

Washington Metropolitan Area Transit Authority
Board Action/Information Summary

Action Information

MEAD Number:
201731

Resolution:
 Yes No

TITLE:

Series 2016A Debt Issuance

PRESENTATION SUMMARY:

WMATA plans to issue short-term bonds in an amount not to exceed \$220 million in principal. The proceeds will provide interim funding for capital expenditures and facilitate the lines of credit (LOCs) pay down.

PURPOSE:

To request Board approval of the resolution that authorizes the issuance of Series 2016A Bonds not to exceed \$220 million in principal, 3% true interest cost and 5 years final maturity.

DESCRIPTION:

WMATA is currently utilizing its LOCs to finance cash flow timing differences in the capital program resulting from the Federal Transit Administration (FTA) ECHO restriction and backlogged reimbursements. WMATA has recovered significant FTA receipts and anticipates repaying a significant portion of the current outstanding amount (\$218.75 million) of the LOCs by June 30, 2016. The total WMATA authorized LOCs will drop from \$302.5 to \$250 million on July 1, 2016. WMATA expects the capital program's cash flow timing differences to continue and to address the cash flow needs through the issuance of \$220 million in short-term debt.

Key Highlights:

- Series 2016A debt issuance will be in a principal amount not to exceed \$220 million with a term not to exceed five years.
- Debt proceeds will be utilized to fund near-term capital program expenses.
- Issuance of the short-term debt will reduce reliance on the LOCs for bridging cash flow timing differences related to the FTA ECHO restriction.

Background and History:

WMATA's Series 2003 Gross Revenue Transit Refunding bonds matured in July 2014, leaving the Series 2009A and 2009B bonds as the remaining outstanding issuances. In June 2009, WMATA issued Gross Revenue Transit bonds under the 2003 Gross Revenue Bond Resolution as authorized under the Metro Matters Program to retire the Commercial Paper program and fund future capital expenses. The Series 2009A and Series 2009B bonds mature in 2032 and 2034, respectively and have a cumulative balance due of \$256 million. The Capital Funding Agreement, which succeeded the

Metro Matters agreement, authorizes an additional principal amount of \$440 million in long-term debt to finance capital projects during the FY2011 to FY2016 period.

In January 2015, staff requested Board authorization to issue \$440 million of long-term debt. Subsequently, this request was modified to a \$220 million short-term debt issuance. Since January 2015, WMATA has recovered a significant amount of backlogged FTA-eligible capital expense reimbursements, thus, allowing WMATA to reduce the utilized LOC balance from \$302.50 million to \$218.75 million in June 2015 and to fully repay a 1-year \$200 million Grant Anticipated Note in October 2015.

Discussion:

During the next two months, WMATA finance staff will work with team of external debt issuance experts to sell \$220 million of bonds. The external team will be composed of bond and disclosure counsel, a financial advisor and a group of underwriters. The bonds will have a final maturity of not more than five years and a true interest cost/rate not to exceed 3%; additionally, some of the bonds may include a prepayment (call) option. The bonds will serve as a cash flow financing tool by providing immediate funding of capital expenditures. The bond documents will include our pledge of gross revenues of WMATA but the principal is expected to be entirely paid by capital expenditure reimbursements from the FTA. With this additional financing for capital expenditures, WMATA will have a much greater ability to repay most of it lines of credit. As part of the issuance process, presentations will be made to the bond rating agencies; WMATA is currently rated AA- by Standard and Poor's and A1 (negative) by Moody's Investors Service.

FUNDING IMPACT:

Costs associated with the debt issuance will be funded from bond proceeds.	
Project Manager:	Allen Hoppe
Project Department/Office:	CFO/TRES

TIMELINE:

Previous Actions	<p>January 2015: Board approval to issue debt, with a request to modify amount and term.</p> <p>March 2015: Board updated on modification of debt issuance from \$440 million with a term not to exceed 25 years to \$220 million with a term not to exceed 5 years.</p>
Anticipated actions after presentation	

RECOMMENDATION:

Recommend that the Board approve the resolution that authorizes the issuance of Series 2016A Bonds not to exceed \$220 million in principal, 3% true interest cost and 5 years final maturity.

PRESENTED AND ADOPTED: April 28, 2016

WMATA Board Resolution 2016-23

WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY

**2016A PROJECT
SUPPLEMENTAL BOND RESOLUTION**

Adopted April 28, 2016

**Motioned by Mr. Goldman, seconded by Mr. Evans
Ayes: 8 – Mr. Evans, Ms. Harley, Mr. Corcoran, Mr. Downey, Mr. Price, Mr. Goldman, Mrs. Huggins and
Ms. Tregoning**

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**2016A PROJECT
SUPPLEMENTAL BOND RESOLUTION**

BE IT RESOLVED by the Board of Directors (the "Board") of WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY (the "Authority"), as follows:

ARTICLE I

DEFINITIONS AND STATUTORY AUTHORITY

SECTION 1.01. Supplemental Resolution. This resolution is supplemental to, and is adopted in accordance with Article II and Article IX of, a resolution of the Authority adopted on September 25, 2003, entitled "Gross Revenue Bond Resolution" (the "Resolution").

SECTION 1.02. Definitions.

1. All capitalized terms which are used but not otherwise defined in this 2016A Project Supplemental Bond Resolution (the "Supplemental Resolution") shall have the same meanings, respectively, as such terms are given by Section 101 of the Resolution.

2. In this Supplemental Resolution:

"Code" shall mean the Internal Revenue Code of 1986, as amended, and the regulations thereunder.

"Series 2016A Bonds" shall mean the Gross Revenue Transit Bonds, Series 2016A, authorized by Article II of this Supplemental Resolution.

SECTION 1.03. Authority for this Supplemental Resolution. This Supplemental Resolution is adopted pursuant to the provisions of the Compact and the Resolution.

ARTICLE II

AUTHORIZATION OF SERIES 2016A BONDS

SECTION 2.01. Authorized Principal Amount, Designation, Purpose and Series. Pursuant to the provisions of the Resolution, and in order to finance Capital Costs, Obligations entitled to the benefit, protection and security of the provisions of the Resolution are hereby authorized to be issued in an aggregate principal amount not exceeding the principal amount necessary so that, after giving effect to any original issue discount, and exclusive of any premium and underwriters' discount from the principal amounts, the amounts to be deposited in the Proceeds Account established pursuant to Section 3.01 of this Supplemental Resolution (exclusive of the amount so deposited therein determined in any Certificate of Determination as estimated to be necessary to fund a debt service reserve fund, to pay capitalized interest or to pay any Costs of Issuance of the Series 2016A Bonds payable from such Proceeds Account) shall not exceed \$220,000,000.

Such Obligations shall be designated as, and shall be distinguished from the Obligations of all other Series by the title, "Gross Revenue Transit Bonds, Series 2016A" pursuant to and subject to the terms, conditions and limitations established in the Resolution and this Supplemental Resolution. Notwithstanding any other provision hereof, to the extent provided in one or more Certificates of Determination such Series 2016A Bonds may be issued in one or more Series or subseries, on the same or on different dates, with such further or different designations as set forth in such Certificates of Determination. The Series 2016A Bonds shall be issued as Tax-Exempt Obligations.

SECTION 2.02. Dates, Maturities, Principal Amounts and Interest. The Series 2016A Bonds, except as otherwise provided in the Resolution, shall be dated the date or dates determined in the related Certificate of Determination and shall bear interest from such date or dates. The Series 2016A Bonds shall mature on the date or dates and in the year or years and principal amount or amounts, and shall bear interest at the rate or rates per annum, or in the manner determined in the related Certificate of Determination.

SECTION 2.03. Interest Payments. The Series 2016A Bonds shall bear interest from their date or dates and payable on such date or dates as may be determined pursuant to the related Certificate of Determination. Except as otherwise provided in the related Certificate of Determination, interest on the Series 2016A Bonds shall be computed on the basis of twelve 30-day months and a 360-day year.

SECTION 2.04. Denominations, Numbers and Letters. Unless otherwise provided in the related Certificate of Determination, the Series 2016A Bonds shall be issued in fully registered form without coupons in the denomination of \$5,000 or any integral multiple thereof. The Series 2016A Bonds shall be lettered as provided in the related Certificate of Determination, and shall be numbered from one consecutively upwards.

SECTION 2.05. Places of Payment and Paying Agent. Except as otherwise provided in the related Certificate of Determination, principal and Redemption Price of the Series 2016A Bonds shall be payable to the registered owner of each Series 2016A Bond when due upon presentation of such Series 2016A Bond at the principal corporate trust office of The Bank of New York Mellon, as Trustee. Except as otherwise provided in the related Certificate of Determination, interest on the registered Series 2016A Bonds will be paid by check or draft mailed on the interest payment date by The Bank of New York Mellon, as Paying Agent, to the registered owner at the owner's address as it appears on the registration books or, at the option of any Owner of at least one million dollars (\$1,000,000) in principal amount of the Series 2016A Bonds, by wire transfer in immediately available funds on each interest payment date to such Owner thereof upon written notice from such Owner to the Trustee, at such address as the Trustee may from time to time notify such Owner, containing the wire transfer address (which shall be in the continental United States) to which such Owner wishes to have such wire directed, if such written notice is received not less than twenty (20) days prior to the related interest payment date (such notice may refer to multiple interest payments).

SECTION 2.06. Sinking Fund Redemptions. The Series 2016A Bonds, if any, determined in the related Certificate of Determination shall be subject to redemption in part, by lot, on each date in the year or years determined in the Certificate of Determination at the

principal amount thereof plus accrued interest up to but not including the date of redemption thereof, from mandatory Sinking Fund Installments which are required to be made in amounts sufficient to redeem on each such date the principal amount of such Series 2016A Bonds.

SECTION 2.07. Redemption Terms. The Series 2016A Bonds may also be subject to redemption prior to maturity, at the option of the Authority, upon notice as provided in Article IV of the Resolution, at any time as a whole or in part (and by lot within a maturity if less than all of a maturity is to be redeemed), from maturities designated by the Authority on and after the date and in the years and at the Redemption Prices (expressed as a percentage of principal amount) determined in the related Certificate of Determination, plus accrued interest up to but not including the redemption date.

SECTION 2.08. Delegation to an Authorized Officer.

1. There is hereby delegated to each Authorized Officer, subject to the limitations contained in this Supplemental Resolution, the following powers with respect to the Series 2016A Bonds:

(a) to determine the principal amount of the Series 2016A Bonds to be issued to accomplish the purposes authorized by Section 2.01 of this Supplemental Resolution which principal amount shall not exceed the principal amount permitted by Section 2.01 of this Supplemental Resolution;

(b) to determine the maturity date and principal amount of each maturity of the Series 2016A Bonds and the amount and due date of each Sinking Fund Installment if any; provided that the Series 2016A Bonds shall not mature later than July 1, 2021;

(c) to determine the date or dates which the Series 2016A Bonds shall be dated and the interest rate or rates of the Series 2016A Bonds or the manner of determining such interest rate or rates; provided, however, that the true interest cost with respect to the Series 2016A Bonds (as determined by an Authorized Officer of the Authority which determination shall be conclusive) shall not exceed three percent (3.0%) per annum;

(d) if applicable, to determine the purchase price for the Series 2016A Bonds to be paid by the Underwriters referred to in the Contract of Purchase described in Section 2.09 of this Supplemental Resolution, which price may include such original issue discount and original issue premium as shall be determined in the related Certificate of Determination;

(e) to take all actions required for the Series 2016A Bonds to be eligible under the rules and regulations of The Depository Trust Company (“DTC”) for investment and trading as uncertificated securities, to execute and deliver a standard form of letter of representation with DTC and, notwithstanding any provisions to the contrary contained in this Supplemental Resolution, to include in the related Certificate of Determination such terms and provisions as may be appropriate or necessary to provide for uncertificated securities in lieu of Series 2016A Bonds issuable in fully registered form;

(f) to determine the Redemption Price or Redemption Prices, if any, and the redemption terms, if any, for the Series 2016A Bonds; provided, however, that if the Series 2016A Bonds are to be redeemable at the election of the Authority, the Redemption Price shall not be greater than one hundred three percent (103%) of the principal amount of the Series 2016A Bonds to be redeemed, plus accrued interest thereon up to but not including the date of redemption;

(g) to determine the advisability, as compared to an unenhanced transaction, of obtaining a policy of bond insurance or a surety bond as a Credit Facility, to select a provider thereof and to determine and accept the terms and provisions and price thereof, to determine such other matters related thereto as in the opinion of the Authorized Officer executing the related Certificate of Determination shall be considered necessary or appropriate and to effect such determinations by entering into any reasonable contractual arrangements required by such Credit Facility provider; provided, such Authorized Officer estimates, based upon the advice of the Authority's financial advisor, Public Financial Management, Inc., that the interest savings on the Series 2016A Bonds to be realized by purchasing such Credit Facility is greater than the premium paid for the purchase of such Credit Facility;

(h) to determine whether to fund, either with cash or a Credit Facility, a 2016A Bonds Debt Service Reserve Fund hereinafter established to further secure the Series 2016A Bonds, and to size the requirement therefor consistent with current federal tax rules relating to Tax-Exempt Obligations and to further authorize a Credit Facility to initially fund any such requirement or to substitute cash therefor, all in accordance with the provisions of the Resolution and upon the recommendation of the Authority's financial advisor, Public Financial Management, Inc., that funding such debt service reserve fund will enhance the marketability of the Series 2016A Bonds;

(i) to make such changes in or from the form of this Supplemental Resolution as may be necessary or desirable in order to cure any ambiguities, inconsistencies or other defects; and

(j) to determine such other matters specified in or permitted by (i) Sections 202 and 203 of the Resolution or (ii) this Supplemental Resolution.

2. Any Authorized Officer is hereby authorized to proceed with the offering and sale of the Series 2016A Bonds when that Authorized Officer deems such offering and sale advisable and pay any Costs of Issuance associated with such offering and sale.

3. Any Authorized Officer shall execute one or more Certificates of Determination evidencing the determinations made pursuant to subsection 1 of this Section 2.08 and any such Certificate of Determination shall be conclusive evidence of the determinations of such Authorized Officer, as stated therein. Any Certificate of Determination shall be delivered to the Trustee prior to the authentication and delivery of the Series 2016A Bonds by the Trustee. Determinations set forth in the Certificate of Determination shall have the same effect as if set forth in this Supplemental Resolution.

SECTION 2.09. Sale of Series 2016A Bonds. Each Authorized Officer is hereby authorized to sell and award the Series 2016A Bonds to the underwriters (the “Underwriters”) then approved by the Authority and referred to in the Contract of Purchase (the “Contract of Purchase”), which Contract of Purchase shall be substantially in the form annexed hereto as Exhibit A, with such revisions to reflect the terms and provisions of the Series 2016A Bonds as may be approved by the Authorized Officer executing the Contract of Purchase, and with such other changes, omissions, insertions and revisions as such Authorized Officer shall deem advisable. Each Authorized Officer is hereby authorized to agree to the selection of the representative of the Underwriters as referred to in the Contract of Purchase and to execute and deliver the Contract of Purchase for and on behalf and in the name of the Authority with such changes, omissions, insertions and revisions as may be approved by the Authorized Officer executing the Contract of Purchase, said execution being conclusive evidence of such approval and concurrence in the selection of the representative of the Underwriters.

Each Authorized Officer is hereby authorized to make public and to authorize the use and distribution by said Underwriters or other appropriate parties of a preliminary official statement (the “Preliminary Official Statement”) in connection with the public offering of the Series 2016A Bonds, in substantially the form annexed hereto as Exhibit B, with such changes, omissions, insertions and revisions as such officer shall deem advisable. The Authority authorizes any of said officers to deliver a certification to the effect that such Preliminary Official Statement, together with such other documents, if any, described in such certificate, was deemed final as of its date for purposes of Rule 15c2-12 of the Securities and Exchange Commission, as applicable.

Each Authorized Officer is hereby authorized to make public and to authorize distribution of a final Official Statement in substantially the form of the Preliminary Official Statement, but reflecting the provisions of the Certificate of Determination, together with such changes, omissions, insertions and revisions as such Authorized Officer shall deem advisable, to sign such Official Statement and to deliver such Official Statement to the purchasers of the Series 2016A Bonds, such execution being conclusive evidence of the approval of such changes, omissions, insertions and revisions.

Each Authorized Officer is hereby authorized to execute and deliver for and on behalf and in the name of the Authority, to the extent determined by such Authorized Officer to be necessary or convenient, a Continuing Disclosure Agreement, substantially in the form appended hereto as Exhibit C, with such changes, omissions, insertions and revisions as such Authorized Officer shall deem advisable (the “Continuing Disclosure Agreement”), said execution being conclusive evidence of the approval of such changes, omissions, insertions and revisions.

The proceeds of the good faith deposit, if any, received by the Authority from the Underwriters under the terms of the Contract of Purchase may be invested by the Authority pending application of the proceeds of such good faith deposit for the purposes provided in Section 2.01 of this Supplemental Resolution at the time of the issuance and delivery of such Series 2016A Bonds.

Each Authorized Officer is hereby authorized and directed to execute and deliver any and all documents and instruments and to do and cause to be done any and all acts necessary or proper, including the indemnification of the Underwriters and other service providers as provided for in such documents and instruments for carrying out the Contract of Purchase, the Continuing Disclosure Agreement, the terms of any Credit Facility, and the issuance, sale and delivery of the Series 2016A Bonds and for implementing the terms of the Series 2016A Bonds, and in accordance with the requirements of the Code, and the transactions contemplated hereby or thereby, including ongoing payments for debt service, Trustee and other applicable fees and services.

When reference is made in this Supplemental Resolution to the authorization of an Authorized Officer to do any act, such act may be accomplished by any of such officers individually.

SECTION 2.10. Forms of Series 2016A Bonds and Trustee's Authentication Certificate. Subject to the provisions of the Resolution, the form of registered Series 2016A Bonds, and the Trustee's certificate of authentication, shall be substantially in the form set forth in Exhibit A to the Resolution including, if necessary, any changes to comply with the requirements of DTC or the provisions of this Supplemental Resolution or any Certificate of Determination.

ARTICLE III

DISPOSITION OF SERIES 2016A BOND PROCEEDS

SECTION 3.01. Disposition of Series 2016A Bond Proceeds.

1. The proceeds of the sale of the Series 2016A Bonds, other than accrued interest, if any, shall be deposited, simultaneously with the issuance and delivery of the Series 2016A Bonds, at one time or from time to time in one or more Series or subseries, in each case in amounts as determined in any Certificate of Determination as follows:

- (a) in the Proceeds Account which is hereby established in the Proceeds Fund to be applied to the payment of all or any part of the Capital Costs;
- (b) to fund, either with cash or the purchase of a Credit Facility, as provided in such Certificate of Determination, a 2016A Bonds Debt Service Reserve Fund in the amount, if any, required pursuant to such Certificate of Determination; and
- (c) the balance of such proceeds, exclusive of accrued interest, shall be deposited in the Costs of Issuance Account and applied to the payment of Costs of Issuance.

Unless otherwise provided in a Certificate of Determination, the accrued interest, if any, and any capitalized interest, received on the sale of the Series 2016A Bonds shall be deposited in the Debt Service Fund.

2. To the extent provided for in the related Certificate of Determination, there shall be established the “2016A Bonds Debt Service Reserve Fund” which shall be held and administered by the Trustee. No cash or Credit Facility shall be deposited therein except and to the extent provided in the related Certificate of Determination. In addition, in accordance with the provisions of Section 504(b) of the Resolution, the Authority will be obligated to build up or replenish such Fund at the times, in the manner and in the amounts provided in such Certificate of Determination. Amounts, if any, on deposit therein shall be applied by the Trustee for the benefit of the Owners of the Series 2016A Bonds and the provider, if any, of such Credit Facility, all to the extent and in the manner provided in such Certificate of Determination.

ARTICLE IV

TAX COVENANTS AND DEFEASANCE

SECTION 4.01. Tax Covenants Relating to the Series 2016A Bonds. The Authority covenants that, in order to maintain the exclusion from gross income for Federal income tax purposes of the interest on the Series 2016A Bonds issued as Tax-Exempt Obligations, the Authority will satisfy, or take such actions as are necessary to cause to be satisfied, each provision of the Code necessary to maintain such exclusion. In furtherance of this covenant, the Authority agrees to comply with such written instructions as may be provided by Bond Counsel. In furtherance of the covenant contained in the preceding sentence, the Authority agrees to continually comply with the provisions of any “Arbitrage and Use of Proceeds Certificate” to be executed by the Authority in connection with the execution and delivery of any Series 2016A Bonds issued as Tax-Exempt Obligations, as amended from time to time.

Notwithstanding any other provision of the Resolution to the contrary, upon the Authority’s failure to observe, or refusal to comply with, the above covenant (a) the Owners of the Series 2016A Bonds, or the Trustee acting on their behalf, shall be entitled to the rights and remedies provided to Owners or the Trustee under Section 702 of the Resolution, and (b) neither the Owners of the Obligations of any Series or holders of any Parity Debt (other than the Series 2016A Bonds or the Trustee acting on their behalf), nor the Trustee acting on their behalf, shall be entitled to exercise any right or remedy provided to the Owners, the Parity Debt holders or the Trustee under the Resolution based upon the Authority’s failure to observe, or refusal to comply with, the above covenant.

The provisions of the foregoing covenants set forth in this Section, shall not apply to any Series 2016A Bonds, including any subseries thereof, which the Authority determines pursuant to the applicable Certificate of Determination to issue as Taxable Obligations.

SECTION 4.02. Defeasance. In the event the Authority shall seek, prior to the maturity or redemption date thereof, to pay or cause to be paid, within the meaning and with the effect expressed in the Resolution, all or less than all Outstanding Series 2016A Bonds issued as Tax-Exempt Obligations and the provisions of Section 4.01 hereof shall then be of any force or effect, then, notwithstanding the provisions of Article XI of the Resolution, the Series 2016A Bonds issued as Tax-Exempt Obligations which the Authority then seeks to pay or cause to be paid shall not be deemed to have been paid within the meaning and with the effect expressed in Section 1101 of the Resolution unless (i) the Authority has confirmed in writing that the Owners

of the Series 2016A Bonds issued as Tax-Exempt Obligations which the Authority then seeks to pay or cause to be paid will continue, after such action, to have the benefit of a covenant to the effect of the covenant of the Authority contained in Section 4.01 hereof or (ii) there shall have been delivered to the Trustee an Opinion of Bond Counsel to the effect that non-compliance thereafter with the applicable provisions of the Code will not affect the then current treatment of interest on the Series 2016A Bonds issued as Tax-Exempt Obligations in determining gross income for Federal income tax purposes.

ARTICLE V

MISCELLANEOUS

SECTION 5.01. Parking Facilities Not Part of Transit System. Subject to the provisions of the Resolution and the Compact, the Authority hereby declares and notifies the Trustee that all parking facilities under the control, ownership or management of the Authority, whether or not now or hereafter subject to Lease Obligations, so long as no Obligations are outstanding, the proceeds of which in whole or in part financed such parking facilities, shall constitute Parking Facilities and shall not be part of the Transit System and Revenues derived therefrom shall not constitute Gross Revenues.

In order to timely close on the bonds, this Supplemental Resolution shall be effective immediately.

Reviewed for form and legal sufficiency,



Mark R. Pohl
Acting General Counsel

WMATA File Structure No.:
4.1.1 Bond Agreements

CONTRACT OF PURCHASE

[\$220,000,000]

**WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY
Gross Revenue Transit Bonds
Series 2016A**

May __, 2016

Washington Metropolitan Area Transit Authority
600 Fifth Street, N.W.
Washington, DC 20001

Ladies and Gentlemen:

Merrill Lynch, Pierce, Fenner & Smith Incorporated, as representative of the underwriters (the "Representative") on behalf of itself and Siebert Brandford Shank & Co., L.L.C., Piper Jaffray & Co., U.S. Bancorp and Wells Fargo Securities (collectively, the "Underwriters") offers to enter into this Contract of Purchase (this "Purchase Contract") with the Washington Metropolitan Area Transit Authority (the "Authority"), whereby the Underwriters will purchase and the Authority will sell the Bonds (as defined and described below). The Underwriters are making this offer subject to the acceptance by the Authority at or before 5:00 P.M., New York, New York Time, on the date hereof. If the Authority accepts this Purchase Contract, this Purchase Contract shall be in full force and effect in accordance with its terms and shall bind both the Authority and the Underwriters. The Underwriters may withdraw this Purchase Contract upon written notice delivered by the Representative, on behalf of the Underwriters to the Authority at any time before the Authority accepts this Purchase Contract. **All capitalized terms used herein and not defined shall have the meanings given to them in the Gross Revenue Transit Bond Resolution, adopted by the Authority's Board of Directors on September 25, 2003 (the "Bond Resolution"), as supplemented by the 2016A Project Supplemental Bond Resolution, adopted by the Authority's Board of Directors on April __, 2016 (the "2016A Supplemental Resolution", and together with the Bond Resolution, the "Resolution"), or in the Official Statement identified below.**

1. Purchase and Sale. Upon the terms and conditions and in reliance upon the representations, warranties and agreements herein set forth, the Underwriters hereby agree to purchase from the Authority, and the Authority hereby agrees to sell and deliver to the Underwriters, all (but not less than all) of the following bonds: Gross Revenue Transit Bonds, Series 2016A, in the original principal amount of \$[220,000,000] (the "Bonds"), at the purchase price of \$ _____, representing the aggregate principal amount of the Bonds less an Underwriter's discount of \$ _____ [plus net original issue premium of \$ _____/less net original discount of \$ _____].

The Authority acknowledges and agrees that: (i) the primary role of the Underwriters, as underwriters, is to purchase securities, for resale to investors, in an arm's length commercial transaction between the Authority and the Underwriters and the Underwriters have financial and

other interests that differ from those of the Authority; (ii) the Underwriters are acting solely as principals and are not acting as municipal advisors, financial advisors or fiduciaries to the Authority and have not assumed any advisory or fiduciary responsibility to the Authority with respect to the transaction contemplated hereby and the discussions, undertakings and procedures leading thereto (irrespective of whether the Underwriters have provided other services or are currently providing other services to the Authority on other matters); (iii) the only obligations the Underwriters have to the Authority with respect to the transaction contemplated hereby expressly are set forth in this Purchase Contract; and (iv) the Authority has consulted its own financial and/or municipal, legal, accounting, tax and other advisors, as applicable, to the extent it has deemed appropriate.

2. Description and Purpose of the Bonds. The Bonds shall be dated the date of delivery. The Bonds are to be issued and sold by the Authority pursuant to and in accordance with the provisions of the Washington Metropolitan Area Transit Authority Compact (the "Compact") and the Resolution. The Bonds will constitute special obligations of the Authority secured solely by the Trust Estate pledged therefor by the Resolution (collectively, the "Security"). The pledge of the Security for the Bonds shall be on parity with the Series 2009A Bonds and the Series 2009B Bonds, which will all remain outstanding following delivery of the Bonds.

The proceeds of the Bonds will be used, together with certain other funds, (i) to finance Capital Costs, and (iii) to pay certain costs of issuing the Bonds. The Bonds will mature on the dates and in the amounts and will bear interest and will be subject to redemption prior to maturity as set forth on Schedule 1 hereto, and payable as provided in the Resolution.

3. Public Offering. The Underwriters agree to make a *bona fide* public offering of the Bonds at a price not in excess of the initial offering price or prices or yields not less than the yields set forth on the inside cover page of the printed paper form of the Official Statement of the Authority; *provided, however*, the Underwriters reserve the right to change such Initial Public Offering Prices (the "Initial Offering Prices") as the Underwriters deem necessary or desirable, in their sole discretion, in connection with the marketing of the Bonds, and may offer and sell the Bonds to certain dealers, unit investment trusts and money market funds, certain of which may be sponsored or managed by one or more of the Underwriters at prices lower than the public offering prices or yields greater than the yields set forth therein. The Representative shall provide to the Authority a certificate setting forth the offering prices of the Bonds in substantially the form set forth on Exhibit F.

4. Delivery of the Official Statement and Other Documents.

A. The Authority has delivered or caused to be delivered to the Underwriters copies of the Preliminary Official Statement dated April __, 2016, which, together with the cover page and appendices thereto, is herein referred to as the "Preliminary Official Statement." It is acknowledged by the Authority that the Underwriters may deliver the Preliminary Official Statement and a final Official Statement (as hereinafter defined) electronically over the internet and in printed paper form. For purposes of this Purchase Contract, the printed paper form of the Preliminary Official Statement and the Official Statement are deemed controlling. The Authority deems the Preliminary Official Statement final as of its date and as of the date hereof for purposes

of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended (“Rule 15c2-12”), except for any information which is permitted to be omitted therefrom in accordance with paragraph (b)(1) thereof.

