

**SOUND TRANSIT
STAFF REPORT**

RESOLUTION NO. R2005-02

Sales Tax Bonds of the Authority to be issued in a series to finance a portion of the authority's regional transit system plan.

Meeting:	Date:	Type of Action:	Staff Contact:	Phone:
Finance Committee	1/6/05	Discussion/Possible Action to Recommend Board Approval	Hugh Simpson , Chief Financial Officer	(206) 398-5182
Finance Committee	2/03/05	Discussion/Possible Action to Recommend Board Approval	Brian McCartan , Deputy Chief Financial Officer	(206) 398-5182
Board	2/10/05	Action		

Contract/Agreement Type:	✓	Requested Action:	✓
Competitive Procurement		Execute New Contract/Agreement	
Sole Source		Amend Existing Contract/Agreement	
Interagency Agreement		Contingency Funds (Budget) Required	
Purchase/Sale Agreement		Budget Amendment Required	

ACTION

- Authorizes the issuance of the bonds, subject to a final board approved bond sale resolution to be presented to the board after the bond pricing.
- This resolution establishes the basic covenants for these and future bonds issued on the same lien with pledged sales and rental car tax.

KEY FEATURES

The final resolution is still under development but the key features as currently drafted are;

- Establishes the covenants for the issuance of sales tax and rental car tax bonds.
- Requires Sound Transit to impose sales tax and rental car taxes while the bonds are outstanding.
- Requires pledged taxes to be used in the following order:
 - first, to pay prior (*senior lien*) bonds;
 - second, to make all required payments for reserve accounts for the prior bonds;
 - third, to make principal and interest payments on bonds authorized under this Resolution (subordinate bonds);
 - fourth, to make all required payments for subordinate lien reserve accounts;
 - fifth, to make all payments required to be made for junior lien bonds;
 - sixth, to pay the costs of operating and maintaining Sound Transit and its facilities; and
 - seventh, for any lawful purpose of the agency.
- Pledges Sound Transit's collection of voter-approved sales and use tax and rental car taxes to repayment of bonds.
- Bonds issued under this Resolution would be subordinate to the Sound Transit 1999 Bonds and any subsequent bonds pledged under that lien.

- Prevents Sound Transit from issuing additional subordinate lien bonds unless:
 - It can generate enough Sales Tax, MVET and Rental Car tax to pay 1.x times the maximum debt service on the prior lien (senior lien) bonds;
 - It can generate enough Sales Tax and Rental Car Tax to pay 1.x times maximum debt service coverage on subordinate lien bonds.
- Allows for the agency to pledge additional taxes to subordinate lien bonds, such as MVET, if legally available and if the Board elects to do so;
- Establishes accounts including:
 - the Subordinate Lien Bond Account in which the Sound Transit deposits Pledged Taxes (Sales Tax and Rental Car Taxes and other such taxes as approved by the Board) and make payments on the bonds;
 - the Tax Stabilization Sub-account, which Sound Transit may use to save money in anticipation of a sales tax rollback.
- Authorizes the execution of interest rate and currency swap agreements to hedge risk.
- Provides for the appointment of a bondholders' trustee if the Authority defaults in payment.
- Authorizes the bonds to be defeased or refunded.
- Authorizes the issuance of junior lien bonds.
- The final terms of the sale of bonds (amounts, maturity, interest rates, redemption provisions) would be adopted by the Board by later resolution at the time of a bond sale.

BUDGET IMPACT SUMMARY

Action Outside of Adopted Budget:	Y/N	Y Requires Comment
This Line of Business	NA	
This Project	NA	
This Phase	NA	
This Task	NA	
Budget amendment required	NA	
Key Financial Indicators:	Y/N	Y Requires Comment
Contingency funds required	NA	
Subarea impacts	NA	
Funding required from other parties other than what is already assumed in financial plan	NA	

N = Action is assumed in current Board-adopted budget. Requires no budget action or adjustment to financial plan

BUDGET DISCUSSION

The Adopted 2005 Budget did not assume the issuance of bonds in 2005. If the agency were to proceed with a bond sale, interest earnings and debt service would be higher than what was

included in the Adopted 2005 Budget. **The 2005 Budget would need to be amended to reflect these changes.**

REVENUE, SUBAREA, AND FINANCIAL PLAN IMPACTS

The agency's long-term financial plan forecasts the issuance of an additional \$1.0-\$1.2 billion of bonds to finance the agency's Phase 1 Board-approved capital plan. This action would establish the covenants for a new lien (Sales Tax and Rental Car Tax) for bonds to be issued as a part of the funding for Phase 1 capital projects and is consistent with the agency's current financial planning assumptions.

BUDGET TABLE

NA

M/W/DBE – SMALL BUSINESS PARTICIPATION

Sound Transit's investment banking team includes a women/minority-owned firm that will participate in the bond sale.

Project History

Finance staff has brief the Finance Committee, and received guidance from the Committee, several times during the last year on the development of an agency asset-liability management (ALM) approach in managing its cash investments and bonding requirements. As discussed with the Committee, the ALM approach would potentially issue debt prior to the agency reaching its minimum cash position in order to achieve the lowest cost of borrowing for the program.

Prior Board or Committee Actions and Relevant Board Policies

Motion or Resolution Number	Summary of Action	Date of Action
R-73	Adoption of <i>Sound Move</i> - A RESOLUTION of the Board of the Regional Transit Authority for the Pierce, King, and Snohomish Counties region adopting a Ten-Year Regional Transit System Plan, together with related Appendices, and a Regional Transit Authority Long-Range Vision, and rescinding Resolution No. 40.	5/31/96
R-82	A RESOLUTION of the Board of the Regional Transit Authority for the Pierce, King and Snohomish Counties region imposing taxes authorized pursuant to a vote of the electorate to implement the Ten-Year Regional Transit Plan; levying, fixing, and imposing a motor vehicle excise tax, a retail sales and use tax, and a sales and use tax on retail rental cars, all for the sole purpose of providing high capacity transportation services through implementation of the Ten-Year Regional Transit Plan; and authorizing the Executive Director to enter into contracts with the state for tax collection and administration. (beginning on 4/1/97)	2/13/97
R98-47	A RESOLUTION of the Board of Directors of the Central Puget Sound Regional Transit Authority authorizing Sales Tax and Motor Vehicle Excise Tax Bonds to be issued in a series to finance a portion of the Authority's regional transit system plan.	11/12/98
R98-48	A RESOLUTION of the Board of Directors of the Central Puget Sound Regional Transit Authority authorizing the issuance and sale of Sales Tax and Motor Vehicle Excise Tax Bonds, Series 1999, in the principal amount of not to exceed \$400,000,000 to pay a portion of the cost of the Authority's regional transit system plan; fixing the date, form, and terms of the bonds; and authorizing the sale of the bonds.	11/12/98

FUNDING

Any bonds issued under this Resolution will be repaid from sales tax and rental car tax revenues during the term of the bonds.

CONSEQUENCES OF DELAY:

If the Board does not authorize the sale of a new series of bonds at this point, the agency could not issue additional bonds at this time. The agency has sufficient cash at this point to fund the projects through 3Q 2006. However, if the agency does not issue additional bonds at this time, it risks incurring higher borrowing costs in future years.

LEGAL REVIEW:

The Legal Department, the agency's Bond Counsel (Foster Pepper and Shefelman), and counsel for the underwriters (Preston Gates and Ellis) will have authored and/or reviewed all bond related documents.

SOUND TRANSIT

RESOLUTION NO. R2005-02

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY AUTHORIZING THE ISSUANCE OF SALES TAX BONDS OF THE AUTHORITY IN THE PRINCIPAL AMOUNT OF NOT TO EXCEED \$500,000,000 TO FINANCE A PORTION OF THE AUTHORITY'S REGIONAL TRANSIT SYSTEM PLAN; FIXING CERTAIN PROVISIONS AND COVENANTS OF THE BONDS, INCLUDING PROVISIONS SAFEGUARDING THE PAYMENT OF THE PRINCIPAL THEREOF AND INTEREST THEREON; AND AUTHORIZING AND DIRECTING THE SALE OF SUCH BONDS.

WHEREAS, the Board of Directors of The Central Puget Sound Regional Transit Authority (the "Authority"), by Resolution No. 73, authorized a regional transit system plan to provide high capacity transportation services in the central Puget Sound region (the "Plan"); and

WHEREAS, on November 5, 1996, at an election held within the boundaries of the Authority, the requisite number of voters approved the special motor vehicle excise taxes authorized by RCW 81.104.160(1), the rental car sales and use taxes authorized by RCW 81.104.160(2) and the sales and use taxes authorized by RCW 81.104.170 to implement the Plan; and

WHEREAS, by Resolution No. 82, the Board authorized the imposition of the Local Option Taxes (as defined herein) and contracted with the State of Washington Department of Revenue and Department of Licensing to collect and transfer such taxes to the Authority, beginning on April 1, 1997; and

WHEREAS, pursuant to RCW 81.112.130, 81.112.140 and 81.104.180, the Authority on January 6, 1999, issued its Sales Tax and Motor Vehicle Excise Tax Bonds, Series 1999 (the "1999 Bonds"), secured by a pledge of the Local Option Taxes, to finance improvements for the purpose of providing high capacity transportation service; and

WHEREAS, the Authority desires to issue additional obligations to finance improvements for the purpose of providing high capacity transportation service, such obligations to be

subordinate to the 1999 Bonds but consistent with the resolutions authorizing the issuance of the 1999 Bonds;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Central Puget Sound Regional Transit Authority that:

Section 1. Definitions. As used in this Resolution, the following words and phrases shall have the meanings hereinafter set forth unless the context clearly indicates that another meaning is intended:

Accreted Value means with respect to any Capital Appreciation Bonds, as of any date of calculation, the sum of the amounts set forth in the Series Resolution as the amounts representing the initial principal amount of such Capital Appreciation Bonds plus the interest accumulated, compounded and unpaid thereon as of the most recent compounding date, as provided in the Series Resolution authorizing the issuance of such Capital Appreciation Bonds.

Additional Taxes means any taxes other than Local Option Taxes that are included as Pledged Taxes and pledged to the payment of Parity Bonds.

Additional Taxes Accounts mean separate accounts of the Authority, including any separate tax stabilization accounts, into which the Authority deposits Additional Taxes.

Adopted Rate Adjustment means any reduction or increase in the rate of the imposition of Pledged Taxes if the Authority has taken all actions and received all approvals required, as applicable, to adjust such Pledged Taxes and, in the case of an increase, to pledge such increased taxes to the payment of Parity Bonds.

Annual Debt Service means the amount required in any Fiscal Year to pay for the principal of and interest on all Parity Bonds Outstanding, excluding interest and principal to be paid from the proceeds of the sale of Parity Bonds or other obligations and excluding capitalized interest funded upon the issuance of Parity Bonds from sources other than Local Option Taxes or Pledged Taxes. For the purpose of calculating Annual Debt Service:

(i) in the case of Variable Rate Bonds, the interest rate thereon shall be calculated on the assumption that such Variable Rate Bonds will bear interest during such period at a rate

equal to the Assumed Variable Rate, provided that if a Payment Agreement is executed in connection with a Series of Parity Bonds that has the effect of converting the Variable Rate thereon to a synthetic fixed rate of interest, then for purposes of calculating Annual Debt Service the assumed interest rate for such Variable Rate Bonds shall be the synthetic fixed rate of interest payable by the Authority under the Payment Agreement for the term of the Payment Agreement;

(ii) if a Payment Agreement has the effect of converting the fixed rate of interest thereon to a synthetic Variable Rate, then for purposes of calculating Annual Debt Service, the assumed interest rate for such Parity Bonds shall be the Assumed Variable Rate payable by the Authority under the Payment Agreement for the term of the Payment Agreement;

(iii) in the case of Balloon Maturity Bonds, it shall be assumed that the principal of such Balloon Maturity Bonds, together with interest thereon at the rate applicable to such Balloon Maturity Bonds as set forth in a Series Resolution, shall be amortized in equal annual installments over a term set forth in the Series Resolution;

(iv) in the case of Capital Appreciation Bonds, the principal and interest portions of the Accreted Value becoming due at maturity, or by virtue of a mandatory sinking fund deposit, shall be included in the calculation of Annual Debt Service; and

(v) if the Parity Bonds are Paired Obligations, the interest rate on such Parity Bonds shall be the resulting combined fixed interest rate to be paid by the Authority with respect to such Paired Obligations.

