already at the policy-capped balance of \$50 million. According to DART policy, future excess sales tax receipts are being deposited into the Capital Reserve. The December 31, 2017 balances in the Financial Reserve and Capital Reserve were \$50.1 million and \$26.8 million, respectively. The Operating Fund balance was \$448.6 million. We maintain a working cash balance in the Operating Fund equal to at least one month of projected payments.

Lease/Leaseback Transactions Update

We have successfully terminated or repaired all lease/leaseback transactions that were non-compliant with their respective operative documents. As of December 31, 2017, one lease/leaseback transaction remained active and is in full compliance with the respective operative documents, as amended.

Litigation

No significant changes have occurred in the status of pending litigation involving DART since the date of the Annual Disclosure Statement. Accruals and estimated losses on claims that are asserted in pending litigation, if any, are included in accounts payable and accrued liabilities in the unaudited statement of our principal accounts attached hereto as Exhibit A.

Other than cases filed in the ordinary course of business as an operating transit agency, no new litigation has been filed against DART since the date of the Annual Disclosure Statement. See, Annual Disclosure Statement, "LITIGATION."

This Quarterly Disclosure Update, in substantially the form and content presented above and in its Exhibit, was reviewed with the Board of Directors of DART on March 27, 2018.

ATTEST:

/s/ Sue S. Bauman

Chair, Board of Directors

/s/ Michele Wong Krause

Secretary, Board of Directors

/s/ Gary C. Thomas

DART, President/Executive Director

Exhibit A

**Unaudited Statement of Principal Accounts
for the three-month period ended December 31, 2017**

**DALLAS AREA RAPID TRANSIT
STATEMENTS OF NET POSITION**

DECEMBER 31, 2017 AND SEPTEMBER 30, 2017 (Dollars in Thousands)

	12/31/2017 Unaudited	9/30/2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$33,925	\$39,938
Investments	494,538	498,204
Sales and use tax receivable	106,851	95,344
Transit revenue receivable, net	3,804	8,528
Due from federal and other governments	21,288	19,959
Materials and supplies inventory, net	35,247	34,856
Prepaid transit expense and other	6,101	4,176
Restricted investments held by trustee for debt service	29,090	111,734
Restricted investments held for advance funding agreements	64,504	67,868
Restricted investments held to pay capital lease/leaseback liabilities	6,374	6,374
TOTAL CURRENT ASSETS	801,722	886,981
NONCURRENT ASSETS		
Restricted investments held as security for capital lease/leaseback liabilities	7,530	7,751
Investment in joint venture	11,753	12,030
Investment in managed HOV lane agreements	11,100	11,100
Capital assets		
Land and rights-of-way	619,026	619,026
Projects in progress	79,586	66,867
Depreciable capital assets, net of depreciation	3,647,000	3,705,322
Restricted investments held to pay capital lease/leaseback liabilities	107,473	105,342
Unamortized bond insurance premium and other	623	633
TOTAL NONCURRENT ASSETS	4,484,091	4,528,071
TOTAL ASSETS	5,285,813	5,415,052
DEFERRED OUTFLOWS OF RESOURCES	84,231	86,293
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	5,370,044	5,506,615
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	43,367	60,806
Commercial paper notes payable	140,000	140,000
Current portion of capital lease/leaseback liabilities	6,374	6,374
Current portion of repayment due to State Comptroller	824	824
Local Assistance Program payable	685	685
Retainage payable	6,200	6,968
Unearned revenue and other liabilities	113,464	112,840
Accrued interest payable from restricted assets	13,825	55,329
Current portion of senior lien revenue bonds payable	58,291	55,936
TOTAL CURRENT LIABILITIES	383,030	439,762
NONCURRENT LIABILITIES		
Accrued liabilities	37,800	37,113
Net pension liability	55,854	52,127
Repayment due to State Comptroller	6,721	6,927
Senior lien revenue bonds payable	3,251,398	3,311,980
Transportation Infrastructure Finance and Innovation Act (TIFIA) bonds payable	98,426	100,878
Capital lease/leaseback liabilities	107,473	105,342
TOTAL NONCURRENT LIABILITIES	3,557,672	3,614,367
TOTAL LIABILITIES	3,940,702	4,054,129
DEFERRED INFLOWS OF RESOURCES	2,178	2,178
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	3,942,880	4,056,307
NET POSITION		
Net investment in capital assets	858,040	837,067
Restricted for debt service	15,265	56,405
Restricted as security for capital lease/leaseback liabilities	7,530	7,751
Unrestricted	546,329	543,815
TOTAL NET POSITION	\$1,427,164	\$1,445,038

**DALLAS AREA RAPID TRANSIT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

FOR THE THREE MONTHS ENDED DECEMBER 31, 2017 and 2016 (Dollars in Thousands)

	2017 Unaudited	2016 Unaudited
OPERATING REVENUES		
Passenger revenues	\$16,307	\$18,029
Advertising, rent, and other	3,421	3,376
TOTAL OPERATING REVENUES	<u>19,728</u>	<u>21,405</u>
OPERATING EXPENSES		
Labor	56,364	53,772
Benefits	30,658	29,819
Services	9,014	7,619
Materials and supplies	11,551	10,777
Purchased transportation	13,475	12,626
Depreciation and amortization	60,545	58,848
Utilities	4,824	4,619
Taxes, leases, and other	1,307	902
Casualty and liability	1,164	1,301
TOTAL OPERATING EXPENSES	<u>188,902</u>	<u>180,283</u>
NET OPERATING LOSS	<u>(169,174)</u>	<u>(158,878)</u>
NON-OPERATING REVENUES (EXPENSES)		
Sales and use tax revenue	153,774	146,424
Investment income (loss)	56	(524)
Interest income from investments held to pay capital lease/leaseback	2,131	2,020
Interest expense on capital lease/leaseback	(2,131)	(2,020)
Interest and financing expenses	(38,374)	(39,283)
Build America Bonds tax credit	7,108	7,098
Other federal grants	20,754	34,514
Other non-operating revenues	4,232	4,596
Other non-operating expenses	(162)	(177)
NET NON-OPERATING REVENUES	<u>147,388</u>	<u>152,648</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	<u>(21,786)</u>	<u>(6,230)</u>
CAPITAL CONTRIBUTIONS AND GRANTS		
Federal capital contributions	3,859	144
State capital contributions	53	505
Local capital contributions		
TOTAL CAPITAL CONTRIBUTIONS AND GRANTS	<u>3,912</u>	<u>649</u>
CHANGE IN NET POSITION	(17,874)	(5,581)
TOTAL NET POSITION – BEGINNING OF YEAR	<u>1,445,038</u>	<u>1,570,583</u>
TOTAL NET POSITION – END OF THE REPORTING PERIOD	<u><u>\$1,427,164</u></u>	<u><u>\$1,565,002</u></u>

**DALLAS AREA RAPID TRANSIT
STATEMENTS OF CASH FLOWS**

FOR THE THREE MONTHS ENDED DECEMBER 31, 2017 and 2016 (Dollars in Thousands)

	2017 Unaudited	2016 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$25,415	\$23,942
Payments to suppliers of goods and services	(30,217)	(28,914)
Payments to purchased transportation service providers	(15,860)	(12,611)
Payments to employees	(59,247)	(55,581)
Benefit payments on behalf of employees	(27,115)	(26,169)
NET CASH USED BY OPERATING ACTIVITIES	<u>(107,024)</u>	<u>(99,333)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Sales and use tax receipts	142,061	137,622
Other federal grants	14,226	14,180
Build America Bonds tax credit	15,949	22,702
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>172,236</u>	<u>174,504</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	2,460	952
Proceeds from sales and maturity of investments	100,653	180,709
Purchase of investments	(99,396)	(169,904)
Decrease (increase) in restricted assets	86,007	81,177
NET CASH USED BY INVESTING ACTIVITIES	<u>89,724</u>	<u>92,934</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	3,925	(27,526)
Proceeds from the issuance of commercial paper notes	150,000	195,000
Payment on commercial paper notes	(150,000)	(225,000)
Principal payment on revenue bonds	(55,936)	(53,962)
Interest and financing expenses	(82,565)	(80,130)
Federal capital contributions	3,902	3,232
State capital contributions	785	145
Local capital contributions	52	505
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(160,949)</u>	<u>(187,736)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,013)	(19,631)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE FISCAL YEAR	<u>39,938</u>	<u>53,651</u>
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	<u>\$33,925</u>	<u>\$34,020</u>

(Continued)

**DALLAS AREA RAPID TRANSIT
STATEMENTS OF CASH FLOWS**

FOR THE THREE MONTHS ENDED DECEMBER 31, 2017 and 2016 (Dollars in Thousands)

	2017 Unaudited	2016 Unaudited
RECONCILIATION OF OPERATING LOSS TO CASH USED BY OPERATING ACTIVITIES		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net operating loss	\$(169,197)	\$(158,869)
ADJUSTMENTS TO RECONCILE NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Depreciation and amortization	60,545	58,848
Miscellaneous non-operating income	4,180	4,596
Miscellaneous non-operating expenses	(162)	(177)
Changes in assets and liabilities		
(Increase) Decrease in transit receivable	4,736	(1,078)
(Increase) Decrease in due from federal & other governments	(3,208)	
Increase in materials and supplies inventory	(392)	(2,604)
Decrease in prepaid expenses and other current assets	(1,691)	(829)
Increase in net pension liability	3,727	3,727
Increase in accounts payable and accrued liabilities	(9,550)	(7,967)
Increase (Decrease) in unearned revenue and other liabilities	3,988	5,020
NET CASH USED BY OPERATING ACTIVITIES	<u>\$(107,024)</u>	<u>\$(99,333)</u>
NON-CASH OPERATING, INVESTING, AND FINANCING ACTIVITIES		
Interest income from investments held to pay capital lease/leaseback	\$2,130	\$2,020
Interest expense on capital lease/leaseback	(2,130)	(2,020)
Increase (Decrease) in capital lease/leaseback obligations	2,130	2,020
(Increase) Decrease in investments held to pay capital lease/leaseback	(2,130)	(2,020)
Increase (Decrease) in fair value of investments	(2,771)	(2,526)
Amortization of premium, discount, bond insurance premium costs, and loss on debt refunding	(2,288)	(2,378)
Purchases of capital assets in accounts payable at period-end	6,511	14,410

(Concluded)

APPENDIX E

**QUARTERLY DISCLOSURE UPDATE FOR THE
SIX-MONTH PERIOD ENDED MARCH 31, 2018**

DALLAS AREA RAPID TRANSIT



**Quarterly Disclosure Update
For the six-month period ended March 31, 2018**

This Quarterly Disclosure Update supplements the information contained in our Annual Disclosure Statement for the period ending September 30, 2017, and dated March 13, 2018. The Annual Disclosure Statement will be filed as a public record with the Municipal Securities Rulemaking Board's website at www.emma.msrb.org, and is posted on the Internet at our website, www.dart.org. You may also obtain a free copy of this Quarterly Disclosure Update by contacting us at the following address or telephone number: Senior Vice President, Finance/Interim Chief Financial Officer, DART, 1401 Pacific Avenue, Dallas, Texas 75202, (214) 749-3126.

GENERAL

We are posting and filing this Quarterly Disclosure Update to supplement our Annual Disclosure Statement for the period ending September 30, 2017, and dated March 13, 2018. We continue to reserve the right to suspend or stop the postings on the internet and the quarterly updates at any time. However, we will always provide the annual and periodic information called for under any undertaking made in compliance with Rule 15c2-12 under the Securities Exchange Act of 1934.

Whenever we use capitalized words in this Quarterly Disclosure Update, they refer to the defined terms that are found in or incorporated by reference in the Annual Disclosure Statement for the period ending September 30, 2017 and dated March 13, 2018. See, Annual Disclosure Statement, Appendix B, "SUMMARY OF CERTAIN TERMS OF MASTER DEBT RESOLUTION."

In this Quarterly Disclosure Update, "we," "our," "us," and "DART" refer to Dallas Area Rapid Transit, a subregional transportation authority under the Act.

The information in this Quarterly Disclosure Update is as of the date stated below, except for the unaudited financial information included herein as Exhibit A, which is for the six-month period ended March 31, 2018.

YOU SHOULD CAREFULLY CONSIDER THE INVESTMENT CONSIDERATIONS IN THE ANNUAL DISCLOSURE STATEMENT.

FORWARD-LOOKING STATEMENTS

We make "forward-looking statements" in the Annual Disclosure Statement and in Quarterly Disclosure Updates by using forward-looking words such as "may," "will," "should," "intends," "expects," "believes," "anticipates," "estimates," or others. You are cautioned that forward-looking statements are subject to a variety of uncertainties that could cause actual results to differ from the projected results. Those risks and uncertainties include general economic and business conditions, conditions in the financial markets, our financial condition, our sales tax revenues, receipt of federal grants, and various other factors that are beyond our control. Because we cannot predict all factors that may affect future decisions, actions, events, or financial circumstances, what actually happens may be different from what we include in forward-looking statements.

