

PRELIMINARY OFFICIAL STATEMENT DATED AUGUST 30, 2007

NEW ISSUE - BOOK-ENTRY ONLY

SEE "RATINGS" HEREIN

In the opinion of Co-Bond Counsel, assuming the accuracy of certain representations and certifications and compliance with certain tax covenants, interest on the Series 2007B Bonds is not includable in gross income for federal income tax purposes under existing law and will not be treated as an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals or corporations, but such interest will be includable in adjusted current earnings in computing the federal alternative minimum tax imposed on certain corporations. See "TAX EXEMPTION." In the opinion of Co-Bond Counsel, interest on the Series 2007B Bonds is exempt from present State of Georgia income taxation under existing statutes as described herein.

\$404,000,000*

METROPOLITAN ATLANTA RAPID TRANSIT AUTHORITY (Georgia)

Sales Tax Revenue Bonds

(Third Indenture Series)

Refunding Series 2007B



Dated: Date of Delivery

Due: July 1, as shown below

This cover page contains information regarding the Series 2007B Bonds for quick reference only. It is not a summary of the Series 2007B Bonds or the security therefor. Investors should read this entire Official Statement to obtain information necessary to the making of an informed investment decision.

The Series 2007B Bonds will be dated as of their date of delivery, and interest will be payable semiannually on January 1 and July 1 of each year, commencing on January 1, 2008, by check or draft of U.S. Bank National Association, as trustee and paying agent.

The Series 2007B Bonds will be fully registered, in the denominations of \$5,000 or any integral multiple thereof, and, when issued, registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as the initial securities depository for the Series 2007B Bonds. Purchases of the beneficial ownership interests in the Series 2007B Bonds will be made in book-entry only form, without certificates. See "DESCRIPTION OF THE SERIES 2007B BONDS—Book-Entry Only Bonds" herein.

The Series 2007B Bonds are limited obligations of the Authority payable solely from and secured solely by a pledge of and third priority lien on receipts of a retail sales and use tax collected in Fulton and DeKalb Counties, Georgia and deposited with the Trustee pursuant to a Trust Indenture and a Rapid Transit Contract and Assistance Agreement described herein. The Series 2007B Bonds do not constitute a debt of the State of Georgia or of any city or county thereof. The Authority has no taxing power.

The Series 2007B Bonds are subject to optional redemption prior to maturity as set forth herein. At the bidder's option, certain Series 2007B Bonds may be designated as "Term Bonds" and subject to mandatory sinking fund redemption.

Maturities, Amounts, Interest Rates, Prices or Yields and CUSIP Numbers

<u>Year</u> <u>(July 1)</u>	<u>Principal*</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Prices or</u> <u>Yield</u>	<u>CUSIP</u> <u>Number</u>	<u>Year</u> <u>(July 1)</u>	<u>Principal*</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Prices or</u> <u>Yield</u>	<u>CUSIP</u> <u>Number</u>
2026	\$25,460,000				2032	\$33,870,000			
2027	26,700,000				2033	35,560,000			
2028	28,000,000				2034	37,430,000			
2029	29,370,000				2035	39,395,000			
2030	30,805,000				2036	41,465,000			
2031	32,305,000				2037	43,640,000			

The Series 2007B Bonds are offered when, as and if issued and accepted by the original purchasers, subject to the approval of legality by King & Spalding LLP and Howell & Associates, LLC, Co-Bond Counsel, both of Atlanta, Georgia. Certain legal matters will be passed upon for the Authority by its counsel, McKenna Long & Aldridge LLP, Atlanta, Georgia. It is expected that the Series 2007B Bonds in definitive form will be available for delivery through the facilities of DTC in New York, New York on or about September 25, 2007.

Dated September __, 2007

* Preliminary, subject to change

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No person has been authorized to give information or to make any representation other than those contained in this Official Statement; and, if given or made, such other information or representations must not be relied upon as having been authorized by the Authority. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy, nor shall there be any sale of the Series 2007B Bonds offered hereby by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. Any information, estimates and/or expressions of opinion herein are subject to change without notice. The delivery of this Official Statement at any time does not imply that information herein is correct as of any time subsequent to its date.

This Official Statement is not to be construed as a contract with the purchaser(s) of the Series 2007B Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts.

The information set forth herein has been obtained from the Authority and other sources that are believed to be reliable, but the accuracy or completeness of the information is not guaranteed by the Authority or the Underwriters.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
General	1
The Authority and the System	1
Continuing Disclosure Undertaking	2
Miscellaneous	2
DESCRIPTION OF THE SERIES 2007B BONDS	3
General	3
Optional Redemption	3
Mandatory Sinking Fund Redemption	3
Notice of Redemption and Method of Selection	4
Book-Entry Only Bonds	4
Authorization for and Validation of the Series 2007B Bonds	5
ESTIMATED SOURCES AND USES OF PROCEEDS OF THE SERIES 2007B BONDS	5
PLAN OF REFUNDING	5
SECURITY FOR THE SERIES 2007B BONDS	6
Limited Obligations	6
Pledge of Indenture	6
The Contract	6
Outstanding Bonds	7
Reserve Fund	8
Additional Indebtedness	9
Flow of Funds	10
THE SALES TAX	11
General	11
Rate of Tax Levy	11
Collection of Sales Tax	11
Historical and Projected Sales Tax Revenues	12

OFFICIAL STATEMENT

\$404,000,000*

***METROPOLITAN ATLANTA RAPID TRANSIT AUTHORITY (Georgia)
Sales Tax Revenue Bonds
(Third Indenture Series)
Refunding Series 2007B***

INTRODUCTION

General

The purpose of this Official Statement, which includes the cover page, inside cover page and the appendices hereto, is to set forth information in connection with the issuance by the Metropolitan Atlanta Rapid Transit Authority (the "Authority") of its \$404,000,000* Sales Tax Revenue Bonds (Third Indenture Series), Refunding Series 2007B (the "Series 2007B Bonds"). The Series 2007B Bonds are being issued pursuant to a Trust Indenture dated as of October 1, 2003, as amended by a First Supplemental Trust Indenture dated as of December 1, 2004, a Second Supplemental Trust Indenture dated as of April 1, 2005, a Third Supplemental Trust Indenture dated as of June 1, 2005, a Fourth Supplemental Trust Indenture dated as of March 1, 2007 and a Fifth Supplemental Trust Indenture dated as of September 1, 2007 (collectively, the "Indenture"), each by and between the Authority and U.S. Bank National Association (as successor to SunTrust Bank), as trustee (the "Trustee"), and a resolution adopted by the Authority on September __, 2007 (the "Bond Resolution").

U.S. Bank National Association is Bond Registrar (the "Registrar"), Paying Agent (the "Paying Agent") and Authenticating Agent (the "Authenticating Agent") with respect to the Series 2007B Bonds, and has a corporate trust office located in Atlanta, Georgia. Certain capitalized terms used in this Official Statement and not otherwise defined herein have the meanings set forth in Appendix C attached hereto.

The Authority and the System

The Authority is a public body corporate and joint public instrumentality of the City of Atlanta ("Atlanta"), Fulton County ("Fulton"), DeKalb County ("DeKalb"), Cobb County ("Cobb"), Clayton County ("Clayton") and Gwinnett County ("Gwinnett"), Georgia, created and existing under the laws of the State of Georgia (the "State") including the Metropolitan Atlanta Rapid Transit Authority Act of 1965 (Ga. Laws 1965, p. 2243), as amended (the "Act"), and a 1964 Amendment to the Georgia Constitution (Ga. Laws 1964, p. 1008). The Authority was created for the purposes of planning, constructing, financing and operating a rapid transit system (the "System").

Pursuant to the Act, the Authority, Atlanta, Fulton, DeKalb, Clayton and Gwinnett entered into a Rapid Transit Contract and Assistance Agreement dated as of September 1, 1971 (as amended, the "Contract"). Fulton and DeKalb, which include all of Atlanta within their boundaries, approved the Contract pursuant to 1971 referenda. Under the terms of the Contract, Fulton and DeKalb are obligated to levy a retail sales and use tax for rapid transit purposes (the "Sales Tax") in consideration of the Authority's undertaking to acquire, construct, improve, operate and maintain the System. Atlanta agreed to assist in the development of the System through the dedication of public rights of way, the exercise of the power of eminent domain and other acts of assistance but has not pledged any tax. Clayton and

* Preliminary, subject to change

Gwinnett, pursuant to 1971 referenda, did not approve the Contract and have pledged no tax or other revenues to the Authority. The Contract did not become and is not binding on Clayton and Gwinnett. With respect to additional information relating to the Authority, see "THE AUTHORITY AND THE SYSTEM" herein.

The System and its development are based upon a plan developed by the Authority in 1971, as amended from time to time. The System has as its major components a fixed rail transit system and a bus system providing both local and express bus service. The Authority presently has approximately 559 buses with which it renders extensive bus service throughout Fulton and DeKalb and limited service into Clayton, Gwinnett and Cobb. Fixed rail passenger service, which was inaugurated in June 1979, is presently operated over 47.6 miles of East-West and North-South Lines with 38 stations in Fulton and DeKalb. As presently contemplated under the Authority's development plan, the fixed rail portion of the System will ultimately consist of 60 miles of double track with 45 stations. See "THE AUTHORITY AND THE SYSTEM-The Rapid Transit System" herein.

Continuing Disclosure Undertaking

As described herein under "CONTINUING DISCLOSURE UNDERTAKING," the Authority has agreed to certain covenants designed to assist the Underwriters in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission (the "SEC") pursuant to the Securities Exchange Act of 1934, as amended ("Rule 15c2-12").

Miscellaneous

This Official Statement contains information only as of its date, and the information contained herein is subject to change. This Official Statement contains brief descriptions of the System, the Sales Tax, the Series 2007B Bonds, the Indenture and the Contract. All references and summaries of all documents referred to herein do not purport to be comprehensive or definitive and are qualified by reference to all such documents for full and complete statements of the terms thereof. Copies of the Indenture and the Contract may be obtained from the Trustee at the following address: U.S. Bank National Association, 1349 W. Peachtree Street, N.W., Two Midtown Plaza, Suite 1050, Atlanta, Georgia 30309, Attention: Corporate Trust.

This Official Statement contains forecasts, projects and estimates that are based upon current expectations but are not intended as representations of fact or guarantees of results. If and when included in this Official Statement, the words "expects," "forecasts," "projects," "intends," "anticipates," "estimates" and analogous expressions are intended to identify forward-looking statements as defined in the Securities Act of 1933, as amended, and any such statements inherently are subject to a variety of risks and uncertainties which could cause actual results to differ materially from those contemplated in such forward-looking statements. These forward-looking statements speak only as of the date of this Official Statement. The Authority disclaims any obligation or undertaking to release publicly any updates or revisions of any forward-looking statement contained in this Official Statement to reflect any change in the Authority's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

This introduction is subject in all respects to more complete information contained in this Official Statement. This introduction is only a brief description and a full review should be made of this entire Official Statement, as well as of the documents summarized or described herein.

DESCRIPTION OF THE SERIES 2007B BONDS

General

The Series 2007B Bonds will bear interest at the rates per annum and mature on the dates and in the principal amounts set forth on the cover page of this Official Statement. The Series 2007B Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof. The Series 2007B Bonds will be dated as of their date of delivery. Interest on the Series 2007B Bonds will be payable semiannually on each January 1 and July 1 (each, an "Interest Payment Date"), commencing on January 1, 2008. When the Series 2007B Bonds are no longer in the book-entry only system, interest will be paid to the owner of each Series 2007B Bond as shown on the registration books kept by the Registrar as of the Regular Record Date (*i.e.*, the June 15 or December 15 next preceding the applicable Interest Payment Date) by check or draft mailed to such registered owner at such owner's address as it appears on the registration books of the Registrar or at such other address as is furnished in writing to the Registrar; provided, however, that at the option of any owner of at least \$1,000,000 of Series 2007B Bonds, payment will be made by wire transfer. Principal of and premium, if any, on the Series 2007B Bonds are payable when due, upon surrender of the Series 2007B Bonds at the principal office of the Paying Agent, in lawful money of the United States of America. See "-Book-Entry Only Bonds" herein.

The Registrar maintains books for the registration and transfer of Series 2007B Bonds. The Trustee and the Authority may deem and treat the person in whose name a Series 2007B Bond is registered on the registration books maintained by the Registrar as the absolute owner thereof for all purposes. When the Series 2007B Bonds are no longer in the book-entry only system, the Series 2007B Bonds are transferable by the owner thereof in person or by such person's duly appointed attorney, upon surrender for transfer at the principal office of the Registrar, as Authenticating Agent. Series 2007B Bonds may be exchanged at the principal office of the Registrar for a like aggregate principal amount of Series 2007B Bonds of like maturity and interest rate. See "-Book-Entry Only Bonds" herein.

No charge will be made for exchange or transfer of the Series 2007B Bonds, except the Authority or the Registrar may make a charge sufficient to reimburse it for any tax or other governmental charge required to be paid with respect to such exchange or transfer. The Registrar will not be required to transfer or exchange any Series 2007B Bond (i) during a period of 15 days next preceding any Interest Payment Date for such Series 2007B Bonds, (ii) during the 15 days immediately preceding the date of mailing of notice of redemption of Series 2007B Bonds or (iii) at any time following the mailing of any such notice in the case of Series 2007B Bonds selected for redemption.

Optional Redemption

The Series 2007B Bonds are subject to redemption prior to maturity at the option of the Authority, in whole or in part at any time, on or after July 1, 2017, and in integral multiples of \$5,000 from any moneys available therefor, at a redemption price of 100% of the principal amount of Series 2007B Bonds or portions thereof to be redeemed, plus accrued interest to the redemption date.

Mandatory Sinking Fund Redemption

The Series 2007B Bonds are being sold at public sale by the Authority. See "UNDERWRITING" herein. At the bidder's option, two or more consecutive maturities of the Series 2007B Bonds may be designated as "Term Bonds" and subject to mandatory sinking fund redemption in principal amounts equal to the Series 2007B Bonds which would have matured in those years.

The Series 2007B Bonds maturing on July 1, 20__ are subject to mandatory sinking fund redemption in part from time to time prior to maturity on July 1 of the years and in the principal amounts

indicated below, without a premium, plus accrued interest to the redemption date (the 20__ amount to be paid rather than redeemed):

<u>Year</u>	<u>Principal Amount</u>
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Notice of Redemption and Method of Selection

Notice of redemption will be given by first-class mail not less than 30 nor more than 60 days prior to the redemption date to each registered owner of the Series 2007B Bonds called for redemption at the address shown on the registration books maintained by the Registrar. If notice of redemption has been given as described above and if payment of the redemption price has been duly provided for on the redemption date, then interest on such Series 2007B Bonds will cease to accrue, and the owners of such Series 2007B Bonds will have no rights with respect to such Series 2007B Bonds, and the owners of such Series 2007B Bonds shall have no rights under the Indenture except to receive payment of the redemption price and unpaid interest accrued to the redemption date.

If less than all of a maturity of the Series 2007B Bonds is to be redeemed, the particular Series 2007B Bonds or portion of Series 2007B Bonds will be redeemed in order of maturity selected by the Authority and by lot within a maturity.

Book-Entry Only Bonds

The information concerning The Depository Trust Company ("DTC"), New York, New York, and the book-entry only system set forth below and in Appendix E attached hereto has been obtained from DTC. The Authority makes no representation or warranty regarding the accuracy or completeness of such information.

The Series 2007B Bonds initially will be delivered in the form of fully registered, book-entry only bonds. Upon initial delivery, the ownership of the Series 2007B Bonds will be registered in the registry books kept by the Registrar in the name of Cede & Co., as nominee of DTC, which will act as the initial securities depository for the Series 2007B Bonds (the "Bond Depository") with respect to the Series 2007B Bonds, under a book-entry only system. Purchasers of the Series 2007B Bonds (the "Beneficial Owners") will not receive certificates representing their interest in the Series 2007B Bonds. Purchases of beneficial interests in the Series 2007B Bonds will be made in book-entry only form in authorized denominations by credit to participating broker-dealers and other institutions on the books of DTC. Principal of and interest on the Series 2007B Bonds will be payable by the Paying Agent directly to DTC as the registered owner thereof. Disbursement of such payments to the DTC Participants (as defined hereinafter) is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of DTC Participants and Indirect Participants (as defined hereinafter), as more fully described herein. Any purchaser of beneficial interests in the Series 2007B Bonds must maintain an account with a broker or dealer who is, or acts through, a DTC Participant to receive payment of the principal of and interest on such Series 2007B Bonds. For a description of the book-entry only system, DTC and the payment of principal of and interest on the Series 2007B Bonds in the book-entry only system, see Appendix E, "DESCRIPTION OF BOOK-ENTRY ONLY SYSTEM" attached hereto.

Authorization for and Validation of the Series 2007B Bonds

The Series 2007B Bonds are being issued under and pursuant to the Act, the Contract, the Indenture and the Bond Resolution. The Act requires that the Authority's bonds be confirmed and validated in accordance with the Georgia Revenue Bond Law. Proceedings were instituted in the Superior Court of Fulton County, Georgia, and such Court entered orders on February 16, 2004 and January 3, 2007, respectively, confirming and validating the hereinafter defined Bonds, including the Series 2007B Bonds, and the security therefor. Georgia law provides that the judgment of the Superior Court of Fulton County, Georgia, validating the issuance of the Bonds and the security therefor, shall be forever conclusive as to the validity of the Bonds and the security therefor against the Authority and any municipality, county, authority, subdivision, instrumentality or department of the State which is contracting with the Authority and which is a party to the validation proceedings.

ESTIMATED SOURCES AND USES OF PROCEEDS OF THE SERIES 2007B BONDS

The following table presents the estimated sources and uses of funds of the Series 2007B Bonds:

Sources:

Par Amount of Series 2007B Bonds
[Plus/Less] Net Original Issue [Premium/Discount]
Plus Sinking Fund Moneys for Series 2004 Notes

Total Sources

Uses:

Escrow Account
Interest Account of Bond Fund
Costs of Issuance¹

Total Uses

¹ Includes legal fees, financial advisory fees, underwriter's discount, printing costs and a premium for the Series 2007B Reserve Fund Policy.

PLAN OF REFUNDING

A portion of the proceeds of the Series 2007B Bonds will be used for the purpose of refunding all of the Authority's its Sales Tax Revenue Commercial Paper Bond Anticipation Notes (Third Indenture Series), Series 2004A in an aggregate principal amount not to exceed \$200,000,000 (the "Series 2004A Notes") and its Sales Tax Revenue Commercial Paper Bond Anticipation Notes (Third Indenture Series), Series 2004B in an aggregate principal amount not to exceed \$200,000,000 (the "Series 2004B Notes" and together with the Series 2004A Notes, the "Series 2004 Notes").

The Series 2004 Notes were issued on December 2, 2002 for the purpose of providing funds to finance certain construction and developments costs incurred in connection with the extension of the System and to pay certain costs of issuance. The Series 2004 Notes to be refunded are scheduled to mature in October 2007 through and including December 2007.

To refund the Series 2004 Notes, a portion of the proceeds of the Series 2007B Bonds, together with certain other moneys provided by the Authority as described in the hereinafter defined Escrow Agreement, will be used to purchase direct obligations of, or obligations which are unconditionally

guaranteed by, the United States of America (the "Defeasance Securities"). The principal of and interest on the Defeasance Securities, when due, will be sufficient to pay, when due, the principal of (upon redemption) and interest on the Series 2004 Notes. The Defeasance Securities will be deposited with the Trustee and will be held in trust and utilized by the Trustee in accordance with the provisions of a Refunding Escrow Agreement, to be entered into between the Trustee (as trustee under the Indenture and as Escrow Agent) and the Authority (such Refunding Escrow Agreement being herein referred to as the "Escrow Agreement"). Such deposits will be made into the Escrow Account (the "Escrow Account") created under the Escrow Agreement. Upon such deposit, which will be made upon the delivery of the Series 2007B Bonds, the Series 2004 Notes will be deemed paid and no longer outstanding under the Indenture.

The Series 2004 Notes will be paid as such Series 2004 Notes mature in October 2007 through and including December 2007 in an amount equal to the principal amount thereof plus accrued interest to each maturity date.

SECURITY FOR THE SERIES 2007B BONDS

Limited Obligations

The Series 2007B Bonds are limited obligations of the Authority payable solely from and secured by a pledge of and third priority lien on receipts from Fulton and DeKalb under the Contract which are deposited with the Trustee. The Series 2007B Bonds do not constitute a debt of the State of Georgia or any city or county thereof. The Authority has no taxing power. The Authority has not pledged any revenue which it may derive from its operations or from any source other than the Sales Tax Receipts to the payment of the hereinafter described First Indenture Bonds, Second Indenture Bonds or the Bonds, including the Series 2007B Bonds. The Authority has made no pledge of, nor granted any security interest in, any property of the System for the benefit of the holders or owners of the First Indenture Bonds, the Second Indenture Bonds or the Bonds. The Series 2007B Bonds are subordinate in lien and right of payment to the hereinafter defined First Indenture Bonds and Second Indenture Bonds.

Pledge of Indenture

Under the Indenture, the Authority has pledged to the Trustee for the benefit of the owners of the Series 2007B Bonds and Bonds issued on a parity therewith, receipts from Fulton and DeKalb under the Contract, which consist primarily of the Sales Tax Receipts, after application of the Sales Tax Receipts in accordance with (i) the First Indenture for the benefit of the holders and owners of the First Indenture Bonds and (ii) the Second Indenture for the benefit of the holders and owners of the Second Indenture Bonds. See "SECURITY FOR THE SERIES 2007B BONDS—Outstanding Bonds" herein.

The Contract

Pursuant to the Contract and the Act, Fulton and DeKalb are obligated to levy the Sales Tax at the maximum rate permitted under the Act, which is currently the rate of 1% until June 30, 2047 and ½ of 1% from July 1, 2047 to and including April 24, 2057. See "THE SALES TAX" herein. The Contract currently expires on April 24, 2057. The obligations of Fulton and DeKalb under the Contract to make payments to the Authority from the levy of the Sales Tax are absolute and unconditional, and such payments are not to abate or be reduced for any reason, including damage or destruction to the System or interruption or stoppage of service. Fulton and DeKalb are not entitled under the Contract to exercise any right of setoff or any similar right with respect to such payments or to withhold any such payments because of any claimed breach of the Contract by the Authority or any other party thereto.

Outstanding Bonds

The Authority has previously issued its sales tax revenue bonds, in series designated alphabetically from "A" to "P" (the "First Indenture Bonds"). As of August 1, 2007, \$260,880,000 in aggregate principal amount of the First Indenture Bonds were outstanding.

The First Indenture Bonds were issued pursuant to a Trust Indenture dated as of January 1, 1976 (as amended and supplemented, the "First Indenture"). The trustee for the First Indenture Bonds is currently U.S. Bank National Association (the "First Indenture Trustee"). The First Indenture Bonds are secured by a first priority lien on and pledge of all amounts due from Fulton and DeKalb under the Contract, *i.e.*, the proceeds derived from the levy of the Sales Tax. The Authority has relinquished its right to issue additional sales tax revenue bonds under the First Indenture.

The Authority has previously issued (i) \$150,000,000 aggregate principal amount of Metropolitan Atlanta Rapid Transit Authority Sales Tax Revenue Bonds (Second Indenture Series) Series 1993A (the "Series 1993A Bonds"), (ii) \$100,000,000 aggregate principal amount of Metropolitan Atlanta Rapid Transit Authority Sales Tax Revenue Bonds (Second Indenture Series) Series 1994A (the "Series 1994A Bonds"), (iii) \$163,650,000 aggregate principal amount of the Metropolitan Atlanta Rapid Transit Authority Sales Tax Revenue Bonds (Second Indenture Series) Refunding Series 1996A (the "Series 1996A Bonds"), (iv) \$144,535,000 aggregate principal amount of Metropolitan Atlanta Rapid Transit Authority Sales Tax Revenue Bonds (Second Indenture Series) Refunding Series 1998A (the "Series 1998A Bonds"), (v) \$200,000,000 aggregate principal amount of Metropolitan Atlanta Rapid Transit Authority Sales Tax Revenue Bonds (Second Indenture Series) Series 1998B (the "Series 1998B Bonds"), (vi) \$100,000,000 aggregate principal amount of Metropolitan Atlanta Rapid Transit Authority Variable Rate Sales Tax Revenue Bonds (Second Indenture Series) Series 2000A (the "Series 2000A Bonds"), (vii) \$100,000,000 aggregate principal amount of Metropolitan Atlanta Rapid Transit Authority Variable Rate Sales Tax Revenue Bonds (Second Indenture Series) Series 2000B (the "Series 2000B Bonds" and together with the Series 2000A Bonds, the "Series 2000 Bonds"), (viii) \$34,900,000 aggregate principal amount of Metropolitan Atlanta Rapid Transit Authority Sales Tax Revenue Bonds (Second Indenture Series) Refunding Series 2001 (the "Series 2001 Bonds"), (ix) \$160,000,000 aggregate principal amount of Metropolitan Atlanta Rapid Transit Authority Sales Tax Revenue Bonds (Second Indenture Series) Series 2002 (the "Series 2002 Bonds") and (x) \$103,075,000 aggregate principal amount of Metropolitan Atlanta Rapid Transit Authority Sales Tax Revenue Bonds (Second Indenture Series) Refunding Series 2003A (the "Series 2003A Bonds" and together with the Series 1993A Bonds, the Series 1994A Bonds, the Series 1996A Bonds, the Series 1998A Bonds, the Series 1998B Bonds, the Series 2000A Bonds, the Series 2000B Bonds, the Series 2001 Bonds and the Series 2002 Bonds, the "Second Indenture Bonds"). The Series 1994A Bonds were refunded with the proceeds from the Series 1996A Bonds, and the Series 1996A Bonds were refunded with the proceeds of the Series 2006A Bonds (described below). The Series 1993A Bonds were refunded with the proceeds of the Series 2003A Bonds. The Series 1998B Bonds were refunded with the proceeds from the Series 2005A Bonds (described below). The Series 2001 Bonds have been paid. And the Series 2002 Bonds were refunded with the proceeds of the Series 2007A Bonds (described below). As of August 1, 2007, \$354,845,000 in aggregate principal amount of the Second Indenture Bonds were outstanding.

The Second Indenture Bonds were issued pursuant to a Trust Indenture dated as of March 1, 1993 (as amended and supplemented, the "Second Indenture") by and between the Authority and U.S. Bank National Association (as successor to SunTrust Bank), as trustee (the "Second Indenture Trustee"). The Second Indenture Bonds are secured by a second priority lien on and pledge of all amounts due from Fulton and DeKalb under the Contract. The Authority has relinquished its right to issue additional sales tax revenue bonds under the Second Indenture.

The Authority previously issued (i) its Sales Tax Revenue Commercial Paper Bond Anticipation Notes (Third Indenture Series), Series 2004A in an aggregate principal amount not to exceed \$200,000,000 (the "Series 2004A Notes") and its Sales Tax Revenue Commercial Paper Bond Anticipation Notes (Third Indenture Series), Series 2004B in an aggregate principal amount not to exceed \$200,000,000 (the "Series 2004B Notes" and together with the Series 2004A Notes, the "Series 2004 Notes"), (ii) \$190,490,000 aggregate principal amount of Metropolitan Atlanta Rapid Transit Authority Sales Tax Revenue Bonds (Third Indenture Series) Refunding Series 2005A (the "Series 2005A Bonds"), (iii) \$162,375,000 aggregate principal amount of Metropolitan Atlanta Rapid Transit Authority Sales Tax Revenue Bonds (Third Indenture Series) Refunding Series 2006A (the "Series 2006A Bonds") and (iv) \$145,725,000 aggregate principal amount of Metropolitan Atlanta Rapid Transit Authority Sales Tax Revenue Bonds (Third Indenture Series) Refunding Series 2007A (the "Series 2007A Bonds"). The Series 2004 Notes, the Series 2005A Bonds, the Series 2006A Bonds and the Series 2007A Bonds were issued pursuant to the Indenture. As of August 1, 2007, \$400,000,000 in aggregate principal amount of the Series 2004 Notes, \$190,490,000 in aggregate principal amount of the Series 2005A Bonds, \$163,890,000 in aggregate principal amount of the Series 2006A Bonds and \$145,725,000 in aggregate principal amount of the Series 2007A Bonds were outstanding. Currently, Moody's Investors Service and Standard & Poor's Ratings Group have assigned their municipal bond ratings of "Aa3" and "AA+," respectively, to the Series 2005A Bonds, the Series 2006A Bonds and the Series 2007A Bonds. The Authority may issue Bonds under the Indenture as described herein under "SECURITY FOR THE SERIES 2007B BONDS—Additional Indebtedness." The Series 2007B Bonds are issued and secured on a parity basis with the Series 2005A Bonds, the Series 2006A Bonds, the Series 2007A Bonds and any Bonds which may be issued under the Indenture in the future.

Reserve Fund

Pursuant to the terms of the Indenture, the Authority has established a Series 2007B Reserve Fund with respect to the Series 2007B Bonds which will be used to pay (to the extent of the funds therein) principal and interest falling due in any Bond Year to the extent amounts on deposit in the Bond Fund are insufficient therefor. The Series 2007B Reserve Fund secures the Series 2007B Bonds and, at the election of the Authority, may secure other Bonds for which the Reserve Fund Requirement is the same as the Series 2007B Reserve Fund Requirement for the Series 2007B Bonds. The Indenture permits the Authority to establish a Reserve Fund with respect to each other series of Bonds (or to have no Reserve Fund as to any such series of Bonds) and any amounts in such Reserve Funds will not be available to pay amounts due on the Series 2007B Bonds unless so provided upon the creation of such Reserve Fund.

The Indenture requires that the Authority maintain on deposit in the Series 2007B Reserve Fund an amount equal to the "Series 2007B Reserve Fund Requirement," which is equal to one-half of the Total Debt Service due in any Bond Year on the Series 2007B Bonds and any other Bonds outstanding and secured by the Series 2007B Reserve Fund.

The Indenture authorizes the Authority to obtain a surety bond in place of fully funding the Reserve Fund. See "THE INDENTURE—Revenues and Funds—*Reserve Fund*" in Appendix C attached hereto for matters concerning Reserve Fund Credit Facilities. Accordingly, application will be made to a bond insurer (the "Surety Provider") for a commitment to issue its Municipal Bond Debt Service Reserve Fund Policy with respect to the Series 2007B Bonds (the "Series 2007B Reserve Fund Policy"). The Series 2007B Reserve Fund Policy unconditionally guarantees the payment of that portion of the principal of and interest on the Series 2007B Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the Authority, provided that the aggregate amount paid under the Series 2007B Reserve Fund Policy may not exceed the maximum amount set forth in the Series 2007B Reserve Fund Policy, \$_____. The Surety Provider will make such payments to the Paying Agent on the later of the date on which such principal and interest is due or on the business day next following the day on which

the Surety Provider shall have received telephonic or telegraphic notice subsequently confirmed in writing or written notice by registered or certified mail from the Paying Agent of the nonpayment of such amount by the Authority. The term "nonpayment" in respect of a Series 2007B Bond includes any payment of principal or interest made to an owner of a Series 2007B Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final nonappealable order of a court having competent jurisdiction.

The Series 2007B Reserve Fund Policy is non-cancellable and the premium will be fully paid at the time of delivery of the Series 2007B Bonds. The Series 2007B Reserve Fund Policy covers failure to pay principal of the Series 2007B Bonds on their respective stated maturity dates, or dates on which the same shall have been called for mandatory sinking fund redemption, and not on any other date on which the Series 2007B Bonds may have been accelerated, and covers the failure to pay an installment of interest on the stated date for its payment. The Series 2007B Reserve Fund Policy shall terminate on the earlier of the scheduled final maturity date of the Series 2007B Bonds or the date on which no Series 2007B Bonds are outstanding under the Indenture.

The Series 2007B Reserve Fund Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

The Series 2007B Reserve Fund Policy will be held by the Paying Agent in the Bond Fund and is provided as an alternative to the Authority depositing funds equal to the Series 2007B Reserve Fund Requirement. The Series 2007B Reserve Fund Policy will be issued in the face amount equal to one-half of Total Debt Service for the Series 2007B Bonds, and the premium therefor will be fully paid by the Authority at the time of delivery of the Series 2007B Bonds.

Additional Indebtedness

The Authority may issue Additional Bonds on a parity with the lien of all Bonds currently outstanding under the Indenture, including the Series 2007B Bonds, upon satisfaction of certain terms and conditions described herein (see Appendix C, "THE INDENTURE--Additional Parity Bonds" attached hereto). These terms and conditions include delivery of a certificate of an Authority Representative that the estimated amounts to be received under the Contract (*i.e.*, Sales Tax Receipts) by the First Indenture Trustee, the Second Indenture Trustee and the Trustee in each Bond Year are at least equal to two times the aggregate amount of Total Debt Service which will become due during each corresponding Bond Year on the Bonds, the First Indenture Bonds and the Second Indenture Bonds. Such certificate must cover a period of at least 15 Bond Years and must be based on an opinion of a Consultant as to the estimated amounts to be received under the Contract. The Authority may, without meeting this requirement, issue Bonds to refund any Bonds, First Indenture Bonds or Second Indenture Bonds so long as following the refunding, Debt Service on the Bonds, the First Indenture Bonds or the Second Indenture Bonds, if applicable, is not increased in any Bond Year or if all outstanding Bonds, First Indenture Bonds or Second Indenture Bonds, as the case may be, are being refunded. In addition, without meeting the tests prescribed under the Indenture for the issuance of parity obligations, the Authority may issue additional obligations junior to the lien created by the Indenture as described in Appendix C under "THE INDENTURE--Other Obligations; Subordinate Indebtedness."

The Authority has an ongoing capital program which necessitates the issuance of revenue bonds by the Authority. The Authority has no plans to issue additional revenue bonds for its capital program prior to the end of the fiscal year ending June 30, 2011 other than (1) the Series 2007B Bonds, (2) up to \$400 million of commercial paper notes, and (3) refunding revenue bonds for the purpose of realizing debt service savings.

Flow of Funds

Under the Contract, Fulton and DeKalb have agreed to cause the total Sales Tax Receipts to be paid to the Authority. The Sales Tax Receipts are collected by the Fiscal Division. See "THE SALES TAX—Collection of Sales Tax" herein. Pursuant to the terms of the Contract, Fulton and DeKalb have assigned their respective rights to receive the Sales Tax Receipts to the Authority and directed the State Treasurer, who acts through the Fiscal Division, to make such payments directly to the Authority.

Pursuant to the terms of the Indenture, the Authority has covenanted and agreed with the Owners of the Bonds that, so long as any Bonds issued thereunder remain Outstanding and unpaid, it will cause all revenues, amounts and sums to be paid to it under the Contract to be paid (i) directly by the Fiscal Division to the First Indenture Trustee for the account of the Authority, so long as there are First Indenture Bonds Outstanding under the First Indenture, to be used by the First Indenture Trustee for the payment of all principal of, premium, if any, and interest on the First Indenture Bonds under the First Indenture and such other amounts as are required to be paid under the First Indenture, (ii) directly by the First Indenture Trustee to the Second Indenture Trustee for the account of the Authority, so long as there are Second Indenture Bonds Outstanding under the Second Indenture, for deposit into the Revenue Fund established under the Second Indenture, for the payment of all principal of, premium, if any and interest on the Second Indenture Bonds and for the payment of such other amounts as are required to be paid under the Second Indenture and (iii) directly by the Second Indenture Trustee to the Trustee for the account of the Authority, so long as there are Bonds Outstanding under the Indenture, for deposit into the Revenue Fund, for the payment of all principal of, premium, if any and interest on the Bonds and for the payment of such other amounts as are required to be paid thereunder.

If there are no longer any First Indenture Bonds outstanding under the First Indenture, the Authority has covenanted to enter into an agreement with the Fiscal Division directing the Fiscal Division to make payments due the Authority under the Contract directly to the Second Indenture Trustee for the account of the Authority at the Principal Office of the Second Indenture Trustee. If there are no longer any Second Indenture Bonds outstanding under the Second Indenture, but First Indenture Bonds remain outstanding under the First Indenture, the Authority covenants to direct the First Indenture Trustee that such amounts will be paid directly by the First Indenture Trustee to the Trustee for the account of the Authority into the Revenue Fund for the payment of all principal of, premium, if any and interest on the Bonds and for the payment of such other amounts as are required to be paid under the Indenture. If there are no longer First Indenture Bonds outstanding under the First Indenture, nor Second Indenture Bonds outstanding under the Second Indenture, the Authority has covenanted to enter into an agreement with the Fiscal Division directing the Fiscal Division to make payments due the Authority under the Contract directly to the Trustee for the account of the Authority at the Principal Office of the Trustee. The Trustee will deposit all Contract payments it receives from the Fiscal Division, the First Indenture Trustee or the Second Indenture Trustee in the Revenue Fund.

The Trustee is required to deposit all Contract payments (*i.e.*, Sales Tax Receipts) it receives from the First Indenture Trustee, the Second Indenture Trustee or the Fiscal Division in the Revenue Fund established under the Indenture. Amounts on deposit in the Revenue Fund will be applied by the Trustee for the following purposes in the following order of priority:

- (i) to the respective accounts in the Bond Fund for the payment of the principal of, premium, if any, and interest due on the Bonds or to reimburse any Credit Provider for amounts paid under a Credit Facility for payment of the principal of, premium, if any, and interest due on the Bonds or to pay certain fees and expenses of the Trustee and the Paying Agent;

(ii) to the respective accounts in the Reserve Fund, to make up any deficiency in the Reserve Fund Requirement therein and to pay any amounts owed a Reserve Fund Credit Provider;

(iii) to the respective accounts in the Rebate Fund, the amounts required to be deposited therein under any Tax Agreement;

(iv) to such other fund, account or purpose as may be specified by the Authority in a Series Resolution or Supplemental Indenture or in a Certified Resolution; and

(v) to the General Fund of the Authority to be used for any purpose permitted by law.

To the extent there are insufficient amounts paid to the Trustee for deposit in the accounts created in the Bond Fund or the Reserve Fund, such amounts will be applied pro rata among all outstanding Series of Bonds according to the respective amounts of Debt Service on each such Series of Bonds accrued through the end of the current month.

THE SALES TAX

General

The Act authorizes Fulton and DeKalb to levy the Sales Tax upon the retail purchase, retail sale, rental, storage, use or consumption of tangible personal property and certain services rendered within the geographic boundaries of those counties, subject to certain exceptions. The Sales Tax is to correspond as nearly as practicable, except as to rate, with the State sales and use tax (the "State Sales Tax") levied pursuant to Article 1 of Chapter 8 of Title 48 of the Official Code of Georgia Annotated, as amended, and as it may from time to time be amended. As a result, the sales, uses and services subject to the Sales Tax are identical to those subject to the State Sales Tax, except that sales of tangible personal property ordered by and delivered to a purchaser outside the geographical area of Fulton or DeKalb are not subject to the Sales Tax regardless of the point at which title passes. A reciprocal credit is also allowed against the Sales Tax for any amounts paid pursuant to any local sales and use tax on tangible personal property purchased outside of Fulton or DeKalb. The State may modify the State Sales Tax at any time, which modifications may include the creation of additional exemptions from the State Sales Tax and, effectively, the Sales Tax. Such modifications may have an adverse effect on Sales Tax Receipts.

Rate of Tax Levy

Under the Contract, Fulton and DeKalb have agreed, during the term thereof, to levy the Sales Tax at the maximum rate permitted by the Act and to cause the Sales Tax Receipts to be paid to the Authority. Pursuant to the Act and the Contract, the Sales Tax is currently to be levied at the rate of 1% until June 30, 2047, and at a rate of ½ of 1% from July 1, 2047 to April 24, 2057.

Collection of Sales Tax

The Sales Tax is administered and collected by the Revenue Commissioner of the State (the "Revenue Commissioner") in the same manner as the State Sales Tax. The Sales Tax proceeds generally are required to be paid by retailers to the Revenue Commissioner on or before the 20th day of each month for the preceding month. Retailers are allowed, as a collection fee, a percentage of the amount of Sales Tax proceeds due to the Revenue Commissioner in the form of a deduction in paying the amount due if said proceeds are not delinquent at the time of payment. The rate of the deduction is the same as the rate from time to time authorized for deductions by retailers from the State Sales Tax. At the current time,

with respect to each certificate of registration number on a retailer's sales tax return, this rate of deduction is 3% of the first \$3,000 of the combined total amount of all sales and use taxes reported due on the return for each location and ½ of 1% of the portion exceeding \$3,000. An exception is made for sales and use taxes on motor fuel, where the rate of deduction is 3% of the combined total amount due of all such sales and use taxes.