Assumed Variable Rate means a rate or rates applicable to a Series of Parity Bonds that is calculated in accordance with a formula or index as set forth in the applicable Series Resolution.

Authority means The Central Puget Sound Regional Transit Authority, a regional transit authority duly organized and existing under and by virtue of the State Constitution, Chapter 81.112 RCW and Chapter 81.104 RCW.

Authority Certificate means a certificate executed by a Designated Authority Representative in connection with the issuance of Future Parity Bonds or Prior Bonds under Section 16 or in connection with the reduction of the Sales and Use Tax under Section 20(a).

Average Annual Debt Service means the aggregate Annual Debt Service with respect to all Parity Bonds Outstanding (including Parity Bonds being issued at the time of calculation of Average Annual Debt Service) through the scheduled maturities thereof (stated maturity dates, or mandatory sinking fund redemption dates with respect to Term Bonds), divided by the number of years or portions thereof remaining during which interest on Parity Bonds is due and/or Parity Bonds are scheduled to mature or be subject to mandatory redemption (commencing with the date of calculation).

Balloon Maturity Bonds means any Parity Bonds which are so designated in the Series Resolution pursuant to which such Parity Bonds are issued. Commercial paper obligations (obligations with a maturity of not more than 270 days from their date of issuance) shall be deemed to be Balloon Maturity Bonds.

Base Period means any consecutive 12-month period selected by the Authority out of the 24-month period immediately preceding the date of issuance of a Series of Parity Bonds for purposes of Section 16(d), or any consecutive 12-month period selected by the Authority out of the 16-month period immediately preceding the date of calculation for purposes of Section 20(a).

Board means the Board of Directors of the Authority.

Bond Counsel means a firm of lawyers nationally recognized as bond counsel and retained by the Authority.

Bond Insurance means any municipal bond insurance policy, surety bond, letter of credit or similar instrument issued to guarantee the payment of any applicable Series of Parity Bonds or to satisfy all or any portion of the Subordinate Reserve Account Requirement.

Bond Register means the registration books on which are maintained the names and addresses of the Owners of the 2005A Bonds.

Bond Registrar means, unless provided otherwise in the Bond Sale Resolution, the fiscal agent of the State of Washington, or any successor bond registrar selected by the Authority, whose duties include the registration and authentication of the 2005A Bonds, maintenance of the Bond Register, effecting transfer of ownership of the 2005A Bonds, and paying the principal of, premium, if any, and interest on the 2005A Bonds.

Bond Sale Resolution means the resolution of the Board adopted pursuant to this Resolution to specify certain additional provisions of the 2005A Bonds and their sale.

1999 Bonds means the Authority's Sales Tax and Motor Vehicle Excise Tax Bonds, Series 1999.

2005A Bonds means the Authority's Sales Tax Bonds, Series 2005A, authorized by this Resolution.

Capital Appreciation Bonds means Parity Bonds of any Series, all or a portion of the interest on which is compounded, accumulated and payable only upon redemption or on the maturity date of such Parity Bonds; provided, that if so provided in the Series Resolution authorizing their issuance, the Parity Bonds may be deemed to be Capital Appreciation Bonds for only a portion of their term. On the date on which Parity Bonds no longer are Capital Appreciation Bonds, they shall be deemed Outstanding in a principal amount equal to their Accreted Value on that date. Unless otherwise specified herein, references herein to the principal amount of Capital Appreciation Bonds shall refer to the Accreted Value of Capital Appreciation Bonds, and references to the interest rate on Capital Appreciation Bonds shall refer to the rate at which those Capital Appreciation Bonds accrete in value.

Chief Financial Officer means the chief financial officer of the Authority, and any successor to substantially the same duties.

Code means the Internal Revenue Code of 1986, as amended, and shall include all applicable regulations and rulings relating thereto.

Default means any of the events specified in Section 25.

Designated Authority Representative means the Chair of the Board, the Chief Executive Officer of the Authority or the Chief Financial Officer, or such other person as may be designated from time to time by resolution of the Board.

DTC means The Depository Trust Company, New York, New York.

Fiscal Year means the period beginning on January 1 of each year and ending on the next succeeding December 31, or any other 12-month period hereafter selected and designated as the official fiscal year of the Authority.

Future Parity Bonds means bonds, notes or other obligations of the Authority issued after the issuance of the 2005A Bonds pursuant to a Series Resolution, which are expressly stated to be secured by a pledge of Pledged Taxes on an equal and ratable basis with the Pledged Taxes required to be paid into the Subordinate Bond Account to pay and secure the payment of the principal of and interest on the 2005A Bonds.

Government Obligations has the meaning given such term in Chapter 39.53 RCW, as hereafter amended.

Junior Obligations means bonds, notes or other obligations identified as “Junior Obligations” in the resolution authorizing such obligations and secured by a pledge of Pledged Taxes (which may include some or all of those taxes) subordinate to the Parity Bonds.

Letter of Representations means the Blanket Issuer Letter of Representations with DTC dated December 9, 1998, setting forth certain understandings of the Authority and the Bond Registrar with respect to DTC’s services, as it may be amended from time to time.

Local Option Taxes means the MVET, the rental car sales and use taxes authorized by RCW 81.104.160 and the Sales and Use Taxes, and initially approved at an election held on November 5, 1996, as such taxes may be imposed from time to time by the Authority.

Local Option Tax Accounts means the revenue accounts established by the Authority in the Authority’s Proprietary Fund (“Enterprise Fund”) for the deposit of Local Option Taxes.

Maximum Annual Debt Service means the highest Annual Debt Service with respect to Parity Bonds (including any Parity Bonds being issued at the time of calculation) that will mature or come due in the current or any future Fiscal Year.

MSRB means the Municipal Securities Rulemaking Board.

MVET means the special motor vehicle excise taxes authorized by RCW 81.104.160.

NRMSIR means each nationally recognized municipal securities information repository designated by the SEC as such in accordance with its Rule 15c2-12 (but only for so long as such designation remains in effect).

Outstanding in connection with Parity Bonds means, as of the time in question, all Parity Bonds authenticated and delivered under a Series Resolution, except: (a) Parity Bonds theretofore paid and cancelled or required to be cancelled under a Series Resolution; (b) Parity Bonds which are deemed to have been defeased in accordance with a Series Resolution; and (c) Parity Bonds in substitution for which other Parity Bonds have been authenticated and delivered pursuant to a Series Resolution.

Owner means the registered owner of any Parity Bond.

Paired Obligations means any two Series of Parity Bonds (or portions thereof) designated as Paired Obligations in the Series Resolution, which are simultaneously issued or incurred and the interest rates on which, taken together, result in irrevocably fixed interest rate bonds for the term of such Parity Bonds.

Parity Bonds means the 2005A Bonds and any Future Parity Bonds.

Parity Payment Agreement means a Payment Agreement between the Authority and a Qualified Counterparty, meeting the conditions set forth in Section 21, under which the Authority's regularly scheduled Payment obligations are expressly stated to be secured by a pledge of Pledged Taxes on an equal and ratable basis with the Pledged Taxes required to be paid into the Subordinate Bond Account to pay and secure the payment of the principal of and interest on Parity Bonds.

Payment means any regularly scheduled payment (designated as such by a Series Resolution) required to be made by or on behalf of the Authority under a Payment Agreement and which is determined according to a rate or formula set forth in the Payment Agreement.

Payment Agreement means a written agreement, for the purpose of managing or reducing the Authority's exposure to fluctuations or levels of interest rates, currencies or commodities or for other interest rate, investment, asset or liability management purposes, entered into on either a current or forward basis by the Authority and a Qualified Counterparty, all as authorized by any applicable laws of the State. Such agreement may or may not be characterized by a structure of reciprocity of payment.

Payment Date means any date specified in the Payment Agreement on which an Authority Payment or Receipt is due and payable under the Payment Agreement.

Payor means a Qualified Counterparty to a Payment Agreement that is obligated to make one or more payments thereunder.

Plan means "Sound Move – The Ten-Year Regional Transit System Plan" adopted May 31, 1996, to provide high-capacity transportation services in the central Puget Sound region, and as it has been and may hereafter be updated, amended or supplemented.

Pledged Taxes means the rental car sales and use taxes authorized by RCW 81.104.160(2) and the Sales and Use Taxes initially approved at an election held on November 5, 1996, together with Additional Taxes and/or MVET if pledged to the Parity Bonds pursuant to Section 15.

Prior Bond Resolution means Authority Resolution R98-47 adopted November 2, 1998, as amended, supplemented or restated from time to time.

Prior Bonds means the 1999 Bonds and other obligations that may be issued in the future by the Authority under the Prior Bond Resolution that have a pledge of Pledged Taxes that are included in Local Option Taxes on a parity with the 1999 Bonds.

Project or Projects means any planning, design, construction, additions, betterments, extensions, and improvements provided for in the Plan or other capital or capitalizable costs incurred for any purpose related to the Plan, including, without limitation, the acquisition of land.

Qualified Counterparty means a party (other than the Authority or a party related to the Authority) who is the other party to a Payment Agreement that has, or whose senior obligations are unconditionally guaranteed by a party that has, at least "A" ratings by at least two Rating Agencies, and who is otherwise qualified to act as the other party to a Payment Agreement under any applicable laws of the State.

Rating Agencies means Moody's Investors Service, Inc., or its successors and assigns, Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc., or its successors and assigns, Fitch Ratings or its successors and assigns, or such other securities rating agency if such other rating agency is selected by the Authority to provide a rating with respect to a Series of Parity Bonds or any portion thereof and which other rating agency as of the applicable date shall have assigned a rating to any Series of Parity Bonds or any portion thereof.

Rating Categories means the generic rating categories of the Rating Agencies, without regard to any refinement or gradation of such rating categories by a numerical modifier or otherwise.

Receipt means any payment to be made to, or for the benefit of, the Authority under a Payment Agreement by the Payor.

Record Date means the 15th day of the month preceding an interest payment date for the 2005A Bonds.

Refunding Bonds means Future Parity Bonds the proceeds of which will be used to refund Authority obligations as provided in Section 17.

Resolution means this Resolution No. R2005-02.

Sales and Use Taxes means the sales and use taxes authorized by RCW 81.104.170.

SEC means the United States Securities and Exchange Commission.

Series means any separate series of Parity Bonds, including the 2005A Bonds, issued pursuant to a Series Resolution.

Series Resolution means this Resolution, the Bond Sale Resolution or another resolution or resolutions authorizing the issuance and sale of one or more Series of Parity Bonds, as such resolution may be amended or supplemented.

State means the State of Washington.

Subordinate Bond Account means the special account or accounts of the Authority created by Section 19(a) of this Resolution for the purpose of paying the principal, sinking fund installments, premium, if any, and interest on any Parity Bonds.

Subordinate Reserve Account means the special reserve account created pursuant to Section 19(b) of this Resolution.