Dated: May 22, 2018

QUARTERLY DISCLOSURE UPDATE

The Annual Disclosure Statement for the period ending September 30, 2017 and dated March 13, 2018, is updated by the following supplemental information:

Unaudited Financial Information

Audited financial statements for our fiscal year ended September 30, 2017, are attached as Appendix A to the Annual Disclosure Statement. An unaudited statement of our principal accounts for the six-month period ended March 31, 2018 is included as Exhibit A to this Quarterly Disclosure Update. Such quarterly financial statements should be read in conjunction with our annual financial statements. This information is taken from our internal books and records that are created, maintained, and administered by DART in accordance with generally accepted accounting principles. The use of reasonable estimates is a normal part of the preparation of financial statements. Sales tax revenues included in the unaudited quarterly financial statements were accrued using estimates. Actual sales tax receipts could, therefore, differ from those reported in the quarterly financial statements.

We believe that the unaudited financial information for the six-month period ended March 31, 2018, fairly represents the financial position and operating results of DART and is complete as of, but no later than, such date. However, you are cautioned that such financial information has not been audited or reviewed by any independent accountants. We do not warrant or guarantee that subsequent audited information for these accounts for this six-month period will not differ from the unaudited financial information presented herein and in Exhibit A.

Management's Comment Regarding First Quarter Financial Information

DART's unaudited financial statements for the six-month period ended March 31, 2018, and March 31, 2017, show sales tax revenues as \$297.3 million and \$285.6 million, respectively, which indicates an increase of 4.1% due to the continuing expansion in the local economy resulting in better retail sales in the DART Service Area. Our operating results for the six-month period ended March 31, 2018 reflect a decrease net position of \$63.9 million, compared to \$55.5 million for the six-month period ended March 31, 2017. This is primarily due to an increase in expenses.

DART maintains various cash reserves including a Financial Reserve Account that is funded with sales tax collections that exceed budget during a given year, if any. In addition, the Board of Directors authorized the establishment of a Capital Reserve Account. Should the Financial Reserve exceed \$50 million, excess sales tax receipts are placed in the Capital Reserve Account. An affirmative vote of two-thirds of the Board is required to draw upon the Financial or Capital Reserves, and the funds may be used for any purpose approved by the Board. In Fiscal Year 2017, our sales tax receipts exceeded our sales tax budget by \$3.0 million. In December 2017, excess sales tax receipts for FY 2016 were transferred to the Capital Reserve because the Financial Reserve was already at the policy-capped balance of \$50 million. According to DART policy, future excess sales tax receipts are being deposited into the Capital Reserve. The March 31, 2018 balances in the Financial Reserve and Capital Reserve were \$50.0 million and \$27.2 million, respectively. The Operating Fund balance was \$418.9 million. We maintain a working cash balance in the Operating Fund equal to at least one month of projected payments.

Lease/Leaseback Transactions Update

We have successfully terminated or repaired all lease/leaseback transactions that were non-compliant with their respective operative documents. As of March 31, 2018, one lease/leaseback transaction remained active and is in full compliance with the respective operative documents, as amended.

Litigation

No significant changes have occurred in the status of pending litigation involving DART since the date of the Annual Disclosure Statement. Accruals and estimated losses on claims that are asserted in pending litigation, if any, are included in accounts payable and accrued liabilities in the unaudited statement of our principal accounts attached hereto as Exhibit A.

Other than cases filed in the ordinary course of business as an operating transit agency, no new litigation has been filed against DART since the date of the Annual Disclosure Statement. See, Annual Disclosure Statement, "LITIGATION."

This Quarterly Disclosure Update, in substantially the form and content presented above and in its Exhibit, was reviewed with the Board of Directors of DART on May 22, 2018.

ATTEST:

/s/ Sue S. Bauman

Chair, Board of Directors

/s/ Michele W. Krause

Secretary, Board of Directors

/s/ Gary C. Thomas

DART, President/Executive Director

Exhibit A

**Unaudited Statement of Principal Accounts
for the six-month period ended March 31, 2018**

**DALLAS AREA RAPID TRANSIT
STATEMENTS OF NET POSITION**

MARCH 31, 2018 AND SEPTEMBER 30, 2017 (Dollars in Thousands)

	3/31/2018 Unaudited	9/30/2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$23,449	\$39,938
Investments	474,883	498,204
Sales and use tax receivable	98,412	95,344
Transit revenue receivable, net	3,625	8,528
Due from federal and other governments	30,789	19,959
Materials and supplies inventory, net	35,828	34,856
Prepaid transit expense and other	10,194	4,176
Restricted investments held by trustee for debt service	84,225	111,734
Restricted investments held for advance funding agreements	64,711	67,868
Restricted investments held to pay capital lease/leaseback liabilities	6,374	6,374
TOTAL CURRENT ASSETS	832,490	886,981
NONCURRENT ASSETS		
Restricted investments held as security for capital lease/leaseback liabilities	7,294	7,751
Investment in joint venture	11,476	12,030
Investment in managed HOV lane agreements	11,100	11,100
Capital assets		
Land and rights-of-way	619,026	619,026
Projects in progress	95,065	66,867
Depreciable capital assets, net of depreciation	3,593,840	3,705,322
Restricted investments held to pay capital lease/leaseback liabilities	103,230	105,342
Unamortized bond insurance premium and other	613	633
TOTAL NONCURRENT ASSETS	4,441,644	4,528,071
TOTAL ASSETS	5,274,134	5,415,052
DEFERRED OUTFLOWS OF RESOURCES	81,781	86,293
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	5,355,915	5,506,615
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	52,936	60,806
Commercial paper notes payable	140,000	140,000
Current portion of capital lease/leaseback liabilities	6,374	6,374
Current portion of repayment due to State Comptroller	824	824
Local Assistance Program payable	721	685
Retainage payable	6,046	6,968
Unearned revenue and other liabilities	112,066	112,840
Accrued interest payable from restricted assets	54,550	55,329
Current portion of senior lien revenue bonds payable	58,291	55,936
TOTAL CURRENT LIABILITIES	431,808	439,762
NONCURRENT LIABILITIES		
Accrued liabilities	37,181	37,113
Net pension liability	48,513	52,127
Repayment due to State Comptroller	6,514	6,927
Senior lien revenue bonds payable	3,246,356	3,311,980
Transportation Infrastructure Finance and Innovation Act (TIFIA) bonds payable	98,726	100,878
Capital lease/leaseback liabilities	103,230	105,342
TOTAL NONCURRENT LIABILITIES	3,540,520	3,614,367
TOTAL LIABILITIES	3,972,328	4,054,129
DEFERRED INFLOWS OF RESOURCES	2,428	2,178
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	3,974,756	4,056,307
NET POSITION		
Net investment in capital assets	821,888	837,067
Restricted for debt service	29,675	56,405
Restricted as security for capital lease/leaseback liabilities	7,294	7,751
Unrestricted	522,302	543,815
TOTAL NET POSITION	\$1,381,159	\$1,445,038

**DALLAS AREA RAPID TRANSIT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

FOR THE SIX MONTHS ENDED MARCH 31, 2018 and 2017 (Dollars in Thousands)

	2018 Unaudited	2017 Unaudited
OPERATING REVENUES		
Passenger revenues	\$31,687	\$33,176
Advertising, rent, and other	6,530	6,960
TOTAL OPERATING REVENUES	<u>38,217</u>	<u>40,136</u>
OPERATING EXPENSES		
Labor	123,539	118,830
Benefits	51,314	51,651
Services	19,461	16,903
Materials and supplies	23,928	21,042
Purchased transportation	27,225	25,865
Depreciation and amortization	121,366	118,413
Utilities	9,553	9,194
Taxes, leases, and other	2,328	2,771
Casualty and liability	2,359	1,810
TOTAL OPERATING EXPENSES	<u>381,073</u>	<u>366,479</u>
NET OPERATING LOSS	<u>(342,856)</u>	<u>(326,343)</u>
NON-OPERATING REVENUES (EXPENSES)		
Sales and use tax revenue	297,277	285,649
Investment income	1,493	1,477
Interest income from investments held to pay capital lease/leaseback	4,262	4,266
Interest expense on capital lease/leaseback	(4,262)	(4,266)
Interest and financing expenses	(77,593)	(77,687)
Build America Bonds tax credit	14,212	14,180
Other federal grants	29,480	34,715
Other non-operating revenues	12,402	7,976
Other non-operating expenses	(3,174)	(506)
NET NON-OPERATING REVENUES	<u>274,097</u>	<u>265,804</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	<u>(68,759)</u>	<u>(60,539)</u>
CAPITAL CONTRIBUTIONS AND GRANTS		
Federal capital contributions	4,751	4,426
State capital contributions	129	606
TOTAL CAPITAL CONTRIBUTIONS AND GRANTS	<u>4,880</u>	<u>5,032</u>
CHANGE IN NET POSITION	(63,879)	(55,507)
TOTAL NET POSITION – BEGINNING OF YEAR	1,445,038	1,570,583
TOTAL NET POSITION – END OF THE REPORTING PERIOD	<u>\$1,381,159</u>	<u>\$1,515,076</u>

**DALLAS AREA RAPID TRANSIT
STATEMENTS OF CASH FLOWS**

FOR THE SIX MONTHS ENDED MARCH 31, 2018 and 2017 (Dollars in Thousands)

	2018 Unaudited	2017 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$42,561	\$40,826
Cash flows from other sources	5,367	7,238
Payments to suppliers of goods and services	(64,632)	(55,224)
Payments to purchased transportation service providers	(26,830)	(25,244)
Payments to employees	(126,421)	(121,004)
Benefit payments on behalf of employees	(54,474)	(59,893)
NET CASH USED BY OPERATING ACTIVITIES	<u>(224,429)</u>	<u>(213,301)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Sales and use tax receipts	293,797	284,048
Other federal grants	27,549	29,744
Build America Bonds tax credit	14,226	14,180
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>335,572</u>	<u>327,972</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	4,414	2,092
Proceeds from sales and maturity of investments	136,813	280,711
Purchase of investments	(115,896)	(239,906)
Decrease (increase) in restricted assets	30,665	29,099
NET CASH USED BY INVESTING ACTIVITIES	<u>55,996</u>	<u>71,996</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(47,900)	(61,463)
Proceeds from the issuance of commercial paper notes	335,000	405,000
Payment on commercial paper notes	(335,000)	(435,000)
Principal payment on revenue bonds	(55,936)	(53,962)
Interest and financing expenses	(83,740)	(80,871)
Federal capital contributions	3,478	3,233
State capital contributions	418	4,426
Local capital contributions	52	606
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(183,628)</u>	<u>(218,031)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(16,489)</u>	<u>(31,364)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF THE FISCAL YEAR	<u>39,938</u>	<u>53,651</u>
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	<u><u>\$23,449</u></u>	<u><u>\$22,287</u></u>

(Continued)

**DALLAS AREA RAPID TRANSIT
STATEMENTS OF CASH FLOWS**

FOR THE SIX MONTHS ENDED MARCH 31, 2018 and 2017 (Dollars in Thousands)

	2018 Unaudited	2017 Unaudited
RECONCILIATION OF OPERATING LOSS TO CASH USED BY OPERATING ACTIVITIES		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net operating loss	\$(342,856)	\$(326,244)
ADJUSTMENTS TO RECONCILE NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Depreciation and amortization	121,366	118,413
Miscellaneous non-operating income	12,351	7,976
Miscellaneous non-operating expenses	(3,174)	(506)
Changes in assets and liabilities		
(Increase) Decrease in transit receivable	4,972	(1,226)
(Increase) Decrease in due from federal & other governments	(7,612)	
Increase in materials and supplies inventory	(973)	(2,622)
Decrease in prepaid expenses and other current assets	(6,060)	(1,803)
Increase (decrease) in net pension liability	(3,614)	(11,570)
Increase (decrease) in deferred inflows of resources	251	2,629
Increase (decrease) in deferred outflows of resources	388	1,256
Increase in accounts payable and accrued liabilities	(1,906)	(5,334)
Increase (Decrease) in unearned revenue and other liabilities	2,438	3,278
NET CASH USED BY OPERATING ACTIVITIES	<u>\$(224,429)</u>	<u>\$(213,301)</u>
NON-CASH OPERATING, INVESTING, AND FINANCING ACTIVITIES		
Interest income from investments held to pay capital lease/leaseback	\$4,262	\$4,266
Interest expense on capital lease/leaseback	(4,262)	(4,266)
Increase (Decrease) in capital lease/leaseback obligations	2,112	2,108
(Increase) Decrease in investments held to pay capital lease/leaseback	(2,112)	(2,018)
Increase (Decrease) in fair value of investments	(3,145)	(1,675)
Amortization of premium, discount, bond insurance premium costs, and loss on debt refunding	(9,481)	(5,656)
Purchases of capital assets in accounts payable at period-end	7,816	5,015

(Concluded)

APPENDIX F

**QUARTERLY DISCLOSURE UPDATE FOR THE
NINE-MONTH PERIOD ENDED JUNE 30, 2018**

DALLAS AREA RAPID TRANSIT

**Quarterly Disclosure Update
for the nine-month period ended June 30, 2018**

This Quarterly Disclosure Update supplements the information contained in our Annual Disclosure Statement for the period ending September 30, 2017, and dated March 13, 2018; our Quarterly Disclosure Update for the three-month period ending December 31, 2017, dated March 27, 2018; and our Quarterly Disclosure Update for the six-month period ending March 31, 2017, and dated May 22, 2018. The Annual Disclosure Statement was filed as a public record with the Municipal Securities Rulemaking Board's website at www.emma.msrb.org, and is posted on the Internet at our website, www.dart.org. You may also obtain a free copy of this Quarterly Disclosure Update by contacting us at the following address or telephone number: Senior Vice President/Finance, DART, 1401 Pacific Avenue, Dallas, Texas 75202, (214) 749-3126.