B. Within seven (7) business days from the date hereof, and in any event not later than two (2) business days before the Closing Date, the Authority shall deliver to the Underwriters a final Official Statement relating to the Bonds dated the date hereof (such Official Statement, including the cover page, and all appendices attached thereto, together with all information previously permitted to have been omitted by Rule 15c2-12 and any amendments or supplements and statements incorporated by reference therein or attached thereto, as have been approved by the Authority, Bond Counsel, Disclosure Counsel and the Representative, is referred to herein as the “Official Statement”) and such additional conformed copies thereof as the Representative may reasonably request in sufficient quantities to comply with Rule 15c2-12, rules of the Municipal Securities Rulemaking Board (“MSRB”) and to meet potential customer requests for copies of the Official Statement. The Underwriters agree to file a copy of the Official Statement, including any amendments or supplements thereto prepared by the Authority, with the MSRB on its Electronic Municipal Markets Access (“EMMA”) system. The Authority shall execute the Official Statement by an authorized officer of the Authority. The Official Statement shall be in substantially the same form as the Preliminary Official Statement and, other than information previously permitted to have been omitted by Rule 15c2-12, the Authority shall only make such other additions, deletions and revisions in the Official Statement which are approved by the Representative. The Underwriters hereby agree to cooperate and assist in the preparation of the Official Statement. The Authority hereby agrees to deliver to the Underwriters an electronic copy of the Official Statement in a form that permits the Underwriters to satisfy their obligations under the rules and regulations of the MSRB and the U.S. Securities and Exchange Commission (“SEC”). The Authority hereby ratifies, confirms and approves the use and distribution by the Underwriters before the date hereof of the Preliminary Official Statement and hereby authorizes the Underwriters to use the Official Statement and the Resolution in connection with the public offering and sale of the Bonds.

C. In order to assist the Underwriters in complying with Rule 15c2-12, the Authority will undertake, pursuant to the Continuing Disclosure Agreement, to provide annual financial information and notices of the occurrence of specified events, in the form attached as an appendix to the Preliminary Official Statement and the Official Statement.

5. Representations. The Authority represents to and agrees with the Underwriters that:

(a) The Authority is, and will be at the date of the Closing, a body corporate and politic, existing pursuant to the Compact and the Capital Transportation Act, with the powers and authority, among others, set forth in the Compact and the Capital Transportation Act, having full power and authority to carry out and consummate all transactions contemplated by this Purchase Contract, the Official Statement, the Continuing Disclosure Agreement and the Resolution.

(b) On September 25, 2003 and April __, 2016, the Authority duly adopted the Bond Resolution and the 2016A Supplemental Resolution, respectively, in accordance with the requirements of all applicable laws and the procedural rules of the Authority, authorizing the

execution, delivery and performance of the action required in connection with the issuance of the Bonds, this Purchase Contract, the Preliminary Official Statement, the Official Statement and the Continuing Disclosure Agreement, and that the Bond Resolution and the 2016A Supplemental Resolution are in full force and effect.

(c) The execution and delivery of the Bonds, this Purchase Contract, the Continuing Disclosure Agreement and the Official Statement, and compliance with the provisions herein and therein, under the circumstances contemplated hereby, will not conflict with or constitute on the part of the Authority, a breach of or default under the Capital Transportation Act or the Compact, any material agreement or other instrument to which the Authority is a party or by which the Authority is bound or any existing law, administrative regulation, court order or consent decree to which the Authority is subject.

(d) All consents, approvals and permits that are required for the due authorization by the Authority of its obligations under this Purchase Contract, the Continuing Disclosure Agreement, the Official Statement and the Resolution have been obtained, and when delivered to and paid for by the Underwriters at the Closing in accordance with the provisions of this Purchase Contract, the Bonds will have been duly authorized, executed, issued and delivered and will constitute valid and binding special obligations of the Authority in conformity with, and entitled to the benefit and security of, the Resolution, enforceable against the Authority in accordance with their terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights to the extent applicable and by the exercise of judicial discretion in appropriate cases.

(e) The Resolution creates in favor of the Bonds a pledge and lien on the rights of the Authority in and to the Security on a parity with the lien thereon of any existing or future Parity Debt issued under the Resolution.

(f) As of the date hereof, there is no action, suit, proceeding, inquiry or investigation at law or in equity, before or by any court, public board, governmental agency or body pending, or, to the Authority's knowledge, threatened against or affecting the Authority or the Participating Jurisdictions, wherein an unfavorable decision, ruling or finding would (1) adversely affect the applicable transactions contemplated by the Bonds, this Purchase Contract, the Official Statement or the Resolution, (2) restrain or enjoin the issuance or delivery of the Bonds, or in any way contest or affect the validity of the Bonds, the Capital Transportation Act, the Compact, this Purchase Contract, or the Resolution, (3) restrain or enjoin the pledge or application of any moneys or security provided for the payment of the Bonds, including the payment of the obligations of the Participating Jurisdictions under the Compact or the Capital Funding Agreement, (4) adversely affect the existence or powers of the Authority insofar as they relate to the authorization, sale and issuance of the Bonds or such pledge or application of moneys and security, or any applicable agreement or instrument to which the Authority is a party and which is used or is contemplated for use in the consummation of the applicable transactions contemplated by the Bonds, this Purchase Contract, the Resolution, the Continuing Disclosure Agreement or the Official Statement, (5) otherwise adversely affect the Bonds, this Purchase Contract, the Resolution, the Continuing Disclosure Agreement or the Official Statement or any agreement or instrument to which the Authority is or is expected to be a party and which is used or contemplated for use in the

consummation of the applicable transactions contemplated by any of the foregoing, or (6) adversely affect the business of the Authority.

(g) The Authority's audited financial statements for the fiscal year ended June 30, 2015, contained in the Preliminary Official Statement and the Official Statement present fairly the financial position of the Authority as of the date indicated and the results of operations of the Authority for the periods specified, and such financial statements have been prepared in conformity with generally accepted accounting principles consistently applied in all material respects for the periods involved and the Authority is authorized to include such financial statements in the Preliminary Official Statement and the Official Statement. There has been no material adverse change in the financial position or results of operations of the Authority from those set forth in such financial statements.

(h) Except as disclosed in the Official Statement, the Resolution and this Purchase Contract are, and at the Closing will be, in full force and effect in accordance with their terms and, as of the Closing, will not have been amended, modified or supplemented in any material respect by the Authority, and to the extent the Authority can control any other parties thereto, by any other parties thereto.

(i) The Authority is not in default in the payment of principal or interest on any bond, note or other general or limited obligation for borrowed money nor is it in default under any agreement or instrument under which any obligation for borrowed money has been issued, and no event of which the Authority has notice or knowledge has occurred under the provisions of any such instrument or agreement which, with or without the lapse of time or the giving of notice, or both, constitutes or would constitute a default thereunder.

(j) Any certificate or copy of any certificate signed by any official of the Authority and delivered to the Underwriters pursuant hereto or in connection herewith shall be deemed a representation by the Authority to the Underwriters as to the truth of the statements made therein.

(k) This Purchase Contract, the Continuing Disclosure Agreement and the Resolution are legal, valid and binding obligations of the Authority in accordance with their terms, except as enforceability may be limited by bankruptcy, involuntary, reorganization, moratorium and other similar laws affecting creditors' rights and have been executed and delivered, or will be executed and delivered on or before the Closing Date, by each respective signatory and are currently in full force and effect or, as of the Closing Date, will be in full force and effect.

(l) Between the date hereof and the time of the Closing, the Authority shall not, without the prior written consent of the Representative, offer or issue in any material amount any bonds, notes or other obligations for borrowed money, or incur any material liabilities, direct or contingent, except in the course of normal business operations of the Authority, a continuation of the Line of Credit Program or except for such borrowings as may be described in or contemplated by the Official Statement.

(m) Except for information which is permitted to be omitted pursuant to Rule 15c2-12(b)(1), the Preliminary Official Statement, as of its date and as of the date hereof was and is true

and correct in all material respects and did not and does not contain any untrue or misleading statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(n) The Official Statement is, as of its date and at all times after the date of the Official Statement, up to and including the Closing Date will be, true and correct in all material respects and will not contain any untrue or misleading statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(o) If the Official Statement is supplemented or amended, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended) at all times subsequent thereto up to and including the time of the Closing, the Official Statement as so supplemented or amended will be true and correct in all material respects and will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(p) If between the date hereof and the time of Closing, any event shall occur which might or would cause the Official Statement, as then supplemented or amended, to contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, the Authority shall notify the Representative thereof, and if, in the opinion of the Representative, such event requires the preparation and publication of a supplement or amendment to the Official Statement, the Authority shall promptly (and in any event before the Closing) prepare and furnish (at the expense of the Authority) a reasonable number of copies of an amendment of or supplement to the Official Statement in form and substance satisfactory to the Representative.

(q) Except as disclosed in the Official Statement, during the last five years, the Authority has not failed to materially comply with any previous undertaking relating to continuing disclosure of information pursuant to Rule 15c2-12.

All representations, warranties and agreements of the Authority shall remain operative and in full force and effect (unless expressly waived in writing by the Underwriters), regardless of any investigations made by any Underwriter or on the Underwriters' behalf, and shall survive the delivery of the Bonds.

6. Closing. At 10:00 A.M., Eastern Time, on May __, 2016, or at such other time or date as the Representative and the Authority may mutually agree upon as the date and time of the Closing (the "Closing Date"), the Authority will deliver or cause to be delivered to the Underwriters, at the offices of Hawkins Delafield & Wood LLP, Washington, D.C., ("Bond Counsel"), or at such other place as the Representative and the Authority may mutually agree upon, the Bonds, through the facilities of The Depository Trust Company, New York, New York ("DTC"), duly executed and authenticated, and the other documents specified in Section 7. At the Closing, (a) upon satisfaction of the conditions herein specified, the Underwriters shall accept the delivery of the Bonds, and pay the purchase price therefor in immediately available federal funds payable to the order of the Trustee for the account of the Authority and (b) the Authority shall

deliver or cause to be delivered the Bonds to the Underwriters through the facilities of DTC in definitive or temporary form, duly executed by the Authority and in the authorized denominations as specified by the Representative at the Closing and the Authority shall deliver the other documents hereinafter mentioned. The Bonds shall be made available to the Underwriters at least one (1) business day before the Closing Date for purposes of inspection.

7. Conditions Precedent. The Underwriters have entered into this Purchase Contract in reliance upon the representations and agreements of the Authority contained herein and the performance by the Authority of its obligations hereunder, both as of the date hereof and as of the Closing Date.

(a) The Underwriters' obligations under this Purchase Contract are and shall be subject to the following further conditions:

(i) The representations of the Authority contained herein shall be true, complete and correct in all material respects on the date of acceptance hereof and on and as of the Closing Date.

(ii) At the time of the Closing, the Resolution, the Official Statement, the Continuing Disclosure Agreement and this Purchase Contract shall be in full force and effect, and the Resolution, this Purchase Contract and the Continuing Disclosure Agreement, together with the Official Statement, shall not have been amended, modified or supplemented in any material respect except as described in the Official Statement or as may have been agreed to in writing by the Underwriters, and the Authority shall have duly adopted and published and there shall be in full force and effect such further resolutions as shall be necessary in connection with the transactions contemplated hereby and thereby.

(iii) The Authority shall perform or have performed all of its obligations required or specified in the Resolution, the Official Statement, this Bond Purchase Agreement and the Continuing Disclosure Agreement to be performed at or prior to Closing.

(iv) Evidence satisfactory to the Underwriters to the effect that the Bonds have received a rating of "___" from S&P and a rating of "___" from Moody's Investors Service, Inc. (collectively, the "Rating Letters"), which ratings remain in effect on the date of Closing.

(v) No event shall have occurred, or information become known, which, in the Underwriters' reasonable opinion, renders untrue in any material respect any statement or information contained in the Official Statement or causes the Official Statement to contain an untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading, and which have not been amended as provided in this Purchase Contract to correct such misstatement or disclose such omission.

(vi) At the time of the Closing, there shall not have occurred any change or any development involving a prospective change, in the condition, financial or otherwise, of the Authority or the Participating Jurisdictions, from that set forth in the Official Statement that in the reasonable judgment of the Underwriters, is material and adverse and that makes it, in the reasonable judgment of the Underwriters, impracticable to market the Bonds on the terms and in the manner contemplated in the Official Statement.

(vii) At or prior to the Closing, the Representative shall receive the following documents (in each case with only such changes as the Representative shall approve):

(1) (A) the approving opinion of Hawkins Delafield & Wood LLP ("Bond Counsel") dated the date of the Closing, substantially in the form of Appendix E to the Official Statement, addressed to the Underwriters directly or by a reliance letter; (B) the supplemental opinion of Bond Counsel dated the date of the Closing, substantially in the form of or covering the matters set forth in Exhibit A hereto, and (C) the opinion of Hawkins Delafield & Wood LLP, as disclosure counsel, dated the date of closing, substantially in the form of or covering the matters set forth in Exhibit D hereto;

(2) the opinion of Mark R. Pohl, Acting General Counsel to the Authority, dated the date of the Closing, substantially in the form of Exhibit B hereto;

(3) the opinion of counsel to the Underwriters, dated the date of the Closing, substantially in the form of Exhibit C hereto;

(4) a certificate, dated the date of Closing, duly executed by appropriate officers of the Authority, satisfactory to the Underwriters and in form and substance satisfactory to counsel to the Underwriters, to the effect that, (i) the representations, warranties and agreements of the Authority herein are true and correct as of the date of the Closing; and (ii) except as disclosed in the Official Statement, no legal proceedings are pending or, to the Authority's knowledge, threatened: (A) contesting or affecting the validity or authority for the issuance of the Bonds or seeking to restrain or enjoin the issuance or delivery of the Bonds, (B) contesting or affecting the Security under the Resolution, (C) contesting or affecting the validity of the Resolution or this Purchase Contract, (D) contesting the completeness or accuracy of the Official Statement; (E) contesting the power of the officials of the Authority or their authority with respect to the Resolution, the Bonds, the Official Statement or this Purchase Contract, or (F) in any way contesting the statutory powers of the Authority;

(5) executed or certified copies of the specimen Bonds, the Certificate(s) of Determination, the Resolution, the Continuing Disclosure Agreement and the Official Statement;

(6) an Arbitrage and Use of Proceeds Certificate, dated the date of Closing, signed by an appropriate officer of the Authority in form and substance satisfactory to Underwriters' Counsel and Bond Counsel;

(7) a certificate, dated the date of Closing, executed by appropriate officers of Public Financial Management, Inc., the Financial Advisor to the Authority, in form and substance satisfactory to Underwriters' Counsel;

(8) a certificate of an appropriate officer of the Trustee as to the due acceptance of its appointment as the Trustee under the Resolution, and the due authentication and delivery of the Bonds by the Trustee;

(9) letters of RSM, US LLP (the "Auditor"), dated the date of the Preliminary Official Statement and the date of the Official Statement, respectively, stating its consent to (A) the inclusion of its report regarding the financial statements of the Authority and (B) the use of its name in the Preliminary Official Statement and the Official Statement;

(10) a copy of the Blue Sky Survey with respect to the Bonds;

(11) the Rating Letters;

(12) certificates required under the Bond Resolution in connection with the issuance of the Bonds; and

(13) such additional legal opinions, certificates, proceedings, instruments and other documents, as may be reasonably required by the Underwriters, or as Bond Counsel or counsel to the Underwriters may reasonably request, to evidence compliance by the Authority with legal requirements, the truth and accuracy, as of the date of the Closing, of all representations herein contained, the exemption of amounts received (whether characterized as interest or discount) by holders of the Bonds from federal and state income taxation, and the due performance or satisfaction by the Authority at or prior to such date of all agreements then to be performed and all conditions then to be satisfied as contemplated under this Purchase Contract.

8. Termination. If the Authority shall be unable to satisfy the conditions of the Underwriters' obligations contained in this Purchase Contract or if the Underwriters' obligations shall be terminated for any reason permitted by this Purchase Contract, this Purchase Contract may be cancelled by the Representative at, or at any time before, the time of the Closing. Notice of such cancellation shall be given by the Representative to the Authority in writing, or by telephone confirmed in writing. The performance by the Authority of any and all conditions contained in this Purchase Contract for the benefit of the Underwriters may be waived by the Representative.

(a) The Underwriters shall also have the right, before the time of Closing, to cancel their obligations to purchase the Bonds, by written notice by the Representative to the Authority, if between the date hereof and the time of Closing:

(i) Any event or circumstance occurs or information becomes known, which, in the professional judgment of the Representative, makes untrue any statement of a material fact set forth in the Official Statement or results in an omission to state a material fact necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading; or

(ii) The market for the Bonds or the market prices of the Bonds or the ability of the Underwriters to enforce contracts for the sale of the Bonds shall have been materially and adversely affected, in the professional judgment of the Representative, by:

(1) An amendment to the Constitution of the United States or the State of Maryland, the Commonwealth of Virginia or the District of Columbia shall have been passed or legislation shall have been introduced in or enacted by the Congress of the United States or the legislature of any state having jurisdiction of the subject matter or legislation pending in the Congress of the United States shall have been amended or legislation shall have been recommended to the Congress of the United States or to any state having jurisdiction of the subject matter or otherwise endorsed for passage (by press release, other form of notice or otherwise) by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or legislation shall have been favorably reported for passage to either House of the Congress of the United States by a Committee of such House to which such legislation has been referred for consideration, or a decision shall have been rendered by a court of the United States or of the State of Maryland, the Commonwealth of Virginia or the District of Columbia or the Tax Court of the United States, or a ruling shall have been made or a regulation or temporary regulation shall have been proposed or made or any other release or announcement shall have been made by the Treasury Department of the United States, the Internal Revenue Service or other federal, State of Maryland, the Commonwealth of Virginia or the District of Columbia authority, with respect to federal, State of Maryland, the Commonwealth of Virginia or the District of Columbia taxation upon revenues or other income of the general character to be derived by the Authority or upon interest received on obligations of the general character of the Bonds which, in the judgment of the Representative, may have the purpose or effect, directly or, indirectly, of affecting the tax status of the Authority, its property or income, its securities (including the Bonds) or the interest thereon, or any tax exemption granted or authorized by State of Maryland, the Commonwealth of Virginia or the District of Columbia legislation; or

(2) The declaration of war or engagement in or escalation of military hostilities by the United States or the occurrence of any other national emergency or calamity or terrorism affecting the operation of the government of, or the financial community in, the United States; or

(3) The declaration of a general banking moratorium by federal, New York, State of Maryland, the Commonwealth of Virginia or the District of Columbia authorities; or

(4) The occurrence of a major financial crisis, a material disruption in commercial banking or securities settlement or clearance services, or a material disruption or deterioration in the fixed income or municipal securities market; or

(5) Additional material restrictions not in force or being enforced as of the date hereof shall have been imposed upon trading in securities generally by any governmental authority or by any national securities exchange; or

(6) The general suspension of trading on any national securities exchange; or

(iii) Legislation enacted, introduced in the Congress or recommended for passage by the President of the United States, or a decision rendered by a court established under Article III of the Constitution of the United States or by the Tax Court of the United States, or an order, ruling, regulation (final, temporary or proposed) or official statement issued or made by or on behalf of the Securities and Exchange Commission, or any other governmental agency having jurisdiction of the subject matter shall have been made or issued to the effect that the Bonds, other securities of the Authority or obligations of the general character of the Bonds are not exempt from registration under the 1933 Act, or that the Resolution is not exempt from qualification under the Trust Indenture Act; or

(iv) Any change in or particularly affecting the Authority, the Compact and the Capital Transportation Act, the Bonds and the Resolution as the foregoing matters are described in the Official Statement, which in the professional judgment of the Representative materially impairs the investment quality of the Bonds; or

(v) An order, decree or injunction of any court of competent jurisdiction, issued or made to the effect that the issuance, offering or sale of obligations of the general character of the Bonds, or the issuance, offering or sale of the Bonds, including any or all underlying obligations, as contemplated hereby or by the Preliminary Official Statement or the Official Statement, is or would be in violation of any applicable law, rule or regulation, including (without limitation) any provision of applicable federal securities laws as amended and then in effect; or

(vi) A stop order, ruling, regulation or official statement by the SEC or any other governmental agency having jurisdiction of the subject matter shall have been issued or made or any other event occurs, the effect of which is that the issuance, offering or sale of the Bonds, or the execution and delivery of the Resolution, as contemplated hereby or by the Preliminary Official Statement or the Official Statement, is or would be in violation of any applicable law, rule or regulation, including (without limitation) any provision of applicable federal securities laws, including the 1933 Act, the Securities Exchange Act of 1934 or the Trust Indenture Act, each as amended and as then in effect; or

(vii) Any litigation shall be instituted or be pending at the time of the Closing to restrain or enjoin the issuance, sale or delivery of the Bonds, or in any way contesting or affecting any authority for or the validity of the proceedings authorizing and approving the Compact and the Capital Transportation Act, the Resolution, or the existence or powers of the Authority with respect to its obligations thereunder; or

(viii) A reduction or withdrawal in any of the ratings assigned to the Bonds by S&P or Moody's.

9. Indemnification. (a) The Authority shall indemnify and hold harmless, to the extent permitted by law, the Underwriters and their respective directors, officers, employees and agents and each person who controls any Underwriter within the meaning of Section 15 of the 1933 Act (any such person being therein sometimes called an "Underwriter Indemnitee"), against any and all losses, claims, damages or liabilities, joint or several, (a) to which any such Underwriter Indemnitee may become subject, under any statute or regulation at law or in equity or otherwise, insofar as such losses claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement of a material fact set forth in the Preliminary Official Statement or the Official Statement or any amendment or supplement to either, or arise out of or are based upon the omission to state therein a material fact which is necessary in order to make the statements made therein, in the light of the circumstances in which they were made, not misleading, except such indemnification shall not extend to the extent that any such loss, claim, damages or liability arises out of or is based upon any such untrue statement or omission made in the Preliminary Official statement, or any amendment thereof or supplement thereto, in reliance upon and in conformity with information furnished to the Authority by any Underwriter, or to statements in the Preliminary Official Statement or the Official Statement under the caption "UNDERWRITING," and (b) to the extent of the aggregate amount paid in any settlement of any litigation commenced or threatened arising from a claim based upon any such untrue statement or omission if such settlement is effected with the written consent of the Authority (which consent shall not be unreasonably withheld); and will reimburse any legal or other expenses reasonably incurred by any such Underwriter Indemnitee in connection with investigating or defending any such loss, claim, damage, liability or action. This indemnity agreement shall not be construed as a limitation on any other liability which the Authority may otherwise have to any Underwriter Indemnitee.

(b) The Underwriters shall indemnify and hold harmless, to the extent permitted by law, the Authority and its directors, officers, members, employees and agents and each person who controls the Authority within the meaning of Section 15 of the 1933 Act (any such person being therein sometimes called an "Authority Indemnitees"), against any and all losses, claims, damages or liabilities, joint or several, to which such Authority Indemnitee may become subject under any statute or at law or in equity or otherwise, and shall promptly reimburse any such Authority Indemnitee for any reasonable legal or other expenses incurred by it in connection with investigating any claims against it and defending any actions, but only to the extent that such losses, claims, damages, liabilities or actions arise out of or are based upon any untrue statement of a material fact contained in, or the omission to state therein a material fact necessary to make the statements therein in light of the circumstances under which they were made not misleading, in the Preliminary Official Statement or the Official Statement, or any amendment or supplement

thereof, under the caption "UNDERWRITING." This indemnity agreement shall not be construed as a limitation on any other liability which the Underwriters may otherwise have to any Authority Indemnitee. The liability of any Underwriter obligations under this Section 9 shall not exceed the amount of its pro rata compensation under this Purchase Contract.

(c) For purposes of subsection (a) or (b) above, an "Indemnified Party" means an Underwriter Indemnitee or an Authority Indemnitee as the context dictates and an "Indemnifying Party" means the Authority or an Underwriter who is under the obligation to indemnify an Indemnified Party under this Section 9. An Indemnified Party shall, promptly after the receipt of notice of the commencement of any action against such Indemnified Party in respect of which indemnification may be sought against an Indemnifying Party, notify the Indemnifying Party in writing of the commencement thereof, but the omission to notify the Indemnifying Party of any such action shall not relieve the Indemnifying Party from any liability that it may have to such Indemnified Party otherwise than under the indemnity agreement contained herein. In case any such action shall be brought against an Indemnified Party and such Indemnified Party shall notify the Indemnifying Party of the commencement thereof, the Indemnifying Party may, or if so requested by such Indemnified Party shall, participate therein or assume the defense thereof, with counsel satisfactory to such Indemnified Party, and after notice from the Indemnifying Party to such Indemnified Party of an election so to assume the defense thereof, the Indemnifying Party will not be liable to such Indemnified Party under this paragraph for any legal or other expenses subsequently incurred by such Indemnified Party in connection with the defense thereof other than reasonable costs of investigation. If the Indemnifying Party shall not have employed counsel to manage the defense of any such action or if the Indemnified Party shall have reasonably concluded that there may be defenses available to it or them that are different from or additional to those available to the Indemnifying Party (in which case the Indemnifying Party shall not have the right to direct the defense of such action on behalf of such Indemnified Party), such Indemnified Party shall have the right to retain legal counsel of its own choosing and the reasonable legal and other expenses incurred by such Indemnified Party shall be borne by the Indemnifying Party.

An Indemnifying Party shall not be liable for any settlement of any such action effected without its consent by any Indemnified Party, which consent shall not be unreasonably withheld, but if settled with the consent of the Indemnifying Party or if there be a final judgment for the plaintiff in any such action against the Indemnifying Party or any Indemnified Party, with or without the consent of the Indemnifying Party, the Indemnifying Party agrees to indemnify and hold harmless such Indemnified Party to the extent provided herein.

(d) If the indemnification provided for in this Section is unavailable or insufficient to hold harmless an Indemnified Party under subsection (a) or (b) above, then each Indemnifying Party shall contribute to the amount paid or payable by such Indemnified Party as a result of the losses, claims, damages, liabilities or expenses referred to in subsection (a) or (b) above (i) in such proportion as is appropriate to reflect the relative benefits received by the Authority on the one hand and the Underwriters on the other from the offering of the Bonds or (ii) if the allocation provided by clause (i) above is not permitted by applicable law in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Authority on the one hand and the Underwriters on the other in connection with the statements or omissions which resulted in such losses, claims, damages, liabilities or expenses as well as any

other relevant equitable considerations. The relative benefits received by the Authority on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Authority bear to the total underwriting discounts and commissions received by the Underwriters. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Authority or the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such untrue statement or omission. The amount paid by an Indemnified Party as a result of the losses, claims, damages, liabilities or expenses referred to in the first sentence of this subsection (d) shall be deemed to include any legal or other expenses reasonably incurred by such Indemnified Party in connection with investigating or defending any action or claim which is the subject to this subsection (d). Notwithstanding the provisions of this subsection (d), each Underwriter shall not have any obligation under this subsection (d) to contribute an amount in excess of the amount of its pro rata compensation under this Purchase Contract. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations in this subsection (d) to contribute are several in proportion to their respective underwriting obligations and not joint.

10. Amendments to Official Statement. During the period commencing on the Closing Date and ending twenty-five (25) days from the end of the underwriting period, the Authority shall advise the Representative if any event relating to or affecting the Official Statement shall occur as a result of which it may be necessary or appropriate to amend or supplement the Official Statement in order to make the Official Statement not misleading in light of the circumstances existing at the time it is delivered to a purchaser or "potential customer" (as defined for purposes of Rule 15c2-12). If any such event occurs and in the reasonable judgment of the Representative and the Authority, an amendment or supplement to the Official Statement is appropriate, the Authority shall, at its expense, forthwith prepare and furnish to the Underwriters a reasonable number of copies of an amendment of or supplement to the Official Statement (in form and substance satisfactory to counsel for the Underwriters) that will amend or supplement the Official Statement so that it will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances existing at the time the Official Statement is delivered to a purchaser or "potential customer," not misleading.