Subordinate Reserve Account Requirement means, for Parity Bonds (and except as otherwise permitted under Section 19(b)), the lesser of: (i) Maximum Annual Debt Service or (ii) 125% of Average Annual Debt Service, provided, that upon the issuance of any Series of Parity Bonds, the Subordinate Reserve Account Requirement shall not be required to be funded or increased by an amount greater than 10% of the proceeds of that Series. For purposes of calculating the Subordinate Reserve Account Requirement, the initial issue price of Capital Appreciation Bonds shall be deemed to be the sale proceeds of such Bonds.

Supplemental Resolution means a resolution adopted by the Authority pursuant to Section 24.

Tax Stabilization Subaccount means the subaccount of that name authorized to be created pursuant to Section 2 of the Prior Bond Resolution or Section 14 of this Resolution.

Term Bonds means the Parity Bonds of any Series identified as "Term Bonds" in the Series Resolution authorizing such Parity Bonds, the payment of principal of which will be made, in part, from mandatory sinking fund redemptions prior to their stated maturities.

Variable Rate means a variable interest rate or rates to be borne by a Series of Parity Bonds or any one or more maturities within a Series of Parity Bonds. The method of computing

such variable interest rate shall be specified in the Series Resolution authorizing such Parity Bonds, except that such variable interest rate shall be subject to a maximum interest rate set forth in such Series Resolution.

Variable Rate Bonds means Parity Bonds that bear interest at a Variable Rate, except that Parity Bonds (or portion thereof) the interest rate on which shall have been fixed for the remainder of their term to maturity shall no longer be Variable Rate Bonds.

Section 2. Authorization and Description of 2005A Bonds. For the purposes of paying part of the costs of carrying out the Plan and the costs of issuing and selling the 2005A Bonds, to provide for the Subordinate Reserve Account Requirement and for other Authority purposes approved by resolution of the Board, the Authority is authorized to borrow money on the credit of the Authority and issue sales tax bonds evidencing indebtedness in the maximum principal amount of not to exceed \$500,000,000. Any amount received as original issue premium on the 2005A Bonds shall not reduce the principal amount of 2005A Bonds authorized under this Resolution. The general indebtedness to be incurred shall, together with the outstanding 1999 Bonds, be within the limit of up to 1.5% of the value of the taxable property within the Authority permitted without a vote of the qualified voters therein. The 2005A Bonds shall be designated "Sales Tax Bonds, Series 2005A," and shall have such other designation as determined by the Chief Financial Officer or as specified in the Bond Sale Resolution consistent with the provisions of this Resolution; shall be dated as specified by the Bond Sale Resolution; shall be in the denomination of \$5,000 or any integral multiple thereof within a single maturity or such other denomination within a maturity as specified by the Bond Sale Resolution; shall be numbered separately, in the manner and with any additional designation as the Bond Registrar deems necessary for the purpose of identification; and shall bear interest payable on the dates as specified by the Bond Sale Resolution at such rate or rates as specified and approved by the Bond Sale Resolution. The 2005A Bonds shall mature on the dates and in years and amounts as specified by the Bond Sale Resolution. All or some of the 2005A Bonds may be Term Bonds, as specified by the Bond Sale Resolution.

Section 3. Bond Sale Resolution. The Board of the Authority may adopt the Bond Sale Resolution and in that resolution may provide for the matters described in this Resolution and such other matters that the Board deems necessary, appropriate, or desirable to carry out the purposes of this Resolution.

The Bond Sale Resolution may provide for Bond Insurance, and may provide conditions or covenants relating thereto, including additional terms, conditions, and covenants relating to the 2005A Bonds that are required by a provider of Bond Insurance or by a Qualified Counterparty and are consistent with the provisions of this Resolution, including but not limited to restrictions on investments and requirements of notice and consent. The Bond Sale Resolution may approve and authorize the execution and delivery on behalf of the Authority of any contracts and other documents consistent with the provisions of this Resolution for which the Authority's approval is necessary or to which the Authority is a party and that are related or incidental to the issuance and sale of the 2005A Bonds, the establishment of the initial interest rate or rates on the 2005A Bonds, and any tender, purchase, remarketing, or redemption provisions of the 2005A Bonds, including but not limited to agreements with Bond Insurance providers, Qualified Counterparties, remarketing agents, purchasers, fiscal agencies, custodians, and the Bond Registrar. The Chair of the Board, the Chief Executive Officer of the Authority and the Chief Financial Officer are each separately authorized to execute and deliver, on behalf of the Authority, any contracts and other documents consistent with the provisions of this Resolution for which the Authority's approval is necessary, or to which the Authority is a party and that are related or incidental to the issuance and sale of the 2005A Bonds.

Because of the special circumstances regarding (1) the timing of the sale of the 2005A Bonds, (2) the need for the purchasers of the 2005A Bonds to receive prompt confirmation of the sale, and (3) the expected short length of the meeting to consider the Bond Sale Resolution, the Bond Sale Resolution may be adopted at a teleconference meeting of the Board at which meeting any number of Board members may attend by telephone. Pursuant to Section 15 of Authority Resolution 1-1, as amended, Section 8.D of Resolution 1-1, as amended, shall be

temporarily suspended for this purpose. Notice of such teleconference meeting shall be given pursuant to law and the teleconference technical connection for the meeting shall allow Board members to hear and to be heard by other Board members and the public.

Section 4. Registration and Transfer or Exchange of the 2005A Bonds. The 2005A Bonds shall be issued only in registered form as to both principal and interest and shall be recorded on the Bond Register. The Bond Register shall contain the name and mailing address of the Owner of each 2005A Bond and the principal amount and number of each of the 2005A Bonds held by each Owner.

2005A Bonds surrendered to the Bond Registrar may be exchanged for 2005A Bonds in any authorized denomination of an equal aggregate principal amount and of the same interest rate and maturity. 2005A Bonds may be transferred only if endorsed in the manner provided thereon and surrendered to the Bond Registrar. Any exchange or transfer shall be without cost to the Owner or transferee. The Bond Registrar shall not be obligated to exchange or transfer any 2005A Bond during the period between any Record Date and the corresponding interest payment, principal payment, or redemption date.

The 2005A Bonds initially shall be registered in the name of Cede & Co., as the nominee of DTC. The 2005A Bonds so registered shall be held in fully immobilized form by DTC as depository in accordance with the provisions of the Letter of Representations. Neither the Authority nor the Bond Registrar shall have any responsibility or obligation to DTC participants or the persons for whom they act as nominees with respect to the 2005A Bonds regarding accuracy of any records maintained by DTC or DTC participants of any amount in respect of principal of, premium, if any, or interest on the 2005A Bonds, or any notice which is permitted or required to be given to Owners hereunder (except such notice as is required to be given by the Bond Registrar to DTC).

For as long as any 2005A Bonds are held in fully immobilized form, DTC, its nominee or its successor depository shall be deemed to be the registered owner for all purposes hereunder and all references to registered owners, bondowners, bondholders or the like shall mean DTC

or its nominee and shall not mean the owners of any beneficial interests in the 2005A Bonds. Registered ownership of such 2005A Bonds, or any portions thereof, may not thereafter be transferred except: (i) to any successor of DTC or its nominee, if that successor shall be qualified under any applicable laws to provide the services proposed to be provided by it; (ii) to any substitute depository appointed by the Authority or such substitute depository's successor; or (iii) to any person if the 2005A Bonds are no longer held in immobilized form.

Upon the resignation of DTC or its successor (or any substitute depository or its successor) from its functions as depository, or a determination by the Authority that it no longer wishes to continue the system of book entry transfers through DTC or its successor (or any substitute depository or its successor), the Authority may appoint a substitute depository. Any such substitute depository shall be qualified under any applicable laws to provide the services proposed to be provided by it.

If (i) DTC or its successor (or substitute depository or its successor) resigns from its functions as depository, and no substitute depository can be obtained, or (ii) the Authority determines that the 2005A Bonds are to be in certificated form, the ownership of 2005A Bonds may be transferred to any person as provided herein and the 2005A Bonds no longer shall be held in fully immobilized form.

Section 5. Payment of 2005A Bonds. Principal of, premium, if any, and interest on the 2005A Bonds shall be payable in lawful money of the United States of America. Interest on the 2005A Bonds shall be paid by checks, drafts, or warrants of the Bond Registrar, or, if requested in writing prior to the Record Date by the Owner of \$1,000,000 or more in principal amount of 2005A Bonds, by wire, mailed or transferred on the interest payment date to Owners of the 2005A Bonds as those Owners and their addresses and accounts appear on the Bond Register on the Record Date (or other record date established in the Bond Sale Resolution). Principal of and premium, if any, on the 2005A Bonds shall be payable at maturity or on such date as may be specified for prior redemption upon presentation and surrender of the 2005A Bonds by the Owners at the principal corporate trust office or offices of the Bond Registrar.

Notwithstanding the foregoing, payment of any 2005A Bonds registered in the name of DTC or its nominee shall be made in accordance with the Letter of Representations.

Section 6. Redemption and Open Market Purchase of 2005A Bonds.

(a) Optional Redemption. All or some of the 2005A Bonds may be subject to redemption prior to their stated maturity dates at the option of the Authority at the times and on the terms set forth in the Bond Sale Resolution.

(b) Mandatory Redemption. The Authority shall redeem any 2005A Bonds that are Term Bonds ("2005A Term Bonds"), if not redeemed under the optional redemption provisions set forth in the Bond Sale Resolution or purchased in the open market under the provisions set forth below, by lot (or in such other manner as the Bond Registrar shall determine) at par plus accrued interest on the dates and in the years and principal amounts as set forth in the Bond Sale Resolution.

If the Authority redeems under the optional redemption provisions, purchases in the open market or defeases 2005A Term Bonds, the par amount of the 2005A Term Bonds so redeemed, purchased or defeased (irrespective of their actual redemption or purchase prices) shall be credited against one or more scheduled mandatory redemption amounts for those 2005A Term Bonds. The Chief Financial Officer shall determine the manner in which the credit is to be allocated and shall notify the Bond Registrar in writing of its allocation at least 45 days prior to the earliest mandatory redemption date for that maturity of 2005A Term Bonds for which notice of redemption has not already been given. If no such determination is made, the allocation shall be on a pro rata basis.

(c) Partial Redemption. Whenever less than all of the 2005A Bonds of a single maturity are to be redeemed, the Bond Registrar shall select the 2005A Bonds or portions thereof to be redeemed from the 2005A Bonds of that maturity by lot (or in such other manner as the Bond Registrar shall determine), except that, for so long as the 2005A Bonds are registered in the name of DTC or its nominee, DTC shall select the 2005A Bonds or portions

thereof to be redeemed in accordance with the Letter of Representations. In no event shall any 2005A Bond be outstanding in a principal amount that is not an authorized denomination.

Portions of the principal amount of any 2005A Bond, in integral amounts of \$5,000, may be redeemed, unless otherwise provided in the Bond Sale Resolution. If less than all of the principal amount of any 2005A Bond is redeemed, upon surrender of that 2005A Bond to the Bond Registrar there shall be issued to the Owner, without charge therefor, a new 2005A Bond (or 2005A Bonds, at the option of the Owner) of the same maturity, and interest rate in any authorized denominations in the aggregate total principal amount remaining unredeemed.

(d) Open Market Purchase. The Authority reserves the right and option to purchase any or all of the 2005A Bonds in the open market at any time at any price acceptable to the Authority plus accrued interest to the date of purchase.

(e) Bonds to be Canceled. All 2005A Bonds purchased or redeemed under this Section shall be canceled.