GENERAL

We are posting and filing this Quarterly Disclosure Update to supplement our Annual Disclosure Statement for the period ending September 30, 2017, our Quarterly Disclosure Update for the three-month period ending December 31, 2017, and our Quarterly Disclosure Update for the six-month period ending March 31, 2018. We continue to reserve the right to suspend or stop the postings on the Internet and the quarterly updates at any time. However, we will always provide the annual and periodic information called for under any undertaking made in compliance with Rule 15c2-12 under the Securities Exchange Act of 1934.

Whenever we use capitalized words in this Quarterly Disclosure Update, they refer to the defined terms that are found in or incorporated by reference in the Annual Disclosure Statement. See, Annual Disclosure Statement, Appendix B, "SUMMARY OF CERTAIN TERMS OF MASTER DEBT RESOLUTION."

In this Quarterly Disclosure Update, "we," "our," "us," and "DART" refer to Dallas Area Rapid Transit, a subregional transportation authority under the Act.

The information in this Quarterly Disclosure Update is as of the date stated below, except for the unaudited financial information included herein as Exhibit A, which is for the nine-month period ended June 30, 2018.

YOU SHOULD CAREFULLY CONSIDER THE INVESTMENT CONSIDERATIONS IN THE ANNUAL DISCLOSURE STATEMENT.**FORWARD-LOOKING STATEMENTS**

We make "forward-looking statements" in the Annual Disclosure Statement and in Quarterly Disclosure Updates by using forward-looking words such as "may," "will," "should," "intends," "expects," "believes," "anticipates," "estimates," or others. You are cautioned that forward-looking statements are subject to a variety of uncertainties that could cause actual results to differ from the projected results. Those risks and uncertainties include general economic and business conditions, conditions in the financial markets, our financial condition, our sales tax revenues, receipt of federal grants, and various other factors that are beyond our control. Because we cannot predict all factors that may affect future decisions, actions, events, or financial circumstances, the actual outcomes may be different from what we include in forward-looking statements.

Dated: September 18, 2018

QUARTERLY DISCLOSURE UPDATE

The Annual Disclosure Statement for the period ending September 30, 2017 dated March 13, 2018, Quarterly Disclosure Update for the period ending December 31, 2017 dated March 27, 2018, and Quarterly Disclosure Update for the period ending March 31, 2018 dated May 22, 2018, are updated by the following supplemental information:

Unaudited Financial Information

Audited financial statements for our fiscal year ended September 30, 2017, are attached as Appendix A to the Annual Disclosure Statement. An unaudited statement of our principal accounts for the nine-month period ended June 30, 2018 is included as Exhibit A to this Quarterly Disclosure Update. Such quarterly financial statements should be read in conjunction with our annual financial statements. This information is taken from our internal books and records that are created, maintained, and administered by DART in accordance with generally accepted accounting principles. The use of reasonable estimates is a normal part of the preparation of financial statements. Sales tax revenues included in the unaudited quarterly financial statements were accrued using estimates. Actual sales tax receipts could, therefore, differ from those reported in the quarterly financial statements.

We believe that the unaudited financial information for the nine-month period ended June 30, 2018, fairly represents the financial position and operating results of DART and is complete as of, but no later than, such date. However, you are cautioned that such financial information has not been audited or reviewed by any independent accountants. We do not warrant or guarantee that subsequent audited information for these accounts for this nine-month period will not differ from the unaudited financial information presented herein and in Exhibit A.

Management's Comment Regarding Third Quarter Financial Information

DART's unaudited financial statements for the nine-month period ended June 30, 2018, and June 30, 2017, show sales tax revenues as \$451.6 million and \$429.6 million, respectively, which indicates an increase of 5.1% due to the continuing expansion in the local economy resulting in better retail sales in the DART Service Area. Our operating results for the nine-month period ended June 30, 2018 reflect a decrease in net position of \$71.0 million, compared to \$88.8 million for the nine-month period ended June 30, 2017. This was primarily due to increases expenses.

DART maintains various cash reserves including a Financial Reserve Account that is funded with sales tax collections that exceed budget during a given year, if any. In addition, the Board of Directors authorized the establishment of a Capital Reserve Account. Should the Financial Reserve Account exceed \$50 million, excess sales tax receipts are placed in the Capital Reserve Account. An affirmative vote of two-thirds of the Board is required to draw upon the Financial Reserve Account or Capital Reserve Account, and the funds may be used for any purpose approved by the Board. In Fiscal Year 2017, our sales tax receipts exceeded our sales tax budget by \$3.0 million. In December 2017, excess sales tax receipts for Fiscal Year 2017 were transferred to the Capital Reserve because the Financial Reserve Account was already at the policy-capped balance of \$50 million. According to DART policy, future excess sales tax receipts are to be deposited into the Capital Reserve Account. The June 30, 2018 balances in the Financial Reserve Account and Capital Reserve Account were \$50.0 million and \$27.3 million, respectively. The General Operating Fund balance was \$454.2 million as of June 30, 2018. In accordance with Board-approved financial policy, we maintain a working cash balance in the General Operating Fund equal to at least one month of projected payments.

Lease/Leaseback Transactions Update

We have successfully terminated or repaired all lease/leaseback transactions that were non-compliant with their respective operative documents. As of June 30, 2018, one lease/leaseback transaction remained active and is in full compliance with the respective operative documents, as amended.

Future Debt

On August 28, 2018, we approved the Fifteenth Amended and Restated Supplemental Debt Resolution, which authorized the issuance of up to \$908 million in principal amount of Senior Lien Sales Tax Revenue Bonds to finance the "Cotton Belt Corridor Regional Rail Project," a 26-mile passenger rail line from DFW Airport to Plano and the Sixteenth Amended and Restated Supplemental Debt Resolution which authorized the issuance of up to \$1.09 billion in principal amount of Senior Lien Sales Tax Revenue Bonds to finance the "Second Central Business District Light Rail Alignment Project," a major subway and surface alignment in downtown Dallas. Such Senior Lien Obligations are secured by a senior lien on our Sales Tax Revenues and Pledged Farebox Revenues and have a priority over the lien pledged to the Senior I Notes. It is anticipated that Senior Lien Obligations relating to the Fifteenth Amended and Restated Supplement Debt Resolution will be issued over the next six months.

In addition, we anticipate authorizing the establishment of new Senior Subordinate Lien Obligations during the next several months in one or more series of commercial paper notes largely for Cotton Belt project development in an amount to be determined by the Board.

Litigation

No significant changes have occurred in the status of pending litigation involving DART since the date of the Annual Disclosure Statement. Accruals and estimated losses on claims that are asserted in pending litigation, if any, are included in accounts payable and accrued liabilities in the unaudited statement of our principal accounts attached hereto as Exhibit A.

Other than cases filed in the ordinary course of business as an operating transit agency, no new litigation has been filed against DART since the date of the Annual Disclosure Statement. See, Annual Disclosure Statement, "LITIGATION."

This Quarterly Disclosure Update, in substantially the form and content presented above and in its Exhibit, was reviewed with the Board of Directors of DART on September 18, 2018.

ATTEST:	<u>/s/ Sue S. Bauman</u> Chair, Board of Directors
<u>/s/ Michele Wong Krause</u> Secretary, Board of Directors	<u>/s/ Gary C. Thomas</u> DART, President/Executive Director

Exhibit A

**Unaudited Statement of Principal Accounts
for the nine-month period ended June 30, 2018**

**DALLAS AREA RAPID TRANSIT
STATEMENTS OF NET POSITION**

JUNE 30, 2018 AND SEPTEMBER 30, 2017 (Dollars in Thousands)

	6/30/2018 Unaudited	9/30/2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$84,390	\$39,938
Investments	434,497	498,204
Sales and use tax receivable	105,566	95,344
Transit revenue receivable, net	6,753	8,528
Due from federal and other governments	13,897	19,959
Materials and supplies inventory, net	36,465	34,856
Prepaid transit expense and other	7,451	4,176
Restricted investments held by trustee for debt service	58,530	111,734
Restricted investments held for advance funding agreements	64,905	67,868
Restricted investments held to pay capital lease/leaseback liabilities	6,374	6,374
TOTAL CURRENT ASSETS	818,828	886,981
NONCURRENT ASSETS		
Restricted investments held as security for capital lease/leaseback liabilities	7,049	7,751
Investment in joint venture	11,199	12,030
Investment in managed HOV lane agreements	11,100	11,100
Capital assets		
Land and rights-of-way	619,026	619,026
Projects in progress	114,980	66,867
Depreciable capital assets, net of depreciation	3,528,284	3,705,322
Restricted investments held to pay capital lease/leaseback liabilities	105,361	105,342
Unamortized bond insurance premium and other	603	633
TOTAL NONCURRENT ASSETS	4,397,602	4,528,071
TOTAL ASSETS	5,216,430	5,415,052
DEFERRED OUTFLOWS OF RESOURCES	79,526	86,293
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	5,295,956	5,501,345
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	47,418	60,806
Commercial paper notes payable	140,000	140,000
Current portion of capital lease/leaseback liabilities	6,374	6,374
Current portion of repayment due to State Comptroller	824	824
Local Assistance Program payable	627	685
Retainage payable	6,665	6,968
Unearned revenue and other liabilities	109,812	112,840
Accrued interest payable from restricted assets	13,761	55,329
Current portion of senior lien revenue bonds payable	58,291	55,936
TOTAL CURRENT LIABILITIES	383,772	439,762
NONCURRENT LIABILITIES		
Accrued liabilities	36,891	37,113
Net pension liability	46,705	52,127
Repayment due to State Comptroller	6,309	6,927
Senior lien revenue bonds payable	3,241,613	3,311,980
Transportation Infrastructure Finance and Innovation Act (TIFIA) bonds payable	98,726	100,878
Capital lease/leaseback liabilities	105,361	105,342
TOTAL NONCURRENT LIABILITIES	3,535,605	3,614,367
TOTAL LIABILITIES	3,919,377	4,054,129
DEFERRED INFLOWS OF RESOURCES	2,554	2,178
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	3,921,931	4,056,307
NET POSITION		
Net investment in capital assets	782,484	837,067
Restricted for debt service	44,768	56,405
Restricted as security for capital lease/leaseback liabilities	7,049	7,751
Unrestricted	539,724	543,815
TOTAL NET POSITION	\$1,374,025	\$1,445,038

**DALLAS AREA RAPID TRANSIT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

FOR THE NINE MONTHS ENDED JUNE 30, 2018 and 2017 (Dollars in Thousands)