11. Expenses. All expenses and costs of the Authority incident to the performance of its obligations in connection with the authorization, issuance and sale of the Bonds to the Underwriters, including the costs of printing or reproduction of the Bonds, the Resolution and the Official Statement in reasonable quantities, fees of consultants, fees of rating agencies, advertising expenses, fees and expenses of the Trustee and its counsel and fees and expenses of counsel to the Authority and Bond Counsel, shall be paid by the Authority from the proceeds of the Bonds or other revenues of the Authority. The Authority shall be solely responsible for and shall pay for any expenses incurred by the Underwriters on behalf of the Authority's employees and representatives which are incidental to implementing this Purchase Contract, including, but not limited to, meals, transportation, lodging, and entertainment of employees and representatives. The Underwriters shall pay, from the expense component of the underwriters discount, where

applicable, only the cost of all advertising expenses in connection with the public offering of the Bonds and all other expenses incurred by it in connection with the public offering and distribution of the Bonds, including the fees of DTC and fees relating to obtaining a CUSIP number assignment for the Bonds; the fees and disbursements of counsel to the underwriters, including such fees and disbursements incident to the qualification of the Bonds for sale under the Blue Sky securities law of various jurisdictions and the preparation of any Blue Sky memoranda; and expenses incurred by the Underwriters that are incidental to the implementing of this Purchase Contract, including without limitation, meals, transportation and lodging. The Authority shall be under no obligation to pay any expenses incident to the performance by the Underwriters of their obligations hereunder except as set forth herein.

12. Use of Documents. The Authority hereby authorizes the Underwriters to use, in connection with the public offering and sale of the Bonds, this Purchase Contract, the Preliminary Official Statement, the Official Statement and the Resolution, and the information contained herein and therein.

13. Qualification of Securities. The Authority will furnish such information, execute such instruments and take such other action in cooperation with the Underwriters as the Representative may reasonably request to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Representative may designate and to provide for the continuance of such qualification; *provided, however*, that the Authority will not be required to qualify as a foreign corporation or to file any general or special consents to service of process under the laws of any state.

14. Notices. Any notice or other communication to be given to the Authority under this Purchase Contract may be given by delivering the same in writing to Washington Metropolitan Area Transit Authority 600 Fifth Street, N.W. Washington, DC 20001, Attention: Dennis Anosike, Chief Financial Officer, and any such notice or other communication to be given to the Underwriter may be given by delivering the same in writing to Merrill Lynch, Pierce, Fenner & Smith Incorporated, One Bryant Park, 9th floor, New York, NY 10036, Attention: Anthony M. Griffith, Managing Director.

15. Benefit. This Purchase Agreement is made solely for the benefit of the Authority and the Underwriters (including their successors or assigns) and no other person, partnership, association or corporation shall acquire or have any right hereunder or by virtue hereof. Except as otherwise expressly provided herein, all of the agreements and representations of the Authority contained in this Purchase Contract and in any certificates delivered pursuant hereto shall remain operative and in full force and effect regardless of: (i) any investigation made by or on behalf of the Underwriters; (ii) delivery of and payment for the Bonds hereunder; or (iii) any termination of this Purchase Contract, other than pursuant to Section 8.

16. Attorneys Fees. In the event of a dispute arising under this Purchase Contract, the prevailing party shall have the right to collect from the other party its reasonable costs and necessary disbursements and attorneys' fees incurred in enforcing this Purchase Contract.

17. Governing Law. The rights and obligations of the parties to this Agreement shall be governed by, construed and enforced in accordance with the laws of the District of Columbia. This Purchase Contract may not be assigned by the Authority or the Underwriters.

18. Counterparts. This Purchase Agreement may be executed in several counterparts, each of which shall be deemed an original hereof.

Very truly yours,

**MERRILL LYNCH, PIERCE, FENNER & SMITH
INC.
SIEBERT BRANDFORD SHANK & CO., L.L.C
PIPER JAFFRAY & CO.
U.S. BANCORP
WELLS FARGO SECURITIES**

By: **MERRILL LYNCH, PIERCE, FENNER &
SMITH INC.**, as Representative of the Underwriters

By: _____
Anthony M. Griffith
Managing Director

Approved and Agreed to: May __, 2016

**WASHINGTON METROPOLITAN AREA
TRANSIT AUTHORITY**

By: _____

Its: _____

Approved for Legal Sufficiency

Office of General Counsel

SCHEDULE I

Principal Amounts, Interest Rates and Prices

Optional and Mandatory Redemption

EXHIBIT A
FORM OF SUPPLEMENTAL OPINION OF BOND COUNSEL

EXHIBIT B
FORM OPINION OF ACTING GENERAL COUNSEL

EXHIBIT C
FORM OF OPINION OF COUNSEL TO THE UNDERWRITER

EXHIBIT D
FORM OF OPINION OF DISCLOSURE COUNSEL

EXHIBIT E
FORM OF APPROVING OPINION OF BOND COUNSEL

EXHIBIT F

ISSUE PRICE CERTIFICATE OF THE UNDERWRITER

This Certificate is furnished by Merrill Lynch, Pierce, Fenner & Smith Incorporated as representative of the underwriters (the “Underwriter”) in connection with the sale and issuance by Washington Metropolitan Area Transit Authority (the “Authority”) of its \$[220,000,000] aggregate principal amount of Gross Revenue Transit Bonds, Series 2016A (the “Bonds”) issued May __, 2016, and the Underwriter hereby certifies and represents the following, based upon information available to us:

1. Based on our assessment of the then prevailing market conditions, the Underwriter reasonably expected when it agreed to purchase the Bonds (the “Sale Date”) that the first prices at which at least 10% of each maturity of the Bonds [modify for split coupons] would be sold by the Underwriter to the general public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) (the “Public”) would be prices not higher than, or, in the case of obligations sold on a yield basis, at yields not lower than, those listed for each maturity on Schedule A hereto (the “Initial Offering Prices”).

2. All of the Bonds have actually been offered to the Public in a bona fide public offering at prices not higher than, or, in the case of obligations sold on a yield basis, at yields not lower than, the Initial Offering Prices.

3. The first price, or yield in the case of obligations sold on a yield basis, at which ten percent (10%) of each maturity of the Bonds has been sold to the Public was at a price not higher than, or, in the case of obligations sold on a yield basis, at a yield not lower than, the Initial Offering Prices [except for the Bonds with the following maturities:].

4. The Underwriter had no reason to believe that any of the Initial Offering Prices of the Bonds exceeded the expected fair market value of the Bonds as of the Sale Date.

We understand that the foregoing information will be relied upon by the Authority with respect to certain of the representations set forth in the Tax Certificate and by Hawkins Delafield & Wood LLP, in connection with rendering its opinion to the Authority that the interest on the Bonds is excluded from gross income of the owners thereof for federal income tax purposes. The undersigned is certifying only as to facts in existence on the date hereof. Nothing herein represents the undersigned’s interpretation of any laws; in particular the regulations under the Internal Revenue Code of 1986, or the application of any laws to these facts. The certifications contained herein are not necessarily based on personal knowledge, but may instead be based on either inquiry deemed adequate by the undersigned or institutional knowledge (or both) regarding the matters set forth herein. Although certain information furnished in this Certificate has been derived from other purchasers, bond houses and brokers and cannot be independently verified by us, we have no reason to believe it to be untrue in any material respect.

By: **MERRILL LYNCH, PIERCE, FENNER & SMITH INC.**,
as Representative of the Underwriters

By: _____
Anthony M. Griffith
Managing Director

Dated: May __, 2016

This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities, in any jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

PRELIMINARY OFFICIAL STATEMENT DATED [REDACTED], 2016

NEW ISSUE - BOOK ENTRY ONLY

RATINGS:
S&P:
Moody's:

In the opinion of Bond Counsel, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2016A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Series 2016A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations.

In addition, in the opinion of Bond Counsel, interest on the Series 2016A Bonds is exempt from all present Maryland, Virginia, and District of Columbia personal income taxes. See "TAX MATTERS" herein.

\$220,000,000*
Washington Metropolitan Area Transit Authority [WMATA LOGO]
Gross Revenue Transit Bonds,
Series 2016A

Dated: Date of Delivery

Due: July 1, as shown on inside cover

The Series 2016A Bonds. The above-captioned Bonds (the "Series 2016A Bonds") will be special obligations of the Washington Metropolitan Area Transit Authority (the "Authority") issued pursuant to the terms of the Gross Revenue Bond Resolution adopted by the Authority on September 25, 2003, as supplemented by the 2016A Project Supplemental Bond Resolution adopted by the Authority on April [REDACTED], 2016 (collectively, the "Resolution"). The Series 2016A Bonds will be issued in authorized denominations of \$5,000 or any integral multiple thereof.

Purpose. Proceeds of the Series 2016A Bonds are expected to be used to (i) finance Capital Costs (as defined herein), and (ii) pay certain costs of issuing the Series 2016A Bonds. See "PLAN OF FINANCE AND SOURCES AND USES OF FUNDS" herein.

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

The Series 2016A Bonds, together with all other bonds issued under the Resolution (the "Bonds"), are special obligations of the Authority payable solely from and secured solely by the Trust Estate (as defined herein), subject to the terms and conditions set forth in the Resolution. The Trust Estate consists primarily of the Gross Revenues (as defined herein) of the Authority.

The Series 2016A Bonds do not constitute a debt or legal obligation of and do not create a lien upon the revenues of the Participating Jurisdictions (as defined herein) or of the United States of America. The full faith and credit of the United States of America and the Participating Jurisdictions are not pledged to the payment of the Series 2016A Bonds, and none of the foregoing are liable thereon. The Authority has no taxing power.

Redemption. The Series 2016A Bonds are subject to redemption prior to maturity, as described in "THE SERIES 2016A BONDS – Redemption."

Additional Obligations. The Authority has reserved the right to issue additional bonds and certain other obligations secured on a parity basis with the Series 2016A Bonds under the circumstances and upon satisfaction of certain conditions set forth in the Resolution and described herein. See "SECURITY AND SOURCES OF PAYMENT OF THE BONDS – Parity Liens and Additional Indebtedness."

Interest Payment Dates. The Series 2016A Bonds will bear interest at the rates set forth on the inside cover page hereof. Interest on the Series 2016A Bonds is payable semiannually on each January 1 and July 1, commencing [July 1, 2016], computed on the basis of a 360-day year comprised of twelve 30-day months.

* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities, in any jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

Tax Status. For information on the tax status of the Series 2016A Bonds, see the italicized language at the top of this cover page and “TAX MATTERS” herein.

Delivery Date. It is expected that the Series 2016A Bonds will be available for delivery to DTC on or about May [] , 2016.

This cover page contains certain information for quick reference only. It is not a summary of the Series 2016A Bonds or this Official Statement. Investors must read the entire Official Statement, including the Appendices, which are an integral part hereof, to obtain information essential to the making of an informed investment decision regarding the Series 2016A Bonds.

The Series 2016A Bonds are offered when, as and if issued by the Authority and accepted by the Underwriters. Legal matters with respect to the Series 2016A Bonds are subject to the approval of Hawkins Delafield & Wood LLP, Bond Counsel. Certain legal matters will be passed upon for the Authority by its Acting General Counsel, Mark R. Pohl, Esquire. Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, Washington, D.C. Hawkins Delafield & Wood LLP, as Disclosure Counsel to the Authority, will deliver an opinion regarding certain matters to the Authority and the Underwriters.

BofA Merrill Lynch

Siebert Brandford Shank & Co., L.L.C.

Piper Jaffray & Co.

US Bancorp

Wells Fargo Securities

May __, 2016

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, PRICES, YIELDS, AND CUSIPS†

\$220,000,000*
Washington Metropolitan Area Transit Authority
Gross Revenue Transit Bonds,
Series 2016A

<u>Maturity</u> <u>(July 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u>	<u>Yield</u>	<u>CUSIP</u>
2017					
2018					
2019					

† CUSIP is a registered trademark of the American Bankers Association (the “ABA”). CUSIP data is provided by CUSIP Global Services, which is managed on behalf of the ABA by S&P Capital IQ, a division of McGraw Hill Financial, Inc. The CUSIP numbers listed above are being provided solely for the convenience of the holders of Series 2016A Bonds only at the time of issuance of the Series 2016A Bonds and the Authority, the Trustee, and the Underwriters do not make any representation with respect to such CUSIP numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP numbers are subject to being changed after the issuance of the Series 2016A Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of the Series 2016A Bonds or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that may be applicable to all or a portion of the Series 2016A Bonds.

* Preliminary, subject to change.

WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY

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

BOARD OF DIRECTORS

Jack Evans, District of Columbia
Chairman

Keturah D. Harley, State of Maryland First Vice Chairman	Jim Corcoran, Commonwealth of Virginia Second Vice Chairman
Corbett A. Price, District of Columbia	Mortimer L. Downey, Federal Government
Harriet Tregoning, Federal Government	Michael Goldman, State of Maryland
Catherine Hudgins, Commonwealth of Virginia	

ALTERNATE DIRECTORS

Tom Bulger, District of Columbia	Leif A. Dormsjo, District of Columbia
Anthony E. Costa, Federal Government	Anthony R. Giancola, P.E., Federal Government
Malcolm Augustine, State of Maryland	Kathy Porter, State of Maryland
Christian Dorsey, Commonwealth of Virginia	Paul C. Smedberg, Commonwealth of Virginia

AUTHORITY EXECUTIVE STAFF

Paul J. Wiedefeld, General Manager and Chief Executive Officer
Dennis Anosike, Chief Financial Officer
Jack Requa, Acting Chief Operating Officer
Mark R. Pohl, Acting General Counsel
Allen E. Hoppe, Treasurer

BOND COUNSEL AND DISCLOSURE COUNSEL

Hawkins Delafield & Wood LLP

FINANCIAL ADVISOR

Public Financial Management, Inc.
Philadelphia, Pennsylvania

AUDITOR

RSM US LLP
Washington, D.C.

No Offering May Be Made Except by this Official Statement. No dealer, broker, salesperson or other person has been authorized by the Authority or the Underwriters to give any information or to make representations, other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the Authority or the Underwriters.

No Unlawful Offers or Solicitations. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2016A Bonds by any person, in any jurisdiction in which such sale would be unlawful.

Use of this Official Statement. This Official Statement is submitted in connection with the sale of the Series 2016A Bonds described in this Official Statement and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract or agreement among the Authority, the Underwriters, and the purchasers or owners of any offered Series 2016A Bonds. This Official Statement is being provided to prospective purchasers either in bound printed form (“Original Bound Format”) or in electronic format on the following website: www.munios.com. This Official Statement may be relied upon only if it is in its Original Bound Format or if it is printed in full directly from such website.

Preparation of this Official Statement. The information set forth herein has been furnished by the Authority and includes information obtained from other sources, all of which are believed to be reliable. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority since the date hereof. Such information and expressions of opinion are made for the purpose of providing information to prospective investors and are not to be used for any other purpose or relied on by any other party. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

Order and Placement of Materials. The order and placement of materials in this Official Statement, including the Appendices, are not to be deemed a determination of relevance, materiality or importance, and this Official Statement, including the cover page, the inside cover pages and the Appendices, must be considered in its entirety. The captions and headings in this Official Statement are for convenience only and in no way define, limit or describe the scope or intent, or affect the meaning or construction, of any provisions or sections of this Official Statement. The offering of the Series 2016A Bonds is made only by means of this entire Official Statement.

Estimates and Forecasts. The statements contained in this Official Statement and the Appendices hereto that are not purely historical are forward-looking statements. Such forward-looking statements can be identified, in some cases, by terminology such as “may,” “will,” “should,” “expects,” “intends,” “plans,” “anticipates,” “believes,” “estimates,” “projects,” “predicts,” “potential,” “illustrate,” “example,” and “continue,” or the singular, plural, negative or other derivations of these or other comparable terms. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to such parties on the date of this Official Statement, and the Authority assumes no obligation to update any such forward-looking statements. The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including, but not limited to, risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in various important factors. Accordingly, actual results may vary from the projections, forecasts and estimates contained in this Official Statement and such variations may be material, which could affect the ability to fulfill some or all of the obligations under the Series 2016A Bonds.

Public Offering Prices. In connection with the offering of the Series 2016A Bonds, the Underwriters may overallocate or effect transactions which stabilize or maintain the market price of the Series 2016A Bonds at levels above those which might otherwise prevail in the open market. Such stabilization, if commenced, may be discontinued at any time.

No Recommendation or Registration. The Series 2016A Bonds have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense. The Series 2016A Bonds have not been registered with the Securities and Exchange Commission (the “SEC”) under the Securities Act of 1933, as amended, in reliance upon the exemption contained in Section 3(a)(2) of such act; and neither Indenture has been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon certain exemptions contained in such act.

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Summary

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

- Issuer:** Washington Metropolitan Area Transit Authority
- Issue:** \$220,000,000* Gross Revenue Transit Bonds, Series 2016A
- Dated Date:** Date of Delivery
- Denominations:** \$5,000 and integral multiples thereof
- Interest:** The Series 2016A Bonds will bear interest at the rates set forth on the inside cover page hereof, semi-annually on January 1 and July 1, commencing [July 1, 2016], computed on the basis of a 360-day year comprised of twelve 30-day months.
- Redemption:** The Series 2016A Bonds are subject to optional and mandatory redemption prior to maturity as described under “THE SERIES 2016A BONDS – Redemption” herein.

Certain Key Definitions:

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

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

“*Capital Funding Agreement*” means the agreement among the Authority and the Participating Jurisdictions, which was entered into in 2010 and provides for the funding of a six-year Capital Improvement Plan through June 30, 2016. The Authority is in the process of executing a one-year extension of the Capital Funding Agreement to cover the jurisdictional component of the Approved Fiscal Year 2017 Capital Budget. For more information on the Capital Funding Agreement and the Approved Fiscal Year 2017 Budget, see THE TRANSIT SYSTEM – Funding of Capital Costs of the Transit System” and “CERTAIN AUTHORITY FINANCIAL INFORMATION – Annual Budgets – Fiscal Year 2017 Budget” and “– Capital Improvement Plan” herein.

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

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

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

* Preliminary, subject to change.

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

“*Participating Jurisdictions*” means the District of Columbia, the cities of Alexandria, Falls Church and Fairfax, Virginia and the counties of Arlington and Fairfax, Virginia and political subdivisions of the Commonwealth located within those counties, and the counties of Montgomery, and Prince George’s, Maryland and political subdivisions of the State located within those counties, in which the Authority operates the Transit System.

“*Resolution*” means the Gross Revenue Bond Resolution adopted by the Authority’s Board of Directors on September 25, 2003, as supplemented by the 2016A Project Supplemental Bond Resolution adopted by the Authority on April [], 2016.

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

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

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

“*Trust Estate*” means all right, title and interest of the Authority in:

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

Security for the Series 2016A Bonds:

The Resolution pledges the Trust Estate as security for the payment of the Bonds. See “SECURITY AND SOURCES OF PAYMENT OF THE BONDS.”

Budgeting:

The Authority’s operating budget, including debt service payments, is funded from passenger revenues and operating contributions from the Participating Jurisdictions. The Authority’s capital budget is funded from capital contributions of the Federal government and the Participating Jurisdictions. The Authority has entered into the Capital Funding Agreement with the Participating Jurisdictions and is expected to execute an amendment to the Capital Funding

Agreement on or before June 30, 2016, to fund the Authority's capital program through fiscal year 2017 (the "Capital Funding Agreement Amendment").

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

Rate Covenant:

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

Failure to comply with the covenant described above constitutes an Event of Default under the Resolution. See "APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Events of Default." The Authority has satisfied the Rate Covenant by, in part, utilizing available unspent capital funds to pay operating expenses. See "THE TRANSIT SYSTEM – Funding of the Capital Costs of the System – *Ongoing Funding*" and "ONGOING FINANCIAL AND OPERATIONAL CONCERNS – Capital Budget Expenditures."

Additional Bonds:

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

Obligations may be issued to pay, or to provide for the payment of, all or part of Capital Costs. One or more Series of Refunding Obligations may be issued to refund (including by redemption, payment at maturity or in connection with exchanges or tenders) all or any portion of any Outstanding Obligations or Parity Debt. For information on the conditions precedent to the issuance of additional indebtedness, see "SECURITY AND SOURCES OF PAYMENT OF THE BONDS – Parity Liens and Additional Indebtedness."

Ratings:

Moody's and S&P have assigned ratings to the Series 2016A Bonds of "[redacted]" (with a [redacted] outlook) and "[redacted]" (with a [redacted] outlook), respectively. See "RATINGS" herein.

OFFICIAL STATEMENT

Relating to

\$220,000,000*

WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY GROSS REVENUE TRANSIT BONDS, SERIES 2016A

INTRODUCTION

This Official Statement, including the cover page and the appendices hereto, is provided to set forth certain information pertaining to the Washington Metropolitan Area Transit Authority (the “Authority”) and its \$220,000,000* Gross Revenue Transit Bonds, Series 2016A (the “Series 2016A Bonds”). The Series 2016A Bonds are to be issued under the authority of the Washington Metropolitan Area Transit Authority Compact (the “Compact”) by and among the State of Maryland (the “State”), the Commonwealth of Virginia (the “Commonwealth”), and the District of Columbia (the “District”) and the Gross Revenue Bond Resolution adopted by the Authority’s Board of Directors (the “Board”) on September 25, 2003, as supplemented by the 2016A Project Supplemental Bond Resolution adopted by the Authority on April [REDACTED], 2016 (collectively, the “Resolution”). The Bank of New York Mellon, New York, New York, is the Trustee under the Resolution (the “Trustee”).

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

The Authority is responsible for the development, financing, and operation of mass transit facilities (the “Transit System”), consisting of a rapid rail system (“Metrorail”), a bus transit system (“Metrobus”), and a paratransit service (“MetroAccess”) under the Americans With Disabilities Act (“ADA”), each providing transit services to those portions of the Washington metropolitan area consisting of the District, the cities of Alexandria, Falls Church and Fairfax, Virginia, and the counties of Arlington and Fairfax, Virginia, and political subdivisions of the Commonwealth located within those counties, and the counties of Montgomery, and Prince George’s, Maryland, and political subdivisions of the State located within those counties (collectively, the “Participating Jurisdictions”). For the fiscal year ending June 30, 2015, the Authority provided more than 206.4 million annual Metrorail trips, 132.9 million annual Metrobus trips, and 2.2 million annual MetroAccess trips.

The proceeds of the Series 2016A Bonds are expected to be used to (i) finance Capital Costs (as defined herein), and (ii) pay certain costs of issuing the Series 2016A Bonds. See “PLAN OF FINANCE AND SOURCES AND USES OF FUNDS.”

* Preliminary, subject to change.

On June 9, 2009, the Authority issued its Gross Revenue Transit Bonds, Series 2009, in the original aggregate principal amount of \$297,675,000 (the “Series 2009 Bonds”) under the Resolution. The Series 2009 Bonds and the Series 2016A Bonds, when issued, will be on a parity under the Resolution and together with any other bonds hereafter issued under the Resolution, are referred to herein as the “Bonds.” For more information on the Series 2009 Bonds, see “CERTAIN AUTHORITY FINANCIAL INFORMATION – Outstanding Debt” herein.

The Series 2016A Bonds are special obligations of the Authority payable solely from the Trust Estate pledged by the Resolution. The Series 2016A Bonds do not constitute a debt or legal obligation of and do not create a lien upon the revenues of the Participating Jurisdictions or of the United States of America. The full faith and credit of the United States and the Participating Jurisdictions are not pledged to the payment of the Series 2016A Bonds, and none of the foregoing are liable thereon. The Authority has no taxing power.

Brief descriptions of and references to the Authority, the Series 2016A Bonds, the Compact, the Resolution, the Transit System, and applicable legislation are included in this Official Statement. Such descriptions are made subject to the provisions of such documents and laws and do not purport to be comprehensive or definitive. All references thereto are qualified in their entirety by reference to such documents and laws, copies of which are available for inspection at the principal office of the Authority at 600 Fifth Street, N.W., Washington, D.C. 20001.

This Official Statement contains information relating principally to the organization, operation, and economic resources of the Authority, and includes certain financial and other information supplementing the most recent basic financial statements of the Authority, which can be found in the Authority’s Comprehensive Annual Financial Report (“CAFR”) for fiscal year 2015. The following portion of the CAFR for fiscal year 2015 is incorporated herein by reference: the information under the heading “Financial Section,” from pages 19-55, inclusive (collectively, the “FY 2015 Audited Financial Statements”).

The Authority’s CAFR for fiscal year 2015 and the FY 2015 Audited Financial Statements can be found on the Authority’s website at http://www.wmata.com/about_metro/docs/CAFR%2012.29.15.pdf.

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

THE SERIES 2016A BONDS

General

The Series 2016A Bonds will be dated the date of their delivery and bear interest at the rates set forth on the inside cover page hereof, payable semiannually on January 1 and July 1, commencing [July 1, 2016], until their final payment or maturity. Interest shall be computed on the basis of a three hundred sixty (360) day year consisting of twelve (12) months of thirty (30) days each. The Series 2016A Bonds shall be issuable only as fully registered bonds in denominations of \$5,000 and multiples thereof.

Principal of and premium, if any, on the Series 2016A Bonds shall be payable to the registered owners upon the surrender of Series 2016A Bonds at the principal corporate trust office of the Trustee. Interest on the Series 2016A Bonds shall be payable by check or draft of the Trustee mailed to the respective Owners at their addresses as they appear on the Record Date on the registration books kept by the Trustee; provided, however, that in the case of a Securities Depository or Owner of \$1,000,000 or more in aggregate principal amount of Series 2016A Bonds, upon the written request of such Owner to the Trustee, received on or prior to a Record Date, specifying the account or accounts to which such payment shall be made, payment of interest when due shall be made by wire transfer of immediately available funds to the bank account number on file with the Trustee. Any such request shall remain in effect until revoked or revised by such Owner by an instrument in writing delivered to the Trustee. Principal, premium, if any, and interest on the Series 2016A Bonds shall be payable in lawful money of the United States of America.

If the date for payment of the principal of, premium, if any, or interest on any of the Series 2016A Bonds shall be other than a Business Day, then the date for such payment shall be the next succeeding day which is a Business Day, and payment on such day shall have the same force and effect as if made on the nominal date of payment.

Redemption

Optional Redemption

The Series 2016A Bonds are not subject to optional redemption prior to July 1, 2018.* The Series 2016A Bonds maturing on July 1, 2019,* shall be subject to redemption prior to maturity, in whole or in part in any authorized denomination, on any date on or after July 1, 2018,* at the option of the Authority, at the redemption price of 100% of the principal amount thereof, together with interest accrued to the redemption date.

Selection of Series 2016A Bonds to be Redeemed in Partial Redemption

If less than all of the Outstanding Series 2016A Bonds of a particular maturity and interest rate are to be redeemed, the Trustee shall select, as directed by the Authority (as to the timing of such selection, manner of such selection or otherwise) or otherwise in such manner as the Trustee in its discretion shall deem appropriate and fair, the numbers of the Series 2016A Bonds to be redeemed and portions of any thereof to be redeemed in part. Series 2016A Bonds of denominations equal or less than the minimum authorized denomination thereof may be redeemed only as a whole. Series 2016A Bonds of denominations of more than the minimum authorized denomination thereof may be redeemed either as a whole or in part (which, if redeemed in part, must assure that the portion of the Series 2016A Bond which is not redeemed is an authorized denomination). If the Series 2016A Bonds are registered in book-entry-

* Preliminary, subject to change.

only form and so long as DTC or a successor securities depository is the sole registered owner of the Series 2016A Bonds, partial redemptions will be done in accordance with DTC procedures. It is Authority's intent that redemption allocations made by DTC, the DTC Participants or such other intermediaries that may exist between Authority and the beneficial owners be made in accordance with these same proportional provisions. However, Authority can provide no assurance that DTC, the DTC Participants or any other intermediaries will allocate redemptions among beneficial owners on such a proportional basis.

Book-Entry-Only System

The Series 2016A Bonds will be issued as fully registered bonds, registered in the name of Cede & Co., as Registered Bondholder and nominee for The Depository Trust Company ("DTC"). Beneficial ownership interests in the Series 2016A Bonds will be available in book-entry-only form. Purchasers of beneficial ownership interests in the Series 2016A Bonds will not receive certificates representing their interests in the Series 2016A Bonds purchased. See "APPENDIX C – BOOK-ENTRY-ONLY SYSTEM PROCEDURES."

Principal of, premium, if any, and interest on the Series 2016A Bonds are payable, so long as the Series 2016A Bonds are in book-entry form, through a securities depository as described in APPENDIX C.