Section 7. Notice of Redemption. The Authority shall cause notice of any intended redemption of 2005A Bonds to be given not less than 30 nor more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, to the Owner of any 2005A Bond to be redeemed at the address appearing on the Bond Register at the time the Bond Registrar prepares the notice, and the requirements of this sentence shall be deemed to have been fulfilled when notice has been mailed as so provided, whether or not it is actually received by the Owner of any 2005A Bond. Interest on 2005A Bonds called for redemption shall cease to accrue on the date fixed for redemption unless the 2005A Bond or 2005A Bonds called are not redeemed when presented pursuant to the call. In addition, the redemption notice shall be mailed by the Bond Registrar within the same period, postage prepaid, to the Rating Agencies, to any provider of Bond Insurance, to each NRMSIR or the MSRB, and to such other persons and with such additional information as the Chief Financial Officer shall determine or as specified in the Bond Sale Resolution, but none of these additional mailings shall be a condition precedent to the redemption of 2005A Bonds. Notwithstanding the foregoing, for so long as the

2005A Bonds are registered in the name of DTC or its nominee, notice of redemption shall be given in accordance with the Letter of Representations.

Section 8. Failure to Redeem 2005A Bonds. If any 2005A Bond is not redeemed when properly presented at its maturity or call date, the Authority shall be obligated to pay interest on that 2005A Bond at the same rate provided in the 2005A Bond from and after its maturity or call date until that 2005A Bond, principal, premium, if any, and interest, is paid in full or until sufficient money for its payment in full is on deposit in the Subordinate Bond Account and the Bond has been called for payment by giving notice of that call to the Owner of each of those unpaid 2005A Bonds.

Section 9. Form and Execution of 2005A Bonds. The 2005A Bonds shall be typed, printed, photocopied, or lithographed on good bond paper in a form consistent with the provisions of this Resolution, the Bond Sale Resolution, and State law; shall be signed by the Chair of the Board and the Chief Executive Officer, either or both of whose signatures may be manual or in facsimile; and the seal of the Authority or a facsimile reproduction thereof shall be impressed or printed thereon.

Only 2005A Bonds bearing a Certificate of Authentication in substantially the following form, manually signed by the Bond Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of this Resolution:

CERTIFICATE OF AUTHENTICATION

This 2005A Bond is one of the fully registered The Central Puget Sound Regional Transit Authority Sales Tax Bonds, Series 2005A, described in the Bond Resolution.

WASHINGTON STATE FISCAL AGENT
Bond Registrar

By _____
Authorized Signer

The authorized signing of a Certificate of Authentication shall be conclusive evidence that the 2005A Bond so authenticated has been duly executed, authenticated, and delivered and is entitled to the benefits of this Resolution.

If any officer whose manual or facsimile signature appears on a 2005A Bond ceases to be an officer of the Authority authorized to sign bonds before the 2005A Bond bearing his or her manual or facsimile signature is authenticated or delivered by the Bond Registrar or issued by the Authority, that 2005A Bond nevertheless may be authenticated, delivered, and issued and, when authenticated, issued, and delivered, shall be as binding on the Authority as though that person had continued to be an officer of the Authority authorized to sign bonds. Any 2005A Bond also may be signed on behalf of the Authority by any person who, on the actual date of signing of the 2005A Bond, is an officer of the Authority authorized to sign bonds, although he or she did not hold the required office on the date of issuance of the 2005A Bonds.

Section 10. Bond Registrar. The Bond Registrar shall keep, or cause to be kept, at its principal corporate trust office, sufficient books for the registration and transfer of the 2005A Bonds, which shall be open to inspection by the Authority at all times. The Bond Registrar is authorized, on behalf of the Authority, to authenticate and deliver 2005A Bonds transferred or exchanged in accordance with the provisions of the 2005A Bonds and this Resolution, to serve as the Authority's paying agent for the 2005A Bonds, and to carry out all of the Bond Registrar's powers and duties under this Resolution. The Authority reserves the right in its discretion to appoint special paying agents, registrars, or trustees in connection with the payment of some or all of the principal of, premium, if any, or interest on the 2005A Bonds. If a new Bond Registrar is appointed by the Authority (other than the Washington State fiscal agent), notice of the name and address of the new Bond Registrar shall be mailed to the Owners of the 2005A Bonds appearing on the Bond Register at the time the Bond Registrar prepares the notice. The notice may be mailed together with the next interest payment due on the 2005A Bonds, but, to the extent practicable, shall be mailed no later than the Record Date for any principal payment or redemption date of any 2005A Bond.

The Bond Registrar shall be responsible for its representations contained in the Bond Registrar's Certificate of Authentication on the 2005A Bonds. The Bond Registrar may become the Owner of 2005A Bonds with the same rights it would have if it were not the Bond Registrar and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as members of, or in any other capacity with respect to, any committee formed to protect the rights of the Owners of the 2005A Bonds.

This section and other relevant portions of this Resolution shall constitute a "system of registration" as that term is used in RCW 39.46.030.

Section 11. Sale of 2005A Bonds. The Chief Financial Officer shall provide for the sale of the 2005A Bonds by a negotiated sale with purchasers, as identified in the Bond Sale Resolution, that have been chosen through a competitive selection process by the Chief Financial Officer after the evaluation of responses to the requests for proposals. The Chief Financial Officer is authorized to specify a date and time of sale of the 2005A Bonds, to prepare and deem final a preliminary official statement for the 2005A Bonds, to negotiate the terms of a proposed purchase contract with the purchasers of the 2005A Bonds, and to specify other matters in his or her determination necessary, appropriate, or desirable to carry out the sale of the 2005A Bonds. The terms of that sale shall be consistent with this Resolution and the Bond Sale Resolution and shall be confirmed by the Bond Sale Resolution. The 2005A Bonds shall be delivered to the purchasers as provided in the Bond Sale Resolution immediately upon payment to the Authority of the purchase price plus any accrued interest to the date of closing in immediately available federal funds in Seattle, Washington, at the Authority's expense or at another time or place upon which the Chief Financial Officer and the purchasers may mutually agree at the purchasers' expense.

CUSIP numbers will be printed on the 2005A Bonds if requested by the purchasers, but neither failure to print CUSIP numbers on any 2005A Bond nor error with respect thereto shall constitute cause for a failure or refusal by the underwriters to accept delivery of and pay for the 2005A Bonds in accordance with the purchase offer. All expenses in relation to the printing of

CUSIP numbers on the 2005A Bonds shall be paid by the Authority, but the fee of the CUSIP Service Bureau for the assignment of those numbers shall be the responsibility of and shall be paid by the purchasers.

Section 12. Preservation of Tax Exemption for Interest on 2005A Bonds. The Authority covenants that it will take all actions necessary to prevent interest on the 2005A Bonds from being included in gross income for federal income tax purposes, and it will neither take any action nor make or permit any use of proceeds of the 2005A Bonds or other funds of the Authority treated as proceeds of the 2005A Bonds at any time during the term of the 2005A Bonds which will cause interest on the 2005A Bonds to be included in gross income for federal income tax purposes. The Authority also covenants that it will, to the extent the arbitrage rebate requirement of Section 148 of the Code is applicable to the 2005A Bonds, take all actions necessary to comply (or to be treated as having complied) with that requirement in connection with the 2005A Bonds, including the calculation and payment of any penalties that the Authority has elected to pay as an alternative to calculating rebatable arbitrage, and the payment of any other penalties if required under Section 148 of the Code to prevent interest on the 2005A Bonds from being included in gross income for federal income tax purposes. The Authority certifies that it has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that it is a bond issuer whose arbitrage certifications may not be relied upon.

Section 13. Deposit, Use and Investment of Proceeds. Unless provided otherwise in the Bond Sale Resolution, the principal proceeds and premium, if any, received from the sale and delivery of the 2005A Bonds shall be paid into or allocated to the "2005A Bond Proceeds Account" of the Authority or such other accounts or subaccounts of the Authority as the Chief Financial Officer may designate, and used to pay all or part of the costs of carrying out the Plan, issuing and selling the 2005A Bonds, to provide for the Subordinate Reserve Account Requirement and for other Authority purposes approved by resolution.

The Chief Financial Officer may establish and may transfer, record, allocate or restrict proceeds of the 2005A Bonds among such accounts or subaccounts of the Authority and make such transfers, recordings, allocations, restrictions or deposits on terms he or she may deem necessary, appropriate or desirable to carry out the purposes of this Resolution and consistent with the Bond Sale Resolution.

Accrued interest on the 2005A Bonds received from the sale and delivery of the 2005A Bonds, if any, shall be paid into or allocated to the Subordinate Bond Account prior to the first debt service payment date with respect to those 2005A Bonds. Until needed to pay the costs described herein, the Authority may invest principal proceeds of the 2005A Bonds temporarily in any legal investment, and the investment earnings shall be deposited in such accounts as may be designated by the Chief Financial Officer. Earnings subject to a federal tax or rebate requirement may be withdrawn from any such account and used for those tax or rebate purposes.

Any proceeds of 2005A Bonds remaining after paying the costs of carrying out the Plan, issuing and selling the 2005A Bonds, providing for the Subordinate Reserve Account Requirement, and for other Authority purposes approved by resolution, may be used to pay principal of and interest on the 2005A Bonds consistent with applicable law.

All Pledged Taxes allocated to the payment of the principal of and interest on the 2005A Bonds shall be deposited in the Subordinate Bond Account.

Proceeds of the 2005A Bonds may be invested in any legal investment of the Authority.

Section 14. Local Option Tax Accounts; Flow of Funds.

(a) Local Option Tax Accounts and Additional Taxes Accounts. The Authority maintains Local Option Tax Accounts into which it promptly deposits Pledged Taxes upon the receipt thereof. The Authority may create a Tax Stabilization Subaccount in the Local Option Tax Accounts and deposit Pledged Taxes collected in any Fiscal Year into that subaccount or withdraw Pledged Taxes deposited therein from such subaccount and use amounts in such subaccount for any lawful purposes in accordance with the flow of funds set forth in

Section 14(b), including for the purposes set forth in Section 20(a), and subject to the requirements set forth in the Prior Bond Resolution. The Tax Stabilization Subaccount may be the same subaccount of that name established under Section 2(a) of the Prior Bond Resolution. Notwithstanding the foregoing, the Authority may provide that Additional Taxes shall be deposited into Additional Taxes Accounts, including a separate tax stabilization subaccount therein.

(b) Flow of Funds. Pledged Taxes deposited in the Local Option Tax Accounts shall be used by the Authority only for the following purposes and in the following order of priority:

First, to make all payments required to be made into the bond account for the Prior Bonds in the following order:

- (1) to pay the interest when due on the Prior Bonds (including regularly scheduled payment obligations under parity payment agreements for Prior Bonds); and
- (2) to pay the maturing principal (including sinking fund redemptions) of the Prior Bonds;

Second, to make all payments required to be made into the reserve account for the Prior Bonds by Section 7(b) of the Prior Bond Resolution to meet the reserve account requirement for the Prior Bonds and to make all payments required to be made pursuant to a reimbursement obligation in connection with a Qualified Letter of Credit or Qualified Bond Insurance (as defined in the Prior Bond Resolution) with respect to the reserve account requirement for the Prior Bonds;

Third, to make all payments required to be made into the Subordinate Bond Account in the following order:

- (1) to pay the interest when due on Parity Bonds (including regularly scheduled payment obligations under Parity Payment Agreements for Parity Bonds);
- (2) to pay the maturing principal (including sinking fund redemptions) of Parity Bonds; and

(3) to reimburse the provider of any Bond Insurance (other than Bond Insurance obtained to satisfy all or a part of the Subordinate Reserve Account Requirement, and other than the provider of a letter of credit, standby bond purchase agreement or other liquidity facility) for payments of the principal and/or interest on Parity Bonds; provided, that if there is not sufficient money to make all payments under all reimbursement agreements the payments will be made to the providers on a pro rata basis;

Fourth, to make all payments required to be made into the Subordinate Reserve Account by Section 19(b) to meet the Subordinate Reserve Account Requirement and to make all payments required to be made pursuant to a reimbursement obligation in connection with Bond Insurance with respect to the Subordinate Reserve Account Requirement; provided, that if there is not sufficient money to make all payments under all reimbursement agreements the payments will be made to the providers on a pro rata basis;

Fifth, to make all payments required to be made into any other bond redemption account and reserve account created to pay the principal of, premium, if any, and interest on any Junior Obligations (to the extent any such obligations are issued with a pledge of Pledged Taxes superior to the payment of operation and maintenance expenses), provided, that the Authority may determine by resolution that items in this "Fifth" category shall be paid in any specified order of priority;

Sixth, to pay costs of operating and maintaining the Authority and its facilities; and

Seventh, for any lawful purpose of the Authority, including without limitation the purchase of bonds to make termination payments required under any Payment Agreement or a payment agreement for other Authority obligations; and to pay Junior Obligations with a pledge of Pledged Taxes junior to the payment of operation and maintenance expenses; provided, that the Authority may determine by resolution that items in this "Seventh" category shall be paid in any specified order of priority.