The Revenue Commissioner is required pursuant to the Act to pay the Sales Tax Receipts to the State Treasurer (whose functions have been transferred to the Fiscal Division) for the credit of a special fund designated "Collection of Metropolitan Atlanta Rapid Transit Authority Taxes," and upon their receipt the Sales Taxes of Fulton and DeKalb are to be credited to their respective separate accounts within such special fund.

The Act requires the Fiscal Division, as soon as practicable after such monthly deposit into the State Treasury, to pay to Fulton and DeKalb the amount of their respective Sales Tax less 1% as a collection and administration fee. Fulton and DeKalb, under the Contract, have assigned all rights to the Sales Tax Receipts to the Authority and the Contract authorizes and directs the Fiscal Division to make such payments directly to the Authority. See "SECURITY FOR THE SERIES 2007B BONDS-Flow of Funds" herein for a description of the flow of Sales Tax Receipts to the First Indenture Trustee, the Second Indenture Trustee and the Trustee.

Historical and Projected Sales Tax Revenues

The collection of the Sales Tax in Fulton and DeKalb is dependent, among other things, on the general economic condition of those counties. The Authority has retained the Economic Forecasting Center, Georgia State University (the "Economic Forecasting Center"), to periodically submit to the Authority a report setting forth its projections of the Sales Tax Receipts to be received by the Authority from Fulton and DeKalb through the fiscal year ending June 30, 2038. The most recent report submitted to the Authority is dated August 17, 2007 (the "Report"). THE REPORT IS SET FORTH IN APPENDIX A AND SHOULD BE READ IN ITS ENTIRETY.

In preparing the Report, the Economic Forecasting Center based its projections on certain assumptions which are set forth in the Report. There can be no assurance that the assumptions with regard to future events will occur. If such assumptions are incorrect, actual Sales Tax Receipts may differ significantly from the projections contained in the Report. The Authority has included such projections in reliance upon the Economic Forecasting Center as experts, and the Authority does not warrant the accuracy or correctness of such projections.

The following table is derived from the Report and sets forth the actual Sales Tax Receipts received by the Authority for the fiscal years ended June 30, 1973 through June 30, 2007 and the estimated Sales Tax Receipts to be received by the Authority in the fiscal years ending June 30, 2008 through June 30, 2038.

***Actual and Estimated Receipts From Sales Tax
Fiscal Years Ended 1973-2007 and Ending 2008-2038
(Dollars in Thousands)***

Actual			Estimated		
Fiscal Year Ended June 30	Receipts	Percentage Change	Fiscal Year Ending June 30	Receipts	Percentage Change
1973	\$ 43,820	--	2008	\$ 360,711	3.3
1974	50,501	15.2	2009	375,949	4.2
1975	50,946	0.9	2010	394,603	5.0
1976	52,819	3.7	2011	417,673	5.8
1977	57,933	9.7	2012	443,202	6.1
1978	66,120	14.1	2013	469,121	5.8
1979	75,472	14.1	2014	496,847	5.9
1980	88,342	17.1	2015	519,991	4.7
1981	99,836	13.0	2016	532,435	2.4
1982	104,685	4.9	2017	547,138	2.8
1983	112,008	7.0	2018	578,043	5.8
1984	123,406	10.2	2019	610,074	5.5
1985	134,901	9.3	2020	643,004	5.4
1986	147,149 ⁽¹⁾	9.1	2021	678,668	5.5
1987	148,582	1.0	2022	707,748	4.3
1988	158,549	6.7	2023	724,412	2.4
1989	162,543	2.5	2024	743,408	2.8
1990	165,722	2.0	2025	779,158	4.8
1991	168,085	1.4	2026	816,128	4.7
1992	167,016	(0.6)	2027	852,983	4.5
1993	181,345	8.6	2028	890,495	4.4
1994	198,490	9.5	2029	922,962	3.8
1995	222,475	12.1	2030	948,203	2.7
1996	251,668	13.1	2031	972,737	2.6
1997	256,171	1.8	2032	1,012,027	4.0
1998	242,924	(5.2)	2033	1,061,059	4.8
1999	272,793	12.3	2034	1,115,228	5.1
2000	295,796	8.4	2035	1,168,733	4.8
2001	304,388	2.9	2036	1,227,190	5.0
2002	286,435	(5.9)	2037	1,274,830	3.9
2003	272,578	(4.8)	2038	1,309,826	2.7
2004	280,663	3.0			
2005	296,351	5.6			
2006	331,213	11.8			
2007	349,215	5.4			

1 Figure reflects first full year of exemption of prescription drugs from the Sales Tax.

SOURCES: Actual — Georgia Department of Revenue; Estimated — The Report prepared by the Economic Forecasting Center, attached as Appendix A.

DEBT STRUCTURE; DEBT SERVICE REQUIREMENTS

The table which follows sets forth in column (1) the Sales Tax Receipts, as estimated by the Economic Forecasting Center. Column (2) sets forth the debt service requirements on the outstanding First Indenture Bonds and the Second Indenture Bonds. Column (3) shows the debt service coverage on the First Indenture Bonds and the Second Indenture Bonds. Column (4) sets forth the debt service requirements on the outstanding Series 2005A Bonds, the outstanding Series 2006A Bonds and the

outstanding Series 2007A Bonds. Columns (5), (6) and (7) set forth, respectively, the principal, interest and total debt service of the Series 2007B Bonds. Columns (8) and (9) show, respectively, the combined debt service and estimated debt service coverage on the First Indenture Bonds, the Second Indenture Bonds and the Bonds. Reference is made to the Report, attached hereto as Appendix A, for a more detailed treatment of projections and the basis therefor.

ESTIMATED SALES TAX RECEIPTS, DEBT SERVICE REQUIREMENTS AND ESTIMATED DEBT SERVICE COVERAGE

Bond Year Ending July 1	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Estimated Sales Tax Receipts	Total Debt Service First Indenture Bonds and Second Indenture Bonds ⁽¹⁾	Debt Service Coverage First Indenture Bonds and Second Indenture Bonds ⁽¹⁾	Total Debt Service Series 2005A Bonds Series 2006A Bonds and Series 2007A Bonds	Series 2007B Bonds ⁽⁴⁾		Total Debt Service	Aggregate Debt Service All First Indenture Bonds, Second Indenture Bonds and Bonds ⁽²⁾⁽³⁾	Estimated Aggregate Debt Service Coverage
					Principal	Interest			
2008	\$ 360,711,000	\$ 85,092,974	4.24	\$ 26,533,813		\$ 15,865,189	\$ 15,865,189	\$ 127,491,975	2.83
2009	375,949,000	85,251,521	4.41	26,546,813		20,693,725	20,693,725	132,492,059	2.84
2010	394,603,000	85,374,334	4.62	26,546,063		20,693,725	20,693,725	132,614,121	2.98
2011	417,673,000	78,701,356	5.31	34,182,063		20,693,725	20,693,725	133,577,144	3.13
2012	443,202,000	46,125,469	9.61	51,167,813		20,693,725	20,693,725	117,987,006	3.76
2013	469,121,000	46,191,806	10.16	51,121,563		20,693,725	20,693,725	118,007,094	3.98
2014	496,847,000	46,254,856	10.74	51,076,313		20,693,725	20,693,725	118,024,894	4.21
2015	519,991,000	46,317,394	11.23	51,033,813		20,693,725	20,693,725	118,044,931	4.41
2016	532,435,000	46,354,975	11.49	51,020,563		20,693,725	20,693,725	118,069,263	4.51
2017	547,138,000	39,111,788	13.99	58,261,563		20,693,725	20,693,725	118,067,075	4.63
2018	578,043,000	39,301,350	14.71	58,180,313		20,693,725	20,693,725	118,175,388	4.89
2019	610,074,000	30,703,850	19.87	66,765,813		20,693,725	20,693,725	118,163,388	5.16
2020	643,004,000	30,807,025	20.87	66,749,813		20,693,725	20,693,725	118,250,563	5.44
2021	678,668,000	38,405,000	17.67	16,640,563		20,693,725	20,693,725	75,739,288	8.96
2022	707,746,000	38,605,000	18.33	16,653,588		20,693,725	20,693,725	75,952,313	9.32
2023	724,412,000	38,720,000	18.71	16,646,150		20,693,725	20,693,725	76,059,875	9.52
2024	743,408,000	39,050,000	19.04	16,562,988		20,693,725	20,693,725	76,306,713	9.74
2025	779,158,000	39,480,000	19.74	16,596,725		20,693,725	20,693,725	76,770,450	10.15
2026	816,128,000			16,630,013	\$ 25,460,000	20,693,725	46,153,725	62,783,738	13.00
2027	852,983,000			16,661,275	26,700,000	19,420,725	46,120,725	62,782,000	13.59
2028	890,495,000			16,693,938	28,000,000	18,085,725	46,085,725	62,779,663	14.18
2029	922,962,000			16,726,163	29,370,000	16,685,725	46,055,725	62,781,888	14.70
2030	948,203,000			16,761,113	30,805,000	15,217,225	46,022,225	62,783,338	15.10
2031	972,737,000			16,801,688	32,305,000	13,676,975	45,981,975	62,783,663	15.49
2032	1,012,027,000			16,850,525	33,870,000	12,061,725	45,931,725	62,782,250	16.12
2033	1,061,059,000				35,560,000	10,368,225	45,928,225	45,928,225	23.10
2034	1,115,228,000				37,430,000	8,501,325	45,931,325	45,931,325	24.28
2035	1,168,733,000				39,395,000	6,536,250	45,931,250	45,931,250	25.45
2036	1,227,190,000				41,465,000	4,468,013	45,933,013	45,933,013	26.72
2037	1,274,830,000				43,640,000	2,291,100	45,931,100	45,931,100	27.76
2038	1,309,826,000								
Total	<u>\$23,594,584,000</u>	<u>\$899,848,698</u>		<u>\$819,411,038</u>	<u>\$404,000,000</u>	<u>\$515,665,252</u>	<u>\$919,665,252</u>	<u>\$2,638,924,987</u>	

¹ Assumes 5.0% per annum interest rate on the Series 2000A Bonds and the Series 2000B Bonds. The average interest rate on the Series 2000A Bonds and the Series 2000B Bonds during the 24 month period ended June 30, 2007 was less than 5.0% per annum.

² Does not include debt service on the Series 2004 Notes.

³ For a description of the Authority's interest rate swap agreements, see Note 7 of the Authority's financial statements attached to this Official Statement as Appendix B.

⁴ Preliminary, subject to change. Assumes an average interest rate on the Series 2007B Bonds of 5.25% per annum.

THE AUTHORITY AND THE SYSTEM

The Authority was organized under the terms of the Act and a 1964 Amendment to the Georgia Constitution, as a public body corporate and joint public instrumentality of Fulton, DeKalb, Clayton, Gwinnett, Cobb and Atlanta for the purposes of planning, constructing, financing and operating the System. All such local governments, except Cobb, determined by referenda in 1965 to participate further in the Authority after the Act was passed by the General Assembly of Georgia in 1965. Only Fulton and DeKalb, which include all of Atlanta within their boundaries, subsequently elected by referenda in 1971 to participate in the financing of the System through the levy of the Sales Tax. Clayton and Gwinnett, pursuant to referenda, determined not to approve the Contract, and have therefore pledged no tax or other revenues to the Authority. Clayton and Gwinnett participate in the Authority only by membership on the Authority's Board of Directors. Pursuant to the terms of the Contract, Atlanta agreed to assist in the development of the System through the dedication of public rights of way, the exercise of power of eminent domain and other acts of assistance, but has not pledged any tax or other revenues.

The Authority is granted powers under the Act to accomplish the purposes for which it was created. The Authority has the exclusive right to determine the routes, types of construction, equipment, facilities, scope and standards of service to be operated by the Authority, scheduled services to be made available to the public and amounts to be charged therefor, subject only to the terms of the Contract. The Authority has no taxing power and has no power of eminent domain. Under the terms of the Contract, the acquisition of required property or rights or interests therein by eminent domain is to be accomplished by Atlanta, Fulton or DeKalb.

Organization and Management

Board of Directors. The government of the Authority is vested in a Board of Directors (the "Board") composed of 18 members. Three members are appointed by Fulton, five members by DeKalb, four members by Atlanta, and one member by each of Clayton and Gwinnett. In addition, the Commissioner of the State Department of Transportation, the Commissioner of the State Department of Revenue, the Executive Director of the State Properties Commission and the Executive Director of the Georgia Regional Transportation Authority serve as *ex officio* members of the Board. Members appointed to the Board serve for the terms of office specified below and until their respective successors are appointed and qualified. The names of the directors and the senior management of the Authority are listed below.

Walter L. Kimbrough, Interim Chair. Fulton; member since January 1, 2003; current term expires December 31, 2010; Pastor Emeritus, Cascade United Methodist Church.

Juanita Jones Abernathy, Secretary. Atlanta; member since January 1, 2002; current term expires December 31, 2007; semi-retired businesswoman.

J. Thomas Kilpatrick, Treasurer. DeKalb; member since July 1, 2004; current term expires December 31, 2007; Attorney, Alston & Bird LLP.

Gena Lester Abraham. State of Georgia; *ex officio* member since February 10, 2006; Executive Director, State Properties Commission.

Clara H. Axam. Atlanta; member since June 1, 2004; current term expires December 31, 2008; Project Director, The Enterprise Foundation.

Harold Buckley, Sr. DeKalb; member since September 10, 1985; current term expires December 31, 2010; Builder, developer and owner of Century 21 Precision Realty.

George E. Glaze. Clayton; member since April 1, 2004; current term expires December 31, 2008; Founder, Glaze Harris, Arnold & Mack P.C.

Bart L. Graham. State of Georgia; *ex officio* member since July 1, 2003; Commissioner, State Department of Revenue.

Barbara Babbitt Kaufman. Fulton; member since December 7, 2005; current term expires December 31, 2008; Businesswoman.

Gloria Leonard. Atlanta; member since January 1, 2003; current term expires December 31, 2009; semi-retired businesswoman.

Bruce E. LeVell. Gwinnett; member since July 19, 2005; current term expires December 31, 2007; Businessman.

Harold E. Linnenkohl. State of Georgia; *ex officio* member since October 1, 2003; Commissioner, State Department of Transportation.

JoAnn Godfrey McClinton. DeKalb; member since January 1, 2007; current term expires December 31, 2010; retired Legislator and businesswoman.

Mukesh Patel. DeKalb; member since January 1, 2003; current term expires December 31, 2010; President, Diplomat Hotel Corporation.

Steve Stancil. State of Georgia; *ex officio* member since October 1, 2003; Executive Director, Georgia Regional Transportation Authority.

Michael W. Tyler. Fulton; member since May 2, 2007; current term expires December 31, 2010; Attorney, Kilpatrick Stockton LLP.

Edmund J. Wall. DeKalb; member since January 1, 2002; current term expires December 31, 2009; former managing director of an investment banking firm.

J. Michael Walls. Atlanta; member since January 1, 2003; current term expires December 31, 2008; Attorney, Nakamura, Quinn & Walls, LLP.

Senior Management

Richard J. McCrillis, General Manager/CEO. As the Authority's General Manager/CEO, Mr. McCrillis directs the Authority's day-to-day business, including the management of a \$770 million annual budget and a staff of over 4,700 employees for the ninth largest transit system in North America. He also establishes the Authority's current and long-range objectives, implements policies and procedures, and represents the Authority with state and local governments, business and community organizations, and the general public. Mr. McCrillis joined the Authority in September 1985 as Treasurer. He was promoted to Assistant General Manager for Internal Audit in January 1993. In March 2002, he became Assistant General Manager for Finance and Chief Financial Officer. In January 2006, Mr. McCrillis was appointed Interim General Manager/CEO, and in September 2006, he was appointed General Manager/CEO. Prior to joining the Authority, Mr. McCrillis was the Chief Financial Officer of a large maritime transportation authority. He received a B.S. in Mathematics and an MBA in Finance from the University of New

Hampshire. He is also a certified Government Financial Manager and has over 25 years experience at the executive management level in finance. Mr. McCrillis' contract is scheduled to expire in September 2008. However, the Board announced on August 27, 2007 that it is moving forward with a search to find a new General Manager/CEO to succeed Mr. McCrillis now due to the tough competition among transit agencies for top managers.

Davis Allen, Assistant Manager, Finance and Chief Financial Officer. As the Assistant General Manager of Finance and Chief Financial Officer, Mr. Allen directs and controls all the Authority's activities in the area of financial management and related functions. Mr. Allen joined the Authority in 1989 as a Management Analyst, was later promoted to Manager of Budget Development and Control, followed by Director of Financial Management and Treasury Services. Before coming to the Authority, Mr. Allen held the position of Comptroller for Greyhound Corporation. Mr. Allen has a B.S. degree in Finance and Accounting from Savannah University and a MBA from Clark Atlanta University.

Richard P. Marsh, Senior Director of Treasury and Capital Programs and Treasurer. Mr. Marsh is responsible for providing the Authority support in the areas of business and financial analysis, ensuring the maximum yield for investments, developing the capital budget, grant management and Breeze card revenue settlement. Mr. Marsh joined the Authority in 1986 as the Authority's Capital Program Coordinator. Since joining the Authority, Mr. Marsh has held various managerial positions with responsibilities for the Authority's capital program. Prior to joining the Authority, Mr. Marsh held positions as a Management Consultant and an Industrial Engineer. Mr. Marsh received a B.S. degree in Industrial Engineering from the University of Tennessee.

Authority Employees

As of July 1, 2007, the Authority employed approximately 4,758 full and part-time employees, 2,996 of whom, including operators, certain maintenance, service and janitorial personnel and a portion of the clerical staff, are represented by Local Division 732 of the Amalgamated Transit Union, AFL CIO (the "Union"), for collective bargaining purposes as permitted by the Act. The current contract between the Authority and the Union was imposed by a DeKalb County Superior Court judge on February 24, 2006 for a term of three years after the parties sought a binding hearing before such judge.

Regulation and Supervision

The Metropolitan Atlanta Rapid Transit Overview Committee of the General Assembly of the State of Georgia ("MARTOC") was created in March 1973 for the purpose of periodically inquiring into and reviewing the operations, contracts, safety, financing, organization and structure of the Authority, as well as periodically reviewing and evaluating the success with which the Authority is fulfilling its responsibilities under the Act. To effect these purposes, MARTOC holds periodic meetings which frequently include presentations by Authority officers and staff members. MARTOC is required to submit an annual report to the General Assembly of its findings and recommendations based upon its review of the Authority's operations.

The membership of MARTOC includes the Chairman of the State Planning and Community Affairs Committee of the House of Representatives; the Chairman of the County and Urban Affairs Committee of the Senate; the Chairman of the Ways and Means Committee of the House; a member of the Senate Banking, Finance and Insurance Committee to be selected by the President of the Senate; two members of the House to be appointed by the Speaker thereof, at least one of whom must be from the area served by the Authority; two members of the Senate, to be appointed by the President thereof, at least one of whom must be from the area served by the Authority; and three members of the House and three members of the Senate to be appointed by the Governor, at least two of whom must be from the area

served by the Authority. MARTOC is not authorized to veto actions of the Authority or otherwise adopt regulations governing the operations of the Authority.

Pursuant to the Act, the Authority is exempt from regulation by the Georgia Public Service Commission, except that when any proposed action of the Authority, or any local government on behalf of the Authority, would place a railroad, public utility or public service corporation in violation of a Commission requirement, the Authority is required to obtain the Commission's approval of the proposed action.

Roles of Fulton, DeKalb and Atlanta

Pursuant to the terms of the Contract, Fulton, DeKalb and Atlanta have covenanted and agreed, upon written request from the Authority setting forth the need, in accordance with the engineering report dated September of 1971, as amended, prepared by the Authority's engineering consultants (the "Engineering Report"), to exercise as expeditiously as possible their power of eminent domain to acquire the property or rights or interests described in such request and, upon the acquisition of title thereto, to convey the property immediately to the Authority at cost, including costs relating to such acquisition; provided only that the exercise of such power by any party must be in accordance with both substantive and procedural requirements of the laws governing such party. Fulton, DeKalb and Atlanta also covenanted and agreed to convey, without cost to the Authority, any and all easements in, across, through and above public property as may be necessary or desirable to facilitate the acquisition, construction, improvement and efficient operation of the System, so long as the public use of such property for rapid transit purposes is superior to the existing or proposed public use of said property by the owner thereof. In addition, Fulton, DeKalb and Atlanta agreed, subject to certain restrictions, to close and modify streets, reroute traffic and to revoke and modify licenses and permits to third parties (all costs and damages in connection therewith to be paid by the Authority) and to issue, without cost, construction permits, licenses and other privileges to the Authority to the extent necessary in order to facilitate the acquisition, construction, improvement and efficient operation of the System.

Roles of Other Counties

Under the terms of the Contract and the Act, Clayton and Gwinnett may participate in the Authority with all rights and responsibilities of Fulton and DeKalb, provided that, among other things, the voters of Clayton and Gwinnett approve a rapid transit contract with the Authority, the Authority determines that no financial advantage over Fulton, DeKalb or Atlanta has accrued or will accrue to Clayton or Gwinnett, and any extensions of the System into Clayton or Gwinnett are approved in advance by Fulton, DeKalb and Atlanta in the manner set forth in the Contract. As required by the 1980 amendment to the Act which permits the establishment of a Clayton County-Atlanta Airport Public Transportation District, the Authority, Fulton, DeKalb and Atlanta have agreed that any rapid transit contract between Clayton and the Authority which requires Clayton to levy the sales tax throughout the territorial limits of Clayton will also provide for the extension of the System into Clayton to provide rapid transit services with Clayton on substantially the same basis that such services are provided or will be provided within Fulton and DeKalb, without the necessity of any payment being made by Clayton other than the proceeds of the sales and use tax levied throughout its territorial limits. Clayton has not acted to establish the district.

The Act provides that Cobb may participate in the Authority if it submits to its qualified voters the question of approval of a rapid transit contract between Cobb and the Authority. If a majority of those voting in the referendum vote to approve such rapid transit contract, such rapid transit contract will be deemed to be valid and binding. Cobb would then become a participant in the Authority, and its rights and responsibilities would, insofar as possible, be the same as if it had participated in the Authority from

the Authority's beginning and the local governing body of Cobb may then appoint two residents of Cobb to the Board of Directors of the Authority. Any extensions of the System into Cobb must be approved in advance by Fulton, DeKalb and Atlanta in the manner set forth in the Contract.

On November 6, 1990, the voters of Gwinnett voted not to approve a rapid transit contract between the Authority and Gwinnett. The Authority has not entered into a rapid transit contract with either Clayton or Cobb.

The Rapid Transit System

The Metropolitan Rapid Transit Plan (the "Plan"), adopted by the Board on August 9, 1971, structured the development of the System. The Authority and its participating local governments have approved eleven amendments to the Plan. The major components of the System as presently described in the Plan are a fixed rail system and a bus system providing both local and express bus service. The Authority operates and maintains eight major facilities. The Authority conducts most of its administrative services at the headquarters building in Atlanta. This headquarters building also houses the System's command, control and communications center. Transportation services and related support functions (including bus, rail car and paratransit maintenance, bus and paratransit vehicle dispatch, railway maintenance and building and ground maintenance) are performed at the remaining seven major facilities located throughout the Authority's service area.

Improvement of Bus System. The Atlanta Transit System, Inc., a privately owned bus company, was acquired in February 1972 by the Authority to provide extensive bus transportation services to the public in Fulton, DeKalb and a small portion of Clayton and Gwinnett Counties. Since that time, the Authority has continuously expanded and made significant improvements to its bus and paratransit fleets, bus maintenance facilities, and the entire fixed route system. These improvements included: a bus fleet of 609 air conditioned, low floor and/or lift equipped vehicles, 142 Americans with Disabilities Act compliant demand response paratransit vehicles and small buses, construction of a heavy maintenance facility and three operating garages, opening of several park and ride lots, expanding the service to over 120 different bus routes, adding an extensive system of patron bus shelters, and continually improving the system's bus schedule and information services.

Rail System. The Authority's rail system consists of 47.6 miles of operational double track and 38 fully functioning stations. The two newest stations, Sandy Springs and North Springs, were placed into revenue service in December 2000 and added 2.3 miles to the North Line. Three other stations, Buckhead, Medical Center and Dunwoody, were placed into service in June 1996. Ultimately, the Plan calls for a total of 60 miles of double track and 45 stations. A 1988 amendment to the Plan, which was passed by the participating local governments, added nine miles of track and five stations to the North Line. The Plan now calls for 12 aerial stations, 21 at-grade stations, 12 underground stations, 12 miles of aerial structure, 38 miles of at-grade structure and 10 miles of subway structure. The fixed rail system, which consists of steel-wheel trains, operates at speeds up to 70 m.p.h. on steel rails using an electrified "third rail" as the power source. The rail transit vehicle fleet consists of 338 air-conditioned vehicles operating as two vehicle trains, or any combinations of up to a maximum of eight vehicle trains. The rail system consists of three main trunk lines running east/west, north/south and northeast/south and a feeder line into the east/west line. The north/south and northeast/south trunk lines branch north of the Lindbergh Center Station into two lines with alternating trains going to Doraville on the northeast line and to North Springs on the north line. All main trunk lines intersect at the Five Points station located in Atlanta's downtown business district. Service on the main trunk lines will be supplemented with branch lines and planned busways.

The design and construction of the fixed rail system are divided into phases. Phase A consisted of the initial design and construction of the rail system and is a fully operational system. The purpose of the completed Phases B and C and each subsequent phase has been and will be to extend the operational capabilities of Phase A up to the full 60 miles presently contemplated under the Plan. See the map of the System on the inside back cover.

Phase A. Phase A is complete and is in full revenue service. Phase A consists of 13.7 miles of double track and 17 stations. Phase A included substantially all of the 10 miles of subway structure, which is the most costly portion of the fixed rail system, the central storage, repair and communications facilities located adjacent to the Avondale Station, and 100 rail transit vehicles.

Phase B. Phase B is complete and is in full revenue service. Phase B consists of 9.7 miles of double track and seven stations. Phase B also included the purchase of 86 rail transit vehicles.

Phase C. Phase C is complete and is in full revenue service. Phase C extended the Northeast Line 6.2 miles from Lenox to Doraville, adding the Brookhaven and Chamblee Stations, and extended the South Line 4.5 miles from Lakewood to the Airport, adding the East Point, College Park and Airport Stations. Phase C also included the purchase of 54 additional rail transit vehicles, the construction of the South Yard and Shops, and the Chamblee Vehicle Storage and Maintenance Facility.

Phase D. Phase D is complete and is in full revenue service. Phase D of the System added the 1.1 mile Proctor Creek Line and Bankhead Station, and extended the East Line 3.1 miles to the Indian Creek Station and includes Kensington Station; Phase D also extended the North Line 5.7 miles and added two additional Stations (Buckhead and Medical Center). Phase D also included the construction of two additional facilities on the east line of the System. These facilities included an intermodal facility located at the Decatur Station and a facility located at the Edgewood/Candler Park station which houses police, radio repair and backup computer systems.

Phase E. Phase E is complete and in full revenue service. Phase E added three stations and extended the rail system an additional 3.3 miles. The Dunwoody segment within Phase E was placed into service June 1996 and added 1.0 mile to the north line. Two additional stations, Sandy Springs and North Springs, were placed into revenue service in December 2000 and added an additional 2.3 miles to the north line. Phase E also added 56 vehicles to the fleet that is required for the operation of the North Line to North Springs. In connection with this expansion, the Authority procured 100 rail cars (56 rail cars as part of Phase E plus an additional 44 rail cars) which increased the number of rail cars in the Authority's fleet to 338 vehicles.

Rail Vehicle Fleet. At the inauguration of rail service on June 30, 1979, the rail fleet consisted of 20 cars. The Authority had 338 cars in revenue service as of December 31, 2006. To house and service the expanded fleet, the Authority constructed a major rail car maintenance, rehabilitation and storage facility which opened in 2006. The Armour Rail Yard facility is centrally located within the operating system just north of the Atlanta central business district on the Authority's North Line.

On-Time Performance. During the fiscal year ended June 30, 2007, rail on-time performance decreased to 89.7% from 90.0% in the immediately preceding fiscal year. Rail on-time performance is calculated as total scheduled trips minus "skips" divided by total scheduled trips, where skips equal the total of all lost trips and delays, and delays are defined as a deviation from the schedule greater than or equal to 25% of the scheduled time between trains. For the fiscal year ended June 30, 2007, bus on-time performance was 63.8% and paratransit on-time performance was 82.2%.

Ridership. Rail and bus ridership for the past five fiscal years has fluctuated as follows:

<i>Passengers (in millions)</i>			
<u>Year</u>	<u>Rail</u>	<u>Bus</u>	<u>Total (Unlinked)</u>
2003	71.9	70.9	142.8
2004	69.1	67.1	136.2
2005	71.0	71.1	142.1
2006	69.2	69.1	138.3
2007	77.7	69.8	147.5

Financing of the System

The Authority's present estimates of the final costs and payment completion dates of the various phases of the System and the amounts and timing of receipt of funds to pay the costs of the System are subject to change for various reasons, including changes in actual construction costs, changes in the scope of the System or its various phases, general economic conditions, and other reasons, which may be beyond the control of the Authority.

The Authority plans to finance the cost of future expansion of the fixed rail System primarily from federal grants, the proceeds of Bonds, amounts generated from the Sales Tax available for capital construction after meeting debt service on the First Indenture Bonds, the Second Indenture Bonds and the Bonds and the other requirements of the First Indenture, the Second Indenture, the Indenture and the Act, and investment income.

In order to provide a method for preventing cost overruns for all the phases of the System, the Authority's internal management procedures provide for automated reporting on a monthly basis of potential cost variances. A variance occurs when the costs incurred, plus the then-projected costs to complete, exceed the budgeted costs. Projected costs to complete are estimated by the Authority's engineering staff and are based on, among other things, the latest status of the construction in progress (taking into consideration the effect on costs of change orders, unexpected delays, or difficulties in construction). Unless appropriate corrective action is taken, the actual costs could exceed the most likely final cost by the amount of any such variance.

A \$10 million construction reserve was established to fund potential costs in excess of budget. This reserve was funded from available Sales Tax Receipts in fiscal years 1979-1981. The Authority intends to maintain this reserve for unexpected cost overruns on all remaining Phases of the System, or allot the moneys to further extensions of the System.

Additionally, the Authority has established a capital rehabilitation reserve of \$63.2 million and a real estate reserve of \$54.2 million. The Authority established these reserves over the course of several years from capital funds set aside and the proceeds received from the sale of excess real estate, respectively. Real estate sales proceeds continue to be placed into the real estate reserve. Interest earnings from these reserves will be available through December 2008 to subsidize operations. The \$118.2 million corpus of these reserves is currently unprogrammed and remains available to fund unanticipated capital needs.

Maturation of the System. Following the opening of the North Springs station, the Authority shifted its priorities from expansion of the System to maintenance of the System in a state of good repair.

This shift has resulted in the increased focus of capital resources on rehabilitation and replacement programs. Major efforts included in the capital plan include the following: a comprehensive track renovation program; the upgrade and replacement of the Authority's fare collection system; security enhancements; rail fleet expansion and replacement of rail cars; rehabilitation of the older rail car fleet; upgrade and/or replacement of communication systems for bus, rail, police, maintenance and other units; rail station and bus garage renovations and upgrades; and other rehabilitation and replacement programs necessary to keep the System in a state of good repair.

Sources of Payment of Operating Costs

Sales Tax Receipts not otherwise required for the payment of debt service on the First Indenture Bonds, the Second Indenture Bonds, the Bonds and other costs specified in the First Indenture, the Second Indenture and the Indenture are available to the Authority for various purposes, including operating costs of the System. The Act presently provides that no more than 55% of the Sales Tax Receipts can be used to subsidize operating costs of the System, exclusive of depreciation and amortization, until December 31, 2008, and for the period beginning January 1, 2009 until July 1, 2032, no more than 50% of the Sales Tax Receipts can be used to subsidize operating costs of the System, exclusive of depreciation and amortization, after which time no more than 60% of the annual Sales Tax Receipts may be used to subsidize the operating costs of the System, exclusive of depreciation and amortization. In addition, pursuant to the provisions of the Act, the Authority is required to adjust fares so that transit operating revenues received during a fiscal year equal or exceed 35% of the operating costs of the System, exclusive of depreciation and amortization, for the immediately preceding fiscal year. Further, commencing July 1, 2032, and for every year thereafter, the Sales Tax Receipts may not be used to subsidize operations of the System to an extent greater than 50% of the operating costs of the System, exclusive of depreciation and amortization.

If the results of any fiscal year's operations reflect that the Sales Tax Receipts were used to subsidize operations to an extent greater than permitted under the Act, the Authority is required to adjust fares, reduce service or take other appropriate action in order to recover the overage in operation's subsidy during a period of not to exceed three succeeding fiscal years. If the results of any fiscal year's operations reflect that transit operating revenues were less than 35% of the operating costs (exclusive of depreciation and amortization) for the immediately preceding fiscal year, as required by the Act, the Authority must establish fares and charges sufficient to make up the deficit in the immediately succeeding fiscal year. The Authority is required by the Act to operate within a balanced budget.

On July 1, 1995, the cash fare increased from \$1.25 to \$1.50. On January 1, 2001, the cash fare increased from \$1.50 to \$1.75. In October 2006, the Authority instituted a new fare media, the Breeze card system. This system is a "smart card" system that allows single fares, weekly and monthly passes as well as stored value capabilities. Discounted Breeze cards for students and half-fare cards for the elderly and the disabled will continue to be provided.

Federal Grants

The Authority has been the recipient and beneficiary of many federal grants, the proceeds of which have been used to fund costs of the System. The grants have been made to the Authority by the Federal Transit Administration (FTA), one of the operating agencies of the U.S. Department of Transportation.

Award of past, existing and future FTA grants for payments of portions of the costs of the System has been, is and will be contingent upon continued appropriation of funds for FTA by the Congress of the United States, continued compliance by the Authority with established FTA procedures for performing

alternative analysis and environmental studies on the benefits and impact of rail transportation service, and compliance with federal contracting procedures and directives as are promulgated by FTA on a periodic basis.

Phase A. FTA reviewed and approved Phase A, and provided approximately \$807.5 million in grants to the Authority for payment of a portion of the estimated \$1.144 billion cost of Phase A. Payment of all other costs of Phase A was provided from the proceeds of First Indenture Bonds, available Sales Tax Receipts and investment income.

Phase B. The Authority funded the \$583.5 million cost of Phase B from FTA funds in the amount of \$424.8 million, proceeds of First Indenture Bonds, available Sales Tax Receipts and investment income.

Phase C. The Authority received two approved FTA Section 3 grants with a combined federal share of \$133.6 million and two FTA Section 9 grants with a combined federal share of \$19.3 million for Phase C of the System. The Authority, in order to maintain the momentum of the rail development program, started construction of the North-South Line from Brookhaven to Chamblee, and from Lakewood-Ft. McPherson to the Airport prior to receiving authorization from FTA to incur costs in advance of appropriations. In doing so, the Authority was not eligible to receive federal financial participation on portions of Phase C. The Authority began revenue service from Chamblee to the Airport in June 1988, and revenue service on the remaining segment, Doraville, began in December 1992.

The total cost of Phase C was approximately \$669 million. The source of funds for these costs included proceeds of First Indenture Bonds, accumulated Sales Tax Receipts and investment income and 1985, 1986, 1987 and 1989 FTA grant funds.

Phase D. The Authority received an FTA Section 3 grant of \$133.3 million to complete the East Line extension to Indian Creek. The Bankhead segment and the two North Line segments were 100% locally funded. The Authority began revenue service from Ashby to Bankhead in December 1992 and from Avondale to Indian Creek in June 1993. Full revenue service for Phase D was achieved in June 1996 with the opening of the North Line to the Medical Center Station.

The total cost of Phase D was approximately \$471.1 million. The source of funds for these costs included grant funds, bonds and available Sales Tax Receipts and investment income.

Phase E. The Final Environmental Impact Statement for the North Line Extension Project from Medical Center through North Springs was approved by FTA in August of 1991. The Authority received an FTA Section 3 grant in the amount of \$92.2 million for engineering, design, right-of-way acquisition and construction of the \$118.1 million Dunwoody segment. The Dunwoody segment was placed in revenue service in June 1996. The final cost of the Dunwoody segment is approximately \$105.3 million.

In December 1994, the FTA entered into a Full Funding Grant Agreement (FFGA) with the Authority for the development of the North Line Extension from north of Dunwoody Station through North Springs Station. The scope of the FFGA as amended includes all activities necessary to achieve revenue service to Sandy Springs and North Springs stations, including detailed design and engineering, land acquisition, line and station construction and the acquisition of 56 additional heavy rail passenger vehicles. The total estimated cost of the Sandy Springs and North Springs segments, including the procurement of 56 additional rail cars, is \$463.2 million. The FFGA commits the FTA to provide a maximum Federal contribution of \$370.5 million to the project over a multi-year period. The Congress has appropriated and the Authority has received \$354.3 million for this project to date. The actual receipt of additional federal funds is contingent upon future annual Congressional appropriations.

The Sandy Springs and North Springs segments began revenue service in December 2000. The entire Phase E North Line Extension Project cost approximately \$568.5 million. Approximately 80% of the total cost of the North Line extension will be federally funded through FTA Section 5309 Discretionary Capital grants.

Completion of System

The ability of the Authority to construct the remainder of the System as described in the Plan and the timing of such construction is dependent upon the future availability of significant additional federal grant funds or other monies. Therefore, the final cost and final completion date for the entire System cannot be accurately projected at this time.

Future Federal Financial Assistance

The receipt from FTA of additional grants for the rail system is conditioned on, among other things, continued Congressional authorization and appropriation, the approval by FTA and the United States Department of Labor of the Authority's grant applications and any additional conditions which may exist from time to time. The Authority intends to compete vigorously for continued federal funds.

Congress appropriates funds for FTA Section 5309 capital grants annually. A large portion of these funds is earmarked within the appropriations bill for rail new-start projects throughout the United States. The remaining funds are allocated for fixed guideway modernization and bus related projects. Funds for fixed guideway modernization are distributed by formula, to rail systems that have been in operation for seven or more years. Funds for bus related projects are distributed at the discretion of the Congress and the United States Secretary of Transportation. For federal fiscal year 2007, the Authority received a distribution of \$32.1 million from the Section 5309 Congressional appropriation: \$31 million for rail modernization projects; \$900,000 for the purchase of buses; and \$200,000 for the procurement of an automated fare collection system. The Authority also received \$2.3 billion in Section 5308 clean bus funds. The Authority is entitled to receive additional federal funds for buses and bus facilities and expects to receive such funds in the near future.

Financial Procedures

In the Indenture, the Authority agrees to comply with the provisions of all pertinent laws which relate to its budget and budgetary procedures. The Authority has also agreed in the Indenture to prepare annually, in accordance with procedures and guidelines submitted by the chief financial or administrative officers of Fulton, DeKalb and Atlanta, a budget covering all of its financial programs, operations and expenditures of all funds received from any and all sources, including details with respect to all items of expense and revenues, including salary scales and fares, all capital expenditures to be made and all other relevant matters. Further, the Authority is required to have an annual audit prepared by independent public accountants within 120 days after the close of each fiscal year and to submit copies of the same to Fulton, DeKalb and Atlanta.

The Authority may not make any capital expenditures not approved in its annual budget, except those incidental to the initial acquisition, construction and improvement of the System or the expenditure of insurance proceeds or other expenditures required to be made to replace existing plant, facilities and equipment constituting a part of the System which may become damaged or destroyed.

Pension Plans

The Authority has pension and retirement plans covering substantially all full-time regular employees. All employees are included in one of four plans – (i) three single-employer defined benefit

pension plans, one for Union employees, one for non-Union employees and one for police officers and (ii) beginning in January 2005, a defined contribution pension plan for non-Union employees. The plans are funded by a combination of employee contributions and Authority contributions as follows:

	Employee Contribution (% of employee's income)	Authority Contribution (% of employee's income)
Defined Benefit Plans		
Represented Plan	2.40%	4.48%
Non-Represented Plan	5.00	18.00
Police Plan	6.50	18.00
Defined Contribution Plan		
Non-Represented Plan	6.00	3.00

The plans are qualified with the Internal Revenue Service. Total expenses for such plans, including amortization of unfunded accrued liabilities, were approximately \$17.1 million for the calendar year ended December 31, 2006. It is the Authority's policy to fund each year's accrued pension costs on an annual basis. The value of the assets of the Union and nonrepresented plans exceeded the actuarially computed present value of vested benefits of said plans as of June 30, 2007. During the past 12 months, the Authority's management has developed and implemented certain measures to ensure that all plans meet or exceed actuarially computed present value vested benefits as soon as possible. For more detailed information about the Authority's pension plans and other employee benefits, see Notes 9 and 10 to the Authority's financial statements attached to this Official Statement as Appendix B.