None of the Authority, the Underwriters, or the Trustee has any responsibility or obligation to any beneficial owner with respect to (i) the accuracy of any records maintained by DTC or any DTC Participant, (ii) the distribution by DTC or any DTC Participant of any notice that is permitted or required to be given to the owners of the Series 2016A Bonds, (iii) the payment by DTC or any DTC Participant of any amount received with respect to the Series 2016A Bonds, (iv) any consent given or other action taken by DTC or its nominee as the owner of the Series 2016A Bonds, or (v) any other related matter.

PLAN OF FINANCE AND SOURCES AND USES OF FUNDS

Proceeds of the Series 2016A Bonds are expected to be used to (i) finance Capital Costs, and (ii) pay certain costs of issuing the Series 2016A Bonds. **[Note: Information on projects to be financed with bond proceeds to come.]**

Sources and Uses of Funds	
Sources	
Par Amount of Series 2016A Bonds	\$
[Original Issue Premium/Discount]	\$
Total Sources	\$
Uses	
Deposit to the Proceeds Fund for Capital Costs	\$
Deposit to Costs of Issuance Account	
Underwriters' Discount	\$
Total Uses	\$

ANNUAL DEBT SERVICE REQUIREMENTS

<u>Year Ending</u>	<u>Existing</u>	<u>Series 2016A Bonds</u>		<u>Total</u>	
	<u>Debt Service</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>	<u>Debt Service</u>
	\$	\$	\$	\$	\$
Total	\$	\$	\$	\$	\$

SECURITY AND SOURCES OF PAYMENT OF THE BONDS

The Series 2016A Bonds, together with the Series 2009 Bonds, constitute “Obligations” under the Resolution and are special obligations of the Authority, payable solely from the Trust Estate, subject only to the provisions of the Resolution.

Limited Obligations

The Series 2016A Bonds are special obligations of the Authority payable solely from the Trust Estate pledged by the Resolution. The Series 2016A Bonds do not constitute a debt or legal obligation of and do not create a lien upon the revenues of the Participating Jurisdictions or of the United States of America. The full faith and credit of the United States and the Participating Jurisdictions are not pledged to the payment of the Series 2016A Bonds, and none of the foregoing are liable thereon. The Authority has no taxing power.

Pledge of Trust Estate

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

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

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

Gross Revenues

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

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

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

Revenues

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

In the 2016A Project Supplemental Resolution and as permitted under the Resolution, the Authority has provided notification to the Trustee that all parking facilities under the control, ownership or management of the Authority constitute Parking Facilities (as defined in the Resolution and described in APPENDIX A hereto) and Revenues derived therefrom are excluded from Gross Revenues.

For Gross Revenues collected by the Authority in fiscal years 2011 through 2015 and projected amounts for fiscal years 2016 and 2017, see Table 1.

Stable and Reliable Funding Sources

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

The Authority has covenanted in the Resolution to use its best efforts to cause the Participating Jurisdictions to make payments from their respective Stable and Reliable Funding Sources, together with other funds, if necessary, so as to provide the amounts required to make the deposits to the Debt Service Fund required by the Resolution. To that end, the Authority has covenanted to take all appropriate and

governmental action including, without limitation, action to obtain assistance and support for its efforts from any and all governmental entities with an interest therein.

The obligation of the Participating Jurisdictions to make payment of funds to the Authority is subject to appropriation. Pursuant to the Compact, however, the Participating Jurisdictions (with the Washington Suburban Transit District acting on behalf of the Maryland jurisdictions) are obligated, subject to the limitations described herein, to include in their respective budgets and to appropriate or otherwise provide their share of amounts included in the Authority's capital budget and operating budget to be paid by the Participating Jurisdictions. The Participating Jurisdictions have not been asked to provide, and have not provided, either a certificate or an opinion regarding whether their respective contractual obligations pursuant to the Compact and the Capital Funding Agreement to pay their respective share of the Authority's budget for capital and operating costs of the Transit System, including debt service on the Bonds, violate any court order or decree, constitute a breach of or default under any contractual obligation, contravene or constitute a violation of any federal or state constitutional or statutory provision, or are the subject of any ongoing litigation.

Since 1970, when the Participating Jurisdictions first had funding obligations to the Authority, no Participating Jurisdiction has failed to make (either on time or within a few days of the payment date) a required operating subsidy payment to the Authority, with the exception of one instance in 1993 in which the District was one month late in making a payment.

There is a disputed \$1.5 million in capital subsidies from the State from fiscal year 2003 that remains unpaid. As noted above, Capital Contributions are not part of the Gross Revenues pledged to the payment of debt service on the Series 2016A Bonds.

See "THE TRANSIT SYSTEM – Funding of Capital Costs of the Transit System," "– Funding of Operating Expenses of the Transit System" and "CERTAIN AUTHORITY FINANCIAL INFORMATION – Annual Budgets."

District of Columbia

In order to comply with the Stark-Harris Act, the District adopted D.C. Law 4-103, the Stable and Reliable Funding Source for WMATA Act of 1982, as amended ("Law 4-103"). Law 4-103 provides for designated revenues to be deposited in the District's General Fund for allocation to a Metrorail/Metrobus Account. As part of the District's annual budget, revenues from the identified sources under Law 4-103 may not be appropriated or expended for any purpose until after funds have been provided from such sources to the Authority in an amount sufficient to satisfy the District's obligation to the Authority to pay the District's share of the Authority's operating and Capital Costs and debt service. However, if those revenue sources are insufficient to make the required payments to the Authority, the District is still required to find other available sources of funds to satisfy its obligation to the Authority.

In addition, pursuant to the District of Columbia Financial Responsibility and Management Assistance Act of 1995, Public Law 104-8, as amended (the "Control Board Act"), the District of Columbia Financial Responsibility and Management Assistance Authority (the "Control Board") was established. The Control Board Act granted the Control Board substantial powers over the financial activities and management operations of the District government during any "Control Period" as defined in the Control Board Act. Under the provisions of the Control Board Act, a new Control Period will be initiated if, among other things, the District fails to make payments to any entity under an interstate compact, including the Compact, to which the District is a signatory. If a new Control Period were to be initiated under the existing Control Board Act, the Control Board would be reconstituted and resume its full statutory powers.

State of Maryland

In order to comply with the Stark-Harris Act, the Maryland General Assembly enacted Section 10-205 of the Annotated Transportation Code of Maryland to provide for its Stable and Reliable Funding Source to pay the share of the Authority's operating and Capital Costs and debt service attributable to the Participating Jurisdictions located in the State. The payment is made from the Transportation Trust Fund (the "Trust Fund") established under Section 3-216, as amended, of the Annotated Transportation Code of Maryland to the Washington Suburban Transit District ("WSTD"), which then makes payment to the Authority. The act creating the Trust Fund provides that there shall be credited to the Trust Fund for the account of the Maryland Department of Transportation (the "Department") all taxes, fees, charges and revenues collected or received by or paid, appropriated, or credited to the account of the Department or any of its units in the exercise of its rights, powers, duties or obligations. Payments from the Trust Fund to the WSTD for this purpose are made only after payments are made to meet the debt service requirements of the Department on its own outstanding debt. However, if the identified Stable and Reliable Funding Source is insufficient to make the required payments to the Authority, the State is still required to find other available sources of funds to satisfy its obligation to the Authority.

Commonwealth of Virginia

In order to comply with the Stark-Harris Act, the Virginia General Assembly enacted Section 58.1-1720 of the Code of Virginia, as amended (now found at Section 58.1-2295). Such act, as amended, imposes, in addition to all other taxes imposed by law, a tax upon every distributor who engages in the business of selling fuels at wholesale to retail dealers for retail sale in any county or city that is a member of any transportation district in which a rapid heavy rail commuter mass transportation system operating on an exclusive right-of-way, and a bus commuter mass transportation system, are owned, operated or controlled, a tax of 2.1% of the sales price charged by a distributor for fuels sold to a retail dealer for retail sale in any such county or city. Such is imposed at the time of sale by the distributor to the retail dealer.

The Participating Jurisdictions located in the Commonwealth are all members of the NVTC. The tax described in the preceding paragraph is collected by the Commonwealth, and remitted to NVTC where it is held in trust for its member jurisdictions' restricted use. The Participating Jurisdictions located in the Commonwealth are required to use the tax to fund its share of the Authority's operating and Capital Costs and debt service.

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

coordination with the Authority to ensure that the Participating Jurisdiction’s contribution be included in the annual budget submissions.

Remedies; Contractual Obligations

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

Historical and Projected Gross Revenues

The table below shows Gross Revenues (as defined in the Resolution and described above) collected by the Authority in fiscal years 2011 through 2015 and projected amounts for fiscal years 2016 and 2017.

Table 1. Gross Revenues and Debt Service Coverage, Fiscal Years 2011 – 2017⁽¹⁾

(\$000s)

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016⁽⁴⁾</u>	<u>2017⁽⁴⁾</u>
Passenger Revenues	\$720,603	\$731,974	\$771,975	\$765,014	\$807,879	\$810,011	\$791,934
Other Pledged Revenues ⁽²⁾	57,116	59,263	56,332	59,769	65,291	78,989	60,989
Operating Subsidies ⁽³⁾	<u>679,880</u>	<u>680,385</u>	<u>711,103</u>	<u>743,875</u>	<u>826,096</u>	<u>866,503</u>	<u>866,498</u>
Total Gross Revenues	<u>\$1,457,599</u>	<u>\$1,471,622</u>	<u>\$1,539,410</u>	<u>\$1,568,658</u>	<u>\$1,699,266</u>	<u>\$1,755,503</u>	<u>\$1,719,421</u>
Debt Service ⁽⁵⁾	\$53,461	\$48,485	\$43,062	\$34,845	\$26,827	\$20,982	\$20,973
Debt Service Coverage Ratio	27x	30x	36x	45x	63x	84x	82x

1. The Authority is on a July 1 to June 30 fiscal year.
2. “Other Pledged Revenues” in Table 1 is the aggregate of the amounts in Table 4 under the headings “Advertising Revenue,” “Rental Revenue,” and “Other Revenue” under “Operating Revenues,” and “Investment Income” and “Other” under “Nonoperating Revenues.”
3. These amounts reflect payments received from the Participating Jurisdictions from the Stable and Reliable Funding Sources or other sources for their respective shares of operating and maintenance costs of the Transit System. Note that Table 4 includes such amounts as a component of the “Jurisdictional subsidies, capital grants, and capital subsidies” line item rather than as part of “Total Revenues.”
4. The amounts shown for fiscal years 2016 and 2017 are projections of the Authority.
5. The amounts shown for debt service are presented on a cash basis.

The payment of debt service on the Series 2016A Bonds is secured by a pledge of the Trust Estate, a principal component of which is Gross Revenues. “Gross Revenues” as defined in the Resolution and as used in Table 1 above differs from the accounting concept of “Revenues” as reflected in the Authority’s audited financial statements and Table 4 herein. The table below compares these two concepts, and uses Fiscal Year 2015 for purposes of such comparison.

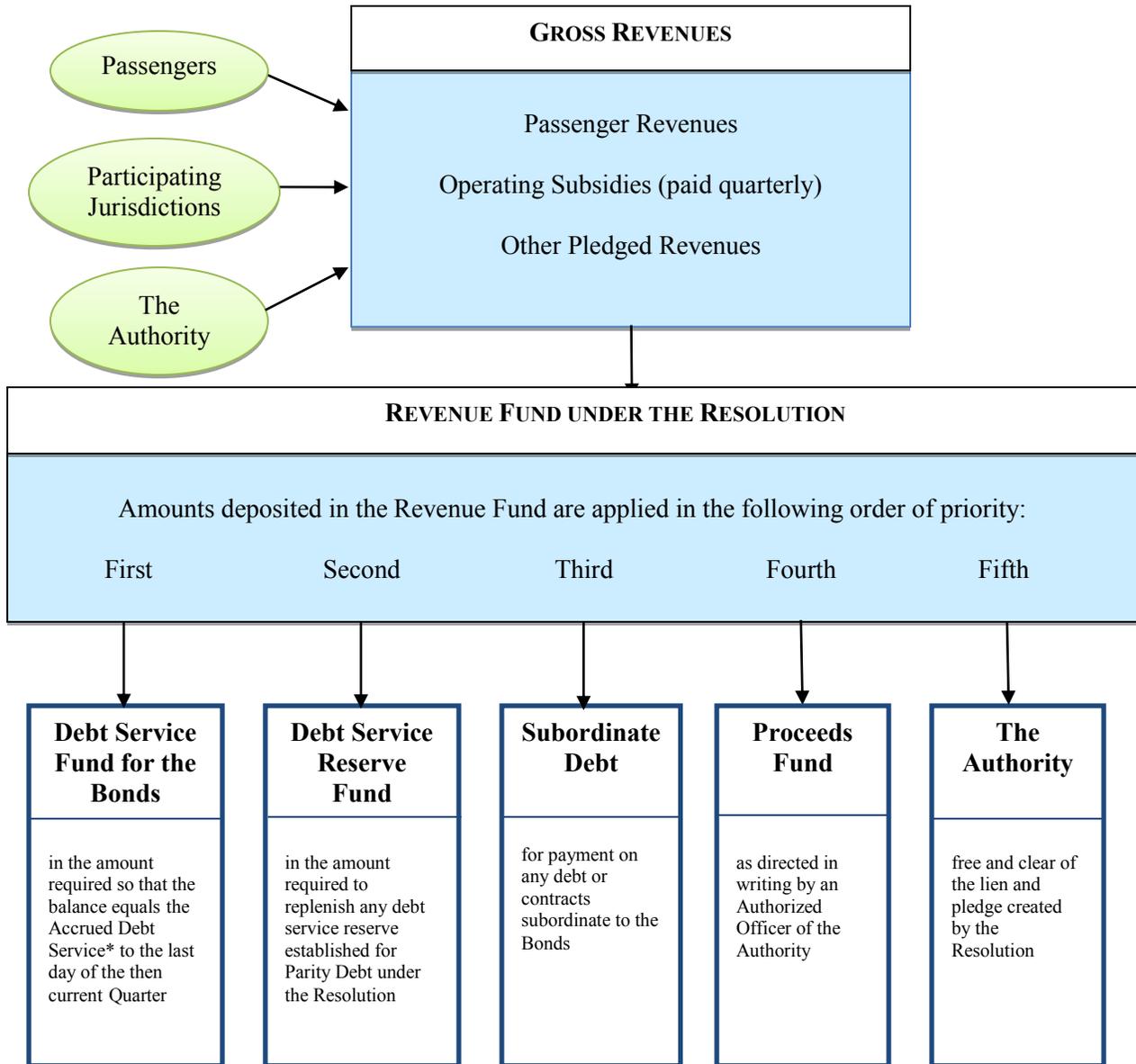
**Table 2. Gross Revenues (Resolution) vs. Revenues (Audited Financials) Comparison
(in thousands)**

Financial Statements	FY 15 amounts	A component of pledged “Gross Revenues” under the Resolution
Operating Revenues:		
Passenger	\$807,879	✓
Advertising	22,422	✓
Rental	21,601	✓
Other	229	✓
Nonoperating Revenues:		
Investment Income	769	✓
Interest Income from Leasing Transactions	11,407	X
Other	20,270	✓
Jurisdictional Subsidies:		
Capital	428,300 ⁽¹⁾	X
Operational	826,096	✓
Federal Funds (grants and subsidies): ⁽²⁾	644,092 ⁽¹⁾	X

1. Cash amounts. Such amounts are not discreetly reported in the FY 2015 Audited Financial Statements, but are included as part of capital contributions therein.
2. “Federal Operating Subsidies” are referred to in the definition of Gross Revenues and specifically excluded therefrom. The Federal government no longer provides operating subsidies to the Authority.

Flow of Funds

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



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

Parity Liens and Additional Indebtedness

Pursuant to the terms of the Resolution, the Authority is prohibited from creating a pledge of or lien on the Trust Estate which is superior to the pledge that secures the Bonds. However, the Authority may create a pledge of or lien on the Trust Estate that is on parity with the pledge that secures the Bonds, and in that connection incur additional indebtedness, provided that certain conditions set forth in the Resolution are satisfied. For a description of the Capital Improvement Plan of the Authority, including plans which may result in the issuance of additional Obligations, and certain outstanding debt of the Authority, see “CERTAIN AUTHORITY FINANCIAL INFORMATION – Capital Improvement Plan” and “– Outstanding Debt” herein.

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

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

Rate Covenant

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

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

ONGOING FINANCIAL AND OPERATIONAL CONCERNS

[Note: Information regarding upcoming Congressional hearing and NTSB hearing/report to come.]

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

- *Structural deficit (expenses exceeding revenues on a recurring basis); lack of a dedicated funding source*
- *Safety concerns and related matters;*
- *Litigation exposure from Metrorail accidents;*
- *Additional oversight;*
- *Drop in ridership levels;*
- *Internal control deficiencies and improper accounting for expenditure of grant funds;*
- *Resulting restriction that grant funds are received only after expenditures are approved by FTA, which has impacted both cash flow and capital spending;*
- *Delays in producing audited financial statements;*
- *Inability to spend capital funds in a timely fashion, despite significant capital needs;*
- *As a routine budgetary matter, transferring capital funds to pay operating expenses; and*
- *New senior management and significant turnover at the Board level.*

Structural Deficit; Lack of a Dedicated Funding Source

Pursuant to the Compact, the Participating Jurisdictions are obligated, subject to certain limitations, to provide funding to the Authority for their share of the Authority’s budget for capital and operating costs of the Transit System. Under the terms of the Compact and legislative enactments of the Participating Jurisdictions, the Stable and Reliable Funding Sources have been identified as the funding sources for capital, debt service, and operating subsidy payments, although each Participating Jurisdiction is not limited to the identified revenue sources in order to provide all obligated payments. The funds to be provided by or on behalf of each Participating Jurisdiction are subject to annual appropriation to provide for the projected annual operating deficit of the Transit System. As such, the Authority lacks a dedicated funding source (e.g., a sales tax, a property tax, a gas tax, etc.) to fund its operations and capital program. The lack of such a funding source is a key factor in the ongoing structural deficits.

While the Approved Fiscal Year 2017 Budget includes a net jurisdictional operating subsidy of \$845.3 million (excluding debt service) to eliminate the projected operating deficit of the Transit System (the same contribution level as fiscal year 2016). The operating deficit for fiscal year 2017 would be larger but for the use of capital funds for preventive maintenance activities (“PM Activities”) to support safety-related maintenance requirements. Such PM Activities are supported by FTA and permitted under FTA’s regulations. See “– Capital Budget Expenditures.”

During the fiscal year 2017 budget process, senior management of the Authority presented to the Board the structural challenges facing the Authority. According to the Authority’s projections, expense growth (particularly wage and fringe benefit growth for personnel) is outpacing revenue growth. The Authority is studying options to reduce this gap between revenues and expenses. As discussed below, the Authority is attempting to manage the cost necessary for safety and state of good repair projects. The Authority has identified that closing this structural gap will be critical to ensuring its long-term financial stability. While recent budget policy initiatives have sought to address structural deficits without raising fares, cutting service, increasing jurisdictional operating subsidies, or laying off employees, such initiatives are expected to be revisited as projected structural deficit levels grow to approximately \$2.0 billion by 2027 (based on the assumption that, over this period of time, expenses will grow at an average of 5%, while revenues will grow at an average of 2%).

For more information on the funding of the Transit System, see “THE TRANSIT SYSTEM.” For more information on the Approved Fiscal Year 2017 Budget, see “CERTAIN AUTHORITY FINANCIAL INFORMATION – Annual Budgets – *Fiscal Year 2017 Budget*.”

Safety Concerns and Related Actions

Since 2008, the Authority has experienced a series of serious rail incidents, some of which resulted in passenger and employee fatalities and serious injuries. The occurrence of these accidents resulted in the Federal Transit Administration (the “FTA”), Congress and the National Transportation Safety Board (the “NTSB”) taking action to evaluate and to correct the Authority’s safety failures.

Recent Unplanned Closures of Metrorail

On March 15, 2016, the Authority announced the full closure of the Metrorail system on March 16, 2016, for emergency inspections of Metrorail’s third-rail power cables following a tunnel fire on March 14, 2016, the cause of which may be similar to what caused the 2015 L’Enfant Plaza Accident (as defined below) and a subsequent Metrorail tunnel fire on February 11, 2015. The inspections of approximately 600 cables occurred along all tunnel segments on the Metrorail system. As described in “– *NTSB Safety Recommendations – GAO Report*,” following the tunnel fire on February 11, 2015 (about a month after the 2015 L’Enfant Plaza Accident), the NTSB recommended that the Authority develop and implement a program to ensure all power cables constructed and installed in accordance with engineering design specifications.

FTA Safety Related Actions

The SMI & SD 15-1. In response to concerns regarding the Authority’s recent safety performance, FTA conducted a Safety Management Inspection of the Authority’s Metrorail and Metrobus transit systems between March 16, 2015 and April 3, 2015 (the “SMI”). In the final report reflecting the results of this inspection, dated June 17, 2015 (the “SMI Final Report”), FTA noted that “the SMI identified organizational deficiencies and operational concerns that continue to limit the agency’s effectiveness in recognizing and resolving safety issues and hazards.” Perhaps most significantly, according to the SMI Final Report, the SMI found serious safety lapses in the rail operations control

center (the “ROCC”) related to (i) the training and certification of rail traffic controllers, (ii) the structure, organization and staffing of the ROCC, (iii) the availability of tools, procedures, and manuals, (iv) the quality the radio system and radio communications, and (v) the technology used to display and monitor the status of the transit system. The SMI Final Report noted that, collectively, these ROCC safety lapses “significantly impact the ability of the Metrorail system to schedule and conduct maintenance work, to manage abnormal and emergency events, and to ensure the safety of trains and personnel on the rail transit system.” The SMI also found that, as a result of increased passenger demands for service, the Authority’s work crews do not have sufficient access to the rail system to perform critical inspections and maintenance, resulting in thousands of backlogged work orders dating back to 2012 and 2013. According to the SMI Final Report, this “[l]ack of track access has left [the Authority’s] maintenance managers struggling to prioritize the most significant and safety critical repairs for completion, while deferring and re-scheduling work.”

As a result of the SMI, FTA issued 44 safety findings regarding the Authority’s Metrorail system (including, but not limited to, those mentioned in the prior paragraph). To ensure the resolution of these safety findings, FTA issued Safety Directive 15-1 (“SD 15-1”) to the Authority that identified 78 distinct corrective actions to be completed by Metrorail. The Authority submitted a corrective action plan (the “SD 15-1 CAP”) to accomplish the required actions set forth in SD 15-1, which FTA approved on September 24, 2015.

As described below under “– Authority Oversight – *Tri-State Oversight Committee*” and “– *Enhanced FTA Oversight*,” FTA assumed direct safety oversight over the Authority’s transit operations from the Tri-State Oversight Committee (the “TOC”), the state safety oversight agency previously responsible for overseeing Metrorail. In accordance with this assumed oversight authority, FTA is responsible for ensuring and verifying that the Authority implements the SD 15-1 CAP. As of March 25, 2016, of the 78 corrective actions set forth in SD 15-1, one has been closed, seven are requested closed by the Authority, four are past due, and 66 remain open. In order for any corrective action to be closed, FTA must verify that the Authority has demonstrated successful implementation.

SD 16-2. On December 15, 2015, FTA issued Safety Directive 16-2 (“SD 16-2”) in order to require the Authority to take corrective action to resolve 217 open Metrorail related safety findings previously issued by the TOC. FTA will enforce the implementation of these required actions as part of its direct safety oversight authority. See “– Authority Oversight – *Tri-State Oversight Committee*” and “– *Enhanced FTA Oversight*” below. Many of the open safety findings identified in SD 16-2 relate to, according to FTA, “safety-critical items or activities.” Among the open safety findings identified in SD 16-2 were those issued by the TOC in response to the NTSB Safety Recommendations described below under “– *NTSB Safety Recommendations*.”

The Authority has responded to FTA on SD 16-2 and has submitted related corrective action plans (“SD 16-2 CAPs”) to FTA on March 14, 2016. As of the date of this Official Statement, the SD 16-2 CAPs remain open.

NTSB Safety Recommendations

GAO Report. On July 15, 2015, the U.S. Government Accountability Office (the “GAO”) delivered to the United States Senate and House of Representatives Committees on Appropriations a report (the “GAO Report”) that summarized, in part, the Authority’s progress addressing safety weaknesses identified by the NTSB.

According to the GAO Report, between 2008 and June 2015 the NTSB has issued 29 safety recommendations to the Authority stemming from four Metrorail accidents and a non-Authority accident

that occurred in May 2008, for which NTSB issued two recommendations to all U.S. transit agencies. As of June 2015, eight of these 29 safety recommendations remained open and, of these eight, three were designated “urgent” by the NTSB (“urgent” safety recommendations are typically issued when the NTSB identifies an imminent hazard before completing its final report and are expected to be closed, according to NTSB officials, within 6 months to year after issuance). The three urgent NTSB safety recommendations resulted from the NTSB’s then ongoing investigation pertaining to the January 12, 2015 accident near the L’Enfant Plaza Station that resulted in one passenger fatality and the medical transportation of 68 passengers due to heavy smoke (the “2015 L’Enfant Plaza Accident”), and recommended that the Authority: (i) assess its subway ventilation system to verify the state of good repairs and compliance with industry best practice, (ii) develop and implement detailed written tunnel ventilation procedures, and (iii) incorporate new tunnel ventilation procedures into the Authority’s training programs. Following a tunnel fire with circumstances similar to the 2015 L’Enfant Plaza Accident, the NTSB also recommended that the Authority develop and implement a program to ensure all power cables constructed and installed in accordance with engineering design specifications. Such recommendation was issued after, on February 11, 2015, a Metrorail train traveling between Court House and Rosslyn Stations encountered smoke in a tunnel. The NTSB investigated the incident to determine if there are any similarities to the 2015 L’Enfant Plaza Accident and issued its recommendation after NTSB investigators found that some electrical components associated with power supply to the third rail were improperly constructed and installed, which can allow for moisture and contaminants to enter and cause potential short circuiting. See “– *Recent Unplanned Closures of Metrorail.*”

The NTSB expects to publish its final report of the 2015 L’Enfant Plaza Accident, and any additional recommendations, in 2016. Safety recommendations issued by the NTSB are intended to prevent similar accidents from occurring in the future. The NTSB does not have any authority to enforce its recommendations.

The TOC adopted the safety findings related to the open NTSB safety recommendations identified in the GAO Report. Subsequent to such date, due to series concerns regarding TOC’s effectiveness, FTA assumed lead responsibility for safety oversight of the Authority’s rail system. As part of this oversight FTA issued a safety directive ordering the Authority to take corrective action to resolve all of the open safety findings previously issued by the TOC, including those related to the open NTSB safety recommendations identified in the GAO Report. See “– *FTA Safety related Actions – SD 16-2*” above and “– *Authority Oversight – Enhanced FTA Oversight*” below.

The Authority continues to work to implement the safety actions issued by FTA in response to the open NTSB safety recommendations described above. In order for any corrective action to be closed, FTA must verify that the Authority has demonstrated successful implementation.

Subsequent NTSB Safety Recommendations. On September 30, 2015, the NTSB issued two urgent safety recommendations (collectively, “NTSB R-15-31 & -32”) to the U.S. Department of Transportation (the “DOT”) stemming from the NTSB’s ongoing investigation of the 2015 L’Enfant Plaza Accident and from other events that, in the opinion of the NTSB, indicated inadequate oversight of the Authority. NTSB R-15-31 & -32 recommend that the DOT seek a legislative change from Congress that would transfer responsibility for oversight of the Authority’s transit rail operations from the TOC to the Federal Railroad Administration (the “FRA”). For a discussion concerning the rationale behind the issuance of NTSB R-15-31 & 32, the DOT’s response to such recommendations and recent changes to the Authority’s oversight regime, see “– *Authority Oversight*” below.

Litigation Exposure from Metrorail Accidents

L'Enfant Plaza Accident Litigation

The family and estate of the passenger killed as a result of the 2015 L'Enfant Plaza Accident filed a law suit against the Authority in January 2015. The suit alleges, in part, that the passenger's death was the result of the Authority's "negligently, carelessly, and wrongfully failing to take reasonable precautions to protect its passengers from injury and death" and seeks a judgment against the Authority in an amount of \$50,000,000 plus interest and costs. The court has stayed all actions in this litigation until the NTSB issues its final report. The Authority carries excess general liability insurance for losses in excess of \$5,000,000.