Additional Taxes deposited in Additional Taxes Accounts shall be used by the Authority for the purposes and in the order of priority set forth above, beginning with the paragraph “Third”.

Section 15. Pledge of Pledged Taxes. From and after the issuance and delivery of the 2005A Bonds and so long as any of the 2005A Bonds remain Outstanding, the Authority irrevocably obligates and binds itself to impose, collect and deposit all Pledged Taxes into the Local Option Tax Accounts and the Additional Taxes Accounts, as applicable, and to set aside and pay into the Subordinate Bond Account, from Pledged Taxes, on or prior to the date on which the interest on, principal of, premium, if any, and sinking fund requirements for the 2005A Bonds shall become due, the amounts necessary to pay that interest, principal, sinking fund requirements and premium coming due on 2005A Bonds. All Parity Bonds now or hereafter Outstanding shall be equally and ratably payable and secured hereunder without priority by reason of date of adoption of the Series Resolution providing for their issuance or by reason of their Series or date of sale or delivery; provided, however, that any Series of Parity Bonds also may be payable from and secured by Bond Insurance specifically pledged to or provided for that Series of Parity Bonds. The Authority may also, at its sole option, apply amounts legally available from any other source to the repayment of Parity Bonds or to make the deposits required hereunder. The Authority expressly reserves the right (but is not obligated) to include and pledge Additional Taxes, the MVET, and/or receipts resulting from an Adopted Rate Adjustment, as “Pledged Taxes.” The Board determines that the future inclusion of such Additional Taxes or the MVET as Pledged Taxes will benefit the Authority and the Owners of Parity Bonds. The inclusion of Additional Taxes as Pledged Taxes will not constitute a pledge of those Additional Taxes to the payment of Prior Bonds unless the Authority expressly provides therefor.

All Parity Bonds are special limited obligations of the Authority payable from and secured solely by Pledged Taxes and amounts, if any, in the Subordinate Bond Account, Subordinate Reserve Account, the Local Option Tax Accounts, the Additional Taxes Accounts, Tax

Stabilization Subaccount and any project account created for the deposit of Parity Bond proceeds, subject to the prior pledge of money in the Local Option Tax Accounts and the Tax Stabilization Subaccount that has been created in favor of the Prior Bonds. The 2005A Bonds are "Subordinate Lien Obligations" as that term is defined by and under the Prior Bond Resolution.

There is hereby pledged for the payment of the 2005A Bonds (a) amounts in the Subordinate Bond Account, the Subordinate Reserve Account, the Additional Taxes Accounts and proceeds of the 2005A Bonds deposited in any account created for the deposit of 2005A Bond proceeds, and such pledge is hereby declared to be a prior charge upon the amounts in such accounts, and (b) the Pledged Taxes and amounts in the Local Option Tax Accounts and the Tax Stabilization Subaccount and interest earnings thereon, to the extent amounts and earnings in the Local Option Tax Accounts, the Additional Taxes Accounts and the Tax Stabilization Subaccount represent revenues from Pledged Taxes, and such pledge is hereby declared to be a prior charge upon the Pledged Taxes and the accounts described in this paragraph superior to all other charges of any kind or nature except the charge of the Prior Bonds on Local Option Taxes, and equal to the charge of any Future Parity Bonds.

Following the occurrence of a "Default" within the meaning of Section 14 of the Prior Bond Resolution, Pledged Taxes may not be used to pay the principal of or interest on Parity Bonds unless all deposits and payments required to be made with respect to the Prior Bonds have been fully made or paid.

Section 16. Issuance of Future Parity Bonds and Prior Lien Bonds. Following the issuance of the 2005A Bonds, except as provided in Section 17 the Authority may issue various Series of Future Parity Bonds only upon compliance with the following conditions as certified by a Designated Authority Representative:

- (a) there is no deficiency in the Subordinate Bond Account;
- (b) an amount equal to the Subordinate Reserve Account Requirement (including for the Future Parity Bonds to be issued) shall be on deposit or shall be otherwise provided for in

the Subordinate Reserve Account on or prior to the date of issuance of such Future Parity Bonds, all in accordance with Section 19(b);

- (c) no Default (as defined in Section 25) has occurred and is continuing; and
- (d) an Authority Certificate is delivered upon the issuance of such Future Parity

Bonds, which shall state that:

(i) *Prior Bonds Coverage Test.* Local Option Taxes received during the Base Period were not less than 1.5 times "Maximum Annual Debt Service" (as defined in the Prior Bond Resolution) on all Prior Bonds that will be outstanding upon the issuance of such series of Future Parity Bonds (the "Prior Bonds Coverage Requirement"); and

(ii) *Parity Bond Coverage Test for Period While MVET Not Included as Pledged Taxes.* Pledged Taxes received during the Base Period minus any Pledged Taxes necessary to be taken into account to meet the Prior Bonds Coverage Requirement (and after all MVET have been applied for that purpose) were not less than 1.5 times Maximum Annual Debt Service during the period that MVET will not be included as Pledged Taxes to secure the Future Parity Bonds; and

(iii) *Parity Bond Coverage Test for Period While MVET and/or Additional Taxes Are Included as Pledged Taxes.* Pledged Taxes received during the Base Period minus any Pledged Taxes necessary to be taken into account to meet the Prior Bonds Coverage Requirement, were not less than 1.5 times Maximum Annual Debt Service during the period that MVET and/or Additional Taxes will be included as Pledged Taxes to secure the Future Parity Bonds.

In preparing such certificate: (A) the Local Option Taxes and/or Pledged Taxes during the Base Period may be only those shown in audited or unaudited financial statements of the Authority; (B) the Designated Authority Representative shall take into account in calculating amounts received during the Base Period any Adopted Rate Adjustment, Additional Taxes and MVET included as Pledged Taxes pursuant to Section 15, and taxes from annexed territory, as if such new rates, additions or the annexation had been in effect during the entire Base Period; (C) MVET and/or Additional Taxes may not be taken into account to meet the requirements of clause (iii) above unless the Authority receives an opinion of Bond Counsel to the effect that the pledge of such MVET and/or Additional Taxes to such Future Parity Bonds is in full force and effect for the period in which they are included as Pledged Taxes; (D) any Adopted Rate

Adjustment, Additional Taxes and/or extension of an existing tax shall be taken into account only if a certified public accountant, economic consultant or financial advisor experienced with state or local taxation or municipal bonds certifies that it is reasonable to expect that such adjusted, new or extended taxes will be received in the amounts assumed for purposes of the Authority Certificate; and (E) deposits into and withdrawals from the Tax Stabilization Subaccount during the Base Year may not be taken into account.

The Authority covenants that it will not issue additional series of Prior Bonds unless it delivers an Authority Certificate as set forth in this Section 16 in addition to any certificates that may be required under the Prior Bond Resolution. The Authority further covenants that it will not issue any obligations that are secured by a pledge of any or all of the Pledged Taxes subordinate to the pledge of any such taxes to the Prior Bonds but senior to the pledge of such taxes to the Parity Bonds.

Section 17. Refunding Bonds. The Authority, by means of a Series Resolution and in compliance with the provisions of Section 16 (except as otherwise provided below), may issue Refunding Bonds as follows:

(a) Refunding Bonds may be issued at any time, consistent with applicable law, upon delivery of an Authority Certificate for the purpose of refunding (including by purchase) Authority obligations, including amounts to pay principal thereof and redemption premium, if any, and interest thereon to the date of redemption (or purchase), making future Subordinate Reserve Account deposits, paying for Bond Insurance, making payment to a provider of a letter of credit for Parity Bonds, making any settlement payment in connection with the termination of a hedging instrument relating to the Refunding Bonds or the Parity Bonds to be refunded, paying the expenses of issuing the Refunding Bonds and of effecting such refunding.

(b) Refunding Bonds also may be issued for the purpose of refunding Parity Bonds without regard to the requirements of Section 16(d), if a Designated Authority Representative certifies that the Annual Debt Service on such Refunding Bonds in any Fiscal Year will not

exceed the Annual Debt Service by more than \$5,000 on the Parity Bonds to be refunded were such refunding not to occur.

(c) Refunding Bonds also may be issued, consistent with applicable law, without regard to the requirements of Section 16, for the purpose of refunding (including by purchase) any Authority obligations (other than Junior Obligations) for the payment of which sufficient funds are not available, or are forecasted by a Designated Authority Representative to be unavailable, in the future.

Section 18. Junior Obligations; Obligations with Pledge of Revenues. The Authority may issue Junior Obligations for any lawful purpose of the Authority. The resolution authorizing a series of Junior Obligations shall provide that the maturity date of Junior Obligations may not be accelerated (not including any indirect acceleration of the maturity thereof through reimbursement obligations to the provider of a credit facility occurring as a result of the mandatory tender for purchase of Junior Obligations) and shall further provide that following the occurrence of a Default, Pledged Taxes may not be used to pay the principal of or interest on Junior Obligations unless all deposits and payments required to be made with respect to the Prior Bonds and the Parity Bonds have been fully made or paid. In addition, the Authority reserves the right to issue obligations payable from revenues of the Authority other than Pledged Taxes.

Section 19. Subordinate Bond Account and Subordinate Reserve Account.

(a) Subordinate Bond Account. The Subordinate Bond Account is hereby created as a special account of the Authority for the purpose of providing for and securing the payment of Parity Bonds and the payment of Parity Payment Agreements meeting the requirements of Section 21. The Subordinate Bond Account is pledged to the payment of Parity Bonds and Parity Payment Agreements meeting the requirements of Section 21, and shall be separate and apart from all other accounts of the Authority. Notwithstanding the foregoing, only regularly scheduled payments made under a Parity Payment Agreement are secured by this Section 19.

Subject to the requirements of Section 14(b), the Authority hereby irrevocably obligates and binds itself for so long as any 2005A Bonds remain Outstanding to set aside or cause to be set aside into the Subordinate Bond Account from Pledged Taxes:

(i) on or before each interest payment date with respect to 2005A Bonds, an amount that is sufficient to pay the interest scheduled to become due on Outstanding 2005A Bonds on such date;

(ii) on or before each principal payment date with respect to 2005A Bonds, an amount that is sufficient to pay the principal of all 2005A Bonds maturing on such date;

(iii) on or before each redemption date selected or scheduled for 2005A Bonds (including any scheduled mandatory redemption date for Term Bonds), an amount that is sufficient to pay the principal of and any premium on all 2005A Bonds to be redeemed on such date and, to the extent such date is not a scheduled interest payment date, the interest payable on all 2005A Bonds to be redeemed on such date; and

(iv) regularly scheduled payments under a Parity Payment Agreement.