Cash Management Program

As of January 29, 2007, the Authority managed approximately \$364.5 million in general and reserve funds. The Authority's Investment Policy requires that all cash be invested in U.S. Treasury, U.S. Agency, or any instrumentality of the U.S., or State instruments, or in repurchase agreements or certificates of deposit collateralized by these securities.

Risk Management

The Authority is insured for public liability, automobile liability, occupational and non-occupational disability claims under a program which maintains various levels of self-insured retentions. Blanket replacement cost insurance is maintained for Authority property. Claims are paid with both operating and capital funds.

The Authority maintains a self-insured retention of \$5 million and purchases excess insurance above that which provides for catastrophic coverage. The Authority maintains a Consolidated (Wrap-Up) Insurance Program for its contractors and subcontractors involved in its major construction projects. In addition, various other coverages are purchased to protect the Authority's assets against internal loss.

LITIGATION

The Authority is a party to a number of arbitration and litigation matters relating to disputes with the Union, alleged breaches of contract, condemnation of real property, personal injuries allegedly arising out of the operation of the System, and alleged damages for injury to persons and property arising out of System construction. The outcome of these matters is not presently determinable; however, it is the opinion of the several counsel representing the Authority in the matters described in this paragraph, that

the ultimate result of these matters will not affect the validity of the Series 2007B Bonds or the security therefor. In the opinion of the several counsel representing the Authority in the matters described in this paragraph, the ultimate resolution of these matters will not materially adversely affect the financial position of the Authority.

CONTINUING DISCLOSURE UNDERTAKING

The Authority has covenanted that beginning with the fiscal year ending June 30, 2008, the Authority will provide or cause to be provided certain Annual Financial Information (as described below) to each Nationally Recognized Municipal Securities Information Repository ("NRMSIR") recognized by the SEC and to each state information depository, if any (an "SID," and collectively with the NRMSIRs, the "Repositories"). Such "Annual Financial Information" includes (1) the financial information and operating data with respect to the Authority of the type contained in this Official Statement under the captions "THE SALES TAX" and "DEBT STRUCTURE; DEBT SERVICE REQUIREMENTS" and (2) annual financial statements, prepared in accordance with generally accepted accounting principles, audited by a firm of independent certified public accountants, if available. If audited financial statements are not available, the Authority will supply unaudited financial statements by the due date set forth below, and provide audited financial statements as soon as practicable thereafter. Such information may be provided by cross-reference to documents previously provided to each Repository or filed with the SEC; provided, however, that if the document so referenced is a final official statement within the meaning of Rule 15c2-12, such final official statement must be available from the Municipal Securities Rulemaking Board (the "MSRB").

The Annual Financial Information will be provided to the Repositories on or before January 31 of each year. The currently existing Repositories are (a) Bloomberg Municipal Repository, 100 Business Park Drive, Skillman, New Jersey 08558; (b) DPC Data Inc., One Executive Drive, Fort Lee, New Jersey 07024; (c) Interactive Data Pricing and Reference Data, Inc., Attn: NRMSIR, 100 William Street, 15th Floor, New York, New York 10038; and (d) Standard & Poor's Securities Evaluations, Inc., 55 Water Street, 45th Floor, New York, New York 10041. As of the date of this Official Statement, no SID exists within the State of Georgia.

In addition, the Authority has covenanted to provide or cause to be provided, in a timely manner, to the MSRB and any SID, notice of any of the following events with respect to the Series 2007B Bonds, if such event is material:

- (1) Principal and interest payment delinquencies;
- (2) Nonpayment related defaults;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers or their failure to perform;
- (6) Adverse tax opinions or events affecting the tax-exempt status of the Series 2007B Bonds;
- (7) Modifications to rights of Series 2007B Bondholders;
- (8) Bond calls;
- (9) Defeasances;
- (10) Release, substitution or sale of property securing repayment of the Series 2007B Bonds; and
- (11) Rating changes.

The Authority has also covenanted to provide or cause to be provided, in a timely manner, to the MSRB and any SID, notice of any failure of the Authority to timely provide the Annual Financial Information.

The continuing disclosure undertakings described above are for the benefit of the beneficial owners of the Series 2007B Bonds (the "Bondholders") and are being made in order to assist the Underwriters in complying with SEC Rule 15c2-12. Unless otherwise required by law, no Bondholder or beneficial owner is entitled to damages resulting from the Authority's noncompliance with its continuing disclosure undertakings; however, Bondholders and beneficial owners may take action to require performance of such obligation by any judicial proceeding available. Breach of the continuing disclosure undertakings does not constitute an event of default under the Indenture and any rights and remedies provided in the Indenture in the event of default thereunder are not applicable to a breach of the continuing disclosure undertakings.

The continuing disclosure undertakings described herein with respect to the Authority will be in effect from and after the issuance and delivery of the Series 2007B Bonds and will extend to the earlier of (i) the date all principal, premium, if any, and interest on the Series 2007B Bonds shall have been paid or deemed paid pursuant to the terms of the Indenture, or (ii) the date on which those portions of Rule 15c2-12 which required the written undertaking are held to be invalid by a court of competent jurisdiction in a non-appealable action, have been repealed retroactively or otherwise do not apply to the Series 2007B Bonds.

The Authority's continuing disclosure undertakings may be amended from time to time without the consent of the owners of the Series 2007B Bonds if such amendment would not, in and of itself, cause the undertakings (or action of the underwriters of the Series 2007B Bonds in reliance on the undertakings herein) to violate Rule 15c2-12, as amended or officially interpreted from time to time by the SEC. The Authority will provide notice of such amendment to each Repository with its Annual Financial Information. The Authority has complied in all material respects with all of its prior continuing disclosure undertakings pursuant to Rule 15c2-12.

TAX EXEMPTION

In the opinion of King & Spalding LLP, Atlanta, Georgia and Howell & Associates, LLC, Atlanta, Georgia, Co-Bond Counsel, assuming continued compliance by the Authority with its covenants described below, interest on the Series 2007B Bonds is not includable in gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals or corporations; provided, however, with respect to corporations (as defined for federal income tax purposes) such interest is taken into account in determining adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on such corporations.

The opinions described above with respect to federal income taxation will be based on and will assume the accuracy of the factual representations and certifications made by the Authority and the continued compliance by the Authority with its covenants, with respect to, among other things, the use of the proceeds of the Series 2007B Bonds which are intended to evidence and assure that the Series 2007B Bonds are, and will remain, obligations the interest on which is excluded from gross income for federal income tax purposes. Co-Bond Counsel will not independently verify the accuracy of the representations and certifications. The inaccuracy of any such representations or noncompliance with such covenants may cause interest on the Series 2007B Bonds to become includable in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2007B Bonds.

Except as set forth above, Co-Bond Counsel express no opinion regarding other tax consequences arising with respect to the Series 2007B Bonds. Ownership of the Series 2007B Bonds may result in other collateral federal income tax consequences to certain taxpayers, including without limitation, banks, thrift institutions and other financial institutions, foreign corporations which conduct a trade or business in the United States, property and casualty insurance corporations, S corporations, individual recipients of social security or railroad retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Series 2007B Bonds. Purchasers of the Series 2007B Bonds should consult their tax advisers as to the applicability of any such collateral consequences.

Certain Series 2007B Bonds are being sold at prices in excess of the principal amount thereof. Under the Code, the excess of an owner's cost basis of a bond over the principal amount of such bond (other than a bond held as inventory, stock in trade or for sale to customers in the ordinary course of business) is generally characterized as "bond premium." For federal income tax purposes, bond premium is amortized over the term of the related bond. An owner will therefore be required to decrease its basis in such Series 2007B Bonds by the amount of amortizable bond premium attributable to each taxable year it holds such Series 2007B Bonds. The amount of amortizable bond premium attributable to each tax year is determined on an actuarial basis at a constant interest rate compounded on each interest payment date. The amortizable bond premium to a taxable year is not deductible for federal income tax purposes; however, an owner is required to amortize bond premium by offsetting part of the interest allocable to an accrual period with the bond premium allocable to the accrual period. Purchasers of such Series 2007B Bonds should consult their own tax advisors with respect to the precise determination for federal income tax purposes of the treatment of bond premium upon sale, redemption or other disposition of such Series 2007B Bonds.

In the opinion of Co-Bond Counsel, interest on the Series 2007B Bonds is exempt from present State of Georgia income taxation. Interest on the Series 2007B Bonds may or may not be subject to state or local income taxation in jurisdictions other than Georgia under applicable state or local laws. Each purchaser of the Series 2007B Bonds should consult his or her own tax adviser regarding the tax-exempt status of the interest on the Series 2007B Bonds in a particular state or local jurisdiction other than Georgia.

RATINGS

Moody's Investors Service and Standard & Poor's Ratings Group have assigned their municipal bond ratings of "____" and "____," respectively, to the Series 2007B Bonds. Any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing such rating. Generally, rating agencies base their ratings on the information and materials furnished to the agencies and on investigations, studies and assumptions by the agencies. There is no assurance that any such ratings will remain in effect for any given period of time or that they will not be lowered or withdrawn entirely if, in the judgment of the agency originally establishing the respective ratings, circumstances so warrant. Any such change in or withdrawal of such ratings could have a material adverse effect on the market price of the Series 2007B Bonds.

APPROVAL OF LEGAL PROCEEDINGS

Certain matters incidental to the authorization and issuance of the Series 2007B Bonds are subject to the approving opinion of King & Spalding LLP and Howell & Associates, LLC, Co-Bond Counsel. The form of opinion Co-Bond Counsel propose to render is attached hereto as Appendix D. Such opinion of Co-Bond Counsel will be printed on or attached to the Series 2007B Bonds. Certain legal matters will be passed upon for the Authority by counsel to the Authority, McKenna Long & Aldridge LLP, Atlanta, Georgia, and for the Underwriters by their counsel, Kilpatrick Stockton LLP, Atlanta, Georgia.

PROFESSIONAL CONSULTANTS

The Report of the Economic Forecasting Center, attached hereto as Appendix A, and the information from such Report contained herein, have been included in reliance upon the authority of such firm as experts.

Public Financial Management, Inc. and Pinnacle Investment Advisors, LLC serve as Co-Financial Advisors to the Authority in respect to the issuance of the Series 2007B Bonds.

INDEPENDENT AUDITORS

The financial statements of the Authority as of and for the years ended June 30, 2006 and 2005, attached hereto as Appendix B, have been audited by Cherry, Bekaert & Holland, L.L.P., Atlanta, Georgia, independent accountants, as indicated in its report dated October 16, 2006 with respect thereto. Cherry, Bekaert & Holland, L.L.P. has not examined, compiled or otherwise applied procedures to the Report prepared by the Economic Forecasting Center attached hereto as Appendix A and, accordingly, does not express an opinion or any other form of assurance on it. Cherry, Bekaert & Holland, L.L.P. has not examined, compiled or otherwise applied procedures to any financial statements of the Authority for any period after June 30, 2006. **The Authority has not requested or obtained the consent of Cherry, Bekaert & Holland, L.L.P. to the inclusion of its audit report dated October 16, 2006 in this Official Statement.**

VERIFICATION

The accuracy of the arithmetical computations of the adequacy of the maturing principal and interest earned on the Defeasance Securities in the Escrow Account, together with certain other moneys provided by the Authority as described in the Escrow Agreement, to pay the principal, premium and interest on the Series 2004 Notes as set forth in the Escrow Agreement, and the arithmetical computations supporting the conclusion of Co-Bond Counsel that the Series 2007B Bonds are not "arbitrage bonds" within the meaning of Section 148 of the Code will be verified by GrantThornton LLP, independent certified public accountants.

INTEREST OF NAMED EXPERTS AND COUNSEL

The payment of the fees and expenses of Public Financial Management, Inc. and Pinnacle Investment Advisors, LLC, Co-Financial Advisors, King & Spalding LLP and Howell & Associates, LLC, Co-Bond Counsel, and McKenna Long & Aldridge LLP, Authority's Counsel, is contingent on the issuance and sale of the Series 2007B Bonds.

UNDERWRITING

The Authority currently anticipates that the Series 2007B Bonds will be sold at competitive sale on September 10, 2007.

MISCELLANEOUS

The Authority has furnished all of the information in this Official Statement relating to the Authority.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

The distribution of this Official Statement has been duly authorized by the Authority.

**METROPOLITAN ATLANTA RAPID
TRANSIT AUTHORITY**

By _____
Interim Chair, Board of Directors

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APPENDIX A

**AUGUST 17, 2007 REPORT OF ECONOMIC
FORECASTING CENTER, GEORGIA STATE UNIVERSITY,
ECONOMIC CONSULTANTS**

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ECONOMIC FORECASTING CENTER

P.O. Box 3988
Atlanta Georgia 30302-3988
Office: 404-413-7260
Fax: 404-413-7264
Web: robinson.gsu.edu/efc



August 17, 2007

Mr. Richard Marsh
Director of Treasury Services/Treasurer
MARTA
2424 Piedmont Road, NE
Atlanta, GA 30324

Re: Sales Tax Projections for FY2008-FY2038

Dear Mr. Marsh:

Enclosed is our analysis of MARTA's sales and use tax revenues. Monthly projections are included from calendar years 2007 to 2013, quarterly projections are included for 2007q3 to 2014q4, and annual projections are included through 2038. In order to make these projections, we have used the Economic Forecasting Center's model to generate revenue estimates for MARTA's operating purposes.

Without a doubt, the U.S. economy has lost its momentum in the last six months. Oil prices are above \$70/bbl even though we have experienced no hurricane activity so far this season. Supply disruptions in Nigeria and Mideast geopolitical concerns, however, will keep prices from falling below \$60/bbl in the near future. The housing sector is clearly in serious trouble, and it would be premature to suggest when that trend will bottom out. Moreover, the housing woes may spill over to the rest of the economy. The second quarter GDP report already gave us a preview of this possibility when personal consumption spending grew by an anemic 1.3%. Add in the current stock market gyrations, tightening of mortgage credit standards, and less than stellar national job growth numbers, and all these factors make for a moderate growth scenario in the next six months.

The Bernanke-led Fed can cut interest rates to alleviate this situation in the coming months but seems reluctant to do so because the headline inflation number is on the higher side although the core inflation is moderating. Therefore, the Fed will most likely wait until its September meeting to make the necessary cuts in the Federal Funds rate, and then act only if it sees a clear indication that the spillover from housing is now hurting the economy. However, the Fed did intervene recently in the financial market (along with the European Central Bank and other

major central banks in the world) with extra open market operations, and a discount rate cut of 50bps to pump liquidity to the financial institutions that were suffering from the fallout in the subprime mortgage market.

In 2005, when Atlanta's economy added 69,700 jobs, approximately 40% of these came from three sectors--Retail trade, Education & Health and Leisure & Hospitality--that make up about one-third of the economy. These sectors' share of job creation was again 40% in 2006 when the job creation pace dropped slightly to 60,200. So what is the proportion in the last six months? 60%! I see a clearly unbalanced growth where these three sectors are now pulling twice their weight. Additionally, most of these jobs fall outside the category of premium wage jobs (those that pay above \$45,000). Therefore the current job growth also lacks in quality.

Going forward, one should not expect these three "star" sectors to substantially outperform other areas for long periods of time. The national slowdown will percolate to the regional level, which in turn will dampen retail and tourism activity. Additionally, we have our own local issues with which to contend. Delta, which emerged from bankruptcy in May, is beginning to add some jobs as it expands international operations. However, it faces the risk of losing business travelers as the national economy slows. Furthermore, it faces high jet-fuel costs that will cut into its nascent profitability. These two factors will limit Delta's future growth potential--limiting its ability to buy much needed new planes for international expansion. As a major corporate employer in the metro area, this limitation affects the area's growth performance.

Last quarter UPS announced its intention to do layoffs via attrition rather than new hires. If the U.S. consumer reduces consumption expenditures more than expected, which further reduces package volume, UPS might be forced to lay off workers outright. Home Depot already is making plans to cut back in response to the moderating housing market. News from other major corporations headquartered in Atlanta also is discouraging on the hiring front. In short, the large corporate sector will fail to lead in hiring as nervous CEOs watch to see how much the housing market slowdown will affect consumers.

The state's total tax revenue collections in FY 2007 grew by 7.5%, slightly lower than the 9.1% growth rate in FY 2006. However, sales tax collections tell another story. They grew by only 3.5% in FY 2007 compared to 8.5% growth in FY 2006. This sharp slowdown can be attributed to reduced construction activity as well as the pull back in consumer discretionary spending as gasoline prices remain high. Housing permit activity is moderating sharply in the metro area, indicating less future construction on the horizon, and many current commercial construction projects are nearing completion. The hotel occupancy report shows that although the occupancy numbers are still high, the growth in revenue per available room rate has vanished. Sales tax collections feel the impact of a softened travel and convention business market first.

In light of the current and expected future economic developments, our regression model predicts a modest 3.3% increase in ongoing tax collections for FY2008. This is a moderation from the 5.4% gain in tax collections for FY2007. As the Atlanta economy starts to pick up steam again in years 2008 and 2009, collections will increase at a slightly stronger pace of 4.2% in FY2009 and by 5.0% in FY2009. This pace of collections is maintained for the coming years as well.

The other assumptions behind the sales tax projections are as follows:

- The Federal Reserve will cut interest rates early in the 4th quarter of 2007 and by 1st quarter 2008 the Fed Funds rate will stand at 4.5%. For 2007, the 10-year bond will average 4.9%, increase to 5.2% for 2008 and rise to 5.4% in 2008.
- Oil prices are expected to remain between \$65 to \$70 a barrel in the 2007-2009 period.
- The US economy will moderate sharply from its strong 3.3% growth rate seen in 2006. Real GDP will grow by 2.1% in 2007, rebound to 2.6% in 2008 and grow by 3.0% in 2009.
- Job growth will average 123,000 job gains per month for 2007, 140,000 per month in 2008 and 155,000 for 2008. While these levels show a substantial decrease from 2005's pace of 180,000 monthly jobs, they reflect a healthy pace which will put minimal pressure on inflation.
- Atlanta's economy is expected to continue adding jobs although at a reduced pace from 2006, when it gained 60,200. Atlanta will gain 45,000 jobs in 2007, 54,200 jobs in 2008 and 62,800 jobs in 2008.

Sales Tax Model

We have used the same model that was used in our December 2005 30-year sales tax revenue report, as we have found it to be very accurate. The model in the last report forecasted a 10.1% increase for FY2006 and the actual sales tax revenue posted a 12.0% increase, a reasonably accurate range. The model is as follows:

$$\begin{aligned} \text{Price adjusted collections (000)} = & -20495.4 + 65.8 * \text{Lagged Metro Employment (000)} \\ & \quad (2.87) \quad (6.58) \\ & + 38.2 * \text{Season2} - 1114.0 * \text{Season3} - 1529.9 * \text{Season4} - 567.1 * \text{Time} \\ & \quad (0.03) \quad (0.85) \quad (1.17) \quad (3.52) \\ R^2 = & 0.87 \end{aligned}$$

Our forecasting equation models price-adjusted collections as a function of lagged metro area employment, a constant and a time trend, while controlling for the seasonal fluctuations of collections. The t-statistics of the estimated parameter values are in parentheses in the above equation. We chose to include a longer time frame for estimation as this makes the model more robust in terms of its predictive power, seen from the 0.87 r-square statistic, a very high number. The coefficient on the lagged employment variable is highly significant, with a t-statistic of 6.58. We used lagged employment values, as there is a lag in the sales tax collection and reporting procedure, and lagging the independent variable reconciles the timing issue. The simple logic is that salary payments today are for work yesterday, which then determines current consumption, and hence sales tax collection. The other variables retain their predictive power and the constant and time trend parameters are significant, with t – statistics of 2.87 and 3.52, respectively.

In our long-run forecast, we added near recessions at about 7-year intervals to reflect the cyclical characteristics of the economy. This approach may lead to errors in a single year in the

event of a recession, but the moderation followed by a return to trend growth rates should provide reasonable estimates of economic activity over time.

Quarterly Projections

The quarterly history and projections from calendar years 2005 to 2014 are listed in Table 1. Sales tax revenue is expected to post moderate growth in the coming quarters, and as the economy recovers in 2008 the sales tax revenue growth also recovers. The years 2009 to 2013 are closer to the normal growth range of 5-6%.

Table 1
QUARTERLY SALES TAX REVENUE
PERFORMANCE AND PROJECTIONS: 2005-2014
CALENDAR YEAR

<u>Quarter</u>	<u>Revenue</u> (000s)	<u>Quarter</u>	<u>Revenue</u> (000s)
2005:01	73,421	2010:01	100,297
2005:02	77,182	2010:02	101,206
2005:03	76,180	2010:03	101,238
2005:04	80,758	2010:04	102,335
2006:01	86,424	2011:01	106,076
2006:02	87,852	2011:02	108,023
2006:03	85,334	2011:03	107,993
2006:04	87,814	2011:04	108,898
2007:01	87,616	2012:01	112,469
2007:02	88,451	2012:02	113,842
2007:03	87,678	2012:03	113,918
2007:04	89,506	2012:04	115,094
2008:01	91,397	2013:01	119,013
2008:02	92,129	2013:02	121,096
2008:03	91,728	2013:03	121,125
2008:04	92,313	2013:04	122,096
2009:01	95,407	2014:01	125,749
2009:02	96,501	2014:02	127,876
2009:03	96,202	2014:03	127,502
2009:04	96,897	2014:04	128,054

**Source: Historical data provided by MARTA. Projections for 2007q3-2014 were based on the model explained earlier with an inflation rate superimposed on projections of real activity.*

Monthly Projections

Our monthly projections through 2013 are as follows:

Table 2

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
January	26,352,645	27,058,667	28,245,685	29,693,617	31,404,509	33,297,167	35,234,501
February	32,032,080	34,096,258	35,592,003	37,416,522	39,572,394	41,957,307	44,398,514
March	29,231,167	30,242,286	31,568,964	33,187,254	35,099,443	37,214,785	39,380,057
April	27,539,175	28,709,506	30,071,850	31,538,213	33,662,487	35,475,865	37,736,321
May	28,203,062	31,757,866	33,264,863	34,886,923	37,236,751	39,242,674	41,743,144
June	32,708,896	31,661,530	33,163,955	34,781,095	37,123,795	39,123,632	41,616,517
July	30,349,969	31,751,850	33,300,414	35,043,690	37,381,730	39,432,776	41,927,621
August	27,800,198	29,084,303	30,502,768	32,099,588	34,241,204	36,119,937	38,405,184
September	29,528,329	30,892,257	32,398,898	34,094,979	36,369,724	38,365,244	40,792,548
October	32,017,343	33,021,477	34,661,355	36,606,584	38,954,160	41,170,352	43,675,375
November	30,499,827	31,456,368	33,018,521	34,871,553	37,107,861	39,219,013	41,605,307
December	26,988,752	27,835,179	29,217,501	30,857,215	32,836,084	34,704,205	36,815,794

Modeling Tax Collections

Ideally, sales taxes would be related to changes in retail sales and to any tax base or tax rate changes that develop. Although further erosion of the base is possible if food exemptions are again legislated in the future, no base erosion has been assumed. No rate changes are expected in current projections.

One accepted approach would be to use standard economic relationships to estimate per capita sales after adjustment for inflation, apply estimates of population to convert those projections into retail sales, and then derive sales tax receipts by using some ratio to sales. Unfortunately, some of the variables that would be used to derive real per capita sales, such as wealth, are not easily available at the county level. Inflation-adjusted incomes for the county depend upon earnings, transfer payments, and property incomes. Income estimates are available historically by county. However, a model would be needed to project personal incomes before sales could be derived. Furthermore, population changes would be related to employment opportunities as well as residential selection within the metro area. Finally, taxable sales are not available by county and are no longer produced for the metro area.

In short, any model would need employment estimates to derive income and population estimates. These estimates then would be used to derive retail sales. Sales tax receipts then would be developed from retail sales projections. When all the steps are consolidated, employment becomes the basic determinant of net sales tax receipts. Therefore, a consolidated model that directly derives net sales tax receipts from employment was preferred to the development of a set of relationships, all of which depend upon employment projections.

Historically, employment for individual counties is available with a lag along with employment for the Atlanta MSA. However, a relatively consistent decay in employment shares for **MARTA** counties has developed in recent years. Therefore, a variable that incorporates this shifting share of Atlanta employment would be used in any projection model. Moreover, the Economic Forecasting Center at Georgia State University has been forecasting Atlanta employment since 1975 with some considerable degree of success. In order to exploit this metropolitan forecasting competence and capture the shifting shares of employment in Fulton and DeKalb, our forecasting model used Atlanta employment projections and a share-shifting time variable.

Once forecasts are derived for Atlanta employment, the model estimates real net sales tax receipts. An inflation factor must be included to gross up these sales to actual values. Our estimates of use taxes are then added to the sales tax receipts to determine total **MARTA** receipts.

Use taxes have continued to fall to only slightly more than the \$9 million in 1995. Instead of relating the use tax for Fulton and DeKalb to the use tax statewide, we chose to assume that avoidance would continue to drift upward, preserving the nominal value of use taxes at \$9 million. In the past three years, this assumption slightly understated use tax collections. Because sales tax estimates are so sensitive to inflation projections, forecasted values from Georgia State University's Forecast of the Nation were used to determine inflation through 2008, and the rest of the years were based on a special forecast prepared for the project. Finally, our forecasts of sales and use tax receipts correspond with June 30 fiscal years used by **MARTA**. Of course, economic conditions reflect calendar years.

Assumptions

The underlying assumptions of the model are the same as in past years. A detailed discussion of the structure of the model can be found in the report dated March 10, 2000 in the section entitled "Modeling Tax Collections."

- The assumptions about employment growth for 2007 to 2038 are contained in Table 3.
- Inflation is expected to remain relatively modest. The assumptions about inflation for 2007 to 2038 are contained in Table 4.
- No significant changes in boundaries, government structure, or state involvement in local government were assumed.
- No further changes in tax rates or base changes were assumed.
- Alternative tax changes in non-**MARTA** counties were not assumed to alter the metropolitan area shopping patterns.
- No government or resource-induced limits to growth were assumed in the projections.

- No additional counties were assumed to provide revenues to MARTA during the forecast period.

Table 3

**EMPLOYMENT HISTORY & PROJECTIONS FOR ATLANTA
1995-2038**

<u>YEAR</u>	<u>LEVEL</u>	<u>ANNUAL JOBS ADDED (5-YEAR AVG)</u>	<u>5-YEAR GROWTH RATE</u>
1995	1,877.7	54.2	3.2
2000	2,289.6	82.4	4.0
2005	2,338.3	9.7	0.4
2010	2,629.4	58.2	2.4
2015	2,995.1	73.1	2.6
2020	3,352.1	71.4	2.3
2025	3,675.4	64.7	1.9
2030	3,994.5	63.8	1.7
2035	4,427.5	86.6	2.1
2038	4,643.3	80.0	1.8

Table 4

**INFLATION HISTORY & PROJECTIONS
1970-2038**

<u>YEAR</u>	<u>LEVEL</u>	<u>FIVE YEAR GROWTH RATE</u>
1970	28.27	3.65
1975	38.43	6.33
1980	55.67	7.69
1985	71.55	5.15
1990	86.05	3.76
1995	97.89	2.61
2000	106.89	1.78
2005	119.18	2.20
2010	133.50	2.30
2015	148.12	2.10
2020	164.34	2.10
2025	180.55	1.90
2030	198.37	1.90
2035	217.94	1.90
2038	230.60	1.90

Long-Term Forecast

Based on the assumptions discussed above, the long-term performance and projections for MARTA sales tax revenues are as follows. History is available from 1973, however, due to space limitations, we have listed the history from 1994:

Table 5

VALUES FOR MARTA SALES AND USE TAX RECEIPTS								
	FY	Net Sales Tax		Use Tax		Total Receipts		Additions
		(000's)	%chg	(000's)	%chg	(000's)	%chg	(000's)
History ↑	1994	189,490	9.9	9,000	0.0	198,490	9.5	17,145
	1995	213,475	12.7	9,000	0.0	222,475	12.1	23,985
	1996	242,668	13.7	9,000	0.0	251,668	13.1	29,193
	1997	247,171	1.9	9,000	0.0	256,171	1.8	4,503
	1998	233,924	-5.4	9,000	0.0	242,924	-5.2	(13,247)
	1999	263,793	12.8	9,000	0.0	272,793	12.3	29,869
	2000	286,796	8.7	9,000	0.0	295,796	8.4	23,003
	2001	295,388	3.0	9,000	0.0	304,388	2.9	8,592
	2002	277,435	-6.1	9,000	0.0	286,435	-5.9	(17,953)
	2003	263,578	-5.0	9,000	0.0	272,578	-4.8	(13,857)
	2004	271,663	3.1	9,000	0.0	280,663	3.0	8,085
	2005	287,351	5.8	9,000	0.0	296,351	5.6	15,688
	2006	322,213	12.1	9,000	0.0	331,213	11.8	34,862
	2007	340,215	5.6	9,000	0.0	349,215	5.4	18,002
Forecast ↓	2008	351,711	3.4	9,000	0.0	360,711	3.3	11,495
	2009	366,949	4.3	9,000	0.0	375,949	4.2	15,238
	2010	385,603	5.1	9,000	0.0	394,603	5.0	18,654
	2011	408,673	6.0	9,000	0.0	417,673	5.8	23,070
	2012	434,202	6.2	9,000	0.0	443,202	6.1	25,529
	2013	460,121	6.0	9,000	0.0	469,121	5.8	25,918
	2014	487,847	6.0	9,000	0.0	496,847	5.9	27,727
	2015	510,991	4.7	9,000	0.0	519,991	4.7	23,144
	2016	523,435	2.4	9,000	0.0	532,435	2.4	12,444
	2017	538,138	2.8	9,000	0.0	547,138	2.8	14,703
	2018	569,043	5.7	9,000	0.0	578,043	5.6	30,905
	2019	601,074	5.6	9,000	0.0	610,074	5.5	32,031
	2020	634,004	5.5	9,000	0.0	643,004	5.4	32,930
	2021	669,668	5.6	9,000	0.0	678,668	5.5	35,663
	2022	698,746	4.3	9,000	0.0	707,746	4.3	29,079
	2023	715,412	2.4	9,000	0.0	724,412	2.4	16,665
	2024	734,408	2.7	9,000	0.0	743,408	2.6	18,997
	2025	770,158	4.9	9,000	0.0	779,158	4.8	35,750
	2026	807,128	4.8	9,000	0.0	816,128	4.7	36,970
	2027	843,983	4.6	9,000	0.0	852,983	4.5	36,855
	2028	881,495	4.4	9,000	0.0	890,495	4.4	37,512
	2029	913,962	3.7	9,000	0.0	922,962	3.6	32,467
	2030	939,203	2.8	9,000	0.0	948,203	2.7	25,241
	2031	963,737	2.6	9,000	0.0	972,737	2.6	24,535
	2032	1,003,027	4.1	9,000	0.0	1,012,027	4.0	39,290
	2033	1,052,059	4.9	9,000	0.0	1,061,059	4.8	49,032
	2034	1,106,228	5.1	9,000	0.0	1,115,228	5.1	54,169
	2035	1,159,733	4.9	9,000	0.0	1,168,733	4.8	53,505
	2036	1,218,190	4.7	9,000	0.0	1,227,190	5.0	58,457
	2037	1,265,830	4.7	9,000	0.0	1,274,830	3.9	47,639
	2038	1,300,826	4.7	9,000	0.0	1,309,826	2.7	34,996

**Source: Historical data supplied by MARTA and the Georgia Department of Revenue. Projections were based on the model explained earlier with an inflation rate superimposed upon projections of real activity.*

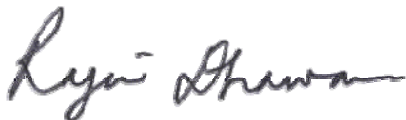
The total receipts collected in fiscal year 2008 are projected to increase by 3.3% which is lower than the 4.6% projection made in the October 2006 30-year forecast report. Given the projected slowdown in the state and the national economy in the coming year, we have had to adjust estimates through calendar year 2013. After this, and until 2038, long-term growth projections for metro area job growth follow a seven-year business cycle. The boost in tourism raised the base of Georgia's leisure and hospitality employment but will not have permanent long term effects. By keeping the same kind of employment growth assumptions after 2013, total receipts projection end up lower by \$28.855 mil. or 2.22% lower in 2037 compared to what was projected in October 2006.

CONCLUSION

By using a forecasting model of sales tax receipts and making assumptions about the future performance of the volatile and shrinking use tax, we have derived estimates of **MARTA** sales and use tax receipts between now and 2038. Nationwide productivity gains are expected to be maintained at almost the rate we saw in the 1990's, and that should also be true in Atlanta as well. As a result, real per capita spending should grow robustly. However, in this new era of questionable job quality and terrorism-related security measures, there will be a cost which society has to bear.

Of course, any projections depend upon the assumptions used to drive the analysis. We believe the assumptions are reasonable, based upon previous historical relationships and normal behavior related to the development of cities. Of course, reality can deviate substantially from those assumptions, and the resulting tax receipt estimates could change materially.

Sincerely,



Prof. Rajeev Dhawan
Director
Economic Forecasting Center
J. Mack Robinson College of Business
Georgia State University

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APPENDIX B

**FINANCIAL STATEMENTS OF THE AUTHORITY
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005**

**THE METROPOLITAN ATLANTA
RAPID TRANSIT AUTHORITY**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

For the Years Ended June 30, 2006 and 2005

METROPOLITAN ATLANTA RAPID TRANSIT AUTHORITY

TABLE OF CONTENTS

Independent Auditors' Report.....	1
Management's Discussion and Analysis	3-9
Financial Statements:.....	10-12
Statements of Net Assets	
Statements of Revenues, Expenses and Changes in Net Assets	
Statement of Cash Flows	13
Notes to Financial Statements	14 - 38
Supplemental Schedule:	39 - 40
Revenues and Expenses—Budget vs Actual (Budget Basis)	
Note to the Supplemental Schedule	

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Metropolitan Atlanta Rapid Transit Authority:

We have audited the accompanying statements of net assets of the Metropolitan Atlanta Rapid Transit Authority (MARTA) as of June 30, 2006, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of MARTA's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Metropolitan Atlanta Rapid Transit Authority as of and for the year ended June 30, 2005 were audited by other auditors whose report thereon, dated October 7, 2005, expressed an unqualified opinion.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MARTA's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the 2006 financial statements referred to above present fairly, in all material respects, the financial position of the Metropolitan Atlanta Rapid Transit Authority as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 16, 2006 on our consideration of MARTA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on MARTA's basic financial statements. The introductory section, supplemental schedule of revenues and expenses, budget versus actual (budget basis), listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedule of revenues and expenses, budget versus actual (budget basis) has been subject to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Cherry, Bekaert & Holland, LLP

Atlanta, Georgia
October 16, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

As management of the Metropolitan Atlanta Rapid Transit Authority (MARTA or Authority), we offer readers of MARTA's basic financial statements this narrative overview and analysis of the financial activities of MARTA for the fiscal years ended June 30, 2006 and 2005. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

MARTA was formed as a joint public instrumentality of the City of Atlanta and the counties of Fulton, DeKalb, Cobb, Clayton, and Gwinnett by action of the General Assembly of the State of Georgia (the MARTA Act) to design and implement a rapid transit system for the Atlanta metropolitan area. MARTA operates a bus and rapid rail transportation system and continues to develop and construct further improvements to its integrated bus/rail transportation system.

Overview of Financial Statements

MARTA's financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board. MARTA is structured as a single enterprise fund with revenues recognized when earned and measurable, not when they are received. Expenses are recognized when they are incurred, not when they are paid. Capital assets are capitalized and (except land) are depreciated over their useful lives. Cash amounts are restricted for debt service. See the notes to the financial statements for a summary of MARTA's significant accounting policies.

Included in MARTA's financial statements are the statements of net assets, the statements of revenues, expenses and changes in net assets, the statements of cash flows, and the related notes.

The Statement of Net Assets presents information on all of MARTA's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of MARTA is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how MARTA's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected sales taxes and earned but unused vacation leave).

The Statement of Cash Flows allows financial statement users to assess MARTA's adequacy or ability to generate sufficient cash flows to meet its obligations in a timely manner. The statement is classified into four categories: 1) Cash flows from operating activities, 2) Cash flows from non-capital financing activities, 3) Cash flows from capital and related financing activities, and 4) Cash flows from investing activities.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

Financial Position Summary

Net assets may serve over time as a useful indicator of MARTA's financial position. MARTA's assets exceed liabilities by \$2.2 billion at June 30, 2006 an \$8.4 million increase from June 30, 2005 when assets exceeded liabilities by \$2.2 billion, a \$3.3 million increase from June 30, 2004.

The largest portion of MARTA's net assets each year (87%, 88%, and 89% as of June 30, 2006, 2005 and 2004), respectively represents its investment in capital assets (e.g., land, rail system, buildings and transportation equipment), less any related outstanding debt used to acquire those assets. MARTA uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although MARTA's investment in its capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Condensed Summary of Net Assets:

	2006	2005	2004
ASSETS:			
Current and Other Assets	\$ 539,981	\$ 510,527	\$ 463,672
Capital Assets	3,304,347	3,240,064	3,194,420
Total Assets	3,844,328	3,750,591	3,658,092
LIABILITIES			
Long-term Debt Outstanding	1,425,964	1,357,907	1,288,364
Other Liabilities	251,278	238,927	219,286
Total Liabilities	1,677,242	1,596,834	1,507,650
NET ASSETS			
Invested in Capital Assets,			
Net of Debt	1,884,865	1,887,897	1,912,103
Restricted	268,520	234,055	220,527
Unrestricted	13,701	31,805	17,812
TOTAL NET ASSETS	\$ 2,167,086	\$ 2,153,757	\$ 2,150,442

An additional portion of MARTA's net assets (12%, 11%, 10%, as of June 30, 2006, 2005 and 2004, respectively), represents resources that are subject to external restrictions on how they can be used under Bond resolutions and State and Federal regulations. The remaining *unrestricted net assets* (1%, 1%, and 1% as of June 30, 2006, 2005 and 2004, respectively) may be used to meet any of the MARTA's ongoing obligations.

At the end of the current fiscal year, MARTA is able to report positive balances in all categories of net assets. The same situation held true for the prior fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

Financial Operations Highlights

MARTA is a single enterprise fund providing public transportation. MARTA provides direct benefits to its users as well as substantial indirect benefits to the public at large (e.g., decreased traffic congestion, decreased need for road construction and maintenance, decreased need for parking, decreased air pollution levels, increased availability of transportation for low-income citizens). Therefore, the user charges are intended to finance only a portion of the cost of providing these services with additional proceeds obtained from the collections of sales and use tax under the Rapid Transit Contract and Assistance Agreement with the City of Atlanta and the Counties of Fulton and DeKalb, and Federal Subsidies. The tax is levied at a rate of 1% until June 30, 2032 and .5% thereafter. See note 4 of the notes to the financial statements.

The MARTA Act places certain requirements on the rates that MARTA can charge for transportation services provided. The rates charged to the public for transportation services must be such that the total transit related revenues are no less than 35% of the operating costs, exclusive of depreciation and amortization, and other costs and charges as provided in the Act, of the preceding or prior fiscal year. Under provisions of amendments to the MARTA Act, all revenues, except the sales and use tax, are included in transit related revenues for purposes of this calculation. Transit related revenues were 55%, 55%, and 53% of operating costs of the previous fiscal year as defined under the MARTA Act for the years ended June 30, 2006, 2005 and 2004, respectively.