Authority Oversight

Tri-State Oversight Committee

Pursuant to the Intermodal Surface Transportation Efficiency Act of 1991, Congress directed FTA to establish the State Safety Oversight (the "SSO") program, which went into effect in 1997. The SSO program requires each state to establish a state safety oversight agency (a "SSOA") responsible for establishing requirements for rail transit safety and monitoring the performance of rail transit agencies in accordance with those requirements. The Tri-State Oversight Committee (the "TOC") was created pursuant to a memorandum of understanding between the Virginia Department of Rail and Public Transportation, the Department of Transportation of Maryland and the Department of Transportation of the District of Columbia, to serve as the SSOA for the Authority.

As the designated SSOA for the Authority, the TOC is required to develop and adopt a system safety program standard, a document that establishes the relationship between the oversight agency and the rail transit agency and that specifies the requirements that the rail transit agency must follow. The program standard must include requirements for safety practices to reduce the likelihood of unintentional events that may lead to death, injury, or property damage and security practices to reduce intentional wrongful or criminal acts or terrorist activities. The TOC has no legal authority for enforcement of its findings and recommendations concerning the safety of the Authority's rail system, and consequently must rely on the Authority to respond appropriately and timely to any such findings and recommendations.

Enhanced FTA Oversight

Following the issuance of its Final Report on the 2015 SMI and Safety Directive 15-1 (as described above under "– Safety Concerns and Related Actions – *FTA Safety Related Actions*"), the Secretary of Transportation, on October 9, 2015, directed FTA to immediately take lead responsibility for safety oversight of the Authority's rail system until the three participating jurisdictions replace the TOC with a SSOA that satisfies the requirements of the Moving Ahead for Progress in the 21st Century Act ("MAP-21"). This directive resulted from the Secretary's conclusion that the TOC "lacks sufficient resources, technical capacity, and enforcement authority to provide the level of oversight that is needed" and that "the TOC, as currently established, is ineffective." See "– *MAP-21 and Related Regulations*" below. The Secretary of Transportation issued this directive in a letter, dated October 9, 2015, to the Chairman of the NTSB in response to NTSB R-15-31 & -32. See "– *NTSB R-15-31 & -32 and FTA Response*" below.

FTA issued Safety Directive 16-1 ("SD 16-1") in order to outline the respective roles of FTA and TOC in the wake of FTA assuming temporary, independent safety oversight authority of the Authority's

transit rail operations. In accordance with SD 16-1, FTA will (1) assume from the TOC the overall lead responsibility for safety oversight of the Authority, (2) conduct inspections, investigations, audits, examinations and testing of the Authority's equipment, facilities and operations, (3) make reports and issue directives in order to address any safety concerns, (4) oversee and ensure the Authority's implementation of the SD 15-1 CAP and all other approved corrective action plans of the Authority, and (5) direct the use of certain Federal funds received by the Authority to correct the safety deficiencies identified in the SD 15-1 CAP or in any other approved corrective action plan. SD 16-1 requires the TOC to remain compliant with the requirements of the SSO program, though FTA (until the participating jurisdictions establish a MAP-21 compliant SSOA) will assist the TOC in order to ensure that all applicable federal regulations are met.

FTA issued SD 16-1 pursuant to MAP-21, which granted new enforcement authorities to FTA. See “– *MAP-21 and Related Regulations*” below. According to FTA, FTA has not assumed direct safety oversight of any other public transit system.

MAP-21 and Related Regulations

MAP-21, which became effective on October 1, 2012, imposed new statutory mandates on each state's SSO program. Specifically, MAP-21 requires each SSO program to endow the related SSOA with (a) legal and financial independence from the rail system it oversees, (b) the authority, staff training, and expertise to enforce federal and state safety laws, and (c) the power to investigate, correct and resolve safety deficiencies and hazards. In accordance with MAP-21, FTA must certify that each SSOA is adequate and that it satisfies the aforementioned requirements. If a SSOA fails to receive such certification within 3 years of FTA promulgating its final SSO related regulations, MAP-21 prohibits FTA from providing any federal grant funding to the host state or any public transportation agencies within such state. FTA published its final SSO related regulations on March 16, 2016, with an effective date of April 15, 2016. MAP-21 also granted FTA enforcement authority in order to help ensure compliance with MAP-21's requirements, including the power to issue directives, to require more frequent oversight and to compel that FTA grant funds be spent to correct safety deficiencies before such funds are spent on any other projects.

NTSB R-15-31 & -32 and FTA Response

On September 30, 2015 the NTSB issued NTSB R-15-31 & -32, two urgent safety recommendations stemming from the NTSB's ongoing investigation of the 2015 L'Enfant Plaza Accident and from other events that, in the opinion of the NTSB, indicated inadequate oversight of the Authority. NTSB R-15-31 & -32 recommended that the DOT seek a legislative change from Congress that would transfer responsibility for oversight of the Authority's transit rail operations from the TOC to the FRA. This recommendation stemmed from (a) the NTSB's perceived deficiencies with the current TOC regime, MAP-21 and the proposed MSC, and (b) its contention that FRA oversight of the Authority, because of the FRA's “robust inspection, oversight, regulatory and enforcement authority,” would “prevent accidents and save lives.”

With respect to the TOC, NTSB R-15-31 & -32 cited the factors that led to the TOC's failed MAP-21 certification (including, but not limited to, the TOC's lack of enforcement authority and limited full time staff) as evidence that significant safety, oversight and organizational issues exist at the TOC. Regarding MAP-21, the NTSB contended that MAP-21 only granted FTA a single regulatory enforcement tool (the authority to withhold funds or direct that funds be spent to correct safety deficiencies) and thus did not provide the enforcement mechanisms exercised by other agencies (like the FRA) that oversee commuter rail systems with infrastructure complexities comparable to the Authority. And, with respect to the creation of the MSC, NTSB R-15-31 & -32 identified issues that could prohibit

the implementation of a MAP-21 compliant MSC (including, but not limited to, the multijurisdictional nature of the MSC and the budgetary, legal and resource constraints of the participating jurisdictions) and that would, even if such issues could be resolved, delay its implementation until at the earliest, according to the TOC chairman, 2019.

In NTSB R-15-31 & -32, the NTSB provided justifications for why, in its opinion, the FRA is the more appropriate oversight authority of the Authority. Such justifications included, but were not limited to, (i) FRA's current safety enforcement and oversight of the Port Authority Trans-Hudson Corporation ("PATH"), a rail transit system that, according to the NTSB, is similar to the Authority, (ii) FRA's ability to issue civil penalties, individual liability penalties, compliance orders and emergency orders, enforcement tools that, according to the NTSB, cannot be exercised by either FTA and the TOC, and (iii) the FRA's ability to utilize about 400 federal and 165 states officials to enforce federal railroad safety regulations and laws.

The Secretary of Transportation of the DOT (the "Secretary") responded to NTSB R-15-31 & 32 on October 9, 2015. In his response, the Secretary agreed with the NTSB's conclusion regarding the ineffectiveness of the TOC to adequately provide safety oversight of the Authority's transit rail operations. However, the Secretary asserted that the safety concerns resulting from the TOC's ineffectiveness would be best addressed by the implementation of SD 16-1 (as described above under "*Enhanced FTA Oversight*") instead of the recommendations set forth in NTSB R-15-31 & 32. This assertion stemmed from the Secretary's conclusion that the NTSB's recommendations would "[shift] oversight from one agency to another one, creating confusion and a greater risk of slowing down improvements" and his believe that "[the Authority] does not have an understanding or familiarity with FRA regulations, and separating their rail and bus oversight into different regulatory structures would confuse and likely delay safety improvements." For additional information concerning SD 16-1, see "*Enhanced FTA Oversight*" above.

Drop in Ridership Levels

Over the course of recent fiscal years, the Authority has experienced ridership declines and challenges with customer satisfaction. In October 2015, the Authority's management updated the Board on current trends in ridership, with a particular focus on the challenges facing Metrorail ridership. Compared to its peak in fiscal year 2009, Metrorail average weekday ridership in fiscal year 2015 had declined by approximately five percent (5%) due to a number of external challenges, including growth in telecommuting and new competitors in the transportation market. Through the first half of fiscal year 2016, ridership dropped further due to customer service issues, including declining service reliability.

As described in "CERTAIN AUTHORITY FINANCIAL INFORMATION – Transit System Ridership," the Approved Fiscal Year 2017 Budget projects (i) total rail ridership levels of 201.5 million for fiscal year 2017, a decline of 8.4 million (4.0%) compared to the budgeted fiscal year 2016 level, (ii) total bus ridership levels of 135.6 million for fiscal year 2017, a decline of 4.5 million (3.2%) compared to the budgeted fiscal year 2016 level, and (iii) total MetroAccess ridership levels of 2.44 million, an increase of 4.5% compared to the budgeted fiscal year 2016 level.

Projected total ridership for fiscal year 2017 (339.5 million) is at its lowest level since fiscal year 2006 (329.4 million). As a result of reduced ridership, revenue from passenger fares and parking fees in the Approved Fiscal Year 2017 Budget is projected to be \$839.0 million, a decline of \$20.0 million (2.3%) compared to the approved fiscal year 2016 level.

Internal Controls and Restricted Procedures for Federal Grant Funding

FTA Financial Management Oversight

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

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

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

Material Weaknesses

In the FMO Report, a "material weakness" is defined as a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected in a timely manner.

Budget Controls. With respect to the material weakness in budget controls, the FMO Report indicates that the Authority did not have adequate controls in place to ensure that federal expenditures were incurred and charged to grants in accordance with approved budgets.

To address this material weakness, FTA recommended that the Authority (a) complete the reconciliation of all costs charged to all active grants to the allowable budget categories, or activity line items, specified in the federal awards, (b) submit to FTA any requests for budget revisions or amendments for grants necessary as result of the reconciliation, and (c) develop and submit to FTA policies and procedures to ensure expenditures incurred are charged to federal grants in accordance with approved budgets. As of the date of this Official Statement, the Authority has implemented these FTA recommendations regarding its budget controls. FTA currently is implementing a validation plan to verify the accuracy of these controls.

Controls over Reporting of Federal Expenditures. With respect to the material weakness in controls over reporting of federal expenditures, the FMO Report indicates that the Authority did not have

adequate controls in place to ensure that federal expenditures were accurately reported. Such weakness was evidenced by (i) current and cumulative expenditures reported in the Federal Financial Reports (“FFRs”) for certain grants that included potentially unallowable costs, and (ii) expenditures reported in the Authority’s annual single audit report for fiscal year ended June 30, 2012, that differed by material amounts from expenditures reported in the FFRs and National Transit Database report for the same period.

To address this material weakness, FTA recommended that the Authority develop and submit to FTA processes to ensure (a) only allowable costs are reported in the FFRs and (b) information used to report expenditures in the FFRs is consistent with the information used to report expenditures in other annual reports. As of the date of this Official Statement, the Authority has implemented these FTA recommendations regarding its controls over reporting of federal expenditures. FTA currently is implementing a validation plan to verify the accuracy of these controls.

Controls over Procurement. With respect to the material weakness in controls over procurement, the FMO Report indicates that the Authority did not have adequate controls in place to ensure that goods and services were procured in accordance with federal regulations. Such weakness was evidenced by the following: (i) a major procurement was executed without an adequate competitive process, (ii) options were exercised in connection with a contract after it was found not to meet FTA procurement standards, (iii) procedures for determining whether procurements will be funded with federal or local sources are not adequately documented, (iv) procurements made using the simplified acquisition process appeared to be improperly split to avoid formal competitive procurement procedures, (v) independent cost estimates were either not prepared or not done in a timely manner, and (vi) a procurement file was not prepared in a timely manner.

To address this material weakness, FTA recommended that the Authority develop and submit to FTA (a) documentation that the Authority’s procurement staff has received training on federally funded procurement requirements, (b) a process to ensure full and open competition practices are followed in procuring products and services, (c) procedures for determining whether procurements will be funded using federal or local sources, (d) an updated procurement file checklist to include a requirement for an independent cost estimate, and (e) procedures to ensure all components of procurement files are assembled in a timely manner. As of the date of this Official Statement, the Authority has implemented these FTA recommendations regarding its controls over procurement. FTA currently is implementing a validation plan to verify the accuracy of these controls.

Federal Grant Restrictions

Under the FTA Master Agreement, most grant recipients are reimbursed for expenses with grant funds through the FTA Electronic Clearinghouse Operation Web System, an automated clearinghouse payment method (the “ECHO System”).

Under the ECHO System, grantees follow certain procedures by which they drawdown grant funds without direct FTA approval. FTA does not generally review drawdowns when made, but reserves the right to review drawdowns at a later time. Such drawdowns may be subject to an audit under financial oversight review, a triennial review, or another audit. FTA may revoke or suspend a recipient’s access to the ECHO System as the result of certain violations of federal regulations, the FTA Master Agreement, or grant agreements.

As a result of the findings in the FMO Report, FTA suspended the Authority’s access to the ECHO System. Since March 2014, the Authority has been required to obtain direct FTA approval for funds to be drawn down at which time the Authority’s access to the ECHO System is temporarily

reinstated for the amount of the approved draw. Such process has considerably delayed the Authority's receipt of such grant funds. Levels of unrestricted cash for the Authority's capital program have been impacted by the timing delays in the federal grant reimbursements. To address such cash flow and capital spending issues, the Authority issued a \$200 million privately-placed one-year grant anticipation note ("GAN") in October 2014. The GAN was fully drawn to support the short term cash flow needs of the Authority's capital program and, as of October 2015, was fully repaid. The Authority also utilizes lines of credit with banks to address its cash flow needs. As of March 31, 2016, the Authority's outstanding balance for its \$302.5 million lines of credit was \$218.75 million. For more information on the Authority's outstanding indebtedness, see "CERTAIN AUTHORITY FINANCIAL INFORMATION – Outstanding Debt." As of the date of this Official Statement, the Authority continues to use the restricted ECHO System, as described above, to draw down federal grant funds. This restricted method for receiving federal grants funds no longer impacts planned capital spending. Since the restricted access to the ECHO System began and through March 2016, the Authority has received \$846 million in FTA funds.

GAO Report

On July 15, 2015, GAO issued the GAO Report that summarized, in part, its review of the Authority's progress responding to FTA's recommendations in the FMO Report. The GAO Report also addresses certain safety recommendations from NTSB, which are discussed in "– Safety Concerns and Related Actions – *NTSB Safety Recommendations* – GAO Report." As set forth in the GAO Report, GAO conducted its review from March 2015 to July 2015.

In the GAO Report, GAO assessed the extent to which the Authority's financial management controls incorporate the risk assessment and monitoring components of internal control. To do so, it evaluated the nature of the internal control deficiencies identified in the FMO Report using the internal control framework published by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Such framework sets forth five components of internal control (i) control environment, (ii) risk assessment, (iii) control activities, (iv) information and communication, and (v) monitoring. According to the GAO Report, the COSO guidance has been adopted as the generally accepted framework for internal control and is recognized as the standard against which organizations measure the effectiveness of their systems of internal control. GAO focused on examining the risk assessment and monitoring components of internal control, as the majority of FTA's recommendations to the Authority were related to those internal control components. In conducting this aspect of its review, GAO also interviewed officials from the Authority and FTA.

As described in the GAO Report, according to FTA's assessment, the Authority has generally been responsive to the 38 financial management recommendations included in the FMO Report. As of the date of the GAO Report, the Authority had taken positive steps toward addressing 62 of the 65 FMO CAPs resulting from such recommendations. The GAO Report noted that FTA does not plan to close its recommendations to the Authority until it can verify that the Authority's corrective actions have been implemented and are functioning. As of the date of this Official Statement, such process is underway.

During its review, GAO determined that some of the deficiencies in the FMO Report were identified in prior oversight reviews and audits, namely FTA's financial management oversight review from 2008 and the Authority's Office of Inspector General audit report from 2008. Many of these deficiencies were related to the Authority's controls over federal expenditures and whether such expenditures were appropriately accounted for or reported in accordance with federal grant agreements.

While noting that the Authority has taken positive steps toward implementing the FTA recommendations from the FMO Report, the GAO Report concludes that the Authority (i) has not

established a policy and related procedures for conducting periodic assessments of its financial management-related risks and (ii) is not currently monitoring the achievement of its financial management internal control objectives in a manner to achieve maximum results. The GAO Report further concludes that without establishing such policies and procedures and monitoring capabilities, FTA's findings could resurface in the future or hamper the Authority's ability to prevent, or detect and correct, in a timely manner, a material misstatement in its internal and external reporting.

GAO Recommendations. To strengthen the Authority's risk assessment and monitoring components of internal control, GAO recommended that the Board, working with the General Manager and Chief Executive Officer, direct the appropriate officials to (i) develop and implement a policy and related procedures for assessing the Authority's financial management-related risks, and (ii) develop and implement a policy and related written procedures for the Authority's Office of Internal Control and Compliance (the "OICC") to monitor the design and operating effectiveness of the five components of internal control related to financial management. The necessary policies have been adopted and the related procedures are expected to be developed and implemented by June 30, 2016. The OICC has initiated a comprehensive assessment of financial management-related risks, which is expected to be completed by June 30, 2016.

Delays in Producing Audited Financial Statements

The Authority is on a July 1 – June 30 fiscal year. In recent fiscal years, the Authority's audited financial statements were not filed by the deadline required under its continuing disclosure undertakings (which is four months after the end of the fiscal year (October 31)). The Authority's audited financial statements for the fiscal year ended June 30, 2014 were filed on August 11, 2015 (the "FY 2014 Audited Financial Statements"), approximately 10 months after the filing deadline. The FY 2015 Audited Financial Statements were filed on December 17, 2015, approximately two months after the filing deadline. The FY 2014 Audited Financial Statements and the FY 2015 Audited Financial Statements were prepared by McGladrey LLP ("McGladrey"), the Authority's current auditor.¹ The delays in producing the FY 2014 Audited Financial Statements and the FY 2015 Audited Financial Statements can be attributed primarily to financial reporting errors, which were identified as a result of the FTA's financial management oversight review and are described below. For more information on such review, see "– Internal Controls and Restricted Procedures for Federal Grant Funding."

In delivering the FY 2014 Audited Financial Statements, McGladrey issued a qualified opinion, citing certain issues that were identified with the Authority's reported amounts of restricted net position. In its report, McGladrey states that:

[The Authority] reported amounts of restricted net position in the accompanying financial statements, but is unable to substantiate such amounts with proper supporting financial information. Accounting principles generally accepted in the United States of America require the financial statements to report the amount of net position at the end of the reporting period that is restricted. We are unable to determine the effect such error has on the net position classifications.

McGladrey's report accompanying the FY 2014 Audited Financial Statements also indicates that certain financial information for the fiscal years ended June 30, 2012 and June 30, 2013 was restated (relating to overstatements of net position). There were also other modifications to certain financial

¹ On October 26, 2015, McGladrey changed its name to RSM US LLP. The FY 2015 Audited Financials were delivered on RSM US LLP letterhead.

information for the fiscal year ended June 30, 2013, relating to the Authority's implementation of the recognition and disclosure requirements of Governmental Accounting Standard Board Statement No. 65, which establishes accounting and financial reporting standards involving items previously reported as assets and liabilities ("GASB 65"). As explained in the FY 2014 Audited Financial Statements, under GASB 65, "debt issuance costs are no longer presented as an asset to be amortized over the life of the debt, but are to be expensed in the year in which incurred," and, as a result, depreciation and amortization expenses for fiscal year 2013 increased by \$2.8 million.

In the course of preparing the FY 2014 Audited Financial Statements, it was determined that the Authority's audited financial statements for the fiscal year ended June 30, 2013 (the "FY 2013 Audited Financial Statements") would need to be restated in part. On August 6, 2015, the Authority's auditor for the FY 2013 Audited Financial Statements, CliftonLarsonAllen LLP ("CliftonLarsonAllen"), advised that the "previously issued June 30, 2013 financial statements ha[d] been restated for the correction of material misstatements in the report period." The material misstatements involved reporting errors affecting the Authority's beginning net position and the restatement includes corrections to grant receivables, accounts payable (railcars), net pension asset, reimbursable projects, and prefunded lease commitments – railcars. CliftonLarsonAllen reissued and restated the FY 2013 Audited Financial Statements, redated Notes 13 (discussing Notes 4, 7, and 12) and 14 to August 6, 2015, and otherwise retained the date of October 15, 2013 for the rest of their report. Notwithstanding the restatements described in this paragraph, CliftonLarsonAllen's opinion regarding the FY 2013 Audited Financial Statements remains unmodified.

Capital Budget Expenditures

In recent fiscal years, the Authority has experienced challenges in spending the full amount of its approved capital budgets. On January 14, 2016, the Authority's senior management presented a report on its capital program to the Board's finance and administration committee (the "Capital Program Review"). In fiscal years 2011-2015, the Authority spent 71%, 74%, 79%, 79%, and 65% of its approved capital budget, respectively. In fiscal year 2014 and fiscal year 2015, investment through the capital program decreased for various reasons, including vendor delays in bus and railcar deliveries, the purchase of materials requiring longer manufacturing times, and construction projects starting later than forecasted. See "THE TRANSIT SYSTEM – Funding the Capital Costs of the Transit System – *Capital Program Review*" herein.

According to the Capital Program Review, insufficient management controls were put in place to establish formal processes and procedures to initiate projects, efficiently monitor progress based on scope and schedule, and validate budget requests for future years based on schedule. Contract delays were also highlighted as a key factor contributing to capital budget underspending.

In the Approved Fiscal Year 2017 Operating Budget, the Authority has budgeted to use certain capital funds for PM Activities to support safety-related maintenance requirements, which allows the budget to be balanced without raising fares, cutting service, increasing jurisdictional operating subsidies, or laying off employees. The Authority's operating deficit for fiscal year 2017 would be larger but for the use of such funds for PM Activities. PM Activities are supported by FTA and permitted expenditures under FTA's regulations. In the Approved Fiscal Year 2017 Operating Budget, the Authority has increased the amount of eligible PM Activities funded through the capital budget from \$31 million in fiscal year 2016 to \$95 million in fiscal year 2017.

For more information on the funding of the Transit System and the Capital Program Review, see "THE TRANSIT SYSTEM." For more information on the Approved Fiscal Year 2017 Budget, see "CERTAIN AUTHORITY FINANCIAL INFORMATION – Annual Budgets – *Fiscal Year 2017 Budget*."

Senior Management and Board Turnover

The Authority is governed by its Board, comprised of eight voting Directors and eight alternate Directors from each signatory to the Compact and the Federal government. Subject to policy direction and delegations from the Board, the General Manager/Chief Executive Officer is responsible for the operations and functions of the Authority and directs staff in implementing and carrying out the programs and initiatives of the Authority. In recent fiscal years, the Authority has experienced significant turnover at the senior management and Board levels.

In November 2015, Paul J. Wiedefeld was appointed as the Authority's new General Manager and Chief Executive Officer. In addition to the appointment of Mr. Wiedefeld, there are several other new members of the senior executive and financial management staff. For more information on the Authority's senior executive and financial management team, see "THE AUTHORITY – Organization – *Management.*"

At the Board level, eleven (11) of the sixteen (16) Directors, have held their current positions on the Board for two (2) years or less. A new Chairman, Jack Evans, was elected in January 2016. For more information on the Board, see "THE AUTHORITY – Organization – *The Board.*"

Authority's Response to Certain Concerns

The Authority continues to make progress towards addressing many of the ongoing financial and operational concerns described in this section, including: (i) addressing the FMO CAPs on a timely basis, and working with FTA to close out such actions; (ii) addressing the SMI CAPs and submitting required paperwork to document completion of those actions; and (iii) developing, in coordination with FTA, a path forward for restoration of full ECHO System privileges.

THE AUTHORITY

The Authority was created effective February 20, 1967, pursuant to the Compact and the Capital Transportation Act. The Authority has adopted and from time to time revised a mass transit plan to provide public transportation services in the Participating Jurisdictions. The plan, which provides the basis for locating rail lines and stations and for routing bus service, may be amended following public dissemination of such proposed modifications and public hearings. The Authority is an agency and instrumentality of the Commonwealth, the State, and the District, and is dependent upon these governmental units and the remaining Participating Jurisdictions for financial support to meet a portion of its operating and capital expenses.

Organization

The Authority is governed the Board, which is composed of eight voting directors and eight alternate directors from each signatory to the Compact and from the Federal government (the "Directors"). The Directors for the Commonwealth are appointed by the Northern Virginia Transportation Commission ("NVTC"); for the District, by the Council of the District of Columbia (the "Council"); for the State, by the Washington Suburban Transit Commission ("WSTC"); and for the Federal government, by the Secretary of Transportation. Alternate directors to the Board may act only in the absence of the Director for whom they were appointed as alternates, except in the case of the District where either alternate may act in the event of a District Director's absence.

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

The Board

The present Directors, the jurisdiction represented, the date of each Director’s appointment to the Board, and their occupations are set forth below:

<u>Name of Director</u>	<u>Jurisdiction Represented</u>	<u>Date of Appointment</u>	<u>Occupation</u>
Jack Evans, Chairman	District of Columbia	January 2015	Member of the District City Council (Ward 2)
Keturah D. Harley, First Vice Chairman	State of Maryland	April 2015	Attorney
Jim Corcoran, Second Vice Chairman	Commonwealth of Virginia	February 2015	President and Chief Executive Officer of the Fairfax County Chamber of Commerce
Corbett A. Price	District of Columbia	March 2015	Chairman and Chief Executive Officer of Quantix Health Capital, LLC
Mortimer L. Downey	Federal Government	January 2010	Transportation Consultant
Harriet Tregoning	Federal Government	November 2014	Director of the Office of Economic Resilience at the U.S. Department of Housing and Urban Development
Michael Goldman	State of Maryland	June 2013	Attorney
Catherine Hudgins	Commonwealth of Virginia	January 2004	Member of the Fairfax County Board of Supervisors

Alternate Directors

Tom Bulger	District of Columbia	July 2011	President of Government Relations Inc.
Leif A. Dormsjo	District of Columbia	March 2015	Director of the District Department of Transportation
Anthony E. Costa	Federal Government	July 2014	Senior Advisor to the Administrator of the General Services
Anthony R. Giancola, P.E.	Federal Government	February 2007	Professional Engineer
Malcolm Augustine	State of Maryland	July 2015	Customer Relations Executive at Intra Mail Network
Kathy Porter	State of Maryland	January 2011	Former Mayor of Takoma Park and board member of various transportation agencies
Christian Dorsey	Commonwealth of Virginia	January 2016	Member of the Arlington County Board
Paul C. Smedberg	Commonwealth of Virginia	January 2016	Member of the Alexandria City Council

Management

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

Paul J. Wiedefeld, *General Manager and Chief Executive Officer.* Paul J. Wiedefeld became the General Manager and Chief Executive Officer in November 2015. He has more than 30 years of public and private sector transportation management experience. Prior to joining the Authority, he twice served as the Executive Director and Chief Executive Officer of the Maryland Aviation Administration, managing the Baltimore/Washington International Thurgood Marshall Airport ("BWI"). Under Mr. Wiedefeld's leadership from 2009 to 2015, BWI grew to provide service to 22 million passengers annually, becoming the leading airport in the Washington, D.C. region through route expansion and significant airport development. During his tenure from 2002-2005, Mr. Wiedefeld managed the largest expansion in BWI's history that included the design and construction of a 26-gate terminal, an 8,400-space parking garage, and a modern consolidated rental car facility. From 2007-2009, Mr. Wiedefeld served as Administrator of the Maryland Transit Administration, managing the day-to-day operations of the nation's 13th largest transit system, including commuter rail, subway, light rail, buses, and paratransit. During his tenure, the agency expanded the number of locomotives and railcars for the Maryland commuter rail system and negotiated contracts with labor unions. He received a Bachelor of Science degree in Political Science and a Master's degree in City and Regional Planning from Rutgers University.

Jack Requa, *Acting Chief Operating Officer.* Jack Requa was designated as Acting Chief Operating Officer in March 2016. In this role, he is responsible for all transportation service provided by the Authority, including bus, rail and paratransit, along with the Metro Transit Police, parking, general maintenance, and special projects, such as the Silver Line rail expansion. Mr. Requa has been with the Authority since April 1998. He has previously served as Assistant General Manager for Bus Service and two tours as Interim General Manager. Other positions of note include Director of Bus Operations for the Massachusetts Bay Transportation Authority, various senior level positions for Houston Metro, and Deputy General Manager for the Bi-State Transit Authority in St. Louis. Mr. Requa holds a Bachelor of Arts degree in Business Administration from Western Washington University (Bellingham WA).