(b) Subordinate Reserve Account. The Subordinate Reserve Account is hereby created as a special account of the Authority for the purpose of securing the payment of the principal of, premium, if any, and interest on the Parity Bonds. The Subordinate Reserve Account is pledged to the payment of Parity Bonds, shall be separate and apart from all other accounts of the Authority. The Authority hereby covenants that on the date of issuance of each Series of Parity Bonds, the Authority will assure that the amount on hand in the Subordinate Reserve Account shall be sufficient to meet the Subordinate Reserve Account Requirement. Notwithstanding the foregoing, for any Series of Future Parity Bonds the Authority may establish a separate Subordinate Reserve Account Requirement for that Series, and amounts or Bond Insurance to satisfy that separate requirement shall be held in a separate account or subaccount of the Authority for the purpose of securing solely that Series; such Series of Parity Bonds shall not be secured by other amounts in the Subordinate Reserve Account or by Bond Insurance providing any portion of the Subordinate Reserve Account Requirement for other

Parity Bonds. Any Series for which a separate Subordinate Reserve Account Requirement has been established shall not be secured by the Subordinate Reserve Account and shall not be provided with any rights or protections under this Section 19(b). The debt service on any Series for which a separate Subordinate Reserve Account Requirement has been established shall not be included in the calculation of the Subordinate Reserve Account Requirement for all other Series of Parity Bonds.

The Subordinate Reserve Account Requirement shall be maintained by deposits of cash, investments, Bond Insurance, or a combination of the foregoing. To the extent that the Authority obtains Bond Insurance in substitution for amounts in the Subordinate Reserve Account, all or a portion of the money on hand in the Subordinate Reserve Account shall be transferred to the Subordinate Bond Account or another account as permitted by the Code. In computing the amount on hand in the Subordinate Reserve Account, Bond Insurance shall be valued at the face amount thereof, and all other obligations purchased as an investment of money therein shall be valued at market at least annually. The market value of securities then credited to the Subordinate Reserve Account shall be determined and any deficiency in the Subordinate Reserve Account shall be made up in equal monthly installments within six months after the date of such valuation. As used herein, the term "cash" shall include U.S. currency, cash equivalents and evidences thereof, including demand deposits, certified or cashier's checks.

Bond Insurance to satisfy all or any portion of the Subordinate Reserve Account Requirement shall be issued by an insurance company or financial institution authorized to conduct business in any state of the United States as of the time of issuance of such Bond Insurance, and which, as of the time of issuance of such Bond Insurance, is rated in one of the two highest Rating Categories for unsecured debt or insurance underwriting or claims paying ability by the Rating Agencies.

Whenever there is a sufficient amount in the Subordinate Bond Account and the Subordinate Reserve Account to pay the principal of, premium, if any, and interest on all

Outstanding Parity Bonds, the money in the Subordinate Reserve Account may be used to pay such principal, premium, if any, and interest. Amounts in the Subordinate Reserve Account in excess of the Subordinate Reserve Account Requirement may, at the Authority's discretion, be withdrawn to redeem and retire Outstanding Parity Bonds and to pay the interest due to such date of redemption and premium, or used for any other lawful purposes. When a Series of Parity Bonds is refunded in whole or in part, money may be withdrawn from the Subordinate Reserve Account to pay or provide for the payment of Refunding Bonds; provided, that immediately after such withdrawal there shall remain in or be credited to the Subordinate Reserve Account an amount at least equal to the Subordinate Reserve Account Requirement. The Authority also may transfer out of the Subordinate Reserve Account any money required in order to prevent any Parity Bonds from becoming "arbitrage bonds" under the Code.

If a deficiency in the Subordinate Bond Account shall occur prior to a principal or interest payment date on the Parity Bonds, such deficiency shall be made up from the Subordinate Reserve Account by the withdrawal of cash therefrom for that purpose and by the sale or redemption of obligations held in the Subordinate Reserve Account in such amounts as will provide amounts in the Subordinate Bond Account sufficient to pay when due the principal and interest of the Parity Bonds, and if a deficiency still exists immediately prior to a payment date and after the withdrawal of cash, the Authority shall then draw upon any Bond Insurance for the Parity Bonds, on a pro rata basis, in sufficient amount to make up the deficiency. Such draw shall be made at such times and under such conditions as such Bond Insurance shall provide. If the Authority fails to make any payment required to be made under a reimbursement agreement with the issuer of Bond Insurance, the issuer thereof shall be entitled to exercise all remedies available at law or under this Resolution; provided, that no acceleration of the Parity Bonds shall be permitted, and no remedies which adversely affect Owners of the Parity Bonds shall be permitted. Any deficiency created in the Subordinate Reserve Account by reason of any such withdrawal shall be made up from the next available Pledged Taxes (after required deposits and payments with respect to the Parity Bonds and Prior Bonds have been made

under Section 14(b), clauses First, Second and Third), or from Bond Insurance, but in no event later than within one year of the date such deficiency occurs.

In making the payments and credits to the Subordinate Reserve Account required by this Section 19(b), to the extent that the Authority has obtained Bond Insurance for specific amounts required pursuant to this section to be paid out of the Subordinate Reserve Account such amounts so covered by Bond Insurance shall be credited against the amounts required to be maintained in the Subordinate Reserve Account by this Section 19(b). In the event the provider of the Bond Insurance shall no longer meet the requirements for the provider of Bond Insurance or be insolvent or no longer in existence, the Subordinate Reserve Account Requirement shall be satisfied with other Bond Insurance, or in equal monthly payments, within twelve months after the insolvency of the provider of Bond Insurance or after the date the provider no longer meets the requirements or is no longer in existence, out of Pledged Taxes (or out of other money on hand and legally available for such purpose) after making necessary provisions for the payments required to be made with respect to the Prior Bonds or into the Subordinate Bond Account.

(c) Deposits into Accounts. For purposes of this Resolution, the Authority shall be considered to have paid or deposited amounts into any account when it records, allocates, restricts or debits the Authority's records. The Authority shall be considered to have withdrawn amounts from any account when it records, unrestricts or credits the Authority's records.

(d) Investment of Amounts in Accounts. Amounts in the Local Option Tax Accounts, the Additional Taxes Accounts, the Subordinate Bond Account and the Subordinate Reserve Account shall be invested by the Authority in any legal investment for funds of regional transit authorities of the State.

Section 20. Covenants. The Authority makes the following covenants with the Owners of the 2005A Bonds for as long as any of the same remain Outstanding:

(a) Tax Covenants. The Authority shall impose the rental car sales and use tax authorized by RCW 81.104.160(2) at a rate of not less than eight-tenths of one percent and the

Sales and Use Tax at a rate of not less than four-tenths of one percent; provided, that the Authority may impose the Sales and Use Tax at a rate of less than four-tenths of one percent but not less than three-tenths of one percent so long as an Authority Certificate is delivered on or prior to the date of that reduction in rate and within 30 days of the end of each Fiscal Year during which the Sales and Use Tax has been so reduced, which Authority Certificate shall comply with the requirements described below. To the extent permitted by law and approved by the voters (if a vote is required), the Authority may, in a Series or Supplemental Resolution, pledge to the repayment of the Parity Bonds the Sales and Use Tax in excess of four-tenths of one percent, the rental car sales and use tax authorized by RCW 81.104.160(2) in excess of eight-tenths of one percent and any other tax authorized by law. Notwithstanding the foregoing, the Authority may at its discretion pledge amounts attributable to any increase of the Sales and Use Tax rate above four-tenths of one percent and any increase in the rental car sales and use tax above eight-tenths of one percent to any other obligations or to other Authority purposes.

If the Authority desires to impose the Sales and Use Tax at a rate less than four-tenths of one percent, an Authority Certificate shall be delivered that states that:

(i) *Prior Bonds Coverage Test.* Local Option Taxes received during the Base Period were not less than 1.5 times "Maximum Annual Debt Service" (as defined in the Prior Bond Resolution) on all Prior Bonds outstanding on the date the Authority Certificate is given (the "Prior Bonds Coverage Requirement"); and

(ii) *Parity Bonds Coverage Test for Period While MVET Not Included as Pledged Taxes.* Pledged Taxes received during the Base Period minus any Pledged Taxes necessary to be taken into account to meet the Prior Bonds Coverage Requirement (and after all MVET have been applied for that purpose) were not less than 1.5 times Maximum Annual Debt Service during the period that MVET will not be included as Pledged Taxes to secure Parity Bonds Outstanding on the date the Authority Certificate is given; and

(iii) *Parity Bonds Coverage Test for Period While MVET and/or Additional Taxes Are Included as Pledged Taxes.* Pledged Taxes received during the Base Period minus any Pledged Taxes necessary to be taken into account to meet the Prior Bonds Coverage Requirement were not less than 1.5 times Maximum Annual Debt Service during the period that MVET and/or Additional Taxes will be included as Pledged

Taxes to secure Parity Bonds Outstanding on the date the Authority Certificate is given.

In preparing such certificate: (A) the Local Option Taxes and/or Pledged Taxes during the Base Period may be only those shown in audited or unaudited financial statements of the Authority; (B) the Designated Authority Representative shall take into account in calculating amounts received during the Base Period any Adopted Rate Adjustment, Additional Taxes and MVET included as Pledged Taxes pursuant to Section 15, and taxes from annexed territory, as if such new rates, additions or the annexation had been in effect during the entire Base Period; (C) the Sales and Use Tax received during the Base Period shall be adjusted to reflect the reduced rate less than four-tenths of one percent; (D) MVET and/or Additional Taxes may not be taken into account to meet the requirements of clause (iii) above unless the Authority receives an opinion of Bond Counsel to the effect that the pledge of such MVET and/or Additional Taxes to Parity Bonds is in full force and effect for the period in which they are included as Pledged Taxes; and (E) any Adopted Rate Adjustment, Additional Taxes and/or extension of an existing tax shall be taken into account only if a certified public accountant, economic consultant or financial advisor experienced with state or local taxation or municipal bonds certifies that it is reasonable to expect that such adjusted, new or extended taxes will be received in the amounts assumed for purposes of the Authority Certificate.

There may be added to Local Option Taxes and/or to Pledged Taxes collected in the Base Period, amounts withdrawn from the Tax Stabilization Subaccount in the Base Period and deposited into the Local Option Tax Accounts and/or the Additional Taxes Accounts (provided, that the amount withdrawn from the Tax Stabilization Subaccount in the Base Period may not be deemed to have exceeded 0.25 times the debt service on Parity Bonds in that Base Period).

If the Authority is imposing the Sales and Use Tax authorized by RCW 81.104.170 at a rate less than four-tenths of one percent and if the Authority is unable to deliver an Authority Certificate as described above within 30 days of the end of any Fiscal Year, it shall, within 90 days of the end of that Fiscal Year, take all action required on its part to increase the rate of that

Sales and Use Tax imposed, but not to exceed the rate of four-tenths of one percent for the purpose of being able to deliver such Authority Certificate.

The Authority shall take all reasonable actions necessary to impose and provide for the continued collection of the Pledged Taxes and the application of those taxes for repayment of the 2005A Bonds in accordance with this Resolution. The Authority shall take all reasonable actions necessary to impose and provide for the continued collection of the Local Option Taxes and the application of those taxes for the repayment of the Prior Bonds in accordance with the Prior Bond Resolution and the application of those Local Option Taxes in accordance with the Prior Bond Resolution and this Resolution. Except as expressly permitted under this Section 20(a), the Authority shall not take any action that limits, terminates, reduces or otherwise impairs its authority to impose and collect all Local Option Taxes.

(b) Maintenance of its Facilities. The Authority will at all times keep and maintain or cause to be maintained its transit facilities and equipment and operate the same and the business or businesses in connection therewith in the manner determined by the Board.