The following table presents the summary of Changes in Net Assets:

	2006	2005	2004
Operating Revenues	\$ 105,260	\$ 103,669	\$ 107,307
Operating Expenses	453,557	448,358	435,669
Operating Loss	(348,297)	(344,689)	(328,362)
Non-operating Revenues (Expenses)	322,983	296,321	268,389
Capital Grants	38,643	51,683	55,529
Increase (Decrease) in Net Assets	\$ 13,329	\$ 3,315	\$ (4,444)

As noted above, FY 2006 operating revenues increased by \$1.6 million and operating expenses increased by \$5.2 million, which resulted in an overall increase in the operating loss of \$3.6 million. FY 2005 operating revenues had decreased by \$3.6 million and operating expenses increased by \$12.7 million, an overall increase in the operating loss of \$16.3 million from the previous year.

Since 2001, Management has used measured steps to reign in controllable labor costs and expenditures, through administrative wage freezes and furloughs, increased benefit cost sharing and lastly, service cutbacks. These measures have not been used consistently each year, as MARTA works to keep its base of customers and employees. As a result, there is a roller coaster appearance when comparing financial results. MARTA's actual trend line for operating expenses remained flat, with current operating expenses only increasing by 1% from the previous year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

MARTA saw a 3% increase in passenger revenue in 2006; this is up from the 1% increase between 2005 and 2004. This increase can be partially contributed to the rise in gas prices. As metropolitan Atlanta saw gas prices hover around the \$3 mark, it also saw choice riders consider alternative modes of commuting. The 3% increase in passenger revenue was the largest percentage increase since 2001. Other Operating Revenue saw declines as the advertising guarantee was reduced because fewer buses were on the street after the service reductions instituted in 2005.

The FY 2006 non-operating revenues increased by \$35.1 million from FY 2005; which increased by \$30.3 million from the FY 2004. This turnaround was spurred by an actual 8.9% growth in the sales and use tax collections for the year. MARTA continued to benefit from the strong economy in the metropolitan area. The Georgia Aquarium opened in November 2005 bringing with it tourists and sales tax dollars from across the country. The dramatic shift to in town residential and retail development in the city paved the way for the largest year-to-year sales tax increases since 1997. Investment income also provided a positive boost to this category with a 69% increase as interest rates rose from historically low rates. MARTA also increased its investment portfolio with upfront money received from a bond basis swap transaction and a repayment from commercial paper proceeds for prior drawdown of MARTA's unrestricted portfolio that had previously provided liquidity to fund construction activity.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

The following table presents a summarized breakout of MARTA's revenues, expenses and changes in net assets:

	2006	2005	2004
Summary of Revenues			
Operating			
Fare Revenues	\$ 99,148	\$ 96,244	\$ 95,082
Other Revenues	6,112	7,425	12,225
Total Operating Revenues	<u>105,260</u>	<u>103,669</u>	<u>107,307</u>
Nonoperating			
Sales and Use Tax	334,486	307,227	283,381
Federal Operating Revenues	39,045	40,374	41,556
Investment Income	13,136	7,778	4,305
Other Revenues	10,088	9,615	8,904
Gain (Loss) on Sale of Property and Equipment	572	(2,741)	(6,224)
Total Nonoperating Revenues	<u>397,327</u>	<u>362,253</u>	<u>331,922</u>
Total Revenues	<u>502,587</u>	<u>465,922</u>	<u>439,229</u>
Summary of Expenses			
Operating			
Transportation	146,162	141,833	149,278
Maintenance and Garage Operations	110,065	117,871	113,930
General and Administrative	50,278	49,678	39,849
Depreciation	147,052	138,976	132,612
Total Operating Expenses	<u>453,557</u>	<u>448,358</u>	<u>435,669</u>
Nonoperating			
Interest Expenses	65,831	64,165	62,505
Interest Expenses Capitalized	(3,470)	(11,989)	(10,434)
Amortization of Bond Discount, issue Costs and Deferred Loss on Refunding	(1,177)	653	1,191
General and Administrative Expenses	13,160	13,103	10,271
Total Nonoperating Expenses	<u>74,344</u>	<u>65,932</u>	<u>63,533</u>
Total Expenses	<u>527,901</u>	<u>514,290</u>	<u>499,202</u>
Loss Before Capital Contributions	<u>(25,314)</u>	<u>(48,368)</u>	<u>(59,973)</u>
Capital Grants	38,643	51,683	55,529
Increase (Decrease) in Net Assets	<u>13,329</u>	<u>3,315</u>	<u>(4,444)</u>
Net Assets, July 1	<u>2,153,757</u>	<u>2,150,442</u>	<u>2,154,886</u>
Net Assets, June 30	<u>\$ 2,167,086</u>	<u>\$ 2,153,757</u>	<u>\$ 2,150,442</u>

Net assets increased by \$13.3 million in fiscal year 2006 after increasing by \$3.3 million in fiscal year 2005 and decreasing by \$4 million in 2004. MARTA's change in net assets continued its positive trend primarily due to the upswing in the economy. The spike in the economy led to an increase in sales tax receipts. A major project for the Authority was the construction of the Armor Yard rail facility. In May 2005, MARTA opened Armor Yard; the associated capital interest was transferred to the project. This resulted in a \$12 million increase in Interest Expense Capitalized.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

Long Term Debt Administration

MARTA issues Sales and Use Tax Revenue Bonds and Bond Anticipation Notes Commercial Paper to raise capital funds for construction and expansion, and rehabilitation of the transit system. During fiscal year 2005 MARTA initiated its commercial paper program, in the form of Bond Anticipation Notes, to provide flexibility and optimization to the issuance of debt. MARTA feels this will provide for a more timely issue of long-term debt. The Bonds and notes are payable from and secured by a first, second and third lien on sales and use tax receipts. The Bonds carry debt ratings of A-1 by Moody's Investors Service and AA by Standard and Poor's. The notes bear underlying ratings of P-1 by Moody's and A-1+ by Standard & Poor's. MARTA's total bond debt outstanding was \$1,425,964, \$1,357,907, and \$1,288,364 as of June 30, 2006, 2005 and 2004, respectively.

On July 28, 2005, MARTA issued \$190,490 par Series 2005A refunding bonds at a coupon rate of 5.00% per annum. A portion of the proceeds will be applied, with other funds available, to refund all of the Authority's Sales Tax Revenue Bonds Series 1998B by placing the funds in an irrevocable trust with an escrow agent to provide debt service payments until the bonds refunded are called on July 1, 2008 at a redemption price of 101.

Also, on April 4, 2006, MARTA issued \$163,890 par Series 2006A refunding bonds at a coupon rate of 5.00% per annum. A portion of the proceeds for this series will also be applied, with other funds available, to refund all of the Authority's Sales Tax Revenue Bonds Series 1996A by placing the funds in an irrevocable trust with an escrow agent to provide debt service payments until the bonds refunded are called on July 1, 2006 at a redemption price of 102.

Capital Acquisitions and Construction Activities

During fiscal year 2006, MARTA expended \$209,045 on capital activities. The expenditures were primarily for the Automated Fare Collection system, rehabilitation of railcars, railcar and bus purchases, track replacement, implementation of an integrated financial and maintenance information system and other information technology upgrades. The net change in Capital Assets, including changes in accumulated depreciation and retirements was \$64,284, \$45,644, and \$56,895 as of June 30, 2006, 2005 and 2004, respectively. Additional information on MARTA's debt and capital asset activity and commitments can be found in notes 6 and 13 to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

Invested in Capital Assets, Net of Related Debt:

	2006	2005	2004
Capital Assets			
Property & Equipment - Net	\$ 3,304,347	\$ 3,240,064	\$ 3,194,420
Bond Issue Cost	6,482	5,740	6,047
	<u>3,310,829</u>	<u>3,245,804</u>	<u>3,200,467</u>
Capital Debt			
Current Principal Bonds	45,160	43,000	30,730
Noncurrent Bonds	1,380,804	1,314,907	1,257,634
	<u>1,425,964</u>	<u>1,357,907</u>	<u>1,288,364</u>
Capital Assets, Net of Debt	<u>\$ 1,884,865</u>	<u>\$ 1,887,897</u>	<u>\$ 1,912,103</u>

Request for Information

This financial report is designed to provide a general overview of MARTA's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Chief Financial Officer, Metropolitan Atlanta Rapid Transit Authority, 2424 Piedmont Road, N.E., Atlanta, GA 30324-3330.

Metropolitan Atlanta Rapid Transit Authority

Statements of Net Assets

June 30, 2006 and 2005
Dollars in Thousands

Assets	2006	2005
Current Assets:		
Cash and Cash Equivalents ^(Note 2)	\$ 864	\$ 627
Investments ^(Note 2)	121,324	150,101
Material and Supplies Inventories	27,406	25,453
Sales Tax Receivables, Prepayments and Other	103,331	71,210
Total Unrestricted Current Assets	252,925	247,391
Restricted Cash and Cash Equivalents ^(Notes 2 and 3)	1,991	1,909
Restricted Investments ^(Notes 2 and 3)	69,528	71,421
Total Restricted Current Assets	71,519	73,330
Total Current Assets	324,444	320,721
Noncurrent Assets:		
Restricted Investments ^(Notes 2 and 3)	197,194	160,933
Capital Assets: ^(Note 6)		
Land	547,615	552,590
Rail System and Buildings	3,042,781	2,982,645
Transportation Equipment	883,767	849,671
Other	693,050	654,684
	5,167,213	5,039,590
Less Accumulated Depreciation	(2,187,467)	(2,078,213)
	2,979,746	2,961,377
Construction in Progress	324,601	278,687
Capital Assets - Net	3,304,347	3,240,064
Other Restricted Noncurrent Investments ^(Notes 2 and 3)	10,000	10,000
Bond Issue Costs - Net	6,482	5,740
Deposits ^(Note 11)		12,672
Other	1,861	461
Total Noncurrent Assets	3,519,884	3,429,870
Total Assets	\$ 3,844,328	\$ 3,750,591

See Notes to Financial Statements

Metropolitan Atlanta Rapid Transit Authority

Statements of Net Assets

June 30, 2006 and 2005

Dollars in Thousands

Liabilities and Net Assets	2006	2005
Current Liabilities:		
Payable from NonRestricted Assets:		
Accounts and Contracts Payable	\$ 65,876	\$ 57,011
Salaries and Employee Benefits ^(Notes 9 and 10)	16,830	11,378
Self-Insurance Accruals ^(Note 11)	1,289	1,419
Other Current Liabilities	<u>8,591</u>	<u>8,140</u>
Total Current Liabilities Payable from NonRestricted Assets	92,586	77,948
Payable from Restricted Assets:		
Current Maturities of Sales Tax Revenue Bonds ^(Note 7)	45,160	43,000
Accrued Interest	26,166	30,121
Due to Federal Transportation Administration	<u>193</u>	<u>209</u>
Total Current Liabilities Payable from Restricted Assets	<u>71,519</u>	<u>73,330</u>
Total Current Liabilities	164,105	151,278
Noncurrent Liabilities:		
Sales Tax Revenue Bonds, Less Current Maturities, Unamortized Discount and Deferred Loss on Refunding ^(Note 7)	1,380,804	1,314,907
Noncurrent Self Insurance Accruals ^(Note 11)	13,532	14,512
Deferred Revenue ^(Notes 7 and 12)	<u>118,800</u>	<u>116,137</u>
Total Noncurrent Liabilities	<u>1,513,136</u>	<u>1,445,556</u>
Total Liabilities	1,677,242	1,596,834
Commitments and Contingencies ^(Note 13)		
Net Assets		
Invested in Capital Assets, net of Related Debt	1,884,865	1,887,897
Restricted	268,520	234,055
Unrestricted	<u>13,701</u>	<u>31,805</u>
Total Net Assets	<u>2,167,086</u>	<u>2,153,757</u>
Total Liabilities and Net Assets	<u><u>\$ 3,844,328</u></u>	<u><u>\$ 3,750,591</u></u>

See Notes to Financial Statements

Metropolitan Atlanta Rapid Transit Authority
Statements of Revenues, Expenses
and Changes in Net Assets
For the Years Ended June 30, 2006 and 2005
Dollars in Thousands

	2006	2005
Operating Revenues:		
Fare Revenues ^(Note 5)	\$ 99,148	\$ 96,244
Other Revenues	6,112	7,425
Total Operating Revenues	105,260	103,669
Operating Expenses:		
Transportation	146,162	141,833
Maintenance and Garage Operations	110,065	117,871
General and Administrative	50,278	49,678
Depreciation	147,052	138,976
Total Operating Expenses	453,557	448,358
Operating Loss	(348,297)	(344,689)
Nonoperating Revenues (Expenses):		
Sales and Use Tax ^(Notes 1 and 4)	334,486	307,227
Federal Operating Revenues	39,045	40,374
Investment Income	13,136	7,778
Other Revenues	10,088	9,615
Gain (Loss) on Sale of Property and Equipment	572	(2,741)
Interest Expense	(65,831)	(64,165)
Interest Expense Capitalized	3,470	11,989
Amortization of Bond Discount, Issue Costs and Deferred		
Gain/(Loss) on Refunding	1,177	(653)
General and Administrative Expense	(13,160)	(13,103)
	322,983	296,321
Loss Before Capital Contributions	(25,314)	(48,368)
Capital Grants	38,643	51,683
Net Assets		
Increase in Net Assets	13,329	3,315
Net Assets, July 1	2,153,757	2,150,442
Net Assets, June 30	\$ 2,167,086	\$ 2,153,757

See Notes to Financial Statements

Metropolitan Atlanta Rapid Transit Authority

Statements of Cash Flows

June 30, 2006 and 2005
Dollars in Thousands

	2006	2005
Cash Flows from Operating Activities:		
Cash Received from Providing Services	\$ 116,238	\$ 142,224
Cash Paid to Suppliers	(102,896)	(138,059)
Cash Paid to Employees	(191,214)	(190,554)
Net Cash Used by Operating Activities	<u>(177,872)</u>	<u>(186,389)</u>
Cash Flows From Noncapital Financing Activities:		
Sales and Use Tax Collections	331,213	296,351
Federal Operating Subsidy	10,777	46,008
Net Cash Provided by Noncapital Financing Activities	<u>341,990</u>	<u>342,359</u>
Cash Flows From Capital and Related Financing Activities:		
Proceeds from Issuance of Long-term Debt	114,812	99,928
Capital Contributions	38,643	51,683
Principal Paid on Revenue Bonds	(46,320)	(30,730)
Interest Paid on Revenue Bonds	(69,786)	(64,667)
Acquisition and Construction of Capital Assets	(208,694)	(173,606)
Payments on Capital Leases	-	-
Net Cash (Used) Provided by Capital and Related Financing Activities	<u>(171,345)</u>	<u>117,392</u>
Cash Flows from Investing Activities:		
Purchases of Investments	(6,976,180)	(7,913,341)
Proceeds from Sales and Maturities of Investments	6,971,117	7,862,341
Interest Received on Investments	12,609	7,762
Net Cash Provided (Used) by Investing Activities	<u>7,546</u>	<u>(43,238)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>319</u>	<u>(4,660)</u>
Cash and Cash Equivalents, Beginning of Year	<u>2,536</u>	<u>7,196</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,855</u>	<u>\$ 2,536</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Loss	\$ (348,297)	\$ (344,689)
Other Revenues and (Expenses)	(3,073)	(3,488)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation	147,052	138,976
Changes in Assets and Liabilities:		
Materials and Supplies Inventories	(1,953)	321
Prepayments and Other	12,093	2,348
Current Liabilities and Due Federal Transportation Administration	13,643	(6,462)
Deferred Revenue	2,663	26,605
Net Cash Used by Operating Activities	<u>\$ (177,872)</u>	<u>\$ (186,389)</u>
Noncash Investing, Capital and Financing Activities:		
Amortization of Bond Issuance Costs	\$ 1,177	\$ (653)
Decrease in Fair Value of Investments	(359)	(143)
Net Noncash Investing, Capital and Financing Activities	<u>\$ 818</u>	<u>\$ (796)</u>

See Notes to Financial Statements

Notes to the Financial Statements

June 30, 2006 and 2005

Dollars in Thousands

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The Metropolitan Atlanta Rapid Transit Authority (MARTA) was formed as a joint public instrumentality of the City of Atlanta and the counties of Fulton, DeKalb, Cobb, Clayton, and Gwinnett by action of the General Assembly of the State of Georgia (the MARTA Act) to design and implement a rapid transit system for the Atlanta metropolitan area. MARTA operates a bus and rapid rail transportation system and continues to develop and construct further improvements to its integrated bus/rail transportation system.

In order to measure the costs of providing mass transportation services, the revenues from those services and required subsidies, MARTA has adopted the accounting principles and methods appropriate for a governmental enterprise fund. In accordance with accounting standards applicable to enterprise funds, MARTA has elected not to apply pronouncements issued by the Financial Accounting Standards Board after November 30, 1989. This complies with the MARTA Act and Sales Tax Bond Trust Indenture legal requirements that all accounting systems and records, auditing procedures and standards, and financial reporting shall conform to generally accepted principles of governmental accounting. The following is a summary of the more significant accounting policies of the Authority:

Reporting Entity - MARTA is a municipal corporation governed by an eighteen-member board of directors. MARTA has implemented the provisions of Statement No. 14 of the Governmental Accounting Standards Board (GASB), *The Financial Reporting Entity*, including additional guidance promulgated by GASB No. 39. As defined by the GASB, the financial reporting entity is comprised of the primary government and its component units. The primary government includes all departments and operations of MARTA, which are not legally separate organizations. Component units are legally separate organizations, which are fiscally dependent on MARTA or for which MARTA is financially accountable, or which raises and holds economic resources for the direct benefit of MARTA. An organization is fiscally dependent if it must receive MARTA's approval for its budget, levying of taxes or issuance of debt. MARTA is financially accountable for an organization if it appoints a majority of the organization's board, and either a) has the ability to impose its will on the organization or b) there is the potential for the organization to provide a financial benefit to or impose a financial burden on MARTA. The reporting entity of MARTA consists solely of the primary government. MARTA has no component units.

Under the guidelines of Statement No. 14, MARTA is a jointly governed organization. Of its eighteen member board, three members are appointed by Fulton County, five members by DeKalb County, four members by the City of Atlanta, and one member by each County of Clayton and Gwinnett. In addition, the Commissioner of the State Department of Transportation, the Commissioner of the State Department of Revenue, the Executive Director of the State Properties Commission, and the Executive Director of the Georgia Regional Transportation Authority serve as *ex-officio* members of the Board. None of the participating governments appoints a majority of MARTA's Board and none has an ongoing financial interest or responsibility. None of the participating governments had any significant financial transactions with MARTA during fiscal year 2006 or 2005.

Basis of Accounting - The accompanying basic financial statements are reported using the *economic resources measurement focus on the accrual basis of accounting*, under which revenues are recognized when earned and measurable and expenses are recognized when they are incurred, if measurable.

Notes to the Financial Statements

June 30, 2006 and 2005

■ Dollars in Thousands

Cash and Cash Equivalents - MARTA considers all highly liquid debt securities with an original maturity of no more than three months at date of purchase to be cash equivalents except repurchase agreements and restricted investments, which are considered investments.

Investments - MARTA carries all investments at fair value based on quoted market prices. U.S. Treasury and Agency obligations are reported at amortized cost if MARTA acquires them within one year of maturity.

Inventories - Materials (principally maintenance parts) and supplies inventories are stated at average cost and expenditure is based on the consumption method.

Capital Assets - Capital Assets are carried at cost and depreciated using the straight-line method based on the estimated useful lives of the related assets, as follows:

Rail system and buildings	5-50 years
Transportation equipment	5-20 years
Other property and equipment	4-20 years

MARTA uses a three hundred-dollar capitalization threshold for its capital assets. Donated properties are stated at their fair value on the date donated. When assets are sold or retired, the cost of the asset and related accumulated depreciation is removed from the accounts and the resulting gain or loss, if any, is charged to non-operating revenue or expense. Ordinary maintenance and repairs are charged to expense as incurred, while property additions and betterments are capitalized. MARTA capitalizes, as a cost of its constructed assets, the interest expense based upon the weighted average cost of borrowings of MARTA.

Bond Proceeds, Discount, Issue Costs, and Losses on Refundings - Proceeds from the issuance of Sales Tax Revenue Bonds are initially deposited with the Bond Trustee in a Construction Fund as required by the Trust Indenture between MARTA and the Trustee. MARTA requisitions the funds as needed for construction of the transit system. Bond discount and issue costs are amortized, principally using the interest method, over the term of the related debt. Losses on debt refundings are deferred and amortized over the shorter of the life of the refunded debt or the new debt, on a basis consistent with the interest method.

Fare Revenues - Passenger fares are recorded as revenue at the time services are performed.

Subsidies and Grants - MARTA receives grant funds from the Federal Transportation Administration (FTA) for a substantial portion of its capital acquisitions. Assets acquired in connection with capital grant funds are included in capital assets. These grants generally require a local funding match by MARTA at a stipulated percentage of total project costs. Capital grant agreements with FTA provide for FTA holding a continuing interest in properties acquired and restrict the use of such properties to providing mass transportation services.

Grants for capital asset acquisition, facility development, and rehabilitation are reported in the Statement of Revenues, Expenses and Changes in Net Assets, after non-operating revenues and expenses as capital grants.

Notes to the Financial Statements

June 30, 2006 and 2005

Dollars in Thousands

Net Assets - Net assets present the difference between assets and liabilities in the statement of net assets. Net assets invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by laws or regulations of other governments or external restrictions by creditors or grantors. Unrestricted net assets may be designated for specific purposes at the option of the MARTA Board of Directors. If restricted and unrestricted assets are available for the same purpose, then restricted assets will be used before unrestricted assets.

Budgetary Controls - An annual operating and capital budget is developed by MARTA's Management. After a public hearing the proposed budget is revised, if necessary, finalized and adopted by MARTA's Board of Directors. The budget is prepared on the same basis of accounting as the financial statements except that depreciation, interest expense, gain/loss on sale of property, and non-operating general and administrative expenses are not budgeted. Management control for the operating budget is maintained at expenditure category levels. Management has flexibility of reprogramming funds in respective cost centers with approval of budget staff as long as the total budget authorization is not exceeded. Capital expenditures are controlled at the budget line item.

Cost Allocation - MARTA allocates certain general and administrative expenses to transit operations and also capitalizes certain of these expenses in construction in progress based on its cost allocation plan prepared in accordance with FTA guidelines. General and administrative expenses not allocable to either transit operations or construction in progress under FTA guidelines are reflected as non-operating general and administrative expense in the accompanying statement of revenues and expenses and changes in net assets.

Operating Revenues and Expenses - Fare and parking revenue from transporting passengers, concessions, and advertising are reported as operating revenues. Transactions that are capital, financing or investing related, or which cannot be attributed to MARTA's transportation focus, are reported as non-operating revenues. All expenses related to operating the bus and rail system are reported as operating expenses. Interest expenses, financing costs, and planning costs are reported as non-operating expenses.

Compensated Absences - MARTA employees are granted annual paid time off in varying amounts. A liability is recognized for amounts of accrued annual paid time off leave and related benefits attributable to services already rendered and for which it is probable that compensation will be paid. A liability for accumulated unused sick leave is not recognized since it is not paid upon termination or retirement. Upon retirement, unused accumulated sick leave may be counted as credited service for pension benefit calculation purposes.

Deferred Revenue - Includes the remaining unamortized balance of the deferred amounts from the lease/leaseback arrangements in 2001, 2002, 2003, 2004, 2005 and 2006 and the sale/leaseback arrangements in 1987 and 1988 of certain rail cars and buses. The deferred gains are being amortized over the remaining lives of the respective vehicles. It also includes the upfront cash received from the 2004 interest basis swap agreements.

Fuel Contracts - Forward contracts for the purchase of low sulfur diesel and natural gas commodities are reported at cost in the statements of net assets. Obligations to purchase the commodities are not recognized until the commodities are deliverable.

Notes to the Financial Statements

June 30, 2006 and 2005

Dollars in Thousands

Adoption of Governmental Accounting Standards

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, was issued November 2003 and is effective for MARTA's fiscal year ending June 30, 2006. MARTA has adopted this statement and has determined that there is no impact to its financial statements.

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was issued April 2004 and is effective for MARTA's fiscal year ending June 30, 2007. MARTA has not determined the impact of adopting this statement.

GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*, was issued June 2004 and is effective for MARTA's fiscal year ending June 30, 2006. The impact of adopting this statement was to modify the presentation of some of the existing schedules and to add new schedules relating to net assets within the statistical section of MARTA's Comprehensive Annual Financial Report.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was issued August 2004 and is effective for MARTA's fiscal year ending June 30, 2008. MARTA has not determined the impact of adopting this statement.

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34*, was issued December 2004 and is effective for MARTA's fiscal year ending June 30, 2006. The impact of adopting this statement in 2006 was to enhance disclosures concerning the amount of net assets that are restricted by enabling legislation.

GASB Statement No. 47, *Accounting for Termination Benefits*, was issued June 2005 and is effective for MARTA's fiscal year ending June 30, 2006. MARTA has adopted this statement and determined there is no impact to its financial statements.

2. CASH AND INVESTMENTS

Cash - At June 30, 2006 and 2005, the carrying amounts of MARTA's total cash on hand were \$82 and \$128, respectively. At June 30, 2006 and 2005 the carrying amounts of MARTA's total cash on deposit, including restricted assets, were \$2,773 and \$2,408 respectively. The bank balances were \$3,737 and \$4,810, respectively. Of the bank balances at June 30, 2006 and 2005, \$371 and \$462 were covered by federal depository insurance and \$3,365 and \$4,348 were collateralized by government securities held by the pledging financial institution's trust department or agent in MARTA's name.

Investments - Georgia statutes authorize MARTA to invest in U.S. Government obligations, U.S. Government agency obligations, obligations of any instrumentality of the U.S. Government, or in repurchase agreement collateralized by any of the aforesaid securities, prime Bankers' Acceptances or in State of Georgia obligations, or in the State of Georgia sponsored investment pool or in other obligations or instruments as allowed by Georgia Law. Under the terms of MARTA's Sales Tax Revenue Bond Trust Indenture, the Authority may not invest in securities with a remaining term to maturity greater than 5 years from the purchase date. In addition, MARTA requires that repurchase agreement collateral must have a market value ranging from 101% to 104% of the cost of the repurchase agreement, depending upon the maturity date and type of security. MARTA's policy states that collateral pledged for repurchase agreements and not delivered to MARTA's safekeeping agent must be held by the pledging bank's trust department in MARTA's name.

Notes to the Financial Statements

June 30, 2006 and 2005

Dollars in Thousands

As of June 30, 2006, MARTA had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1 - 5	6 - 10	More than 10
Repurchase Agreements	\$ 161,276	\$ 161,276	\$ -	\$ -	\$ -
U.S. Treasuries	4,320	(535)	4,575	73	207
U.S. Agencies	232,450	189,348	43,056	-	46
Total	\$ 398,046	\$ 350,089	\$ 47,631	\$ 73	\$ 253

Interest Rate Risk - as a means of limiting its exposure to fair value losses arising from rising interest rates, MARTA's investment policy prohibits investments in U.S. Treasuries and Agencies and State Obligations with maturities greater than five years and six months at the date of purchase. The policy also limits Repurchase Agreements to three months from the date of purchase.

Concentration of Credit Risk - is the risk of loss that may be attributed to the magnitude of a government's investment in a single issue. The investment in US Agencies amounting to \$232,450 are rated AAA. MARTA does not hold more than 5% in any single issuer, other than investments related to the US Government.

Custodial Credit Risk - for an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, MARTA will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Of MARTA's \$161,276 investment in Repurchase agreements and \$232,450 investment in U.S. Agencies and \$4,320 investment in U.S. Treasuries, \$1,953 and \$4,224 and \$4,556 respectively, of the underlying securities are held by a trustee, not in the name of MARTA. These investments are the only securities not held in MARTA's name as per the terms of a trust agreement between MARTA and a Railroad company.

Foreign Currency Risk - is the risk that changes in exchange rates will adversely impact the fair value of an investment. MARTA is not exposed to this risk and its investment policy does not provide for investments in foreign currency denominated securities.

Notes to the Financial Statements

June 30, 2006 and 2005

Dollars in Thousands

3. RESTRICTED CASH AND INVESTMENTS

Certain cash and investments have been restricted as follows:

	Years Ended June 30	
	2006	2005
Sinking Fund	\$ 90,040	\$ 90,423
Railroad Trust Fund Agreement	10,000	10,000
Capital Asset Purposes	63,193	63,193
Georgia DOT Project	1,980	1,907
Proceeds From Real Estate Sales	52,371	47,787
Other	51,129	20,953
Total	<u>\$ 268,713</u>	<u>\$ 234,263</u>
Restricted Debt - Due to FTA	<u>193</u>	<u>208</u>
Total Restricted, Net of Related Debt	<u>\$ 268,520</u>	<u>\$ 234,055</u>

The amounts held in the Sinking Fund are restricted to the payment of bond principal and interest as they become due and to the maintenance of the required reserved amounts (see Note 7).

Under the terms of an agreement between MARTA and a railroad company (the Railroad), MARTA has agreed to pay certain costs of purchasing insurance to protect the Railroad against the risk of liability from injury or damage to MARTA's passengers, employees, and property which may result from the Railroad's operations. At June 30, 2006 and 2005, MARTA had placed certain investments in a special trust fund to guarantee its performance under this agreement. Interest earned on these funds is unrestricted.

Included in restricted cash and investments are certain investments for repairing, rebuilding, or replacing capital assets and for a Georgia Department of Transportation project.

Also included in restricted assets are the proceeds from sales of certain real estate and the interest earned thereon through June 30, 1988. The use of these funds has been restricted until the year 2012. For the period from July 1, 1988 to June 30, 2006, interest earned on these funds is unrestricted.

The statement of net assets reports \$268,520 and \$234,055 of restricted net assets in 2006 & 2005 respectively, all of which are restricted by enabling legislation.

Notes to the Financial Statements

June 30, 2006 and 2005

Dollars in Thousands

4. SALES AND USE TAX

MARTA receives proceeds from the collections of sales and use tax under the Rapid Transit Contract and Assistance Agreement with the City of Atlanta and the Counties of Fulton and DeKalb. The tax is levied at a rate of 1% until June 30, 2032 and .5% thereafter.

Under the law authorizing the levy of the sales and use tax, as amended April 27, 2006, MARTA is restricted as to its use of the tax proceeds as follows:

- 1) No more than 50% of the annual sales and use tax proceeds can be used to subsidize the net operating costs, as defined, of the system, exclusive of depreciation and amortization, and other costs and charges as defined in Section 25(l) of the MARTA Act, except for the period beginning January 1, 2002 and ending December 31, 2008 when no more than 55% shall be used.
- 2) If more than the legislative provided percentage of the annual sales and use tax proceeds is used to subsidize the net operating costs in any one year, the deficit in operations must be made up during a period not to exceed the three succeeding years.
- 3) If less than the legislative provided percentage of the annual sales and use tax proceeds is used to subsidize the net operating costs in any one year, the excess may, at the discretion of MARTA's Board of Directors, be reserved and later used to provide an additional subsidy for operations in any future fiscal year or years.

The Georgia General Assembly approved certain amendments to the MARTA Act which provided that, commencing on July 1, 1988 until June 30, 2008, interest earnings from the real estate reserve and the capital rehabilitation replacement reserve may be treated as "transit related operating revenue" for purposes of the legislative provided percentage requirement. The Board of Directors unanimously approved a resolution to use the interest earnings on these reserve funds to pay operating costs of the system through fiscal year 1995. Fiscal years 1996 through 2001 earnings were reserved for future use as either operating or capital expenditures. The Fiscal Years 2002 through 2005 budget resolutions provided for the use of the future use reserves interest.

During the years ended June 30, 2006 and 2005, MARTA used 44% and 51% of the sales and use tax proceeds to subsidize the net operating costs. The cumulative under-utilization of sales tax receipts for June 30, 2006 was \$26,831. These sales tax receipts have been placed in a reserve and may be used in future years.

Notes to the Financial Statements

June 30, 2006 and 2005

Dollars in Thousands

A summary of cumulative sales tax proceeds under-utilization is as follows:

	Years Ended June 30	
	2006	2005
Cumulative under-utilization, beginning of year	\$ 6,841	\$ 10,800
Under (Over)-utilization during year	<u>19,990</u>	<u>(3,959)</u>
Cumulative under-utilization, end of year	<u>\$ 26,831</u>	<u>\$ 6,841</u>

5. FARE REVENUES

The MARTA Act places certain requirements on the rates that MARTA is to charge for transportation services provided. The rates charged to the public for transportation services must be such that the total transit related revenues are no less than 35% of the operating costs, exclusive of depreciation and amortization, and other costs and charges as provided in the Act, of the preceding fiscal year. Under provisions of amendments to the MARTA Act, all revenues, except the sales and use taxes, are included in transit related revenues for purposes of this calculation.

Transit related revenues for the years ended June 30, 2006 and 2005 were 55% and 55% respectively of operating costs of the previous fiscal year as defined under the MARTA Act.

Notes to the Financial Statements

June 30, 2006 and 2005

Dollars in Thousands

6. CAPITAL ASSETS

Capital Asset activity for the year ended June 30, 2006 was as follows:

	Balance June 30, 2005	Additions	Decreases	Balance June 30, 2006
Capital assets, not being depreciated:				
Land	\$ 552,590	\$ 36	\$ (5,011)	\$ 547,615
Construction in progress	278,687	213,484	(167,570)	324,601
Total capital assets not being depreciated	831,277	213,520	(172,581)	872,216
Capital assets, being depreciated:				
Rail systems & buildings	2,982,645	60,308	(172)	3,042,781
Transportation equipment	849,671	57,857	(23,761)	883,767
Other	654,684	53,164	(14,798)	693,050
Total capital assets being depreciated	4,487,000	171,329	(38,731)	4,619,598
Less accumulated depreciation for:				
Rail systems & buildings	(1,142,476)	(79,527)	276	(1,221,727)
Transportation equipment	(442,687)	(41,259)	23,653	(460,293)
Other	(493,050)	(26,282)	13,885	(505,447)
Total accumulated depreciation	(2,078,213)	(147,068)	37,814	(2,187,467)
Total capital assets, being depreciated, net	2,408,787	24,261	(917)	2,432,131
Capital assets, net	\$ 3,240,064	\$ 237,781	\$ (173,498)	\$ 3,304,347

Capital Asset activity for the year ended June 30, 2005 was as follows:

	Balance June 30, 2004	Additions	Decreases	Balance June 30, 2005
Capital assets, not being depreciated:				
Land	\$ 551,038	\$ 2,342	\$ (790)	\$ 552,590
Construction in progress	343,587	142,926	(207,826)	278,687
Total capital assets not being depreciated	894,625	145,268	(208,616)	831,277
Capital assets, being depreciated:				
Rail systems & buildings	2,847,378	135,268	(1)	2,982,645
Transportation equipment	797,539	76,069	(23,937)	849,671
Other	622,393	38,091	(5,800)	654,684
Total capital assets being depreciated	4,267,310	249,428	(29,738)	4,487,000
Less accumulated depreciation for:				
Rail systems & buildings	(1,066,330)	(76,147)	1	(1,142,476)
Transportation equipment	(426,019)	(39,501)	22,833	(442,687)
Other	(475,166)	(23,343)	5,459	(493,050)
Total accumulated depreciation	(1,967,515)	(138,991)	28,293	(2,078,213)
Total capital assets, being depreciated, net	2,299,795	110,437	(1,445)	2,408,787
Capital assets, net	\$ 3,194,420	\$ 255,705	\$ (210,061)	\$ 3,240,064

Notes to the Financial Statements

June 30, 2006 and 2005

Dollars in Thousands

7. LONG-TERM DEBT

The following is a summary of MARTA's outstanding Long-Term Debt consisting of Sales Tax Revenue Bonds (the "Bonds") and Sales Tax Revenue Commercial Paper Bond Anticipation Notes:

Series	Year Issued	Original Principal Issued	Year of Maturity	Interest Rates	Outstanding Principal			
					2005	Additions	Retirements	2006
N*	1992	\$ 122,245	2018	4.60% - 6.25%	\$ 78,080	\$ -	\$ 3,630	\$ 74,450
P*	1992	296,755	2020	3.30% - 6.25%	226,085		8,845	217,240
1996A*	1996	163,650	2020	4.00% - 5.625%	158,310		158,310	-
1998A*	1998	144,535	2010	5.50% - 6.250%	143,205		20,400	122,805
1998B*	1998	200,000	2020	5.10% - 5.19%	200,000		200,000	-
2000A	2000	100,000	2025	Variable	100,000			100,000
2000B	2000	100,000	2025	Variable	100,000			100,000
2002	2002	160,000	2032	5.00% - 5.25%	160,000			160,000
2003A	2003	103,075	2020	3.00% - 5.00%	103,075		9,515	93,560
2005A	2005	190,490	2020	5.00% - 5.00%	-	190,490		190,490
2006A	2006	163,890	2020	5.00% - 5.00%	-	163,890		163,890
Sales tax revenue bonds					1,268,755	\$ 354,380	\$ 400,700	1,222,435
Less portion due within one year					(43,000)			(45,160)
Plus unamortized premium/discount					6,704			33,269
Less deferred loss on refunding					(17,552)			(29,740)
Commercial paper notes								
2004A	2004	50,000	2008	Variable	50,000	50,000		100,000
2004B	2004	50,000	2008	Variable	50,000	50,000		100,000
Total					<u>\$ 1,314,907</u>	<u>\$ 454,380</u>		<u>\$ 1,380,804</u>

Notes to the Financial Statements

June 30, 2006 and 2005

Dollars in Thousands

Series	Year Issued	Original	Year of Maturity	Interest Rates	Outstanding Principal			
		Principal Issued			2004	Additions	Retirements	2005
N*	1992	\$ 122,245	2018	4.60% - 6.25%	\$ 81,505	\$ -	\$ 3,425	\$ 78,080
P*	1992	296,755	2020	3.30% - 6.25%	234,420		8,335	226,085
1996A*	1996	163,650	2020	4.00% - 5.625%	159,170		860	158,310
1998A*	1998	144,535	2010	5.50% - 6.250%	143,455		250	143,205
1998B	1998	200,000	2020	5.10% - 5.19%	200,000			200,000
2000A	2000	100,000	2025	Variable	100,000			100,000
2000B	2000	100,000	2025	Variable	100,000			100,000
2001*	2001	34,900	2004	5.00% - 5.00%	17,860		17,860	-
2002	2002	160,000	2032	5.00% - 5.25%	160,000			160,000
2003A*	2003	103,075	2020	3.00% - 5.00%	103,075			103,075
					1,299,485		30,730	1,268,755
Less portion due within one year					(30,730)			(43,000)
Plus unamortized premium/discount					8,920			6,704
Less deferred loss on refunding					(20,041)			(17,552)
Commercial paper notes								
2004A	2004	50,000	2007	Variable	-	50,000		50,000
2004B	2004	50,000	2007	Variable	-	50,000		50,000
Total					<u>\$ 1,257,634</u>	<u>\$ 100,000</u>		<u>\$ 1,314,907</u>

* Refunding bonds

Principal on all the Bonds is payable in an annual installment on July 1; interest is payable semi-annually on January 1 and July 1 on all bonds except 2000A, and 2000B, of which the interest is payable on the first day of each month, for the previous month. Series N and P Bonds are payable from and secured by a first lien on from sales and use tax receipts. Series 1996A, 1998A, 1998B, 2000A, 2000B, 2001, 2002 and 2003A are payable from and secured by a second lien on sales and use tax receipts (Note 4).

Series 2000A and 2000B are variable-rate sales tax revenue bonds. Each series was issued in the aggregate principal amount of \$100,000 each and was initially issued in the weekly mode. Interest in the weekly mode is payable on the first business day of each month, for the previous month. The bonds may bear interest at daily rates, weekly rates, commercial paper rates, or term rates for periods selected from time to time by the Authority. In addition, the bonds may be converted to bear interest at a fixed rate. The rate of interest to be borne during any particular interest period will be determined by the remarketing agents. The interest rate at June 30, 2006 on Series 2000A and 2000B was 4.00% and 3.95%, respectively.

There are a variety of operational and financial covenants associated with the short-term revenue bonds. Management believes that MARTA is in compliance with all such covenants.

Approximately half of the currently outstanding Bonds except Series 2000A and 2000B are redeemable at the discretion of MARTA within ten years from their issue date at redemption prices above par. The Series 2000A and 2000B Bonds are redeemable at par upon 30 days notice.