	2018 Unaudited	2017 Unaudited
OPERATING REVENUES		
Passenger revenues	\$47,322	\$48,658
Advertising, rent, and other	10,273	10,662
TOTAL OPERATING REVENUES	<u>57,595</u>	<u>59,320</u>
OPERATING EXPENSES		
Labor	180,882	173,604
Benefits	68,905	77,728
Services	30,512	27,980
Materials and supplies	34,667	30,910
Purchased transportation	41,227	39,052
Depreciation and amortization	187,409	178,114
Utilities	14,248	13,648
Taxes, leases, and other	3,507	2,973
Casualty and liability	3,608	4,127
TOTAL OPERATING EXPENSES	<u>564,965</u>	<u>548,136</u>
NET OPERATING LOSS	<u>(507,370)</u>	<u>(488,816)</u>
NON-OPERATING REVENUES (EXPENSES)		
Sales and use tax revenue	451,640	429,642
Investment income	3,703	4,123
Interest income from investments held to pay capital lease/leaseback	6,393	6,316
Interest expense on capital lease/leaseback	(6,393)	(6,316)
Interest and financing expenses	(115,494)	(116,376)
Build America Bonds tax credit	21,336	21,263
Other federal grants	50,942	43,115
Other non-operating revenues	16,191	13,629
Other non-operating expenses	(3,878)	(1,845)
NET NON-OPERATING REVENUES	<u>424,440</u>	<u>393,551</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	<u>(82,930)</u>	<u>(95,265)</u>
CAPITAL CONTRIBUTIONS AND GRANTS		
Federal capital contributions	11,268	5,608
State capital contributions	649	846
TOTAL CAPITAL CONTRIBUTIONS AND GRANTS	<u>11,917</u>	<u>6,454</u>
CHANGE IN NET POSITION	(71,013)	(88,811)
TOTAL NET POSITION – BEGINNING OF YEAR	<u>1,445,038</u>	<u>1,570,583</u>
TOTAL NET POSITION – END OF THE REPORTING PERIOD	<u>\$1,374,025</u>	<u>\$1,481,772</u>

**DALLAS AREA RAPID TRANSIT
STATEMENTS OF CASH FLOWS**

FOR THE NINE MONTHS ENDED JUNE 30, 2018 and 2017 (Dollars in Thousands)

	2018 Unaudited	2017 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$58,038	\$61,574
Cash flows from other sources	16,873	14,179
Payments to suppliers of goods and services	(96,358)	(84,057)
Payments to purchased transportation service providers	(40,353)	(38,337)
Payments to employees	(183,764)	(175,429)
Benefit payments on behalf of employees	(73,553)	(82,269)
NET CASH USED BY OPERATING ACTIVITIES	<u>(319,117)</u>	<u>(304,339)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Sales and use tax receipts	440,799	422,760
Other federal grants	51,594	41,947
Build America Bonds tax credit	28,451	28,360
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>520,844</u>	<u>493,067</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	6,065	4,207
Proceeds from sales and maturity of investments	226,414	332,221
Purchase of investments	(165,207)	(261,513)
Decrease (increase) in restricted assets	56,868	55,462
NET CASH USED BY INVESTING ACTIVITIES	<u>124,140</u>	<u>130,377</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(71,667)	(71,992)
Proceeds from the issuance of commercial paper notes	530,000	590,000
Payment on commercial paper notes	(530,000)	(620,000)
Principal payment on revenue bonds	(55,936)	(53,962)
Interest and financing expenses	(165,110)	(163,822)
Federal capital contributions	10,166	3,233
State capital contributions	937	5,608
Local capital contributions	195	846
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(281,415)</u>	<u>(310,089)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	44,452	9,016
CASH AND CASH EQUIVALENTS, BEGINNING OF THE FISCAL YEAR	<u>39,938</u>	<u>53,651</u>
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	<u><u>\$84,390</u></u>	<u><u>\$62,667</u></u>

(Continued)

**DALLAS AREA RAPID TRANSIT
STATEMENTS OF CASH FLOWS**

FOR THE NINR MONTHS ENDED JUNE 30, 2018 and 2017 (Dollars in Thousands)

	2018 Unaudited	2017 Unaudited
RECONCILIATION OF OPERATING LOSS TO CASH USED BY OPERATING ACTIVITIES		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net operating loss	\$(507,370)	\$(488,691)
ADJUSTMENTS TO RECONCILE NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Depreciation and amortization	187,409	178,114
Miscellaneous non-operating income	15,996	13,629
Miscellaneous non-operating expenses	(3,878)	(1,845)
Changes in assets and liabilities		
Decrease in transit receivable	1,845	4,336
Increase in due from federal & other governments	(525)	-
Increase in materials and supplies inventory	(1,610)	(2,274)
Decrease in prepaid expenses and other current assets	(3,108)	(221)
Decrease in net pension liability	(5,422)	(7,604)
Increase in differed inflows of resources	377	2,629
Decrease in differed outflows of resources	581	1,256
Increase in accounts payable and accrued liabilities	(3,539)	(4,534)
Increase in unearned revenue and other liabilities	127	866
NET CASH USED BY OPERATING ACTIVITIES	<u>\$(319,117)</u>	<u>\$(304,339)</u>
NON-CASH OPERATING, INVESTING, AND FINANCING ACTIVITIES		
Interest income from investments held to pay capital lease/leaseback	\$6,393	\$6,316
Interest expense on capital lease/leaseback	(6,393)	(6,316)
Increase in capital lease/leaseback obligations	19	58
Increase in investments held to pay capital lease/leaseback	(19)	(58)
Decrease in fair value of investments	(1,608)	(739)
Amortization of premium, discount, bond insurance premium costs, and loss on debt refunding	(14,223)	(8,463)
Purchases of capital assets in accounts payable at period-end	3,641	2,710

(Concluded)

The provisions of the Board of Directors, Dallas Area Rapid Transit Senior Subordinate Lien Sales Tax Revenue Commercial Paper Note, Taxable Series III, a form of which is attached hereto, are incorporated herein and made a part hereof for all purposes.

At the request of the registered owner, Issuer shall promptly issue and deliver one or more separate note certificates evidencing each obligation evidenced by this Master Note. As of the date any such note certificate or certificates are issued, the obligations which are evidenced thereby shall no longer be evidenced by this Master Note.

FOR VALUE RECEIVED, the undersigned hereby sells, assigns, and transfers unto

(Name, Address, and Taxpayer Identification Number of Assignee)

the Master Note and all rights thereunder, hereby irrevocably constituting and appointing _____ attorney to transfer said Master Note on the books of Issuer with full power of substitution in the premises.

Date:

Signature(s) Guaranteed:

(Signature)

Notice: The signature on this assignment must correspond with the name as written upon the face of this Master Note, in every particular, without alteration or enlargement or any change whatsoever.

Unless this certificate is presented by an Authorized Officer of The Depository Trust Company, a New York corporation ("DTC"), to Issuer or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an Authorized Officer of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an Authorized Officer of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

EXHIBIT D
FORM OF EXTENSION REQUEST

Date _____

[Name and Address of Issuing and Paying Agent]

[Name and Address of Dealer]

EXTENSION REQUEST

Ladies and Gentlemen:

This certificate is provided pursuant to the requirements of Section 2.02(d) of the Eighteenth Supplemental Debt Resolution to the Master Resolution (the "Eighteenth Supplemental Debt Resolution") adopted by the Board of Directors, Dallas Area Rapid Transit, with respect to the issuance of the Board of Directors, Dallas Area Rapid Transit Senior Subordinate Lien Sales Tax Revenue Series III Notes, [Tax-Exempt] [Taxable] Series III, for the purpose of requesting the extension of a Series III Note, as provided herein. Capitalized terms used herein and not otherwise defined shall have the meaning given in the Eighteenth Supplemental Debt Resolution.

- (a) The Series III Note is in the principal amount of \$_____, bears interest at the stated rate of _____%, and has a stated Original Maturity Date of _____, 20__.
- (b) The Extended Maturity Date of the Series III Note shall be _____, 20__, which is a Business Day.
- (c) The certifications made in the Issuance Request delivered in connection with the initial issuance of the Series III Note are confirmed.
- (d) The term of the Series III Note, as extended to the Extended Maturity Date, does not exceed 270 calendar days.

DALLAS AREA RAPID TRANSIT

By _____
Authorized Officer

EXHIBIT F
ISSUING AND PAYING AGENT AGREEMENT

This Issuing and Paying Agent Agreement (this "Agreement") is entered into as of November 15, 2018, between the Dallas Area Rapid Transit (the "DART" or "Board"), a subregional transportation authority organized and existing under the Constitution and laws of the State of Texas, and Zions Bancorporation, National Association (the "Issuing and Paying Agent"), a national banking association organized and existing under the laws of the United States. All capitalized terms used but not otherwise defined herein shall have the meanings specified in the Eighteenth Supplement (as hereinafter defined).

1. Appointment. DART has appointed Zions Bancorporation, National Association as the Issuing and Paying Agent hereunder, and Zions Bancorporation, National Association hereby accepts such appointment as the Issuing and Paying Agent in connection with the issuance and payment of up to \$125,000,000 aggregate principal amount of "Dallas Area Rapid Transit Senior Subordinate Lien Sales Tax Revenue Commercial Paper Notes, Series III" (the "Series III Notes") pursuant to the "Master Debt Resolution," adopted by the Board on January 23, 2001 as amended (collectively, the "Master Resolution") and the "Eighteenth Supplemental Resolution" adopted on November 13, 2018 (the "Eighteenth Supplement"), providing for the issuance of the Series III Notes. Such Series III Notes are to be initially issued in book-entry form only and are to be initially evidenced by a Master Series III Note for the Taxable Commercial Paper Notes and a Master Series III Note for the Tax-Exempt Commercial Paper Notes (collectively, the "Master Series III Notes"), in the form attached to the Eighteenth Supplement.

The Issuing and Paying Agent agrees to observe and perform its duties and obligations hereunder and under the Eighteenth Supplement. Without limiting the generality of the foregoing, the Issuing and Paying Agent shall establish and maintain the Series III Notes and all required accounts and subaccounts required by the Eighteenth Supplement. The Issuing and Paying Agent agrees to provide to DART a monthly report on the first business day of each month, which report shall set forth such information regarding the authentication and issuance of Series III Notes during the prior month, as DART and the Issuing and Paying Agent shall have agreed upon.

The Issuing and Paying Agent agrees to keep such books and records, including, without limitation, a complete record of all Issuance Requests, as shall be consistent with industry practice and as may reasonably be requested by DART, and to make such books and records available for inspection by DART, such books and records to be available on each business day during reasonable business hours, and, if so requested, to send copies of such books and records to DART, as applicable.

2. Certificate Agreement. The Issuing and Paying Agent acknowledges that (i) it has previously entered into a commercial paper certificate agreement (the "Certificate Agreement") a copy of which is appended hereto as Exhibit A with The Depository Trust Company, New York, New York ("DTC"), and (ii) the continuation in effect of the Certificate Agreement is a necessary prerequisite to the Issuing and Paying Agent's providing services related to the issuance and payment of the Series III Notes while the Series III Notes are in book-entry only form and DTC is the Depository.

3. Letter of Representations; Eighteenth Supplement; Designated Authorized

Representatives. Prior to the issuance of any Series III Notes, DART shall deliver to the Issuing and Paying Agent an executed Letter of Representations (the "Letter of Representations"), a copy of which is attached hereto as Exhibit B. The Letter of Representations, when executed by DART, the Issuing and Paying Agent and DTC, shall supplement the provisions of this Agreement, and DART and the Issuing and Paying Agent shall be bound by the provisions of the Letter of Representations, to the extent not inconsistent with the provisions of the Eighteenth Supplement.

DART has delivered to the Issuing and Paying Agent (a) certified copies of the Master Resolution and the Eighteenth Supplement and (b) a certified original Certificate of Authorized Representatives (the "Certificate of Authorized Representatives") setting forth the Authorized Representatives, containing the name, title and true signature of those officers of DART designated by DART as an Authorized Representative pursuant to the Eighteenth Supplement, to take action with respect to the Series III Notes, which certificate is attached hereto as Exhibit C. By approving this Agreement, the Board approves the designation of the individuals named in the Certificate of Authorized Representatives to act as Authorized Representatives for all purposes under the Eighteenth Supplement. DART agrees to provide the Issuing and Paying Agent with a revised Certificate of Authorized Representatives when there are changes in the Authorized Representatives. Until the Issuing and Paying Agent receives any subsequent Certificate of Authorized Representatives, the Issuing and Paying Agent shall be entitled to rely on the last Certificate of Authorized Representatives delivered to it for the purpose of determining the Authorized Representatives.

4. Master Series III Note. Prior to the issuance of any Series III Notes, DART shall deliver to the Issuing and Paying Agent the Master Series III Notes evidencing the Series III Notes. Such Master Series III Notes shall be duly executed, specify the date of issuance, the series of Series III Notes, and be registered in the name of Cede & Co., as nominee of DTC, all as provided in the Eighteenth Supplement.

5. Issuance Requests. Issuance Requests shall be in the form attached hereto as Exhibit D. Issuance Requests may be delivered by an Authorized Representative through an electronic instruction and reporting communication service offered by either the Dealer or the Issuing and Paying Agent pursuant to Section 10 hereof, in each case received by the Issuing and Paying Agent at the address specified in Section 17 hereof prior to 12:00 p.m. (New York, New York time) on the day on which such Issuance Request is to be operative.