(c) Property and Liability Insurance. The Authority will maintain insurance or institute a self-insurance program, if such insurance is obtainable at reasonable rates and upon reasonable conditions, against such risks, in such amounts, and with such deductibles as the Board shall deem prudent for the protection of the Authority.

(d) Books and Records. The Authority will keep books of account and accurate records of all of its revenue, including tax receipts, received from any source whatsoever, and of all costs of administration and maintenance and operation of all of its business that are in accordance with applicable accounting principles as in effect from time to time.

Section 21. Parity Payment Agreements. A Payment made under a Payment Agreement may be secured by a pledge of Pledged Taxes equal to the pledge securing the 2005A Bonds if the Payment Agreement satisfies the requirements for issuing Future Parity Bonds described in Section 16, taking into consideration regularly scheduled Payments and

Receipts (if any) under the Payment Agreement. The following shall be conditions precedent to the use of any Payment Agreement on a parity with the 2005A Bonds:

(a) The Authority shall obtain an opinion of Bond Counsel with respect to the due authorization, validity and enforceability of such Payment Agreement as to the Authority, and opining that the action proposed to be taken is authorized or permitted by this Resolution or the applicable provisions of any Supplemental Resolution and will not adversely affect the exemption from federal income taxation of the interest on any Outstanding Parity Bonds.

(b) Prior to entering into a Payment Agreement, the Authority shall adopt a Series Resolution or supplemental resolution which shall:

(i) set forth the manner in which the Payments and Receipts are to be calculated and a schedule of Payment Dates;

(ii) establish general provisions for the rights of parties to Payment Agreements; and

(iii) set forth such other matters as the Authority deems necessary or desirable in connection with the management of Payment Agreements as are not inconsistent with the provisions of this Resolution.

The Payment Agreement may obligate the Authority to pay, on one or more scheduled and specified Payment Dates, the Payments in exchange for the Payor's obligation to pay or to cause to be paid to the Authority, on scheduled and specified Payment Dates, the Receipts. The Authority may also enter into Payment Agreements that are not reciprocated by the other party to the agreement.

If the Authority enters into a Parity Payment Agreement, Payments shall be made from the Subordinate Bond Account and Annual Debt Service shall include any regularly scheduled Authority Payments adjusted by any regularly scheduled Receipts during a Fiscal Year or Base Year, as applicable. Receipts shall be paid directly into the Subordinate Bond Account. Obligations to make unscheduled payments, such as termination payments, may not be entered into on a parity with the Parity Bonds.

Nothing in this section shall preclude the Authority from entering into Payment Agreements with a claim on Pledged Taxes junior to that of the Parity Bonds. Furthermore, nothing in this section shall preclude the Authority from entering into obligations on a parity with the Parity Bonds in connection with the use of Payment Agreements or similar instruments if the Authority obtains an opinion of Bond Counsel that the obligations of the Authority thereunder are consistent with this Resolution.

Section 22. Defeasance. In the event that cash and/or noncallable Government Obligations, maturing at such time or times and bearing interest to be earned thereon in amounts sufficient to redeem and retire the 2005A Bonds or any of them in accordance with their terms are set aside with a trustee or escrow agent in a special account to effect such redemption or retirement and such money and the principal of and interest on such obligations are irrevocably pledged for such purpose, then no further payments need to be made into the Subordinate Bond Account for the payment of the principal of and interest on the 2005A Bonds so provided for and such 2005A Bonds shall cease to be entitled to any benefit or security of this Resolution except the right to receive the funds so set aside and pledged, and such 2005A Bonds shall be deemed not to be Outstanding. Prior to such defeasance the Authority shall obtain a verification from an independent certified public accountant that such Government Obligations and cash are sufficient to pay such 2005A Bonds and an opinion of Bond Counsel that such defeasance will not adversely affect the exemption from federal income taxation of interest on any Outstanding 2005A Bonds. The Authority shall include in the refunding or defeasance plan such provisions as the Authority deems necessary for the random selection of any defeased 2005A Bonds that constitute less than all of a particular maturity of the 2005A Bonds, for notice of the defeasance to be given within 30 days of any defeasance of 2005A Bonds to the Owners of such Bonds and to such other persons as the Authority shall determine, and for any required replacement of bond certificates for defeased 2005A Bonds. The defeased 2005A Bonds shall be deemed no longer Outstanding, and the Authority may apply any money in any other account established for the payment of redemption of the defeased 2005A Bonds to

any lawful purposes as it shall determine. If the 2005A Bonds are registered in the name of DTC or its nominee, notice of any defeasance of 2005A Bonds shall be given to DTC in the manner prescribed in the Letter of Representations for notices of redemption of the 2005A Bonds.

In the event that the principal of and/or interest due on the 2005A Bonds is paid by the provider of Bond Insurance, the 2005A Bonds shall not be considered paid by the Authority, and the covenants, agreements and other obligations of the Authority to the Owners of the 2005A Bonds shall continue to exist and the provider of such Bond Insurance shall be subrogated to the rights of the Owners.

Section 23. Lost, Stolen, Mutilated or Destroyed 2005A Bonds. In case any 2005A Bond or Bonds shall be lost, stolen, mutilated or destroyed, the Bond Registrar may execute and deliver a new 2005A Bond of like date, number and tenor to the Owner thereof upon the Owner paying the expenses and charges of the Authority in connection therewith and upon the Owner filing with the Authority evidence satisfactory to the Authority that such 2005A Bond was actually lost, stolen or destroyed (including the presentation of a mutilated 2005A Bond) and of ownership thereof, and upon furnishing the Authority with indemnity satisfactory to the Authority.

Section 24. Supplements and Amendments.

(a) Without Owners' Consent. The Authority may adopt at any time without the consent or concurrence of the Owner of any 2005A Bond, a Supplemental Resolution or Resolutions amendatory or supplemental to this Resolution for any one or more of the following purposes:

- (i) To authorize a Parity Payment Agreement pursuant to Section 21;
- (ii) To add covenants and agreements of the Authority for the purpose of further securing the payment of the 2005A Bonds; provided, that such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the Authority contained in this Resolution;

(iii) To prescribe further limitations and restrictions upon the issuance of Parity Bonds and/or the incurrence of obligations under Parity Payment Agreements which are not contrary to or inconsistent with the limitations and restrictions in this Resolution;

(iv) To surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of this Resolution;

(v) To subject additional property, Additional Taxes, MVET, income or revenues to the pledge of this Resolution or confirm as further assurance any pledge or provision for payment of the 2005A Bonds created by this Resolution and to make such confirming changes as shall be necessary or desirable in connection therewith;

(vi) To cure any ambiguity or defect or inconsistent provision in this Resolution or to insert such provisions clarifying matters or questions arising under this Resolution as are necessary or desirable; provided that such modifications shall not materially and adversely affect the security for the payment of any 2005A Bonds;

(vii) To qualify this Resolution under the Trust Indenture Act of 1939, as amended, as long as there is no material adverse effect on the security for the payment of 2005A Bonds;

(viii) To obtain or maintain a rating with respect to any Series of Parity Bonds or to modify the provisions of this Resolution to obtain from any Rating Agency a rating on any Series of Parity Bonds or any portion thereof which is higher than the rating which would be assigned without such modification (so long as it does not adversely affect the interests of Owners in a manner that would require Owner consent under Section 24(b)); or

(ix) To modify any of the provisions of this Resolution in any other respect that does not materially and adversely affect the security for the payment of any 2005A Bond and will not cause any Rating Agency to lower a rating on any 2005A Bonds.

(b) With Owners' Consent. This Resolution may be amended from time to time by a Supplemental Resolution approved by the Owners of a majority in aggregate principal amount of the 2005A Bonds then Outstanding. So long as the payment of principal of and interest on

2005A Bonds is guaranteed by Bond Insurance, the provider of that Bond Insurance may exercise approval on behalf of all the Owners of the 2005A Bonds so guaranteed. However, without the specific consent of the Owner of each 2005A Bond, no Supplemental Resolution shall (1) permit the creation of a charge on Pledged Taxes superior to the payment of the 2005A Bonds; (2) reduce the percentage of Bond Owners which are required to consent to any Supplemental Resolution; or (3) give to any 2005A Bond or Bonds any preference over any other 2005A Bond or Bonds. No Supplemental Resolution shall change the date of payment of the principal of any 2005A Bond, reduce the principal amount or Accreted Value of any 2005A Bond, change the rate or extend the time of payment of interest thereof, reduce any premium payable upon the redemption or prepayment thereof, or advance the date upon which any 2005A Bond may first be called for redemption prior to its fixed maturity date without the specific consent of the Owner of that 2005A Bond; and no such amendment shall change or modify any of the rights or obligations of the Bond Registrar or provider of Bond Insurance the 2005A Bonds without its written consent.

(c) The Authority shall provide notice to the Rating Agencies then rating 2005A Bonds, and to the providers of credit facilities for the 2005A Bonds, upon any amendment to this Resolution.

(d) Nothing herein shall limit the Authority's ability to adopt resolutions authorizing the issuance of Prior Bonds.

Section 25. Defaults. Any one or more of the following events shall constitute a "Default" under this Resolution and each Series Resolution:

(a) If any "Default" shall have occurred and be continuing as described in Section 14 of the Prior Bond Resolution;

(b) If the Authority shall default in the performance of any obligation with respect to payments into the Subordinate Bond Account or Subordinate Reserve Account and such default is not remedied;

(c) If default shall be made in the due and punctual payments of the principal of and premium, if any, on any of the Parity Bonds when the same shall become due and payable, either at maturity or by proceedings for redemption or otherwise;

(d) If default shall be made in the due and punctual payment of any installment of interest on any Parity Bond;

(e) If the Authority shall fail to purchase or redeem Term Bonds in an aggregate principal amount at least equal to the sinking fund requirements for the applicable Fiscal Year; or

(f) If the Authority shall materially default in the observance and performance of any other of the covenants, conditions and agreements on the part of the Authority contained in this Resolution or any other Series Resolution and such default shall have continued for a period of 90 days after discovery by the Authority or written notice to the Authority; provided, that if such failure can be remedied, but not within such 90-day period, and if the Authority has taken all action reasonably possible to remedy such failure within such 90-day period, such failure shall not become a Default for so long as the Authority shall diligently proceed to remedy the Default.

Section 26. Remedies Upon Default. The remedies of the Owners during the continuance of a Default shall, to the extent permitted by law, be governed by this Section 26.

(a) Bondowners' Trustee. So long as a Default shall not have been remedied, a Bondowners' Trustee may be appointed by the Owners of at least 50% in principal amount of the Parity Bonds then Outstanding, by an instrument or concurrent instruments in writing signed and acknowledged by such Owners or by their attorneys-in-fact duly authorized and delivered to the Bondowners' Trustee and the Authority. Any Bondowners' Trustee appointed under the provisions of this Section shall be a bank or trust company organized under the laws of the State or the State of New York or a national banking association. The bank or trust company acting as Bondowners' Trustee may be removed at any time, and a successor Bondowners' Trustee may be appointed, by the Owners of a majority in principal amount of the Parity Bonds,

by an instrument or concurrent instruments in writing signed and acknowledged by such Owners or by their attorneys-in-fact duly authorized.

The Bondowners' Trustee appointed in the manner herein provided, and each successor thereto, is hereby declared to be a trustee for the Owners of all the Parity Bonds and is empowered to exercise all the rights and powers herein conferred on the Bondowners' Trustee.

(b) Suits at Law or in Equity. The Bondowners' Trustee may upon the happening of a Default, and during the continuance thereof, take such steps and institute such suits, actions or other proceedings in its own name, or as trustee, all as it may deem appropriate for the protection and enforcement of the rights of Owners to collect any amounts due and owing the Authority and pledged to the Parity Bonds, or to obtain other appropriate relief, and may enforce the specific performance of any covenant, agreement or condition contained in this Resolution; provided, that upon the occurrence of a Default, payment of the Parity Bonds shall not be subject to acceleration.