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

Mark R. Pohl, *Acting General Counsel.* Mark R. Pohl was designated Acting General Counsel in January 2015. He leads and manages the Office of General Counsel, which is composed of nine sections covering almost all areas of American civil law. Mr. Pohl joined the Authority in November 1983 and, for the past 30 years, has been the sole or lead in-house counsel for finance and taxation law. He received a Bachelor of Arts degree in Political Science from the State University College at Fredonia (N.Y.) and a Juris Doctor degree from The George Washington University.

Allen E. Hoppe, *Treasurer.* Allen E. Hoppe joined the Authority as Treasurer in January 2015. He has handled an investment portfolio of approximately \$1 billion, including the Authority's asset allocation, credit analysis, and portfolio analysis. Mr. Hoppe also has experience with custody accounts

and securities lending. Of most note, he has dealt with Treasuries, agency instruments, commercial paper, repo and reverse repo instruments, and municipal securities. Mr. Hoppe holds an undergraduate degree from St. Cloud State University (MN) and a graduate degree in Finance from the University of Minnesota. He holds the professional designations of Chartered Financial Analyst and Certified Treasury Professional.

Labor Relations

The Authority has approximately 13,000 employees. Approximately 10,700 of these employees are represented by five unions. Union representation and bargaining conditions are legislated by the Capital Transportation Act. Collective bargaining agreements are subject to binding arbitration pursuant to the terms of the Compact and the terms of each such agreement.

The Authority has not experienced an employee strike or work stoppage since September 1979. Each of the Collective Bargaining Agreements with the Authority contains a clause that prohibits a strike by the union(s) or a lockout by management. The Capital Transportation Act requires any labor dispute, where collective bargaining does not result in an agreement, to be subject to final and binding arbitration.

Table 3. Union Membership and Representation

Union	Approximate Membership ⁽¹⁾	Types of Employees Represented	Agreement Expiration Date ⁽²⁾
International Brotherhood of Teamsters, Local 639 (“Local 639”)	136	Guards	October 1, 2013 – September 30, 2016
International Brotherhood of Teamsters, Local 922 (“Local 922”)	382	Bus Operators and Mechanics	November 1, 2012 – October 31, 2016
Amalgamated Transit Union, Local 689 (“Local 689”)	8,603	Rail and Bus Operators Attendants, Maintenance (bus and rail fleet) and General Maintenance	July 1, 2012 – June 30, 2016
Office and Professional Employees International, Local 2 (“Local 2”)	1,137	Managerial, Clerical, and Technical	July 1, 2012– June 30, 2016
Fraternal Order of Police/Metro Transit Police Labor Committee	414	Metro Transit Police	October 1, 2010 – September 30, 2017

1. As of June 30, 2015.

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

The Authority expects to commence negotiations for new collective bargaining agreements with Local 639, Local 922, Local 689, and Local 2 during fiscal year 2017. Under the terms of the existing collective bargaining agreements for such unions, each such agreement remains in force until the parties agree on the terms of a new collective bargaining agreement.

THE TRANSIT SYSTEM

In March 1968, the Participating Jurisdictions agreed on the scope and routes for an Adopted Regional System, commonly known as Metrorail, and a financial cost sharing and development plan for a 98-mile rail system. Amendments to the development plan for Metrorail increased the system to a 118-mile, 91-station rapid rail system (see the following map of Metrorail). The Authority has over 1,100 rail transit vehicles in operation providing 201 million passenger trips annually. The Authority currently operates parking facilities at its Metrorail stations with approximately 59,421 spaces.

In March 2009, construction began on the extension of the Metrorail system to Washington Dulles International Airport (the “Dulles Extension”) in Loudoun County, Virginia. Phase 1 of the Dulles Extension (“Silver Line Phase 1”), which extended service 11.6 miles to Reston, Virginia, opened in July 2014 and was incorporated into the Metrorail system on such date. The second phase of the Dulles Extension (“Silver Line Phase 2”), which will provide for an additional 11.4 miles of service and six new rail stations, is expected to be completed in 2019. Funding for the Dulles Extension was and is expected to continue to be provided by the Federal government, the Commonwealth, Fairfax County, Loudoun County, and the Metropolitan Washington Airports Authority (“MWAA”). The Authority has not and is not expected to provide funds for the construction of the Dulles Extension. Upon completion of Silver Line Phase 2, MWAA will request that Silver Line Phase 2 be added to the Metrorail system. At such time and if approved by the Authority, Silver Line Phase 2 would become a capital asset of the Authority, the Authority would fund its operation, and Loudoun County would become a Participating Jurisdiction. Other than Silver Line Phase 2, the Authority does not have plans for further expansion of the Metrorail system at this time.

The Authority also operates a comprehensive bus system which provides service to areas not served by Metrorail and is integrated closely with Metrorail operations. In accordance with Authority policy, as Metrorail is expanded, bus service is restructured to feed the rail system. The Authority presently provides bus service to about 318 route variations, covering over 1,216 linear miles of service. A bus vehicle fleet of approximately 1,500 buses provides between approximately 340,086 and 449,874 weekday passenger trips. The average weekday amount of trips is 415,152 along with average weekend trips totaling 322,168.

In addition to Metrobus, the Authority operates MetroAccess, an ADA paratransit service for the Washington, DC metropolitan area. MetroAccess is sponsored by the Authority, local governments, and the other local fixed-route transit system in the Washington metropolitan area. MetroAccess provides door-to-door transportation service for eligible riders. MetroAccess has 39,678 registrants as of January 31, 2016, and provides service through contract carriers operating over 675 Authority-owned vehicles. In fiscal year 2015, MetroAccess provided was approximately 2.24 million trips.

[Note: Updated Metrorail map to be inserted by the printer; see http://www.wmata.com/rail/docs/color_map_silverline.pdf]

Funding the Capital Costs of the Transit System

Funds for the capital development of Metrorail have been provided on a shared basis between the Federal government and the Participating Jurisdictions. All of the required Capital Contributions of Participating Jurisdictions described under this caption are subject to appropriation. **Capital Contributions are excluded from the Gross Revenues of the Authority pledged as part of the Trust Estate for the payment of debt service on the Bonds.**

Initial and Prior Funding

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

Capital Contributions required from the Participating Jurisdictions to provide the local match for Federal grants were provided, prior to 2004, through multi-year interim capital contributions agreements (collectively, the "Interim Capital Contributions Agreements") that specified the matching commitment due from each jurisdiction during each year of the federally authorized construction program. In 2004, the Authority entered into a capital funding agreement (the "Metro Matters Funding Agreement") with the Participating Jurisdictions to fund its capital program through fiscal year 2010. The six-year capital funding program codified in the Metro Matters Funding Agreement (the "Metro Matters Program") had a total multi-year budget of \$3 billion, all of which was invested. The Metro Matters Funding Agreement required the Participating Jurisdictions, during each fiscal year, to make cash contributions needed to fund capital contracts due in such fiscal year.

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

Each Participating Jurisdiction has made all of the Capital Contributions required pursuant to the Interim Capital Contributions Agreements and the Metro Matters Funding Agreement. In addition, the

Participating Jurisdiction that elected to make Annual Debt Service Payments have timely made all such payments.

Ongoing Funding

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

The Capital Funding Agreement requires each Participating Jurisdiction “to use all reasonable efforts . . . and to pursue all legally available means to secure the necessary and appropriate budget, legislative, and appropriations actions in order to obtain funding in the full amount” of its obligations thereunder. In accordance with the Capital Funding Agreement, each Participating Jurisdiction is responsible for a portion of the cost of each Capital Improvement Program, determined using allocation formulas recalculated every three years based upon the Authority’s then-current approved operating budget. The most recent recalculation (which allocated jurisdictional capital contributions through fiscal year 2016) occurred prior to the adoption of the fiscal year 2014 budget. Notwithstanding these allocation formulae, the Capital Funding Agreement requires each Participating Jurisdiction’s Capital Contribution to be no less than its annual share of any matching funds required for federal grants.

The Capital Funding Agreement permits the Authority to issue debt to finance all, or a portion of, its then-current Capital Improvement Program. Like the Metro Matters Funding Agreement, the Capital Funding Agreement permits each Participating Jurisdiction to fund its share of an Authority debt financing either through a Prepayment or a commitment to make the Annual Debt Service Payments necessary in order for the Authority to pay debt service on the related obligations. The Capital Funding Agreement requires any such commitment to survive the expiration of the agreement and to remain in effect throughout the term of the related Authority debt issuance. Prepayments, since they are Capital Contributions, are not Gross Revenues and therefore are not pledged as part of the Trust Estate for the payment of debt service on the Bonds. See “SECURITY AND SOURCES OF PAYMENT OF THE BONDS.”

A portion of the proceeds of the Series 2016A Bonds are expected to be used to finance Capital Costs. See “PLAN OF FINANCE AND SOURCES AND USES OF FUNDS.” In connection with the issuance of the Series 2016A Bonds, the Participating Jurisdictions have elected to satisfy their payment obligations by making Annual Debt Service Payments.

Prior to the adoption of any Capital Improvement Program, the Capital Funding Agreement requires each Participating Jurisdiction to certify that its required Capital Contributions “are reasonable and accurate reflections of funds to be made available.” Each Participating Jurisdiction has made all of the Capital Contributions required pursuant to the Capital Funding Agreement. If a Participating Jurisdiction were to fail to include in its budget a required Capital Contribution, or, following such inclusion and appropriation, were to fail to make such payment to the Authority, the Authority could bring suit to compel compliance under the Capital Funding Agreement. However, each Participating Jurisdiction retains the absolute discretion as to whether to appropriate, and there would be no contractual remedy for the failure to appropriate assuming that, in accordance with the Capital Funding Agreement, the Participating Jurisdiction used all reasonable efforts and pursued all legally available means to secure the appropriation.

In addition to the contractual remedy described above, the Authority’s Board could decide to hold a public hearing as to whether to terminate the provision of Transit System service within any

Participating Jurisdiction that has failed to timely make a required subsidy payment regardless of the particular circumstances. Following such a hearing, Authority staff would provide a report to the Board as to whether such service should be terminated, following which the Board would make its decision. Any such Board decision, however, must be made on the basis of a majority vote. As with all Board votes, the majority must include one of the Directors from each of the Compact signatories (the Commonwealth, the State, and the District), including the signatory in which the Participating Jurisdiction in which the termination of service is being considered is located.

Future Funding

The Capital Funding Agreement is scheduled to expire on June 30, 2016. On March 10, 2016, the Board authorized a one-year extension of the Capital Funding Agreement (the “Capital Funding Agreement Amendment”), which the Authority and the Participating Jurisdiction expect to execute on or before June 30, 2016. The Capital Funding Agreement Amendment is expected to provide funding for the Authority’s fiscal year 2017 capital budget and the Capital Improvement Plan for fiscal years 2017-2022, both of which are expected to reduce the Authority’s capital budget for fiscal year 2017 from \$1.1 billion (the amount reflected in the Approved Fiscal Year 2017 Budget (as defined herein)) to between \$900 to \$950 million. See “– *Capital Program Review*.” The updated fiscal year 2017 capital budget and the Capital Improvement Plan for fiscal years 2017-2022 are expected to be presented to the Board for approval in April 2016.

In anticipation of the scheduled expiration of the Capital Funding Agreement Amendment on June 30, 2017, the Authority and the Participating Jurisdictions are in the process of negotiating a new six-year capital funding agreement. Such agreement is expected to reflect, in part, (i) the addition of Loudon County as a Participating Jurisdiction prior to the scheduled opening of Silver Line Phase 2, and (ii) a funding prioritization for those projects identified as “most critical to safe, reliable and high quality transit service.”

Capital Program Review

On January 14, 2016, Authority staff presented the Capital Program Review. See “ONGOING FINANCIAL AND OPERATIONAL CONCERNS – Capital Budget Expenditures.” According to the Capital Program Review, of the \$5 billion budgeted for capital improvements in the Capital Improvement Program for fiscal years 2011-2016, only \$3.7 billion had been expended on Capital Costs through fiscal year 2015.

The Capital Program Review noted that in “[e]very fiscal year between FY 2011 and FY 2015 [the Authority] has experienced challenges in spending the full amount of the approved budget” and attributed the Authority’s failure to deliver the approved capital program to (i) insufficient management controls, (ii) delays in awarding and performing under contracts, (iii) the Authority’s changing capital improvement priorities, (iv) changes to the Authority’s financial management systems implemented as a result of the FMO Report. See “ONGOING FINANCIAL AND OPERATIONAL CONCERNS – Internal Controls and Restricted Procedures for Federal Grant Funding – *FTA Financial Management Oversight*” herein.

In light of the discrepancy between amounts budgeted for and those actually expended on capital projects, the Authority expects to decrease its capital budget for fiscal year 2017 from the proposed amount of \$1.1 billion to between \$900 to \$950 million and to adopt a Capital Improvement Plan for fiscal years 2017-2022 that “will have expense forecasts aligned with realistic project schedules without shifting priorities away from safety projects.” See “CERTAIN AUTHORITY FINANCIAL INFORMATION – Annual Budgets – *Fiscal Year 2017 Budget*” and “– *Capital Improvement Plan*.”

Funding the Operating Expenses of the Transit System

Pursuant to the Compact, the Participating Jurisdictions (with the Washington Suburban Transit District acting for the Maryland jurisdictions) are obligated, subject to the limitations described herein, to provide funding to the Authority for their share of the Authority's budget for capital and operating costs of the Transit System. Under the terms of the Compact and legislative enactments of the Participating Jurisdictions, Stable and Reliable Funding Sources have been identified by the Participating Jurisdictions to make their respective operating and maintenance and debt service contributions to the Authority, as well as their respective capital payment obligations. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Gross Revenues – *Stable and Reliable Funding Sources.*"

The Participating Jurisdictions are not limited to the identified revenue sources in order to provide all obligated payments. The funds to be provided by or on behalf of each Participating Jurisdiction are subject to annual appropriation to provide for the projected annual operating deficit of the Transit System. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Gross Revenues – *Stable and Reliable Funding Sources.*"

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

Pursuant to the terms of the Compact, the District, the Washington Suburban Transit District (acting on behalf of the Participating Jurisdictions in the State) and the Participating Jurisdictions in the Commonwealth are obligated "subject to such review and approval as may be required by their budgetary and other applicable processes . . . [to] include in their respective budgets next to be adopted and appropriate or otherwise provide the amounts" required of each of them pursuant to the Authority's operating and capital budgets. If a Participating Jurisdiction were to fail to include in its budget a required operating subsidy payment or, following such inclusion and an appropriation, were to fail to make such payment to the Authority, the Authority could bring suit pursuant to the Compact to attempt to compel compliance. However, each Participating Jurisdiction retains the absolute discretion as to whether to appropriate, and there would be no contractual remedy for the failure to appropriate were the budgetary procedures to be followed.

In addition to the contractual remedy described above, the Board could decide to hold a public hearing as to whether to terminate the provision of Transit System service within any Participating Jurisdiction that has failed to timely make a required subsidy payment regardless of the particular circumstances as described above under "– Funding of the Capital Costs of the System – *Ongoing Funding.*"

The Authority's current rate schedule, which became effective July 1, 2014, provides for peak period base passenger fares of approximately \$2.15 for Metrorail and \$1.75 for Metrobus. The Authority's Metrorail fares are determined on the basis of a base fare that all passengers are charged, which varies depending on the time of day during which the trip is made, and an additional fare charge

based on the distance a passenger rides on the Transit System. The Authority provides intermodal transfers between Metrobus and Metrorail. In setting its fare schedule, the Authority expects to recover approximately fifty-two percent (52%) of the Transit System's operating costs through farebox receipts, advertising income, and parking fees. Fares are adjusted from time to time and the Board decisions regarding such fare increases are not subject to regulatory approval.

See "CERTAIN AUTHORITY FINANCIAL INFORMATION – Financial Information" herein for information concerning the Authority's revenues and expenses for fiscal year 2015, as well as the changes in revenues, expenses, and net assets for fiscal years 2011 through 2015. See Table 6 under the caption "CERTAIN AUTHORITY FINANCIAL INFORMATION – Annual Budgets – *Fiscal Year 2017 Budget*" for information on state and local funds that the Authority has received or expects to receive from the Participating Jurisdictions in the Approved Fiscal Year 2016 Budget and the [Approved Fiscal Year 2017 Budget]. For information concerning the Transit System's ridership levels, see "CERTAIN AUTHORITY FINANCIAL INFORMATION – Transit System Ridership."

CERTAIN AUTHORITY FINANCIAL INFORMATION

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

Management strives to control costs of the Transit System aggressively, while assuring that all maintenance is carried out, albeit with some deferred maintenance that the Authority plans to correct, and that quality and levels of service are maintained or enhanced. At the same time, substantial efforts are made to attract additional ridership and revenue through innovative and creative marketing and pricing. The existing Transit System has reached the age at which a comprehensive program of replacement of equipment and rehabilitation of facilities is required. Consequently, the Board had adopted both goals and policies within the Capital Improvement Program designed to maintain the Transit System at or above its current level.

The following discussion of financial results for the fiscal year ended June 30, 2015, reflects the operations of the Authority.

Financial Information

Revenues

Total revenues for fiscal year 2015 were \$931.1 million. Operating revenues, which include passenger revenue, totaled \$898.6 million, an increase of \$42.8 million (5.3%). This increase is primarily attributable to an increase in total passenger trips for approximately eleven months resulting from the new Silver Line service and an average increase in bus and rail fares of 3.0 percent in July 2014. In fiscal year 2015, the MWAA transferred to the Authority the assets comprising Silver Line Phase 1, which included five rail stations and 11.7 miles of new right-of-way. In conjunction with such transfer, the Authority also purchased 56 new 7000 series, state-of-the-art railcars. Total passenger trips for fiscal year 2015 remained flat with only a slight increase in ridership of approximately 0.9 million trips when compared to fiscal year 2014.

Nonoperating revenues includes interest income from lease transactions, which decreased by \$7.6 million (40.1%), due to one railcar lease termination in fiscal year 2015.

For fiscal year 2015, federal and jurisdiction subsidies increased by \$81.1 million to offset operating expenses. Jurisdictional operating subsidy accounted for approximately 14.2 percent of revenues in fiscal year 2015. In fiscal year 2015, capital contributions increased by \$3.5 billion due primarily to the noncash transfer of the Silver Line Phase 1 assets in July 2014, as well as federal grant and jurisdictional capital contributions.

Expenses

Total expenses for fiscal year 2015 were \$2.58 billion, an increase of \$202.6 million. Operating expenses totaled \$2.55 billion, an increase of \$209.5 million (9.0%). For fiscal year 2015, the increase in operating expenses can be attributed to the following: (i) labor and fringe benefits, which accounts for over 51.3 percent of current year expenses, increasing by \$76.7 million, or 6.2 percent, due to an increase in pension expense of \$30.3 million, an increase in health benefits of \$16.5 million and an increase in the reserve for workers compensation cases of \$27.8 million and (ii) depreciation expenses increasing by \$104.9 million, or 16.3 percent, due largely to an additional \$3.7 billion in depreciable assets placed into service, which included the Silver Line and other assets. Another operating expense – materials and supplies – decreased by approximately \$14.5 million, or 9.8 percent, due primarily to the reduction of fuel prices.

Net Position

For fiscal year 2015, the Authority's net position at the beginning of the fiscal year was restated due to the adoption of Governmental Accounting Standards Board ("GASB") Statement No. 68, Accounting and Financial Reporting for Pensions ("GASB 68") and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68 ("GASB 71"), which changed the manner in which government pensions are reported.

Capital Assets

The Authority's capital assets, net balance was \$11.8 billion as of June 30, 2015, an increase of \$3.0 billion (33.8%). Such increase is primarily attributable to the addition of Silver Line assets. This includes five additional transit facilities, other equipment, revenue vehicles including the 7000 series railcars, land, building improvements, and construction in progress. Accumulated depreciation increased by \$724.8 million (8.3%), due primarily to the transfer of the Silver Line assets from MWAA to the Authority.

The following table summarizes the changes in revenues, expenses, and net position of the Authority for fiscal years 2011 through 2015.

**Table 4. Changes in Revenues, Expenses, and Net Assets
For Fiscal Years 2011–2015
(in thousands)**

	<u>Fiscal Year</u>				
	<u>2011⁽¹⁾</u>	<u>2012</u> <u>(as restated)^{(2), (4)}</u>	<u>2013</u> <u>(as restated)^{(2), (4)}</u>	<u>2014⁽²⁾</u>	<u>2015⁽³⁾</u>
<u>Operating Revenues</u>					
Passenger revenue	\$720,603	\$731,974	\$771,975	\$765,014	\$807,879
Parking revenue	43,297	45,554	45,640	46,614	46,513
Advertising revenue	17,518	18,284	16,732	19,846	22,422
Rental revenue	22,335	20,604	22,246	22,826	21,601
Other revenue	751	254	236	280	229
Total Operating Revenues	804,504	816,670	856,829	854,580	898,644
<u>Nonoperating Revenues</u>					
Investment income	1,377	1,309	818	585	769
Interest income from leasing transactions	38,452	34,882	32,936	19,053	11,407
Other	15,135	18,812	16,300	16,232	20,270
Total Nonoperating Revenues	54,964	55,003	50,054	35,870	32,446
Total Revenues	859,468	871,673	906,883	890,450	931,090
<u>Operating Expenses</u>					
Labor	640,132	656,553	655,141	699,143	701,723
Fringe benefits	541,808	475,104	524,383	544,069	618,169
Services	195,316	214,309	227,379	183,689	222,156
Materials and supplies	109,812	139,418	145,155	148,523	134,021
Utilities	84,747	79,413	81,561	84,691	87,905
Casualty and liability costs	19,727	24,764	26,461	26,354	25,020
Leases and rentals	3,726	4,000	4,969	5,925	6,658
Miscellaneous	4,463	467	2,604	2,998	4,422
Depreciation and amortization	480,150	528,720	622,409	642,519	747,379
Total Operating Expenses	2,079,881	2,122,748	2,290,062	2,337,911	2,547,453
<u>Nonoperating Expenses</u>					
Interest expense from leasing transactions	-	-	-	-	11,407
Interest expense	56,390	51,377	48,050	34,566	16,181
Total Nonoperating Expenses	56,390	51,377	48,050	34,566	27,588
Total Expenses	2,136,271	2,174,125	2,338,112	2,372,477	2,575,041
Jurisdictional subsidies, capital grants, and capital subsidies	1,584,415	1,000,712	1,391,240	1,377,897	4,977,864
Net position, beginning of year	8,069,953	8,3777,565	8,075,825	8,035,836	7,931,706
Restatement due to the adoption of GASB 68 and 71	-	-	-	-	(1,046,111)
Net position, beginning of year, as restated	-	-	-	-	6,885,595
Net position, ending of year	\$8,377,565	\$8,075,825	\$8,035,836	\$7,931,706	\$10,219,508

1. From the audited financial statements for the fiscal year ended June 30, 2011

2. From the audited financial statements for the fiscal year ended June 30, 2014.

3. From the FY 2015 Audited Financial Statements.

4. For information on the restatement of certain financial information for the fiscal years ended June 30, 2012 and June 30, 2013, see "ONGOING FINANCIAL AND OPERATIONAL CONCERNS – Delays in Producing Audited Financial Statements."

Annual Budgets

Budgetary Process

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

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

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

Revenue forecasts are predominately driven by ridership trends and passenger fare revenue from makes up more than 81.5% of all operating revenue. Aside from ridership trends, the passenger revenue forecast also considers possible service changes, anticipated special events, fare policy changes, potential fare increases, deferred revenue recognition policies, and other similar variables.

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

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

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

The capital budget focuses on the assets and infrastructure needed to support Metrobus, Metrorail, and MetroAccess services. Assets and infrastructure include the Authority's buses, rail cars,

stations, track, maintenance facilities, and power systems, among others. Budgetary issues for the capital budget center on the condition of the current assets and infrastructure and what is needed to maintain them in safe and reliable condition. Funding for the capital budget comes from federal grants, the Participating Jurisdictions, and the issuance of debt.

The reimbursable projects budget are those unique services, programs, or projects sponsored or directed by Participating Jurisdictions and for which separate funding has been provided by such sponsors.

Fiscal Year 2016 Budget

The Authority's fiscal year 2016 annual budget, comprised of the operating budget, capital budget, and reimbursable projects budget and totaling approximately \$3.1 billion, was approved by the Board on May 14, 2015 (the "Approved Fiscal Year 2016 Budget"), and funds transit services that provide over 1.2 million trips each weekday.

The net operating portion of the Authority's overall budget is \$1.8 billion, which provides for the personnel, supplies, fuel and propulsion power, and services needed to operate Metrobus, Metrorail, and MetroAccess. Funding for the operating budget comes primarily from passenger fares and contributions from the Participating Jurisdictions.

The reimbursable portion of the Authority's overall budget is \$121.0 million for both operating and capital, which provides for personnel and services needed for unique projects requested on behalf of the Participating Jurisdictions and outside partners. The approved operating reimbursable budget is \$47.3 million and the capital reimbursable budget is \$73.7 million.

The \$1.2 billion capital budget provides for the assets and infrastructure to support Metrobus, Metrorail, and MetroAccess service. Funding for the capital budget comes from federal grants, the Participating Jurisdictions, debt, and other sources. The capital budget also includes an approved investment to begin to acquire 220 new 7000 Series railcars that will replace the existing 5000 Series fleet, as well as continued investments to upgrade the power systems on the Orange and Blue Lines.

Priorities in the Approved Fiscal Year 2016 Budget include the following: (i) delivery of safer service through the implementation of pending and new recommendations from FTA and NTSB, as well as continuing the fatigue management program, supporting employee close call reporting, and enhancing customer awareness of safety and security; (ii) implementation of a new comprehensive customer care program; (iii) operation of the first full fiscal year of Silver Line Phase 1 service; and (iv) delivery of approximately 144 new 7000 Series railcars.

The approved budget includes a 3.4% expense increase, paired with no anticipated growth in ridership.

Fiscal Year 2016 Quarterly Financial Report (Third Quarter)

[Note: To come; report expected in early May.]

Fiscal Year 2017 Budget

The Authority's proposed fiscal year 2017 annual budget, comprised of the operating budget, capital budget, and reimbursable projects budget was submitted to the Board on December 3, 2015 (the "Proposed Fiscal Year 2017 Budget").

Operating Budget. On March 10, 2016, the Board approved the proposed fiscal year 2017 operating budget and the operating portion of the reimbursable projects budget (the "Approved Fiscal Year 2017 Operating Budget"). The net operating portion of the Authority's overall budget is \$1.77 billion, which provides for the personnel, supplies, fuel and propulsion power, and services needed to operate Metrobus, Metrorail, and MetroAccess. Funding for the operating budget comes primarily from passenger fares and contributions from the Participating Jurisdictions.

Priorities for the Approved Fiscal Year 2017 Operating Budget include business initiatives to achieve the Board's strategic goals. The Approved Fiscal Year 2017 Operating Budget includes no fare increase, no service reductions, and no increases in the operating subsidies from the Participating Jurisdictions.

The Proposed Fiscal Year 2017 Budget assumed savings from the Board efficiency workplan (a \$22 million credit against expenses), lower baseline ridership and revenue performance on bus and rail continuing the trends seen in fiscal year 2016, and no budgeted departmental wage increases. The Approved Fiscal Year 2017 Operating Budget includes slight modifications to operating revenues and expenses. Such modifications include revenue forecast increases (\$10 million) and specific, identified expense savings (\$12 million) to replace the Board efficiency workplan credit and maintain the net jurisdictional operating subsidy at \$845 million.

The revenue forecast increase of \$10 million is a result of the change to the Federal transit benefit approved in December 2015 (after the Proposed Fiscal Year 2017 Budget was released) and an update to the forecast for the District's school subsidy program. The identified expense savings of \$12 million fall into three primary categories: (i) MetroAccess Ride service partnerships, (ii) lower projected diesel fuel costs, and (iii) administrative reductions.