If the Issuing and Paying Agent, at its option, acts upon an Issuance Request received after 12:00 p.m. (New York, New York time) on the day on which the Issuance Request is to be operative, DART understands and agrees that (a) such Issuance Request shall be acted upon on a best efforts basis, and (b) the Issuing and Paying Agent makes no representation or warranty that the issuance and delivery of any Series III Note pursuant to such Issuance Request shall be completed prior to the close of business on such date.

Any Issuance Request given by telephone shall be confirmed to the Issuing and Paying Agent in writing, either by regular mail (upon receipt), electronic transmission or facsimile, by an Authorized Representative prior to 12:00 p.m. (New York, New York time) in the form of Exhibit D hereto on the day on which such Issuance Request is to be operative.

6. Issuance. The Issuing and Paying Agent's duties and responsibilities in connection with the issuance of the Series III Notes shall include:

a. holding the Master Series III Notes in safekeeping and completing or causing to be completed, each Master Series III Note as to amount, date, maturity date, interest rate and interest amount upon receipt of Issuance Requests in accordance with the Eighteenth Supplement;

b. (1) verifying that the aggregate principal amount of Series III Notes described in each Issuance Request (together with the interest thereon), plus the aggregate principal amount of all Series III Notes then outstanding (together with the interest thereon), less the aggregate principal amount of any of the then Outstanding Series III Notes to be retired concurrently with the issuance of the Series III Notes described in the Issuance Request (including interest thereon), does not exceed the maximum principal amount of the Series III Notes authorized in section 2.01 of the Eighteenth Supplement to be outstanding at any one time (the "Authorized Amount"), and (2) assigning to each Issuance Request received from DART a CUSIP number;

c. causing to be delivered an Series III Note on behalf of DART upon receipt of instructions from an Authorized Representative, as to the series, principal amount, registered owner, Issue Date, Original Maturity Date, Extended Maturity Date, Original Rate and Extended Rate by way of data entry transfer to the DTC MMI Same Day Funds Settlement System ("SDFS"), and to receive from SDFS a confirmation receipt that such delivery was effected; and

d. holding the amounts on deposit in the appropriate funds and accounts established pursuant to the Eighteenth Supplement separate from all other funds, accounts and subaccounts of the Issuing and Paying Agent, and applying such amounts in accordance with the terms hereof and of the Eighteenth Supplement.

The Issuing and Paying Agent shall have no duty or responsibility to make any transfer of the proceeds of the sale of the Series III Notes, or to advance any moneys or effect any credit with respect to such proceeds or transfers unless and until the Issuing and Paying Agent has actually received the proceeds of the sale of the Series III Notes.

7. Payment. The Issuing and Paying Agent's duties and responsibilities in connection with the payment of the Series III Notes shall include:

a. upon presentment at maturity of an Series III Note, or prior redemption of an Series III Note that has been extended to its Extended Maturity Date, paying the principal of and interest on the Series III Note to the Owner thereof;

b. crediting amounts received from DART for the payment of the principal of or interest on the Series III Notes to the related Series subaccount of the Note Payment Fund; and

c. keeping amounts on deposit in the Note Payment Fund separate from all other funds, accounts and subaccounts of the Issuing and Paying Agent, and utilizing such amounts in accordance with the terms hereof and of the Eighteenth Supplement.

The Issuing and Paying Agent shall have no obligation to pay amounts due on the Series III Notes at their Original Maturity Date or Extended Maturity Date, as applicable, other than from funds received by the Issuing and Paying Agent from, or for the account of, DART, from the proceeds of Series III Notes or refunding bonds issued in accordance with procedures established by the Master Resolution and a supplement to the Master Resolution.

8. Reserved.

9. Notice. The Issuing and Paying Agent's duties and responsibilities in connection with providing notification or access to certain matters described in the Eighteenth Supplement shall include:

a. notification by 5:00 p.m. (New York, New York time) one Business Day prior to the Original Maturity Date and any Extended Maturity Date, if applicable, of any Series III Notes to DART of the total amount due with respect to such maturing Series III Notes;

b. notification by 3:00 p.m. (New York, New York time) on the Original Maturity Date and any Extended Maturity Date of any Series III Notes to DART, if the proceeds of Series III Notes to be issued on such date, are insufficient to repay the maturity of such Series III Notes on the Original Maturity Date, which notification shall specify the amount of the deficiency;

c. monthly notification to DART on the first Business Day of each month stating the amount of interest payable on Series III Notes during the prior month; and

d. any notification to be provided by the Issuing and Paying Agent as specified in the Eighteenth Supplement.

10. Operating System. Issuance Requests may be delivered by an Authorized Representative through either the Dealer's or the Issuing and Paying Agent's commercial paper electronic instruction and reporting communication service (each a "System," and collectively the "Systems"). Electronic instructions must be transmitted in accordance with the procedures furnished by either the Dealer or the Issuing and Paying Agent, as applicable, to DART in connection with the Systems. These transmissions shall be the equivalent to the giving of a written Issuance Request to the Issuing and Paying Agent. If either System is inoperable at any time, an Authorized Representative may deliver written, telephone or facsimile instructions to the Issuing and Paying Agent, which instructions shall be verified in accordance with any security procedures agreed upon by the parties.

11. Representations of DART.

a. DART represents to the Issuing and Paying Agent that this Agreement and the Series III Notes have been duly authorized, and that this Agreement, when executed, and the Series III Notes, when issued in accordance with the Issuance Requests and the Eighteenth Supplement, will be valid and enforceable special obligations of DART according to their terms, subject to the exercise of judicial discretion in accordance with general principles of equity and bankruptcy, insolvency, reorganization, moratorium, sovereign immunity of political subdivisions and other similar laws affecting creditors' rights heretofore or hereafter

enacted to the extent constitutionally applicable or general principles of equity which permit the exercise of judicial discretion.

b. DART represents to the Issuing and Paying Agent that each Series III Note issued under this Agreement will be exempt from registration under the Securities Act of 1933, as amended.

Each Issuance Request to issue Series III Notes under this Agreement and the Eighteenth Supplement shall be deemed a representation by DART as of the date thereof that such issuance conforms in all respects to the requirements of the Eighteenth Supplement and this Agreement, and that the representations herein are true and correct as if made on and as of such date.

12. Additional Information. Upon the reasonable request of DART given at any time and from time to time, the Issuing and Paying Agent agrees promptly to provide DART with information with respect to the Series III Notes, issued and paid hereunder. Such request shall be in written form and shall include the principal amount, date of issue, maturity date, interest rate and amount of interest, as applicable, of each Series III Note which has been issued or paid by the Issuing and Paying Agent, and for which the request is being made.

13. Compensation. DART agrees to pay compensation for the Issuing and Paying Agent's services pursuant to this Agreement in accordance with the Issuing and Paying Agent's fee schedule, as amended from time to time, and to reimburse the Issuing and Paying Agent for related disbursements (including the reasonable fees and expenses of counsel). DART shall also reimburse the Issuing and Paying Agent for any fees and charges imposed by the Depository with respect to Series III Notes issued in book-entry form.

14. Liability. DART agrees that the Issuing and Paying Agent shall not be liable for any losses, damages, liabilities or costs suffered or incurred by DART or the Issuing and Paying Agent as a result of (a) the Issuing and Paying Agent's having duly executed Issuance Requests in good faith in accordance therewith and with the Eighteenth Supplement and this Agreement, except to the extent, if any, that such execution constitutes negligence by the Issuing and Paying Agent; (b) the Issuing and Paying Agent's improperly executing or failing to execute any Issuance Requests because of any material error contained in information provided by DART to the Issuing and Paying Agent for the purpose of preparing such Issuance Request, failure of communications media or any other circumstances beyond the Issuing and Paying Agent's control; (c) the actions or inactions of DTC or any broker, dealer, consignee or agent not selected by the Issuing and Paying Agent; or (d) any other acts or omissions of the Issuing and Paying Agent (or of any of its agents, directors, officers, employees or correspondents) relating to this Agreement or the transactions or activities contemplated hereby, except to the extent, if any, that such other acts or omissions constitute negligence or willful misconduct by the Issuing and Paying Agent. This Section shall survive any termination of this Agreement, the issuance and payment of any Series III Notes and the resignation or removal of the Issuing and Paying Agent.

15. Indemnity. To the extent permitted by Texas law, DART agrees to indemnify and hold the Issuing and Paying Agent, its employees and any of its officers and agents harmless from and against, and the Issuing and Paying Agent shall not be liable for, any loss, damage, claim, liability or expense (including reasonable cost of defense) arising out of, or based upon the performance of the Issuing and Paying Agent's duties under this Agreement; provided, however, that DART shall not be liable to indemnify or pay the Issuing and Paying Agent or any of its officers or

employees with respect to any loss, liability, action, suit, judgment, demand, damage, cost or expense that results from or is attributable to the Issuing and Paying Agent's negligence or willful misconduct or that of its officers or employees. The provisions of this Section shall survive (i) the Issuing and Paying Agent's resignation or removal hereunder and (ii) the termination of this Agreement.

16. Termination. Subject to the terms of the Eighteenth Supplement, either the Issuing and Paying Agent or DART may terminate this Agreement at any time, upon not less than sixty (60) days' prior written notice in the case of the Issuing and Paying Agent, and upon written notice in the case of DART, to the other. No such termination shall affect the rights and obligations of DART and the Issuing and Paying Agent which have accrued under this Agreement prior to termination. No termination can occur prior to a substitute Issuing and Paying Agent being appointed by DART and assuming its duties under the Eighteenth Supplement. If no substitute Issuing and Paying Agent has been appointed at the end of the sixty (60) day period, then the Issuing and Paying Agent may petition a court of competent jurisdiction to make such appointment.

17. Addresses. Issuance Requests hereunder shall be (a) mailed, (b) telephoned, (c) transmitted by facsimile device, or (d) transmitted electronically to the Issuing and Paying Agent at the address, telephone number or facsimile number specified below, and shall be deemed delivered upon receipt by the Issuing and Paying Agent at the address, telephone number and/or facsimile number specified below.

All notices, requests, demands and other communications hereunder (excluding Issuance Requests) shall be in writing and shall be deemed to have been duly given (a) upon delivery by hand (against receipt), (b) by facsimile, or (c) three days after such notice, request, demand or other communication is delivered to a United States Post Office certified mail (against receipt) or by regular mail (upon receipt) to the party and at the address set forth below or at such other address as a party may designate by written notice:

If to DART:

Dallas Area Rapid Transit
1401 Pacific Avenue
Dallas, TX 75202
Attention: Chief Financial Officer
Telephone: (214) 749-3148
Fax: (214) 749-3657

If to the Issuing and Paying Agent:

Zions Bancorporation, National Association
Amegy Bank Division
Corporate Trust & Escrow Dept.
1801 Main Street, Suite 850
Houston, Texas 77002
Attention: Arla K. Scott, Vice President
Telephone: (713) 232-1919
Facsimile: (844) 527-2686

18. Governing Law. This Agreement shall be governed and interpreted in accordance with the laws of the State of Texas.

19. Assignment, Modification and Amendment; Issuing and Paying Agent's Successor in Interest. This Agreement may not be assigned by either DART or the Issuing and Paying Agent, and may not be modified, amended or supplemented except by a writing or writings duly executed by an Authorized Representative and the Issuing and Paying Agent. Any corporation or national banking association into which the Issuing and Paying Agent may be merged or converted, or with which it may be consolidated, or any corporation or national banking association resulting from any merger, consolidation or conversion to which the Issuing and Paying Agent shall be a party, or any corporation or national banking association succeeding to the corporate trust business of the Issuing and Paying Agent, shall be the successor of the Issuing and Paying Agent if such successor corporation or national banking association is otherwise eligible, without the execution or filing of any document or the undertaking of any further act on the part of the Issuing and Paying Agent or such successor corporation or national banking association.

20. Complete Agreement. This Agreement contains the entire understanding and agreement between the parties with respect to the subject matter hereof, and all prior agreements, understandings, representations, statements, promises, inducements, negotiations and undertakings between the parties with respect to said subject matter are superseded hereby. In the event of any inconsistency between the provisions hereof and the Eighteenth Supplement, the provisions of the Eighteenth Supplement shall govern.

21. Defined Terms. Any capitalized terms not defined in this Agreement shall have the meaning assigned in the Eighteenth Supplement.

22. Counterparts. This Agreement may be executed in counterparts, each of which shall be an original, and all of which shall constitute but one and the same instrument.

23. Section Headings. Section headings in this Agreement are for convenience of reference only, shall not constitute part of this Agreement and shall not be used to construe the meaning or intent of the provisions hereof.

24. Waiver of Set-Off, Offset Lien or Counterclaims. The Issuing and Paying Agent hereby waives to the fullest extent possible under applicable law any and all rights of set-off, offset, lien or counterclaim it may have with respect to any amounts held by it in the Note Payment Fund by reason of any claim it may have against DART or any other person.

25. Benefit of Agreement. This Agreement is solely for the benefit of the parties hereto and the owners of the Series III Notes, and no other person shall acquire or have any right under or by virtue hereof.

[Remainder of page intentionally left blank. Signature page follows.]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their respective officers thereunto duly authorized as of the date first above written.

DALLAS AREA RAPID TRANSIT

By: _____

Name: _____

Title: _____

**ZIONS BANCORPORATION, NATIONAL
ASSOCIATION, AMEGY BANK DIVISION**

By: _____

Name: _____

Title: _____

.....

EXHIBIT A

Certificate Agreement

EXHIBIT B

DTC Letter of Representations

The Depository Trust Company
A subsidiary of The Depository Trust & Clearing Corporation

**Book-Entry-Only Municipal Tax-Exempt Commercial Paper (TECP)
(Master Note) Program**

Letter of Representations

[To be completed by Issuer, Issuing Agent, and Paying Agent]

[Name of Issuer]

[Name and DTC Participant Number of Issuing Agent and Transfer Agent]

[Date]

Attention: Underwriting Department
The Depository Trust Company
570 Washington Blvd, 4th FL
Jersey City, NJ 07310

Re: _____

[Description of Program, including reference to the provision of the Securities Act of 1933, as amended,
pursuant to which Program is exempt from registration.]

Ladies and Gentlemen:

This letter sets forth our understanding with respect to certain matters relating to the issuance by Issuer from time to time of notes under its Municipal Commercial Paper--TECP program described above (the "Securities"). Issuing Agent shall act as issuing agent with respect to the Securities. Paying Agent shall act as paying agent or other such agent of Issuer with respect to the Securities. Issuance of the Securities has been authorized pursuant to a prospectus supplement, offering circular, or other such document dated _____.

Paying Agent has entered into a Money Market Instrument Certificate Agreement with The Depository Trust Company ("DTC") dated as of _____, pursuant to which Paying Agent shall act as custodian of a Master Note Certificate evidencing the Securities, when issued. Paying Agent shall amend Exhibit A to such Certificate Agreement to include the program described above, prior to issuance of the Securities.

To induce DTC to accept the Securities as eligible for deposit at DTC and to act in

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accordance with its Rules with respect to the Securities, Issuer, Issuing Agent, and Paying Agent make the following representations to DTC:

1. The Securities shall be evidenced by a Master Note Certificate in registered form registered in the name of DTC's nominee, Cede & Co., and such Master Note Certificate shall represent 100% of the principal amount of the Securities. The Master Note Certificate shall include the substance of all material provisions set forth in the DTC model Municipal Commercial Paper -- TECP Master Note, a copy of which previously has been furnished to Issuing Agent and Paying Agent, and may include additional provisions as long as they do not conflict with the material provisions set forth in the DTC model.

2. Issuer: (a) understands that DTC has no obligation to, and will not, communicate to its participants ("Participants") or to any person having an interest in the Securities any information contained in the Master Note Certificate; and (b) acknowledges that neither DTC's Participants nor any person having an interest in the Securities shall be deemed to have notice of the provisions of the Master Note Certificate by virtue of submission of such Certificate to DTC.

3. Issuer or Issuing Agent has obtained from the CUSIP Service Bureau a written list of approximately 900 nine-character numbers (the basic first six characters of which are the same and uniquely identify Issuer and the Securities to be issued under its Municipal Commercial Paper - - TECP program described above). The CUSIP numbers on such list have been reserved for future assignment to issues of the Securities. At any time when fewer than 100 of the CUSIP numbers on such list remain unassigned, Issuer or Issuing Agent shall promptly obtain from the CUSIP Service Bureau an additional written list of approximately 900 such numbers.

4. When Securities are to be issued through DTC, Issuing Agent shall notify Paying Agent and shall give issuance instructions to DTC in accordance with DTC's Procedures, including Operational Arrangements and the Issuing/Paying Agent General Operating Procedures (the "MMI Procedures"), a copy of which previously has been furnished to Issuing Agent and Paying Agent. The giving of such issuance instructions, which include delivery instructions, to DTC shall constitute: (a) a representation that the Securities are issued in accordance with applicable law; and (b) a confirmation that the Master Note Certificate evidencing such Securities, in the form described in paragraph 1, has been issued and authenticated.

5. All notices and payment advises sent to DTC shall contain the CUSIP number of the Securities.

6. Issuer recognizes that DTC does not in any way undertake to, and shall not have any responsibility to, monitor or ascertain the compliance of any transactions in the Securities with the following, as amended from time to time: (a) any exemptions from registration under the Securities Act of 1933; (b) the Investment Company Act of 1940; (c) the Employee Retirement Income Security Act of 1974; (d) the Internal Revenue Code of 1986; (e) any rules of any self-regulatory organizations (as defined under the Securities Exchange Act of 1934); or (f) any other local, state, federal, or foreign laws or regulations thereunder.

7. If issuance of Securities through DTC is scheduled to take place one or more days after Issuing Agent has given issuance instructions to DTC, Issuing Agent may cancel such issuance by giving a cancellation instruction to DTC in accordance with the MMI Procedures.

8. At any time that Paying Agent has Securities in its DTC accounts, it may request withdrawal of such Securities from DTC by giving a withdrawal instruction to DTC in accordance with the MMI Procedures. Upon DTC's acceptance of such withdrawal instruction, Paying Agent shall reduce the principal amount of the Securities evidenced by the Master Note Certificate accordingly.

9. In the event of any solicitation of consents from or voting by holders of the Securities, Issuer, Issuing Agent, or Paying Agent shall establish a record date for such purposes (with no provision for revocation of consents or votes by subsequent holders) and shall send notice of such record date to DTC's Reorganization Department, Proxy Unit no fewer than 15 calendar days in advance of such record date. If sent by telecopy, such notice shall be directed to (212) 855-5181 or (212) 855-5182. If the party sending the notice does not receive a telecopy receipt from DTC such party shall confirm DTC's receipt of such telecopy by telephoning (212) 855-5187. For information regarding such notices, telephone The Depository Trust and Clearing Corporation's Proxy hotline at (212) 855-5191.

10. Paying Agent may override DTC's determination of interest and principal payment dates, in accordance with the MMI Procedures.

11. Notice regarding the amount of variable interest and principal payments on the Securities shall be given to DTC by Paying Agent in accordance with the MMI Procedures.

12. Paying Agent shall confirm with DTC daily, by CUSIP number, the face value of the Securities outstanding, and Paying Agent's corresponding interest and principal payment obligation, in accordance with the MMI Procedures.

13. DTC may direct Issuer, Issuing Agent, or Paying Agent to use any other telephone number or address as the number or address to which notices may be sent.

14. Payments on the Securities, including payments in currencies other than the U.S. Dollar, shall be made by Paying Agent in accordance with the MMI Procedures.

15. In the event that Issuer determines that beneficial owners of Securities shall be able to obtain certificated Securities, Issuer or Paying Agent shall notify DTC of the availability of certificates. In such event, Issuer or Paying Agent shall issue, transfer, and exchange certificates in appropriate amounts, as required by DTC and others.

16. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer, Issuing Agent or Paying Agent (at which time DTC will confirm with Issuer or Paying Agent the aggregate amount of Securities outstanding by CUSIP number). Under such circumstances, at DTC's request Issuer, Issuing Agent and Paying Agent shall cooperate fully with DTC by taking appropriate action to make available one or more separate certificates evidencing Securities to any Participant having Securities credited to its DTC accounts.

17. Nothing herein shall be deemed to require Issuing Agent or Paying Agent to advance funds on behalf of Issuer.

18. This Letter of Representations may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original, but all such counterparts together shall constitute but one and the same instrument.

19. This Letter of Representations shall be governed by, and construed in accordance with, the laws of the State of New York, without giving effect to principles of conflicts of law.

20. The sender of each notice delivered to DTC pursuant to this Letter of Representations is responsible for confirming that such notice was properly received by DTC.

21. Issuing and/or Paying Agent represent to DTC that the Issuing and/or Paying Agent screened the name of the party in whose name a deposited Security certificate is registered against the U.S. Department of the Treasury's Office of Foreign Asset Control's ("OFAC") Specially Designated Nationals Blocked Persons List ("SDN List") and against OFAC's regulations and that there were no matches identified by such comparison. Issuer is prohibited from submitting Securities for DTC eligibility if the issuer of the securities is listed on the OFAC's SDN List, or is incorporated or formed in a country that is subject to OFAC sanctions or embargoes, or otherwise subject to sanctions administered by OFAC.

22. Issuer hereby authorizes DTC to provide to Issuing Agent and/or Paying Agent listings of DTC Participants' holdings, known as Security Position Reports ("SPRs") with respect to the Assets from time to time at the request of Issuing Agent or Paying Agent. DTC charges a fee for such SPRs. This authorization, unless revoked by Issuer, shall continue with respect to the Assets while any Assets are on deposit at DTC, until and unless Issuing Agent and/or Paying Agent shall no longer be acting as Issuing and/or Paying Agent for Issuer. In such event, Issuer shall provide DTC with similar evidence, satisfactory to DTC, of the authorization of any successor thereto so to act. Proxy Web Services are available at www.dtcc.com. To register for or inquire about Proxy Web Services, telephone The Depository Trust and Clearing Corporation's Proxy Hotline at (212) 855-5191.

23. Issuer, Issuing Agent and Paying Agent shall comply with the applicable requirements stated in DTC's MMI Procedures, as they may be amended from time to time.

24. The following rider(s), attached hereto, are hereby incorporated into this Letter of Representations:

Note:

Schedule A contains statements that DTC believes accurately describe DTC, the method of effecting book-entry transfers of securities distributed through DTC, and certain related matters.

Very truly yours,

[Issuer]

By: _____
[Authorized Officer's Signature]

[Guarantor]

By: _____
[Authorized Officer's Signature]

[Issuing Agent]

By: _____
[Authorized Officer's Signature]

[Paying Agent]

By: _____

cc: Underwriter
Underwriter's Counsel

SCHEDULE A

**SAMPLE OFFERING DOCUMENT LANGUAGE
DESCRIBING BOOK-ENTRY-ONLY ISSUANCE**

(Prepared by DTC--bracketed material may be applicable only to certain issues)

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Securities"). The Securities will 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 Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

4. To facilitate subsequent transfers, all Securities 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 Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities 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.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.]

[6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.]

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities 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 Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

[9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.]

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

EXHIBIT C

Certificate of Authorized Representatives

We are the officers and employees of the Dallas Area Rapid Transit (the "DART") as specified below. We are duly authorized pursuant to the "Eighteenth Supplemental Debt Resolution" adopted on November 13, 2018 (the "Eighteenth Supplement") and the Issuing and Paying Agent Agreement dated as of November 15, 2018 between DART and Zions Bancorporation, National Association to act severally as an Authorized Representative (as defined in the Eighteenth Supplement) in connection with the issuance, from time to time, by DART of commercial paper notes (the "Series III Notes") in accordance with the Eighteenth Supplement. The specimen signature of each Authorized Representative is set forth beside their respective names.

<u>Authorized Representatives</u>	<u>Title</u>	<u>Specimen Signature</u>
Gary Thomas	President/CEO	_____
Joseph Costello	CFO	_____
Dwight Burns	Treasurer	_____
Beverly Adler	Assistant Treasurer	_____

Executed this ____ day of _____, 2018.

Before me, on this day personally appeared the foregoing individuals, known to me to be the officers whose true and genuine signatures were subscribed above in my presence.

Given under my hand and seal of office this ____ day of _____, 2018.

(Notary Seal)

Notary Public

EXHIBIT D

Form of Issuance Request

Date

[Issuing and Paying Agent]

Re: Issuance Request for issuance and sale of Dallas Area Rapid Transit Senior Subordinate Lien Sales Tax Revenue Commercial Paper Notes, [Tax-Exempt][Taxable]Series III

You are hereby requested, instructed and authorized to issue, authenticate and deliver Series III Notes of the above referenced series in the principal amount(s) scheduled to mature and bearing interest upon receipt of the purchase price therefore from the identified purchaser(s), as shown in the attached Exhibit A hereto which is incorporated herein by reference and made a part of these instruction for all purposes. Terms capitalized but not otherwise defined hereon shall have the meaning ascribed to them in the "Eighteenth Supplemental Resolution" adopted on November 13, 2018 (the "Eighteenth Supplement").

Upon receipt of the proceeds of sale of the Series III Notes, (net of all expenses and costs of sale and issuance), the undersigned certifies that the same should be deposited and disbursed as follows.

\$_____ Deposit to the credit of the Note Payment Fund, Account No. _____ and apply the deposit as follows: (1) for payment and redemption or purchase of Outstanding Series III Notes, the amount of \$_____. Any proceeds not deposited to the credit of the Note Payment Fund as provided in the preceding sentence shall be transferred and deposited to the Construction Account for payment of Project Costs as set forth below.

\$_____ Wire transfer for deposit to the Construction Account: _____, for credit to the _____, the amount of \$_____ for the purpose of financing Project Costs.

\$_____ Principal amount of Series III Notes Outstanding after this issuance.

Please forward debit and credit slips for each of the above transactions to the undersigned. The facts, estimates and reasonable expectations that are contained in Exhibit B to this instruction letter are incorporated herein and made a part of these instructions for all purposes. The undersigned, along with others is charged with responsibility for issuing the Series III Notes.

DART

By: _____

Name: _____

Title: _____

Acting as an Authorized Representative

Receipt of the Issuance Request and
Exhibits A and B thereto is hereby acknowledged:

[_____]

By: _____

Name: _____

Title: _____

EXHIBIT A TO ISSUANCE REQUEST
SCHEDULE TO INSTRUCTION LETTER*

Re: Issuance Request for issuance and sale of Dallas Area Rapid Transit Senior Subordinate Lien Sales Tax Revenue Commercial Paper Notes, [Tax-Exempt][Taxable]Series III

ISSUE DATE: _____

CUSIP NO.:	_____
Dealer(s):	_____
Principal Amount:	_____
Purchase Price:	_____
Original Interest Rate:	_____
Original Maturity Date:	_____
Extended Maturity Date:	_____
Denomination:	_____
Issue Date:	_____
Tax-Exempt or Taxable:	_____

*Attach Direct Issuance Report

EXHIBIT B TO ISSUANCE REQUEST

INSTRUCTIONS OF AUTHORIZED REPRESENTATIVE

I, the undersigned Authorized Representative, hereby provide the following instructions, representations and certifications to Zions Bancorporation, National Association, as Issuing and Paying Agent for the "Dallas Area Rapid Transit Senior Subordinate Lien Sales Tax Revenue Commercial Paper Notes, Tax-Exempt Series III" and "Dallas Area Rapid Transit Senior Subordinate Lien Sales Tax Revenue Commercial Paper Notes, Taxable Series III" (collectively, the "Series III Notes"), in connection with the issuance of such Series III Notes on the date indicated below. Capitalized terms used in this certificate which are not defined herein have the meanings ascribed to them in the "Eighteenth Supplemental Debt Resolution" adopted on November 13, 2018 (the "Eighteenth Supplement") authorizing the issuance of the Series III Notes.

1. All action on the part of DART necessary for the valid issuance of the Series III Notes now to be issued has been taken;
2. All provisions of State and federal law necessary for the valid issuance of this issuance of Series III Notes have been complied with;
3. The Series III Notes to be issued will be valid and enforceable special obligations of DART according to their terms, subject to the exercise of judicial discretion in accordance with general principles of equity and bankruptcy, insolvency, reorganization, moratorium, sovereign immunity of political subdivisions and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable or general principles of equity which permit the exercise of judicial discretion;
4. After the issuance of the Series III Notes and the application of the Proceeds thereof, the sum of the aggregate principal amount of Series III Notes Outstanding will not exceed the Authorized Amount (as defined in the Issuing and Paying Agent Agreement);
5. To DART's knowledge there has been no change in the facts, estimates, circumstances and representations of DART set forth or made (as the case may be) in the Tax Certificate applicable to the Series III Notes;⁶
6. The Extended Maturity Date of the Series III Notes set forth in the Issuance Request does not extend beyond the Maximum Maturity Date;
7. DART, has not been notified by Bond Counsel that its opinion with respect to the validity of the Series III Notes and the tax treatment of the interest thereon has been revised or withdrawn or, if any such revision or withdrawal has occurred, the revised opinion or a substitute opinion acceptable to the Dealer has been delivered;¹
8. To the actual knowledge of DART, no Event of Default has occurred and is now continuing;
9. \$_____ of Series III Note Proceeds shall be deposited into the appropriate account of the Construction Account;
10. \$_____ of Series III Note Proceeds shall be deposited into the appropriate subaccount of the Note Payment Fund to pay interest currently due on maturing Series III Notes; and
11. All of the conditions precedent to the issuance of such Series III Notes set forth in the Eighteenth Supplement have been satisfied.

⁶ Delete for Taxable Commercial Paper Notes.

Executed on _____, 20 ____.

Dallas Area Rapid Transit

By: _____

Name: _____

Title: _____

Acting as an Authorized Representative

Date of issuance of Series III Notes
to which these instructions,
representations and certifications
relate: _____, 20 ____

EXHIBIT G
DEALER AGREEMENT

DEALER AGREEMENT

between

DALLAD AREA RAPID TRASIT

and

MORGAN STANLEY & CO. LLC

Dated _____, 2018

relating to

Dallas Area Rapid Transit
Senior Subordinate Lien
Sales Tax Revenue
Commercial Paper Notes, Series III

This Dealer Agreement, dated _____ 2018 (the “*Agreement*”), is between the DALLAS AREA RAPID TRANSIT (the “*DART*”) and MORGAN STANLEY & CO. LLC (the “*Dealer*”). For and in consideration of the mutual covenants made herein and other valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

Section 1. Background and Definitions.

(a) DART has authorized the issuance and reissuance from time-to-time of its tax-exempt or taxable Series III Notes (the “*Series III Notes*”) in the aggregate principal amount not to exceed \$125,000,000 outstanding at any time.

(b) DART originally authorized the issuance of the Series III Notes pursuant to its Eighteenth Supplemental Debt Resolution adopted on November 13, 2018 (“*Eighteenth Supplement*”) to the Master Debt Resolution adopted on January 23, 2001 (together with the Eighteenth Supplement, the “*Resolution*”).

(c) The Eighteenth Supplement provides for the appointment of commercial paper dealers to perform certain duties, including the offering and sale from time-to-time of the Series III Notes on behalf of DART.

(d) The Dealer has agreed to accept the duties and responsibilities under this Agreement with respect to the Series III Notes under the Eighteenth Supplement and this Agreement.

(e) Unless otherwise defined herein, all capitalized terms shall have the meanings ascribed to them in the Resolution or in the Issuing and Paying Agent Agreement between DART and Zions Bancorporation, National Association dated as of November 15, 2018 (the “*Issuing and Paying Agent Agreement*”).

(f) All references to time in this Agreement shall refer to prevailing time in New York, NY.

Section 2. Appointment of Dealer.

(a) Subject to the terms and conditions contained herein, DART hereby appoints Morgan Stanley & Co. LLC as a Dealer for the Series III Notes, and Morgan Stanley & Co. LLC hereby accepts such appointment.

(b) The Dealer shall act as non-exclusive Dealer with respect to the Series III Notes. The Dealer acknowledges that DART may enter into agreements with other dealers in connection with the offering and sale of the Series III Notes on behalf of DART as set forth in the Resolution.

Section 3. Responsibilities of Dealer.

(a) Subject to the terms and conditions set forth in this Agreement, the Dealer agrees to perform the duties and responsibilities set forth in this Agreement. It is understood that in

undertaking to perform such duties, and in the performance thereof, it is the intention of the parties that the Dealer will act solely as an agent and not as a principal, except as expressly provided in this Agreement. The Dealer shall use its best efforts to solicit and arrange sales of the Series III Notes on behalf of DART at such rates and maturities as may prevail from time to time in the market. The Dealer and DART agree that any Series III Notes which the Dealer may arrange the sale of or which, in the Dealer's sole discretion, it may elect to purchase, will be purchased or sold on the terms and conditions and in the manner provided in the Resolution, the Issuing and Paying Agent Agreement and this Agreement. Anything herein to the contrary notwithstanding, to the extent of any conflict between the provisions hereof and of the Resolution or the Issuing and Paying Agent Agreement, the provisions of the Resolution and the Issuing and Paying Agent Agreement shall be controlling.

(b) Notwithstanding anything to the contrary contained herein, the Dealer:

(i) will suspend its efforts with respect to the offer or sale of the Series III Notes on behalf of DART upon the receipt of notice of the occurrence of an Event of Default under the Series III Notes, the Resolution, or the Issuing and Paying Agent Agreement; and

(ii) may, in its sole discretion which shall not be unreasonably or arbitrarily exercised, suspend its efforts with respect to the offer or sale of the Series III Notes on behalf of DART immediately upon the occurrence of any of the following events, which suspension will continue so long as such event continues to exist as to the Series III Notes (the Dealer agrees to give notice of its suspension of efforts promptly after such suspension occurs):

(1) suspension or material limitation in trading in securities generally or by any national securities exchange;

(2) A general banking moratorium shall have been established by Federal or New York authorities;

(3) the engagement by the United States in hostilities if the effect of such engagement, in the Dealer's reasonable judgment, makes it impractical or inadvisable to proceed with the solicitation of offers to purchase the Series III Notes;

(4) legislation shall be enacted by the House of Representatives or the Senate of the Congress of the United States, or a decision by a court of the United States shall be rendered, or a stop order, ruling, regulation or official statement by, or on behalf of, the United States Securities and Exchange Commission or other governmental agency having jurisdiction of the subject matter shall be made or proposed, to the effect that the offering or sale of obligations of the general character of the Series III Notes, as contemplated hereby, is or would be in violation of any provision of the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended as then in effect, or with the purpose

or effect of otherwise prohibiting the offering or sale of obligations of the general character of the Series III Notes, as contemplated hereby;

(5) any event shall occur or information shall become known, which makes untrue, incorrect or misleading in any material respect any statement or information contained in any disclosure documents provided to the Dealer by DART in connection with the performance of its duties hereunder, whether provided pursuant to Section 8 hereof or otherwise, or causes such documents to contain an untrue, incorrect or misleading statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading;

(6) any governmental authority shall impose, as to the Series III Notes, or obligations of the general character of the Series III Notes, any material restrictions not now in force, or increase materially those now in force;

(7) any of the representations and warranties of DART made in this Agreement shall not have been true and correct;

(8) DART fails to observe any of the covenants or agreements made in this Agreement or if the Resolution or the Issuing and Paying Agent Agreement is no longer in full force and effect;

(9) any of the rating agencies then rating the Series III Notes shall either (i) downgrade the short-term ratings assigned to the Series III Notes or (ii) suspend or withdraw the then current ratings assigned to the Series III Notes;

(10) an actual or imminent default or a moratorium in respect of payment of any U.S. Treasury bills, bonds or notes occurs, the effect of which, in the Dealer's reasonable judgment, makes it impractical to market the Series III Notes or to enforce contracts for the sale of the Series III Notes; or

(11) trading of any securities DART shall have been suspended on any exchange or in any over-the-counter market;

(12) any material adverse change in the financial markets generally which is, in the reasonable judgment of the Dealer, so material and adverse as to make it impracticable or inadvisable to proceed with the offering or sale of the Series III Notes; or

(13) (i) legislation shall have been enacted by the Congress of the United States (the "*Congress*"), introduced in the Congress or recommended to the Congress for passage by the President of the United States or the United States Department of the Treasury (the "*Treasury*");

Department”) or the Internal Revenue Service or any member of the Congress or favorably reported for passage to either House of Congress by any Committee of such House to which such legislation has been referred for consideration or passed by either House of Congress, (ii) a decision shall have been rendered by a court of the United States or the United States Tax Court, or (iii) an order, ruling or communication (including a press release) shall have been issued by the Treasury Department or other agency with competent jurisdiction, in each case with respect to federal taxation upon revenues or other income derived by DART or any similar body, or upon interest received on obligations of the general character of the Tax-Exempt Series III Notes, that in the judgment of the Dealer materially adversely affects the market for the Tax-Exempt Series III Note.

Section 4. Transactions in Series III Notes. All transactions in Series III Notes between the Dealer and DART shall be in accordance with the Resolution, the Issuing and Paying Agent Agreement, this Agreement and with the customs and practices in the commercial paper market regarding settlement and delivery formally adopted in writing from time to time by the New York Clearinghouse, to the extent not inconsistent with the Resolution. As early as possible, but not later than 2:30 p.m. on the day on which any Series III Note is to be issued, the Dealer shall notify DART of the proposed final maturities, prices and interest rates (which interest rates shall not exceed the Maximum Interest Rate as defined in the Resolution), and provide DART with any other information as required for delivery of such Series III Notes. Except as described below, the Dealer shall not be obligated to purchase or cause the purchase of any Series III Notes unless and until agreement has been reached in each case on the foregoing points and the Dealer has agreed to such purchase. Not later than 2:30 p.m. on the date of each transaction the Dealer shall either (a) confirm each transaction made with or arranged by it or (b) notify DART and the Issuing and Paying Agent of the difference, if any, between the amount of maturing Series III Notes and the amount of Series III Notes which the Dealer has arranged to sell or has agreed to purchase. Such confirmation or notification shall be given by telephone (or by other telecommunications medium acceptable to DART) and in writing to DART and the Issuing and Paying Agent pursuant to the requirements of Section 14(a) hereof.

Section 5. Payment for Series III Notes. The Dealer shall pay for the Series III Notes sold by the Dealer (or purchased by the Dealer for its own account) in immediately available funds by 2:00 p.m. on the Business Day such Series III Notes are delivered to the Dealer (provided that such Series III Notes are so delivered to the Dealer by 12:30 p.m. on such Business Day). All Series III Notes will be sold at par, and each Series III Note will be evidenced either by (i) a global Master Series III Note immobilized with The Depository Trust Company of New York or (ii) Series III Notes in the form attached to the Resolution.

Section 6. Authorized Representative. Series III Note transactions with DART, pursuant to Section 4 hereof, shall be with any one of the officers or employees of DART who are designated as an Authorized Representative by certificate signed by the Authorized Representative. The initial written designation of the Authorized Representatives is appended hereto as Appendix A. By approving this Agreement, the Board of Directors approves the designation of the individuals named in Appendix A to act as Authorized Representatives for all

purposes under the Resolution. DART agrees to provide the Dealer with revised written designations in the form of Appendix A when and as required by changes in the Authorized Representatives. The Dealer may rely upon such designation unless and until otherwise notified in writing by DART.

Section 7. Resignation and Removal of Dealer. The Dealer may at any time resign and be discharged of its duties and obligations hereunder upon providing DART and the Issuing and Paying Agent with sixty (60) days' prior written notice or, if earlier, on the date that a replacement Dealer has been appointed by DART if DART in its sole discretion elects to appoint a replacement Dealer. The Dealer may be removed at any time, at the direction of DART upon seven (7) days' prior written notice to the Dealer and the Issuing and Paying Agent. The Dealer shall assign and deliver this Agreement to its successor if requested by DART.

Section 8. Furnishing of Disclosure Materials.

(a) Prior to the first issuance of Series III Notes under the Resolution, DART agrees to furnish the Dealer with as many copies as the Dealer may reasonably request of the offering memorandum of DART relating to the Series III Notes (the "*Offering Memorandum*"), and such other information with respect to DART and the Series III Notes as the Dealer shall reasonably request from time to time.

(b) DART agrees to cooperate with the Dealer in the preparation from time-to-time of a new Offering Memorandum of DART for the Series III Notes in the event the Dealer determines that the preparation and distribution of such Offering Memorandum is necessary or desirable in connection with offering and sale on behalf of DART of the Series III Notes, and to furnish or to cause to be furnished to the Dealer as many copies of such new Offering Memorandum as the Dealer shall request.

(c) If, at any time during the term of this Agreement, any event shall occur or facts become known to either party that might affect the correctness or completeness of any statement of a material fact contained in the then current Offering Memorandum, such party shall promptly notify the other in writing of the circumstances and details of such event. DART agrees to promptly furnish to the Dealer a copy of each filing or notice made to anyone (whether in connection with the Series III Notes or not) pursuant to any undertaking or other agreement of DART made under any provision of Rule 15c2-12 promulgated by the United States Securities and Exchange Commission.

Section 9. Indemnification and Contribution. To the extent permitted by Texas law, DART agrees to indemnify the Dealer and to hold the Dealer harmless against any loss, damage, claim, liability or expense (including reasonable cost of defense) arising out of, or based upon, any allegation that any of the information provided by DART to the Dealer pursuant to this Agreement includes any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein not misleading in light of circumstances under which they were made.

Section 10. Fees and Expenses. In addition to any fees paid by DART in connection with the creation of the commercial paper program pursuant to which the Series III Notes shall

be issued, as compensation to the Dealer hereunder, DART agrees to pay to the Dealer during each calendar year a fee equal to 0.10% times the principal amount of the Series III Notes Outstanding, times the number of days such Series III Notes shall be Outstanding, divided by 365 or 366 days (as appropriate), payable quarterly (for quarters ending March 31, June 30, September 30 and December 31, commencing with the quarter ending December 31, 2018) in arrears on the first day of each January, April, July and October.

Section 11. Representations, Warranties, Covenants and Agreements of DART. DART, by its acceptance hereof, represents, warrants, covenants, and agrees with the Dealer that:

(a) is a regional transportation authority, public body corporate and politic, whose creation was confirmed at an election held on August 13, 1983, pursuant to the provisions and requirements of Chapter 452, Texas Transportation Code, as amended, and created and functioning under the Constitution and laws of the State of Texas; and

(b) it has full power and authority to take all actions required or permitted to be taken by DART by or under, and to perform and observe the covenants and agreements on its part contained in, this Agreement and any other instrument or agreement relating thereto to which DART is a party;

(c) it has, on or before the date hereof, duly taken all action necessary to be taken by it prior to such date to authorize (i) the execution, delivery and performance of this Agreement, the Resolution and any other instrument or agreement to which DART is a party and which has been or will be executed in connection with the transactions contemplated by the foregoing documents; and (ii) the carrying out, giving effect to, consummation and performance of the transactions and obligations contemplated by the foregoing agreements and by the current Offering Memorandum;

(d) it will provide the Dealer at its address set forth below, within 190 days of the end of each fiscal year, a copy of its annual audited financial statements for that fiscal year;

(e) it will promptly notify the Dealer by electronic means, if possible, and, if not possible, by other communication made in writing, of any material adverse changes that may affect the offering and sale on behalf of DART of the Series III Notes or any fact or circumstance which may constitute, or with the passage of time will constitute, an Event of Default under the Series III Notes, the Resolution or the Issuing and Paying Agent Agreement;

(f) Offering Memoranda and supplements, amendments and updates to any thereof, furnished by DART and used by the Dealer (including amendments, supplements and replacements thereof), until such time as they shall have been subsequently amended, updated or replaced, shall not contain any untrue, incorrect or misleading statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading; and

(g) it will provide to the Dealer within two (2) Business Days of the execution of any credit or liquidity facility agreement related to the Series III Notes or amendment thereto including any extension of any such facility, a copy of such executed agreement or amendment.

Section 12. Term of Agreement. This Agreement shall become effective on the date hereof and shall continue in full force and effect until the Maximum Maturity Date of the Series III Notes, as defined in the Resolution, subject to the right of suspension and termination as provided herein.

Section 13. Dealing in Series III Notes by the Dealer; No Obligation to Purchase Series III Notes. (a) The Dealer, in its individual capacity, may in good faith buy, sell, own, hold and deal in any of the Series III Notes, including, without limitation, any Series III Notes offered and sold by the Dealer pursuant to this Agreement, and may join in any action which any Registered Owner may be entitled to take with like effect as if it did not act in any capacity hereunder. The Dealer, in its individual capacity, either as principal or agent, may also engage in or be interested in any financial or other transaction with DART and may act as depository, account party, or agent for any committee or body of owners of the Series III Notes or other obligations of DART as freely as if it did not act in any capacity hereunder.

(b) Nothing in this Agreement shall be deemed to constitute the Dealer an underwriter of the Series III Notes or to obligate the Dealer to purchase any Series III Notes for its own account at any time.

Section 14. Miscellaneous. (a) Except as otherwise specifically provided in this Agreement, all notices, demands and formal actions under this Agreement shall be in writing and either (i) hand-delivered, (ii) sent by electronic means, or (iii) mailed by registered or certified mail, return receipt requested, postage prepaid, to:

The Dealer:

Morgan Stanley & Co. LLC
1585 Broadway, 2nd Floor
New York, New York 10036
Attention: Municipal Short Term Products
Telephone: (212) 761-9093
Fax: (212) 507-2103
E-Mail: short-term-notice@morganstanley.com

DART:

Board of Directors, Dallas Area Rapid Transit
1401 Pacific Avenue
Dallas, Texas 75202
Attention: SVP of Finance and Interim Chief Financial Officer
Telephone: 214-749-3148
Facsimile: 214-749-3657
E-Mail: jcostello@dart.org

The Issuing and Paying Agent:

Zions Bancorporation, National Association
1801 Main Street, Suite 850
Houston, Texas 7002
Attention: Arla K. Scott
Vice President
Telephone: 713.232.1919
Facsimile: 844.527.2686
Email: arla.scott@amegybank.com

Each party hereto may, by notice given under this Agreement to the other parties described above, designate other addresses to which subsequent notices, requests, reports or other communications shall be directed.

(b) This Agreement shall inure to the benefit of and be binding only upon the parties hereto and their respective successors and assigns. The terms "successors" and "assigns" shall not include any purchaser of any of the Series III Notes merely because of such purchase. No owner of the Series III Notes or other third party shall have any rights or privileges hereunder.

(c) All of the representations and warranties of DART and the Dealer in this Agreement shall remain operative and in full force and effect, regardless of (i) any investigation made by or on behalf of the Dealer or DART, (ii) the offering and sale of and any payment for any Series III Notes hereunder, or (iii) suspension, termination or cancellation of this Agreement.

(d) This Agreement constitutes the entire agreement between the parties hereto with respect to the matters covered hereby, and supersedes all prior agreements and understandings between the parties.

(e) This Agreement and each provision hereof may be amended, changed, waived, discharged or terminated only by an instrument in writing signed by the parties hereto.

(e) Nothing herein shall be construed to make any party an employee of the other or to establish any fiduciary relationship between the parties except as expressly provided herein.

(f) If any provision of this Agreement shall be held or deemed to be or shall, in fact, be invalid, inoperative or unenforceable for any reason, such circumstances shall not have the effect of rendering any other provision or provisions of this Agreement invalid, inoperative or unenforceable to any extent whatsoever.

(g) This Agreement shall be governed by and construed in accordance with the laws of the State of Texas except that the duties and obligations of the Dealer shall be governed by the laws of the State of New York. Each party hereto irrevocably waives, if and to the extent permitted by applicable law, any and all right to a trial by jury in any action, suit or legal proceedings arising out of or relating to this Agreement or the transactions contemplated hereby.

(h) This Agreement may be executed in several counterparts, each of which shall be regarded as an original and all of which shall constitute one and the same document.

Section 15. Relationship of Parties. DART acknowledges and agrees that (i) the offer and sale of the Series III Notes pursuant to this Agreement is an arm's length commercial transaction between DART and the Dealer, (ii) in connection with such transaction, the Dealer is acting solely as a principal and not as a fiduciary of DART, (iii) the Dealer is not acting as a Municipal Advisor (as defined in Section 17B of the Securities Exchange Act of 1934, as amended), (iv) the Dealer has not assumed a fiduciary responsibility in favor of DART with respect to the offer or sale of the Series III Notes or the process leading thereto (whether the Dealer, or any affiliate of the Dealer, has advised or is currently advising DART on other matters) or any obligation to DART except the obligations expressly set forth in this Agreement, (v) the Dealer has financial and other interests that differ from those of DART, and (vi) DART has consulted with its own legal and financial advisors to the extent it deemed appropriate in connection with the offer and sale of the Series III Notes.

[Remainder of page intentionally left blank. Signature page follows.]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

**BOARD OF DIRECTORS, DALLAS AREA
RAPID TRANSIT**

By: _____

Name: Sue S. Bauman

Title: Chairman of the Board

By: _____

Name: Michele Wong Krause

Title: Secretary of the Board

MORGAN STANLEY & CO. LLC

By: _____

Name: _____

Title: _____

APPENDIX A

CERTIFICATE OF AUTHORIZED REPRESENTATIVES

We are the officers acting on behalf of the Board of Directors, Dallas Area Rapid Transit (the “*DART*”) as specified below. We are duly authorized pursuant to the Eighteenth Supplemental Debt Resolution to the “Master Debt Resolution” (the “*Eighteenth Supplement*”) to act severally as an Authorized Representative (as defined in the Eighteenth Supplement) in connection with the issuance, from time to time, by DART of Series III Notes (the “*Series III Notes*”) in accordance with the Eighteenth Supplement. The specimen signature of each Authorized Representative is set forth beside their respective names.

<u>Authorized Representatives</u>	<u>Title</u>	<u>Specimen Signature</u>
Gary C. Thomas	President/Executive Director	_____
Joeseeph G. Costello	SVP of Finance/Interim CFO	_____
Dwight D. Burns	Treasurer	_____

Executed this ____ day of _____, 2018.

Before me, on this day personally appeared the foregoing individuals, known to me to be the officers whose true and genuine signatures were subscribed above in my presence.

Given under my hand and seal of office this ____ day of _____, 2018.

Notary Public

(Notary Seal)