Any action, suit or other proceedings instituted by the Bondowners' Trustee shall be brought in its name as trustee for the Owners and all such rights of action upon or under any of the Parity Bonds or the provisions of this Resolution may be enforced by the Bondowners' Trustee without the possession of any Bonds, and without the production of the same at any trial or proceedings relative thereto except where otherwise required by law, and the Owners of the Parity Bonds, by taking and holding the same, shall be conclusively deemed irrevocably to appoint the Bondowners' Trustee the true and lawful trustee of the Owners of the Parity Bonds, with authority to institute any such action, suit or proceeding; to receive as trustee and deposit in trust any sums becoming distributable on account of the Parity Bonds; to execute any paper or documents for the receipt of such money, and to do all acts with respect thereto that the Owner might have done in person. Nothing in this section shall be deemed to authorize or empower the Bondowners' Trustee to consent to accept or adopt, on behalf of any Owner of any Parity Bond, any plan or reorganization or adjustment affecting the Parity Bonds or any right of any Owner, or to authorize or empower the Bondowners' Trustee to vote the claims of the Owners in

any receivership, insolvency, liquidation, bankruptcy, reorganization or other proceeding to which the Authority shall be a party.

(c) Books of Authority Open to Inspection. The Authority covenants that if a Default shall have happened and shall not have been remedied, the books of record and account of the Authority shall at all times be subject to the inspection and use of the Bondowners' Trustee and to individual Owners.

The Authority covenants that if a Default shall happen and shall not have been remedied, the Authority will continue to account, as a trustee of an express trust, for all Pledged Taxes and other accounts pledged under this Resolution.

(d) Payment of Funds to Bondowners' Trustee. The Authority covenants that if a Default shall happen and shall not have been remedied, the Authority, upon demand of the Bondowners' Trustee, shall pay over to the Bondowners' Trustee (i) forthwith, all amounts in the Subordinate Bond Account, Subordinate Reserve Account, and any project account created for the deposit of Parity Bond proceeds, and (ii) as promptly as practicable after receipt thereof, all Pledged Taxes subsequently received by the Authority and pledged under this Resolution, subject to the prior charge thereon in favor of the Owners of the Prior Bonds, and further subject to any deposits and payments required to be made under Section 15 of the Prior Bond Resolution.

(e) Application of Funds by Bondowners' Trustee. During the continuance of a Default, the Pledged Taxes and other funds received by the Bondowners' Trustee pursuant to the provisions of the preceding paragraph shall be applied by the Bondowners' Trustee first, to the payment of the reasonable and proper charges, expenses and liabilities paid or incurred by the Bondowners' Trustee and second, in accordance with the provisions of Section 14(b) of this Resolution.

In the event that at any time the funds held by the Bondowners' Trustee and the Bond Registrar shall be insufficient for the payment of the principal of, premium, if any, and interest then due on the Parity Bonds, such funds (other than funds held for the payment or redemption

of particular Parity Bonds which have theretofore become due at maturity or by call for redemption) and all Pledged Taxes received or collected for the benefit or for the account of Owners of the Parity Bonds by the Bondowners' Trustee shall be applied as follows:

First, to the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, earliest maturities first, and, if the amount available shall not be sufficient to pay in full any installment or installments or interest maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second, to the payment to the persons entitled thereto of the unpaid principal and premium, if any, of any Parity Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, earliest maturities first, and, if the amount available shall not be sufficient to pay in full all the Parity Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal and premium, if any, due on such date, to the persons entitled thereto, without any discrimination or preference.

(f) Relinquishment of Funds Upon Remedy of Default. If and whenever all overdue installments of interest on all Parity Bonds, together with the reasonable and proper charges, expenses and liabilities of the Bondowners' Trustee and the Owners of Parity Bonds, their respective agents and attorneys, and all other sums payable by the Authority under this Resolution, including the principal of, premium, if any, and accrued unpaid interest on all Parity Bonds which shall then be payable, shall either be paid by or for the account of the Authority, or provision satisfactory to the Bondowners' Trustee shall be made for such payment, and all Defaults under this Resolution or the Parity Bonds shall be made good or secured to the satisfaction of the Bondowners' Trustee or provision deemed by the Bondowners' Trustee to be adequate shall be made therefor, the Bondowners' Trustee shall pay over to the Authority all money and securities then remaining unexpended and held by the Bondowners' Trustee and thereupon all such funds shall thereafter be applied as provided in this Resolution. No such payment over to the Authority by the Bondowners' Trustee or resumption of the application of

Pledged Taxes as provided in this Resolution shall extend to or affect any subsequent Default under this Resolution or impair any right consequent thereon.

(g) Suits by Individual Bondowners. No Owner shall have any right to institute any action, suit or proceeding at law or in equity unless a Default shall have happened and be continuing and unless no Bondowners' Trustee has been appointed as herein provided, but any remedy herein authorized to be exercised by the Bondowners' Trustee may be exercised individually by any Owner, in his or her own name and on his or her own behalf or for the benefit of all Owners, in the event no Bondowners' Trustee has been appointed, or with the consent of the Bondowners' Trustee if such Bondowners' Trustee has been appointed; provided, that nothing in this Resolution or in the Parity Bonds shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the principal of and interest on the Parity Bonds to the Owners thereof at the respective due dates therein specified, or affect or impair the right of action, which is absolute and unconditional, of such Owners to enforce such payment.

(h) Remedies Granted in Resolution not Exclusive. No remedy granted in this Resolution to the Bondowners' Trustee or the Owners of the Bonds is intended to be exclusive of any other remedy, but each such remedy shall be cumulative and shall be in addition to every other remedy given under this Resolution or existing at law or in equity on or after the date of adoption of this Resolution.

Section 27. Continuing Disclosure for the 2005A Bonds.

(a) This Section 27 constitutes the written undertaking (the "Undertaking") for the benefit of the holders of the 2005A Bonds as required by SEC Rule 15c2-12 (the "Rule"). For purposes of this undertaking, the term "holders of the 2005A Bonds" shall have the meaning intended for such term under the Rule.

(b) The Authority as an "obligated person" within the meaning of the Rule undertakes to provide or cause to be provided, either directly or through a designated agent:

(i) To each NRMSIR, and to a state information depository, if one is established in the State and recognized by the SEC (the "SID"), annual financial information and operating data regarding the Authority of the type included in the Official Statement for the 2005A Bonds as follows: (i) audited financial statements prepared in accordance with generally accepted accounting principles applicable to Washington municipalities and consistent with requirements of the Washington State Auditor, except that if any audited financial statements are not available by nine months after the end of any Fiscal Year, the annual financial information filing shall contain unaudited financial statements in a format similar to the audited financial statements most recently prepared for the Authority, and the Authority's audited financial statements shall be filed in the same manner as the annual financial information filing when and if they become available; (ii) operating and financial information consisting of (A) aggregate principal amount of Prior Bonds and Parity Bonds Outstanding; (B) amount of Local Option Taxes and Pledged Taxes levied and collected by type; (C) any change by type in the rate or in the total amount of Local Option Taxes or Pledged Taxes the Authority is authorized to levy; and (D) a sufficiency calculation of the type set forth in Section 20(a) if the Authority is required to provide an Authority Certificate under that Section.

Except as otherwise provided above, the annual financial information described above will be provided to each NRMSIR and the SID not later than the last day of the ninth month after the end of each Fiscal Year of the Authority, commencing with the Authority's fiscal year ending December 31, 2004. The annual financial information may be provided in a single or in multiple documents, and may be incorporated by reference from other documents, including official statements of debt issues with respect to which the Authority is an obligated person as defined by the Rule, which documents have been filed with each NRMSIR and the SID. If the document incorporated by reference is a "final official statement" it must be available from the Municipal Securities Rulemaking Board ("MSRB").

(ii) To each NRMSIR or to the MSRB, and to the SID, timely notice of the occurrence of any of the following events with respect to the 2005A Bonds, if material:

(i) principal and interest payment delinquencies; (ii) non-payment related defaults; (iii) unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform; (vi) adverse tax opinions or events affecting the tax-exempt status of the 2005A Bonds; (vii) modifications to the rights of the holders of the 2005A Bonds; (viii) Bond calls (other than scheduled mandatory redemptions of Term Bonds); (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the 2005A Bonds; and (xi) rating changes.

(b) To each NRMSIR or to the MSRB, and to the SID, timely notice of a failure by the Authority to provide required annual financial information on or before the date specified in paragraph (a) above.

(c) This Undertaking may be amended without the consent of any holder of any 2005A Bond, any broker, dealer, municipal securities dealer, participating underwriter, rating agency, NRMSIR, the SID or the MSRB, under the circumstances and in the manner permitted by the Rule. The Authority will give notice to each NRMSIR or the MSRB, and to the SID, of the substance (or provide a copy) of any amendment to the Undertaking and a brief statement of the reasons for the amendment. If the amendment changes the type of annual financial information to be provided, the annual financial information containing the amended information will include a narrative explanation of the effect of that change on the type of information being provided.

(d) If the Authority fails to comply with this Undertaking, the Authority will proceed with due diligence to cause such noncompliance to be corrected as soon as practicable after the Authority learns of that failure. No failure by the Authority or other obligated person to comply with this Undertaking shall constitute a default with respect to the 2005A Bonds. The sole remedy of any holder of a 2005A Bond will be to take such actions as that holder deems necessary and appropriate to compel the Authority or other obligated person to comply with this Undertaking.

(e) To the extent authorized by the SEC, the Authority may satisfy the Undertaking by transmitting the required filings using <http://www.disclosureusa.org> (or such other centralized dissemination agent as may be approved by the SEC).

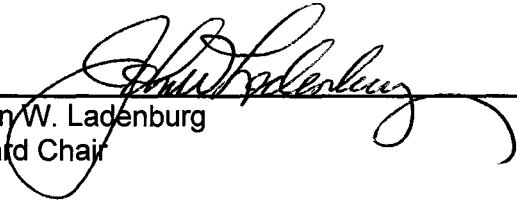
(f) The Authority's obligations under the Undertaking shall terminate upon the legal defeasance, prior redemption, or payment in full of all of the then Outstanding 2005A Bonds. In addition, the Undertaking, or any provision thereof, will be null and void if the Authority (i) obtains an opinion of nationally recognized bond counsel or other counsel familiar with federal securities laws to the effect that those portions of the Rule which require the Authority to comply with the Undertaking, or any such provision, are invalid, have been repealed retroactively or otherwise do not apply to the 2005A Bonds; and (ii) notifies the SID and either the MSRB or each then existing NRMSIR of such termination.

Section 28. Resolution a Contract. This Resolution shall constitute a contract with the Owners of the Bonds.

Section 29. Severability. If any one or more of the provisions of this Resolution shall be declared by any court of competent jurisdiction to be contrary to law, then such provision or provisions shall be deemed separable from, and shall in no way affect the validity of, any of the other provisions of this Resolution or of the Bonds issued pursuant to the terms hereof.


Section 30. Ratification of Prior Acts. Any action taken consistent with the Authority but prior to the effective date of this Resolution, including but not limited to issuing requests for proposals for financing or underwriting services, executing engagement letters for financing or underwriting services based on responses to such requests, preparing and issuing disclosure materials relating to the 2005A Bonds, and executing contracts or other documents, is ratified, approved, and confirmed.

ADOPTED by the Board of The Central Puget Sound Regional Transit Authority at a regular meeting thereof held on February 10, 2005.



John W. Ladenburg
Board Chair

ATTEST:



Marcia Walker
Board Administrator