Notes to the Financial Statements

June 30, 2006 and 2005

Dollars in Thousands

Debt service requirements on the Bonds outstanding at June 30, 2006 are as follows:

Fiscal Year	Principal	Interest	Total
2007	\$ 45,160	\$ 67,440	\$ 112,600
2008	48,685	67,749	116,434
2009	51,640	64,728	116,368
2010	54,930	61,509	116,439
2011	58,370	58,087	116,457
2012 to 2016	284,295	283,478	567,773
2017 to 2021	351,255	155,237	506,492
2022 to 2026	223,110	68,370	291,480
2027 to 2031	71,065	17,727	88,792
2032 to 2033	33,925	1,718	35,643
	<u>\$ 1,222,435</u>	<u>\$ 846,043 *</u>	<u>\$ 2,068,478</u>

* Variable rate bond interest requirement computed at year-end rate.

Commercial Paper Bond Anticipation Notes – On June 30, 2006 MARTA had outstanding \$200,000 of Sales Tax Revenue Commercial Paper Bond Anticipation Notes, Series 2004A and 2004B, plus accrued interest of \$1,087. The effective interest rate paid on the Notes outstanding ranged from 3.28% to 3.72%. The proceeds of such Notes are being used to finance certain transit improvement projects. The accrued interest is payable as each note matures solely from a third lien on the sales tax receipts. In addition, a direct pay irrevocable letter of credit in the amount of \$435,507 was entered into for the purpose of making funds readily available for payment of principal and interest on the Notes. As of June 30, 2006 the amount of the outstanding Letter of Credit was \$217,753. The outstanding commercial paper bond anticipation notes and accrued interest, totaling \$201,087, have been included in the long-term liabilities, rather than in current liabilities, in accordance with SFAS No. 6. MARTA intends to refinance the commercial paper with long-term sales tax revenue bonds.

In February 2004, MARTA's bonding authority was revalidated by the Superior Court of Fulton County to increase its bonding capacity. Under the revalidated terms of this Third Trust Indenture, MARTA is limited to issue an additional \$900,000 of Sales Tax Revenue Bonds. MARTA's Board established a debt limit for the Sales Tax Revenue Bonds. The total annual debt service on such bonds is limited to no more than 45% of projected sales tax receipts for each year.

Sales and use tax revenues are initially deposited into a Sinking Fund held by the bond trustee as required by the Trust Indenture. At June 30, 2006 and 2005, the amounts held in the Sinking Fund exceeded the amounts required to be held pursuant to the Trust Indenture. All such amounts are classified as restricted assets in the accompanying statements of net assets.

Notes to the Financial Statements

June 30, 2006 and 2005

Dollars in Thousands

Following is a summary of the activity in the Sinking Fund for the years ended June 30, 2006 and 2005:

	Years Ended June 30	
	2006	2005
Balance, beginning of year	\$ 90,423	\$ 77,879
Sales and use tax proceeds	111,523	107,704
Investment income	2,016	1,327
Principal and interest payments on Sales Tax Revenue Bonds	(101,368)	(90,650)
Excess sales tax withheld refunded	(12,175)	(5,631)
Trustee/Other fees	(379)	(206)
Balance, end of year	<u>\$ 90,040</u>	<u>\$ 90,423</u>

Interest Rate Swap Agreements – As a means of interest rate management, to expand bonding capacity and to provide immediately available funds, MARTA entered into basis swap transactions in November 2004 with two counterparties in connection with its fixed rate outstanding bond issues, including Series 1996A, Series 1998B, and Series 2002, and its variable rate outstanding bond issues Series 2000A and Series 2000B.

Date of Execution	Notional Amount	Termination Date	Associated Bonds	MARTA Payment	Counterparty Payment	Counterparty & Credit Rating	Fair Value at 6/30/06	Cash Received
11/05/2004	518,310	07/01/2032	Series 1996A, 1998B, & 2002	USD-BMA ⁽¹⁾	65% of one-month LIBOR ⁽²⁾ + 11 basis points	Goldman Sachs Capital Markets A+	(25,778)	19,250
11/05/2004	200,000	07/01/2025	Series 2000A & 2000B	USD-BMA	61% of one-month LIBOR + 30 basis points	Merrill Lynch Capital Services A+	(10,584)	10,790

⁽¹⁾ The Bond Market Association Municipal Swap Index TM.

⁽²⁾ London Interbank Offered Rate.

The swap exposes MARTA to basis risk when the interest rates on the transactions are reset. The interest rate on the bonds is a tax-exempt interest rate, while the basis on the variable receipt on the interest rate swaps is taxable. Tax-exempt interest rates can change without a corresponding change in the 30 day LIBOR rate due to factors affecting the tax-exempt market which do not have a similar effect on the taxable market. MARTA will be exposed to basis risk under the basis swap to the extent that BMA trades at greater than expected percentages of LIBOR for extended periods of time and/or in a high interest rate environment. MARTA would also be exposed to tax risk stemming from changes in marginal income tax rates or those caused by a reduction or elimination in the benefits of tax exemption for municipal bonds.

Notes to the Financial Statements

June 30, 2006 and 2005

Dollars in Thousands

MARTA is exposed to termination risk if the swap could be terminated while valued in the favor of a counterparty as a result of any of several events, which may include a ratings downgrade for MARTA or the counterparty, covenant violation by either party, bankruptcy of either party, swap payment default of either party, and other default events as defined by the contract documents. Any such termination may require MARTA to make significant termination payments in the future.

MARTA is exposed to Counterparty credit risk where the Counterparty will not perform pursuant to the contract's terms. This risk could require MARTA to make a termination payment.

MARTA is exposed to interest rate risk when a generally adverse move in variable rates increases the overall cost of borrowing or if credit concerns relating to MARTA have the same impact. MARTA currently has \$200,000 exposure to variable rates and the Basis Swaps will not increase that exposure. However, variable rate exposure under the Basis Swap relates to the fact that MARTA's obligations under the Basis Swap will vary with market conditions and will not be fixed. Variability is associated with the absolute level of interest rates as well as the relationship between BMA and LIBOR.

MARTA is exposed to amortization risk and is the potential cost to MARTA of servicing debt and honoring swap obligations resulting from a mismatch of outstanding bonds and the notional amount of an outstanding swap. Amortization risk occurs to the extent bond and swap notional amounts become mismatched over the life of a transaction.

MARTA is exposed to market-access risk; there is the risk that MARTA will not be able to enter the credit market or that credit will become more costly.

MARTA received \$30,040 upfront payment of cash from the derivatives transactions. This cash money has increased assets and increased liabilities as deferred revenue in the Statements of Net Assets. This advance is being amortized monthly on an interest basis and is netted with the payment or receipt from monthly resetting of rates and applied to the interest expense of the underlying notional bond issues.

Notes to the Financial Statements

June 30, 2006 and 2005

Dollars in Thousands

8. BOND REFUNDINGS

On July 28, 2005 MARTA issued \$190,490 par Series 2005A refunding bonds at a coupon rate of 5.00% per annum. A portion of the proceeds will be applied, with other funds available, to refund all of the Authority's Sales Tax Revenue Bonds Series 1998B by placing the funds in an irrevocable trust with an escrow agent to provide debt service payments until the bonds refunded are called on July 1, 2008 at a redemption price of 101. The difference of 10,242 between the amounts paid to refund the bonds and the net carrying amount of such bonds is reported in the financial statements as a reduction in the sales tax revenue bonds and is being charged to operations over the life of the 2005A bonds, which has the same life as the refunded debt. As a result of the refunding, MARTA reduced its future debt service requirements by 17,274 and obtain an economic gain of 12,405 (difference between the present value of the debt service payments on the on the old and new debt).

On April 4, 2006 MARTA issued \$163,890 par Series 2006A refunding bonds at a coupon rate of 5.00% per annum. A portion of the proceeds will be applied, with other funds available, to refund all of the Authority's Sales Tax Revenue Bonds Series 1996A by placing the funds in an irrevocable trust with an escrow agent to provide debt service payments until the bonds refunded are called on July 1, 2006 at a redemption price of 102. The difference of 5,374 between the amounts paid to refund the bonds and the net carrying amount of such bonds is reported in the financial statements as a reduction in the sales tax revenue bonds and is being charged to operations over the life of the 2006A bonds, which has the same life as the refunded debt. As a result of the refunding, MARTA reduced its future debt service requirements by 2,704 and obtain an economic gain of 2,719 (difference between the present value of the debt service payments on the on the old and new debt).

In prior years, MARTA has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from MARTA's financial statements. At June 30, 2006, the amount of defeased debt outstanding but removed from MARTA's statement of net assets amounted to \$357,758.

9. PENSION PLANS

MARTA maintains two single-employer defined benefit pension plans (The MARTA/ATU Local 732 Employees Retirement Plan, previously known as the Union Employees Retirement Plan and Non-Represented Pension Plan) and beginning in January 2005 a defined contribution pension plan, for substantially all full-time permanent employees. The MARTA/ATU Local 732 Employees Retirement Plan (Union Plan) covers all members of Division 732 of the Amalgamated Transit Union and nonmembers who are represented by the Union for bargaining purposes. Covered employees are eligible to participate in the Union Plan upon the completion of sixty days of full-time employment. The Non-Represented Pension Plan (Non-Rep Plan) covers all full-time MARTA employees hired before January 1, 2005 who are not eligible to participate in the Union Plan, and who have chosen to remain in the Non-Rep Plan. Prior to January 1, 2005, covered employees were eligible to participate in the Non-Rep Plan on the first date of employment. After this date covered employees are eligible to participate in the Defined Contribution Plan on the first date of employment.

Notes to the Financial Statements

June 30, 2006 and 2005

Dollars in Thousands

The funding methods and determination of benefits for the defined benefit plans were established by the MARTA Act creating such plans and in general, provide that pension funds are to be accumulated from employee contributions, MARTA contributions, and income from the investment of accumulated funds. Each plan is administered by a pension committee. Each plan issues a publicly available financial report that includes financial information for that plan. Those reports may be obtained by writing or calling the plan.

Non-Represented Pension Plan
2424 Piedmont Road
Atlanta, GA 30324
(404) 848-5237

MARTA/ATU Local 732 Employees
Retirement Plan
2424 Piedmont Road
Atlanta, GA 30324
(404) 848-5237

The MARTA plans provide retirement benefits that, initially, are calculated under a step-rate benefit formula based on final average compensation (as defined), multiplied by factors related to length of continuous service. All modifications to the pension plans must be supported by actuarial analysis and receive the approval of the MARTA Board of Directors and pension committees.

Normal retirement under the Union Plan occurs when a participant reaches age 65. For the Non-Rep Plan, the participant must complete five years of credited service or attain age 62, whichever occurs later. The minimum pension benefit upon retirement under the Union Plan is \$650 per month reduced by 10% for each full year or fraction thereof for less than ten years of service. Under the Non-Rep Plan, the minimum monthly benefit is \$32.50 times credited service up to 30 years.

The following schedule (derived from the most recent actuarial valuation report) reflects membership for the plans as of January 1, 2006 for the Union Plan and Non-Rep Plan.

Funding Status and Annual Pension Cost - MARTA's funding policy is to contribute a percentage of each plan's covered payroll as developed in the actuarial valuation for the individual plan. MARTA's contribution percentage is the actuarially determined amount necessary to fund plan benefits after consideration of employee contributions. In accordance with the plan agreement, employer and employee contributions to the Union Plan and the

	<u>Union</u>	<u>Non-Rep</u>
Active employees	2,528	1,111
Pensioners	1,246	837
Inactive vestees	<u>70</u>	<u>158</u>
Total	<u>3,844</u>	<u>2,106</u>

Non-Rep Plan must be at least equal to the actuarially determined amount necessary to fund plan benefits.

Notes to the Financial Statements

June 30, 2006 and 2005

Dollars in Thousands

The actuarially determined contribution amount is the sum of the annual normal costs determined under the Entry Age Normal actuarial cost method. The union plan's unfunded actuarial accrued liability is reported under Section III Valuation Results as of January 1, 2006 of the Actuarial Valuation Report. The non-rep plan's unfunded actuarial accrued liability is reported under Section I Statement of Actuarial Position as of January 1, 2006 of the Actuarial Valuation Report. MARTA's annual pension cost for the current year, based on actuarial valuations performed as of January 1, 2006 for union and non-rep plans and related information for each plan, is as follows:

	<u>Union</u>	<u>Non-Rep</u>
Contribution rates:		
MARTA	4.48%	14.50%
Plan members	2.45%	5.00%
Transit Police	-	6.50%
Annual pension cost	\$6,270	\$9,493
Contributions made	\$6,458	\$15,994
Actuarial valuation date	1/1/2006	1/1/2006
Actuarial cost method	Frozen Entry Age Cost Method	Entry Age Cost Method
Amortization method	Level % of pay, open	Level % of pay, open
Remaining amortization period	N/A	N/A
Asset valuation method	5 - year weighted index	5 - year weighted index
Actuarial assumptions		
Investment rate of return	7.5%	7.5%
Projected salary increases:		
Inflation and productivity	4.5%	3.8%
	per year	per year
Merit or seniority	1.0%	1.6%
	per year	per year
Post retirement benefit increases	none	none

Notes to the Financial Statements

June 30, 2006 and 2005

Dollars in Thousands

Entry Age Cost Method – The Non-Rep plan uses the entry age actuarial cost method. Under this method, the excess of the actuarial present value of projected benefits of the group included in the actuarial valuation over the actuarial value of assets is allocated as a level amount over the earnings of the group as a whole, not as a sum of individual allocations. The portion of the excess actuarial present value allocated to a valuation year is called the normal actuarial cost. All ancillary benefits are funded under the same method as retirement benefits.

Frozen Entry Age Actuarial Cost Method – Under the Union Plan, the cost method has been changed from the Aggregate Actuarial Cost Method to the Frozen Entry Age Actuarial Cost Method. Under this method the excess of the Present Value of Future Benefits of the group included in the actuarial valuation, over the sum of the Actuarial Value of Assets plus the Unfunded Frozen Actuarial Accrued Liability, is allocated on a level basis over the earnings of the group between the valuation date and the assumed age of benefit commencement. That portion of the Present Value of Future Benefits allocated to the current valuation year is called the Normal Cost. This amount is added along with administrative expenses for the year to the Amortization Payment required to pay off the Unfunded Frozen Actuarial Accrued Liability systematically over a fixed period to determine the Total Required Contribution for the Plan Year. The Plan's Actuarial Accrued Liability is set equal to the Actuarial Value of Assets.

Three-Year Trend Information -**MARTA/ATU Local 732 Retirement Plan**

<u>Plan Year</u>	<u>Annual Pension Cost (APC)</u>	<u>% of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	\$ 7,095	100%	\$ 0
2004	5,903	100	0
2005	6,270	100	0

Non-Represented Pension Plan

<u>Plan Year</u>	<u>Annual Pension Cost (APC)</u>	<u>% of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	\$ 7,794	100%	0
2004	10,043	100	0
2005	9,493	100	0

Notes to the Financial Statements

June 30, 2006 and 2005

Dollars in Thousands

Schedule of Funding Progress**MARTA/ATU Local 732 Employees Retirement Plan**

Beginning with the 2001 Fiscal year the Actual Cost Method was changed from the Aggregate to the Frozen Entry Age. Neither method separately identifies an Actuarial Accrued Liability. As a result, the Aggregate Method is not required to provide a Schedule of Funding Progress. The Frozen Entry Age Method is required to demonstrate the systematic amortization of the Unfunded Actuarial Accrued Liability.

Fiscal Year Ended December 31	Actuarial Value of Assets	Unfunded Frozen Actuarial Accrued Liability (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
2003	\$ 433,906	\$ (5,871)	\$ 98,862	(5.9) %
2004	425,719	(6,021)	93,196	(6.5)
2005	429,513	(6,189)	95,036	(6.5)

Non-Represented Pension Plan

Prior to January 1, 2002, the Aggregate Actuarial Cost Method was used in determining the funding requirements. This method does not identify or separately amortize unfunded actuarial liabilities. These liabilities are amortized through the normal cost. As of 1/1/2002, the Entry Age Method was adopted. The schedule of funding progress thereafter reflects this change.

Plan Year	Actuarial Value of Assets	Unfunded Frozen Actuarial Accrued Liability (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/2004	\$ 168,780	\$ 109,066	\$ 66,493	164.0 %
1/1/2005	170,633	112,511	62,699	179.4
1/1/2006	177,925	115,725	59,819	196.5

Defined Contribution Pension Plan – The MARTA Non-represented Defined Contribution Plan and Trust was established to provide benefits at retirement to non-represented employees of MARTA who were hired on or after January 1, 2005 and to those members of the Non-Rep Plan who elected to transfer to this plan. The plan is administered by Princeton Retirement Group. The employee is required to contribute 6% of their annual compensation and MARTA matches at 3% of the enrolled employee's annual compensation. Plan provisions and contributions requirements are established and may be amended by the pension committee after approval by resolution of the MARTA Board of Directors. Employer contributions to the plan for the year totaled \$125. Employee contributions to the plan were \$240.

Notes to the Financial Statements

June 30, 2006 and 2005

Dollars in Thousands

10. EMPLOYEE BENEFITS

Deferred Compensation Plan - MARTA has adopted a deferred compensation plan in accordance with Section 457 of the Internal Revenue Code. The plan allows any employee to voluntarily defer receipt of up to 25% of gross compensation, not to exceed \$15 per year. All administration costs of the plan are deducted from the participant's account. The deferred amounts may be distributed to the employee upon retirement or other termination of employment, disability, death, or financial hardship (as defined). The plan's assets are held and administered by insurance providers. The Authority has no fiduciary relationship with the trust. Accordingly, the plan assets are not included on MARTA's financial statements.

Postretirement Benefits - In addition to providing pension benefits, MARTA provides certain health care benefits until age 65 and life insurance for all retired employees. Fully vested (5 years of service) non-represented employees less than age 52 who elect early retirement and represented employees retiring with a regular, disability, or early (unreduced) pension are eligible for postretirement health care benefits at no cost to the retiree for the first ten years after their retirement. Such retirees may elect to continue coverage for an additional five years, with the retiree contributing 50% of the cost of the coverage. The maximum number of years for a retiree to receive MARTA health care benefits is fifteen years or to age 65, whichever comes first. These post retirement benefits are not offered to any non-represented employee hired on or after July 1, 2004. The cost of providing benefits is financed on a pay-as-you-go basis and expensed as paid.

The cost of providing healthcare benefits and life insurance for represented and non-represented retirees is as follows:

Fiscal Year	<u>Represented Employees</u>			<u>Non-Represented Employees</u>		
	Medical # of Participants	Life Insurance # of Participants	Cost	Medical # of Participants	Life Insurance # of Participants	Cost
2004	485	738	\$ 3,030	382	604	\$ 2,729
2005	570	1,008	4,196	429	672	2,119
2006	575	1,051	4,463	427	711	1,936

11. RISK MANAGEMENT

MARTA is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or acts of God. MARTA is self-insured for workers' compensation risks. MARTA is self-insured for public liability and property damage claims up to \$5,000 per occurrence. MARTA carries liability insurance for amounts exceeding the self-insured limits. MARTA has a combination employee health and dental plan, whereby employees may select their desired coverage.

MARTA entered into an insurance program on January 1, 2000 with an insurance company, wherein loss payments in any month after that date are capped at \$500 and aggregate losses in excess of \$250 up to \$5,000 on a single occurrence are capped at \$25,000 for the five-year period. The insurance program was terminated on June 30, 2006. MARTA received the initial deposit premium of \$20,000, less claim adjustments, plus accrued interest of \$262, on June 30, 2006.

Notes to the Financial Statements

June 30, 2006 and 2005

Dollars in Thousands

MARTA also provides a coordinated insurance program for its construction program, which covers MARTA and its contractors. This program insures workers' compensation risks at 100%. General liability is covered by a tiered \$1,000 primary policy subject to \$100 deductible, \$4,000 self-insured, and an excess policy for claims from \$5,000 to \$25,000. All risk property is insured by the same program as MARTA property.

There were no significant reductions in insurance coverage from coverage in the prior year. The amount of claims settlements did not exceed insurance coverage in any of the past three years.

The changes in the liabilities for self-insurance for the years ended June 30, 2006 and 2005 are as follows:

	<u>Workers' Compensation</u>	<u>Public Liability and Property Damage</u>	<u>Totals</u>
Balance, July 1, 2004	\$ 6,148	\$ 10,068	\$ 16,216
Incurred claims, net of any changes	5,004	4,463	9,467
Payments	(4,955)	(4,797)	(9,752)
Balance, June 30, 2005	6,197	9,734	15,931
Incurred claims, net of any changes	5,710	2,384	8,094
Payments	(5,065)	(4,139)	(9,204)
Balance, June 30, 2006	<u>\$ 6,842</u>	<u>\$ 7,979</u>	<u>\$ 14,821</u>
Due within one year	<u>\$ 766</u>	<u>\$ 523</u>	<u>\$ 1,289</u>

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported and incremental claims adjustment expenses. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors.

MARTA also provides employee health insurance which includes medical, vision, pharmacy drugs, dental, critical illness, and life insurance. Effective July 1, 2005 medical and dental plans moved from a fully-insured arrangement to a self-funded arrangement. The three medical plans have both specific and aggregate stop loss insurance

Notes to the Financial Statements

June 30, 2006 and 2005

Dollars in Thousands

12. DEFERRED REVENUE

During the year ended June 30 2001, MARTA entered into two arrangements to lease a number of its rail cars to third party investors and sublease them back under a capital sublease. The effect of the transaction was to transfer the tax benefits of ownership to the investors, in exchange for which MARTA received cash consideration equal to the difference between the lease and sublease payments of \$24.2 million (less expenses totaling \$4.6 million resulting in net proceeds totaling \$19.6 million). The sublease payments have been economically defeased (prepaid) by MARTA and placed in an irrevocable trust. MARTA is required to maintain the cars at an operating level over the life of the sublease as specified in the terms of the lease agreement. Because of the ongoing maintenance and renovation expenditures required to meet this operating level, the net proceeds were deferred and will be amortized over the life of the respective leases (approximately 18.5 years) on a straight-line basis.

During the year ended June 30, 2002, MARTA entered into an additional arrangement to lease rail cars to third party investors and sublease them back under a capital sublease. MARTA received \$11.4 million as a result of the transaction. The proceeds are being amortized over the life of the respective lease (approximately 25 years) on a straight-line basis.

During the year ended June 30, 2003, MARTA entered into an additional lease leaseback arrangement for rail cars with third party investors. A lease leaseback arrangement was also entered into for the Avondale Rail Maintenance Facility. MARTA received cash consideration of \$15.3 million for the two transactions (less expenses totaling \$1.5 million, resulting in net proceeds of \$13.8 million). The net proceeds are being amortized over the life of the respective leases on a straight-line basis (approximately 25 years for the rail cars and 31½ for the maintenance facility).

During the year ended June 30, 2004, MARTA entered into additional lease leaseback arrangements with third party investors. These arrangements consist of a 32-year lease-to-service contract on the east rail line from Five Points station to Indian Creek station and a 29-year lease-to-service contract on the south rail line from Five Points station to Airport station. MARTA received cash consideration of \$51.7 million for the transactions (less expenses totaling \$2.7 million, resulting in net proceeds of \$49 million). The net proceeds are being amortized over the life of the respective leases on a straight-line basis.

During the year ended June 30, 2005, MARTA received additional cash consideration of \$2.2 million, less a negligible amount of expenses, for a forward moving contract on the lease service deposits related to the south rail line and east rail leaseback transactions entered into in the year ended June 30, 2004 and the Avondale Rail Maintenance Facility entered into during the year ended June 30, 2003. The net proceeds are being amortized over the life of the leases, which are approximately 28 years and 31 years respectively, on a straight-line basis.

During the year ended June 30, 2006, MARTA received cash consideration of \$5.2 million, net of expenses, for defeased lease financing of forty railcars. The net proceeds are being amortized over the life of the lease, which is approximately 28 years, on a straight-line basis.

Notes to the Financial Statements

June 30, 2006 and 2005

Dollars in Thousands

13. COMMITMENTS AND CONTINGENCIES

Commitments -MARTA's long-range plan provides for the planning, construction, financing, and operation of a rapid transit system in multiple phases, consisting of approximately 60 miles of double track and 45 stations, of which 47.6 miles and 38 stations were in service June 30, 2006. Procurement of 100 new railcars is complete with all received as of June 30, 2006. MARTA has entered into a contract to rehabilitate 238 railcars. As of June 30, 2006, \$6.1 million was committed to this project. As of June 30, 2006, \$46.6 million was committed for the upgrade and replacement of the bus and rail fare collection and processing system. At June 30, 2006 MARTA was committed to future capital expenditures for various other projects, including a new Enterprise Resource Planning/Enterprise Assets Management system, a closed circuit TV system upgrade project, upgrade of the rail stations for the fare collection system and track renovation projects.

FTA has provided the majority of the funds required to construct phase A (13.7 miles) and phase B (9.7 miles) of the system with four grants totaling approximately \$1,232,400 in federal funds. Additionally, FTA has approved \$290,318 in federal funds for phase C (10.6 miles), \$133,400 for phase D (10.3 miles), and \$370,189 for phase E (3.0 miles). The remaining costs of the system have been financed through sales and use tax revenues, Sales Tax Revenue Bonds, and investment income.

FTA has also authorized other grant funds for the construction of bus transit facilities, replacement and rehabilitation of transit operating equipment, development work for construction support techniques, purchase and installation of a computer, and other purposes not directly related to the rail construction program.

MARTA plans to fund its committed projects through the unencumbered capital portion of its sales tax, additional lease leaseback transactions, future new bond proceeds, issuance of commercial paper and federal and state capital grants. MARTA also has lease and interest revenue and capital reserves available to supplement its needs.

MARTA has entered into forward contracts to hedge diesel (using low sulfur heating oil) and natural gas. MARTA enters these contracts to help plan its diesel and natural gas costs for the fiscal year and to protect itself against price volatility in the market prices of the commodities. It is possible that the index prices may be lower than the price at which MARTA committed to in the contracts. This would reduce the value of the contract and MARTA could sell the contract at a loss, or likewise if the index prices are higher, the value of the contracts would increase and MARTA could sell the contracts at a profit. If MARTA continues to hold the contract until maturity, MARTA may make or receive termination payments to or from the counterparty to settle the obligation under the contract. These contracts settle on a monthly basis and will expire on December 31, 2008.

MARTA is also exposed to the failure of the counterparty to fulfill the forward-fuel contract. The terms of the contract include provisions for recovering the cost in excess of the guaranteed price from the counterparty should MARTA have to procure low sulfur diesel and natural gas on the open market.

During the year ended June 30, 2001, MARTA began construction of a Transit Oriented Development Program whereby MARTA would lease office, retail, and residential space. The BellSouth towers and related parking and retail space were completed in October 2002. Several

Notes to the Financial Statements

June 30, 2006 and 2005

Dollars in Thousands

lease agreements have been signed, the terms of which provide for various payments to be made to MARTA over a variety of years.

AGL constructed a refueling station on MARTA's property at Perry Boulevard. MARTA leases this refueling station under an operating lease. The non-cancelable lease term is for five years after which the lease provides three renewal options of five years each but does not include a bargain renewal option. MARTA has the option to purchase the refueling station at the remaining value of the outstanding options valued at \$125 per year.

Total cost for such lease was \$552 for the year ended June 30, 2006 and \$538 for year ended June 30, 2005. The minimum future rental payment for year FY2007 is \$384, and for each remaining option year, is \$384. However, the actual amount of lease payments for future years is dependent upon the amount of fuel used at the station.

MARTA leases air rights and ground leases over and adjacent to its stations to third parties for the construction of office and other developments. Future lease payments scheduled to be received under noncancelable operating leases are as follows at June 30, 2006:

<u>Fiscal Year</u>	<u>Amount</u>
2007	\$ 3,436
2008	3,805
2009	3,899
2010	4,289
2011	4,444
Total	<u>\$ 19,873</u>

Contingencies –MARTA is a defendant in several lawsuits relating to alleged personal injuries, and alleged damages to property and business as a result of its operations. Claims have also been filed with MARTA which, for the most part, relate to alleged changes and/or conditions imposed on various contractors by MARTA beyond those provided for in the original contracts. In addition, FTA periodically audits costs relating to the federal grants. Any costs that are ultimately determined to be non-allowable under the provisions of a federal capital grant will have to be funded with local funds. The outcome of the above matters is not presently determinable; however management believes the ultimate resolution of these matters will not materially affect the financial statements of MARTA.

Notes to the Financial Statements

June 30, 2006 and 2005

Dollars in Thousands

14. SUBSEQUENT EVENTS

MARTA is required to make monthly deposits into the debt service (sinking fund) for the principal and interest payments due semi-annually on its bonds. MARTA, via the trustee, currently invests these deposits in a money market fund or short-term permitted investments that mature on or before the debt service payment dates. MARTA chose to receive the interest earnings from the debt service funds in an upfront payment which represents the present value of the future interest cash flow. On August 15, 2006, MARTA and its bond trustee, SunTrust Bank, entered into a debt service forward delivery agreement with the issuer, Bank of America, NA, with respect to the debt service fund related to Series N issued in original aggregate principal amount of \$122,245, Series P issued in the original aggregate principal amount of \$296,755, Series 1998A issued in the original aggregate principal amount of \$144,535 and Series 2005A issued in the original aggregate principal amount of \$190,490 providing for the upfront payment of present valued interest of \$11,350. A portion of the proceeds from the upfront interest payments on the bonds will be used towards fulfillment of debt service requirements.

On August 9, 2006 MARTA contributed \$45,000 to the Non-represented pension plan to reduce the unfunded actuarial accrued liability outlined in the Actuarial Valuation Report as of January 1, 2006. State law places restrictions on pensions that fall in the category of MARTA's non-represented pension plan. Prior to this contribution, MARTA was in the position of falling out of compliance with the State restriction that requires that the pension fund be at least 75% funded to continue to invest 60% of the funds assets in the equity market and, of that, 5% in international equities. Failure to meet this requirement will reduce the allowable equity investment to 55% and 0% in the international market. This reduction would serve to further exacerbate the magnitude of the under-funding. The additional funding allowed the Authority to avoid non-compliance on its non-represented pension plan.

Metropolitan Atlanta Rapid Transit Authority
Supplemental Schedule of Revenues and Expenses,
Budget vs Actual (Budget Basis)

June 30, 2006
Dollars in Thousands

	Budget	Actual (Budget Basis)	Variance Favorable/ (Unfavorable)
Operating Revenues:			
Fare Revenues	\$ 96,645	\$ 99,148	\$ 2,503
Other Revenues	10,031	6,112	(3,919)
Total Operating Revenues	106,676	105,260	(1,416)
Operating Expenses:			
Transportation	140,935	146,162	(5,227)
Maintenance and Garage Operations	116,867	110,065	6,802
General and Administrative	63,748	50,278	13,470
Contingency	2,000	-	2,000
Total Operating Expenses	323,550	306,505	17,045
Operating Loss	(216,874)	(201,245)	15,629
Nonoperating Revenues (Expenses):			
Sales and Use Tax	311,956	334,486	22,530
Federal Operating Revenues	37,076	39,045	1,969
Investment Income	4,220	13,136	8,916
Other Revenues	3,674	10,088	6,414
	356,926	396,755	39,829
Increase in Net Assets - Budget Basis	<u>\$ 140,052</u>	195,510	<u>\$ 55,458</u>
Basis Differences			
Depreciation		(147,052)	
Gain (Loss) on Sales of Property and Equipment		572	
Interest Expense		(65,831)	
Interest Expense Capitalized		3,470	
Amortization of Bond Discount, Issue Costs and Deferred			
Loss on Refunding		1,177	
General and Administrative Expense - Nonoperating		(13,160)	
Capital Grants		38,643	
Increase in Net Assets - GAAP Basis		<u>\$ 13,329</u>	

See Notes to Supplemental Schedule

Notes to the Financial Statements

June 30, 2006

Dollars in Thousands

Budgetary Highlight

MARTA adopts its Operating and Capital Budget in June of each year. Once adopted, total budgeted revenues and/or expenses cannot change without Board approval. The fiscal year 2006 net operating expenses were \$306 million. This was \$17 million (5%) less than the fiscal year 2006 original budget, which had been budgeted \$6.8 million (2.15%) more than the previous year's budget. In fiscal year 2006, MARTA inspected and placed into service fifty-five (55) low floor buses to replace aging (14 year old) high floor buses. MARTA also reviewed and changed the Preventative Maintenance Program and initiated a Reliability Centered Maintenance/Predictive Maintenance (RCM) program in order to improve reliability and reduce cost. MARTA continued a number of cost containment measures in fiscal year 2006, such as, restrictions on hiring new employees, salary freezes for non-represented employees (non-represented employees received their first increase in four years in February 2006), and aggressively managing its health insurance program. These measures lead to the \$13 million favorable variance in general and administrative expenses. MARTA benefited from a general rise in the economy which pushed Sales and Use Tax collections higher than anticipated.

APPENDIX C
DOCUMENT SUMMARIES

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DOCUMENT SUMMARIES

Following are summaries of certain provisions of the Indenture. Such summaries do not purport to be complete and reference is made to the Indenture, a copy of which is on file with and available for examination at the office of the Trustee. Definitions of terms previously defined in this Official Statement may not be contained in the following summaries, but will have the meanings set forth previously.

DEFINITIONS

The following is a summary of certain terms defined in the Indenture, including the First Supplemental Trust Indenture, the Second Supplemental Trust Indenture, the Third Supplemental Trust Indenture, the Fourth Supplemental Trust Indenture and the Fifth Supplemental Trust Indenture, and used in this Official Statement. Reference is hereby made to such actual documents for a complete recital of the definitions contained therein.

“Accreted Value” means the amounts set forth in and the amounts computed pursuant to the formula set forth in the Related Supplemental Indenture authorizing the issuance of the Capital Appreciation Bonds, the Accreted Value of which is being determined.

“Act” means the Metropolitan Atlanta Rapid Transit Authority Act of 1965, approved by the General Assembly of the State of Georgia on March 10, 1965 (Ga. Laws 1965, p. 2243), as amended or supplemented.

“Additional Bonds” means any additional Series of Bonds authorized to be issued by the Authority pursuant to the terms and conditions of the Indenture.

“Alternate Credit Facility” means any instrument furnished in accordance with the Indenture to replace the Credit Facility then in effect with respect to the applicable Bonds.

“Authenticating Agent” means the Registrar and, with respect to Bonds of any Series, the entity or entities designated as such in the applicable Series Resolution or Supplemental Indenture.

“Authority” means the public body corporate and joint public instrumentality of the City of Atlanta and the counties of Fulton, DeKalb, Clayton and Gwinnett created and existing under the name and style of “Metropolitan Atlanta Rapid Transit Authority,” and any body, agency or instrumentality of the State of Georgia or any of its subdivisions which hereafter succeeds to and assumes the liabilities, obligations, duties, rights and powers of the Authority.

“Authority Representative” means the Chair, the General Manager/Chief Executive Officer, the Assistant General Manager, Finance/Chief Financial Officer or any other person so designated for purposes of the Indenture by the Board of Directors of the Authority by filing a Certified Resolution with respect thereto with the Trustee.

“Bank” means the provider or providers of one or more Facilities and any successor.

“Bank-Owned Bonds” means any Bonds registered in the name of the Bank pursuant to the Indenture.

“Bankruptcy Code” means the United States Bankruptcy Code, 11 U.S.C. 101 *et seq.*, as amended or supplemented from time to time.

“Board of Directors” means the Board of Directors of the Authority.

“Bond” and *“Bonds”* means any of the Bonds, Bond Anticipation Notes or any other evidences of indebtedness for borrowed money, authorized, authenticated and delivered under the Indenture or a Supplemental Indenture.

“Bond Anticipation Notes” means any of the Bond Anticipation Notes authorized and delivered under the Indenture.

“Bond Counsel” means (i) with respect to the Tax-Exempt Bonds of a Series, the Counsel who renders the opinion as to the exclusion from gross income of interest on such Bonds for federal income tax purposes or such other nationally recognized bond counsel appointed by an Authority Representative of recognized expertise with respect to such matters, or (ii) with respect to the Bonds of a Series which are not Tax-Exempt Bonds, the Counsel who renders the opinion as to the validity and enforceability of such Bonds or such other nationally recognized bond counsel appointed by an Authority Representative.

“Bond Fund” means, with respect to a Series of Bonds, the fund of that name for such Series of Bonds created pursuant to the Indenture, and collectively all funds of that name for all Outstanding Series of Bonds created pursuant to the Indenture.

“Bond Purchase Fund” means, with respect to a Series of Bonds, the funds of that name established under the Indenture or with the Tender Agent pursuant to a Tender Agent Agreement and the Indenture.

“Bond Year” means the period commencing on July 2 of each calendar year and ending on July 1 of the following calendar year, or such other calendar year ending on the day that principal of a Series of Bonds is due as designated by the Authority.

“Book-Entry Form” means physical Bonds in fully registered form registered only in the name of a Securities Depository or its nominee as holder, with physical Bonds in the custody of a Securities Depository.

“Book-Entry System” means the system maintained by the Securities Depository under which the ownership of beneficial interests on Bonds may be transferred as described in the Indenture.

“Business Day” means any day other than (i) a Saturday, a Sunday or any other day on which banks located in the cities in which the Principal Offices of the Trustee, the Tender Agent, the Paying Agent, the Registrar, the Authenticating Agent or the Remarketing Agent, if any, are located, or in which the office from which payments are made pursuant to Credit Facility, if any, of the Credit Provider is located, are authorized or required to remain closed or (ii) a day which The New York Stock Exchange is closed.

“Capital Appreciation Bonds” means Bonds that bear interest payable at maturity, upon redemption prior to maturity or prior to maturity at the date or dates set forth in the related Series Resolution or Supplemental Indenture and in the amounts determined by reference to the Accreted Value of such Capital Appreciation Bonds in accordance with the provisions of the related Series Resolution.

“Certified Resolution” means a copy of a resolution of the Board of Directors of the Authority certified by the Chair, Vice-Chair, Secretary or Assistant Secretary thereof as being duly and lawfully adopted, in full force and effect and not having been modified, amended or rescinded.

“Chair” means the Chair of the Board of Directors of the Authority.

“*City*” means the City of Atlanta, Georgia.

“*Clayton*” means Clayton County, Georgia.

“*Code*” means the Internal Revenue Code of 1986, as amended; each reference to the Code is deemed to include the United States Treasury Regulations promulgated thereunder.

“*Construction Fund*” means, with respect to a Series of Bonds, the fund of that name created for such Series of Bonds pursuant to the Indenture.

“*Consultant*” means the consultant or consulting firm or corporation retained by the Authority to perform acts and carry out the duties of such consultant in the Indenture. Such consultant or consulting firm must be nationally recognized within its profession for work of the character required and must be acceptable to the Trustee.

“*Consulting Engineer*” means the particular general engineering consultant employed in connection with the System to perform the services usually performed by a general engineering consultant or consultants in area-wide transportation system construction, including the supervision of construction.

“*Contract*” means that certain Rapid Transit Contract and Assistance Agreement, dated as of the 1st day of September, 1971, among the City, Fulton, DeKalb, Clayton, Gwinnett and the Authority, which has become final and binding on the City, Fulton, DeKalb and the Authority, as amended or supplemented.

“*Cost of Issuance Account*” means, with respect to a Series of Bonds, the account of that name in the Construction Fund created for such Series of Bonds pursuant to the Indenture.

“*Cost of the System*” has the meaning set forth in the Act.

“*Counsel*” means an attorney at law or a firm of attorneys reasonably acceptable to the Trustee (who may be an employee of or counsel to the Authority, the Trustee or any Tender Agent) duly admitted to the practice of law before the highest court of any state of the United States of America or of the District of Columbia.

“*Credit Facility*” means any irrevocable letter of credit, line or lines of credit, policy of insurance, security agreement, pledge agreement, bond purchase agreement, guaranty, trust deposit receipt, surety bond or other credit or liquidity facility, including any instruments accompanying or relating to such Credit Facility delivered to the Trustee in connection therewith, issued by the Credit Provider with respect to any Bonds in accordance with the provisions of the Indenture, including any extensions thereof. In the event of the delivery of an Alternate Credit Facility (as defined in the Indenture) with respect to the related Bonds, “*Credit Facility*” includes such Alternate Credit Facility.

“*Credit Facility - Interest Account*” means, with respect to a Series of Bonds secured by a Credit Facility, the account of such name in the Bond Fund created for such Series of Bonds pursuant to the Indenture.

“*Credit Facility - Principal Account*” means, with respect to a Series of Bonds secured by a Credit Facility, the account of such name in the Bond Fund created for such Series of Bonds pursuant to the Indenture.