Capital Budget. [On April 28, 2016, the Board approved the proposed fiscal year 2017 capital budget, the Capital Improvement Program covering fiscal years 2017-2022 (the "Approved FY 2017-2022 Capital Improvement Program"), and the capital portion of the reimbursable projects budget (collectively, the "Approved Fiscal Year 2017 Capital Budget," and together with the Approved Fiscal Year 2017 Operating Budget, the "Approved Fiscal Year 2017 Budget"). The Approved Fiscal Year 2017 Capital Budget of \$950 million provides for the assets and infrastructure to support Metrobus, Metrorail, and MetroAccess service. Funding for the capital budget comes from federal grants, the Participating Jurisdictions, and debt. The Approved FY 2017-2022 Capital Improvement Program includes an investment in 748 new 7000-series railcars, enough to replace all 1000, 4000 and 5000-series cars and expand the size of the Metro fleet by 156 cars. The additional cars support the Silver Line extension and provide an additional 28 cars that are currently planned to be used to increase service along the Red Line.] **[Note: Information regarding the Authority's capital budget for fiscal year 2017 to be finalized once approved by the Board; expected on April 28, 2016.]**

Reimbursable Projects Budget. The reimbursable portion of the Authority's overall budget is \$86.2 million for both operating and capital, which provides for personnel and services needed for unique projects requested on behalf of the Participating Jurisdictions and outside partners, including the DC Circulator and support for the construction of the Silver Line Phase 2. The operating reimbursable budget is \$34.2 million and the capital reimbursable budget is \$52.0 million.

Table 5 compares the operating, capital, and reimbursable projects budgets and the components thereof for the Approved Fiscal Year 2016 Budget and the Approved Fiscal Year 2017 Budget.

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

	Fiscal Year 2016 (Approved Budget)	Fiscal Year 2017 (Approved Budget)
Operating Budget		
Passenger Fares & Parking	\$859.0	\$839.0
State and Local Funds ⁽¹⁾	866.5	866.5
Business Revenues	45.0	47.0
Other Sources	34.0	14.0
Subtotal	\$1,804.5	\$1,766.5
Capital Budget		
Federal Formula/Other Grants	\$455.7	\$328.1
Federal Dedicated Funds (PRIIA)	193.6	172.0
State and Local Funds/Metro 2025 Investment	476.0	391.7
Other Sources	39.9	-
Planned Long-Term Financing	-	58.3
Subtotal	\$1,165.2	\$950.0
Reimbursable Projects		
State and Local Funds	\$26.2	\$15.8
Other Sources	94.8	70.4
Subtotal	\$121.0	\$86.2
Total	\$3,090.7	\$2,802.7

1. Includes the net subsidies from the Participating Jurisdictions and debt service.

The chart below illustrates the components of the Approved Fiscal Year 2017 Operating Budget, as set forth in Table 5. “Net Operating Subsidy (State and Local Funds)” does not reflect approximately \$21.2 million in contributions for debt service. Percentages may not total 100% due to rounding.

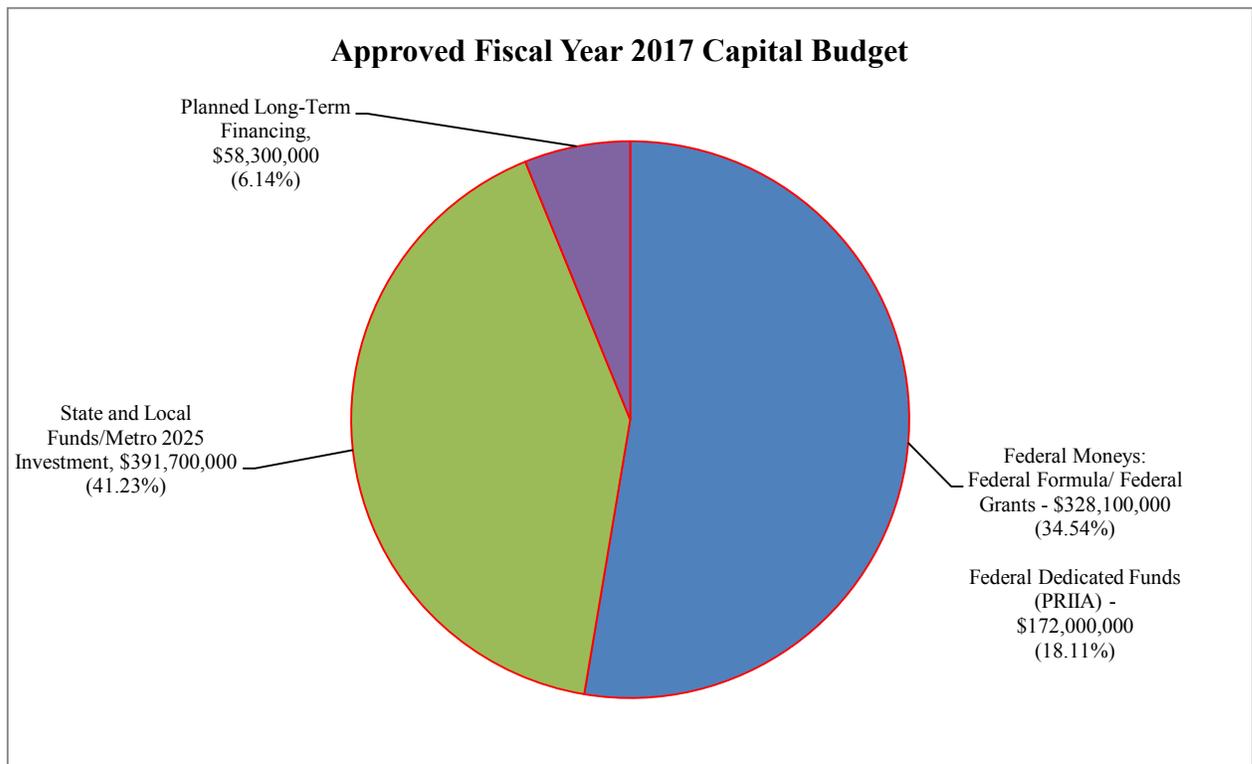
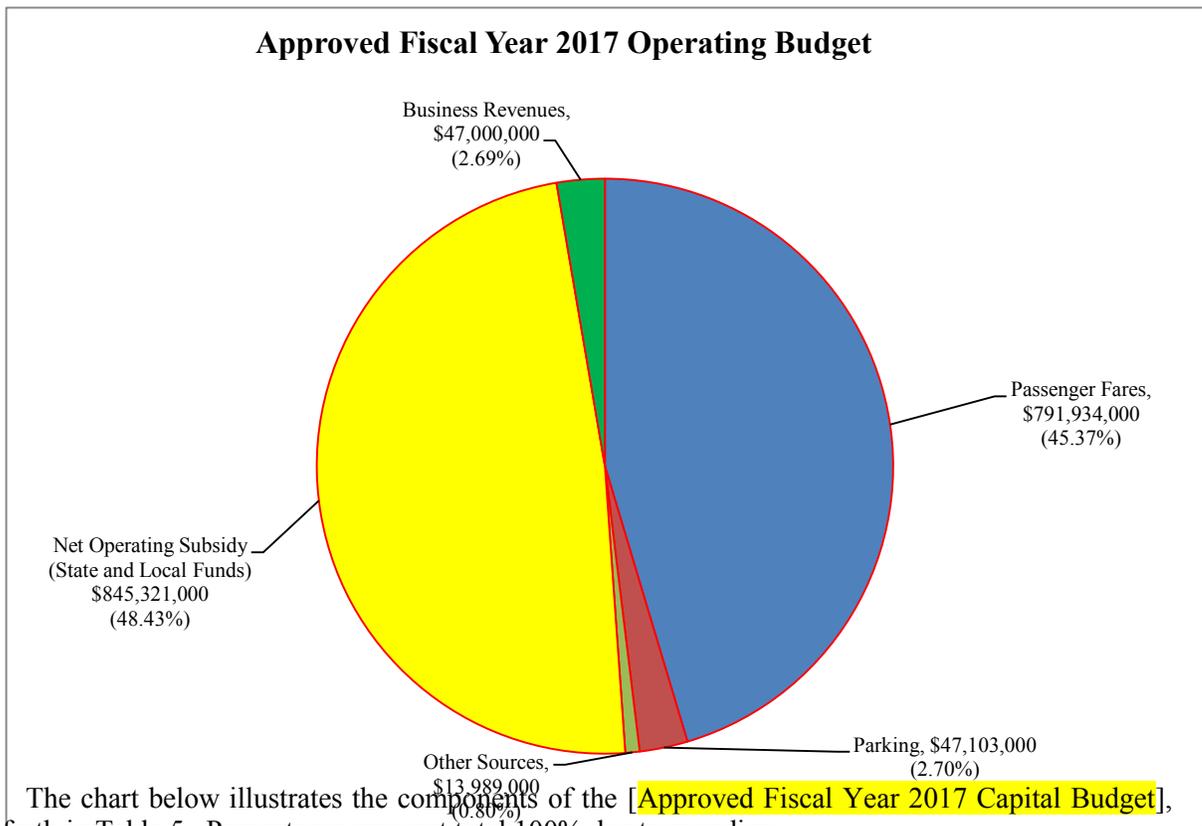


Table 6 shows the state and local funds that the Authority has received or expects to receive from the Participating Jurisdictions in the Approved Fiscal Year 2016 Budget and the Approved Fiscal Year 2017 Budget. **[Note: Information regarding the Authority’s capital budget for fiscal year 2017 and the capital portion of the Reimbursable Projects Budget to be finalized once approved by the Board; expected on April 28, 2016.]**

**Table 6. Summary of State and Local Funding for Operating and Capital Budgets
(\$ in millions)**

	Operating Budget							
	Operating Subsidy		Debt Service		Capital Budget ⁽¹⁾		Reimbursable Projects ⁽²⁾	
	FY 2016 (Approved)	FY 2017 (Approved)	FY 2016 (Approved)	FY 2017 (Approved)	FY 2016 (Approved)	FY 2017 (Approved)	FY 2016 (Approved)	FY 2017 (Approved)
District of Columbia								
District of Columbia	\$312.24	\$312.46	\$10.67	\$10.67	\$165.90	\$138.00	\$27.84	\$27.91
Subtotal	\$312.24	\$312.46	\$10.67	\$10.67	\$165.90	\$138.00	\$27.84	\$27.91
Maryland								
Montgomery County	139.12	140.02	4.94	4.94	38.50	36.00	-	-
Prince George’s County	179.66	180.43	5.51	5.51	40.00	37.30	-	-
Other State Payments	-	-	-	-	81.50	59.30	4.03	11.10
Subtotal	\$318.78	\$320.45	\$10.45	\$10.45	\$160.00	\$132.60	\$4.03	\$11.10
Virginia								
Alexandria	33.84	32.98	-	-	11.20	9.50	-	-
Arlington County	58.25	56.59	-	-	21.00	17.70	-	-
City of Fairfax	1.84	1.81	-	-	0.70	0.50	-	-
Fairfax County	118.15	118.65	-	-	36.70	31.00	-	-
Falls Church	2.23	2.37	0.05	0.05	0.80	0.60	-	-
Other Commonwealth Payments	-	-	-	-	79.40	61.70	69.00	39.20
Subtotal	\$214.31	\$212.40	\$0.05	\$0.05	\$149.80	\$121.00	\$69.00	\$39.20
Total⁽³⁾	\$845.33	\$845.32	\$21.17	\$21.17	\$475.70	\$391.70	\$100.88	\$78.21

1. Includes Metro 2025 Investment.

2. FY 2016 excludes \$20.1 million in other funding from (i) Safety & Security Grants (\$5.7), (ii) Joint Development & Adjacent Construction Projects (\$6.7), (iii) Neutral Host (\$6.3), and (iv) Bus Bridges/Transit Works (\$1.4). FY 2017 excludes \$8.0 million in other funding from (a) Safety & Security Grants (\$4.7), (b) Joint Development & Adjacent Construction Projects (\$2.8), and (c) Neutral Host (\$0.5).

3. Totals may not sum due to rounding.

Capital Improvement Plan

The Approved FY 2017-2022 Capital Improvement Program, including the Approved Fiscal Year 2017 Capital Budget, totals \$6.0 billion. The following table shows funding sources for the Approved FY 2017-2022 Capital Improvement Program in the year in which funding is anticipated to be expended. **[Note: Information regarding the Approved FY 2017-2022 Capital Improvement Program to be finalized once approved by the Board; expected on April 28, 2016.]**

**Table 7. Approved Fiscal Year 2017-2022 Capital Improvement Program
Financial Plan – Funding Sources
(in millions)**

	FY 2017 – FY 2022 Plan						
	FY 2017 Budget	FY 2018 Plan	FY 2019 Plan	FY 2020 Plan	FY 2021 Plan	FY 2022 Plan	FY 17-FY 22 Total
Federal							
Federal Formula Programs	\$ 317.3	\$ 304.0	\$ 304.0	\$ 304.3	\$ 304.3	\$ 304.0	\$ 1,837.3
Federal PRIIA	172.0	150.0	150.0	150.0	150.0	150.0	922.0
Resiliency Grant	7.1	6.9	-	-	-	-	14.1
Other Federal Grants	3.6	5.5	6.7	4.4	4.0	4.0	28.3
Subtotal Federal	\$ 500.1	\$ 466.5	\$ 460.7	\$ 458.4	\$ 458.0	\$ 458.0	\$ 2,801.7
State and Local							
Match to Federal Formula	\$ 79.3	\$ 76.0	\$ 76.0	\$ 76.0	\$ 76.0	\$ 76.0	\$ 459.3
System Performance	117.2	125.9	137.7	135.4	143.5	150.6	810.4
State and Local PRIIA	172.0	150.0	150.0	150.0	150.0	150.0	922.0
Match to Resiliency Grant	2.4	2.3	-	-	-	-	4.7
Rail Power System Upgrades	8.4	5.1	-	-	-	-	13.5
Other State and Local	12.4	14.4	1.5	0.9	0.8	0.8	30.7
Subtotal State and Local	\$ 391.7	\$ 373.7	\$ 365.2	\$ 362.3	\$ 370.3	\$ 377.4	\$ 2,240.6
Financing							
Planned Long-Term Financing	\$ 58.3	\$ 388.5	\$ 245.0	\$ 144.9	\$ 35.6	\$ 85.4	\$ 957.7
Subtotal Financing	\$ 58.3	\$ 388.5	\$ 245.0	\$ 144.9	\$ 35.6	\$ 85.4	\$ 957.7
Total	\$ 950.0	\$ 1,228.7	\$ 1,070.9	\$ 965.6	\$ 863.9	\$ 920.9	\$ 6,000.0

Capital Improvement Projects for Fiscal Year 2017

The Approved FY 2017-2022 Capital Improvement Program includes \$950 million in capital projects for fiscal year 2017. Such projects focus on (i) railcar investments, including (a) 144 new 7000 series railcars to replace 1000 series cars, (b) rehabilitation of railcar components including motors, trucks, and doors; and (c) implementation of targeted campaigns and required maintenance to improve safety and reliability; (ii) bus and paratransit vehicles, with the goal of ensuring a safe, reliable and efficient bus and paratransit fleet; (iii) stations and passenger facilities, with the goal of ensuring safe, clean, reliable, and customer-friendly stations; (iv) rail systems, with the goal of maintaining rail propulsion power systems and upgrading signal and communication systems; (v) track and structures rehabilitation, with the goal of maintaining safe and reliable Metrorail track and track infrastructure; and (vi) business support focused on supporting investments in critical operational and business requirements.

Future Capital Improvement Projects

The Approved FY 2017-2022 Capital Improvement Program includes a total of \$6 billion in planned capital investment over the six-year period for safety and state of good repair. The planned funding for the Approved FY 2017-2022 Capital Improvement Program is expected to come from (i) federal formula and PRIIA grants; (ii) required state/local matching funds for those federal grants; and (iii) additional system performance and/or debt funding from the Participating Jurisdictions. While such funding is expected to support core safety and state of good repair needs, additional capital investment would be required to address deferred projects, planning for future enhancements, and to address the long-term growth of the region and the Transit System.

Transit System Ridership

Table 8 shows ridership trends over the period covering fiscal year 2011 through the current projections included in the Approved Fiscal Year 2017 Budget.

Table 8. Ridership for Fiscal Years 2011-2015 (Actual) and 2016-2017 (Budget)
(in thousands)

	<u>2011</u> <u>(Actual)</u>	<u>2012</u> <u>(Actual)</u>	<u>2013</u> <u>(Actual)</u>	<u>2014</u> <u>(Actual)</u>	<u>2015</u> <u>(Actual)</u>	<u>2016</u> <u>(Budget)</u>	<u>2017</u> <u>(Budget)</u>
Metrorail	217,053	218,244	208,969	204,067	206,396	209,900	201,500
Metrobus	125,089	132,295	132,065	134,408	132,902	140,100	135,600
MetroAccess	<u>2,336</u>	<u>2,083</u>	<u>2,033</u>	<u>2,126</u>	<u>2,238</u>	<u>2,335</u>	<u>2,440</u>
Total	<u>344,478</u>	<u>352,522</u>	<u>343,068</u>	<u>340,601</u>	<u>341,536</u>	<u>352,335</u>	<u>339,540</u>

The Approved Fiscal Year 2017 Operating Budget uses the fiscal year 2016 approved ridership as a baseline, modified for the anticipated ridership impacts of policy decisions regarding fares and service, as well as external factors that affect passenger trip-making. Total rail ridership is projected at 201.5 million trips, a decline of 8.4 million (4.0%) compared to the approved fiscal year 2016 level. Total bus ridership is projected at 135.6 million, a decline of 4.5 million (3.2%) compared to the approved fiscal year 2016 level. MetroAccess ridership is expected to grow, increasing to 2.44 million, an increase of 4.5%.

The Authority's most recent system-wide fare increases were implemented in fiscal year 2015,

and the Authority would normally consider broad fare changes for fiscal year 2017 in keeping with the Board’s policy to assess fare changes on a biannual basis. However, given recent ridership declines and challenges with customer satisfaction, the Approved Fiscal Year 2017 Budget includes no broad-based fare increases, and it also proposes the introduction of new fare products (aimed at retaining customers and encouraging additional trip-taking) that actually constitute fare reductions.

Outstanding Debt

The Authority’s total outstanding bond debt as of June 30, 2015 and 2014 was \$274.1 million (including approximately \$10.0 of unamortized premium) and \$287.8 million (including approximately \$10.4 of unamortized premium), respectively. The following table summarizes the outstanding Bonds of the Authority as of June 30, 2015.

Table 9. Outstanding Bonds as of June 30, 2015

	<u>Amount Outstanding</u>	<u>Final Maturity Date</u>	<u>Source of Payment</u>	<u>Priority of Payment</u>
Series 2009A Bonds	\$209,095,000	July 1, 2032	Gross Revenues	On Parity with Series 2016 Bonds
Series 2009B Bonds⁽¹⁾	\$55,000,000	July 1, 2034	Gross Revenues	On Parity with Series 2016 Bonds

1. The Series 2009B Bonds were issued under the Build America Bond (“BAB”) Program. The American Recovery and Reinvestment Act of 2009 created the BAB program, which authorized the issuance of state and local governments, such as the Authority, to issue BABs as taxable bonds to finance any capital expenditures for which they otherwise could issue tax-exempt governmental bonds. The Authority receives a direct Federal subsidy payment for a portion of their borrowing costs on BABs equal to 35 percent of the total coupon interest paid to investors. While the Authority has received its direct subsidy payments as scheduled, the amount of such subsidies have been reduced in recent federal continuing resolutions and budgets, as applicable.

The total amounts available under the Authority’s three “364-day” lines of credit were \$302.5 million in fiscal year 2015. The availability fees and accrued interest were payable either monthly or quarterly, depending on the terms of the agreements, commencing July 2010. All principal and interest are computed based on a spread to the London Interbank Offered Rate (LIBOR). As of March 31, 2016, the Authority’s outstanding balance for its \$302.5 million lines of credit was \$218.75 million. Such lines of credits are due [April 2016], May 2016, and June 2016 and the Authority expects to repay the outstanding balances thereon with federal grant proceeds. The Authority expects to renew each of such lines of credit.

The Authority issued a \$200 million privately-placed one-year GAN in October 2014, at an interest rate of 0.75 percent. The GAN was fully drawn to support the short term cash flow needs of the Authority’s capital program. As described in “ONGOING FINANCIAL AND OPERATIONAL CONCERNS – Internal Controls and Restricted Procedures for Federal Grant Funding – *Federal Grant Restrictions*,” levels of unrestricted cash for the Authority’s capital program were impacted by timing delays of federal grant reimbursements due to restrictions imposed by the FTA resulting from findings identified in the FMO Report. In March 2015, the interest rate on the GAN increased from 0.75 percent to 0.80 percent as a result of Moody’s Ratings Service downgrading the Authority’s credit rating. The GAN was fully repaid in October 2015.

Leveraged Lease Transactions

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

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

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

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

Due to events in the financial markets, certain specified downgrades had occurred for all 16 Leases. As of June 30, 2015, the Authority had terminated thirteen Leases (one in fiscal year 2015, two in fiscal year 2014, one in fiscal year 2012, one in fiscal 2011, three in fiscal year 2010, and five in fiscal year 2009). Termination payments on twelve of the thirteen Leases were paid from the defeasance accounts with no or very minimal additional liability to the Authority. One Lease was terminated as part of a confidential settlement. The remaining three Leases have terms that range from approximately three to 16 years. For additional details relating to these leveraged lease transactions, see Note 11 in the FY 2015 Audited Financial Statements.

Pension Plans

The Authority participates in five single-employer defined benefit pension covering substantially all of its employees – (i) the WMATA Retirement Plan (the “Retirement Plan”), (ii) the WMATA Transit Employees’ Retirement Plan (the “Local 689 Plan”), (iii) the WMATA Transit Police Retirement Plan (the “Transit Police Plan”), (iv) the WMATA Local 922 Retirement Plan (the “Local 922 Plan”), and (v) the WMATA Local 2 Retirement Plan (the “Local 2 Plan,” together with the Retirement Plan, the Local 689 Plan, the Transit Police Plan, and the Local 922 Plan, the “Pension Plans”). Each of the Pension Plans is governed by a separate board of trustees responsible for administering such plan. Below is a summary of each Pension Plan’s respective membership for the year ended June 30, 2015.

**Table 10. Pension Plan Membership
(for the year ended June 30, 2015)**

Plan Membership	Retirement Plan	Local 689 Plan	Transit Police Plan	Local 922 Plan	Local 2 Plan	Total
Active	308	9,040	448	456	98	10,350
Inactive (receiving benefits)	1,164	4,239	213	182	281	6,079
Inactive (not receiving benefits)	<u>359</u>	<u>1,147</u>	<u>76</u>	<u>52</u>	<u>64</u>	<u>1,698</u>
<u>Total Membership</u>	<u>1,831</u>	<u>14,426</u>	<u>737</u>	<u>690</u>	<u>443</u>	<u>18,127</u>

Source: Notes to the Basic Financial Statements 8 in the FY 2015 Audited Financial Statements.

The discussion in this section focuses on the Retirement Plan and the Local 689 Plan, the two largest of the Pension Plans. For more information on the Pension Plans, see Notes to Basic Financial Statements 8 in the FY 2015 Audited Financial Statements and the related required supplementary information included in the Authority’s CAFR for fiscal year 2015.

Retirement Plan

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

The normal retirement eligibility is age 65 with 5 years of credited service. The maximum normal retirement benefit is not to exceed 80 percent of final average compensation. The Retirement Plan provides retired participants annual cost-of-living increases, permits both early and later retirement, and provides for benefits in the event of death, disability and terminated vested employment. After five years of service, participants are 100 percent vested.

Under the Retirement Plan, the Authority is required to contribute pursuant to the Compact an amount equal to the actuarially determined contribution (the “ADC”). The ADC is an amount sufficient to pay (i) the “normal cost,” being the present value of the benefits expected to become payable in the future attributable to a current year’s employment, and (ii) the amortization of unfunded actuarial liability

(“UAL”). For fiscal year 2015, Authority contributions totaled \$20.4 million. Participants are not required to contribute to the Retirement Plan.

Local 689 Plan

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

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

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

Under the Local 689 Plan, the Authority is required to contribute an amount equal to the ADC, per the collective bargaining agreement for Local 689. For fiscal year 2015, employee and Authority contributions totaled \$6.9 million and \$136.1 million, respectively.

Net Pension Liability

The Authority’s net pension liability for the Retirement Plan was measured as of June 30, 2014, based on the actuarial valuation of the plan covering such period. The total pension liabilities in the actuarial valuation were determined using the following actuarial assumptions for the Retirement Plan: (i) a 2.5% inflation rate, (ii) salary/wage increases of 3.0% to 6.3%, and (iii) a 7.0% long-term rate of return (net of expense and including price inflation). For the Retirement Plan, (i) the total pension liability is \$533.6 million, (ii) the plan fiduciary net position is \$373.8 million, and (iii) net pension liability is \$159.8 million, all as of June 30, 2015.

The Authority’s net pension liability for the Local 689 Plan was measured as of June 30, 2014, based on the actuarial valuation of the plan covering such period. The total pension liabilities in the actuarial valuation were determined using the following actuarial assumptions for the Local 689 Plan: (i) a 3.0% inflation rate, (ii) salary/wage increases of 3.0% to 3.5%, and (iii) a 7.9% long-term rate of return (net of expense and including price inflation). For the Local 689 Plan, (i) the total pension liability is \$3.25 billion, (ii) the plan fiduciary net position is \$2.63 billion, and (iii) net pension liability is \$624.8 million, all as of June 30, 2015.

For all Pension Plans, (i) the total pension liability is \$4.38 billion, (ii) the plan fiduciary net position is \$3.51 billion, and (iii) net pension liability is \$827.1 million, all as of June 30, 2015.

Other Post-Employment Benefits

OPEB Plans

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

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

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

The annual payments made by the Authority for the OPEB Plans for the last five fiscal years are shown in Table 11 below.

**Table 11. Annual OPEB Payment
(in thousands)**

Fiscal Year ended June 30,	Annual OPEB Payment				
	Local 689	Local 2	Transit Police	Non-Represented	Total
2011	\$83,848	\$12,715	\$8,581	\$29,931	\$135,075
2012	\$82,535	\$13,583	\$7,878	\$33,345	\$137,341
2013	\$86,391	\$13,964	\$8,304	\$34,935	\$143,594
2014	\$51,547	\$10,167	\$6,477	\$32,544	\$100,735
2015	\$53,582	\$9,399	\$6,801	\$30,243	\$100,025

Source: The Authority’s audited financial statements for fiscal years 2013-2015.

For financial reporting purposes, although the Authority funds OPEB on a pay-as-you-go basis, it is required to include in its financial statements (in accordance with GASB Statement No. 45) a calculation similar to that performed to calculate its pension liability. Pursuant to GASB 45, an annual required contribution is calculated which, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any UAL over a period not to exceed 30 years. As of June 30, 2015, the UAL for the OPEB Plans was \$1.48 billion, the covered annual payroll was \$734.0 million, and the ratio of UAL to the covered payroll was 201.9%.

Defined Contribution OPEB Plan

The Authority contributes to one cost-sharing multiple-employer defined contribution healthcare plan for Local 922 (the “Local 922 Plan”). Such plan provides healthcare, prescription drug and life insurance benefits to retirees and their dependents. Effective November 1, 2007, the Authority began contributing \$800 per month for each employee on its payroll covered by the Local 922 Plan and each retiree under age 65. The Authority’s contributions to the Local 922 Plan were \$4.0 million in fiscal year 2015.

For more information on the OPEB Plans and the Local 922 Plan, see Notes to the Basic Financial Statements 9 in the FY 2015 Audited Financial Statements and the related required supplementary information included in the Authority’s CAFR for fiscal year 2015.

LITIGATION

There is no litigation now pending or threatened (i) to restrain or enjoin the issuance or sale of the Series 2016A Bonds; (ii) questioning or affecting the validity of the Series 2016A Bonds, the Resolution, or the pledge by the Authority under the Resolution; or (iii) question or affecting the validity of any of the proceedings for the authorization, sale, execution or delivery of the Series 2016A Bonds.

The Authority is involved in certain litigation and disputes incidental to its operations. Upon the basis of information presently available, Acting General Counsel to the Authority and the Authority believe that there are substantial defenses to such litigation and disputes and that, in any event, the ultimate liability, if any, resulting therefrom will not materially adversely affect the financial position of the Authority.