“Credit Provider” means, with respect to any Credit Facility provided for any Bonds, the Person having an obligation to pay moneys under such Credit Facility, including obligations contingent upon satisfaction of certain conditions.

“Daily Rate” means, with respect to Bonds of a Series, the interest rate to be determined for such bonds on each Business Day by the Remarketing Agent pursuant to the Indenture and the related Series Resolution or Supplemental Indenture.

“Date of Issue” means, unless otherwise provided in the related Series Resolution or Supplemental Indenture, with respect to Bonds of a Series, the date or dates on which such Bonds are issued and delivered to the Original Purchaser thereof in exchange for the payment of the purchase price thereof.

“Dealers” means the Series 2004A Dealer and the Series 2004B Dealer.

“Dealer Agreements” means Series 2004A Dealer Agreement and the Series 2004B Dealer Agreement.

“Debt Service” means, with respect to any particular Bond Year and any particular Series of Bonds or Prior Bonds, an amount equal to the sum of (a) all interest payable on such Bonds and Prior Bonds during such Bond Year, plus (b) any Principal Installments of such Bonds and Prior Bonds payable during such Bond Year. For purposes of computing “Debt Service,” the rate of interest used to determine the interest requirement shall be a rate per annum equal to (i) with respect to any Series of Bonds or Prior Bonds which bear interest at a Fixed Rate, the rate or rates of interest borne or to be borne by such Bonds or Prior Bonds, and (ii) with respect to any Series of Bonds or Prior Bonds which bear interest at a Variable Rate, (A) the average of the actual variable rates of interest borne by such Bonds or Prior Bonds for the most recent 24-month period immediately preceding the date of calculation for which such information is available plus 100 basis points or, (B) if such information is unavailable for such 24-month period or with respect to any Series of Bonds or Prior Bonds that were not outstanding for the full term of such 24-month period, a rate equal to the 25 Year Revenue Bond Index for revenue bonds as published by The Bond Buyer at the end of the week prior to the week during which the Authority adopts proceedings authorizing the issuance of such Bonds or Prior Bonds (except if such index shall not then be published, then the interest on such Bonds or Prior Bonds shall be calculated at a rate equal to (x) the average annual interest rate on such Bonds and Prior Bonds for the 12-month period immediately preceding the date of calculation for which such information is available or, (y) with respect to any Series of Bonds or Prior Bonds that were not outstanding for the full term of such 12-month period, the average of the actual variable rates of interest borne by such Bonds or Prior Bonds for the period during which such Bonds and Prior Bonds shall have been outstanding, or (z) if such Bonds have not yet been issued, then the interest rate on such Bonds shall be calculated at a rate equal to the initial interest rate established for such Bonds); provided, however, for purposes of this definition with respect to Debt Service on any Bonds or Prior Bonds which are subject to a Hedge Agreement, interest on such Bonds or Prior Bonds during the term of such Hedge Agreement shall be calculated by adding the amount of interest payable by the Authority on such Hedged Bonds and the amount of Hedge Payments payable to the Authority under the related Hedge Agreement; provided, however, that if (aa) the Hedge Provider of any Hedge Agreement is in default thereunder or (bb) the rating on the outstanding long-term debt or claims-paying ability of the Hedge Provider falls below Baa2 from Moody’s or BBB from S&P and the Authority has not replaced such Hedge Agreement with another within ten Business Days, then the amount of interest payable by the Authority on the related Hedged Bonds shall be the interest calculated as provided herein as if such Hedge Agreement had not been in executed. The term “Debt Service” includes payments to a Credit Provider pursuant to a Reimbursement Agreement to reimburse such Credit Provider for Principal Installments or interest on Bonds and Prior Bonds made by such Credit Provider, and to pay credit enhancement or liquidity support fees, with respect to such indebtedness, scheduled to come due within a

specified 12-month period. Notwithstanding the foregoing, under any circumstances where “Debt Service” is used to describe interest payable on any Bonds or Prior Bonds for a period during which the actual interest on the Bonds or Prior Bonds can be calculated, the amount of actual interest on such Bonds and Prior Bonds shall be used.

“*Default*” or “*default*” means, with respect to Bonds of a Series, any event which with the giving of notice, the passage of time, or both, becomes an “Event of Default.”

“*DeKalb*” means DeKalb County, Georgia.

“*Escrow Agent*” means the bank or trust company acting in such capacity pursuant to the Escrow Agreement, and any successors thereto, pursuant to the Escrow Agreement.

“*Escrow Agreement*” means the agreement or agreements between the Authority and the Escrow Agent and any successor escrow agreement entered into by the Authority pertaining to the Notes.

“*Event of Default*” means, with respect to Bonds of a Series, an occurrence or event specified in the Indenture and described herein under “THE INDENTURE—Events of Defaults; Remedies.”

“*Facility*” means, a letter of credit, line of credit, standby bond purchase agreement or other liquidity or credit support or mechanism delivered, made, entered into or otherwise obtained for the purpose of securing the payment of principal of and interest on Notes or any substitute Facility and shall include the agreement providing for a Facility authorized pursuant to the First Supplemental Trust Indenture, including any similar agreement which provides for a substitute Facility pursuant to the First Supplemental Trust Indenture.

“*Favorable Opinion of Bond Counsel*” means an opinion of Bond Counsel addressed to the Authority and the Trustee to the effect that the action proposed to be taken is authorized or permitted by the Indenture and the Act, with respect to Tax-Exempt Bonds, the exclusion of the interest on such Tax-Exempt Bonds (or a Series thereof) from the gross income of the recipients thereof for federal income tax purposes.

“*First Indenture*” means the Trust Indenture, dated as of January 1, 1976, between the Authority and the First Indenture Trustee, as amended and supplemented.

“*First Indenture Bonds*” means all the outstanding revenue bonds of the Authority issued under the First Indenture.

“*First Indenture Trustee*” means U.S. Bank National Association (as successor to SunTrust Bank, the Citizens and Southern National Bank, Atlanta, Georgia, NationsBank of Georgia, National Association and First Union National Bank, Atlanta, Georgia), and its successors and assigns.

“*First Supplemental Trust Indenture*” means the First Supplemental Trust Indenture dated as of December 1, 2004, between the Authority and the Trustee, which supplements the Indenture and provides for the issuance of the Notes.

“*Fiscal Division*” means the Office of the Treasury and Fiscal Services of the State of Georgia, formerly known as the Fiscal Division of the Georgia Department of Administrative Services, and, where applicable, will include the Director of the Fiscal Division, successor to the State Treasurer of Georgia, whose functions were transferred to the Fiscal Division pursuant to an Act of the General Assembly of the State of Georgia approved on April 6, 1972 (Ga. Laws 1972, p. 1038).

“*Fitch*” means Fitch Ratings, a corporation organized and existing under the laws of the State of New York, its successors and assigns, and, if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, “*Fitch*” will be deemed to refer to any other nationally recognized securities rating agency designated by the Authority with the approval of the related Credit Provider and the Remarketing Agent, if any, with notice to the Trustee and the related Tender Agent, if any.

“*Fixed Rate*” means the rate which the Bonds of a Series bear interest during any Fixed Rate Period.

“*Fulton*” means Fulton County, Georgia.

“*General Fund*” means the general operating account established by the Authority.

“*Government Obligations*” means (a) direct obligations of the United States of America for the payment of which the full faith and credit of the United States of America is pledged, (b) obligations issued by a Person controlled or supervised by and acting as an instrumentality of the United States of America, the payment of the principal of and interest on which is fully and unconditionally guaranteed as a full faith and credit obligation of the United States of America (including any securities described in (a) and (b) issued or held in book-entry form in the name of the Trustee only on the books of the Department of Treasury of the United States of America), which obligations, in either case, are not subject to redemption prior to maturity by anyone other than the holder, or (c) any certificates or any other evidences of an ownership interest in obligations or specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in (a) or (b) which have been stripped by the Department of Treasury.

“*Gwinnett*” means Gwinnett County, Georgia.

“*Hedge Agreement*” means an agreement between the Authority and a Hedge Provider (a) which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement, or futures contract; (b) which provides for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices; (c) to exchange cash flows or payments or series of payments; (d) designed to perform the function of interest rate floors, collars, or caps, options, puts, or calls, to hedge or minimize any type of financial risk, including, without limitation, payment, currency, rate, or other financial risk; and (e) which the Authority determines is to be used, or is intended to be used, to manage or reduce the cost of any Bonds, to convert any element of any Bonds from one form to another, to maximize or increase investment return, to minimize investment return risk, or to protect against any type of financial risk or uncertainty.

“*Hedge Payments*” means amounts payable by the Authority to any Hedge Provider less any amounts payable by such Hedge Provider to the Authority (other than termination payments, fees, expenses and indemnity payments owed by or due to either party) under a Hedge Agreement, as certified in writing to the trustee by an Authority Representative.

“*Hedge Provider*” means the counterparty with which the Authority enters into a Hedge Agreement; provided that the outstanding long-term debt or claims-paying ability of such counterparty must be rated at least A3 or better by Moody’s and A- or better by S&P at the time such Hedge Agreement is entered into.

“*Hedged Bonds*” means any Bonds for which the Authority shall have entered into a Hedge Agreement.

“Indenture” means the Trust Indenture dated as of October 1, 2003, between the Authority and the Trustee, as amended or supplemented.

“Initial Bank” means, Dexia Credit Local, acting through its New York Branch.

“Initial Facility” means, the Facility issued by the Initial Bank pursuant to the Letter of Credit Reimbursement Agreement dated as of December 2, 2004 by and between the Authority and the Initial Bank

“Interest Account” means, with respect to a Series of Bonds, the account of that name in the Bond Fund created for such Series of Bonds pursuant to the Indenture.

“Interest Payment Date” means, when used with respect to the Bonds of a Series, those days provided in the related Series Resolution or Supplemental Indenture for the payment of interest thereon, including each Conversion Date and Mandatory Tender Date.

“Issuing and Paying Agency Agreement” means the Issuing and Paying Agency Agreements between the Authority and the Issuing and Paying Agents with respect to the Series 2004A Notes and the Series 2004B Notes.

“Issuing and Paying Agent” means the bank or trust company acting in such capacity pursuant to the Issuing and Paying Agency Agreement, and any successors thereto, pursuant to the Issuing and Paying Agency Agreement.

“Moody's” means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, *“Moody's”* will be deemed to refer to any other nationally recognized securities rating agency designated by the Authority with the approval of the related Credit Provider and Remarketing Agent, if any, with notice to the Trustee and the related Tender Agent, if any.

“Notes” means the Series 2004A Notes and the Series 2004B Notes.

“Outstanding” when used to modify Notes, refers to Notes issued under the First Supplemental Trust Indenture, excluding: (i) Notes which have been paid; (ii) Notes which have become due and for the payment of principal of and interest on which moneys have been duly provided to the Issuing and Paying Agent; and (iii) Notes for which there have been set aside from proceeds of Sales Tax Revenue Bonds or refunding Notes with the Escrow Agent, pursuant to the Escrow Agreement, sufficient funds, or obligations in which the Authority may legally invest bearing interest at such rates and with such maturities as will provide sufficient funds, to reimburse the Bank for amounts paid under the Facility to pay the principal of and interest on such Notes when due

“Owner” means the Person or Persons in whose name or names a Bond is registered on books of the Authority kept by the Registrar for that purpose in accordance with the terms of the Indenture.

“Participating Local Governments” means the City, Fulton and DeKalb and any other local governments and municipalities with respect to which the Contract becomes final and binding, in accordance with the provisions of the Act and the Contract, at any time while any of the Bonds are Outstanding.

“Paying Agent” means, with respect to Bonds of a Series, the banks or trust companies named by the Authority in accordance with the Indenture as the places at which the principal and/or Purchase Price

of and/or interest and/or premium on such Bonds will be payable, which may include the Trustee and any Tender Agent.

“Permitted Investments” means and includes bonds or notes of the United States or unconditionally guaranteed by the United States or bonds or notes of the State of Georgia or unconditionally guaranteed by the State of Georgia, or bonds, notes or other obligations of any corporation, agency or instrumentality of the United States Government, and any other investments permitted by law.

“Person” means natural persons, firms, partnerships, associations, corporations, trusts and public bodies.

“Principal Account” means, with respect to each Series of Bonds, the account of that name in the Bond Fund created for such Series of Bonds pursuant to the Indenture.

“Principal Installment” means, as of any date of calculation, (i) the aggregate principal amount of Outstanding Bonds due on a certain future date, reduced by the aggregate principal amount of such Bonds which would be retired by reason of the payment when due and application in accordance with the Indenture of Sinking Fund Payments payable before such future date, plus (ii) any Sinking Fund Payments due on such certain future date, plus (iii) with respect to any Capital Appreciation Bonds due on such certain future date, the Accreted Value of such Capital Appreciation Bonds.

“Principal Office” means, with respect to the Trustee, the office at the address specified as such in the Indenture, with respect to a Remarketing Agent or Tender Agent, the office at the address specified in the related Series Resolution or Supplemental Indenture, and, in any case, such other office as the Trustee, the Remarketing Agent or the Tender Agent, as the case may be, designates in writing mailed to the Authority and to each of the other of said parties.

“Principal Payment Date” means, when used with respect to the Bonds of a Series, those days provided in the related Series Resolution or Supplemental Indenture for the payment of principal thereon.

“Prior Bonds” means the First Indenture Bonds and the Second Indenture Bonds.

“Pro Forma Note Debt Service” means the Debt Service on a hypothetical Series of Sales Tax Revenue Bonds, the principal amount of which shall be equal to the Available Principal Commitment (as defined in the Initial Facility), plus an amount equal to the Principal Component of any Advance (as defined in the Initial Facility) that has not been repaid, amortized over 28 years with substantially equal annual payments of debt service on such hypothetical Series of Sales Tax Revenue Bonds and paying interest computed as specified in the definition of *“Debt Service”* in the Indenture.

“Project Bonds” means the Bonds of a Series issued to pay the costs, in whole or in part, of acquiring, constructing, improving, adding to and equipping the System.

“Purchase Price” means the purchase price of Bonds tendered or required to be tendered for purchase pursuant to the Indenture.

“Rating Category” or *“Rating Categories”* means one or more of the generic rating categories of a nationally recognized securities rating agency, without regard to any refinement or gradation of such rating category or categories by a numerical modifier or otherwise.

“Rebate Fund” means, with respect to a Series of Bonds, the fund of that name created for such Series of Bonds pursuant to the Indenture.

“Refunding Bonds” means Bonds issued under the Indenture to refund, in whole or in part, (a) Bonds, First Indenture Bonds or Second Indenture Bonds of one or more Series or one or more maturities or portions of such maturities within a Series in accordance with the Indenture or (b) other obligations of the Authority.

“Registrar” means, with respect to Bonds of a Series, either the Paying Agent and/or the Tender Agent and/or the agent appointed by the Authority pursuant to the Indenture.

“Reimbursement Agreement” or *“Reimbursement Agreements”* means each reimbursement agreement, if any, between the Authority and a Credit Provider with respect to any Bonds, pursuant to which a Credit Facility is issued for such Bonds by such Credit Provider, and any and all modifications, alterations, amendments and supplements thereto.

“Remarketing Agent” means, with respect to Bonds of a Series, that Person, if any, designated as such by the Board of Directors of the Authority by duly adopted Series Resolution or any successor remarketing agent appointed in accordance with the Indenture and any permitted successor thereto. In the event that more than one Series of Bonds is issued under the Indenture and separate Remarketing Agents are appointed for each such Series, any reference herein to the *“Remarketing Agent”* without further description will mean the Remarketing Agent for such Series of Bonds.

“Reserve Fund” means, with respect to a Series of Bonds, the fund of that name created for such Series of Bonds pursuant to the Indenture.

“Reserve Fund Credit Facility” means any bond insurance policy, surety bond, letter of credit or similar instrument deposited in a Reserve Fund for any Series of Bonds.

“Reserve Fund Credit Provider” means, with respect to any Reserve Fund Credit Facility provided for any Bonds, the Person having an obligation to pay moneys under such Reserve Fund Credit Facility, including obligations contingent upon satisfaction of certain conditions.

“Reserve Fund Requirement” means, as of any date of calculation with respect to any Series of Bonds, the lesser of (a) the amount specified in the related Series Resolution or Supplemental Indenture, which may be zero, or (b) the least of (i) ten percent of the original aggregate principal amount of the Bonds; (ii) 125% of the average annual principal and interest requirements on the Bonds in any Bond Year; or (iii) the maximum annual principal and interest requirements on the Bonds in any Bond Year. The Reserve Fund Requirement with respect to the Notes is zero.

“Revenue Bond Law” means Official Code of Georgia Annotated Sections 36-82-60 to 36-82-85, as amended from time to time.

“Revenue Fund” means the fund of that name created pursuant to the Indenture.

“S&P” means Standard & Poor's Corporation, a division of The McGraw-Hill Companies, a corporation organized and existing under the laws of the State of New York, its successors and their assigns, and, if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, *“S&P”* will be deemed to refer to any other nationally recognized securities rating agency designated by the Authority with the approval of the related Credit Provider and Remarketing Agent, if any, with notice to the Trustee and the related Tender Agent, if any.

“Second Indenture” means the Trust Indenture dated as of March 1, 1993, between the Authority and the Second Indenture Trustee, as amended or supplemented.

“Second Indenture Bonds” means all the outstanding revenue bonds of the Authority issued under the Second Indenture.

“Second Indenture Trustee” means U.S. Bank National Association (as successor to SunTrust Bank (formerly Trust Company Bank)), and its successors and assigns.

“Series” means all of the Bonds delivered on a Date of Issue in a simultaneous transaction and designated as being a part of a particular Series, regardless of variations in maturity, interest rate, Sinking Fund Payments or other provisions, and any Bonds thereafter delivered in lieu of or in substitution for (but not to refund) such Bonds.

“Series 2004A Dealer” means Bear, Stearns & Co., Inc., acting as the dealer under the Series 2004A Dealer Agreement, and any successors thereto, pursuant to the Series 2004A Dealer Agreement.

“Series 2004B Dealer” means Lehman Brothers, acting as the dealer under the Series 2004B Dealer Agreement, and any successors thereto, pursuant to the Series 2004B Dealer Agreement.

“Series 2004A Dealer Agreement” means the agreement or agreements between the Authority and the Series 2004A Dealer and any successor dealer agreements entered into by the Authority pertaining to the Series 2004A Notes.

“Series 2004B Dealer Agreement” means the agreement or agreements between the Authority and the Series 2004B Dealer and any successor dealer agreements entered into by the Authority pertaining to the Series 2004B Notes.

“Series 2004A Notes” means the Bond Anticipation Notes of the Authority designated as “Sales Tax Revenue Commercial Paper Bond Anticipation Notes (Third Indenture Series), Series 2004A.”

“Series 2004B Notes” means the Bond Anticipation Notes of the Authority designated as “Sales Tax Revenue Commercial Paper Bond Anticipation Notes (Third Indenture Series), Series 2004B.”

“Series 2005A Reserve Fund Requirement” means an amount equal to one-half of the Total Debt Service due in any Bond Year on the Series 2005A Bonds and any other Bonds outstanding and secured by the Series 2005A Reserve Fund.

“Series 2006A Reserve Fund Requirement” means an amount equal to one-half of the Total Debt Service due in any Bond Year on the Series 2006A Bonds and any other Bonds outstanding and secured by the Series 2006A Reserve Fund.

“Series 2007A Reserve Fund Requirement” means an amount equal to one-half of the Total Debt Service due in any Bond Year on the Series 2007A Bond and any other Bonds outstanding and secured by the Series 2007A Reserve Fund.

“Series 2007B Reserve Fund Requirement” means an amount equal to one-half of the Total Debt Service due in any Bond Year on the Series 2007B Bond and any other Bonds outstanding and secured by the Series 2007B Reserve Fund.

“Series Resolution” means, with respect to Bonds of a Series, the Certified Resolution of the Board of Directors of the Authority authorizing the issuance of the Bonds of such Series under the Indenture and providing for certain provisions of the Bonds of such Series prior to the delivery of such Bonds.

“Securities Depository” means any securities depository that is a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to provisions of Section 17A of the Securities Exchange Act of 1934, operating and maintaining, with its participants or otherwise, a Book-Entry System to record ownership of beneficial interest in bonds and bond service charges, and to effect transfers of bonds in Book-Entry Form, and means, initially, The Depository Trust Company, New York, New York, and its successors and assigns.

“Sinking Fund Payment” means, as of any particular date of calculation and with respect to the Bonds of a Series, the amount required to be paid by the Authority on a certain future date for the retirement of Outstanding Bonds of such Series which mature after said future date, but does not include any amount payable by the Authority by reason of the maturity of a Bond or by call for redemption at the option of the Authority.

“State” means the State of Georgia.

“Supplemental Indenture” means an indenture supplementing or modifying the provisions of the Indenture entered into by and between the Authority and the Trustee in accordance with the provisions of the Indenture.

“System” has the meaning set forth in the Act.

“Tax Agreement” means with respect to a Series of Tax-Exempt Bonds, the certificate or agreement relating to compliance with certain arbitrage and other provisions of the Code.

“Tax-Exempt Bonds” means Bonds of a Series which were accompanied by an opinion of Bond Counsel on the Date of Issue thereof to the effect that the interest on such Bonds was not includable in the gross income of the Owners thereof for federal income tax purposes (except as set forth therein).

“Tender Agent” means, with respect to Bonds of a Series, any tender agent appointed by the Authority in accordance with the Indenture.

“Term Rate” means, with respect to Bonds of a Series, the interest rate to be determined for the Bonds of such Series for a term of three months or any integral multiple thereof pursuant to the Indenture.

“Termination Date” means the date on which the Facility in effect terminates or expires in accordance with its terms.

“Total Debt Service” means, with respect to any particular Bond Year, Debt Service during such Bond Year on all Bonds and Prior Bonds to be Outstanding as of the date immediately after the delivery of the Additional Bonds to be issued. For purposes of computing *“Total Debt Service,”* the calculation of “Debt Service” shall include such Additional Bonds

“Trust Estate” means the property conveyed to the Trustee pursuant to the granting clauses of the Indenture (see “THE INDENTURE--Trust Estate”).

“Trustee” means U.S. Bank National Association, and its successors and assigns.

“Variable Rate” means as the context requires, the Daily, Weekly, Monthly, Quarterly or Term Rate applicable to Bonds of a Series.

“*Weekly Rate*” means with respect to Bonds of a Series, the period during which the Bonds of such Series bear interest at a Weekly Rate.

THE INDENTURE

In addition to summaries of the Indenture contained elsewhere in this Official Statement, the following is a summary of certain other provisions of the Indenture. Reference is hereby made to the actual Indenture for a complete recital of its terms.

Trust Estate

In order to secure the payment of the principal of, premium, if any, purchase price, if any, and interest on all Bonds Outstanding under the Indenture from time to time, to secure the observance and performance by the Authority of all the covenants expressed or implied therein and in such Bonds, and to secure the payment of the obligations of the Authority to any Credit Providers under any Reimbursement Agreements, whether now or hereafter existing, the Authority has pledged and assigned to the Trustee and its successors in trust and assigns forever:

(a) Subject and subordinate to the rights of the owners and holders of the First Indenture Bonds as set forth in the First Indenture and to the rights of the owners and holders of the Second Indenture Bonds as set forth in the Second Indenture, all right, title and interest of the Authority in, to and under the Contract, as it may from time to time have been or be amended or supplemented, including, but not limited to, the payments to be made to the Authority thereunder and the right, power, authority and privilege to enforce the Contract and each and every provision thereof;

(b) All amounts on deposit in the Revenue Fund and with respect to each Series of Bonds, all amounts on deposit in any fund or account established under the Indenture with respect to such Series of Bonds, including the earnings thereon (except amounts on deposit in the Bond Purchase Fund or the Rebate Fund); and

(c) Any and all other property of each kind and nature from time to time hereafter pledged or assigned as and for additional security under the Indenture by the Authority in favor of the Trustee.

Limited Obligation

The Bonds and interest and premium, if any, thereon and the Purchase Price, if any, of Bonds and any obligation of the Authority under the Indenture are payable solely from the Trust Estate.

Terms of Bonds; Credit Facilities

The Indenture contains no restrictions on the structure of Bonds issued thereunder. The Authority may issue Bonds under the Indenture bearing interest at daily, weekly, monthly, quarterly, term, flexible or fixed rates. In addition, the Authority may issue Bonds which are subject to optional and mandatory tender for purchase. At the option of the Authority, Bonds may be secured by a Credit Facility or an Alternate Credit Facility. The Authority may grant Credit Providers rights under the Indenture which are not granted to the Owners of Bonds, including the right to direct remedies upon an Event of Default or to consent to Supplemental Indentures, each without the consent of the Owners of the Bonds. Owners should read this entire Appendix D for a more complete description of the rights which may be granted to Credit Providers.

Authority Covenants

Existence, Coverage, Assignment and Amendment of Contract. The Authority has covenanted and represented in the Indenture that the Contract has been duly entered into between and among the City, Fulton and DeKalb; and that no amendment to the Contract which would in any way, directly or indirectly, reduce the payments to be made thereunder, or impose conditions or restrictions on or delays in the making of such payments, or otherwise adversely affect the rights or interests of the Owners will be made or given effect.

Creation of Other Liens and Conveyances of System. The Authority has covenanted and agreed in the Indenture that so long as any of the Bonds remain Outstanding and unpaid it will not voluntarily create, or cause or permit to be created, any debt, lien, pledge, assignment, encumbrance or other charge having priority to or on a parity with the lien of the Indenture upon any sums received under the terms of the Contract, except as provided in the Indenture with respect to Additional Bonds (see “Additional Parity Bonds”). The Authority has further covenanted that it will not transfer, convey or otherwise alienate the System or any part thereof necessary for the proper operation of the System, except that it may sell and convey the System as a whole if simultaneously with such conveyance it makes provisions for the payment of all Bonds then Outstanding such that such Bonds are deemed to be paid within the meaning of the Indenture (see “Defeasance”). The Authority has also covenanted that it will not mortgage or otherwise voluntarily create, or cause to be created, any encumbrance on the System or the revenues thereof except as expressly permitted by the Indenture and the First Indenture and not otherwise prohibited by the Act.

The Authority may, however, from time to time, sell, lease, pledge, encumber or otherwise dispose of individual items of real or personal property composing a part of the System which it determines are not necessary or desirable for the proper operation and maintenance of the System or the pledge or encumbrance of which does not materially interfere with the Authority's obligations under the Indenture; provided that any such disposition must be in accordance with the Contract.

Notwithstanding anything in the foregoing to the contrary, the Authority may sell or lease (including a lease with a term which exceeds the remaining economic useful life thereof) and lease back the System or any part thereof so long as such sale or lease is permitted by the Contract.

Insurance. The Authority has covenanted in the Indenture that so long as any of the Bonds issued thereunder are Outstanding, it will carry, or cause to be carried, to the extent available, with a responsible insurance company or companies authorized to do business in Georgia, comprehensive public liability insurance, actuarially sound self-insurance and/or combinations thereof, including bodily injury insurance, on the System (including wrongful death) in a sum not less than \$100,000,000 single limits per occurrence, occurring on the real property on which the System is located or incident to the operation of the System, including the construction of the System in like amounts.

The Authority has also covenanted that it will maintain such reasonable reserves for occupational and non-occupational disability claims as, together with such applicable insurance coverage as may then be in force and effect, will, in the determination of the Authority, be sufficient in amount for the payment of, discharge of, defense against, and final disposition of, any and all occupational and non-occupational disability claims, actions or judgments resulting from any accident or occurrence arising out of or in connection with the construction, operation or control by the Authority of the System. The Authority will carry or cause to be carried with a responsible insurance company or companies authorized to do business in Georgia, a blanket fidelity bond, in an amount consistent with good business practices and in any event not less than \$500,000, on each Person authorized to sign or countersign checks on or otherwise request withdrawals of any of the funds created pursuant to the Indenture.

All insurance policies required by the Indenture, or copies thereof, will be held by the Trustee and will be open to inspection by Owners or their representatives at all reasonable times.

Additional Parity Bonds

The Authority may issue Bonds on a parity with all Outstanding Bonds to refund all or any portion of any Bonds or Prior Bonds if either (i) the Trustee has received a certificate of an Authority Representative (A) setting forth the aggregate amount of Debt Service on the Bonds and the Prior Bonds for the then current and each future Bond Year to and including the Bond Year next preceding the date of the latest maturity of any Bonds then Outstanding (1) with respect to Bonds and the First Indenture Bonds of all Series Outstanding immediately prior to the date of authentication and delivery of such refunding Bonds, and (2) with respect to the Bonds and Prior Bonds of all Series to be Outstanding immediately thereafter, and (B) demonstrate that the amount set forth for each Bond Year pursuant to (2) above is no greater than the amount set forth for such Bond Year pursuant to (1) above, or (ii) all Outstanding Bonds (or Prior Bonds, as the case may be) (including Additional Bonds) are being refunded under arrangements which result in the Refunded Bonds being deemed paid under the Indenture, the First Indenture or the Second Indenture.

The Authority may also issue Additional Bonds on a parity with the Bonds, if there is filed with the Trustee, among other things:

(1) A certificate of an Authority Representative stating that, based upon reasonable assumptions, the total of all sums and amounts paid pursuant to the Contract and received by the First Indenture Trustee, as long as there are First Indenture Bonds outstanding under the First Indenture or received by the Second Indenture Trustee if there are no First Indenture Bonds outstanding and as long as there are Second Indenture Bonds outstanding under the Second Indenture, and the Trustee in any period of 12 consecutive calendar months out of the 15 calendar months next preceding the authentication and delivery of such Additional Bonds (A) were at least equal to two times the aggregate amount of Total Debt Service of the Bonds and the Prior Bonds during such period, and (B) are at least equal to one and one-half times the maximum aggregate amount of Total Debt Service of the Bonds and the Prior Bonds which will become due in any Bond Year, commencing with the Bond Year in which the date of authentication and delivery of such Additional Bonds occurs;

(2) An opinion of a Consultant setting forth its estimates of the total of all sums and amounts to be paid pursuant to the Contract and received by the First Indenture Trustee, as long as there are First Indenture Bonds Outstanding under the First Indenture or received by the Second Indenture Trustee if there are no First Indenture Bonds outstanding as long as there are Second Indenture Bonds outstanding under the Second Indenture, and the Trustee in each Bond Year commencing with the Bond Year in which the date of authentication and delivery of such Additional Bonds occurs and ending with a Bond Year which may be not later than the Bond Year which includes the fifteenth anniversary of the authentication and delivery of such Additional Bonds, provided that in the event that any of the factors referred to in the next succeeding sentences exist, the period for which such estimates are set forth must include the Bond Year next succeeding the Bond Year or Years in which each such factor takes effect. In estimating such sums and amounts to be paid pursuant to the Contract and received by the First Indenture Trustee, as long as there are First Indenture Bonds Outstanding under the First Indenture or received by the Second Indenture Trustee if there are no First Indenture Bonds outstanding and as long as there are Second Indenture Bonds outstanding under the Second Indenture, and the Trustee, the Consultant will take into account and reflect, among other things, the following factors: (A) any increase or decrease required or permitted by law and the Contract to be made in the rate of the sales and use tax or other excise tax which is levied pursuant to the

Contract and assigned to the Authority for the benefit of the holders of the Prior Bonds and the Bonds, (B) any increase or decrease required or permitted by law to be made in the properties or services which constitute the base on which said sales and use tax or other excise tax is levied, or (C) any other change in the levy or collection of said sales and use tax or other excise tax or any other factor known to the Consultant which might reasonably be expected in the opinion of the Consultant, to have the effect of materially increasing or reducing the sums and amounts to be paid pursuant to the Contract and received by the First Indenture Trustee, as long as there are First Indenture Bonds Outstanding under the First Indenture or received by the Second Indenture Trustee if there are no First Indenture Bonds outstanding and as long as there are Second Indenture Bonds outstanding under the Second Indenture, and the Trustee, from that which would be realized if such change or other factor were not to take place; and

(3) A certificate of an Authority Representative showing that the estimates made by the Consultant for each Bond Year set forth pursuant to (2) above and the estimated sums and amounts to be paid pursuant to the Contract and received by the First Indenture Trustee, as long as there are First Indenture Bonds Outstanding under the First Indenture or received by the Second Indenture Trustee if there are no First Indenture Bonds outstanding and as long as there are Second Indenture Bonds outstanding under the Second Indenture, and the Trustee in each Bond Year thereafter (which amounts will be calculated for each such Bond Year as an amount equal to the estimate of such sums and amounts for the last Bond Year set forth in the opinion of the Consultant pursuant to (2) above) are at least equal to two times the aggregate amount of the Total Debt Service of the Prior Bonds which will become due during each corresponding Bond Year.

For the purpose of the certificates described in subparagraphs (1) and (2) above, in computing the aggregate amount of interest coming due in any Bond Year there will be deducted for any such Bond Year the amount of interest due in such Bond Year which is to be paid from Bond proceeds.

Other Obligations; Subordinate Indebtedness

The Authority has reserved the right to issue additional obligations payable from any or all of the revenues of the Authority on a parity with, or subordinate in lien to, the lien on the Trust Estate pledged under the Indenture, and any indenture or resolution securing such additional obligations may provide for their payment from any revenues of the System not required to be paid into the Bond Fund under the Indenture or not otherwise obligated under other obligations of the Authority, or, if payable from the amounts required to be deposited into the Revenue Fund, must meet the requirements for parity obligations set forth in the Indenture or are subordinate and junior in all respects to any Bonds issued under the Indenture. Furthermore, the Authority may purchase equipment trust certificates therefor as provided in Section 11 of the Act and such obligations will be payable as provided in Section 11 but must meet the requirements of the Indenture or must be junior and subordinate in all respects to the rights of the Owners of the Bonds with respect to payments made under the Contract.

Revenues and Funds

Funds and Accounts. The Indenture establishes the following Funds and Accounts to be held by the Trustee:

(1) a Revenue Fund;

(2) a Construction Fund with respect to each Series of Bonds, in which will be created a Cost of Issuance Account;

(3) a Bond Fund with respect to each Series of Bonds, in which will be created:

- (i) an Interest Account,
- (ii) a Credit Facility - Interest Account,
- (iii) a Principal Account, and
- (iv) a Credit Facility - Principal Account;

(4) a Reserve Fund with respect to each Series of Bonds; and

(5) a Rebate Fund with respect to each Series of Bonds.

The Indenture also creates a Bond Purchase Fund with respect to each relevant Series of Bonds bearing interest at a Short-Term Rate or Term Rate to be held by a Tender Agent, and which will be applied as provided in the Indenture.

Moneys To Be Held In Trust. All moneys required to be deposited with or paid to the Trustee for deposit into the Bond Fund (or account or accounts therein) or the Reserve Fund (or account or accounts therein) under any provision of the Indenture or of a Series Resolution or Supplemental Indenture, and all moneys withdrawn from the Bond Funds (or account or accounts therein) or the Reserve Fund (or account or accounts therein) and held by the Trustee, will be held by the Trustee, in trust, and such moneys (other than moneys held in the Rebate Fund or the Bond Purchase Fund) will, while so held, constitute part of the Trust Estate and be subject to the lien of the Indenture and will not be subject to lien or attachment by any creditor of the Authority. Moneys held for the payment of the Purchase Price of Bonds pursuant to the Indenture will not constitute part of the Trust Estate.

Revenue Fund. All Contract payments received by the Trustee from the First Indenture Trustee by the Fiscal Division will be deposited in the Revenue Fund. Amounts on deposit in the Revenue Fund will be applied by the Trustee at least monthly for the following purposes in the following order of priority:

- (i) to the respective accounts in the Bond Fund (A) for the payment of the principal of, premium, if any, and interest due on the Bonds or (B) to reimburse any Credit Provider for amounts paid under a Credit Facility for payment of the principal of, premium, if any, and interest due on Bonds or (C) to pay Hedge Payments or (D) to pay certain fees and expenses of the Trustee and Paying Agent as described in the Indenture;
- (ii) to the respective accounts in the Reserve Fund, to make up any deficiency in the Reserve Fund Requirement therein and to pay any amounts due and owing to a Reserve Fund Credit Facility provider;
- (iii) to the respective accounts in the Rebate Fund, the amounts required to be deposited therein under any Tax Agreement;
- (iv) to such other fund, account or purpose as may be specified by the Authority in a Series Resolution or Supplemental Indenture or in a Certified Resolution; and
- (v) to the General Fund of the Authority to be used for any purpose permitted by law.

The Authority has reserved the right to make additional deposits into the Revenue Fund (including any account therein) from any lawfully available source, including, but not limited to, the proceeds of Refunding Bonds or of gifts, grants (whether governmental or private) or operating or other revenues.

Amounts to be transferred to the General Fund as described in subparagraph (v) above, and amounts remaining or subsequently deposited in the Revenue Fund after the deposits and transfers described above have been made and after payment of certain fees and expenses will be so transferred to the General Fund at least monthly.

To the extent there are insufficient amounts paid to the Trustee for the purposes described in subparagraphs (i) or (ii) above, such amounts will be applied pro rata among all outstanding Series of Bonds according to the respective amounts of Debt Service on such Series of Bonds accrued through the end of the current month.

Bond Fund. In addition to the amounts described under “*Revenue Fund*” to be deposited into the Bond Fund, there will also be deposited into the Bond Fund from time to time the following:

- (i) all accrued interest with respect to Bonds of a Series, if any, and all capitalized interest with respect to Bonds of a Series financed with the proceeds of such Bonds will be deposited into the Interest Account for such Series within the Bond Fund; and

- (ii) all other moneys received by the Trustee, including any amounts transferred by the Authority from its general operating account, under and pursuant to any of the provisions of the Indenture or Tax Agreements, when accompanied by directions that such moneys are to be paid into the Bond Fund.

Amounts on deposit in the Principal Account in the Bond Fund will be used to pay the principal of and premium, if any, on the Bonds, and amounts on deposit in the Interest Account in the Bond Fund will be used to pay the interest on the Bonds, in each event, subject to the provisions of the Indenture and the Tax Agreements.

Amounts on deposit in the Credit Facility - Principal Account will be used to pay the principal of and premium, if any, on the Bonds, and amounts on deposit in the Credit Facility - Interest Account in the Bond Fund will be used to pay interest on the Bonds, in each event subject to the provisions of the Indenture and the Tax Agreements.

After application as described above, the Trustee will retain from each monthly payment in a subaccount in the Bond Fund the aggregate of the following amounts:

- (i) an amount sufficient to pay the charges and expenses of the Trustee and all fees and charges of the Paying Agent theretofore incurred and which will fall due on or prior to the next succeeding Interest Payment Date, and

- (ii) such additional amount or amounts as the Authority may direct by Certified Resolution or by written order signed by an Authorized Authority Representative.

Such moneys retained in the Bond Fund by the Trustee will be used solely for the payment of the fees, charges and expenses of the Paying Agent and the Trustee.

Priority of Sources of Payment of Bonds. Funds for the payments of the principal of, premium, if any, and interest on Bonds of a Series will be derived from the following sources in the order or priority indicated:

- (i) if applicable, from amounts on deposit in the Credit Facility Fund with respect to Bonds of a Series which is a direct-pay obligation (*i.e.*, which provides for draws thereunder prior to the payment of other available amounts);
- (ii) from moneys paid into the Bond Fund from the Revenue Fund or otherwise as provided in the Indenture which will be applied to the payment of interest on the related Series of Bonds;
- (iii) from all other amounts on deposit in the Bond Fund;
- (iv) from the account in the Construction Fund established with respect to the related Series of Bonds;
- (v) from amounts in the Reserve Fund; and
- (vi) from amounts realized by the Trustee under any Credit Facility with respect to Bonds of a Series which is not a direct-pay obligation.

Reserve Fund. The Authority may create and establish with the Trustee a Reserve Fund and accounts therein or separate Reserve Funds with respect to any or all Series of Bonds issued under the Indenture as provided in the related Series Resolution or Supplemental Indenture including provisions allowing the Authority to meet any funding obligations with respect to such Reserve Fund by substituting a Reserve Fund Credit Facility for all or a part of the amounts required to be maintained in such Reserve Fund.

Rebate Fund; Rebate Requirement. A separate account in the Rebate Fund will be established with respect to each Series of Tax-Exempt Bonds which will be held and applied to satisfy the rebate requirements of Section 148 of the Code.

Moneys Remaining in Funds. Any amounts remaining in any funds and accounts established pursuant to the Indenture for a Series of Bonds or established under the Indenture after payment of the applicable Series of Bonds and reimbursement of the Credit Provider, if any, for any drawings on or payments under any applicable Credit Facility which were used to pay principal, premium, if any, or interest on such Bonds, the fees and expenses of the Trustee, the Paying Agent, the Authenticating Agent, the Registrar and all other amounts required to be paid under the Indenture and after repaying all amounts owed to the Credit Provider, if any, as a result of any draws on any Credit Facility and all other amounts required to be paid under the Indenture and under any applicable Reimbursement Agreement will be paid to the Authority; provided, however, such remaining amounts will be applied pro rata to any other Series of Bonds with respect to which amounts described in this paragraph are due and owing before any payment is made to the Authority.

Investments. Any moneys held as part of the Revenue Fund or a Bond Fund (or account therein) or a Reserve Fund will be invested and reinvested by the Trustee at the written direction of the Authority in Permitted Investments in accordance with the provisions of the Tax Agreements; provided, however, that moneys realized from any Credit Facility must be held uninvested or invested in Government Obligations maturing not later than the earlier of 30 days or the date needed for payment. Any such investments will be held by or under the control of the Trustee and will be deemed at all times a part of the fund or account or subaccount for which they were made. Moneys held for the payment of the

Purchase Price of Bonds, or the payment of Bonds which have not been presented for payment by the Owners thereof, will be held uninvested or invested in Government Obligations maturing not later than the earlier of 30 days or the date needed for payment.

Moneys in the Reserve Fund will be invested only in Government Obligations with a maturity of not more than five years. The Reserve Fund will be valued semiannually at least ten but not more than 20 days prior to an Interest Payment Date, except in the event of a withdrawal from the Reserve Fund, whereupon it shall be valued immediately after such withdrawal.

The Trustee may make any and all investments permitted by the Indenture through its own bond department. The Trustee shall not be liable for any decreases or declines in the value of any investments.

Non-Presentation of Bonds

If any Bond is not presented for payment when the principal thereof becomes due, either at maturity or otherwise, or at the date fixed for redemption thereof or in the event any interest or premium payment thereon is unclaimed, if moneys sufficient to pay such Bond or interest or premium have been deposited in the related Bond Fund (or account therein), all liability of the Authority to the Owner thereof for the payment of such Bond or interest will forthwith cease, determine and be completely discharged, and thereupon it will be the duty of the Trustee to hold such moneys, without liability for interest thereon, for the benefit of the Owner of such Bond, who thereafter will be restricted exclusively to such moneys for any claim of whatever nature on his part under the Indenture or on, or with respect to, said Bond. Subject to applicable law, any moneys so deposited with and held by the Trustee not so applied to the payment of Bonds or such interest or premium, if any, within one year after the date on which the same became due will be paid by the Trustee to the Credit Provider, if any, to the extent of any moneys then due and owing to a Credit Provider under a related Reimbursement Agreement, and then to the Authority upon the written direction of an Authority Representative, and thereafter Owners will be entitled to look only to the Authority for payment, and then only to the extent of the amount so repaid to the Credit Provider and the Authority, and the Authority will not be liable for any interest thereon and will not be regarded as a trustee of such moneys and the Trustee will have no further responsibility with respect to such moneys.

Events of Default; Remedies

Defaults; Events of Default. The occurrence of any of the following events is defined as and declared to be and to constitute an Event of Default under the Indenture:

(a) Failure to make payment of any installment of interest upon any Bond when the same becomes due and payable;

(b) Failure to make due and punctual payment of the principal of and premium, if any, on any Bond at the stated maturity thereof, or upon redemption thereof or upon the maturity thereof by declaration;

(c) The Trustee receives written notice from a Credit Provider that an "Event of Default" has occurred and is continuing under its Reimbursement Agreement with respect to a Series of Bonds and directing the Trustee to declare the principal of all Bonds of the related Series then Outstanding and the interest accrued thereon to the date of such declaration immediately due and payable;

(d) At any time while a Credit Facility or Alternate Credit Facility constituting a letter of credit is in effect with respect to the Bonds of such Series, written notice of nonreinstatement

of amounts drawn under such Credit Facility to pay interest on such Bonds or the interest portion of the Purchase Price thereof is given by the Credit Provider thereof to the Trustee within the time specified in the Credit Facility or the related Series Resolution or Supplemental Indenture;

(e) The Authority defaults in the due and punctual performance of any of the other covenants, conditions, agreements and provisions contained in the Bonds, in the Indenture or in the related Series Resolution on its part to be performed, and such default continues for 30 days after written notice specifying such default and requiring the same to be remedied has been given to the Authority by the Trustee (which may give such notice whenever it determines that such a default is subsisting and must give such notice at the written request of the Owners of not less than 25% in principal amount of the Bonds then Outstanding);

(f) If the Authority institutes proceedings to be adjudicated a bankrupt or insolvent, or consents to the institution of bankruptcy or insolvency proceedings against it, or files a petition or answer or consent seeking reorganization or relief under the Bankruptcy Code or any other similar applicable federal or state law, or consents to the filing of any such petition or to the appointment of a receiver, liquidator, assignee, trustee or sequestrator (or other similar official) of the Authority or of any substantial part of its property, or makes an assignment for the benefit of creditors, or admits in writing its inability to pay its debts generally as they become due;

(g) Any sum payable to the Authority under the terms of the Contract is attached or taken in custody under any court process;

(h) Any of the Participating Local Governments defaults in the making of the payments under the Contract, whether voluntarily or involuntarily; or any of said governments is enjoined or otherwise prevented from collecting the moneys necessary to make said payments; or the State Revenue Commissioner fails diligently to collect and apply the sales and use tax levied pursuant to the Act or to promptly pay the sales tax moneys collected by him to the Fiscal Division under Section 25(d) of the Act; or the Fiscal Division fails to cause the said moneys to be credited to the special fund established by said Section 25(d); or the Fiscal Division voluntarily or involuntarily, fails to pay to the Authority (at the office of the First Indenture Trustee or the Second Indenture Trustee or the Trustee, as the case may be) the amounts in said fund in accordance with Section 2(c) of the Contract and the Indenture; or the Contract is held void or unenforceable in any respect material to the security of the Bonds; or for any other reason the Contract, amended only as in the Indenture permitted, is not performed by each and every party thereto strictly in accordance with its terms, insofar as material to the interests of the Owners; or

(i) The occurrence and continuation of an Event of Default under the First Indenture; or

(j) The occurrence and continuation of an Event of Default under the Second Indenture.

Acceleration. Upon the occurrence of an Event of Default described in subparagraphs (c) or (d) above, the Trustee will, with respect to the Bonds of the Series as to which such Event of Default has occurred, and upon the occurrence of any other Event of Default described above, the Trustee may, and upon the written request of the Owners of more than 25% in aggregate principal amount of all Bonds then Outstanding or the Credit Provider with respect to any Series of Bonds must, by notice in writing delivered to the Authority, declare the principal of all Bonds then Outstanding and the interest accrued thereon to the date of such declaration immediately due and payable, and such principal and interest will thereupon become and be immediately due and payable. Upon any such declaration, the Trustee will declare all indebtedness payable under the Indenture to be immediately due and payable and may exercise and enforce such rights as exist under the Indenture. The above provisions are subject to waiver, rescission and annulment as provided in the Indenture.

Remedies; Rights of Owners. Upon the occurrence and continuation of an Event of Default, the Trustee may pursue any available remedy at law or in equity by suit, action, mandamus or other proceeding to enforce the payment of the principal of, premium, if any, and interest on the related Bonds then Outstanding, and to realize upon any Credit Facility or Alternate Credit Facility then in effect, and to enforce and compel the performance of the duties and obligations of the Authority as set forth in the Indenture or for the specific performance of any covenant or agreement contained in the Contract, in written direction to the First Indenture Trustee or the Second Indenture Trustee required by the Indenture or in the Act.

If an Event of Default occurs and is continuing and if requested to do so by the Owners of not less than 25% in aggregate principal amount of Bonds then Outstanding and indemnified as provided in the Indenture, the Trustee is obliged to exercise such one or more of the rights and powers conferred by the Indenture as the Trustee being advised by Counsel may deem most expedient in the interests of the Owners.

No remedy by the terms of the Indenture conferred upon or reserved to the Trustee (or to the Owners) is intended to be exclusive of any other remedy, but each and every such remedy is cumulative and is in addition to any other remedy given to the Trustee or to the Owners under the Indenture or now or hereafter existing at law or in equity or by statute.

No delay or omission to exercise any right, power or remedy accruing upon any Event of Default will impair any such right, power or remedy or be construed to be a waiver of any such Event of Default or acquiescence therein; and every such right, power or remedy may be exercised from time to time and as often as may be deemed expedient.

No waiver of any Event of Default, whether by the Trustee or by the Owners, will extend to or affect any subsequent Event of Default or impair any rights or remedies consequent thereon.

Right of Owners to Direct Proceedings. Anything in the Indenture to the contrary notwithstanding, the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture, or for the appointment of a receiver or any other proceedings under the Indenture; provided, that such direction may not be otherwise than in accordance with the provisions of law and of the Indenture and the Trustee must be indemnified to its satisfaction against the costs, expenses and liabilities to be incurred thereby.

Application of Moneys. All moneys received by the Trustee pursuant to any right given or action taken under the provisions of the Indenture will, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities and advances incurred or made by the Trustee and its Counsel, be deposited in the Revenue Fund and will be applied to the payment of the principal, premium, if any, and interest then due and unpaid upon the Bonds, without preference or priority of any kind, ratably, according to the amounts due and payable on such Bonds for principal, premium, if any, and interest, respectively, to the persons entitled thereto without any discrimination or privilege, without preference or priority of any kind, ratably, according to the amounts due and payable on such Bonds for principal, premium, if any, and interest, respectively, to the Persons entitled thereto without any discrimination or privilege.

Whenever moneys are to be applied pursuant to the Indenture as described herein, such moneys will be applied at such times, and from time to time, as the Trustee may determine. Whenever the Trustee applies such moneys, it will fix the date upon which such application is to be made and upon such date

interest on the amounts of principal to be paid on such date will cease to accrue. The Trustee will give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date.

Rights and Remedies of Owners. No Owner of any Bond has any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Indenture or for the execution of any trust thereof or for the appointment of a receiver or any other remedy thereunder, unless (i) a default has occurred of which the Trustee is deemed to have notice or has been notified as provided in the Indenture, (ii) such default has become an Event of Default and is continuing, (iii) the Owners of more than 25% in aggregate principal amount of the Bonds then Outstanding have made written request to the Trustee either to proceed to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name, and have offered to the Trustee indemnity as provided in the Indenture, and (iv) the Trustee, for 60 days after such notice, request and offer of indemnity, has failed or refused to exercise the powers granted in the Indenture, or to institute such action, suit or proceeding in its own name. Such notification, request and offer of indemnity are in every case at the option of the Trustee conditions precedent to the execution of the powers and trusts of the Indenture, and to any action or cause of action for the enforcement of the Indenture, or for the appointment of a receiver or for any other remedy thereunder. No one or more Owners of the Bonds have any right in any manner whatsoever to enforce any right under the Indenture except in the manner therein provided, and all proceedings at law or in equity must be instituted, had and maintained in the manner provided in the Indenture and for the benefit of the Owners of the Bonds then Outstanding in accordance with the priorities provided in the Indenture. Nothing contained in the Indenture, however, will affect or impair the right of any Owner to enforce the payment of the principal of, premium, if any, and interest on any Bond at and after the maturity thereof.

Supplemental Indentures

Without Owner Consent. The Authority and the Trustee may, without the consent of, or notice to, any of the Owners but with notice to (but not consent of) each Credit Provider, enter into an indenture or indentures supplemental to the Indenture for any one or more of the following purposes:

- (a) to add to the covenants and agreements of, and limitations and restrictions upon, the Authority in the Indenture, other covenants, agreements, limitations and restrictions to be observed by the Authority which are not contrary to or inconsistent with the Indenture as theretofore in effect;
- (b) to grant to or confer or impose upon the Trustee for the benefit of the Owners any additional rights, remedies, powers, authority, security, liabilities or duties which may lawfully be granted, conferred or imposed and which are not contrary to or inconsistent with the Indenture as theretofore in effect;
- (c) to cure any ambiguity or omission or to cure, correct or supplement any defective provision of the Indenture, in each case in such manner as will not adversely affect the Owners or any Credit Provider;
- (d) to evidence the appointment of any agent of the Trustee pursuant to the Indenture or a separate Trustee or a co-trustee or to evidence the succession of a new Trustee under the Indenture;
- (e) to comply with the requirements of the Trust Indenture Act of 1939, as from time to time amended;
- (f) to subject to the Indenture additional revenues, properties or collateral;

(g) to conform to or permit compliance with the terms and provisions of any Credit Facility or Alternate Credit Facility, including the sources, priorities and retentions of funds as contemplated by the Indenture;

(h) to qualify any series of Bonds for a rating by Moody's, S&P or Fitch in the Rating Category assigned at such time by such rating agency to obligations of political subdivisions or similar issuers supported by any Credit Facility then in effect or to make revisions required by the rating agency then rating the Bonds to maintain an investment grade rating;

(i) to modify, delete or supplement any provision, term or requirement relating to the Tax-Exempt Bonds to the extent deemed necessary or desirable further to protect or assure the exclusion from federal gross income of interest on such Bonds;

(j) to provide for the issuance of any or each Series of Bonds pursuant to the provisions of the Indenture;

(k) to add to the System as defined in the Indenture further legally authorized transportation and related facilities as authorized from time to time by the Act and the Contract; or

(l) to modify, alter, amend or supplement the Indenture in any other respect which is not materially adverse to the Owners or any Credit Provider and which does not involve a change described in subparagraphs (a), (b), (c), (d) or (e) under "*Consent of Owners and Credit Providers Required*" and which, in the judgment of the Trustee, is not to the prejudice of the Trustee.

(m) to discontinue or provide for changes to or from the Book-Entry System.

Prior to execution of any such supplemental indenture, the Trustee must receive a Favorable Opinion of Bond Counsel.

Consent of Owners and Credit Providers Required. Exclusive of supplemental indentures described under the immediately preceding caption, and subject to the terms and provisions of the Indenture, each Credit Provider and the Owners of not less a majority of aggregate principal amount of Bonds then Outstanding will have the right, from time to time, anything contained in the Indenture to the contrary notwithstanding, to consent to and approve the execution by the Authority and the Trustee of such other indenture or indentures supplemental to the Indenture for the purpose of modifying, amending, adding to or rescinding, in any particular, any of the terms or provisions contained therein; provided, however, that nothing will permit or be construed to permit, without the consent of each Credit Provider and the Owners of all Bonds outstanding, (a) an extension of the maturity date of the principal of or the interest on any Bond, or (b) a reduction in the principal amount of, or premium, if any, on any Bond or the rate of interest thereon, or (c) an adverse change in the rights of the Owners of the Bonds to demand the purchase thereof pursuant to the Indenture, or (d) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, or (e) a reduction in the aggregate principal amount of the Bonds the Owners of which are required to consent to such supplemental indenture; provided, further, however, a Credit Provider and the Owners of the Bonds secured by the related Credit Facility may agree that such Credit Provider may act on behalf of such Owners without the consent of the Owners of such Bonds so long as such Credit Facility is in full force and effect.

If at any time the Authority requests the Trustee to enter into any such supplemental indenture for any of the purposes described in the preceding paragraph, the Trustee will cause notice of the proposed execution of such supplemental indenture to be delivered to each Credit Provider and to be mailed to

affected Owners in substantially the manner provided in the Indenture with respect to redemption of Bonds, briefly setting forth the nature of the proposed supplemental indenture and stating that copies thereof are on file at the Principal Office of the Trustee for inspection by all affected Owners. If, within 60 days or such longer period of time as may be prescribed by the Authority following the mailing of such notice, each Credit Provider and the Owners of not less than a majority of aggregate principal amount of Bonds then Outstanding or the Owners of all Bonds then Outstanding, as the case may be, at the time of the execution of any such supplemental indenture have consented to and approved the execution thereof as provided in the Indenture, no Owner of any Bond will have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Authority from executing the same or from taking any action pursuant to the provisions thereof. Upon the execution of any such supplemental indenture, the Indenture will be and be deemed to be modified and amended in accordance therewith.

The Trustee must receive a Favorable Opinion of Bond Counsel with respect to any such supplemental indenture.

Defeasance

Discharge of Indebtedness. If the Authority (a) pays or causes to be paid, or is otherwise paid or provision for payment is made to or for the Owners of the Bonds of the principal, premium, if any, and interest due or to become due thereon at the times and in the manner stipulated therein, and the Purchase Price thereof, (b) keeps, performs and observes all and singular the covenants and promises in the Bonds and in the Indenture expressed as to be kept, performed and observed by it or on its part, and (c) pays or causes to be paid to the Trustee and any Credit Provider all sums of money due or to become due according to the provisions of the Indenture and any related Reimbursement Agreement, then the Indenture and the liens, rights and interests created thereby will cease, determine and become null and void (except as to any surviving rights of payment, registration, transfer or exchange of Bonds provided for in the Indenture and except that the rights and obligations of the Trustee under the Tax Agreements will also continue), and thereupon the Trustee will cancel and discharge the Indenture, and execute and deliver to the Authority such instruments in writing as may be requisite to discharge the Indenture, and release, assign and deliver to the Authority any and all the estate, right, title and interest in and to any and all rights assigned or pledged to the Trustee or otherwise subject to the Indenture, except any amounts in the Bond Fund required to be paid to the Authority or any Credit Provider and any Tender Agent and except moneys or securities held by the Trustee for the payment of the principal of, premium, if any, and interest on, and Purchase Price of, the Bonds and except any Credit Facility which will be returned to the Credit Provider thereof for cancellation.

Any Bond or Authorized Denomination thereof will be deemed to be paid within the meaning of the Indenture when (a) payment of the principal of and premium, if any, on such Bond or Authorized Denomination thereof, plus interest thereon to the due date thereof (whether such due date is by reason of maturity or upon redemption) either (i) has been made or caused to be made in accordance with the terms thereof, or (ii) has been provided for by irrevocably depositing with the Trustee in trust exclusively for such payment on such due date (A) moneys sufficient to make such payment and/or (B) noncallable Government Obligations maturing as to the principal and interest in such amount and at such time as will insure the availability of sufficient moneys to make such payment, and (b) all necessary and proper fees, compensation and expenses of the Trustee pertaining to any such deposit have been paid or the payment thereof provided for to the satisfaction of the Trustee and (c) with respect to any Bonds secured by a Credit Facility, the Authority shall have given to the Trustee in form satisfactory to the Trustee an opinion of nationally recognized Counsel experienced in bankruptcy matters, which opinion shall be satisfactory to the rating agency then providing the rating for such Bonds (if any), to the effect that the application of such moneys will not constitute a voidable preference in the event of the occurrence of a filing of a

petition in bankruptcy by or against the Authority or the commencement of proceedings by or against the Authority under the Bankruptcy Code. At such times as a Bond or Authorized Denomination thereof is deemed to be paid under the Indenture, such Bond or Authorized Denomination thereof will no longer be secured by or entitled to the benefits of the Indenture. Each deposit described in clause (a)(ii)(B) above must be accompanied by (x) a Favorable Opinion of Bond Counsel and (y) a certificate, letter or report from an independent public accountant (who may be the independent public accountant for the Authority) to the effect that the Government Obligations on deposit will mature as to principal and interest in such amount and at such time as will, together with any moneys on deposit, insure the availability of sufficient moneys to make the specified payments of principal of, and premium, if any, and interest on the Bonds to which such deposit relates.

Notwithstanding the foregoing paragraph, in the case of a Bond or Authorized Denomination thereof which by its terms may be tendered for purchase, no such due date in connection with a deposit described in clause (a)(ii) of the foregoing paragraph may be after the earliest date upon which such Bond may be tendered for purchase. Notwithstanding the foregoing paragraph, in the case of a Bond or Authorized Denomination thereof which by its term may be redeemed prior to the stated maturity thereof, no deposit as described in clause (a)(ii) of the immediately preceding paragraph will be deemed a payment of such Bond or Authorized Denomination thereof as aforesaid until: (a) proper notice of redemption of such Bond or Authorized Denomination thereof has been given in accordance with the Indenture, or in the event said Bond or Authorized Denomination thereof is not to be redeemed within the next succeeding 60 days, until the Authority has given the Trustee irrevocable instructions to notify, as soon as practicable, the Owner of such Bond or Authorized Denomination thereof in accordance with the Indenture, that the deposit described in clause (a)(ii) above has been made with the Trustee and that said Bond or Authorized Denomination thereof is deemed to have been paid in accordance with the Indenture and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal of and the applicable premium, if any, on said Bond or Authorized Denomination thereof, plus interest thereon to the due date thereof, or (b) the maturity of such Bond or Authorized Denomination thereof.

Notwithstanding any provision of any other Article of the Indenture which may be contrary to the provisions of the Indenture described under this caption, all moneys or noncallable Government Obligations set aside and held in trust pursuant to the provisions of the Indenture described herein for the payment of Bonds or authorized denominations thereof (including interest and premium thereon, if any) must be applied to and used solely for the payment of the particular Bonds or authorized denominations thereof (including interest and premium thereon, if any) with respect to which such moneys and Government Obligations have been so set aside in trust.

Payment of Bonds After Discharge. Notwithstanding the discharge of the lien of the Indenture as described above, the Trustee nevertheless will retain such rights, powers and duties thereunder as may be necessary and convenient for the payment of amounts due or to become due on the Bonds and the registration, transfer, exchange and replacement of Bonds as provided therein.

Termination of Authority's Liability. Upon the cancellation and discharge of the Indenture as provided therein, or upon the deposit with the Trustee of sufficient moneys or Government Obligations (such sufficiency being determined as provided in the Indenture) for the retirement of any particular Bond or Bonds, all liability of the Authority in respect of such Bond or Bonds will cease, determine and be completely discharged and the Owners thereof will thereafter be entitled only to payment out of the money and the proceeds of the Government Obligations deposited with the Trustee as aforesaid for their payment.

Books, Records and Financial Statements. Under the Indenture, the Authority shall at all times maintain proper books and records in which all receipts and revenues and disbursements and expenses are

recorded in conformity with generally accepted accounting principles and which will comply with Section 16 of the Act. The Authority further covenants that within 180 days after the close of each fiscal year, it shall cause an audit to be completed of its financial statements for the preceding fiscal year by an independent certified public accountant. Such financial statements shall be prepared in conformity with generally accepted accounting principles and with generally accepted auditing standards. Copies of such audited financial statements shall be furnished to the Participating Local Governments upon request by such Persons. The Authority will also furnish to the Trustee a letter from the independent certified public accountant as to any default by the Authority in the performance or the fulfillment of any financial covenant, agreement or condition contained in the Indenture, which default remains uncured at the date of such letter, specifying in such letter such default or defaults and the nature thereof, it being understood that such independent certified public accountant shall not be liable directly or indirectly for failure to obtain knowledge of any such default or defaults.

THE FIRST SUPPLEMENTAL TRUST INDENTURE

The Series 2004 Notes

Authorization of Sales Tax Revenue Bonds. Pursuant to the Indenture, the First Supplemental Trust Indenture authorizes a series of parity (Third Indenture Series) Sales Tax Revenue Bonds or subordinated (Third Indenture Series) Sales Tax Revenue Bonds entitled to the security of the Indenture and issued under a Series Resolution to be entered into at the time of issuance. All or a portion of the net proceeds of the Sales Tax Revenue Bonds will be used to pay principal and interest on the Notes, including renewals thereof, at maturity. The Authority will determine the maturities, principal installments, redemption prices, terms, the interest rates, the form and denomination, the identifying numbers and letters and such other attributes of the Sales Tax Revenue Bonds and such terms will be set forth in a Series Resolution executed by an Authorized Representative.

Issuance and Sale of Notes, Maturities and Interest Rate.

(a) The Authority may issue and sell Notes pursuant to the Dealer Agreements at such times, in such amount, with such maturities, at such rates of interest and upon such other terms and conditions as will be fixed by an Authorized Representative at the time of sale, subject to the provisions of the First Supplemental Trust Indenture.

(b) Upon receipt by the Issuing and Paying Agent from an Authorized Representative of the Authority or its agent of (i) a request that such Issuing and Paying Agent shall authenticate and issue Notes theretofore delivered to it pursuant to the Issuing and Paying Agency Agreement, and (ii) instructions specifying the principal amounts, dates of issuance, maturities, rates of interest, registered owners and other terms and conditions as shall be determined by such Authorized Representative, the Issuing and Paying Agent shall then issue the Notes in accordance with the instructions. There will be printed on the Notes the legal opinion of Bond Counsel.

(c) The delivery to the Issuing and Paying Agent of instructions, to complete, authenticate and issue Notes shall constitute a certification by the Authority as of the date of said instructions to the following effect:

(1) The representatives and warranties of the Authority contained in the First Supplemental Trust Indenture, the Facility, the Dealer Agreements and the Issuing and Paying Agency Agreements are true and correct and all covenants contained therein have been duly observed;

(2) No default under the Facility has occurred or would occur as a result of the issuance of such Notes;

(3) Neither Moody's or S&P has assigned any unenhanced Sales and Tax Revenue Bonds a rating below the threshold rating criteria, or has suspended or withdrawn its rating on any unenhanced Sales Tax Revenue Bonds for a period of more than sixty days;

(4) All actions required to be performed by the Authority with respect to the issuance of such Notes have been duly performed.

In confirmation of the foregoing the Authority agrees to cause an Authorized Representative to execute and deliver a certificate to the Issuing and Paying Agent, the Bank and the Dealer on each day such instructions are given to the Issuing and Paying Agent.

(d) An Authorized Representative is authorized to prepare, make public, execute and distribute disclosure documents in connection with the sale of the Notes.

(e) For purposes of paragraphs (a), (b) and (c) "Authorized Representative" shall also include U.S. Bank National Association.

Terms. The Notes will be numbered serially from 1 upwards in order of their issuance, will be in denominations of integral multiples of \$5,000 with a minimum denomination of \$100,000, and with respect to refunding Notes, will each mature not later than (i) 270 days from its date of issuance or (ii) one Business Day prior to the Termination Date of the applicable Facility, whichever is earlier. Notwithstanding the preceding sentence, in no event will any Note (including a Bank Note) issued to refund other Notes or bond anticipation notes, mature more than seven years from the date of issuance of the original Note or bond anticipation note issued to pay capital costs of the Authority. No Note, except when such Note is a Bank Note, will bear an interest rate in excess of 12% per annum except as otherwise provided by resolution of the Board of Directors of the Authority or such lesser amount set forth in the applicable Facility. The Notes will not be subject to redemption by the Authority prior to maturity, except as provided in the First Supplemental Trust Indenture when any Note is a Bank Note.

Determinations Pursuant to Agreement; Application of Proceeds

Establishment of Accounts and Subaccounts. Pursuant to the Indenture, the First Supplemental Trust Indenture establishes within the Funds and Accounts established by the Indenture, the following Accounts:

(1) In the Construction Fund:

- (A) Series A Notes Capital Account.
- (B) Series B Notes Capital Account.

(2) In the Bond Fund:

- (A) Series A Notes Interest Account.
- (B) Series B Notes Interest Account.

Application of Proceeds of Notes. The Authority directs in the First Supplemental Trust Indenture that the proceeds of the sale of the Notes, which will be equal to the par amount of the Notes, will be deposited, as directed by a certificate of an Authorized Representative, to the respective Series A

Notes Capital Account or Series B Notes Capital Account of the Construction Fund, to provide funding for the Authority's capital program, to repay Outstanding Notes, to pay a portion of the debt service due on Outstanding Bonds of the Authority and to pay the costs of issuance of the Notes.

Notwithstanding anything in the Indenture to the contrary, the deposit from the Revenue Fund to the Bond Fund on or before the last Business Day of each month in accordance with the Indenture will include an amount at least equal to the interest coming due on any Notes maturing in the following month. Such portion of the deposit will be credited to the respective Series A Notes Interest Account or Series B Notes Interest Account. In the event that Notes mature in the same month in which they were issued, simultaneously with the issuance of such Notes, the Authority will deliver to the Trustee the interest due on such Notes during the month.

Proceeds of the Notes issued to refund other such Notes prior to maturity will be held by the Escrow Agent prior to their application pursuant to the Escrow Agreement.

Covenants of the Authority

Amount of Notes Outstanding. The Authority covenants that at no time will it have Notes Outstanding such that (a) the aggregate principal amount of such Notes Outstanding (including Notes no longer considered Outstanding pursuant to clause (iii) of the definition of Outstanding contained in these Document Summaries) exceeds the principal portion under the Facility or (b) the aggregate interest payable on such Notes exceeds the interest portion under the Facility.

Exemption of the Notes from Taxation. The Authority covenants to take all lawful action to ensure that interest on the Notes will remain excludable from gross income for federal income tax purposes and exempt from Georgia income taxes and to refrain from taking any action that will cause interest on the Notes to become includable in gross income or subject to such federal and Georgia income taxes.

Maintenance of Facility. The Authority covenants that, as long as any Notes are Outstanding, it will not agree to or acquiesce in (i) any reduction of the Facility such that the Authority is not in compliance with the covenant contained in the First Supplemental Trust Indenture or (ii) any termination of the Facility prior to the maturity of the Notes.

Issuance of Sales Tax Revenue Bonds to Repay Notes. In the First Supplemental Trust Indenture, the Authority covenants that it will issue Sales Tax Revenue Bonds to refund the Notes, to the extent that the principal and interest have not been paid. At the time the Authority issues Sales Tax Revenue Bonds, any obligation to the Bank under the Facility is due, the net proceeds of such Sales Tax Revenue Bonds will be applied to satisfy such obligations prior to being used for any other purpose.

Inclusion in Additional Bonds Test. The Authority covenants that, so long as the Initial Facility is in full force and effect, the Authority will not issue Sales Tax Revenue Bonds or other bonds of the Authority (other than refunding bonds or Sales Tax Revenue Bonds or other bonds issued to repay the principal of and interest on the Notes) in an amount, which, when added to (i) the total outstanding indebtedness of the Authority (other than refunding bonds) plus (ii) the initial available principal commitment and available interest commitment, exceeds the limitation set forth in the Indenture.

Inclusion in Debt Service. Notwithstanding anything in the Indenture to the contrary, the Authority covenants that, so long as the Initial Facility is in full force and effect, for purposes of compliance with the Indenture, Debt Service will include Pro Forma Note Debt Service, all as set forth in a certificate of an Authorized Representative.

Miscellaneous

Replacement of Escrow Agreement. The Authority may at any time replace the Escrow Agreement with a substitute Escrow Agreement with substantially the same terms upon written notice to the Issuing and Paying Agent, the Dealer and the Bank.

Facility.

(a) For purposes of providing funds for the payment of the principal of and interest on the Notes when due, the Authority will deliver to the Issuing and Paying Agent the Initial Facility in the initial available amount not in excess of \$400,000,000. An Authorized Representative has appointed the Initial Bank to provide the Initial Facility and has executed and delivered the Initial Facility. The Authority covenants that it will use its best efforts to obtain a substitute Facility if the Authority has reason to believe that the Bank will not honor its obligations under the Facility.

(b) On the Business Day immediately preceding the maturity date of each Note, the Issuing and Paying Agent will cause sufficient funds to be made available under the Facility to pay the principal of and interest on the Note due. If funds paid under the Facility are insufficient to meet all the purposes for which such funds are to be paid on such date, such funds as are available will be applied as follows:

First, to the payment of interest on the Notes due and, if the amount available will not be sufficient to pay in full all such interest, then to the payment ratably, according to the amount of interest due on each Note, without any preference; and

Second, to the payment of principal of the Notes due on such date and, if the amount available will not be sufficient to pay in full all such principal, then to the payment thereof ratably, according to the amounts of principal due on each Note, without any preference.

All funds paid under the Facility will be held separate from funds of the Authority in trust by the Issuing and Paying Agent for the benefit of the registered owners of the Notes to be applied solely in accordance with the purposes for which such amounts are paid as provided above. All such funds will be held uninvested.

(c) All amounts paid under the Facility will be reimbursed to the Bank by the Authority in immediately available funds immediately following the payment by the Bank. To the extent the Authority fails to reimburse the Bank, the Authority will pay to the Bank the amount of such draw with interest in the manner and at the times provided in the Facility. Until the Authority reimburses the Bank for any amount paid under the Facility, the payment of any principal or interest will not be considered to have been paid by the Authority and the Bank will succeed to the rights of the owner of such Note to such payment, in the manner specified in such Note.

(d) The Facility provides for the reinstatement of certain amounts paid under the Facility.

(e) Upon satisfaction of the requirements set forth herein under the heading "Facility," the Authority may effective on any maturity date of the Notes replace the Facility; provided that the Facility in place will not be terminated until notice has been given and the substitute Facility has been delivered to the Issuing and Paying Agent and is in effect. At least

forty-five days prior to any such date, the Authority will deliver to the Issuing and Paying Agent, the Dealer and the Bank written notice of such proposed replacement. At least fifteen days prior to any such date, the Issuing and Paying Agent will give notice to each holder of the Notes at the address on the registration books maintained by the Issuing and Paying Agent. Any replacement of the Facility by a Substitute Facility is specifically conditioned, among other things, upon the payment to the Bank of all Notes Outstanding under the Facility.

On or prior to the date set for the replacement of any Facility, the Authority will have delivered to the Issuing and Paying Agent: (1) written confirmation from the rating agencies if the notes are rated; and (2) an opinion of counsel for the issuer of the substitute Facility that it constitutes a legal, valid and binding obligation of the issuer, except as such enforceability may be limited by events of bankruptcy.

Each substitute Facility must: (1) be an obligation of a financial institution or surety whose debt obligations (or whose holding company parent's debt obligations) or suretyship undertakings have at least an investment grade rating from each rating agency then rating the Notes, (2) have a term of at least one year and (3) be on terms no less favorable to the holders of the Notes than the Facility being replaced and entitle the Issuing and Paying Agent to receive in immediately available funds an amount equal to then applicable amount available under the Facility being replaced.

(f) Notwithstanding any inconsistent provisions in the First Supplemental Trust Indenture to the contrary and so long as the Bank is fulfilling its obligations under the Facility, amendments to the First Supplemental Trust Indenture and the remedies available to the holders of the Notes thereunder will be subject to the Bank's consent, which will not be unreasonably withheld.

THE SECOND SUPPLEMENTAL TRUST INDENTURE

The Series 2006A Bonds

Establishment of Accounts and Subaccounts. Pursuant to the Indenture, the Second Supplemental Trust Indenture establishes within the Funds and Accounts established under the Indenture, the following Accounts:

- (1) In the Construction Fund:
 - (A) Series 2006A Bonds Capital Account.
 - (B) Series 2006A Bonds Cost of Issuance Account.
- (2) In the Bond Fund:
 - (A) Series 2006A Bonds Interest Account.
 - (B) Series 2006A Bonds Principal Account.
- (3) In the Series 2006A Reserve Fund:
 - (A) Series 2006A Reserve Account.

Establishment of the Series 2006A Reserve Fund. Pursuant to the Indenture, the Authority has established a Reserve Fund with respect to the Series 2006A Bonds to be held by the Trustee and applied as provided in the Indenture. There will be deposited into the Series 2006A Reserve Fund an amount

equal to the Series 2006A Reserve Fund Requirement and other amounts transferred, if any, to the Series 2006A Reserve Fund pursuant to the Indenture. The Authority may, in accordance with a Series Resolution or Supplemental Indenture, elect to extend the benefits of the Series 2006A Reserve Fund to any other Bonds issued under the Indenture so long as the Reserve Fund Requirement for those Bonds is the same as the Series 2006A Reserve Fund Requirement. Upon the issuance of any other Bonds that the Authority elects to be secured by the Series 2006A Reserve Fund, the Authority will cause amounts to be deposited in the Series 2006A Reserve Fund sufficient to satisfy the Series 2006A Reserve Fund Requirement for such Bonds and the Series 2006A Bonds.

Use of Moneys in the Series 2006A Reserve Fund.

(a) Moneys on deposit in the Series 2006A Reserve Fund will be transferred to the appropriate account in the Bond Fund relating to the Series 2006A Bonds or any other Series of Bonds secured thereby without any direction from the Authority (i) on any Interest Payment Date or Principal Payment Date for such Bonds to the extent amounts on deposit in such Bond Fund or Funds are insufficient to pay the principal of or interest due on such Bonds on such date and, if the related Bonds are secured by a Credit Facility, to reimburse the Credit Provider for amounts paid under the Credit Facility for payment of the principal of or interest due on such Bonds and (ii) used to reimburse each Reserve Fund Credit Provider for amounts drawn under the related Reserve Fund Credit Facility, if any. Moneys on deposit in the Series 2006A Reserve Fund will be transferred to the Bond Fund or Funds relating to the same Bonds at the direction of the Authority for the purpose of paying the last maturing principal of such Bonds on a Principal Payment Date or if the related Supplemental Indenture or Series Resolution regarding optional or mandatory redemption (other than redemption from Sinking Fund Payments) for redemption of such Series of Bonds. If a Reserve Fund Credit Facility is delivered to the Trustee for deposit in the Series 2006A Reserve Fund and it is necessary to use money in the Series 2006A Reserve Fund to satisfy a deficiency in the applicable Bond Fund, the Trustee will first use any moneys or securities on deposit in the Series 2006A Reserve Fund to satisfy such deficiency and second, draw on the Reserve Fund Credit Facility or Reserve Fund Credit Facilities in a timely manner and pursuant to the terms of such Reserve Fund Credit Facility to the extent necessary to satisfy any remaining deficiency. Amounts drawn under any Reserve Fund Credit Facility will be deposited in the applicable Bond Fund and the applicable account or accounts therein. Any moneys or securities transferred to replenish the Series 2006A Reserve Fund following a withdrawal from the Series 2006A Reserve Fund will be used first to reimburse the Reserve Fund Credit Provider for amounts drawn on the related Reserve Fund Credit Facility and second to replenish any moneys or securities withdrawn from the Series 2006A Reserve Fund. If more than one Reserve Fund Credit Facility is on deposit in the Series 2006A Reserve Fund, any draws on such Reserve Fund Credit Facilities will be pro-rata and any reimbursement will be pro-rata, but only to the extent the Reserve Fund Credit Providers honored such draws.

(b) Moneys in the Series 2006A Reserve Fund (including the face amount of any Reserve Fund Credit Facility) will at all times be maintained in an aggregate amount not less than the Series 2006A Reserve Fund Requirement. During any period when the amount on deposit in the Series 2006A Reserve Fund (including the face amount of any Reserve Fund Credit Facility) is less than the Series 2006A Reserve Fund Requirement, all income from the investment of moneys in the Series 2006A Reserve Fund will be retained therein, and the Authority will restore any remaining deficiency from the first available amounts paid under the Contract transferred in the order of priority described in the Indenture.

(c) If at any time the amount on deposit in the Series 2006A Reserve Fund exceeds the Series 2006A Reserve Fund Requirement, the Trustee will, at the direction of the Authority, transfer the amount by which the amount of money on deposit in the Series 2006A Reserve Fund exceeds the Series 2006A Reserve Fund Requirement to the related Bond Fund, if the Authority's direction is accompanied by a Favorable Opinion of Bond Counsel to the effect that such transfer will not adversely affect the

excludability from gross income of the Owners of the interest on Tax-Exempt Bonds.

(d) In lieu of making a deposit to the Series 2006A Reserve Fund in compliance with the Indenture, or in replacement of moneys then on deposit in the Series 2006A Reserve Fund, the Authority may deliver to the Trustee a Reserve Fund Credit Facility in an amount which, together with moneys, Government Obligations or other Reserve Fund Credit Facilities on deposit in the Series 2006A Reserve Fund, equals or exceeds the Series 2006A Reserve Fund Requirement. Prior to the substitution of a Reserve Fund Credit Facility for moneys, Government Obligations or other Reserve Fund Credit Facilities, the Authority will deliver to the Trustee each of the following: (i) an opinion of Counsel to the effect that the Reserve Fund Credit Facility is a valid and binding obligation of the provider of such Reserve Fund Credit Facility, enforceable in accordance with its terms (except to the extent that the enforceability thereof may be limited by the operation of bankruptcy, insolvency and similar laws affecting rights and remedies of creditors); (ii) an opinion of Bond Counsel to the effect that the substitution of such Reserve Fund Credit Facility and the application of moneys and Government Obligations then on deposit in the Series 2006A Reserve Fund in and of itself, will not adversely affect the exclusion from gross income of the Owners thereof of interest on the Tax-Exempt Bonds; and (iii) written confirmation from Moody's, if the related Bonds are rated by Moody's, from S&P, if the related Bonds are rated by S&P and from Fitch if the related Bonds are rated by Fitch, that such substitution, in and of itself, will not adversely affect the existing ratings of the related Bonds. At least three months prior to the stated expiration of such Reserve Fund Credit Facility, the Authority will either (i) provide for delivery of a replacement Reserve Fund Credit Facility meeting the requirements of this subparagraph (d) or (ii) deliver an extension of the Reserve Fund Credit Facility for at least an additional year. Upon delivery of a replacement Reserve Fund Credit Facility, the Trustee will deliver the then-effective Reserve Fund Credit Facility to or upon the order of the Authority. If the Authority fails to deposit a replacement Reserve Fund Credit Facility or extend the existing Reserve Fund Credit Facility, the Trustee will immediately commence to make monthly deposits from the Revenue Fund in accordance with the priority set forth in the Indenture, so that an amount equal to the Series 2006A Reserve Fund Requirement is on deposit in the Reserve Fund at all times. A deficiency will be deemed to exist with respect to the Series 2006A Reserve Fund Requirement so long as there has been a draw on the Reserve Fund Credit Facility and the issuer of the Reserve Fund Credit Facility has not been reimbursed in accordance with the terms of the Reserve Fund Credit Facility.

THE THIRD SUPPLEMENTAL TRUST INDENTURE

The Series 2005A Bonds

Establishment of Funds and Accounts and Subaccounts. Pursuant to the Indenture, the Third Supplemental Trust Indenture confirms within the Funds and Accounts established under the Indenture, the following Funds and Accounts:

- (1) The Series 2005A Construction Fund:
 - (A) Cost of Issuance Account.
- (2) The Series 2005A Bond Fund:
 - (A) Interest Account.
 - (B) Principal Account.
- (3) The Series 2005A Reserve Fund.

Establishment of the Series 2005A Reserve Fund. Pursuant to the Indenture, the Authority has established a Reserve Fund with respect to the Series 2005A Bonds to be held by the Trustee and applied as provided in the Indenture. There will be deposited into the Series 2005A Reserve Fund an amount equal to the Series 2005A Reserve Fund Requirement and other amounts transferred, if any, to the Series 2005A Reserve Fund pursuant to the Indenture. The Authority may, in accordance with a Series Resolution or Supplemental Indenture, elect to extend the benefits of the Series 2005A Reserve Fund to any other Bonds issued under the Trust Indenture so long as the Reserve Fund Requirement for those Bonds is the same as the Series 2005A Reserve Fund Requirement. Upon issuance of any other Bonds that the Authority elects to be secured by the Series 2005A Reserve Fund, the Authority will cause amounts to be deposited in the Series 2005A Reserve Fund sufficient to satisfy the Series 2005A Reserve Fund Requirement for such Bonds and the Series 2005A Bonds.

Use of Money in the Series 2005A Reserve Fund.

(a) Moneys on deposit in the Series 2005A Reserve Fund will be transferred to the appropriate account in the Bond Fund relating to the Series 2005A Bonds or any other Series of Bonds secured thereby without any direction from the Authority (i) on any Interest Payment Date or Principal Payment Date for such Bonds to the extent amounts on deposit in such Bond Fund or Funds are insufficient to pay the principal of or interest due on such Bonds on such date and, if the related Bonds are secured by a Credit Facility, to reimburse the Credit Provider for amounts paid under the Credit Facility for payment of the principal of or interest due on such Bonds and (ii) used to reimburse each Reserve Fund Credit Provider for amounts drawn under the related Reserve Fund Credit Facility, if any. Moneys on deposit in the Series 2005A Reserve Fund will be transferred to the Bond Fund or Funds relating to the same Bonds at the direction of the Authority for the purpose of paying the last maturing principal of such Bonds on a Principal Payment Date or if the related Supplemental Indenture or Series Resolution regarding optional or mandatory redemption (other than redemption from Sinking Fund Payments) for redemption of such Series of Bonds. If a Reserve Fund Credit Facility is delivered to the Trustee for deposit in the Series 2005A Reserve Fund and it is necessary to use money in the Series 2005A Reserve Fund to satisfy a deficiency in the applicable Bond Fund, the Trustee will first use any moneys or securities on deposit in the Series 2005A Reserve Fund to satisfy such deficiency and second, draw on the Reserve Fund Credit Facility or Reserve Fund Credit Facilities in a timely manner and pursuant to the terms of such Reserve Fund Credit Facility to the extent necessary to satisfy any remaining deficiency. Amounts drawn under any Reserve Fund Credit Facility will be deposited in the applicable Bond Fund and the applicable account or accounts therein. Any moneys or securities transferred to replenish the Series 2005A Reserve Fund following a withdrawal from the Series 2005A Reserve Fund will be used first to reimburse the Reserve Fund Credit Provider for amounts drawn on the related Reserve Fund Credit Facility and second to replenish any moneys or securities withdrawn from the Series 2005A Reserve Fund. If more than one Reserve Fund Credit Facility is on deposit in the Series 2005A Reserve Fund, any draws on such Reserve Fund Credit Facilities will be pro-rata and any reimbursement will be pro-rata, but only to the extent the Reserve Fund Credit Providers honored such draws.

(b) Moneys in the Series 2005A Reserve Fund (including the face amount of any Reserve Fund Credit Facility) will at all times be maintained in an aggregate amount not less than the Series 2005A Reserve Fund Requirement. During any period when the amount on deposit in the Series 2005A Reserve Fund (including the face amount of any Reserve Fund Credit Facility) is less than the Series 2005A Reserve Fund Requirement, all income from the investment of moneys in the Series 2005A Reserve Fund will be retained therein, and the Authority will restore any remaining deficiency from the first available amounts paid under the Contract transferred in the order of priority described in the Indenture.

(c) If at any time the amount on deposit in the Series 2005A Reserve Fund exceeds the Series 2005A Reserve Fund Requirement, the Trustee shall, at the direction of the Authority, transfer the amount

by which the amount of money on deposit in the Series 2005A Reserve Fund exceeds the Series 2005A Reserve Fund Requirement to the related Bond Fund, if the Authority's direction is accompanied by a Favorable Opinion of Bond Counsel to the effect that such transfer will not adversely affect the excludability from gross income of the Owners of the interest on Tax-Exempt Bonds.

(d) In lieu of making a deposit to the Series 2005A Reserve Fund in compliance with the Indenture, or in replacement of moneys then on deposit in the Series 2005A Reserve Fund, the Authority may deliver to the Trustee a Reserve Fund Credit Facility in an amount which, together with moneys, Government Obligations or other Reserve Fund Credit Facilities on deposit in the Series 2005A Reserve Fund, equals or exceeds the Series 2005A Reserve Fund Requirement. Prior to the substitution of a Reserve Fund Credit Facility for moneys, Government Obligations or other Reserve Fund Credit Facilities, the Authority will deliver to the Trustee each of the following: (i) an opinion of Counsel to the effect that the Reserve Fund Credit Facility is a valid and binding obligation of the provider of such Reserve Fund Credit Facility, enforceable in accordance with its terms (except to the extent that the enforceability thereof may be limited by the operation of bankruptcy, insolvency and similar laws affecting rights and remedies of creditors); (ii) an opinion of Bond Counsel to the effect that the substitution of such Reserve Fund Credit Facility and the application of moneys and Government Obligations then on deposit in the Series 2005A Reserve Fund in and of itself, will not adversely affect the exclusion from gross income of the Owners thereof of interest on the Tax-Exempt Bonds; and (iii) written confirmation from Moody's, if the related Bonds are rated by Moody's, from S&P, if the related Bonds are rated by S&P and from Fitch if the related Bonds are rated by Fitch, that such substitution, in and of itself, will not adversely affect the existing ratings of the related Bonds. At least three months prior to the stated expiration of such Reserve Fund Credit Facility, the Authority will either (i) provide for delivery of a replacement Reserve Fund Credit Facility meeting the requirements of this subparagraph (d) or (ii) deliver an extension of the Reserve Fund Credit Facility for at least an additional year. Upon delivery of a replacement Reserve Fund Credit Facility, the Trustee will deliver the then-effective Reserve Fund Credit Facility to or upon the order of the Authority. If the Authority fails to deposit a replacement Reserve Fund Credit Facility or extend the existing Reserve Fund Credit Facility, the Trustee will immediately commence to make monthly deposits from the Revenue Fund in accordance with the priority set forth in Section 7.03 of the Trust Indenture, so that an amount equal to the Series 2005A Reserve Fund Requirement is on deposit in the Reserve Fund at all times. A deficiency will be deemed to exist with respect to the Series 2005A Reserve Fund Requirement so long as there has been a draw on the Reserve Fund Credit Facility and the issuer of the Reserve Fund Credit Facility has not been reimbursed in accordance with the terms of the Reserve Fund Credit Facility.

THE FOURTH SUPPLEMENTAL TRUST INDENTURE

The Series 2007A Bonds

Establishment of Funds and Accounts and Subaccounts. Pursuant to the Indenture, the Fourth Supplemental Trust Indenture confirms within the Funds and Accounts established under the Indenture, the following Funds and Accounts:

- (1) The Series 2007A Construction Fund:
 - (A) Cost of Issuance Account.
- (2) The Series 2007A Bond Fund:
 - (A) Interest Account; and
 - (B) Principal Account.

(3) The Series 2007A Reserve Fund.

Establishment of the Series 2007A Reserve Fund. Pursuant to the Indenture, the Authority has established a Reserve Fund with respect to the Series 2007A Bonds to be held by the Trustee and applied as provided in the Indenture. There will be deposited into the Series 2007A Reserve Fund an amount equal to the Series 2007A Reserve Fund Requirement and other amounts transferred, if any, to the Series 2007A Reserve Fund pursuant to the Indenture. The Authority may, in accordance with a Series Resolution or Supplemental Indenture, elect to extend the benefits of the Series 2007A Reserve Fund to any other Bonds issued under the Indenture so long as the Reserve Fund Requirement for those Bonds is the same as the Series 2007A Reserve Fund Requirement. Upon the issuance of any other Bonds that the Authority elects to be secured by the Series 2007A Reserve Fund, the Authority will cause amounts to be deposited in the Series 2007A Reserve Fund sufficient to satisfy the Series 2007A Reserve Fund Requirement for such Bonds and the Series 2007A Bonds.

Use of Moneys in the Series 2007A Reserve Fund.

(a) Moneys on deposit in the Series 2007A Reserve Fund will be transferred to the appropriate account in the Bond Fund relating to the Series 2007A Bonds or any other Series of Bonds secured thereby without any direction from the Authority (i) on any Interest Payment Date or Principal Payment Date for such Bonds to the extent amounts on deposit in such Bond Fund or Funds are insufficient to pay the principal of or interest due on such Bonds on such date and, if the related Bonds are secured by a Credit Facility, to reimburse the Credit Provider for amounts paid under the Credit Facility for payment of the principal of or interest due on such Bonds and (ii) used to reimburse each Reserve Fund Credit Provider for amounts drawn under the related Reserve Fund Credit Facility, if any. Moneys on deposit in the Series 2007A Reserve Fund will be transferred to the Bond Fund or Funds relating to the same Bonds at the direction of the Authority for the purpose of paying the last maturing principal of such Bonds on a Principal Payment Date or if the related Supplemental Indenture or Series Resolution regarding optional or mandatory redemption (other than redemption from Sinking Fund Payments) for redemption of such Series of Bonds. If a Reserve Fund Credit Facility is delivered to the Trustee for deposit in the Series 2007A Reserve Fund and it is necessary to use money in the Series 2007A Reserve Fund to satisfy a deficiency in the applicable Bond Fund, the Trustee will first use any moneys or securities on deposit in the Series 2007A Reserve Fund to satisfy such deficiency and second, draw on the Reserve Fund Credit Facility or Reserve Fund Credit Facilities in a timely manner and pursuant to the terms of such Reserve Fund Credit Facility to the extent necessary to satisfy any remaining deficiency. Amounts drawn under any Reserve Fund Credit Facility will be deposited in the applicable Bond Fund and the applicable account or accounts therein. Any moneys or securities transferred to replenish the Series 2007A Reserve Fund following a withdrawal from the Series 2007A Reserve Fund will be used first to reimburse the Reserve Fund Credit Provider for amounts drawn on the related Reserve Fund Credit Facility and second to replenish any moneys or securities withdrawn from the Series 2007A Reserve Fund. If more than one Reserve Fund Credit Facility is on deposit in the Series 2007A Reserve Fund, any draws on such Reserve Fund Credit Facilities will be pro-rata and any reimbursement will be pro-rata, but only to the extent the Reserve Fund Credit Providers honored such draws.

(b) Moneys in the Series 2007A Reserve Fund (including the face amount of any Reserve Fund Credit Facility) will at all times be maintained in an aggregate amount not less than the Series 2007A Reserve Fund Requirement. During any period when the amount on deposit in the Series 2007A Reserve Fund (including the face amount of any Reserve Fund Credit Facility) is less than the Series 2007A Reserve Fund Requirement, all income from the investment of moneys in the Series 2007A Reserve Fund will be retained therein, and the Authority will restore any remaining deficiency from the first available amounts paid under the Contract transferred in the order of priority described in the Indenture.

(c) If at any time the amount on deposit in the Series 2007A Reserve Fund exceeds the Series 2007A Reserve Fund Requirement, the Trustee will, at the direction of the Authority, transfer the amount by which the amount of money on deposit in the Series 2007A Reserve Fund exceeds the Series 2007A Reserve Fund Requirement to the related Bond Fund, if the Authority's direction is accompanied by a Favorable Opinion of Bond Counsel to the effect that such transfer will not adversely affect the excludability from gross income of the Owners of the interest on Tax-Exempt Bonds.

(d) In lieu of making a deposit to the Series 2007A Reserve Fund in compliance with the Indenture, or in replacement of moneys then on deposit in the Series 2007A Reserve Fund, the Authority may deliver to the Trustee a Reserve Fund Credit Facility in an amount which, together with moneys, Government Obligations or other Reserve Fund Credit Facilities on deposit in the Series 2007A Reserve Fund, equals or exceeds the Series 2007A Reserve Fund Requirement. Prior to the substitution of a Reserve Fund Credit Facility for moneys, Government Obligations or other Reserve Fund Credit Facilities, the Authority will deliver to the Trustee each of the following: (i) an opinion of Counsel to the effect that the Reserve Fund Credit Facility is a valid and binding obligation of the provider of such Reserve Fund Credit Facility, enforceable in accordance with its terms (except to the extent that the enforceability thereof may be limited by the operation of bankruptcy, insolvency and similar laws affecting rights and remedies of creditors); (ii) an opinion of Bond Counsel to the effect that the substitution of such Reserve Fund Credit Facility and the application of moneys and Government Obligations then on deposit in the Series 2007A Reserve Fund in and of itself, will not adversely affect the exclusion from gross income of the Owners thereof of interest on the Tax-Exempt Bonds; and (iii) written confirmation from Moody's, if the related Bonds are rated by Moody's, from S&P, if the related Bonds are rated by S&P and from Fitch if the related Bonds are rated by Fitch, that such substitution, in and of itself, will not adversely affect the existing ratings of the related Bonds. At least three months prior to the stated expiration of such Reserve Fund Credit Facility, the Authority will either (i) provide for delivery of a replacement Reserve Fund Credit Facility meeting the requirements of this subparagraph (d) or (ii) deliver an extension of the Reserve Fund Credit Facility for at least an additional year. Upon delivery of a replacement Reserve Fund Credit Facility, the Trustee will deliver the then-effective Reserve Fund Credit Facility to or upon the order of the Authority. If the Authority fails to deposit a replacement Reserve Fund Credit Facility or extend the existing Reserve Fund Credit Facility, the Trustee will immediately commence to make monthly deposits from the Revenue Fund in accordance with the priority set forth in the Indenture, so that an amount equal to the Series 2007A Reserve Fund Requirement is on deposit in the Reserve Fund at all times. A deficiency will be deemed to exist with respect to the Series 2007A Reserve Fund Requirement so long as there has been a draw on the Reserve Fund Credit Facility and the issuer of the Reserve Fund Credit Facility has not been reimbursed in accordance with the terms of the Reserve Fund Credit Facility.

Security for the Series 2007A Bonds. The Series 2007A Bonds will be issued pursuant to the Indenture and the Bond Resolution and shall be equally and ratably secured under the Indenture and the Bond Resolution with the Outstanding Series 2007A Bonds and any other Series of Bonds issued pursuant to the Indenture, without preference, priority or distinction of any Bonds over any other Bonds, except as described in the Indenture.

Priority of Lien. Subject to the rights of the owners and holders of the First Indenture Bonds as set forth in the First Indenture and the rights of the owners and holders of the Second Indenture Bonds as set forth in the Second Indenture, all right, title and interest in, to and under the Contract, including but not limited to the payments to be made to the Authority thereunder, together with all amounts on deposit in the Revenue Fund established under the Indenture, all amounts on deposit in any Fund or Account established under the Indenture with respect to the Series 2007A Bonds, including the earnings thereon are hereby pledged and assigned to the Trustee under the Trust Indenture to the Owners of the Series 2007A Bonds.

THE FIFTH SUPPLEMENTAL TRUST INDENTURE

The Series 2007B Bonds

Establishment of Funds and Accounts and Subaccounts. Pursuant to the Indenture, the Fifth Supplemental Trust Indenture confirms within the Funds and Accounts established under the Indenture, the following Funds and Accounts:

- (1) The Series 2007B Construction Fund:
 - (A) Capital Account; and
 - (B) Cost of Issuance Account.
- (2) The Series 2007B Bond Fund:
 - (A) Interest Account; and
 - (B) Principal Account.
- (3) The Series 2007B Reserve Fund.

Establishment of the Series 2007B Reserve Fund. Pursuant to the Indenture, the Authority has established a Reserve Fund with respect to the Series 2007B Bonds to be held by the Trustee and applied as provided in the Indenture. There will be deposited into the Series 2007B Reserve Fund an amount equal to the Series 2007B Reserve Fund Requirement and other amounts transferred, if any, to the Series 2007B Reserve Fund pursuant to the Indenture. The Authority may, in accordance with a Series Resolution or Supplemental Indenture, elect to extend the benefits of the Series 2007B Reserve Fund to any other Bonds issued under the Indenture so long as the Reserve Fund Requirement for those Bonds is the same as the Series 2007B Reserve Fund Requirement. Upon the issuance of any other Bonds that the Authority elects to be secured by the Series 2007B Reserve Fund, the Authority will cause amounts to be deposited in the Series 2007B Reserve Fund sufficient to satisfy the Series 2007B Reserve Fund Requirement for such Bonds and the Series 2007B Bonds.

Use of Moneys in the Series 2007B Reserve Fund.

(a) Moneys on deposit in the Series 2007B Reserve Fund will be transferred to the appropriate account in the Bond Fund relating to the Series 2007B Bonds or any other Series of Bonds secured thereby without any direction from the Authority (i) on any Interest Payment Date or Principal Payment Date for such Bonds to the extent amounts on deposit in such Bond Fund or Funds are insufficient to pay the principal of or interest due on such Bonds on such date and, if the related Bonds are secured by a Credit Facility, to reimburse the Credit Provider for amounts paid under the Credit Facility for payment of the principal of or interest due on such Bonds and (ii) used to reimburse each Reserve Fund Credit Provider for amounts drawn under the related Reserve Fund Credit Facility, if any. Moneys on deposit in the Series 2007B Reserve Fund will be transferred to the Bond Fund or Funds relating to the same Bonds at the direction of the Authority for the purpose of paying the last maturing principal of such Bonds on a Principal Payment Date or if the related Supplemental Indenture or Series Resolution regarding optional or mandatory redemption (other than redemption from Sinking Fund Payments) for redemption of such Series of Bonds. If a Reserve Fund Credit Facility is delivered to the Trustee for deposit in the Series 2007B Reserve Fund and it is necessary to use money in the Series 2007B Reserve Fund to satisfy a deficiency in the applicable Bond Fund, the Trustee will first use any moneys or securities on deposit in the Series 2007B Reserve Fund to satisfy such deficiency and second, draw on the

Reserve Fund Credit Facility or Reserve Fund Credit Facilities in a timely manner and pursuant to the terms of such Reserve Fund Credit Facility to the extent necessary to satisfy any remaining deficiency. Amounts drawn under any Reserve Fund Credit Facility will be deposited in the applicable Bond Fund and the applicable account or accounts therein. Any moneys or securities transferred to replenish the Series 2007B Reserve Fund following a withdrawal from the Series 2007B Reserve Fund will be used first to reimburse the Reserve Fund Credit Provider for amounts drawn on the related Reserve Fund Credit Facility and second to replenish any moneys or securities withdrawn from the Series 2007B Reserve Fund. If more than one Reserve Fund Credit Facility is on deposit in the Series 2007B Reserve Fund, any draws on such Reserve Fund Credit Facilities will be pro-rata and any reimbursement will be pro-rata, but only to the extent the Reserve Fund Credit Providers honored such draws.

(b) Moneys in the Series 2007B Reserve Fund (including the face amount of any Reserve Fund Credit Facility) will at all times be maintained in an aggregate amount not less than the Series 2007B Reserve Fund Requirement. During any period when the amount on deposit in the Series 2007B Reserve Fund (including the face amount of any Reserve Fund Credit Facility) is less than the Series 2007B Reserve Fund Requirement, all income from the investment of moneys in the Series 2007B Reserve Fund will be retained therein, and the Authority will restore any remaining deficiency from the first available amounts paid under the Contract transferred in the order of priority described in the Indenture.

(c) If at any time the amount on deposit in the Series 2007B Reserve Fund exceeds the Series 2007B Reserve Fund Requirement, the Trustee will, at the direction of the Authority, transfer the amount by which the amount of money on deposit in the Series 2007B Reserve Fund exceeds the Series 2007B Reserve Fund Requirement to the related Bond Fund, if the Authority's direction is accompanied by a Favorable Opinion of Bond Counsel to the effect that such transfer will not adversely affect the excludability from gross income of the Owners of the interest on Tax-Exempt Bonds.

(d) In lieu of making a deposit to the Series 2007B Reserve Fund in compliance with the Indenture, or in replacement of moneys then on deposit in the Series 2007B Reserve Fund, the Authority may deliver to the Trustee a Reserve Fund Credit Facility in an amount which, together with moneys, Government Obligations or other Reserve Fund Credit Facilities on deposit in the Series 2007B Reserve Fund, equals or exceeds the Series 2007B Reserve Fund Requirement. Prior to the substitution of a Reserve Fund Credit Facility for moneys, Government Obligations or other Reserve Fund Credit Facilities, the Authority will deliver to the Trustee each of the following: (i) an opinion of Counsel to the effect that the Reserve Fund Credit Facility is a valid and binding obligation of the provider of such Reserve Fund Credit Facility, enforceable in accordance with its terms (except to the extent that the enforceability thereof may be limited by the operation of bankruptcy, insolvency and similar laws affecting rights and remedies of creditors); (ii) an opinion of Bond Counsel to the effect that the substitution of such Reserve Fund Credit Facility and the application of moneys and Government Obligations then on deposit in the Series 2007B Reserve Fund in and of itself, will not adversely affect the exclusion from gross income of the Owners thereof of interest on the Tax-Exempt Bonds; and (iii) written confirmation from Moody's, if the related Bonds are rated by Moody's, from S&P, if the related Bonds are rated by S&P and from Fitch if the related Bonds are rated by Fitch, that such substitution, in and of itself, will not adversely affect the existing ratings of the related Bonds. At least three months prior to the stated expiration of such Reserve Fund Credit Facility, the Authority will either (i) provide for delivery of a replacement Reserve Fund Credit Facility meeting the requirements of this subparagraph (d) or (ii) deliver an extension of the Reserve Fund Credit Facility for at least an additional year. Upon delivery of a replacement Reserve Fund Credit Facility, the Trustee will deliver the then-effective Reserve Fund Credit Facility to or upon the order of the Authority. If the Authority fails to deposit a replacement Reserve Fund Credit Facility or extend the existing Reserve Fund Credit Facility, the Trustee will immediately commence to make monthly deposits from the Revenue Fund in accordance with the priority set forth in the Indenture, so that an amount equal to the Series 2007B Reserve Fund

Requirement is on deposit in the Reserve Fund at all times. A deficiency will be deemed to exist with respect to the Series 2007B Reserve Fund Requirement so long as there has been a draw on the Reserve Fund Credit Facility and the issuer of the Reserve Fund Credit Facility has not been reimbursed in accordance with the terms of the Reserve Fund Credit Facility.

Security for the Series 2007B Bonds. The Series 2007B Bonds will be issued pursuant to the Indenture and the Bond Resolution and shall be equally and ratably secured under the Indenture and the Bond Resolution with the Outstanding Series 2007B Bonds and any other Series of Bonds issued pursuant to the Indenture, without preference, priority or distinction of any Bonds over any other Bonds, except as described in the Indenture.

Priority of Lien. Subject to the rights of the owners and holders of the First Indenture Bonds as set forth in the First Indenture and the rights of the owners and holders of the Second Indenture Bonds as set forth in the Second Indenture, all right, title and interest in, to and under the Contract, including but not limited to the payments to be made to the Authority thereunder, together with all amounts on deposit in the Revenue Fund established under the Indenture, all amounts on deposit in any Fund or Account established under the Indenture with respect to the Series 2007B Bonds, including the earnings thereon are hereby pledged and assigned to the Trustee under the Trust Indenture to the Owners of the Series 2007B Bonds.

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APPENDIX D

FORM OF OPINION OF CO-BOND COUNSEL

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September __, 2007

Metropolitan Atlanta Rapid Transit Authority
Atlanta, Georgia

U.S. Bank National Association
Atlanta, Georgia

Re: \$_____ Metropolitan Atlanta Rapid Transit Authority (Georgia) Sales Tax
Revenue Bonds (Third Indenture Series), Refunding Series 2007B

To the Addressees:

We have acted as Co-Bond Counsel in connection with the issuance by the Metropolitan Atlanta Rapid Transit Authority (the "Authority") of its Metropolitan Atlanta Rapid Transit Authority (Georgia) Sales Tax Revenue Bonds (Third Indenture Series) Series 2007B (the "Series 2007B Bonds"), in the aggregate principal amount of \$_____. In such capacity, we have examined (a) the Constitution and laws of the State of Georgia and such certified proceedings of the Authority and other papers as we have deemed necessary to render this opinion, including a copy of the validation proceedings concluded in the Superior Court of Fulton County, Georgia; (b) certified copies of the proceedings of the governing bodies of Fulton, DeKalb, Clayton and Gwinnett Counties and the City of Atlanta, Georgia; (c) the Rapid Transit Contract and Assistance Agreement dated as of September 1, 1971, as amended (the "Contract"); (d) the Trust Indenture dated as of January 1, 1976, as amended by a revised First Supplemental Trust Indenture dated as of May 1, 1981, a Second Supplemental Trust Indenture dated as of June 1, 1983, a Third Supplemental Trust Indenture dated as of December 1, 1985, a Fourth Supplemental Trust Indenture dated as of March 1, 1988, a Fifth Supplemental Trust Indenture dated as of June 1, 1995 and a Sixth Supplemental Trust Indenture dated as of September 1, 2003 (collectively, the "First Indenture") between the Authority and U.S. Bank National Association (as successor to The Citizens and Southern National Bank, Atlanta, Georgia, NationsBank of Georgia, National Association, First Union National Bank and SunTrust Bank), as trustee; (e) the Trust Indenture dated as of March 1, 1993, as amended by a First Supplemental Trust Indenture dated as of November 1, 1994, a Second Supplemental Trust Indenture dated as of June 1, 1995, a Third Supplemental Trust Indenture dated as of July 1, 2000 and a Fourth Supplemental Trust Indenture dated as of September 1, 2003 (collectively, the "Second Indenture") between the Authority and U.S. Bank National Association (as successor to SunTrust Bank (formerly, Trust Company Bank)), as trustee (the "Trustee"); (f) the Trust

Indenture dated as of October 1, 2003, as amended by a First Supplemental Trust Indenture dated as of December 1, 2004, a Second Supplemental Trust Indenture dated as of April 1, 2005, a Third Supplemental Trust Indenture dated as of July 1, 2005, a Fourth Supplemental Trust Indenture dated as of March 1, 2007 and a Fifth Supplemental Trust Indenture dated as of September 1, 2007 (collectively the “Indenture”) between the Authority and U.S. Bank National Association (as successor to SunTrust Bank, Atlanta, Georgia), as trustee; (g) the resolution of the Authority adopted on November 3, 2003 (the “2003 Third Indenture Bond Resolution”); (h) the resolution of the Authority adopted on November 6, 2006 (the “2006 Third Indenture Bond Resolution”); (i) the resolution of the Authority adopted on September 10, 2007 (the “2007 Third Indenture Bond Resolution,” and together with the 2003 Third Indenture Bond Resolution and the 2006 Third Indenture Bond Resolution, the “Resolution”); (j) the Refunding Escrow Agreement dated September __, 2007 (the “Escrow Agreement”), by and among the Authority, the Trustee and U.S. Bank National Association, as escrow agent (the “Escrow Agent”); and (k) certain documents and certificates executed and delivered by the Authority on the date hereof. In all such examinations, we have assumed the genuineness of signatures of original documents and the conformity to original documents of all copies submitted to us as certified, conformed or photographic copies, and as to the certificates of public officials, we have assumed the same to have been properly given and to be accurate.

The Series 2007B Bonds are secured by a third lien on and pledge of amounts due to the Authority under the Contract, subject only to the lien of the holders and owners of the First Indenture Bonds under the First Indenture and to the lien of the holders and owners of the Second Indenture Bonds under the Second Indenture. The Authority has relinquished its right to issue additional sales tax revenue bonds under the First Indenture and the Second Indenture. The Series 2007B Bonds are on a parity in accordance with the Indenture with the Metropolitan Atlanta Rapid Transit Authority (Georgia) Sales Tax Revenue Bonds (Third Indenture Series), Refunding Series 2005A (the “Series 2005A Bonds”); the Metropolitan Atlanta Rapid Transit Authority (Georgia) Sales Tax Revenue Bonds (Third Indenture Series), Refunding Series 2006A (the “Series 2006A Bonds”); and the Metropolitan Atlanta Rapid Transit Authority (Georgia) Sales Tax Revenue Bonds (Third Indenture Series), Refunding Series 2007A (the “Series 2007A Bonds”).

The Series 2007B Bonds are issued as fully registered Bonds in denominations of \$5,000 or integral multiples thereof, mature and bear interest as set forth in the Indenture and the Resolution.

The Series 2007B Bonds are being issued for the purpose of (a) current refunding \$400,000,000 in aggregate principal amount of the Metropolitan Atlanta Rapid Transit Authority (Georgia) Sales Tax Revenue Commercial Paper Bond Anticipation Notes (Third Indenture Series) Series 2004A and Series 2004B (collectively, the “Defeased Notes”), (b) financing certain capital projects of the Authority and (c) paying certain expenses relating to the issuance of the Series 2007B Bonds. The Defeased Notes were issued under the Third Indenture in the

original aggregate principal amount of \$400,000,000 for the purpose of (i) funding capital projects of the Authority and (ii) paying certain expenses relating to the issuance of such notes.

In rendering our opinion that the interest on the Series 2007B Bonds is, as of the date of this opinion, not includable in the gross income of the owners of the Series 2007B Bonds for federal income tax purposes, we have (a) relied as to questions of fact material to our opinion upon certificates and certified proceedings of public officials, including officials of Fulton County, DeKalb County and the City of Atlanta and representations of the Authority (including representations as to the use and investment of proceeds of the Series 2007B Bonds and the Defeased Notes) without undertaking to verify the same by independent investigation; and (b) assumed continued compliance by the Authority with its covenants relating to the use of the proceeds of the Series 2007B Bonds and compliance with the arbitrage requirements contained in Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"). The inaccuracy of any such representations or certifications or the non-compliance with any of such covenants may cause interest on the Bonds to become includable in the gross income of the recipients thereof for federal income tax purposes retroactive to the date of issuance of the Series 2007B Bonds.

We express no opinion with respect to the accuracy, completeness or sufficiency of any offering documents regarding the Series 2007B Bonds, nor do we express any opinion as to compliance by the Authority or the initial purchasers of the Series 2007B Bonds with any federal or state statute, regulation or ruling with respect to the sale or distribution of the Series 2007B Bonds.

Based upon the foregoing, we are of the opinion that, under existing law:

1. The Series 2007B Bonds have been validly issued under the Constitution and laws of the State of Georgia and are valid and legally binding special obligations of the Authority issued under and pursuant to the Indenture and the Resolution. All requirements under the Indenture precedent to the delivery thereof have been satisfied and the Bonds and the Contract have been validated by judgment of the Superior Court of Fulton County, Georgia.

2. The Indenture and the Escrow Agreement have been duly and validly executed and delivered by the Authority and constitute valid and binding agreements of the Authority, enforceable in accordance with their respective terms, subject to bankruptcy, insolvency, moratorium or other similar laws affecting creditors generally and subject to principles of equity, applicable to the availability of specific performance or other equitable relief.

3. The Indenture grants to the Trustee for the owners of the Series 2007B Bonds, and the owners of the Series 2005A Bonds, the Series 2006A Bonds, the Series 2007A Bonds and any other bonds heretofore or hereafter issued on a parity

therewith in accordance with the provisions of the Indenture, a valid lien on and pledge of all moneys in the Metropolitan Atlanta Rapid Transit Authority Revenue Fund (established by the Indenture) derived from payments under the Contract, subject and subordinate in all respects to the rights of the owners and holders of the First Indenture Bonds and the Second Indenture Bonds. No further action is necessary to record, evidence, effectuate or perfect such lien and pledge. The Authority may issue additional parity bonds from time to time, upon the meeting of certain conditions provided in the Indenture and the Resolution, and if so issued, the principal and interest thereon shall enjoy a lien upon the aforesaid moneys for the payment thereof on a parity with the lien created for the payment of the principal of and interest on the Series 2007B Bonds, the Series 2005A Bonds, the Series 2006A Bonds and the Series 2007A Bonds.

4. The Contract has been duly and validly executed and delivered by the Authority and has become binding upon the Authority, the City of Atlanta, Fulton County and DeKalb County and is a valid and binding agreement.

5. As required by the Contract, Fulton County and DeKalb County have levied the retail sales and use tax authorized by an Act of the Georgia General Assembly approved March 16, 1971 (Ga. Laws 1971, p. 2082), as amended.

6. The Authority has lawfully, duly and validly adopted the Resolution, and the provisions of the Resolution are valid and binding on the Authority.

7. The interest on the Series 2007B Bonds is exempt from present State income taxation within the State of Georgia.

8. Assuming the accuracy of the factual representations made by the Authority and the continued compliance by the Authority with its covenants regarding certain requirements of the Code that must be satisfied subsequent to the issuance of the Series 2007B Bonds in order that the interest on the Series 2007B Bonds be and continue to be excluded from gross income for federal income tax purposes under existing statutes, rulings and court decisions, and under applicable regulations and proposed regulations, the interest on the Series 2007B Bonds is not includable in gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, with respect to corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for purposes of computing the alternative minimum tax imposed on such corporations. We express no opinion regarding any other federal tax consequences caused by the receipt or accrual of interest on the Series 2007B Bonds.

It is to be understood that the rights of the owners of the Series 2007B Bonds and the enforceability of the Series 2007B Bonds, the Indenture, the Resolution, the Escrow

Agreement and the Contract may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Very truly yours,

KING & SPALDING LLP

By: _____

Very truly yours,

HOWELL & ASSOCIATES, LLC

By:_____

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APPENDIX E

DESCRIPTION OF BOOK-ENTRY ONLY SYSTEM

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The Depository Trust Company ("DTC") will act as securities depository for the Series 2007B Bonds. The Series 2007B Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2007B Bond will be issued for each maturity of the Series 2007B Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Series 2007B Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2007B Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2007B Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2007B Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2007B Bonds, except in the event that use of the book-entry system for the Series 2007B Bonds is discontinued.

To facilitate subsequent transfers, all Series 2007B Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2007B Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2007B Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2007B Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Prepayment notices shall be sent to DTC. If less than all of the Series 2007B Bonds within an issue are being prepaid, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be prepaid.

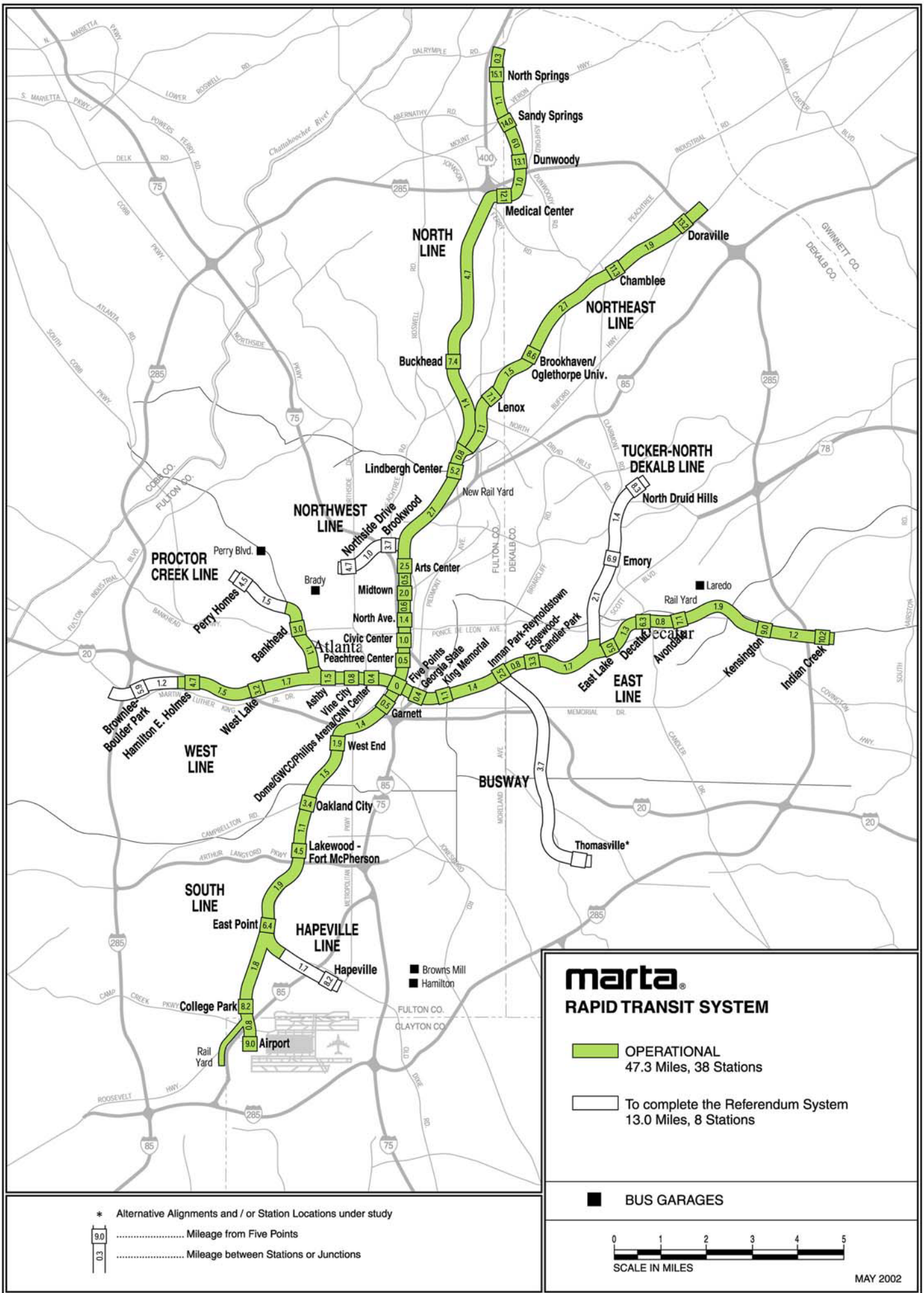
Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2007B Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Trustee as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2007B Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Series 2007B Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of prepayment proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2007B Bonds at any time by giving reasonable notice to the Authority. Under such circumstances, in the event that a successor depository is not obtained, Series 2007B Bonds are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2007B Bonds will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from DTC. The Authority does not take any responsibility for the accuracy or completeness thereof



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