For information on certain safety concerns and related actions, see “ONGOING FINANCIAL AND OPERATIONAL CONCERNS – Safety Concerns and Related Actions.” For information on the litigation related to the 2015 L’Enfant Plaza Accident, see “ONGOING FINANCIAL AND OPERATIONAL CONCERNS – “Litigation Exposure from Metrorail Accidents – *L’Enfant Plaza Accident Litigation*.” The Authority also notes that there was a recent bus accident which, when and if litigation commences, is likely to involve the Authority’s insurer. Another matter of note includes a putative class action suit alleging that the Authority violated Title VII of the Civil Rights Act related to background screening of employees and contractors. Such case also may involve the Authority’s insurer. As noted in the immediately preceding paragraph, the Authority is involved with other litigation and disputes as part of its ordinary operations and the results thereof are not expected to have a material adverse effect on the financial position of the Authority.

LEGAL MATTERS

Certain legal matters relating to the authorization and validity of the Series 2016A Bonds will be subject to the approving opinion of Hawkins Delafield & Wood LLP, Bond Counsel, which will be furnished at the expense of the Authority upon delivery of the Series 2016A Bonds and will be in substantially the form set forth as APPENDIX B.

Certain legal matters pertaining to the issuance of the Series 2016A Bonds will be passed upon for the Authority by its Acting General Counsel, Mark R. Pohl, Esquire. Hawkins Delafield & Wood LLP, as Disclosure Counsel to the Authority, will deliver an opinion regarding certain matters to the Authority and the Underwriters. Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, Washington, D.C.

TAX MATTERS

Series 2016A Bonds

Opinion of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2016A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) interest on the Series 2016A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority in connection with the Series 2016A Bonds, and Bond Counsel has assumed compliance by the Authority with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Series 2016A Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel, interest on the Series 2016A Bonds is exempt from all present Maryland, Virginia and District of Columbia personal income taxes.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Series 2016A Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action hereafter taken or not taken, or any, facts or circumstances that may hereafter come to its attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Series 2016A Bonds, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Series 2016A Bonds in order that interest on the Series 2016A Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Series 2016A Bonds,

yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Series 2016A Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Authority has covenanted to comply with all applicable requirements of the Code to assure the exclusion of interest on the Series 2016A Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Series 2016A Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Series 2016A Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Series 2016A Bonds.

Prospective owners of the Series 2016A Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is not included in gross income for Federal income tax purposes. Interest on the Series 2016A Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

“Original issue discount” (“OID”) is the excess of the sum of all amounts payable at the stated maturity of a Series 2016A Bond (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the “issue price” of a maturity means the first price at which a substantial amount of the Series 2016A Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Series 2016A Bonds is expected to be the initial public offering price set forth on the inside cover page of the Official Statement. Bond Counsel further is of the opinion that, for any Series 2016A Bonds having OID (a “Discount Bond”), OID that has accrued and is properly allocable to the Owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Series 2016A Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An Owner’s adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Series 2016A Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

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

Bond Premium

In general, if an Owner acquires a Series 2016A Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Series 2016A Bond after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates), that premium constitutes “bond premium” on that Series 2016A Bond (a “Premium Bond”). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the Owner’s yield over the remaining term of the Premium Bond, determined based on constant yield principles. An Owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the Owner’s regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the Owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the Owner’s original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Series 2016A Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, “Request for Taxpayer Identification Number and Certification,” or unless the recipient is one of a limited class of exempt recipients, including corporations. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to “backup withholding,” which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a “payor” generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Series 2016A Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series 2016A Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner’s Federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Series 2016A Bonds under Federal or state law or otherwise prevent beneficial owners of the Series 2016A Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions

(whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Series 2016A Bonds. For example, budgets proposed by the Obama Administration from time to time have recommended a 28% limitation on certain itemized deductions and other tax benefits, including tax-exempt interest. The net effect of such a proposal, if enacted into law, would be that an owner of a tax-exempt bond with a marginal tax rate in excess of 28% would pay some amount of Federal income tax with respect to the interest on such tax-exempt bond, regardless of issue date.

Prospective purchasers of the Series 2016A Bonds should consult their own tax advisors regarding the foregoing matters.

RATINGS

Moody's Investors Service ("Moody's") and Standard and Poor's Ratings Group ("S&P") have assigned ratings to the Series 2016A Bonds of "[redacted]" (with a [redacted] outlook) and "[redacted]" (with a [redacted] outlook), respectively.

A rating reflects only the view of the agency giving such rating and is not a recommendation to buy, sell or hold the Series 2016A Bonds. An explanation of the significance of such ratings may only be obtained from the rating agency furnishing the same. Such ratings may be changed at any time, and no assurance can be given that they will not be revised downward or withdrawn entirely by either or both of such rating agencies if, in the judgment of either or both, circumstances so warrant. Any such downward revision or withdrawal of either of such ratings may have an adverse effect on the market price of the Series 2016A Bonds.

CONTINUING DISCLOSURE

The Authority will undertake in a Continuing Disclosure Agreement to assist the Underwriters in complying with the provisions of Rule 15c2-12 (the "Rule"), promulgated by the SEC, by providing annual financial information, operating data, and event notices required by the Rule. As described in APPENDIX D, such undertaking requires the Authority to provide only limited information at specified times. The Authority's continuing disclosure filings since July 2009 are available at www.emma.msrb.org.

[Under its Continuing Disclosure Agreement for the Series 2009 Bonds (the "2009 CDA"), the Authority is required to provide its audited financial statements to EMMA no later than four months after the end of its fiscal year (October 31). The FY 2014 Audited Financial Statements were filed on August 11, 2015, approximately 10 months late. The FY 2015 Audited Financial Statements were filed on December 17, 2015, approximately two months late.

Under the 2009 CDA, the Authority is also required to file its CAFR, if any is prepared, for the immediately preceding fiscal year. With the exception of fiscal year 2014 when no CAFR was prepared, the Authority has failed to file its CAFRs for fiscal years 2011, 2012, 2013, and 2015 on EMMA.]

UNDERWRITING

The Series 2016A Bonds are being purchased by the Underwriters named on the cover page of this Official Statement, subject to certain terms and conditions set forth in a Bond Purchase Agreement between the Authority and the Underwriters, at a purchase price of \$_____, which reflects the par amount of the Series 2016A Bonds, [plus/less original issue premium/discount] of \$_____, less an Underwriters' discount of \$_____.

The Series 2016A Bonds are offered for sale to the public at prices set forth on the inside front cover page of this Official Statement. The Series 2016A Bonds may be offered and sold to certain dealers (including the Underwriters and other dealers depositing such Series 2016A Bonds into investment trusts) at prices lower than such offering prices, and such public offering prices may be changed from time to time by the Underwriters without prior notice.

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

Siebert Brandford Shank & Co., L.L.C. ("SBS"), one of the Underwriters of the Series 2016A Bonds, has entered into separate agreements with Muriel Siebert & Co. for the retail distribution of certain securities offerings, at the original issue prices. Pursuant to these distribution agreements, if applicable to the Series 2016A Bonds, Muriel Siebert & Co., as the case may be, will purchase Series 2016A Bonds at the original issue price less the selling concession with respect to any Series 2016A Bonds that such entity sells. SBS will share a portion of its underwriting compensation with Muriel Siebert & Co.

"US Bancorp" is the marketing name of U.S. Bancorp and its subsidiaries, including U.S. Bancorp Investments, Inc., which is serving as an Underwriter for the Series 2016A Bonds.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, acting through its Municipal Products Group ("WFBNA MPG").

WFBNA MPG, one of the Underwriters of the Series 2016A Bonds, has entered into an agreement (the "Wells Distribution Agreement") with its affiliate, Wells Fargo Advisors, LLC ("WFA"), for the distribution of certain municipal securities offerings, including the Series 2016A Bonds. Pursuant to the Wells Distribution Agreement, WFBNA MPG will share a portion of its underwriting or

remarketing agent compensation, as applicable, with respect to the Series 2016A Bonds with WFA. WFBNA MPG also utilizes the distribution capabilities of its affiliate Wells Fargo Securities, LLC (“WFSLLC”), for the distribution of municipal securities offerings, including the Series 2016A Bonds. In connection with utilizing the distribution capabilities of WFSLLC, WFBNA MPG pays a portion of WFSLLC’s expenses based on its municipal securities transactions. WFBNA MPG, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

FINANCIAL ADVISOR

Public Financial Management, Inc. served as independent financial advisor, to the Authority with respect to the sale of the Series 2016A Bonds. The Financial Advisor assisted in the preparation of this Official Statement and in other matters relating to the planning, structuring and issuance of the Series 2016A Bonds and provided other advice. The Financial Advisor has not undertaken to make an independent verification of, or to assume responsibility for the accuracy, completeness or fairness of the information contained in the Official Statement.

MISCELLANEOUS

The references to, excerpts from, and summaries of documents referred to herein do not purport to be complete statements of provisions of such documents, and reference is directed to such documents for full and complete statements of all matters of fact relating to the Series 2016A Bonds, the security for the payment of the Series 2016A Bonds and the rights and obligations of the registered owners thereof.

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

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

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

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

**WASHINGTON METROPOLITAN AREA
TRANSIT AUTHORITY**

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

APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

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

Establishment of Funds and Accounts

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

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

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

Proceeds Fund and Application Thereof

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

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

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

Revenue Fund, Gross Revenues and Application Thereof

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

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

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

Debt Service Fund

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

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

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

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

Investment of Funds

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

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

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

Selection of Obligations to be Redeemed

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

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

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

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

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

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

Notice of Redemption Provisions for the Obligations

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

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

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

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

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

Indebtedness

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

Medium of Payment; Form and Date

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

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

Transfer of Obligations

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

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

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

Regulations with Respect to Exchanges and Transfers

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

Defeasance

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

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

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

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

Events of Default

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

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

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

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

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

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

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

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

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

Powers of Trustee

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

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

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

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

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

Priority of Payments After Default

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

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

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

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

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

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

Accounting and Inspection of Records After Default

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

Remedies Not Exclusive

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

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

No Recourse on the Obligations

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

Preservation and Inspection of Documents

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

Interested Parties

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

Supplemental Resolutions Effective Upon Filing With the Trustee

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

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

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

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

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

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

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

Supplemental Resolutions Effective With Consent of Owners of Obligations

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

Effectiveness of Supplemental Resolutions

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

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

Modifications by Unanimous Consent

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

Offices for Servicing Obligations

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

Further Assurances

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

Power to Issue Obligations and Effect Pledge

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

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

Operation and Maintenance of Transit System

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

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

Maintenance of Insurance for the Transit System

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

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

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

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

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

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

Accounts and Reports

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

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

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

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

Rate Covenant

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

General

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

Annual Operating Budget

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

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

Payments by Participating Jurisdictions

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

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

Authorization of the Obligations

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

General Provisions for Issuance of Obligations

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

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

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

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

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

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

Special Provisions for Capital Cost Obligations

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

Refunding Obligations

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

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

Separately Financed Projects; Revenue Anticipation Notes

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

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

The Pledge Effected by the Resolution

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

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

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

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

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

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

Subordinated Indebtedness; Subordinated Contract Obligations

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

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

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

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

Responsibilities of Fiduciaries

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

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

Resignation of Trustee

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

Removal of the Trustee

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

Appointment of Successor Trustee

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

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

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

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

Definitions and Interpretations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Defeasance Security means:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Parity Reimbursement Obligation has the meaning provided in the Resolution.

Parity Swap Obligation has the meaning provided in the Resolution.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Reimbursement Obligation has the meaning provided in the Resolution.

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

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

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

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

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

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

Separately Financed Project means any project described in the Resolution.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

APPENDIX B

FORM OF OPINION OF BOND COUNSEL

[Date of Closing]

Board of Directors
Washington Metropolitan Area Transit Authority
600 Fifth Street, N.W.
Washington, D.C. 20001

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance of \$_____ aggregate principal amount of Gross Revenue Transit Bonds, Series 2016A (the "Series 2016A Bonds") of Washington Metropolitan Area Transit Authority (the "Authority"), a body corporate and politic, constituting an instrumentality and agency of the State of Maryland ("Maryland"), the Commonwealth of Virginia ("Virginia") and the District of Columbia, created and existing under and by virtue of the Washington Metropolitan Area Transit Authority Compact, as amended (the "Compact"), by and between Maryland, Virginia and the District of Columbia.

All terms defined in the Resolution (hereinafter defined) and used herein shall have the meanings assigned in the Resolution, except where the context hereof requires otherwise.

The Series 2016A Bonds are issued under and pursuant to the Compact, and under and pursuant to proceedings of the Authority duly taken, including a resolution adopted by the Authority entitled "Gross Revenue Bond Resolution," adopted on September 25, 2003, as supplemented by a resolution entitled "2016A Project Supplemental Bond Resolution," adopted on May __, 2016 (collectively, the "Resolution").

The Series 2016A Bonds are dated, mature, are payable, bear interest and are subject to redemption, all as provided in the Resolution.

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements that must be met subsequent to the issuance and delivery of the Series 2016A Bonds in order that interest on the Series 2016A Bonds be and remain excluded from gross income for federal income tax purposes under Section 103 of the Code. We have examined the Tax Certificate of the Authority, dated the date hereof (the "Tax Certificate"), in which the Authority has made representations, statements of intention and reasonable expectation, certifications of fact and covenants relating to the federal tax status of interest on the Series 2016A Bonds, including, but not limited to, certain representations with respect to the use of the proceeds of the Series 2016A Bonds and the investment of certain funds. The Tax Certificate obligates the Authority to take certain actions necessary to cause interest on the Series 2016A Bonds to be excluded from gross income pursuant to Section 103 of the Code. Noncompliance with the requirements of the Code may cause interest on the Series 2016A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance, irrespective of the date on which such noncompliance occurs or is ascertained. The Authority has covenanted in the Resolution to maintain the exclusion of the interest on the Series 2016A Bonds from gross income for federal income tax purposes pursuant to Section 103(a) of the Code.

In rendering the opinion in paragraph 4 hereof, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectation and certifications of fact contained in the Tax Certificate with respect to matters affecting the exclusion from gross income for federal income tax purposes pursuant to Section 103 of the Code of interest on the Series 2016A Bonds, and (ii) compliance by the Authority with procedures and covenants set forth in the Tax Certificate as to such tax matters.

We have also examined one of said Series 2016A Bonds as executed and, in our opinion, the form of said Series 2016A Bond and its execution are regular and proper.

The Series 2016A Bonds are issued for the principal purposes of paying certain Capital Costs of the Authority.

The Authority reserves the right to issue additional Obligations or incur Parity Indebtedness on the terms and for the purposes stated in the Resolution. Under the provisions of the Resolution, any Outstanding or additional Obligations or Parity Indebtedness will rank equally with the Series 2016A Bonds as to security and payment from the Trust Estate.

We are of the opinion that:

1. The Authority is duly created and validly existing under the provisions of the Compact.
2. The Authority has the right and power under the Compact to adopt the Resolution, and the Resolution has been duly and lawfully adopted by the Authority, is in full force and effect and is valid and binding upon the Authority and enforceable in accordance with its terms, and no other authorization for the Resolution is required. The Resolution creates the valid pledge which it purports to create of the Trust Estate (as defined in the Resolution), moneys, securities and funds, held or set aside under the Resolution, subject to the application thereof to the purposes and on the conditions permitted by the Resolution.
3. The Authority is duly authorized and entitled to issue the Series 2016A Bonds, and the Series 2016A Bonds are valid, binding and special and limited obligations of the Authority as provided in the Resolution, enforceable in accordance with their terms and the terms of the Resolution and entitled to the benefits of the Resolution and of the Compact, and the Series 2016A Bonds have been duly and validly authorized and issued in accordance with law, including the Compact, and in accordance with the Resolution.
4. Under existing statutes and court decisions (i) interest on the Series 2016A Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code, and (ii) interest on the Series 2016A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations.
5. Interest on the Series 2016A Bonds is exempt from all present Maryland, Virginia and District of Columbia personal income taxes.

The opinions expressed in paragraphs 2 and 3 are qualified to the extent that the enforceability of the Resolution and the Series 2016A Bonds, respectively, may be limited by any applicable bankruptcy, insolvency, debt adjustment, moratorium, reorganization or other similar laws, judicial decisions and principles of equity relating to the enforcement of creditors' rights generally or contractual obligations,

and judicial discretion and the valid exercise of the sovereign police powers of Maryland, Virginia and the District of Columbia and of the constitutional power of the United States of America.

Except as stated in paragraphs 4 and 5, we express no opinion regarding any other federal, state, local or foreign tax consequences with respect to the Series 2016A Bonds. We express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the federal income tax treatment of interest on the Series 2016A Bonds, or under state, local and foreign tax law.

We express no opinion as to the accuracy or sufficiency of any financial or other information which has been or will be supplied to purchasers of the Series 2016A Bonds.

This opinion letter is rendered solely with regard to the matters expressly opined on above and does not consider or extend to any documents, agreements, representations or other material of any kind not specifically opined on above. No other opinions are intended nor should they be inferred. This opinion letter is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion letter to reflect any future actions, facts or circumstances that may hereafter come to our attention, or any changes in law, or in interpretations thereof, that may hereafter occur, or for any reason whatsoever.

Very truly yours,

APPENDIX C

BOOK-ENTRY-ONLY SYSTEM PROCEDURES

General

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

DTC will act as securities depository for the Series 2016A Bonds under a book-entry system with no physical distribution of the Series 2016A Bonds made to the public. The Series 2016A Bonds will initially be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee), or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of each series of the Series 2016A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of “AA+”. The DTC rules applicable to its participants are on file with the Securities and Exchange Commission (the “SEC”). More information about DTC can be found at www.dtcc.com.

Purchases of the Series 2016A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2016A Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2016A Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2016A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2016A Bonds, except in the event that use of the book-entry system for the Series 2016A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2016A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2016A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee does not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2016A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2016A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2016A Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series 2016A Bonds, such as redemptions, defaults and proposed amendments to the bond documents. For example, Beneficial Owners of Series 2016A Bonds may wish to ascertain that the nominee holding the Series 2016A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2016A Bonds of a series within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity of the Series 2016A Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2016A Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2016A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal and redemption price of, and interest on, the Series 2016A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct and Indirect Participants and not of DTC (or its nominee), the Authority or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and redemption price of, and interest on, the Series 2016A Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

The Authority, the Trustee, and the Underwriters cannot and do not give any assurances that DTC will distribute to its participants or that Direct Participants or Indirect Participants will distribute to Beneficial Owners of the Series 2016A Bonds (a) payments of principal or redemption price of, or interest on, the Series 2016A Bonds, or (b) confirmation of ownership interests in the Series 2016A Bonds, or (c) redemption or other notices, or that they will do so on a timely basis, or that DTC, Direct Participants, or Indirect Participants will serve and act in the manner described

in this Official Statement. The current “rules” applicable to DTC are on file with the SEC and the current “procedures” of DTC to be followed in dealing with its participants are on file with DTC.

None of the Authority, the Trustees, or the Underwriters will have any responsibility or obligation to DTC participants, Beneficial Owners, or other nominees of such Beneficial Owners for: (a) sending transaction statements; (b) maintaining, supervising, or reviewing the accuracy of any records maintained by DTC or any DTC participant or other nominees of such Beneficial Owners; (c) payment or the timeliness of payment by DTC to any DTC participant, or by any DTC participant or other nominees of Beneficial Owners to any Beneficial Owner, of any amount due in respect of the principal or redemption price of, or interest on, the Series 2016A Bonds; (d) delivery or timely delivery by DTC to any DTC participant, or by any DTC participant or other nominees of Beneficial Owners to any Beneficial Owners, of any notice (including notice of redemption) or other communication, which is required to be given to holders or owners of the Series 2016A Bonds; (e) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Series 2016A Bonds; or (f) any action taken by DTC or its nominee as the registered owner of the Series 2016A Bonds.

Discontinuation of Book-Entry Only System

DTC may discontinue providing its services as depository with respect to the Series 2016A Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Series 2016A Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2016A Bond certificates will be printed and delivered.

APPENDIX D

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Agreement”) dated [REDACTED], 2016, is executed and delivered by the Washington Metropolitan Area Transit Authority (the “Authority”) in connection with the issuance and sale of the Authority’s \$220,000,000* Gross Revenue Transit Bonds, Series 2016A (the “Bonds”), issued pursuant to the Resolution (as defined in the Official Statement). Capitalized terms used in this Agreement which are not otherwise defined in the Official Statement or the Resolution shall have the respective meanings specified above or in Article IV hereof.

ARTICLE I

The Undertaking

Section 1.1. Purpose. This Agreement is being executed and delivered solely to assist the Underwriters in complying with subsection (b)(5) of the Rule.

Section 1.2. Annual Financial Information. (a) Commencing with the fiscal year ending June 30, 2016, the Authority shall provide to the MSRB no later than [REDACTED], and no later than each succeeding [REDACTED] thereafter, Annual Financial Information with respect to each fiscal year of the Authority.

(b) The Authority shall provide, in a timely manner, notice of any failure of the Authority to provide the Annual Financial Information by the date specified in subsection (a) above to the MSRB.

Section 1.3. Audited Financial Statements. If not provided as part of Annual Financial Information by the date required by Section 1.2(a) hereof because not available, the Authority shall provide Audited Financial Statements, when and if available, to the MSRB.

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

(b) Any notice of a defeasance of Bonds shall state whether the Bonds have been escrowed to maturity or to an earlier redemption date and the timing of such maturity or redemption.

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

Section 1.5. Additional Information. Nothing in this Agreement shall be deemed to prevent the Authority from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Financial Information or notice of Notice Event hereunder, in addition to that which is required by this Agreement. If the Authority chooses to include any information in any Annual Financial Information or Notice Event notice in addition to that which is specifically required by this Agreement, the Authority

* Preliminary, subject to change.

shall have no obligation under this Agreement to update such additional information or include it in any future Annual Financial Information or notice of a Notice Event hereunder.

Section 1.6. Additional Disclosure Obligations. The Authority acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Authority and that, under some circumstances, compliance with this Agreement without additional disclosures or other action may not fully discharge all duties and obligations of the Authority under such laws.

Section 1.7. Previous Non-Compliance. The Authority represents that, except as disclosed in the Official Statement, in the previous five years it has not failed to comply in all material respects with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

ARTICLE II

Operating Rules

Section 2.1. Reference to Other Filed Documents. It shall be sufficient for purposes of Section 1.2 hereof if the Authority provides Annual Financial Information by specific reference to documents (i) available to the public on the MSRB Internet Web site (currently, www.emma.msrb.org), or (ii) filed with the SEC. The provisions of this Section shall not apply to notices of Notice Events pursuant to Section 1.4 hereof.

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

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

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

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

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

Section 2.6. Fiscal Year. (a) The Authority’s current fiscal year begins July 1 and ends on June 30, and the Authority shall promptly notify (i) the MSRB and (ii) the Trustee of each change in its fiscal year.

(b) Annual Financial Information shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months.

ARTICLE III

Effective Date, Termination, Amendment and Enforcement

Section 3.1. Effective Date; Termination. (a) This Agreement shall be effective upon the issuance of the Bonds.

(b) The Authority's obligations under this Agreement shall terminate upon a legal defeasance, prior redemption or payment in full of all of the Bonds.

(c) This Agreement, or any provision hereof, shall be null and void in the event that the Authority (1) receives an opinion of Counsel to the effect that those portions of the Rule which require this Agreement, or such provision, as the case may be, do not or no longer apply to the Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) delivers copies of such opinion to the MSRB.

Section 3.2. Amendment. (a) This Agreement may be amended, by written agreement of the parties, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Authority or the type of business conducted thereby, (2) this Agreement as so amended would have complied with the requirements of the Rule as of the date of this Agreement, after taking into account any amendments to or interpretations of the Rule, as well as any change in circumstances, (3) the Authority shall have received an opinion of Counsel to the same effect as set forth in clause (2) above, (4) the Authority shall have received an opinion of Counsel or a determination by an entity, in each case unaffiliated with the Authority (such as bond counsel or the Trustee), to the effect that the amendment does not materially impair the interests of the holders of the Bonds, and (5) the Authority shall have delivered copies of such opinion(s) and amendment to the MSRB.

(b) This Agreement may be amended, by written agreement of the parties, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Agreement which is applicable to this Agreement, (2) the Authority shall have received an opinion of Counsel to the effect that performance by the Authority under this Agreement as so amended will not result in a violation of the Rule, and (3) the Authority shall have delivered copies of such opinion and amendment to the MSRB.

(c) This Agreement may be amended by written agreement of the parties, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) the Authority shall have received an opinion of Counsel to the effect that the amendment is permitted by rule, order or other official pronouncement, or is consistent with any interpretive advice or no-action positions of staff, of the SEC, and (2) the Authority shall have delivered copies of such opinion and amendment to the MSRB.

(d) To the extent any amendment to this Agreement results in a change in the type of financial information or operating data provided pursuant to this Agreement, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(e) If an amendment is made pursuant to Section 3.2(a) hereof to the accounting principles to be followed by the Authority in preparing its financial statements, the Annual Financial Information for

the fiscal year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

Section 3.3. Benefit; Third-Party Beneficiaries; Enforcement. (a) The provisions of this Agreement shall constitute a contract with and inure solely to the benefit of the holders from time to time of the Bonds, except that beneficial owners of Bonds shall be third-party beneficiaries of this Agreement. The provisions of this Agreement shall create no rights in any person or entity except as provided in this subsection (a) and in subsection (b) of this Section.

(b) The obligations of the Authority to comply with the provisions of this Agreement shall be enforceable by any holder of Outstanding Bonds. The holders' rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the Authority's obligations under this Agreement. In consideration of the third-party beneficiary status of beneficial owners of Bonds pursuant to subsection (a) of this Section, beneficial owners shall be deemed to be holders of Bonds for purposes of this subsection (b).

(c) Any failure by the Authority to perform in accordance with this Agreement shall not constitute a default or an event of default under the Resolution, and the rights and remedies provided by the Resolution upon the occurrence of a default or an event of default shall not apply to any such failure.

(d) This Agreement shall be construed and interpreted in accordance with the Compact, and any suits and actions arising out of this Agreement shall be instituted in a court of competent jurisdiction; provided, however, that to the extent this Agreement addresses matters of federal securities laws, including the Rule, this Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

ARTICLE IV

Definitions

Section 4.1. Definitions. The following terms used in this Agreement shall have the following respective meanings:

(1) "Annual Financial Information" means, (i) collectively, updated versions of the following financial information and operating data contained in the Official Statement, for each fiscal year of the Authority, as follows:

(a) Audited Financial Statements, if available, or Unaudited Financial Statements for the immediately preceding fiscal year;

(b) the Authority's Comprehensive Annual Financial Report ("CAFR"), if any is prepared, for the immediately preceding fiscal year, and if not prepared, such annual financial information as the Authority is advised by disclosure counsel or bond counsel would satisfy the definition of "annual financial information" in the Rule;

(c) to the extent such information is not contained in the CAFR, the financial information and operating data with respect to the Authority, substantially similar to the type set forth in [Tables 1-6 and 8-11] in the Official Statement; and

(ii) the information regarding amendments to this Agreement required pursuant to Sections 3.2(d) and (e) of this Agreement.

Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

The descriptions contained in Section 4.1(1) hereof of financial information and operating data constituting Annual Financial Information are of general categories of financial information and operating data. When such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided in lieu of such information. Any Annual Financial Information containing modified financial information or operating data shall explain, in narrative form, the reasons for the modification and the impact of the modification on the type of financial information or operating data being provided.

(2) “Audited Financial Statements” means the annual financial statements, if any, of the Authority, audited by such auditor as selected by the Authority or as shall otherwise then be required or permitted by the Authority or federal law or the Resolution. Audited Financial Statements shall be prepared in accordance with GAAP; provided, however, that pursuant to Section 3.2(a) hereof, the Authority may from time to time, if required by the Authority’s legal requirements, modify the accounting principles to be followed in preparing its financial statements. The notice of any such modification required by Section 3.2(a) hereof shall include a reference to the specific law or regulation describing such accounting principles, or other description thereof.

(3) “Counsel” means any nationally recognized bond counsel or counsel expert in federal securities laws.

(4) “GAAP” means generally accepted accounting principles as prescribed from time to time for governmental units by the Governmental Accounting Standards Board, the Financial Accounting Standards Board, or any successor to the duties and responsibilities of either of them.

(5) “MSRB” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the functions of the MSRB contemplated by this Agreement.

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

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

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

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

(7) “Official Statement” means the Official Statement dated [REDACTED], 2016, of the Authority relating to the Bonds.

(8) “Rule” means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CFR Part 240, §240.15c2-12), as amended, as in effect on the date of this Agreement, including any official interpretations thereof issued either before or after the effective date of this Agreement which are applicable to this Agreement.

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

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

**WASHINGTON METROPOLITAN AREA
TRANSIT AUTHORITY**

By: _____
Name:
Title: