

Interest on the Series 2020 Bonds is not excluded from gross income for federal income tax purposes. Bond Counsel is of the opinion that interest on the Series 2020 Bonds is exempt from personal income taxes of the State of California (the "State") under present State law. See "TAX MATTERS" herein.



\$122,970,000
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
MEASURE Q SALES TAX REVENUE REFUNDING BONDS (GREEN BONDS),
SERIES 2020A (TAXABLE)

The \$122,970,000 Sonoma-Marín Area Rail Transit District Measure Q Sales Tax Revenue Refunding Bonds (Green Bonds), Series 2020A (Taxable) (the "Series 2020 Bonds") are being issued by the Sonoma-Marín Area Rail Transit District (the "District") pursuant to an Indenture, dated as of December 1, 2011 (the "Master Indenture"), between the District and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), including as supplemented by a Third Supplemental Indenture, dated as of October 1, 2020 (the "Third Supplemental Indenture" and, together with the Master Indenture, the "Indenture"), between the District and the Trustee, to refund the District's outstanding Sonoma-Marín Area Rail Transit District Measure Q Sales Tax Revenue Bonds, Series 2011A (the "Refunded Bonds"), and to pay certain costs of issuing the Series 2020 Bonds. See "PLAN OF REFUNDING" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

Interest on the Series 2020 Bonds will be payable on March 1 and September 1 of each year, commencing March 1, 2021. The Bonds will be issued as fully registered bonds, without coupons, in the denomination of \$5,000 or any integral multiple thereof. The Series 2020 Bonds will be registered in the name of Cede & Co., as holder of the Series 2020 Bonds and nominee for The Depository Trust Company, New York, New York ("DTC"). Purchasers will not receive physical certificates representing their interest in the Series 2020 Bonds purchased. The principal or redemption price of and interest on the Series 2020 Bonds is payable by wire transfer to DTC which, in turn, will remit such principal, redemption price or interest to the DTC Participants for subsequent disbursement to the beneficial owners of the Series 2020 Bonds. See APPENDIX E – "BOOK-ENTRY SYSTEM" herein.

The Series 2020 Bonds are subject to redemption prior to maturity as more fully described herein. See "THE SERIES 2020 BONDS – Redemption" herein.

The Series 2020 Bonds are special obligations of the District and are payable as to both principal and interest, and any premium upon redemption thereof, solely from Revenues (as defined herein) as provided in the Indenture and described herein. Revenues consist of all Sales Tax Revenues (as defined herein) and amounts held by the Trustee in certain funds and accounts established under the Indenture. Sales Tax Revenues consist of all amounts available for distribution to the District on account of the imposition of a retail transactions and use tax (the "2008 Measure Q Sales Tax") levied in the incorporated and unincorporated territory of the Counties of Sonoma and Marin, at the rate of one-fourth of one percent (1/4%) after deducting amounts payable by the District to the California Department of Tax and Fee Administration for costs and expenses for its services in connection with the 2008 Measure Q Sales Tax. The 2008 Measure Q Sales Tax was approved by more than two-thirds of the electors voting on a ballot measure to authorize the 2008 Measure Q Sales Tax at the general election held in the Counties of Sonoma and Marin on November 4, 2008. Collection of the 2008 Measure Q Sales Tax commenced on April 1, 2009 and will expire on March 31, 2029. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020 BONDS" herein.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COUNTIES OF MARIN OR SONOMA, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION OR PUBLIC AGENCY THEREOF, OTHER THAN THE AUTHORITY, TO THE EXTENT OF THE PLEDGE OF THE SALES TAX REVENUES AND OTHER AMOUNTS HELD UNDER THE INDENTURE, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2020 BONDS.

This cover page contains certain information for general reference only. It is not a summary of the security or terms of this issue. Investors must read the entire Official Statement to obtain information essential to make an informed investment decision with respect to the Series 2020 Bonds.

The Series 2020 Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of the validity of the Series 2020 Bonds and certain other legal matters by Nixon Peabody LLP, Los Angeles, California, Bond and Disclosure Counsel to the District, and certain other conditions. Certain legal matters will be passed on for the District by the District's General Counsel, and for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP. It is anticipated that the Series 2020 Bonds will be available for delivery through the book-entry facilities of DTC on or about October 29, 2020.

\$122,970,000
SONOMA-MARIN RAIL TRANSIT DISTRICT
MEASURE Q SALES TAX REVENUE REFUNDING BONDS (GREEN BONDS)
SERIES 2020A (TAXABLE)

MATURITY SCHEDULE

Maturity Date (March 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP (Base No. 835588)[†]
2021	\$3,365,000	0.449%	0.449%	100.000	AU8
2022	13,280,000	0.569	0.569	100.000	AV6
2023	14,015,000	0.726	0.726	100.000	AW4
2024	14,765,000	1.052	1.052	100.000	AX2
2025	15,580,000	1.202	1.202	100.000	AY0
2026	15,860,000	1.532	1.532	100.000	AZ7
2027	16,105,000	1.732	1.732	100.000	BA1
2028	16,385,000	2.018	2.018	100.000	BB9
2029	13,615,000	2.088	2.088	100.000	BC7

[†] CUSIP is a registered trademark of the American Bankers Association. CUSIP data on the cover hereof and herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the District, the Trustee, the Underwriters or PFM, the Municipal Advisor to the Authority, is responsible for the selection or correctness of the CUSIP numbers set forth herein.

No dealer, salesman or any other person has been authorized by the Sonoma-Marin Area Rail Transit District (the "District") to give any information or to make any statements or representations, other than those contained in this Official Statement, and, if given or made, such other information, statements or representations must not be relied upon as having been authorized. The information set forth herein has been obtained from the District and other sources which are believed to be reliable. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy any of the Series 2020 Bonds in any jurisdiction in which such offer or solicitation is not authorized, or in which any person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

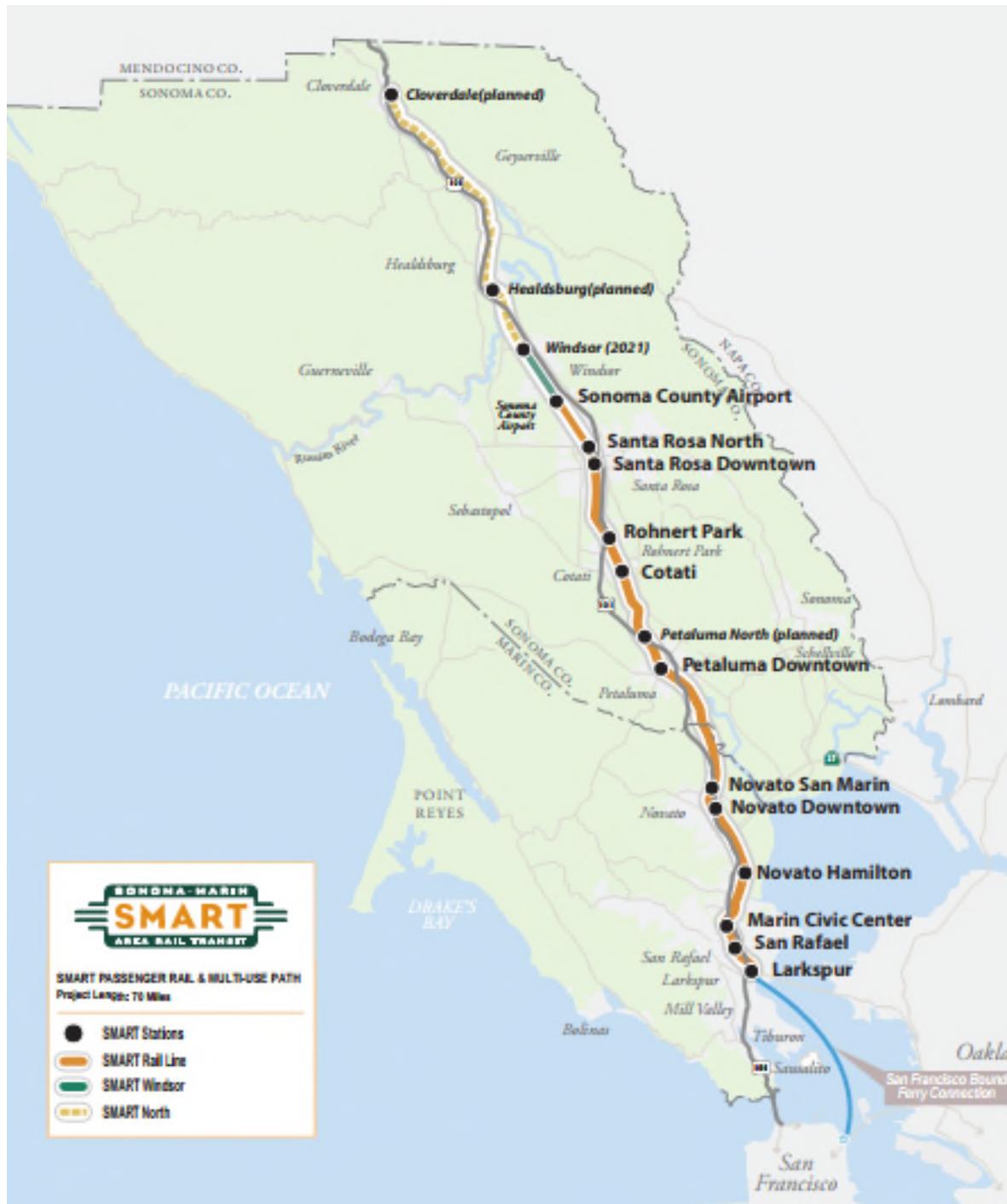
This Official Statement is not to be construed as a contract with the purchasers of the Series 2020 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The Underwriters have provided the following sentence for inclusion in the Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

CUSIP is a registered trademark of the American Bankers Association. CUSIP data on the cover hereof and herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the District, the Underwriters (as defined herein) or PFM, the Municipal Advisor, is responsible for the selection or correctness of the CUSIP numbers set forth herein.

FORWARD-LOOKING STATEMENTS

Certain statements included or incorporated by reference in this Official Statement constitute forward-looking statements. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “project,” “budget” or other similar words. **The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. No assurance is given that actual results will meet the forecasts of the District in any way. The District does not plan to issue any updates or revisions to those forward-looking statements if or when any of its expectations, or events, conditions or circumstances on which such statements are based occurs.**



SONOMA-MARIN AREA RAIL TRANSIT DISTRICT

BOARD OF DIRECTORS

Eric Lucan, Chair
Barbara Pahre, Vice-chair
Judy Arnold
Damon Connolly
Debora Fudge
Patty Garbarino
Daniel Hillmer
Joe Naujokas
Gary Phillips
David Rabbitt
Chris Rogers
Shirlee Zane

ADMINISTRATIVE STAFF

Farhad Mansourian, General Manager
Erin McGrath, Chief Financial Officer
William L. Gamlen, Chief Engineer

SPECIAL SERVICES

Municipal Advisor

PFM Financial Advisors LLC
San Francisco, California

Bond and Disclosure Counsel

Nixon Peabody LLP
Los Angeles, California

Trustee

The Bank of New York Mellon Trust Company, N.A.
Los Angeles, California

Verification Agent

Robert Thomas CPA, LLC
Minneapolis, Minnesota

TABLE OF CONTENTS

	Page
INTRODUCTION	1
General.....	1
Authority for Issuance.....	1
Purpose and Application of Proceeds	1
Security and Sources of Payment for the Series 2020 Bonds	1
Special and Limited Obligations.....	2
Impacts of COVID-19 Pandemic	3
References.....	3
THE SERIES 2020 BONDS.....	3
General.....	3
Redemption.....	3
“Green Bond” Designation of Series 2020 Bonds	6
SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020 BONDS.....	6
Security	6
Special and Limited Obligations.....	7
Pledge of Revenues and certain Funds Held by Trustee.....	7
Allocation of Revenues.....	8
Additional Bonds and Parity Obligations	11
Subordinate Obligations and Fee and Expense Obligations	13
Investments	13
PLAN OF REFUNDING	13
ESTIMATED SOURCES AND USES OF FUNDS	15
DEBT SERVICE SCHEDULE.....	15
THE 2008 MEASURE Q SALES TAX	15
Authorization, Application and collection of the 2008 Measure Q Sales Tax.....	15
Historical Sales Tax Revenues.....	16
State Sales Tax and Other Sales Taxes Levied within the Counties.....	17
THE MEASURE Q PROGRAM	18
Purpose and Description	18
The Ordinance and Its Purposes	19
Passenger Rail and Pathway Service	19
Ridership.....	20
THE DISTRICT	22
General.....	22
Governance and Administration	22
Recent Developments Regarding Sales Tax Collection.....	23
Other District Revenue	23
RISK FACTORS	27
U.S. Economic Recession; Economy of the County and the State	27
Impacts of COVID-19 Pandemic	27
The 2008 Measure Q Sales Tax	29

TABLE OF CONTENTS
(continued)

	Page
Impact of Bankruptcy of the District	29
Proposition 218	30
Further Initiatives	30
Cybersecurity	30
No Acceleration Provision	31
Climate Change	31
FINANCIAL STATEMENTS	31
LITIGATION	31
TAX MATTERS	31
Federal Income Taxes	31
U.S. Holders	32
Taxation of Interest Generally	32
Recognition of Income Generally	32
Original Issue Discount	33
Market Discount	34
Bond Premium	34
Surtax on Unearned Income	35
Sale or Redemption of Bonds	35
Non-U.S. Holders	35
Information Reporting and Backup Withholding	37
State Taxes	37
Changes in Law and Post Issuance Events	38
CONSIDERATIONS FOR ERISA AND OTHER U.S. BENEFIT PLAN INVESTORS	38
LEGAL MATTERS	40
RATING	40
UNDERWRITING	40
MUNICIPAL ADVISOR	41
VERIFICATION OF MATHEMATICAL COMPUTATIONS	41
CONTINUING DISCLOSURE	41
MISCELLANEOUS	42
APPENDIX A – FINANCIAL STATEMENTS OF THE DISTRICT	A-1
APPENDIX B – ECONOMIC AND DEMOGRAPHIC INFORMATION REGARDING THE COUNTY OF SONOMA AND THE COUNTY OF MARIN	B-1
APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE	C-1
APPENDIX D – FORM OF CONTINUING DISCLOSURE CERTIFICATE	D-1
APPENDIX E – BOOK-ENTRY SYSTEM	E-1
APPENDIX F – PROPOSED FORM OF OPINION OF BOND COUNSEL	F-1

OFFICIAL STATEMENT

\$122,970,000

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT MEASURE Q SALES TAX REVENUE BONDS (GREEN BONDS), SERIES 2020A (TAXABLE)

INTRODUCTION

General

This Official Statement, which includes the cover page and the appendices hereto, sets forth certain information in connection with the offering by the Sonoma-Marine Area Rail Transit District (the “District” and sometimes referred to as “SMART”) of the Sonoma-Marine Area Rail Transit District Measure Q Sales Tax Revenue Bonds (Green Bonds), Series 2020A (Taxable) in the aggregate principal amount of \$122,970,000 (the “Series 2020 Bonds”). The Series 2020 Bonds are being issued pursuant to an Indenture, dated as of December 1, 2011 (as previously supplemented and amended, the “Master Indenture”), between the District and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”), as supplemented by a Third Supplemental Indenture, dated as of October 1, 2020 (the “Third Supplemental Indenture” and, together with the Master Indenture, the “Indenture”), between the District and the Trustee. The offering of the Series 2020 Bonds to potential investors is made only by means of the entire Official Statement, including the cover page and the appendices hereto.

All capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in APPENDIX C - “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Definitions” or, if not defined therein, shall have the meanings assigned to such terms in the Indenture.

Authority for Issuance

The Series 2020 Bonds are being issued by the District under and pursuant to the Sonoma-Marine Area Rail Transit District Act, being Part 16 of Division 10 (Sections 105000 *et seq.*) (the “Act”) of the Public Utilities Code of the State of California (the “State”), as now in effect and as it may from time to time hereafter be amended or supplemented and Chapter 6 of Part 1 of Division 2 of Title 5 (Section 54300 *et seq.*) of the Government Code of the State as referenced in the Act and Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 (Section 53570 *et seq.*) of the Government Code of the State (collectively with the Act, the “Law”), in each case as now in effect and as from time to time amended and supplemented.

Purpose and Application of Proceeds

The Series 2020 Bonds are being issued to refund the District’s outstanding Measure Q Sales Tax Revenue Bonds, Series 2011A (the “Refunded Bonds”) and to pay certain costs of issuing the Series 2020 Bonds. See “PLAN OF REFUNDING” and “ESTIMATED SOURCES AND USES OF FUNDS” herein.

Security and Sources of Payment for the Series 2020 Bonds

The Series 2020 Bonds are special obligations of the District and are payable as to both principal and interest, and any premium upon redemption thereof, solely from Revenues (as defined herein) as provided in the Indenture and described herein. Revenues consist of all Sales Tax Revenues (as defined herein) and certain amounts held by the Trustee in certain funds and accounts established under the Indenture. Sales Tax Revenues consist of all amounts available for distribution to the District on account of the imposition of a retail transactions and use tax (the “2008 Measure Q Sales Tax”) levied in the incorporated and unincorporated territory of the County of Sonoma and the County of Marin (the

“Counties”), at the rate of one-fourth of one percent (1/4%) after deducting amounts payable by the District of a fee paid to the California Department of Tax and Fee Administration (the “CDTFA”) in connection with the collection and disbursement of the 2008 Measure Q Sales Tax. The Taxpayer Transparency and Fairness Act of 2017 restructured the California State Board of Equalization (the “BOE”) into three separate entities: the State Board of Equalization, the CDTFA and the Office of Tax Appeals. The CDTFA handles most of the taxes and fees previously collected by the BOE, including, as of July 1, 2017, the 2008 Measure Q Sales Tax.

The 2008 Measure Q Sales Tax is levied pursuant to Ordinance No. 2008-01 (the “Ordinance”) adopted by the Board of Directors of the District (the “Board”) on July 16, 2008, pursuant to the provisions of Article 5 of Chapter 4 of the Act. The 2008 Measure Q Sales Tax was approved by more than two-thirds of the electors in the counties voting on a ballot measure (“Measure Q”) to authorize the 2008 Measure Q Sales Tax at the general election held in the counties on November 4, 2008. Collection of the 2008 Measure Q Sales Tax commenced on April 1, 2009 and will expire on March 31, 2029. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020 BONDS” herein.

Additional bonds, notes and other obligations (the “Parity Obligations”) secured by the pledge made pursuant to the Indenture and payable from the Revenues (including Sales Tax Revenues) equally and ratably with the Series 2020 Bonds as provided in the Indenture may be issued or incurred subject to the satisfaction of certain conditions of the Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020 BONDS - Additional Bonds and Parity Obligations” herein. The Series 2020 Bonds and any additional bonds and notes authorized by, and at any time Outstanding under the Indenture, are referred to collectively herein as the “Bonds.”

Additional obligations secured by the pledge made pursuant to the Indenture and payable from the Revenues (including Sales Tax Revenues) on a basis subordinate to the Bonds and Parity Obligations as provided in the Indenture (the “Subordinate Obligations” and the “Fee and Expense Obligations”) may be issued or incurred subject to the satisfaction of certain conditions of the Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020 BONDS - Subordinate Obligations and Fee and Expense Obligations” herein.

The purchase of the Series 2020 Bonds involves risks, certain of which are discussed under “RISK FACTORS” below.

Special and Limited Obligations

THE SERIES 2020 BONDS ARE SPECIAL OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM REVENUES AS DEFINED AND PROVIDED IN THE INDENTURE AND CERTAIN OTHER FUNDS PLEDGED UNDER THE INDENTURE AND THE DISTRICT IS NOT OBLIGATED TO PAY THE SERIES 2020 BONDS EXCEPT FROM REVENUES AND THOSE CERTAIN OTHER FUNDS PLEDGED UNDER THE INDENTURE. THE SERIES 2020 BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE OR ANY POLITICAL SUBDIVISION OF THE STATE OTHER THAN THE DISTRICT, OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE STATE OR OF ANY POLITICAL SUBDIVISION OF THE STATE. THE GENERAL FUND OF THE DISTRICT IS NOT LIABLE, AND THE CREDIT OR TAXING POWER (OTHER THAN AS DESCRIBED IN THE INDENTURE) OF THE DISTRICT IS NOT PLEDGED, FOR THE PAYMENT OF THE SERIES 2020 BONDS, THEIR INTEREST, OR ANY PREMIUM DUE UPON REDEMPTION OF THE SERIES 2020 BONDS. THE SERIES 2020 BONDS ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE, LIEN OR ENCUMBRANCE UPON, ANY OF THE PROPERTY OF THE DISTRICT OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT THE REVENUES AND CERTAIN OTHER FUNDS PLEDGED UNDER THE INDENTURE.

Impacts of COVID-19 Pandemic

The outbreak of COVID-19, a disease caused by a new strain of coronavirus, has been declared a pandemic by the World Health Organization (“WHO”). COVID-19 outbreak developments, and associated governmental and regulatory responses, are rapidly changing. The effects of COVID-19 and the actions taken at the State, local and national levels, as described in this Official Statement, to halt its spread have had, and are expected to continue to have, a significant negative affect on the revenues and economy of the District. The District cannot predict the duration or magnitude of that impact. In addition, historical data presented in this Official Statement (including the appendices) may not predict near term trends accurately in light of the unprecedented and rapidly evolving nature of the COVID-19 pandemic and its economic effects. See “RISK FACTORS – Impacts of COVID-19 Pandemic” in this Official Statement.

References

The descriptions and summaries of the Master Indenture, the First Supplemental Indenture and the various other documents hereinafter described do not purport to be comprehensive or definitive, and reference is made to each such document for the complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each such document, copies of which are available for inspection at the offices of the District.

THE SERIES 2020 BONDS

General

The Series 2020 Bonds will be dated their date of delivery, will bear interest at the rates and will mature on the dates set forth on the inside cover of this Official Statement. Interest on each Series 2020 Bond shall be computed on the basis of a 360-day year, consisting of twelve 30-day months and shall be payable commencing on March 1, 2021 and semiannually thereafter on each March 1 and September 1 (each, an “Interest Payment Date”). The Series 2020 Bonds will be issued in fully registered form without coupons and will initially be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), as the securities depository for the Series 2020 Bonds. The term “Owner” as used herein shall refer to DTC as the registered owner of the Bonds. Purchases of the Series 2020 Bonds are to be made in book-entry only form in the principal amount of \$5,000 or any integral multiple thereof. See APPENDIX E – “BOOK-ENTRY SYSTEM.”

Redemption

Make-Whole Optional Redemption. The Series 2020 Bonds are subject to redemption prior to their respective maturity dates on any date, at the option of the issuer, in whole or in part, at a redemption price equal to the greater of:

- (1) 100% of the principal amount of the Series 2020 Bonds to be redeemed; or
- (2) As calculated by the Calculation Agent (defined below), the sum of the present value of the remaining scheduled payments of principal and interest to the stated maturity date of such Series 2020 Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Series 2020 Bonds are to be redeemed, discounted to the date on which such Series 2020 Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (described below) plus the following applicable spreads (expressed in basis points).

Maturity Dates	Applicable Spread
March 1, 2021	5 bps
March 1, 2022 through March 1, 2023	10 bps
March 1, 2024 through March 1, 2026	15 bps
March 1, 2027 through March 1, 2029	20 bps

Plus, in each case, accrued interest on such Series 2020 Bonds to be redeemed to but not including the redemption date.

The “Treasury Rate” is, as determined by the Calculation Agent, with respect to any redemption date for a particular Series 2020 Bond, the weekly average for the preceding week of the yield to maturity of the United States Treasury securities with a constant maturity, excluding inflation indexed securities (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519), and if such Statistical Release is no longer published, any publicly available source of similar market data), most nearly equal to the period from the redemption date to the maturity date of the bond to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

“Calculation Agent” means a commercial bank or an investment banking institution of national standing that is a primary dealer of United States government securities (which may be one of the institutions that served as underwriters for the Series 2020 Bonds) designated by the District.

Selection of Series 2020 Bonds to be Redeemed.

If less than all of the Series 2020 Bonds are to be redeemed, the particular maturities of Series 2020 Bonds to be redeemed at the option of the District will be determined by the District in its sole discretion.

If the Series 2020 Bonds are registered in book-entry only form and so long as DTC or a successor securities depository is the sole registered owner of such Series 2020 Bonds, if less than all of the Series 2020 Bonds of a maturity are called for prior redemption, the particular Series 2020 Bonds or portions thereof to be redeemed shall be allocated on a pro rata pass-through distribution of principal basis in accordance with DTC procedures, provided that, so long as the Series 2020 Bonds are held in book-entry form, the selection for redemption of such Series 2020 Bonds shall be made in accordance with the operational arrangements of DTC then in effect, and, if the DTC operational arrangements do not allow for redemption on a pro rata pass-through distribution of principal basis, the Series 2020 Bonds will be selected for redemption, in accordance with DTC procedures, by lot.

The District intends that redemption allocations made by DTC be made on a pro rata pass-through distribution of principal basis as described above. However, neither the District nor the Underwriters can provide any assurance that DTC, DTC’s direct and indirect participants or any other intermediary will allocate the redemption of Series 2020 Bonds on such basis.

For purposes of calculation of the “pro rata pass-through distribution of principal,” “pro rata” means, for any amount of principal to be paid, the application of a fraction to each denomination of the

respective Series 2020 Bonds where (a) the numerator of which is equal to the amount due to the respective bondholders on a payment date, and (b) the denominator of which is equal to the total original par amount of the respective Series 2020 Bonds.

If the Series 2020 Bonds are no longer registered in book-entry-only form, each owner will receive an amount of Series 2020 Bonds equal to the original face amount then beneficially held by that owner, registered in such investor's name. Thereafter, any redemption of less than all of the Series 2020 Bonds of any maturity will continue to be paid to the registered owners of such Series 2020 Bonds on a pro-rata basis, based on the portion of the original face amount of any such Series 2020 Bonds to be redeemed. See APPENDIX E – "BOOK-ENTRY SYSTEM."

Notice of Redemption. Each notice of redemption with respect to the Series 2020 Bonds shall be mailed by the Trustee, not less than twenty (20) nor more than sixty (60) days prior to the redemption date, to (i) each Holder and (ii) to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system. Any such notice of redemption may be conditional, and may be rescinded by written notice delivered to the Trustee by the District. Upon receipt of such written notice of rescission from the District, the Trustee shall give notice of such rescission as soon thereafter as practicable in the same manner, and to the same parties, as notice of redemption was given pursuant to the Indenture.

Partial Redemption of Bonds. Upon surrender of any Series 2020 Bond redeemed in part only, the District shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the District, a new Series 2020 Bond of authorized denominations, and of the same maturity, equal in aggregate principal amount to the unredeemed portion of the Series 2020 Bond surrendered.

Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, the Series 2020 Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Series 2020 Bonds (or portions thereof) so called for redemption shall become due and payable at the Redemption Price specified in such notice together with interest accrued thereon to the date fixed for redemption, interest on the Series 2020 Bonds so called for redemption shall cease to accrue, said Series 2020 Bonds (or portions thereof) shall cease to be entitled to any benefit or security under the Indenture, and the Owners of said Series 2020 Bonds shall have no rights in respect thereof except to receive payment of said Redemption Price and accrued interest to the redemption date.

Mandatory Purchase in Lieu of Redemption. Each Holder, by purchase and acceptance of any Series 2020 Bond, irrevocably grants to the District the option to purchase such Series 2020 Bond, on any date such Series 2020 Bond is subject to optional redemption provided in the Indenture for the Series 2020 Bonds at a purchase price equal to the Redemption Price then applicable to such Series 2020 Bond, plus accrued interest thereon to the date of purchase. In order to exercise such option, the District shall deliver to the Trustee a Favorable Opinion of Bond Counsel and shall direct the Trustee to provide notice of mandatory purchase in lieu of redemption, such notice to be provided, as and to the extent applicable, in accordance with the provisions set forth in the Indenture for the Series 2020 Bonds, the District shall pay the purchase price of such Series 2020 Bond to the Trustee in immediately available funds and the Trustee shall pay the same to the Holders of Series 2020 Bonds being purchased against delivery thereof. Following such purchase, the Trustee shall register such Series 2020 Bonds in accordance with the written instructions of the District. No purchase of any Series 2020 Bond shall operate to extinguish the indebtedness evidenced by such Series 2020 Bond. No Holder may elect to retain a Series 2020 Bond subject to mandatory purchase.

If the District lacks sufficient funds to pay the purchase price of any Series 2020 Bond subject to mandatory purchase in lieu of redemption pursuant to the Indenture on the date fixed for such purchase, the

District shall cancel such mandatory purchase in lieu of redemption and shall return each such Series 2020 Bond to the Holder who shall have tendered such Series 2020 Bond for mandatory purchase in lieu of redemption pursuant to the Indenture. The Trustee shall give notice that such mandatory purchase was not effected promptly following the date fixed for such purchase. Any failure to pay the purchase price of any Series 2020 Bond subject to mandatory purchase shall not constitute an Event of Default under the Indenture.

“Green Bond” Designation of Series 2020 Bonds

The District is designating the Series 2020 Bonds as “Green Bonds” due to what it believes are the environmental benefits of the Project (as defined herein). See “THE MEASURE Q PROGRAM” – Purpose and Description” for further details on the Project.

Use of Proceeds. The proceeds of the Green Bonds, with the exception of proceeds used to fund costs of issuance, are expected to refinance amounts previously spent on the construction of the Project as described further herein. Because all of the proceeds of the Refunded Bonds have already been spent, no further updates regarding the Project will be provided or filed.

Transit and Air Quality Benefits. The Project was constructed to, among other things, improve mobility and relieve congestion while promoting sustainability and enhancing the region's quality of life. The text of Measure Q itself provided that “SMART is committed to providing service with the most environmentally clean passenger rail service possible.” The Project is expected to reduce vehicle miles traveled within the Counties, with corresponding improvements to the region’s air quality. The Project also enhances and improves the region’s land use policies and preservation of agricultural lands by restricting stations to incorporated areas.

Green Bonds Sustainability. The purpose of designating the Series 2020 Bonds as “Green Bonds” is to allow owners of the Green Bonds to invest in bonds that have financed environmentally beneficial projects. The term “Green Bonds” is not defined in the Indenture and its use in this Official Statement is for identification purposes only and is not intended to provide or imply that the holders of the Bonds are entitled to any additional terms or security in addition to those provided in the Indenture. The District does not make any representation as to the suitability of the Green Bonds to fulfill such environmental and sustainability criteria. The Green Bonds may not be a suitable investment for all investors seeking exposure to green or sustainable assets. There is currently no market consensus on what precise attributes are required for a particular project to be defined as “green” or “sustainable,” and therefore no assurance can be provided to investors that the projects financed with by proceeds of the Green Bonds will continue to meet investor expectations regarding sustainability performance.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020 BONDS

Security

The Series 2020 Bonds are special obligations of the District and are payable as to both principal and interest, and any premium upon redemption thereof, solely from Revenues (as defined herein) as provided in the Indenture and described herein. Revenues consist of all Sales Tax Revenues (as defined herein) and certain amounts held by the Trustee in certain funds and accounts established under the Indenture. Sales Tax Revenues consist of all amounts available for distribution to the District on account of the imposition of a retail transactions and use tax (the “2008 Measure Q Sales Tax”) levied in the incorporated and unincorporated territory of the County of Sonoma and the County of Marin (the “Counties”), at the rate of one-quarter of one percent (1/4%) after deducting amounts payable by the District to the CDTFA for costs and expenses for its services in connection with the collection of the 2008 Measure

Q Sales Tax. The 2008 Measure Q Sales Tax is levied pursuant to Ordinance No. 2008-01 (the "Ordinance") adopted by the Board of Directors of the District (the "Board") on July 16, 2008, pursuant to the provisions of Article 5 of Chapter 4 of the Act. The 2008 Measure Q Sales Tax was approved by more than two-thirds of the electors in the Counties voting on a ballot measure ("Measure Q") to authorize the 2008 Measure Q Sales Tax at the general election held in the Counties on November 4, 2008. Collection of the 2008 Measure Q Sales Tax commenced on April 1, 2009 and will expire on March 31, 2029. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020 BONDS" herein.

Additional bonds, notes and other obligations (the "Parity Obligations") secured by the pledge made pursuant to the Indenture and payable from the Revenues (including Sales Tax Revenues) equally and ratably with the Series 2020 Bonds as provided in the Indenture may be issued or incurred subject to the satisfaction of certain conditions of the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2011 BONDS - Additional Bonds and Parity Obligations" herein. The Series 2020 Bonds and any Additional Bonds authorized by, and at any time Outstanding under the Indenture, are referred to collectively herein as the "Bonds."

Additional obligations secured by the pledge made pursuant to the Indenture and payable from the Revenues (including Sales Tax Revenues) on a basis subordinate to the Bonds and Parity Obligations as provided in the Indenture (the "Subordinate Obligations" and the "Fee and Expense Obligations") may be issued or incurred subject to the satisfaction of certain conditions of the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020 BONDS - Subordinate Obligations and Fee and Expense Obligations" herein.

The purchase of the Series 2020 Bonds involves risks, certain of which are discussed under "RISK FACTORS" below.

Special and Limited Obligations

THE SERIES 2020 BONDS ARE SPECIAL OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM REVENUES AS DEFINED AND PROVIDED IN THE INDENTURE AND CERTAIN OTHER FUNDS PLEDGED UNDER THE INDENTURE AND THE DISTRICT IS NOT OBLIGATED TO PAY THE SERIES 2020 BONDS EXCEPT FROM REVENUES AND THOSE CERTAIN OTHER FUNDS PLEDGED UNDER THE INDENTURE. THE SERIES 2020 BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE OR ANY POLITICAL SUBDIVISION OF THE STATE OTHER THAN THE DISTRICT, OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE STATE OR OF ANY POLITICAL SUBDIVISION OF THE STATE. THE GENERAL FUND OF THE DISTRICT IS NOT LIABLE, AND THE CREDIT OR TAXING POWER (OTHER THAN AS DESCRIBED IN THE INDENTURE) OF THE DISTRICT IS NOT PLEDGED, FOR THE PAYMENT OF THE SERIES 2020 BONDS, THEIR INTEREST, OR ANY PREMIUM DUE UPON REDEMPTION OF THE SERIES 2020 BONDS. THE SERIES 2020 BONDS ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE, LIEN OR ENCUMBRANCE UPON, ANY OF THE PROPERTY OF THE DISTRICT OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT THE REVENUES AND CERTAIN OTHER FUNDS PLEDGED UNDER THE INDENTURE.

Pledge of Revenues and certain Funds Held by Trustee

Under the Indenture, the District agrees to cause all Sales Tax Revenues to be transmitted by the CDTFA directly to the Trustee for deposit in the Revenue Fund established under the Indenture. Such direct transmittal by the CDTFA to the Trustee is expected to commence as promptly as possible following the Issue Date. Subject to the Indenture, all Revenues (other than Sales Tax Revenues) shall also be deposited in the Revenue Fund. Revenues (including Sales Tax Revenues) will be disbursed, allocated and

applied solely for the uses and purposes set forth in the Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020 BONDS - Allocation of Revenues” herein and APPENDIX C - “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Allocation of Revenues.”

As security for the payment of all amounts owing on the Bonds, including the Series 2020 Bonds, any Parity Obligations, any Subordinate Obligations and any Fee and Expense Obligations, in the amounts and with the priorities set forth in the Indenture and in the Bonds, the District irrevocably pledges to the Trustee under the Indenture: (i) all Revenues, (ii) all funds and accounts established under the Indenture (other than the Rebate Fund, all Letter of Credit Funds and all Purchase Funds) and all investments, money, instruments, and other property credited thereto or on deposit therein, and (iii) all proceeds thereof, whether now existing or hereafter arising, subject to the provision of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. This collateral will immediately be subject to such pledge under the Indenture, and such pledge will constitute a lien and security interest which shall immediately attach to the collateral and be effective, binding and enforceable against the District and all others asserting the rights therein, to the extent set forth, and in accordance with, the Indenture irrespective of whether those parties have notice of such pledge and without the need for any physical delivery, recordation, filing or further act.

All Bonds, including the Series 2020 Bonds, and Parity Obligations shall be of equal rank without preference, priority or distinction of any Bonds and Parity Obligations over any other Bonds and Parity Obligations. All Subordinate Obligations shall be of equal rank without preference, priority or distinction of any Subordinate Obligations over any other Subordinate Obligations. All Fee and Expense Obligations shall be of equal rank without preference, priority or distinction of any Fee and Expense Obligations over any other Fee and Expense Obligations.

Allocation of Revenues

So long as any Bonds, including the Series 2020 Bonds, are Outstanding and Parity Obligations, Subordinate Obligations, Fee and Expense Obligations and all other amounts payable under the Indenture remain unpaid, the Trustee shall set aside in each month following receipt of the Sales Tax Revenues the moneys in the Revenue Fund in the following respective funds (each of which the Trustee shall establish, maintain and hold in trust for the benefit of the Holders of the Bonds and, as and to the extent applicable, the holders of Parity Obligations, Subordinate Obligations and Fee and Expense Obligations) in the following amounts, in the following order of priority, the requirements of each such fund (including the making up of any deficiencies in any such fund resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any fund subsequent in priority; provided that (i) on a parity with such deposits the Trustee may set aside or transfer amounts with respect to any outstanding Parity Obligations as provided in the proceedings for such Parity Obligations delivered to the Trustee pursuant to the Indenture (which shall be proportionate in the event such amounts are insufficient to provide for all deposits required as of any date to be made with respect to the Bonds and such Parity Obligations) and (ii) in the event any of the deposits or transfers requires more than one such deposit or payment and there is not then on deposit in the Revenue Fund sufficient moneys to make all such deposits and payments, then such deposits and payments shall be made *pro rata* (based on the total amount of such deposits and payments then due) to the extent of available moneys:

- (1) Interest Fund. Following receipt of the Sales Tax Revenues in each month, the Trustee shall set aside in the Interest Fund as soon as practicable in such month an amount equal to (a) one-sixth of the aggregate half-yearly amount of interest becoming due and payable on the Outstanding Current Interest Bonds (except for Bonds constituting Variable Rate Indebtedness which shall be governed by clause (b) below) during the next ensuing six (6) months (excluding any interest for which there are moneys deposited in the Interest Fund from the proceeds of any

Series of Bonds or other source and reserved as capitalized interest or funded interest to pay such interest during said next ensuing six (6) months), until the requisite half-yearly amount of interest on all such Outstanding Current Interest Bonds (except for Bonds constituting Variable Rate Indebtedness which shall be governed by clause (b) below) is on deposit in such fund; provided that from the date of delivery of a Series of Current Interest Bonds until the first Interest Payment Date with respect to such Series of Bonds the amounts set aside in such fund with respect to such Series of Bonds shall be sufficient on a monthly *pro rata* basis to pay the aggregate amount of interest becoming due and payable on said Interest Payment Date with respect to such Series of Bonds, plus (b) the aggregate amount of interest to accrue during that month on Outstanding Variable Rate Indebtedness, calculated, if the actual rate of interest is not known, at the interest rate specified in writing by the District, or if the District shall not have specified an interest rate in writing, calculated at the maximum interest rate borne by such Variable Rate Indebtedness during the month prior to the month of deposit plus one hundred (100) basis points (provided, however, that the amount of such deposit into the Interest Fund for any month may be reduced by the amount by which the deposit in the prior month exceeded the actual amount of interest accrued and paid during that month on said Outstanding Variable Rate Indebtedness and provided further that the amount of such deposit into the Interest Fund for any month shall be increased by the amount by which the deposit in the prior month was less than the actual amount of interest accruing during that month on said Outstanding Variable Rate Indebtedness). No deposit need be made into the Interest Fund with respect to any Bonds if the amount contained therein is at least equal to the interest to become due and payable on the Interest Payment Dates falling within the next six (6) months upon all of the Bonds issued hereunder and then Outstanding and on March 1 and September 1 of each year any excess amounts in the Interest Fund not needed to pay interest on such date (and not held to pay interest on Bonds having interest payment dates other than March 1 and September 1) shall be transferred to the District (but excluding, in each case, any moneys on deposit in the Interest Fund from the proceeds of any Series of Bonds or other source and reserved as capitalized interest or funded interest to pay interest on any future Interest Payment Dates following such Interest Payment Dates).

If there are Liquidity Facility Bonds outstanding at the time of any required deposits to the Interest Fund, such deposits shall take into account and include the Liquidity Facility Rate on Liquidity Facility Bonds required by the Liquidity Facility then in effect with respect to such Bonds. There are currently no Liquidity Facility Bonds outstanding.

(2) Principal Fund; Sinking Accounts. Following receipt of the Sales Tax Revenues in each month, the Trustee shall deposit in the Principal Fund as soon as practicable in such month an amount equal to at least (a) one-sixth of the aggregate semiannual amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds of all Series having semiannual maturity dates within the next six (6) months, plus (b) one-twelfth of the aggregate yearly amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds of all Series having annual maturity dates within the next twelve (12) months, plus (c) one-sixth of the aggregate of the Mandatory Sinking Account Payments to be paid during the next six-month period into the respective Sinking Accounts for the Term Bonds of all Series for which Sinking Accounts have been created and for which semiannual mandatory redemption is required from said Sinking Accounts, plus (d) one-twelfth of the aggregate of the Mandatory Sinking Account Payments to be paid during the next 12-month period into the respective Sinking Accounts for the Term Bonds of all Series for which Sinking Accounts shall have been created and for which annual mandatory redemption is required from such Sinking Accounts; provided that if the District certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from amounts on deposit in the Bond Reserve Fund that would be in excess of the Bond Reserve Requirement applicable to such Bond Reserve Fund upon such payment, no amounts

need be set aside towards such principal to be so refunded or paid. All of the aforesaid deposits made in connection with future Mandatory Sinking Account Payments shall be made without priority of any payment over any other such payment.

In the event that the Revenues shall not be sufficient to make the required deposits so that moneys in the Principal Fund on any principal or mandatory redemption date are equal to the amount of Bond Obligation to become due and payable on the Outstanding Serial Bonds of all Series plus the Bond Obligation amount of and redemption premium on the Outstanding Term Bonds required to be redeemed or paid at maturity on such date, then such moneys shall be applied on a Proportionate Basis and in such proportion as said Serial Bonds and said Term Bonds shall bear to each other, after first deducting for such purposes from said Term Bonds any of said Term Bonds required to be redeemed annually as shall have been redeemed or purchased during the preceding 12-month period and any of said Term Bonds required to be redeemed semiannually as shall have been redeemed or purchased during the six-month period ending on such date or the immediately preceding six month period. In the event that the Sales Tax Revenues shall not be sufficient to pay in full all Mandatory Sinking Account Payments required to be paid at any one time into all such Sinking Accounts, then payments into all such Sinking Accounts shall be made on a Proportionate Basis, in proportion that the respective Mandatory Sinking Account Payments required to be made into each Sinking Account during the then current 12-month period bear to the aggregate of all of the Mandatory Sinking Account Payments required to be made into all such Sinking Accounts during such 12-month period.

No deposit need be made into the Principal Fund so long as there shall be in such fund (i) moneys sufficient to pay the Bond Obligations of all Serial Bonds issued hereunder and then Outstanding and maturing by their terms within the next twelve (12) months plus (ii) the aggregate of all Mandatory Sinking Account Payments required to be made in such 12-month period, but less any amounts deposited into the Principal Fund during such 12-month period and theretofore paid from the Principal Fund to redeem or purchase Term Bonds during such 12-month period; provided that if the District certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from amounts on deposit in the Bond Reserve Fund that would be in excess of the Bond Reserve Requirement applicable to such Bond Reserve Fund upon such payment, no amounts need be on deposit with respect to such principal payments. At the beginning of each Fiscal Year and in any event not later than March 1 of each year, the Trustee shall request from the District a certificate of the District setting forth the principal payments for which deposits will not be necessary pursuant to the preceding sentence and the reason therefor. On March 1 of each year or as soon as practicable thereafter any excess amounts in the Principal Fund not needed to pay principal on such date (and not held to pay principal on Bonds having principal payment dates other than March 1) shall be transferred to the District.

If there are any Liquidity Facility Bonds outstanding at the time of any required deposits to the Principal Fund, such deposits shall take into account and include any amortizations or redemptions of any Liquidity Facility Bonds required by the Liquidity Facility then in effect with respect to such Bonds. For purposes of the provisions above relating to the Principal Fund, Liquidity Facility Bonds shall be treated as Serial Bonds with maturity dates on the payment dates of any amortization or redemptions. There are currently no Liquidity Facility Bonds outstanding.

(3) Bond Reserve Funds. Upon the occurrence of any deficiency in any Bond Reserve Fund, the Trustee shall make such deposit to the Bond Reserve Fund, as is required pursuant to the Indenture, each such deposit to be made as soon as possible in each month, until the balance therein is at least equal to the applicable Bond Reserve Requirement. The Series 2020 Bonds are not currently secured by any Bond Reserve Fund.

(4) Subordinate Obligations Fund. The Trustee shall establish, maintain and hold in trust a separate fund designated as the “Subordinate Obligations Fund.” After the transfers described in (1), (2) and (3) above have been made, the Trustee shall deposit in the Subordinate Obligations Fund in each month such amount as the District shall specify in writing is necessary to make payments due and payable during the following month with respect to Subordinate Obligations then outstanding.

(5) Fees and Expenses Fund. The Trustee shall establish, maintain and hold in trust a separate fund designated as the “Fees and Expenses Fund.” After the transfers described in (1), (2), (3) and (4) above have been made, the Trustee shall deposit in the Fees and Expenses Fund in each month the amounts necessary for payment of Fee and Expense Obligations owing in such month or the following month by the District. The District shall provide the Trustee with invoices relating to the payment of such amounts, in writing, at the beginning of each month.

See APPENDIX C - “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Allocation of Revenues” for a more complete discussion.

After making the foregoing allocations, all Sales Tax Revenues will be transferred to the District and may be applied by the District for all lawful purposes of the District.

Additional Bonds and Parity Obligations

On the date of issuance of the Series 2020 Bonds, the Series 2020 Bonds will be the only obligations secured by the pledge of Revenues and other assets under the Indenture. The District may issue additional Bonds and may issue or incur other obligations secured in whole or in part by the pledge of Revenues and other assets under the Indenture and payable on a parity with the Bonds, including the Series 2020 Bonds, and any other Parity Obligations subject to compliance with the terms and provisions set forth in the Indenture. See APPENDIX C - “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Issuance of Additional Bonds and Other Obligations.”

Issuance of Additional Series of Bonds. Subsequent to the issuance of the Series 2020 Bonds, the District may by Supplemental Indenture establish one or more additional Series of Bonds, payable from Revenues and secured by the pledge made under the Indenture equally and ratably with the Series 2020 Bonds, and the District may issue, and the Trustee may authenticate and deliver to the purchasers thereof, Bonds of any Series so established, in such principal amount as shall be determined by the District, but only, with respect to each additional Series of Bonds issued subsequent to the Series 2020 Bonds issued under the Indenture, upon compliance by the District with the provisions of the Master Indenture and any additional requirements set forth in such Supplemental Indenture and subject to the specific conditions set forth below, each of which is a condition precedent to the issuance of any such additional Series of Bonds.

(A) No Event of Default shall have occurred and then be continuing (or the issuance of such Series will cure any such Event of Default).

(B) Subject to the provisions of the Indenture, in the event a Supplemental Indenture providing for the issuance of such Series shall require either (i) the establishment of a Bond Reserve Fund to provide additional security for such Series of Bonds or (ii) that the balance on deposit in an existing Bond Reserve Fund be increased, forthwith upon the receipt of the proceeds of the sale of such Series, to an amount at least equal to the Bond Reserve Requirement with respect to such Series of Bonds and all other Bonds secured by such Bond Reserve Fund to be considered Outstanding upon the issuance of such additional Series of Bonds, the Supplemental Indenture providing for the issuance of such additional Series of Bonds shall require deposit of the amount necessary. Said deposit shall be made as provided in the Supplemental

Indenture providing for the issuance of such additional Series of Bonds and may be made from the proceeds of the sale of such Series of Bonds or from other funds of the District or from both such sources or may be made in the form of a Reserve Facility.

(C) The aggregate principal amount of Bonds issued under the Indenture shall not exceed any limitation imposed by law or by any Supplemental Indenture.

(D) The District shall deliver to the Trustee a certificate of the District certifying that (i) the amounts of Sales Tax Revenues for a period of twelve (12) consecutive months (selected by the District) during the twenty-four (24) months immediately preceding the date on which such additional Series of Bonds will become Outstanding or (ii) the estimated Sales Tax Revenues for the Fiscal Year in which such Series of Bonds are to be issued, shall have been, or will be, as applicable, at least equal to 1.5 times Maximum Annual Debt Service, on all Series of Bonds and Parity Obligations then Outstanding and the additional Series of Bonds then proposed to be issued, which certificate shall also set forth the computations upon which such certificate is based.

(E) Principal payments of each additional Series of Bonds shall be due on March 1 or September 1 in each year in which principal is to be paid if and to the extent deemed practical in the reasonable judgment of the District with regard to the type of Bond to be issued, and, if the interest on such Series of Bonds is to be paid semiannually, such interest payments shall be due on March 1 and September 1 in each year to the extent deemed practical in the reasonable judgment of the District with regard to the type of Bond to be issued.

Nothing in the Indenture contained shall prevent or be construed to prevent the Supplemental Indenture providing for the issuance of an additional Series of Bonds from pledging or otherwise providing, in addition to the security given or intended to be given by the Indenture, additional security for the benefit of such additional Series of Bonds or any portion thereof.

In the event additional assets or revenues are included within the definition of “Revenues” by a Supplemental Indenture, such additional assets or revenues shall be included in the calculations to be provided in paragraph (D) above as if such additional assets or revenues had always been included in “Revenues.”

Issuance of Refunding Bonds. Refunding Bonds may be authorized and issued by the District without compliance with the provisions of the Indenture summarized in paragraph (D) above; provided that the Trustee shall have been provided with a certificate of the District to the effect that the District has determined one of the following: (i) that Maximum Annual Debt Service on all Bonds Outstanding and all Parity Obligations outstanding following the issuance of such Refunding Bonds is less than or equal to Maximum Annual Debt Service on all Bonds Outstanding and all Parity Obligations outstanding prior to the issuance of such Refunding Bonds, or (ii) that the District expects a reduction in Debt Service on all Bonds Outstanding and all Parity Obligations outstanding to result from the refunding to be effected with the proceeds of such Refunding Bonds. See APPENDIX C - “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Issuance of Additional Bonds and Other Obligations - Issuance of Refunding Bonds.”

Parity Obligations. As defined in the Indenture, “Parity Obligations” means any indebtedness, installment sale obligation, lease obligation or other obligation of the District for borrowed money, in each case incurred in accordance with the provisions of the Indenture, or any obligation to pay the Rebate Requirement, which obligations are secured by the pledge made under the Indenture and payable from the Revenues equally and ratably with the Bonds (whether or not any Bonds are Outstanding). The District may issue or incur Parity Obligations provided that the conditions to the issuance or incurrence of such

Parity Obligations set forth in the Indenture are satisfied. See APPENDIX C - “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Issuance of Additional Bonds and Other Obligations - *Limitation on the Issuance of Obligations Payable from Revenues; Parity Obligations; Subordinate Obligations; Fee and Expense Obligations.*”

As described further in “THE MEASURE Q PROGRAM – The Ordinance and Its Purpose,” SMART currently does not anticipate issuing any Parity Obligations payable from Measure Q Sales Tax Revenues.

Subordinate Obligations and Fee and Expense Obligations

The District may issue or incur Subordinate Obligations which will be secured by the pledge made under the Indenture and payable from the Revenues on a basis subordinate to the Bonds and Parity Obligations. The District may also issue or incur Fee and Expense Obligations secured by the pledge made under the Indenture and payable from the Revenues on a basis subordinate to the Bonds, the Parity Obligations and the Subordinate Obligations. See APPENDIX C - “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Issuance of Additional Bonds and Other Obligations - *Limitation on the Issuance of Obligations Payable from Revenues; Parity Obligations; Subordinate Obligations; Fee and Expense Obligations.*”

Investments

All amounts held in any fund or account established under the Indenture will be invested at the direction of the District in Investment Securities, as defined in the Indenture. See APPENDIX C - “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Definitions” and “- Investment in Funds and Accounts.”

PLAN OF REFUNDING

Pursuant to the terms of an Escrow Agreement, dated as of October 1, 2020 (the “Escrow Agreement”), by and between the District and The Bank of New York Mellon Trust Company, N.A., as escrow agent (the “Escrow Agent”), a portion of the proceeds of the Series 2020 Bonds, together with other available moneys (collectively, the “Escrow Deposit”), will be deposited into the Escrow Fund established under the Escrow Agreement and used to refund and defease all of the Refunded Bonds. The Escrow Deposit will be sufficient to purchase investment securities (the “Escrowed Securities”), the principal and interest on which when due will provide moneys that, together with uninvested moneys deposited with the Escrow Agent, will be sufficient to pay the principal of and interest on the Refunded Bonds to and including March 1, 2022 (the “Redemption Date”) and to pay the Refunded Bonds at a price of 100% of the principal amount thereof, without premium, plus accrued interest (the “Redemption Price”), on the Redemption Date.

Robert Thomas CPA, LLC, certified public accountants (the “Verification Agent”), will deliver a report stating that the firm has verified the accuracy of mathematical computations concerning the adequacy of the Escrow Deposit made pursuant to the Escrow Agreement and the funds to be available from the Escrowed Securities. See “VERIFICATION OF MATHEMATICAL COMPUTATIONS” herein.

The District is issuing the Bonds to refund \$136,865,000 of the outstanding Refunded Bonds, identified below. The Refunded Bonds will be selected based upon market conditions, bond structure, or other factors at the time of pricing and the District’s internal policies for issuing refunding bonds. These policies generally require, among other things, that the refunding generate sufficient present value savings, net of costs of issuance, as a percentage of the principal amount of bonds refunded and that the debt service

savings from each maturity to be refunded be analyzed on an individual basis. Selection of the Refunded Bonds is at the sole and absolute discretion of the District.

**Sonoma-Marin Area Rail Transit District
Measure Q Sales Tax Revenue Bonds, Series 2011A**

Maturity Date (March 1)	Principal Amount⁽¹⁾	CUSIP Number⁽²⁾ (835588)
2021	\$ 120,000	AG9
2021	10,445,000	AS3
2022	11,745,000	AH7
2023	12,990,000	AJ3
2024	14,290,000	AK0
2025	15,660,000	AL8
2026	17,100,000	AT1
2027	18,610,000	AN4
2028	20,195,000	AP9
2029	15,710,000	AQ7

⁽¹⁾ To be redeemed at par on March 1, 2022 other than the 2021 maturities, which will be paid at maturity on March 1, 2021.

⁽²⁾ CUSIP is a registered trademark of the American Bankers Association. CUSIP data on the cover hereof and herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the District, the Trustee, the Underwriters or PFM, the Municipal Advisor to the Authority, is responsible for the selection or correctness of the CUSIP numbers set forth herein.

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ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of the funds in connection with the issuance of the Series 2020 Bonds are presented below:

Sources of Funds:

Principal Amount of Series 2020 Bonds	\$122,970,000.00
District Contribution	24,004,757.17
Total Sources:	\$146,974,757.17

Uses of Funds:

Deposit to Escrow Fund	\$146,366,833.70
Costs of Issuance ⁽¹⁾	607,923.47
Total Uses:	\$146,974,757.17

(1) Includes Underwriters' fee, rating agency fees, Trustee fees, printing costs, Bond Counsel/Disclosure Counsel and Municipal Advisor fees and expenses and other miscellaneous costs of issuance.

DEBT SERVICE SCHEDULE

The following table shows the annual debt service requirements by Fiscal Year on the Series 2020 Bonds (with principal and interest shown separately). The Authority's Fiscal Year ends each year on June 30.

Fiscal Year	Series 2020 Bonds Principal	Series 2020 Bonds Interest	Debt Service
2021	\$3,365,000.00	\$566,576.35	\$3,931,576.35
2022	13,280,000.00	1,656,755.80	14,936,755.80
2023	14,015,000.00	1,581,192.60	15,596,192.60
2024	14,765,000.00	1,479,443.70	16,244,443.70
2025	15,580,000.00	1,324,115.90	16,904,115.90
2026	15,860,000.00	1,136,844.30	16,996,844.30
2027	16,105,000.00	893,869.10	16,998,869.10
2028	16,385,000.00	614,930.50	16,999,930.50
2029	13,615,000.00	284,281.20	13,899,281.20
Total	\$122,970,000.00	\$9,538,009.45	\$132,508,009.45

THE 2008 MEASURE Q SALES TAX

Authorization, Application and collection of the 2008 Measure Q Sales Tax

On November 4, 2008, more than two-thirds of the voters in Sonoma and Marin counties approved Measure Q implementing the 2008 Measure Q Sales Tax. The 2008 Measure Q Sales Tax is a retail transactions and use tax of one quarter of one percent (1/4%) imposed for a period of 20 years beginning April 1, 2009 on the gross receipts from the sale of all tangible personal property sold at retail businesses in the counties and a use tax at the same rate on the storage, use, or other consumption in the counties of such property purchased from any retailer for storage, use or other consumption in the counties, subject to certain exceptions. Revenues from the 2008 Measure Q Sales Tax may be used to finance the transportation programs and projects authorized pursuant to Measure Q and the Ordinance and described in the District's Expenditure Plan and Strategic Plan. See "THE MEASURE Q PROGRAM" herein.

Collection of the 2008 Measure Q Sales Tax is administered by the CDTFA. The CDTFA, after deducting a fee for administering the 2008 Measure Q Sales Tax, remits the remaining Sales Tax Revenues to the Trustee to satisfy the District's obligations with respect to the Bonds, Parity Obligations, Subordinate Obligations, and Fee and Expense Obligations. Such direct transmittal by the CDTFA to the Trustee is expected to commence as promptly as possible following the Issue Date. The remaining Sales Tax Revenues are then remitted to the District. The estimated fee that the CDTFA intends to charge the District for the Fiscal Year 2020-21 to collect the 2008 Measure Q Sales Tax is \$651,790. The fee that the CDTFA is authorized to charge for collection of the 2008 Measure Q Sales Tax is determined by State legislation; there can be no assurances that this fee or the method for determining the amount of the fee will be the same in the future. This fee may be increased or decreased by legislative action.

The 2008 Measure Q Sales Tax is in addition to a 7.25% sales and use tax currently levied state-wide by the State of California. In general, the state-wide sales tax applies to the gross receipts of retailers from the sale of tangible personal property. The state-wide use tax is imposed on the storage, use or other consumption in California of property purchased from a retailer for such storage, use or other consumption. Since the use tax does not apply to cases where the sale of the property is subject to the sales tax, the application of the use tax generally is to purchases made outside of California for use within the State, subject to certain exceptions. Action by the State legislature or by voter initiative could change the transactions and items upon which the state-wide sales and use tax and the 2008 Measure Q Sales Tax are imposed. Such changes or amendments could have either an adverse or beneficial impact on Sales Tax Revenues. The District is not currently aware of any proposed legislative change which would have a material adverse effect on Sales Tax Revenues. See "RISK FACTORS - The 2008 Measure Q Sales Tax," "- Proposition 218" and "- Further Initiatives" herein.

Many categories of transactions are exempt from the state-wide sales and use tax and from the 2008 Measure Q Sales Tax. The most important are sales of food products for home consumption; prescription medicine; edible livestock and their feed; seed and fertilizer used in raising food for human consumption; and gas, electricity and water when delivered to consumers through mains, lines, and pipes. In addition, "Occasional Sales" (*i.e.*, sales of property not held or used by a seller in the course of activities for which he or she is required to hold a seller's permit) are generally exempt from the state-wide sales and use tax and from the 2008 Measure Q Sales Tax.

Historical Sales Tax Revenues

Collection of the 2008 Measure Q Sales Tax commenced on April 1, 2009. The following table shows Sales Tax Revenues of the District, calculated on the basis of generally accepted accounting principles, during the 10 Fiscal Years ended June 30, 2020. Revenues are reported net of fees charged by the State of California for collection and distribution of the tax. Fiscal Year reporting includes accrued sales tax collected at the point of sale during the Fiscal Year which ends on June 30th, with the cash receipts occurring in July and August. The table below, therefore, includes collections through August 2020.

ANNUAL SALES TAX REVENUES
Net of State Collection Fees
Fiscal Years Ended June 30, 2010 - 2020

Fiscal Year Ended June 30	Sales Tax Revenues	Annual Percentage Change
2010	\$24,059,929	
2011	26,826,843	11.5%
2012	28,303,501	5.5%
2013	30,435,753	7.5%
2014	32,473,329	6.7%
2015	33,845,426	4.2%
2016	34,776,012	2.7%
2017	36,061,894	3.7%
2018	37,135,476	3.0%
2019	41,241,140	11.1%
2020 ⁽ⁱ⁾	38,978,630	-5.5%

⁽ⁱ⁾ FY2020 data unaudited; all other amounts audited.
Source: The District.

For a summary of historical taxable retail sales within the counties see the tables entitled “County of Sonoma, Taxable Sales” and “County of Marin, Taxable Sales” in APPENDIX B - “ECONOMIC AND DEMOGRAPHIC INFORMATION REGARDING THE COUNTY OF SONOMA AND THE COUNTY OF MARIN.”

State Sales Tax and Other Sales Taxes Levied within the Counties

In addition to the 2008 Measure Q Sales Tax, various retail transactions and use taxes (referred to in this section as sales taxes) are levied within the counties. In the County of Sonoma, the Sonoma County Open Space Authority levies a sales tax at the rate of 0.25% for open space purposes which will expire on March 31, 2031. The Sonoma County Transportation Authority levies a retail transaction and use tax within the County of Sonoma at the rate of one-fourth of one percent for transportation purposes which expires on March 31, 2025. The County also levies a 0.125% sales tax for Library Maintenance, Restoration, and Enhancement which expires in 2027, as well as a 0.125% transactions and use tax for Parks Improvement, Water Quality and Fire Safety expiring in March of 2029.

In addition, a number of cities have sales tax measures with various uses and expiration dates, as shown in the table below:

City	Uses	Rate	Expiration
Cotati	General Government	1.00%	9/30/2023
Healdsburg	General Government	0.50%	3/31/2023
Rohnert Park	General Government	0.50%	None
Santa Rosa	General Government	0.25%	2025
	Public Safety	0.25%	2027
	Fire Recovery	0.25%	3/31/2025
Sebastopol	General Government	0.50%	None
Sonoma	General Government	0.50%	9/30/2022

In the County of Marin, the Transportation Authority of Marin levies a sales tax of 0.5% (the “Measure AA Sales Tax”) for transportation purposes. The Measure AA Sales Tax expires on March 31, 2049. Marin County also enacted in 2012 a 0.25% cent sales tax for Parks and Open Space that expires in 2022. In addition, the cities of Corte Madera, Fairfax, Larkspur, Novato, San Anselmo, Sausalito and San Rafael have each enacted sales taxes applicable to transactions within their respective city limits to be used for general government purposes. Amounts and expirations are provided below:

City	Rate	Expiration
Corte Madera	0.75%	None
Fairfax	0.75%	3/31/2027
Larkspur	0.75%	None
Novato	0.25%	None
San Anselmo	0.50%	3/31/2024
San Rafael	0.75%	3/31/2034
Sausalito	0.50%	3/31/2025

In addition to these sales taxes levied at each County and city level, the State also imposes a general 7.25% sales tax. Combined with the various sales taxes described above, this results in transactions in unincorporated areas of the Counties of Sonoma and Marin currently being taxed at an effective rate of 8.25%. Various cities within these two counties have rates ranging from 8.50% to 9.25% as shown in the table below.

City	Rate	County
Corte Madera	9.00%	Marin
Fairfax	9.00%	Marin
Larkspur	9.00%	Marin
Novato	8.50%	Marin
San Anselmo	8.75%	Marin
San Rafael	9.00%	Marin
Sausalito	8.75%	Marin
Cotati	9.25%	Sonoma
Healdsburg	8.75%	Sonoma
Rohnert Park	8.75%	Sonoma
Santa Rosa	9.00%	Sonoma
Sebastopol	9.00%	Sonoma
Sonoma	8.75%	Sonoma

THE MEASURE Q PROGRAM

Purpose and Description

The District was created by the California Legislature to facilitate the goal of building and operating passenger rail service along an approximately 70-mile existing rail corridor extending from Cloverdale in Sonoma County to Larkspur in Marin County (the “Project”). At the time of SMART’s creation, the rail line had been owned by three different government entities and had no dedicated funding source to achieve the goal of passenger service.

The Ordinance and Its Purposes

On July 16, 2008, the District's Board of Directors adopted Ordinance No. 2008-01 (the "Ordinance"), pursuant to provisions of the Act. The primary purpose of the Ordinance was to provide dedicated funding for the design, construction, implementation, operation, financing, maintenance and management of a passenger rail system and a bicycle/pedestrian pathway for the Project and to authorize the imposition of the 2008 Measure Q Sales Tax with voter approval. That ordinance was approved by over 2/3 of votes in the District in November 2008 with sales tax collections beginning on April 1, 2009.

A copy of the Ordinance is available on the District's website: <http://sonomamarintrain.org>. Information contained in such website is not incorporated herein by reference.

Sales tax revenue generated by the Ordinance has been utilized since its inception for construction, operation and management of a new transportation system in Marin and Sonoma Counties. SMART was able to secure the Measure Q sales tax revenue stream to generate over \$323 million in outside grant funding to build and operate the system, adding stations to the system that would otherwise not been financially feasible in its initial operating segment. To date, over 45 miles of passenger rail service has been constructed beginning from Larkspur in Marin County and going North continuously to Sonoma Airport Boulevard in Santa Rosa. Through a combination of Measure Q revenues, proceeds of the Refunded Bonds, outside grants, and partnerships with other entities along the Right of Way, SMART and its partners have built 24 miles of bicycle and pedestrian pathways connecting to the Project's stations -- with an additional 8.8 miles fully funded and planned for construction in the coming two years.

SMART is currently in the process of building a 3-mile rail and pathway extension to the Town of Windsor in Sonoma County, anticipating completion by the end of 2021. In June of 2020, the Board of Directors authorized using \$8 million in proceeds from a pending sale of a Downtown Petaluma SMART property to fund the design and construction of a second station in Petaluma at Corona Road and N. McDowell Boulevard. Both the new Windsor and Petaluma Station additions are anticipated to bring substantial new ridership to the system after the conclusion of the COVID-19 pandemic as they are located in areas with higher density trip generation rates and/or regional destinations, such as the Windsor Town Green or Santa Rosa Junior College Petaluma Campus. While subject to the provisions of the Indenture as described in "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020 BONDS – Additional Bonds and Parity Obligations" it can do so, SMART currently does not anticipate issuing any Parity Obligations payable from Measure Q Sales Tax Revenues to fund remaining stations at Healdsburg and Cloverdale or any additional pathway segments. The funding required to construct the two remaining stations and additional pathway segments will rely on future grant sources, including state and federal funding as they become available.

Passenger Rail and Pathway Service

SMART passenger rail service began in August of 2017 with two-way passenger train service on 43 miles to 10 stations between Downtown San Rafael in Marin County and Airport Boulevard in Sonoma County. Since opening day, SMART has carried 1.9 million passengers, with weekly ridership at the start of 2020 averaging 16,309.

Train service is provided in state-of-the-art diesel multiple unit rail vehicles utilizing one of the first Positive Train Control systems for passenger rail. Prior to the COVID-19 shutdown, service was provided roughly every 30-minutes during commute hours with additional service midday and weekends. In late 2019, two new stations were built in Downtown Novato and Larkspur near the regional Ferry to San Francisco. These two stations in Marin County brought rail service to its current total of 45 miles with 12 passenger stations. SMART also manages 16 miles of an ancillary bicycle/pedestrian pathway on its right

of way connecting to the Project's stations where cyclists can find secure parking at the station or on-board the train for their bikes. Approximately 11% of riders bring their bicycles onboard with them.

SMART has overcome a number of operational challenges. First, significant fire events have disrupted normal commutes a number of times. Notably, within two months of opening day, what was then the most devastating wildfire in the State's history ravaged Sonoma and Napa Counties, destroying over 6,000 homes within a few miles of the Project's stations. None of SMART's infrastructure was damaged, and SMART provided nearly continuous operations during that time, providing free service for two weeks to assist with mobility during evacuation and repopulation efforts. Since that time, two more significant fires, a flood, a major evacuation and widespread power outages have affected the residents of the District. SMART's service has been minimally disrupted during these events, thanks to its significant backup power systems and dedicated information systems. Challenges brought on by the COVID-19 pandemic are also significant but currently being managed. See "RISK FACTORS – Impacts of COVID-19 Pandemic" in this Official Statement.

SMART has also faced and managed the challenge of recruiting a highly skilled workforce to operate new equipment in a very challenging cost-of-living region. Labor costs make up 50% percent of annual operating costs (excluding debt service), and, initially, SMART was required to increase wages in order to attract and retain skilled engineers, signal technicians and controllers. SMART has worked to constrain labor costs by implementing significant pension reform in 2012, one year before the State of California approved sweeping changes to its pension programs. Nearly all of SMART employees are in a reduced pension benefit tier in which employees share in the cost of pensions, the age for retirement is increased, and the salary base for pensions is lower. This has meant that SMART does not currently envision needing additional funds to address a significant unfunded pension liability. In addition, SMART has minimal commitment to retiree health care and has already set aside the modest funds needed to address any future potential liability. Finally, SMART has secure labor agreements for two years (through Fiscal Year 2022) and can reasonably anticipate labor needs in its financial planning.

Ridership

Open systems, such as SMART's, operate on a Proof of Payment structure without turnstiles or fare gates, and with multiple points of access to the station platforms. Therefore, SMART uses 3 different methods for tracking ridership.

On Board Manual Counts

SMART Engineer-Conductors manually count riders onboard the trains with a handheld counter. This method of data collection has been consistent since the start of service. When trains are full, the accuracy of the tracking drops because staff are often occupied verifying fare payment and/or trains are too full to navigate through. However, this method captures a number of passengers who are not captured by paid fare reporting, such as:

- Monthly pass holders who have activated their pass but are not required to tag on or off at fare validators
- Mobile app users who fail to activate their tickets (approximately 13% of mobile app users)
- Passengers who ride on numerous fare-free days or utilize promotional free programs

Paid Fare Media Ridership Reports

SMART riders use either a Clipper card or SMART's mobile application to pay their fares. SMART collects Fare Media Ridership Reports from Clipper and SMART's e-Ticket activations. There are built-in

limitations with the Fare Media ridership reports that can result in a significant portion of ridership not being counted through this method. The industry-wide reports indicate that approximately 13% of riders fail to activate their ticket. SMART’s data shows a similar experience with its mobile application activation failures.

Two of SMART’s most popular fare products are 31-Day Passes and Eco-Passes (purchased through an employer). These fare products do not require the pass holder to tag on and off each time they ride the train, therefore, the Clipper system does not recognize their presence unless they tag on and off.

National Transit Database (NTD) Ridership

As a grantee of the Federal Transit Administration, SMART has a duty to report ridership data to the National Transit Database (NTD) using federally approved methodologies. SMART has submitted ridership data reports to the NTD since July 2017 and the data may be viewed online at: <https://www.transit.dot.gov/ntd/data-product/monthly-module-adjusted-data-release>

For agencies with an Open system such as SMART, the Federal Transit Administration requires that they conduct a random selection of statistically valid ride checks to validate the accuracy of the information reported to the NTD. In 2019, SMART contracted with a consultant research firm to create this third set of data using the federally approved method of conducting onboard counts of randomly selected trains over four quarters of the year, making it statistically valid and utilizing the standardized NTD Sampling Template. This independent analysis was submitted to SMART on December 20, 2019. The results of this report are deemed statistically significant within a 95% confidence interval plus or minus 10%. This third method of data collection confirms the validity of the other two methods SMART has developed.

Prior to the COVID-19 shutdown, SMART was beginning to see dramatic growth in its ridership following the opening of its two newest stations and a new service schedule with more frequent weekday trips and a new weekend schedule. January 2020 monthly total ridership was up 26% over January 2019, with four out of the top five Paid Fare ridership days ever in January 2020. February also showed ridership up overall by 40% over the prior year. Unfortunately, the shelter in place orders halted that progress and resulted in lower ridership overall for the end of the Fiscal Year 2020 (discussed further below).

Below is a summary of the reported ridership data for SMART for the three completed fiscal years since operations began.

TOTAL RIDERSHIP		
Fiscal Year	Onboard Counts	Fare Media
2017-18	636,029	522,092
2018-19	716,847	645,222
2019-20	567,103	464,967

THE DISTRICT

General

The District was established on January 1, 2003 by the State Legislature through the enactment of AB 2224. It is comprised of the Counties of Marin and Sonoma with the purpose of providing for a unified, comprehensive institutional structure for the ownership and governance of a passenger rail system within the counties to operate in harmony with existing freight service that operates upon the same rail line and serves the counties of Humboldt, Marin, Mendocino, Napa and Sonoma.

Governance and Administration

Board of Directors. The District is governed by a twelve-member Board of Directors (the “Board”) consisting of two County supervisors from each of the counties, three appointed city council members from each County and two representatives from the Golden Gate Bridge, Highway and Transportation District. The Board currently has two vacancies.

Administration. The District is managed by a General Manager, who is appointed by and reports to the Board.

Farhad Mansourian, General Manager. Mr. Mansourian was appointed as the District's Executive Director and acting General Manager in June 2011. The Board appointed him General Manager in August 2011. Prior to his employment with the District, Mr. Mansourian was the Director of the Department of Public Works for Marin County from 2002 to 2011. He was initially hired by Marin County in 1980 as a junior civil engineer, and rose through the ranks serving as an assistant engineer, administrative analyst, traffic operations engineer, road maintenance engineer, Deputy Director, Assistant Director and Chief Assistant Director before his promotion to Director of the Department of Public Works in 2002. Concurrently with his responsibilities for Marin County, for over three years Mr. Mansourian was one of two people who served as the original staff of the District upon its initial formation, from 2003 to 2006.

Mr. Mansourian received a B.S. in Civil Engineering and Political Science from California State University, Sacramento and is a registered Professional Civil Engineer in the State of California.

Erin McGrath, Chief Financial Officer. Ms. McGrath was appointed Chief Financial Officer for the District in January 2012. Ms. McGrath has spent her entire career in public policy, budgeting and finance. Prior to her appointment as Chief Financial Officer of the District, Ms. McGrath spent ten years working for the City and County of San Francisco in positions ranging from aide to the President of the Board of Supervisors to Deputy Finance Director. During that time Ms. McGrath helped finance the reconstruction and operation of the San Francisco's two acute care hospitals, resolved five annual budget deficits, and negotiated several public-private development partnerships for San Francisco.

Ms. McGrath received a B.A. from the College of William and Mary in Virginia and an M.A. in Public Policy and Analysis from the University of Wisconsin.

Ms. McGrath is currently expected to leave the District at the end of calendar year 2020. A search for a replacement for Ms. McGrath is currently underway by the District.

William L. Gamlen, Chief Engineer. Mr. Gamlen has served as the District's Chief Engineer since April 2011, after serving as the District's Senior Rail Engineer from 2009. Prior to that time, he worked as a senior project manager for the Transportation Authority of Marin from 2007 to 2009. Mr. Gamlen has also served in project management positions at the engineering and construction management firm Garrett

Fleming Inc. and the San Francisco Municipal Railway, and has over 22 years of experience with the planning, design and construction management of public transit and infrastructure projects.

Mr. Gamlen received a B.S. in Civil Engineering from the University of the Pacific, and is a Registered Professional Civil Engineer in the State of California.

Strategic Plan and Citizens Oversight Committee. As part of the Expenditure Plan adopted by the Board in 2008 and revised in 2020, SMART has a Citizens Oversight Committee whose role is to review its Strategic Planning process, which occurs at least every five years. The last Strategic Plan was prepared in 2019. The Citizens Oversight Committee is composed of citizens of the Counties appointed by the Board. The Board is currently evaluating the makeup and purpose of the Committee and plans on expanding both the role and membership of the Committee to be more expansive and inclusive of various interests related to SMART.

Recent Developments Regarding Sales Tax Collection

In June 2018, the United States Supreme Court published its decision in *South Dakota v. Wayfair* (the “Wayfair Decision”), in which the Supreme Court held that sales to a customer in a particular state alone are sufficient to create a nexus for purposes of determining whether a seller is required to collect sales taxes of the applicable state. Prior to the Wayfair Decision, courts had interpreted the dormant Commerce Clause of the United States Constitution to require that a company have physical nexus in a state in order for the seller to be liable for the collection of that state’s sales tax. Physical nexus is defined as having either property or payroll in the state, including a resident employee working from home or inventory stored in that state.

The State has issued guidance in response to the Wayfair Decision. Under such guidance, retailers located outside of the State are required to register with the CDTFA, collect the California use tax, and pay the tax to the CDTFA based on the amount of their sales into California, even if they do not have a physical presence in the state. The new collection requirements apply to retailers if during the preceding or current calendar year certain sales thresholds are met. The new collection requirements started to apply to taxable sales of tangible personal property to California consumers on and after April 1, 2019, and were not retroactive. Additionally, the State’s passage of Assembly Bill 147, signed by the Governor on April 25, 2019, provides the implementation rules for the Wayfair Decision in California. The District is unable to predict the ultimate benefit that the Wayfair Decision may have on Sales Tax Revenues.

Other District Revenue

Set forth below is a discussion of various other District revenue sources. Such revenue sources are not pledged toward the repayment of the Series 2020 Bonds and investors should only look to Pledged Revenues as the source for repayment for the Series 2020 Bonds.

Farebox Revenues: SMART passengers pay for their rides using the fare structure approved by the SMART Board in 2015 and 2016. SMART participates in the regional Clipper fare system that allows riders to transfer seamlessly among Bay Area operators using one fare media card. SMART also has its own mobile ticket device that provides for easy purchasing of multiple or discounted tickets without purchasing a Clipper card. The fares are based on the distance travelled by a rider which is similar to other commuter rail services. Daily fares range from \$3.50 for a non-discounted adult travelling one zone, and \$11.50 if travelling 5 zones. However, SMART provides a number of discounts available to SMART riders. In Fiscal Year 2019-20, 52 percent of rides on SMART has had some form of discount applied. The average fare per passenger during that same Fiscal Year was \$5.42, which is inclusive of the discounts provided to seniors, youth, disabled riders, 31-day pass holders, and other pass users. The average SMART passenger

travels 2-3 zones or an estimated 24 miles per trip. In the first two years of service, SMART received a total of \$7.4 million in fare revenue through June of 2019, exceeding original budgeted estimates. Prior to the COVID-10 shutdown, SMART anticipated receiving over \$4 million in fare revenue for Fiscal Year 2019-20. Final fare revenue in Fiscal Year 2020 was \$2.6 million.

Miscellaneous Revenues: SMART has a number of local funding sources, the largest ongoing of which is lease and advertising revenue. SMART received \$632,620 from these two sources in Fiscal Year 2020. SMART also has one-time revenue related to property transactions, legal settlements, or insurance reimbursements. On an ongoing basis, most of these one-time revenues are not included in SMART forecasts.

State Revenues: SMART benefits from a number of State revenue sources for rail and transit which have been enhanced by the passage of Senate Bill 1 (SB 1) in 2017—The Road Repair and Accountability Act of 2017. SB 1 provided a number of new funding sources for transportation, including new gas and diesel taxes, registration fees and other changes. In addition to raising new revenues for transportation purposes, SB 1 addresses the volatility of the variable portion of the state’s gasoline excise tax by: (1) ending the State Board of Equalization’s annual adjustments, and converting the variable rate to a fixed rate of 17.3 cents per gallon, effective July 1, 2019; and (2) indexing the fixed rate to inflation every year to maintain purchasing power. SB 1 provides \$5.4 billion annually in California's transportation systems. SB1 was strengthened by Proposition 69 approved by voters on June 5, 2018. Proposition 69 amended the state constitution to dedicate all revenues from vehicle fees, gasoline and diesel taxes raised by SB 1 and other existing transit funding sources, to transportation purposes. The proposition was approved by 81 percent of voters.

State Rail Assistance: One new funding source created by SB 1 is the State Rail Assistance (SRA) program. SRA directs a 0.5% portion of new diesel sales tax revenue for allocation: half to the five (including,

Altamont Corridor Express Authority (ACE), North County Transit Development Board (Coaster), Peninsula Corridor Joint Powers Board (Caltrain), Sonoma-Marín Area Rail Transit District (SMART), Southern California Regional Rail Authority (Metrolink) commuter rail providers and half to intercity rail corridors.

- Half of revenue is allocated in equal shares to commuter operators through 2019-20, and via guidelines thereafter
- Half of revenue is allocated to intercity rail corridors such that each of the existing three corridors (including, Capitol Corridor Joint Powers Authority, LOSSAN Rail Corridor Agency (Pacific Surfliner), San Joaquin Joint Powers Authority) receives at least 25% of the intercity rail share (about \$13.1M to each over 3 years)

SMART has utilized SRA funds to augment operations and opened with significantly more service than was planned during construction.

State Transit Assistance: SMART also receives State Transit Assistance (STA) funds. A portion of the revenues derived from the sales tax on diesel fuel purchases and registration fees is appropriated by the State Legislature to the State Transit Assistance Program (“STA”) for public transportation purposes. These STA revenues are allocated to public transit agencies throughout the State based on population and operating revenues through a formula that has changed in recent years but was clarified and solidified in 2017 following the passage of AB 1113 (Bloom), signed into law by Governor Brown in July, 2017. AB 1113 clarifies (1) who is eligible to receive STA revenue-based funds; (2) what revenue sources may be

used to determine a public transit operator's revenue-based share; (3) how an individual operator's revenue-based share is to be calculated; and (4) how regional transportation authorities and metropolitan planning organization which serve as the direct recipients of STA population- and revenue-based funds, would sub-allocate these dollars to public transit operators within their respective jurisdictions. STA revenues must be claimed by the District based on actual cash expenditures, normally on a quarterly basis, for any eligible STA operating or capital expenditure. SMART was not eligible to receive these funds until it began operations in Fiscal Year 2017-18.

SMART also benefits from allocations from the Low Carbon Transit Operation Program for operations (funded by Cap and Trade revenues) to support discounted service to certain populations. And finally, the State Local Partnership Program provides capital matching program funds to SMART as a jurisdiction with voter approved taxes dedicated solely to transportation improvements. SMART has utilized these funds for capital investments at its rail operations facility to secure service reliability.

SMART's Fiscal Year 2020-21 funding received from all State transportation funding programs is \$5.7 million.

Federal Revenues: As a transit operating entity and direct recipient of Federal Transit Administration (FTA) Funds, SMART became eligible for funds through the FTA 5307 program starting in Fiscal Year 2019-20, including supplemental 5307 funds via Federal COVID-19 related transit funding appropriations, and has budgeted \$2.9 million from this source starting in Fiscal Year 2020-21. SMART will also be eligible for FTA Section 5337 funds after 7 years of operation, or in Fiscal year 2024-25. At that time the projections assume an estimated \$1.5 million annually through the 5337 program.

The following table sets forth the Revenues, Expenditures and Changes in Net Position for the Fiscal Years ended June 30, 2017 through June 30, 2019.

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**REVENUES, EXPENDITURES
AND CHANGES IN NET POSITION
Fiscal Years 2016-17 through 2019-20**

	<u>Fiscal Year 2016-17</u>	<u>Fiscal Year 2017-18</u>	<u>Fiscal Year 2018-19</u>	<u>Fiscal Year 2019-20*</u>
Operating Revenues:				
Fares and other revenues**	\$ 588,402	\$ 4,025,111	\$ 5,036,875	\$ 4,390,440
Total Operating Revenues	<u>588,402</u>	<u>4,025,111</u>	<u>5,036,875</u>	<u>4,390,440</u>
Operating Expenses				
Public transportation – rail/pathway development:				
Salaries and Employee benefits (non- capital)	12,610,874	16,950,114	18,453,125	18,590,499
Services and supplies	7,499,086	8,877,465	11,336,573	11,624,477
Depreciation	4,716,779	17,800,126	19,033,577	22,150,113
Loss on Impairment of assets	–	671,378	0	0
Other charges	113	954	203,883	100,000
Total Operating Expenses	<u>24,826,852</u>	<u>44,300,037</u>	<u>49,027,158</u>	<u>52,465,089</u>
Operating (Loss)	(24,238,451)	(40,274,926)	(43,990,283)	(48,074,648)
Non-Operating Revenues (Less Expenses)				
Sales/Use taxes	36,061,895	37,135,476	41,241,140	38,978,630
State operating assistance	–	3,701,366	5,000,756	7,464,073
Investment earnings	366,750	724,313	1,974,246	338,228
Miscellaneous revenue	438,640	2,236,508	4,174,454	1,012,757
Capital expenses passed through to other agencies	(62,636)	(3,778,891)	(770,156)	(918,506)
Interest expense	(1,164,558)	(5,819,778)	(5,591,608)	(5,273,801)
Total Non-Operating Revenues (Net):	<u>35,640,092</u>	<u>34,198,994</u>	<u>46,028,832</u>	<u>41,601,381</u>
Capital Grants	<u>12,403,891</u>	<u>24,941,459</u>	<u>37,345,323</u>	<u>37,322,341</u>
Change in Net Position	23,805,533	18,865,527	39,383,872	30,849,074
Net Position, beginning of year as previously reported	<u>386,176,316</u>	<u>409,315,207</u>	<u>428,180,734</u>	<u>467,564,608</u>
Net Position, end of year	<u>\$409,981,849</u>	<u>\$428,180,734</u>	<u>\$467,564,606</u>	<u>\$498,413,682</u>

* Unaudited.

** 2017 operating revenue only included charges for services.

Source: District Basic Financial Statements for the Year Ended June 30, 2017 through June 30, 2019.

RISK FACTORS

The ability of the District to pay principal of and interest on the Series 2020 Bonds depends primarily upon the receipt by the District of Pledged Revenues. Some of the events that could prevent the District from receiving a sufficient amount of Pledged Revenues to enable it to pay the principal of and interest on the Series 2020 Bonds are summarized below. The following description of risks is not intended to be an exclusive list of the risks associated with the purchase of the Series 2020 Bonds and the order of the risks set forth below does not necessarily reflect the relative importance of these risks.

U.S. Economic Recession; Economy of the County and the State

On June 8, 2020, the National Bureau of Economic Research (“NBER”) declared that a recession in the United States commenced in February 2020. Reportedly, this was the fastest that NBER has declared any recession since the group began formal announcements in 1979. In announcing the recession, NBER said “[T]he unprecedented magnitude of the decline in employment and production, and its broad reach across the entire economy, warrants the designation of this episode as a recession . . .”

The Series 2020 Bonds are secured by a pledge of Measure Q Sales Tax Revenues, which consist of the Measure Q Sales Tax less an administrative fee paid to the CDTFA. The level of Measure Q Sales Tax Revenues collected at any time is dependent upon the level of retail sales within the Counties, which is, in turn, dependent upon the level of economic activity in the Counties and in the State generally. The District cannot predict how long the current economic recession will last or the impacts on Measure Q Sales Tax Revenues, but such impacts may be material and adverse. A continued substantial deterioration in Measure Q Sales Tax Revenues could impact the ability of the District to pay principal of and interest on the Series 2020 Bonds.

For information relating to economic conditions within the Counties and the State, see APPENDIX B – “ECONOMIC AND DEMOGRAPHIC INFORMATION REGARDING THE COUNTY OF SONOMA AND THE COUNTY OF MARIN.”

Impacts of COVID-19 Pandemic

Background Regarding COVID-19 and Government Responses. The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been characterized as a pandemic by the WHO and has led to emergency declarations by government authorities of the United States, the State, and local governments.

In response to the emergency, the State, the County and other local governments imposed significant restrictions on economic and other activity within the County and parts thereof beginning in March 2020. While some of those restrictions have been lifted, some have been re-imposed. It is unknown when and whether restrictions will to be eased or will be reinstated or intensified.

The COVID-19 pandemic and government responses to it have negatively affected travel, commerce, investment values, and financial markets globally, and is widely expected to continue to negatively affect economic output worldwide and within the County.

Regarding administration of sales and use taxes, the Governor of California (the “Governor”) has issued executive orders:

- requiring the California Department of Tax and Fee Administration (“CDTFA”), which administers sales and use taxes in the State of California, to use its administrative powers where appropriate to

provide extensions for filing, payment, audits, billing, notices, assessments, claims for refund, and relief from subsequent penalties and interest to individuals and businesses impacted by complying with a state or local public health official's imposition or recommendation of social distancing measures related to COVID-19;

- providing a three-month extension for tax returns and tax payments for all businesses filing a return for less than \$1,000,000 in taxes, such extension remaining effective through the reporting of taxes or fees due or the payment of taxes that are due on or before July 31, 2020, and extending the statute of limitations to file a claim for refund for taxes and fees administered by CDTFA and the timeframe to file for appeal with CDTFA; and
- allowing businesses with less than \$5 million in annual taxable sales to defer payment on up to \$50,000 in sales and use tax liability without incurring any penalties or interest.

Impact of COVID-19 on the District's Bonds. The impact of COVID-19 on the economy of the District has been negative, and future impacts are unpredictable and could change rapidly. Events surrounding COVID-19 have negatively affected collection of 2008 Measure Q Sales Tax Revenues. The District believes that events surrounding COVID-19 will negatively affect collection of 2008 Measure Q Sales Tax Revenues in the District into the future. These events may include the pandemic's impacts on the economy, as well as continuing, additional, or modified government actions to address the pandemic. Some of the negative impacts that the District has identified include:

The District experienced declines in Measure Q Sales Tax Revenues during the fiscal year ending June 30, 2020 and anticipates additional decline in the fiscal year ending June 30, 2021 because of the impact of COVID-19 on the economy and government responses to COVID-19. Final Sales Tax Revenues for the year ending June 30, 2020, were \$38,978,630, net of fees, which represents 5% less than actual receipts in the prior Fiscal Year. SMART's budget for fiscal year ending June 30, 2021 anticipates very conservatively an additional decline of 18%, however preliminary projections indicate the additional loss could be as low as 5%. The District cannot, however, predict with certainty the fiscal impact that COVID-19 will have on 2008 Measure Q Sales Tax Revenues due to uncertainty in the public health and related social and commercial impacts to come from the COVID-19 pandemic and the governmental responses to it.

The District currently believes that despite the negative effects of the COVID-19 pandemic on the amounts and timing of 2008 Measure Q Sales Tax Revenue receipts, there will be sufficient 2008 Measure Q Sales Tax Revenues to pay debt service on all of the District's Series 2020 Bonds.

Operational Impacts of COVID-19 on the District. SMART modified service in March 2020 due to the pandemic, with weekend service cancelled starting March 21 and weekday service reduced first by 4 trips (down to 34) on March 23rd, then by another 18 trips, (down to 16), on April 6. The first week of June saw a weekday average ridership of 336 compared to pre-pandemic average of 2,976 in February. Ridership has only increased marginally since then, increasing 10% to 372 average weekday riders during the first week in July. SMART's total Fiscal Year 2020 (July 1 – June 30) ridership, including during the COVID-19 pandemic, was down 21% overall. Fare payments through the Clipper and SMART App systems were down 29% in Fiscal Year 2020, due to the COVID-related ridership losses and a variety of Free Fare and programs offered in Fiscal Year 2020. Weekend/Holiday ridership, not including weekends after March 14-15 due to COVID-related service cancellations, was increasing 3% from Fiscal Year 2019. For the first month of Fiscal Year 2020-21- July of 2020- SMART's ridership continued to be down and was 85% lower than July 2019. July ridership was 9,427 compared to 62,851 for the same month in 2019.

As the impacts were still being estimated, SMART moved to reduce its payroll by eliminating 9% of its Full-time employees (a reduction of 13), and implementing budget reductions totaling \$7.2 million consisting of one-time and ongoing cost eliminations. In September SMART identified additional one-time savings following the close of Fiscal Year 2019-20 of \$10.3 million resulting from position vacancies and elimination of non-essential spending, and adopted further reductions to the ongoing operations by eliminating two more full-time positions. Additional reductions will be contemplated in future meetings should revenues drop below budgeted amounts.

While the District believes that the decline in such revenues will be temporary, it expects that it will be several more months before it has a better understanding of the impact of COVID-19 on fare and other revenue in Fiscal Year 2020-21.

The District anticipates that such expected decreases in revenue will result in its operating revenue falling below Fiscal Year 2019-20 amounts and has budgeted for such decreases. The District currently has an operating reserve balance of \$17 million, but also expects to fund any fiscal year 2020-21 deficit from funds projected under the federal CARES Act. The District will receive approximately \$14.95 million of CARES Act funding and began the drawdown process as part of its Fiscal Year 2019-20 closing process. Under the CARES Act, the Federal Transit Administration will reimburse any eligible expenses that occurred on or after January 20, 2020. All net operating expenses (after subtracting fare revenues from the eligible operating expenses) are eligible for reimbursement. The eligible expenses include driver and other operations worker salaries, fuel, supplies (including personal protective equipment and cleaning supplies) and administrative leave (defined as an administratively authorized absence from duty) for operations and maintenance employees. Lost revenue, defined as eligible expenses that would have otherwise been paid for by the “lost revenue,” is also an eligible expense under the CARES Act. The CARES Act does not cap amounts that may be used to fund operating, capital, or planning expenses.

The COVID-19 pandemic is ongoing, and its dynamic nature leads to uncertainties, including (i) the geographic spread of the virus; (ii) the severity of the disease; (iii) the duration of the outbreak; (iv) actions that may be taken by governmental authorities to contain or mitigate the outbreak; (v) the development of medical therapeutics or vaccinations; (vi) the impact of the outbreak on the local, national or global economy; and (vii) the impact of the outbreak and actions taken in response to the outbreak on the District’s revenues, expenses and financial condition.

The 2008 Measure Q Sales Tax

The 2008 Measure Q Sales Tax is imposed upon the same transactions and items subject to the sales tax levied state-wide by the State, with limited exceptions. The State Legislature or the voters within the State, through the initiative process, could change or limit the transactions and items upon which the state-wide sales tax and the 2008 Measure Q Sales Tax are imposed. Any such change or limitation could have an adverse impact on the Sales Tax Revenues collected. For a further description of the 2008 Measure Q Sales Tax, see “THE 2008 MEASURE Q SALES TAX.”

Impact of Bankruptcy of the District

As a municipal entity, the District may be qualified to file a petition under Chapter 9 of the United States Bankruptcy Code (“Chapter 9”) under certain circumstances. Under Chapter 9, the pledge of Sales Tax Revenues is fully enforceable only if a bankruptcy court determines that the Sales Tax Revenues are “Special Revenues” under Chapter 9 and that the pledge is valid and binding under Chapter 9. Sales Tax Revenues may not constitute “Special Revenues” under Chapter 9 because, among other reasons, the 2008 Measure Q Sales Tax was not levied for a particular project and is available for the general purposes of the District. If a bankruptcy court were to hold the pledge of Sales Tax Revenues to be unenforceable under

Chapter 9, then the owners of the Series 2020 Bonds would no longer be entitled to any special priority to the Sales Tax Revenues and may be treated as general unsecured creditors of the District as to the Sales Tax Revenues.

Furthermore, since the obligations of the District under the Indenture, including its obligation to pay principal of and interest on the Series 2020 Bonds, are special obligations that are payable solely from Sales Tax Revenues and certain other amounts held by the Trustee under the Indenture, if the District filed a petition for bankruptcy under Chapter 9, the owners of the Series 2020 Bonds would have no recourse to any assets or revenues of the District other than Sales Tax Revenues and such other amounts.

Proposition 218

On November 5, 1996, California voters approved an initiative known as the Right to Vote on Taxes Act (“Proposition 218”). Proposition 218 added Articles XIII c and XIII D to the California constitution. Article XIII c requires majority voter approval for the imposition, extension or increase of general taxes and two-thirds voter approval for the imposition, extension or increase of special taxes by a local government, which is defined to include local or regional governmental agencies such as the District. As required by Article XIII c, the 2008 Measure Q Sales Tax was approved by more than two-thirds of the voters voting on the measure. However, Article XIII c also removes limitations that may have applied to the voter initiative power with regard to reducing or repealing previously authorized local taxes, even previously voter-approved taxes like the 2008 Measure Q Sales Tax.

In the view of the District, any attempt by the voters to use the initiative provisions of Proposition 218 subsequent to the issuance of the Series 2020 Bonds to rescind or reduce the levy and collection of the 2008 Measure Q Sales Tax in a manner which would prevent the payment of debt service on the Series 2020 Bonds would violate the Impairment clauses of the United States Constitution and, accordingly, would be precluded. However, it is likely that the interpretation and application of Article XIII c ultimately will be determined by the courts.

Further Initiatives

Proposition 218 was adopted as a measure that qualified for the ballot pursuant to the State’s initiative process. From time to time other initiative measures could be adopted, which may affect the District’s ability to levy and collect the 2008 Measure Q Sales Tax.

Cybersecurity

The District relies on a complex technology environment to conduct its operations, sharing the District’s computer network, internet, and email services. As a recipient and provider of personal, private and sensitive information, the District faces multiple cyber threats including, but not limited to, hacking, viruses, malware and other attacks on computers and other sensitive digital networks and systems. To the District’s knowledge, there have been no cyberattacks on the network or services specifically directed against the District, and their operations and information.

No assurances can be given that the District’s security and operational control measures will be successful in guarding against any and each cyber threat and attack. The results of any attack on the District’s computer and information technology systems could impact its operations and damage the District’s digital networks and systems, and the costs of remedying any such damage could be substantial.

No Acceleration Provision

The Indenture does not contain a provision allowing for the acceleration of the Series 2020 Bonds in the event of a default in the payment of principal and interest on the Series 2020 Bonds when due. In the event of a default by the District, each Holder of a Series 2020 Bond will have the rights to exercise the remedies, subject to the limitations thereon, set forth in the Indenture. See APPENDIX C - "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Events of Default and Remedies."

Climate Change

Numerous scientific studies on global climate change show that, among other effects on the global ecosystem, sea levels will rise, extreme temperatures will become more common, and extreme weather events, including, but not limited to, wildfires, will become more frequent as a result of increasing global temperatures attributable to atmospheric pollution. For example, the Fourth National Climate Assessment, published by the U.S. Global Change Research Program, in November 2018 (NCA4) finds that more frequent and intense extreme weather and climate-related events, as well as changes in average climate conditions, are expected to continue to damage infrastructure, ecosystems and social systems over the next 25 to 100 years. Sea level rise may particularly impact coastal areas throughout the District. The District cannot predict what impact climate change will have on Sales Tax Revenues or the Project's system in the future.

FINANCIAL STATEMENTS

The financial statements of the District for the Fiscal Year ended June 30, 2019, included as APPENDIX A of this Official Statement, have been audited by the Sonoma County Auditor-Controller. The auditor was not requested to consent to the inclusion of their reports regarding the District in APPENDIX A, nor have they undertaken to update their reports or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by the Sonoma County Auditor-Controller with respect to any event subsequent to the date of their reports.

LITIGATION

There is not now pending or, to the knowledge of the District, threatened, any litigation restraining or enjoining the issuance or delivery of the Series 2020 Bonds or questioning or affecting the validity of the Series 2020 Bonds or the proceedings and authority under which they are to be issued or the levy, collection and pledge of the 2008 Measure Q Sales Tax. Neither the creation, organization or existence of the District, nor the title of the present members of the District to their respective offices is being contested.

TAX MATTERS

Federal Income Taxes

The following is a summary of certain anticipated United States federal income tax consequences of the purchase, ownership and disposition of the Series 2020 Bonds. The summary is based upon the provisions of the Code, the Treasury Regulations promulgated thereunder and the judicial and administrative rulings and decisions now in effect, all of which are subject to change. Such authorities may be repealed, revoked, or modified, possibly with retroactive effect, so as to result in United States federal income tax consequences different from those described below. The summary generally addresses Series 2020 Bonds held as capital assets within the meaning of Section 1221 of the Code and does not purport to address all aspects of federal income taxation that may affect particular investors in light of their individual

circumstances or certain types of investors subject to special treatment under the federal income tax laws, including but not limited to financial institutions, insurance companies, dealers in securities or currencies, persons holding such Series 2020 Bonds as a hedge against currency risks or as a position in a “straddle,” “hedge,” “constructive sale transaction” or “conversion transaction” for tax purposes, or persons whose functional currency is not the United States dollar. It also does not deal with holders other than original purchasers that acquire Series 2020 Bonds at their initial issue price except where otherwise specifically noted. Potential purchasers of the Series 2020 Bonds should consult their own tax advisors in determining the federal, state, local, foreign and other tax consequences to them of the purchase, holding and disposition of the Series 2020 Bonds.

The Issuer has not sought and will not seek any rulings from the Internal Revenue Service with respect to any matter discussed herein. No assurance can be given that the Internal Revenue Service would not assert, or that a court would not sustain, a position contrary to any of the tax characterizations and tax consequences set forth below.

U.S. Holders

As used herein, the term “U.S. Holder” means a beneficial owner of Series 2020 Bonds that is (a) an individual citizen or resident of the United States for federal income tax purposes, (b) a corporation, including an entity treated as a corporation for federal income tax purposes, created or organized in or under the laws of the United States or any State thereof (including the District of Columbia), (c) an estate whose income is subject to federal income taxation regardless of its source, or (d) a trust if a court within the United States can exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust. Notwithstanding clause (d) of the preceding sentence, to the extent provided in Treasury regulations, certain trusts in existence on August 20, 1996, and treated as United States persons prior to that date that elect to continue to be treated as United States persons also will be U.S. Holders. In addition, if a partnership (or other entity or arrangement treated as a partnership for federal income tax purposes) holds Series 2020 Bonds, the tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. If a U.S. Holder is a partner in a partnership (or other entity or arrangement treated as a partnership for federal income tax purposes) that holds Series 2020 Bonds, the U.S. Holder is urged to consult its own tax advisor regarding the specific tax consequences of the purchase, ownership and dispositions of the Series 2020 Bonds.

Taxation of Interest Generally

Interest on the Series 2020 Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code and so will be fully subject to federal income taxation. Purchasers will be subject to federal income tax accounting rules affecting the timing and/or characterization of payments received with respect to such Series 2020 Bonds. In general, interest paid on the Series 2020 Bonds and recovery of any accrued original issue discount and market discount will be treated as ordinary income to a bondholder, and after adjustment for the foregoing, principal payments will be treated as a return of capital to the extent of the U.S. Holder’s adjusted tax basis in the Series 2020 Bonds and capital gain to the extent of any excess received over such basis.

Recognition of Income Generally

Section 451(b) of the Code provides that purchasers using an accrual method of accounting for U.S. federal income tax purposes may be required to include certain amounts in income no later than the time such amounts are reflected on certain financial statements of such purchaser. In this regard, the IRS issued proposed regulations which provide that, with the exception of certain fees, the rule in section 451(b) will

generally not apply to the timing rules for original issue discount and market discount, or to the timing rules for de minimis original issue discount and market discount. Prospective purchasers of the Series 2020 Bonds should consult their own tax advisors regarding the potential applicability of these rules and their impact on the timing of the recognition of income related to the Series 2020 Bonds under the Code.

Original Issue Discount

The following summary is a general discussion of certain federal income tax consequences of the purchase, ownership and disposition of Series 2020 Bonds issued with original issue discount (“Discount Bonds”). A Series 2020 Bond will be treated as having been issued with an original issue discount if the excess of its “stated redemption price at maturity” (defined below) over its issue price (defined as the initial offering price to the public at which a substantial amount of the Series 2020 Bonds of the same maturity have first been sold to the public, excluding bond houses and brokers) equals or exceeds one quarter of one percent of such Series 2020 Bond’s stated redemption price at maturity multiplied by the number of complete years to its maturity (or, in the case of an installment obligation, its weighted average maturity).

A Series 2020 Bond’s “stated redemption price at maturity” is the total of all payments provided by the Series 2020 Bond that are not payments of “qualified stated interest.” Generally, the term “qualified stated interest” includes stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate or certain floating rates.

In general, the amount of original issue discount includible in income by the initial holder of a Discount Bond is the sum of the “daily portions” of original issue discount with respect to such Discount Bond for each day during the taxable year in which such holder held such Series 2020 Bond. The daily portion of original issue discount on any Discount Bond is determined by allocating to each day in any “accrual period” a ratable portion of the original issue discount allocable to that accrual period.

An accrual period may be of any length, and may vary in length over the term of a Discount Bond, provided that each accrual period is not longer than one year and each scheduled payment of principal or interest occurs at the end of an accrual period. The amount of original issue discount allocable to each accrual period is equal to the difference between (i) the product of the Discount Bond’s adjusted issue price at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and appropriately adjusted to take into account the length of the particular accrual period) and (ii) the amount of any qualified stated interest payments allocable to such accrual period. The “adjusted issue price” of a Discount Bond at the beginning of any accrual period is the sum of the issue price of the Discount Bond plus the amount of original issue discount allocable to all prior accrual periods minus the amount of any prior payments on the Discount Bond that were not qualified stated interest payments. Under these rules, holders generally will have to include in income increasingly greater amounts of original issue discount in successive accrual periods.

Holders utilizing the accrual method of accounting may generally, upon election, include in gross income all interest (including stated interest, acquisition discount, original issue discount, de minimis original issue discount, market discount, de minimis market discount, and unstated interest, as adjusted by any amortizable bond premium or acquisition premium) on a Series 2020 Bond by using the constant yield method applicable to original issue discount, subject to certain limitations and exceptions.

Holders that use an accrual method of accounting may be required to include certain amounts in income no later than the time such amounts are reflected on certain financial statements of such holder as discussed under “Recognition of Income Generally” above. Prospective purchasers of the Series 2020 Bonds should consult their own tax advisors regarding the potential applicability of this rule and its impact on the timing of the recognition of income related to the Series 2020 Bonds under the Code.

Market Discount

A holder who purchases a Series 2020 Bond at a price which includes market discount (i.e., at a purchase price that is less than its adjusted issue price in the hands of an original owner) in excess of a prescribed de minimis amount will be required to recharacterize all or a portion of the gain as ordinary income upon receipt of each scheduled or unscheduled principal payment or upon other disposition. In particular, such holder will generally be required either (a) to allocate each such principal payment to accrued market discount not previously included in income and to recognize ordinary income to that extent and to treat any gain upon sale or other disposition of such a Series 2020 Bond as ordinary income to the extent of any remaining accrued market discount or (b) to elect to include such market discount in income currently as it accrues on all market discount instruments acquired by such holder on or after the first day of the taxable year to which such election applies.

The Code authorizes the Treasury Department to issue regulations providing for the method for accruing market discount on debt instruments the principal of which is payable in more than one installment. Until such time as regulations are issued by the Treasury Department, certain rules described in the legislative history of the Tax Reform Act of 1986 will apply. Under those rules, market discount will be included in income either (a) on a constant interest basis or (b) in proportion to the accrual of stated interest.

A holder of a Series 2020 Bond who acquires such Series 2020 Bond at a market discount also may be required to defer, until the maturity date of such Series 2020 Bond or the earlier disposition in a taxable transaction, the deduction of a portion of the amount of interest that the holder paid or accrued during the taxable year on indebtedness incurred or maintained to purchase or carry a Series 2020 Bond in excess of the aggregate amount of interest (including original issue discount) includable in such holder's gross income for the taxable year with respect to such Series 2020 Bond. The amount of such net interest expense deferred in a taxable year may not exceed the amount of market discount accrued on the Series 2020 Bond for the days during the taxable year on which the holder held the Series 2020 Bond and, in general, would be deductible when such market discount is includable in income. The amount of any remaining deferred deduction is to be taken into account in the taxable year in which the Series 2020 Bond matures or is disposed of in a taxable transaction. In the case of a disposition in which gain or loss is not recognized in whole or in part, any remaining deferred deduction will be allowed to the extent gain is recognized on the disposition. This deferral rule does not apply if the bondholder elects to include such market discount in income currently as described above.

Holders that use an accrual method of accounting may be required to include certain amounts in income no later than the time such amounts are reflected on certain financial statements of such holder as discussed under "Recognition of Income Generally" above. Prospective purchasers of the Series 2020 Bonds should consult their own tax advisors regarding the potential applicability of this rule and its impact on the timing of the recognition of income related to the Series 2020 Bonds under the Code.

Bond Premium

A holder of a Series 2020 Bond who purchases such Series 2020 Bond at a cost greater than its remaining redemption amount will have amortizable bond premium. If the holder elects to amortize this premium under Section 171 of the Code (which election will apply to all Series 2020 Bonds held by the holder on the first day of the taxable year to which the election applies and to all Series 2020 Bonds thereafter acquired by the holder), such a holder must amortize the premium using constant yield principles based on the holder's yield to maturity. Amortizable bond premium is generally treated as an offset to interest income, and a reduction in basis is required for amortizable bond premium that is applied to reduce interest payments. Purchasers of Series 2020 Bonds who acquire such Series 2020 Bonds at a premium

should consult with their own tax advisors with respect to federal, state and local tax consequences of owning such Series 2020 Bonds.

Surtax on Unearned Income

Section 1411 of the Code generally imposes a tax of 3.8% on the “net investment income” of certain individuals, trusts and estates. Among other items, net investment income generally includes gross income from interest and net gain attributable to the disposition of certain property, less certain deductions. U.S. Holders should consult their own tax advisors regarding the possible implications of this provision in their particular circumstances.

Sale or Redemption of Bonds

A bondholder’s adjusted tax basis for a Series 2020 Bond is the price such holder pays for the Series 2020 Bond plus the amount of original issue discount and market discount previously included in income and reduced on account of any payments received on such Series 2020 Bond other than “qualified stated interest” and any amortized bond premium. Gain or loss recognized on a sale, exchange or redemption of a Series 2020 Bond, measured by the difference between the amount realized and the bondholder’s tax basis as so adjusted, will generally give rise to capital gain or loss if the Series 2020 Bond is held as a capital asset (except in the case of Series 2020 Bonds acquired at a market discount, in which case a portion of the gain will be characterized as interest and therefore ordinary income).

If the terms of a Series 2020 Bond are materially modified, in certain circumstances, a new debt obligation would be deemed “reissued”, or created and exchanged for the prior obligation in a taxable transaction. Among the modifications which may be treated as material are those related to the redemption provisions and, in the case of a nonrecourse obligation, those which involve the substitution of collateral. In addition, the defeasance of a Series 2020 Bond under the defeasance provisions of the Indenture could result in a deemed sale or exchange of such Series 2020 Bond.

EACH POTENTIAL HOLDER OF SERIES 2020 BONDS SHOULD CONSULT ITS OWN TAX ADVISOR CONCERNING (1) THE TREATMENT OF GAIN OR LOSS ON SALE, REDEMPTION OR DEFEASANCE OF THE SERIES 2020 BONDS, AND (2) THE CIRCUMSTANCES IN WHICH SERIES 2020 BONDS WOULD BE DEEMED REISSUED AND THE LIKELY EFFECTS, IF ANY, OF SUCH REISSUANCE.

Non-U.S. Holders

The following is a general discussion of certain United States federal income tax consequences resulting from the beneficial ownership of Series 2020 Bonds by a person other than a U.S. Holder, a former United States citizen or resident, or a partnership or entity treated as a partnership for United States federal income tax purposes (a “Non-U.S. Holder”).

Subject to the discussion of backup withholding and the Foreign Account Tax Compliance Act (“FATCA”), payments of principal by the Issuer or any of its agents (acting in its capacity as agent) to any Non-U.S. Holder will not be subject to federal withholding tax. In the case of payments of interest to any Non-U.S. Holder, however, federal withholding tax will apply unless the Non-U.S. Holder (1) does not own (actually or constructively) 10 percent or more of the voting equity interests of the Issuer, (2) is not a controlled foreign corporation for United States tax purposes that is related to the Issuer (directly or indirectly) through stock ownership, and (3) is not a bank receiving interest in the manner described in Section 881(c)(3)(A) of the Code. In addition, either (1) the Non-U.S. Holder must certify on the applicable IRS Form W-8 (series) (or successor form) to the Issuer, its agents or paying agents or a broker under

penalties of perjury that it is not a U.S. person and must provide its name and address, or (2) a securities clearing organization, bank or other financial institution, that holds customers' securities in the ordinary course of its trade or business and that also holds the Series 2020 Bonds must certify to the Issuer or its agent under penalties of perjury that such statement on the applicable IRS Form W-8 (series) (or successor form) has been received from the Non-U.S. Holder by it or by another financial institution and must furnish the interest payor with a copy.

Interest payments may also be exempt from federal withholding tax depending on the terms of an existing Federal Income Tax Treaty, if any, in force between the U.S. and the resident country of the Non-U.S. Holder. The U.S. has entered into an income tax treaty with a limited number of countries. In addition, the terms of each treaty differ in their treatment of interest and original issue discount payments. Non-U.S. Holders are urged to consult their own tax advisor regarding the specific tax consequences of the receipt of interest payments, including original issue discount. A Non-U.S. Holder that does not qualify for exemption from withholding as described above must provide the Issuer or its agent with documentation as to his, her, or its identity to avoid the U.S. backup withholding tax on the amount allocable to a Non-U.S. Holder. The documentation may require that the Non-U.S. Holder provide a U.S. tax identification number.

If a Non-U.S. Holder is engaged in a trade or business in the United States and interest on a Series 2020 Bond held by such holder is effectively connected with the conduct of such trade or business, the Non-U.S. Holder, although exempt from the withholding tax discussed above (provided that such holder timely furnishes the required certification to claim such exemption), may be subject to United States federal income tax on such interest in the same manner as if it were a U.S. Holder. In addition, if the Non-U.S. Holder is a foreign corporation, it may be subject to a branch profits tax equal to 30% (subject to a reduced rate under an applicable treaty) of its effectively connected earnings and profits for the taxable year, subject to certain adjustments. For purposes of the branch profits tax, interest on a Series 2020 Bond will be included in the earnings and profits of the holder if the interest is effectively connected with the conduct by the holder of a trade or business in the United States. Such a holder must provide the payor with a properly executed IRS Form W-8ECI (or successor form) to claim an exemption from United States federal withholding tax.

Generally, any capital gain realized on the sale, exchange, retirement or other disposition of a Series 2020 Bond by a Non-U.S. Holder will not be subject to United States federal income or withholding taxes if (1) the gain is not effectively connected with a United States trade or business of the Non-U.S. Holder, and (2) in the case of an individual, the Non-U.S. Holder is not present in the United States for 183 days or more in the taxable year of the sale, exchange, retirement or other disposition, and certain other conditions are met.

For newly issued or reissued obligations, such as the Series 2020 Bonds, FATCA imposes U.S. withholding tax on interest payments and, for dispositions after December 31, 2018, gross proceeds of the sale of the Series 2020 Bonds paid to certain foreign financial institutions (which is broadly defined for this purpose to generally include non-U.S. investment funds) and certain other non-U.S. entities if certain disclosure and due diligence requirements related to U.S. accounts or ownership are not satisfied, unless an exemption applies. An intergovernmental agreement between the United States and an applicable non-U.S. country may modify these requirements. In any event, bondholders or beneficial owners of the Series 2020 Bonds shall have no recourse against the Issuer, nor will the Issuer be obligated to pay any additional amounts to "gross up" payments to such persons, as a result of any withholding or deduction for, or on account of, any present or future taxes, duties, assessments or government charges with respect to payments in respect of the Series 2020 Bonds. However, it should be noted that on December 13, 2018, the IRS issued Proposed Treasury Regulation Section 1.1473-1(a)(1) which proposes to remove gross proceeds from the definition of "withholdable payment" for this purpose.

Non-U.S. Holders should consult their own tax advisors with respect to the possible applicability of federal withholding and other taxes upon income realized in respect of the Series 2020 Bonds.

Information Reporting and Backup Withholding

For each calendar year in which the Series 2020 Bonds are outstanding, the Issuer, its agents or paying agents or a broker is required to provide the IRS with certain information, including a holder's name, address and taxpayer identification number (either the holder's Social Security number or its employer identification number, as the case may be), the aggregate amount of principal and interest paid to that holder during the calendar year and the amount of tax withheld, if any. This obligation, however, does not apply with respect to certain U.S. Holders, including corporations, tax-exempt organizations, qualified pension and profit sharing trusts, and individual retirement accounts and annuities.

If a U.S. Holder subject to the reporting requirements described above fails to supply its correct taxpayer identification number in the manner required by applicable law or under-reports its tax liability, the Issuer, its agents or paying agents or a broker may be required to make "backup" withholding of tax on each payment of interest or principal on the Series 2020 Bonds. This backup withholding is not an additional tax and may be credited against the U.S. Holder's federal income tax liability, provided that the U.S. Holder furnishes the required information to the IRS.

Under current Treasury Regulations, backup withholding and information reporting will not apply to payments of interest made by the Issuer, its agents (in their capacity as such) or paying agents or a broker to a Non-U.S. Holder if such holder has provided the required certification that it is not a U.S. person (as set forth in the second paragraph under "Non-U.S. Holders" above), or has otherwise established an exemption (provided that neither the Issuer nor its agent has actual knowledge that the holder is a U.S. person or that the conditions of an exemption are not in fact satisfied).

Payments of the proceeds from the sale of a Series 2020 Bond to or through a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, information reporting (but not backup withholding) may apply to those payments if the broker is one of the following: (i) a U.S. person; (ii) a controlled foreign corporation for U.S. tax purposes; (iii) a foreign person 50-percent or more of whose gross income from all sources for the three-year period ending with the close of its taxable year preceding the payment was effectively connected with a United States trade or business; or (iv) a foreign partnership with certain connections to the United States.

Payment of the proceeds from a sale of a Series 2020 Bond to or through the United States office of a broker is subject to information reporting and backup withholding unless the holder or beneficial owner certifies as to its taxpayer identification number or otherwise establishes an exemption from information reporting and backup withholding.

The preceding federal income tax discussion is included for general information only and may not be applicable depending upon a holder's particular situation. Holders should consult their tax advisors with respect to the tax consequences to them of the purchase, ownership and disposition of the Series 2020 Bonds, including the tax consequences under federal, state, local, foreign and other tax laws and the possible effects of changes in those tax laws.

State Taxes

Bond Counsel is of the opinion that interest on the Series 2020 Bonds is exempt from personal income taxes of the State of California under present State law. Bond Counsel expresses no opinion as to other State, City or local tax consequences arising with respect to the Series 2020 Bonds nor as to the

taxability of the Series 2020 Bonds or the income therefrom under the laws of any jurisdiction other than the State.

Changes in Law and Post Issuance Events

Legislative or administrative actions and court decisions, at either the federal or state level, could have an impact on the inclusion in gross income of interest on the Series 2020 Bonds for federal or state income tax purposes, and thus on the value or marketability of the Series 2020 Bonds. This could result from changes to federal or state income tax rates, changes in the structure of federal or state income taxes (including replacement with another type of tax), or otherwise. It is not possible to predict whether any such legislative or administrative actions or court decisions will occur or have an adverse impact on the federal or state income tax treatment of holders of the Series 2020 Bonds. Prospective purchasers of the Series 2020 Bonds should consult their own tax advisors regarding the impact of any change in law or proposed change in law on the Series 2020 Bonds.

IN ALL EVENTS, ALL INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS IN DETERMINING THE FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE SERIES 2020 BONDS.

CONSIDERATIONS FOR ERISA AND OTHER U.S. BENEFIT PLAN INVESTORS

The Employee Retirement Income Security Act of 1974, as amended (“ERISA”), imposes certain fiduciary obligations and prohibited transaction restrictions on employee pension and welfare benefit plans subject to Title I of ERISA (“ERISA Plans”). Section 4975 of the Code imposes essentially the same prohibited transaction restrictions on tax-qualified retirement plans described in Section 401(a) and 403(a) of the Code, which are exempt from tax under Section 501(a) of the Code, other than governmental and church plans as defined herein (“Qualified Retirement Plans”), and on Individual Retirement Accounts (“IRAs”) described in Section 408(b) of the Code (collectively, “Tax-Favored Plans”). Certain employee benefit plans such as governmental plans (as defined in Section 3(32) of ERISA) (“Governmental Plans”), and, if no election has been made under Section 410(d) of the Code, church plans (as defined in Section 3(33) of ERISA) (“Church Plans”), are not subject to ERISA requirements. Additionally, such Governmental and Church Plans are not subject to the requirements of Section 4975 of the Code but may be subject to applicable federal, state or local law (“Similar Laws”) which is, to a material extent, similar to the foregoing provisions of ERISA or the Code. Accordingly, assets of such plans may be invested in the Series 2020 Bonds without regard to the ERISA and Code considerations described below, subject to the provisions of Similar Laws.

In addition to the imposition of general fiduciary obligations, including those of investment prudence and diversification and the requirement that a plan’s investment be made in accordance with the documents governing the plan, Section 406 of ERISA and Section 4975 of the Code prohibit a broad range of transactions involving assets of ERISA Plans and Tax-Favored Plans and entities whose underlying assets include plan assets by reason of ERISA Plans or Tax-Favored Plans investing in such entities (collectively, “Benefit Plans”) and persons who have certain specified relationships to the Benefit Plans (“Parties In Interest” or “Disqualified Persons”), unless a statutory or administrative exemption is available. The definitions of “Party in Interest” and “Disqualified Person” are expansive. While other entities may be encompassed by these definitions, they include, most notably: (1) fiduciary with respect to a plan; (2) a person providing services to a plan; (3) an employer or employee organization any of whose employees or members are covered by the plan; and (4) the owner of an IRA. Certain Parties in Interest (or Disqualified Persons) that participate in a prohibited transaction may be subject to a penalty (or an excise tax) imposed pursuant to Section 502(i) of ERISA (or Section 4975 of the Code) unless a statutory or administrative exemption is available. Without an exemption an IRA owner may disqualify his or her IRA.

Certain transactions involving the purchase, holding or transfer of the Series 2020 Bonds might be deemed to constitute prohibited transactions under ERISA and Section 4975 of the Code if assets of the Issuer were deemed to be assets of a Benefit Plan. Under final regulations issued by the United States Department of Labor (the “Plan Assets Regulation”), the assets of the Issuer would be treated as plan assets of a Benefit Plan for the purposes of ERISA and Section 4975 only of the Code if the Benefit Plan acquires an “equity interest” in the Issuer and none of the exceptions contained in the Plan Assets Regulation is applicable. An equity interest is defined under the Plan Assets Regulation as an interest in an entity other than an instrument which is treated as indebtedness under applicable local law and which has no substantial equity features. Although there is little guidance on this matter, it appears that the Series 2020 Bonds should be treated as debt without substantial equity features for purposes of the Plan Assets Regulation. This determination is based upon the traditional debt features of the Series 2020 Bonds, including the reasonable expectation of purchasers of Series 2020 Bonds that the Series 2020 Bonds will be repaid when due, traditional default remedies, as well as the absence of conversion rights, warrants and other typical equity features.

However, without regard to whether the Series 2020 Bonds are treated as an equity interest for such purposes, though, the acquisition or holding of Series 2020 Bonds by or on behalf of a Benefit Plan could be considered to give rise to a prohibited transaction if the Issuer or the Issuing and Paying Agent, or any of their respective affiliates, is or becomes a Party in Interest or a Disqualified Person with respect to such Benefit Plan.

Most notably, ERISA and the Code generally prohibit the lending of money or other extension of credit between an ERISA Plan or Tax-Favored Plan and a Party in Interest or a Disqualified Person, and the acquisition of any of the Series 2020 Bonds by a Benefit Plan would involve the lending of money or extension of credit by the Benefit Plan. In such a case, however, certain exemptions from the prohibited transaction rules could be applicable depending on the type and circumstances of the plan fiduciary making the decision to acquire a Series 2020 Bond. Included among these exemptions are: Prohibited Transaction Class Exemption (“PTCE”) 96-23, regarding transactions effected by certain “in-house asset managers”; PTCE 90-1, regarding investments by insurance company pooled separate accounts; PTCE 95-60, regarding transactions effected by “insurance company general accounts”; PTCE 91-38, regarding investments by bank collective investment funds; and PTCE 84-14, regarding transactions effected by “qualified professional asset managers.” Further, the statutory exemption in Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code provides for an exemption for transactions involving “adequate consideration” with persons who are Parties in Interest or Disqualified Persons solely by reason of their (or their affiliate’s) status as a service provider to the Benefit Plan involved and none of whom is a fiduciary with respect to the Benefit Plan assets involved (or an affiliate of such a fiduciary). There can be no assurance that any class or other exemption will be available with respect to any particular transaction involving the Series 2020 Bonds, or that, if available, the exemption would cover all possible prohibited transactions.

By acquiring a Series 2020 Bond (or interest therein), each purchaser and transferee (and if the purchaser or transferee is a plan, its fiduciary) is deemed to represent and warrant that either (i) it is not acquiring the Series 2020 Bond (or interest therein) with the assets of a Benefit Plan, Governmental plan or Church plan; or (ii) the acquisition and holding of the Series 2020 Bond (or interest therein) will not give rise to a nonexempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or Similar Laws. A purchaser or transferee who acquires Series 2020 Bonds with assets of a Benefit Plan represents that such purchaser or transferee has considered the fiduciary requirements of ERISA, the Code or Similar Laws and has consulted with counsel with regard to the purchase or transfer.

Because the Issuer, the Trustee, Underwriters or any of their respective affiliates may receive certain benefits in connection with the sale of the Series 2020 Bonds, the purchase of the Series 2020 Bonds using plan assets of a Benefit Plan over which any of such parties has investment authority or provides

investment advice for a direct or indirect fee may be deemed to be a violation of the prohibited transaction rules of ERISA or Section 4975 of the Code or Similar Laws for which no exemption may be available. Accordingly, any investor considering a purchase of Series 2020 Bonds using plan assets of a Benefit Plan should consult with its counsel if the Issuer, the Trustee or the Underwriters or any of their respective affiliates has investment authority or provides investment advice for a direct or indirect fee with respect to such assets or is an employer maintaining or contributing to the Benefit Plan.

Any ERISA Plan fiduciary considering whether to purchase the Series 2020 Bonds on behalf of an ERISA Plan should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code to such an investment and the availability of any of the exemptions referred to above. Persons responsible for investing the assets of Tax-Favored Plans that are not ERISA Plans should seek similar counsel with respect to the prohibited transaction provisions of the Code and the applicability of Similar Laws.

LEGAL MATTERS

The validity of the Series 2020 Bonds and certain other legal matters are subject to the approving opinion of Nixon Peabody LLP, Bond and Disclosure Counsel to the District. A complete copy of the proposed form of opinion of Bond Counsel is attached hereto as APPENDIX F. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the District by the District's General Counsel, and by Nixon Peabody LLP, Los Angeles, California, Bond and Disclosure Counsel to the District. Compensation paid to Bond Counsel and Disclosure Counsel is contingent on the successful issuance of the Series 2020 Bonds.

RATING

S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("Standard & Poor's"), has issued its long-term rating of "AA" with respect to the Series 2020 Bonds. This rating reflects only the views of Standard & Poor's and does not constitute a recommendation to buy, sell or hold securities. The District has furnished to Standard & Poor's certain information regarding the Series 2020 Bonds. Generally, rating agencies base their ratings on such information and materials and their own investigations, studies and assumptions. The rating with respect to the Series 2020 Bonds is subject to revision or withdrawal at any time by Standard & Poor's, and there is no assurance that the rating will continue for any period of time or that it will not be lowered or withdrawn. Any reduction or withdrawal of the rating may have an adverse effect on the market price of the Series 2020 Bonds.

UNDERWRITING

Barclays Capital Inc. ("Barclays"), as representative of itself and the underwriters listed on the cover page of this Official Statement (the "Underwriters"), have purchased the Series 2020 Bonds from the District for a purchase price of \$122,685,123.91 (representing \$122,970,000.00 aggregate principal amount of Series 2020 Bonds, less an Underwriters' discount of \$284,876.09). The Underwriters may offer and sell the Series 2020 Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices on the Series 2020 Bonds may be changed from time to time by the Underwriters.

BofA Securities, Inc., an underwriter of the Bonds, has entered into a distribution agreement with its affiliate Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"). As part of this arrangement, BofA Securities, Inc. may distribute securities to MLPF&S, which may in turn distribute such securities to investors through the financial advisor network of MLPF&S. As part of this arrangement, BofA Securities, Inc. may compensate MLPF&S as a dealer for their selling efforts with respect to the Series 2020 Bonds.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities which may include securities trading, commercial and investment banking, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for District for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of District.

MUNICIPAL ADVISOR

The District has retained Public Financial Management, Inc. as municipal advisor (the “Municipal Advisor”) in connection with the sale of the Series 2020 Bonds. The Municipal Advisor is not obligated to undertake, and has not undertaken to make, an independent verification, or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. The Municipal Advisor is an independent advisory firm with its principal office in Philadelphia, Pennsylvania and is not engaged in the business of underwriting, trading or distributing municipal or other public securities. Compensation paid to the Municipal Advisor is contingent on the successful issuance of the Series 2020 Bonds.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Robert Thomas CPA, LLC (the “Verification Agent”), will deliver a report stating that the firm has verified the accuracy of mathematical computations concerning the adequacy of the U.S. Treasury Securities initially deposited in the Escrow Fund to pay the interest due with respect to the Refunded Bonds.

The report of the Verification Agent will include the statement that the scope of its engagement was limited to verifying the mathematical accuracy of the computations contained in such schedules provided to it and that the Verification Agent has no obligation to update its report because of events occurring, or data or information coming to its attention, after the date of its report.

CONTINUING DISCLOSURE

The District has covenanted in a Continuing Disclosure Certificate, dated the delivery date of the Series 2020 Bonds (the “Continuing Disclosure Certificate”), for the benefit of the holders and beneficial owners of the Series 2020 Bonds, to provide certain financial information and operating data relating to the District (the “Annual Report”) by no later than 240 days following the end of the District’s Fiscal Year (which Fiscal Year currently ends on June 30), commencing with the Annual Report for the 2019-20 Fiscal Year and to provide notices of the occurrence of certain enumerated events. The Annual Report and the notices of material events will be filed by the District with the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System for municipal securities disclosures, maintained on the Internet at <http://emma.msrb.org>. The specific nature of the information to be contained in the Annual Report and the notice of material events is summarized in APPENDIX D - “FORM OF CONTINUING DISCLOSURE CERTIFICATE.” These covenants have been made in order to assist the Underwriters in complying with Rule 15c2-12, promulgated by the Securities and Exchange Commission (“SEC”) under the Securities Exchange Act of 1934, as amended (the “Rule”).

APPENDIX A
FINANCIAL STATEMENTS OF THE DISTRICT

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SONOMA-MARIN AREA RAIL TRANSIT DISTRICT COMPREHENSIVE ANNUAL FINANCIAL REPORT

For Fiscal Year Ended June 30, 2019

Petaluma, California

**SONOMA-MARIN AREA RAIL
TRANSIT DISTRICT
PETALUMA, CALIFORNIA**

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2019

PREPARED BY THE FINANCE DEPARTMENT

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SONOMA-MARIN AREA RAIL TRANSIT DISTRICT

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2019

Table of Contents

	<u>Page</u>
INTRODUCTORY SECTION:	
Letter of Transmittal	i
GFOA Award	v
Principal Officials	vi
Organizational Chart.....	vii
Service Area Map	viii
 FINANCIAL SECTION:	
<i>Independent Auditor's Report</i>	1
<i>Management's Discussion and Analysis</i>	5
<i>Basic Financial Statements</i>	
Statement of Net Position	11
Statement of Revenues, Expenses and Changes in Net Position	12
Statement of Cash Flows	13
Notes to Basic Financial Statements	15
<i>Required Supplementary Information</i>	
Schedule of the District's Proportionate Share of the Net Pension Liability – Pension Plan.....	36
Schedule of Contributions – Pension Plan	37
Schedule of Changes in the Total OPEB Liability and Related Ratios – Other Post-Employment Benefits Plan.....	38
 STATISTICAL SECTION:	
<i>Financial Trends</i>	
Net Position by Component - Last Ten Fiscal Years.....	43
Changes in Net Position - Last Ten Fiscal Years.....	44
Non-Capital Expense by Category - Last Ten Fiscal Years	45

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2019

Table of Contents

	<u>Page</u>
<i>Revenue Capacity</i>	
General Revenue By Source - Last Ten Fiscal Years	46
Revenue Base and Revenue Rate - Last Ten Fiscal Years.....	47
Overlapping Governments and Sales Tax Rates – Last Seven Fiscal Years	48
Principal Revenue Payers – Current Fiscal Year and Eight Years Ago	49
<i>Debt Capacity</i>	
Debt Service Coverage – Pledged Sales Tax Revenue	50
Ratios of Outstanding Debt - Last Five Fiscal Years.....	51
<i>Demographic and Economic Information</i>	
Demographic and Economic Statistics - Last Ten Fiscal Years	52
Major Employers – Current Fiscal Year	53
<i>Operating Information</i>	
Operating Information	54
Employees – Full-Time Equivalent.....	55
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	57



Gary Phillips, Chair
Transportation Authority of Marin

Barbara Pahre, Vice Chair
Golden Gate Bridge,
Highway/Transportation District

Judy Arnold
Marin County Board of Supervisors

Damon Connolly
Marin County Board of Supervisors

Debora Fudge
Sonoma County Mayors' and
Councilmembers Association

Patty Garbarino
Golden Gate Bridge,
Highway/Transportation District

Dan Hillmer
Marin County Council of Mayors and
Councilmembers

Eric Lucan
Transportation Authority of Marin

Joe Naujokas
Sonoma County Mayors' and
Councilmembers Association

David Rabbitt
Sonoma County Board of Supervisors

Chris Rogers
Sonoma County Mayors' and
Councilmembers Association

Shirlee Zane
Sonoma County Board of Supervisors

Farhad Mansourian
General Manager

5401 Old Redwood Highway
Suite 200
Petaluma, CA 94954
Phone: 707-794-3330
Fax: 707-794-3037
www.sonomamarintrain.org

December 6, 2019

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Sonoma-Marin Area Rail Transit District (SMART or the District) for the Fiscal Year July 1, 2018 through June 30, 2019.

This report was prepared in accordance with the guidelines recommended by the Government Finance Officers Association of the United States and Canada (GFOA) and is in conformance with Generally Accepted Accounting Principles (GAAP). Responsibility of the accuracy, completeness, and fairness of the data and clarity of the presentation, including all disclosures, rests with the management of SMART. To the best of our knowledge, this report is complete and accurate in all material respects, and is reported in a manner that fairly presents SMART's financial position.

We contracted with Maze and Associates to perform the audit of our financial statements. The purpose of the independent audit is to offer reasonable assurance that the financial statements are free of material misstatement. The independent auditor's report can be found at the beginning of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements. This narrative is given in the form of the Management's Discussion and Analysis (MD&A), and is meant to complement this letter of transmittal. The MD&A can be found following the independent auditor's report.

PROFILE OF THE ORGANIZATION

SMART is a transit agency created by the State of California to oversee the development, implementation and operation of passenger rail service in Sonoma and Marin Counties. Since its creation, the District has been working to build both a rail transit system as well as an accompanying multi-use pathway. SMART began passenger service in 2017 on the first 43 miles of a transit system that will ultimately connect the 70 miles between Cloverdale in Sonoma County to Larkspur in Marin County.

SMART is governed by a 12-member Board of Directors, made up of two county supervisors from each county, three City Council members from each county and two representatives from the Golden Gate Bridge, Highway and Transportation District. The Board has the authority under State law to own, operate, manage, and maintain a passenger rail system within the territory of the SMART District.

SMART is primarily funded by a one-quarter of one cent sales tax approved by voters in the SMART District in 2008, a District which includes the two Counties of Sonoma and Marin. From the start of regular passenger service in August of 2017 through its first year, SMART has carried over 1.5 million passengers.

LOCAL AND REGIONAL ECONOMY

Marin and Sonoma Counties are home to a mix of tourism, recreation, agriculture, and industry. The major population centers of Marin and Sonoma are located along the Highway 101 corridor and the parallel SMART rail line. More than 75% of commuters in the North Bay travel either within or between the two counties to get to work. However, a study by the Metropolitan Transportation Commission found that motorists in 2017 spent the equivalent of 2,690 vehicle hours of congested delay during the morning commute on Highway 101 from Novato to San Rafael. SMART's riders are no longer stuck in traffic on the freeway or local roads and have been able to reduce their commute times and increase their productivity.

SMART's finances rely on the strength of sales tax revenues which provides more than 80% of SMART's annual revenues. Sales tax revenue is directly linked to local employment rates and median incomes. The District is home to a fairly wealthy taxpayer base, with a weighted per capita income base of \$82,087 compared to California's \$63,557 and \$54,446 for the United States according to 2018 reports from the U.S. Bureau of Economic Analysis (BEA). The District's residents have shown stable employment rates through June 30, 2019. The seasonally unadjusted unemployment rates in Marin and Sonoma Counties in September of 2018 were 1.9% and 2.2%, respectively. As a result of these underlying statistics, robust sales in the District and some delayed receipt of funds from the State from the prior year, sales tax revenues grew by 11%. For the year that ended June 30, 2019, SMART sales tax receipts, net of state fees, was \$41,241,140.

Sonoma County residents suffered devastating wildfires in 2017 that lead to significant dislocation and loss of property which had a temporary impact on SMART ridership and revenues. Both fare revenue and ridership have rebounded, however the future effects of power outages and a new fire occurring after the close of Fiscal Year 2019 are still unknown.

DISTRICT ACTIVITIES in Fiscal Year 2018-19

SMART Rail Service

SMART passenger service runs from the Downtown San Rafael Station to the Airport Boulevard Station and is accompanied by multiple SMART pathway segments. In Fiscal Year 2018-19, SMART provided its first full fiscal year of weekday passenger service including 34 trips a day, starting at 4:19 am and ending at 9:42 pm. Four weekend service trips start at 10:13 am and conclude at 9:57 pm. In Fiscal Year 2019, SMART carried 716,847 passengers, 69,103 bicycles and 2,388 passengers in wheelchairs. Passenger support has been positive and growing, and on-time performance of SMART trains is 97%. Improvements anticipated in 2020 include a new schedule with more service runs and fewer schedule gaps during commute hours.

Capital Improvement Projects

In December 2019 SMART will to bring a new 2.1-mile extension from San Rafael to Larkspur into service. This project, which is funded primarily by Regional Measure 2 (Bridge Tolls), the Federal Transit Administration, as well as the Federal Railroad Administration, is also supported by SMART's own Measure Q. SMART also substantially completed construction of a new station in Novato funded by the City of Novato. Both new stations will be opening in December of 2019.

A three-mile extension North to Windsor is in the beginning phases of construction. Subsequent phases of the project will include additional SMART rail stations in Cloverdale, Healdsburg, and Petaluma; and further extensions of the pathway. All future phases will be completed as funding becomes available. Passengers north and south of the Phase 1 project connect to the SMART transit system by local transit connections, the multiuse pathway, and SMART-contracted connector buses.

During Fiscal Year 2018-19 there was continued progress on capital projects in support of operations, such as the design and installation of a wheel-truing machine to reduce rail car maintenance costs and impacts on service. Another major initiative was the funding and construction of pedestrian path of travel improvements at SMART crossings for enhanced safety at certain at-grade crossings. SMART also began construction of new multi-use pathway segments, including a crucial section in Petaluma from Payran to Southpoint Boulevard and a section in Downtown San Rafael. Finally, the expansion of SMART's rail car fleet moved forward, with SMART receiving four additional Diesel Multiple Unit rail cars in time for new service to SMART's newest stations.

OTHER FINANCIAL INFORMATION

Internal Controls

The District's financial reporting system and business processes have been designed with an emphasis on the importance of strong but reasonable internal financial controls, including the proper recording of revenues and expenditures and maintenance of budgetary control for the allocation of available resources. Existing internal controls are monitored and changes are implemented as needed as the District grows in size and complexity. These controls are designed to provide reasonable, but not absolute, assurance that assets are safeguarded against waste, fraud, and non-authorized use and the District's financial records can be relied upon to produce financial statements free of any material misstatements and in accordance with GAAP. The concept of reasonable assurance recognizes that the cost of maintaining the system of internal controls should not exceed benefits likely to be derived, and that the evaluation of costs and benefits requires estimates and judgements by management. We believe that the District's internal accounting controls achieve that goal.

Financial Planning

At the close of Fiscal Year 2019, SMART had begun work on a new Strategic Plan, an effort that occurs every five years as a method of planning for future expenditures and needs. That plan envisions an extension of SMART's primary source for revenue, the 2008 Measure Q sales tax, which is set to expire in 2029. The plan's focus is on the need to extend the tax to better manage expenditures over the long-term, including reducing annual debt service. SMART's annual budget process, which takes place during the months of May and June, assisted in providing the needed data from SMART's operating costs. Those costs, combined with SMART's annual debt service, will prove to be a challenge for the District in the coming years. The budget review and Strategic Plan process resulted ultimately in a decision by the Board of Directors to go forward with a ballot measure to extend the sales tax in 2020 for another 30 years.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to SMART for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2018. This was the fifth consecutive year that SMART has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. The CAFR must satisfy both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and are submitting it to the GFOA to determine its eligibility for another certificate.

CONCLUSION

The financial statements presented here show the magnitude of the public assets that have resulted from the voters' approval of the SMART sales tax measure in 2008. Measure Q revenues have made possible not only the construction of a world-class transit system, but also the ongoing operation and maintenance of that system in the future. With continued leadership from the Board and ongoing vigilance on maintaining necessary reserves and planning for future financial challenges, SMART's current and future operations will remain on solid footing.

ACKNOWLEDGEMENTS

The preparation of this report was made possible by the combined efforts of the SMART finance staff and we would like to thank them for their hard work and dedication. We would also like to thank Maze and Associates for their contributions. In addition, we would like to express our appreciation for the continued support and commitment of the Board of Directors for their interest and support in planning and conducting the District's financial operations.



Erin McGrath
Chief Financial Officer

Farhad Marisourian
General Manager



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Sonoma-Marin Area Rail Transit District
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2018

Christopher P. Morill

Executive Director/CEO

Sonoma-Marín Area Rail Transit District Fiscal Year 2018-19 Principal Officials

Gary Phillips, Chair
Transportation Authority of Marin

Barbara Pahre, Vice Chair
*Golden Gate Bridge, Highway
and Transportation District*

Judy Arnold
Marin County Board of Supervisors

Damon Connolly
Marin County Board of Supervisors

Debora Fudge
*Sonoma County Mayors' and
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Farhad Mansourian
General Manager

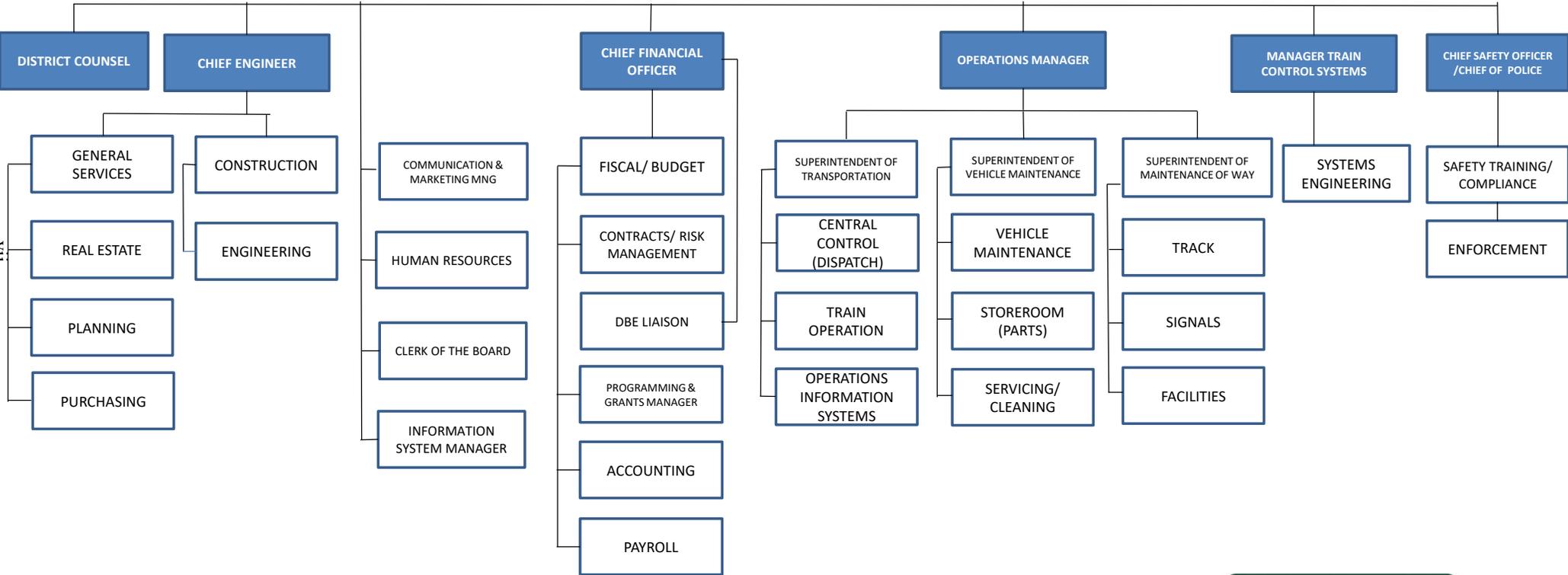
Erin McGrath
Chief Financial Officer

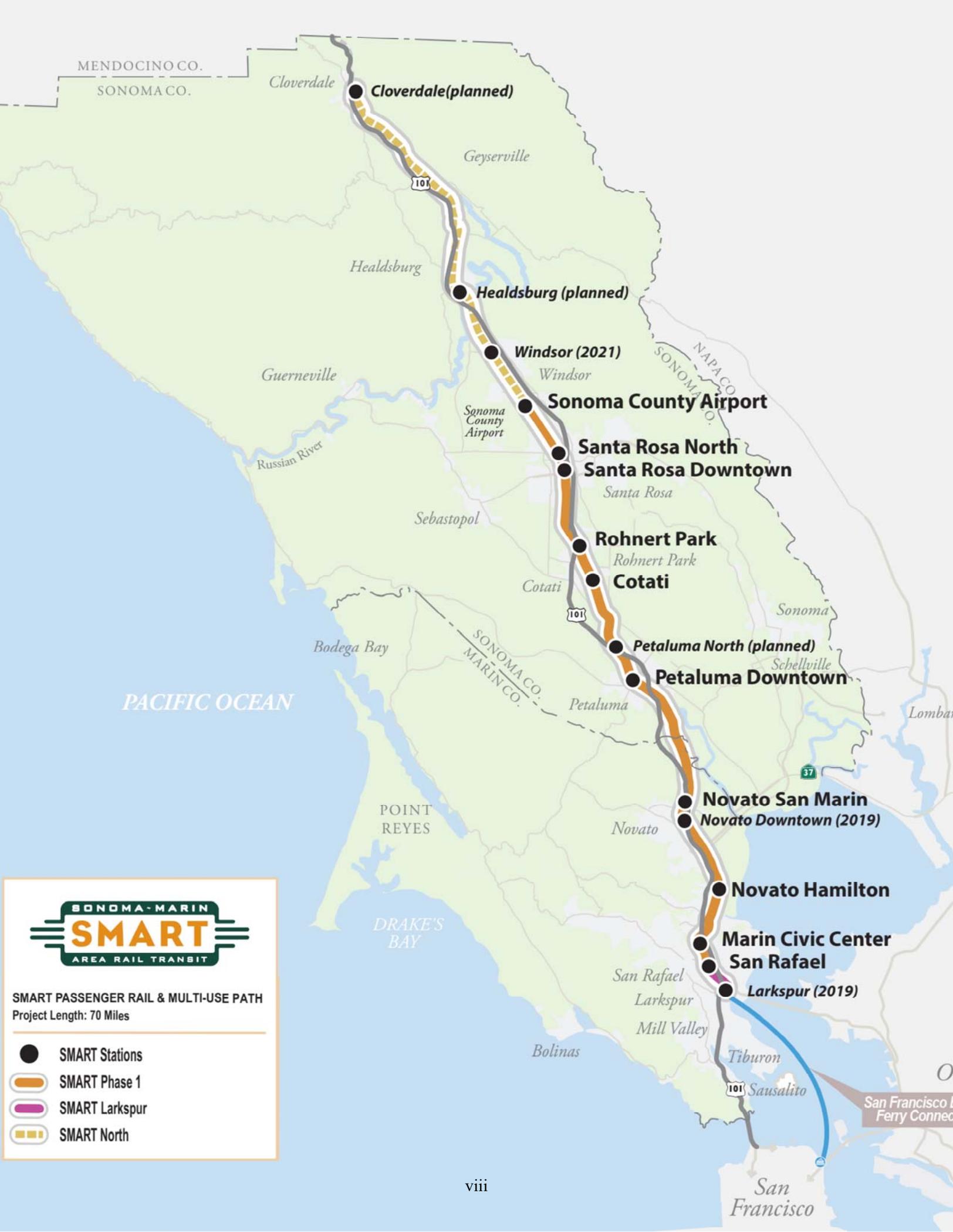
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT

Organization Chart

BOARD OF DIRECTORS

GENERAL MANAGER





MENDOCINO CO.
SONOMACO.

Cloverdale
Cloverdale (planned)

Geyserville

101

Healdsburg

Healdsburg (planned)

Guerneville

Windsor (2021)

Windsor

Sonoma
County
Airport

Sonoma County Airport

**Santa Rosa North
Santa Rosa Downtown**

Santa Rosa

Sebastopol

Rohnert Park

Rohnert Park

Cotati

Cotati

Petaluma North (planned)

Petaluma Downtown

Petaluma

Sonoma

Bodega Bay

PACIFIC OCEAN

SONOMACO.
MARINCO.

POINT
REYES

Novato

Novato San Marin

Novato Downtown (2019)

Novato Hamilton

**Marin Civic Center
San Rafael**

Larkspur (2019)

San Rafael
Larkspur
Mill Valley

Bolinas

Tiburon

101
Sausalito

San Francisco
Ferry Connect

San
Francisco



SMART PASSENGER RAIL & MULTI-USE PATH
Project Length: 70 Miles

- SMART Stations
- SMART Phase 1
- SMART Larkspur
- SMART North

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Sonoma-Marín Area Rail Transit District
Petaluma, California

Report on Financial Statements

We have audited the accompanying financial statements of the Sonoma-Marín Area Rail Transit District (District), California, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2019, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Management adopted the provisions of Governmental Accounting Standards Board Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which became effective during the year ended June 30, 2019 as discussed in Note 4 to the financial statements. This Statement had no material effect on the financial statements.

The emphasis of this matter does not constitute a modification to our opinions.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The Introductory Section and Statistical Section as listed in the Table of Contents are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Mazz & Associates

Pleasant Hill, California
December 6, 2019

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Sonoma-Marín Area Rail Transit District
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2019

As management of the Sonoma-Marín Area Rail Transit District (SMART or the District), we offer readers of SMART's financial statements this narrative overview and analysis of the financial activities of SMART for the year ended June 30, 2019. We encourage readers to combine the information presented here with SMART's basic financial statements and the accompanying notes to the basic financial statements.

Fiscal Year 2019 Financial Highlights

- SMART's financial activity for the year ended June 30, 2019 reflects SMART's second year of operations activities including fare, parking and other operating revenues and a full year of expenses such as fuel, parts and labor for commuter rail operations
- Fare revenue for the second year was \$4.1 million out of the \$5 million in Operating Revenue. This exceeded SMART's budgeted amounts and provided a strong base for future financial planning.
- Capital assets increased by \$25 million due to continued construction activity during the year, and depreciation also grew to \$19 million as more infrastructure was placed into service.
- Assets of SMART exceeded its liabilities at the close of the year ended June 30, 2019 by \$467.6 million (net position). Of this amount, \$64.3 million is unrestricted.
- SMART's net position increased \$39 million during the year ended June 30, 2019, due to continued investment into capital assets related to both rail and pathway construction.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to SMART's basic financial statements which are comprised of financial statements and the notes to the basic financial statements. SMART provides its financial information utilizing business-type or enterprise fund reporting. This type of fund reporting is used for funds whose activities are financed with bonds secured solely by a pledge of net revenues from fees or charges of the activity and for which fees are designed to recover costs, as a matter of policy. These requirements apply to SMART and, furthermore, enterprise fund accounting is employed by most government transit districts.

Basic Financial Statements

The financial statements are designed to provide readers with a broad overview of SMART's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of SMART's assets, deferred outflows of resources, liabilities and deferred inflow of resources, with the difference between the four reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of SMART is improving or deteriorating.

The statement of revenues, expenses, and changes in net position presents information showing how SMART's net position changed during the fiscal year. All changes in net position 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 rental revenue and earned but unused vacation leave).

Sonoma-Marin Area Rail Transit District
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2019

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes can be found on pages 15-33 of this report.

Analysis of the Financial Statements

The financial statements provide both short-term and long-term information about the District's overall financial condition. This analysis addresses the financial statements of the District as a whole. As noted earlier, net position may serve over time as a useful indicator of a government's financial position. SMART's net position was \$467,564,606 on June 30, 2019.

The largest portion of SMART's net position (86%) reflects its investment in capital assets (e.g., land, tracks and crossings, pathway, bridges and tunnels). SMART uses these capital assets to provide passenger rail services to its customers and a multiuse pathway for the general public; consequently, these assets are not available for future spending.

Statement of Net Position

	2019	2018	2019-2018 Change
Current and Other Assets	\$ 97,455,509	92,388,275	\$ 5,067,234
Capital assets	543,330,649	518,274,187	25,056,462
Total Assets	<u>640,786,158</u>	<u>610,662,462</u>	<u>30,123,696</u>
Deferred outflows of resources	<u>2,126,418</u>	<u>2,164,639</u>	<u>(38,221)</u>
Current liabilities	23,905,407	22,591,996	1,313,411
Long-term liabilities	151,182,451	161,793,710	(10,611,259)
Total Liabilities	<u>175,087,858</u>	<u>184,385,706</u>	<u>(9,297,848)</u>
Deferred inflows of resources	<u>260,112</u>	<u>260,661</u>	<u>(549)</u>
Net position:			
Net investment in capital assets	403,239,649	367,957,650	35,281,999
Unrestricted	64,324,957	60,223,084	4,101,873
Total net position	<u>\$ 467,564,606</u>	<u>428,180,734</u>	<u>\$ 39,383,872</u>

SMART's net position at the end of fiscal year 2019 increased by \$39,383,872 from the prior fiscal year. This increase is primarily the result of SMART continuing to invest its revenues and grants into capital assets which in the past year included train systems, stations, railcars, and the multi-use pathway. Current and other assets at June 30, 2019, increased by \$5,067,234. The increase was primarily due to increased sales tax revenue and increased revenue from property transactions. Current liabilities increased from \$22,591,996 on June 30, 2018 to \$23,905,407 on June 30, 2019, which was primarily due to increased payables at year-end related to SMART's capital asset construction activity.

Sonoma-Marin Area Rail Transit District
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2019

Statement of Revenues, Expenses and Changes in Net Position

	2019	2018	2019-2018 Change
Operating Revenues:			
Fares and other revenues	\$ 5,036,875	\$ 4,025,111	\$ 1,011,764
Total Operating Revenues	5,036,875	4,025,111	1,011,764
Operating Expenses			
Public transportation - rail/pathway development:			
Salaries and Employee benefits (non-capital)	18,453,125	16,950,114	1,503,011
Services and supplies	11,336,573	8,877,465	2,459,108
Depreciation	19,033,577	17,800,126	1,233,451
Loss on Impairment of assets	0	671,378	(671,378)
Other charges	203,883	954	202,929
Total Operating Expenses	49,027,158	44,300,037	4,727,121
Operating (Loss)	(43,990,283)	(40,274,926)	3,715,357
Non-Operating Revenues (Less Expenses)			
Sales/Use taxes	41,241,140	37,135,476	4,105,664
State operating assistance	5,000,756	3,701,366	1,299,390
Investment earnings	1,974,246	724,313	1,249,933
Miscellaneous revenue	4,174,454	2,236,508	1,937,946
Capital expenses passed through to other agencies	(770,156)	(3,778,891)	3,008,735
Interest expense	(5,591,608)	(5,819,778)	228,170
Total Non-Operating Revenues (Net):	46,028,832	34,198,994	11,829,838
Capital Grants	37,345,323	24,941,459	12,403,864
Change in Net Position	39,383,872	18,865,527	20,518,345
Net Position, beginning of year as previously reported	428,180,734	409,315,207	18,865,527
Net Position, end of year	\$ 467,564,606	\$ 428,180,734	\$ 39,383,872

Fiscal Year 2019 Revenues

- SMART revenues consist of operating revenues of \$5,036,875 and non-operating revenues less expenses of \$46,028,832 -- which is comprised of sales tax receipts and state operating assistance. Sales tax, SMART's single largest ongoing source of revenue, grew a robust 11% (net of fees) over the previous year, although due to the backlog in processing at the State some of that growth can be contributed to the prior year. This growth provides a strong base for SMART's long-term projections in its future financial planning processes.
- Capital grants of \$37,345,323 are \$12,403,864 higher than the year ended June 30, 2018. These are related to construction of the Larkspur extension, the new Novato Downtown Station, new multiuse pathways, operations facility improvements and rail car payments.
- Miscellaneous revenue increased by \$1,937,946 due to property transactions in Santa Rosa and Marin.

Sonoma-Marin Area Rail Transit District
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2019

Fiscal Year 2019 Expenses

- SMART had operating expenses of \$49,027,158, tied to salaries, benefits, other services and supplies. This also includes \$19,033,577 in depreciation expense.
- Salaries and benefits increased over the year ended June 30, 2018, by \$1,503,011, due to increase in operating staffing costs.
- Services and supplies increased over the year ended June 30, 2018 by \$2,459,108, due to a full year of passenger service expenses.
- Other charges of \$203,883, an increase over the prior year of \$202,929 are from reimbursements related to legal settlements.

Capital Assets

SMART's capital assets, as of June 30, 2019 are \$543,330,649 (net of accumulated depreciation) which is an increase of \$25,056,461 over June 30, 2018. Assets grew in conjunction with continued construction of the rail and pathway and acquisition of rail cars. SMART assets include land, construction in progress, infrastructure (tracks/rails, crossings, bridges, fencing, tunnels, road crossings and pathway improvements), buildings and improvements, and equipment.

Capital Assets

	<u>2019</u>		<u>2018</u>		<u>2019 - 2018 Change</u>
Land	\$ 43,532,414	\$	43,518,988	\$	13,426
Intangible Assets (Non-Amortizable)	20,770		20,770		-
Infrastructure	428,720,262		428,606,660		113,601
Revenue Vehicles	42,833,647		42,833,647		-
Buildings and improvements	24,868,302		24,868,302		-
Construction in progress	65,324,720		22,306,954		43,017,766
Equipment	3,535,151		2,589,906		945,245
Intangible Assets	387,672		387,672		-
Accumulated depreciation	(65,892,288)		(46,858,710)		(19,033,578)
Total capital assets, net of depreciation	\$ <u>543,330,649</u>	\$	<u>518,274,188</u>	\$	<u>25,056,461</u>

Additional information on SMART's capital assets can be found in Note 3 of the notes to the basic financial statements.

Debt

SMART had \$157,163,502 in bonds outstanding and unamortized bond premium at June 30, 2019 compared to \$167,528,327 on June 30, 2018. Additional information on SMART's long-term debt can be found in Note 4.

Sonoma-Marín Area Rail Transit District
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2019

Economic and Other Factors

Economy

SMART transit operations rely directly on the strength of its designated Measure Q sales and use tax receipts. The strength of this revenue source is dependent on the economic health of the two counties of the SMART District, particularly employment rates and job growth. As discussed in the Introductory Section in more detail, the economy of the District grew during the fiscal year and exhibited healthy trends in employment and other key factors. The District recently contracted with Beacon Economics to evaluate the economic health of the District and project future sales tax revenues, which provides the majority of funding for SMART operations. Beacon's report, available on SMART's website, found that the outlook for the local economy in the short run called for steady growth, with nothing on the immediate horizon that would signal a reversal of positive trends. They projected average growth in sales tax of 3.22% from Fiscal Year 2021-2024. While the threat of wildfires continues to affect communities in the region, sales tax revenue for the District has not been affected negatively by those pressures.

Other Factors

SMART continues to hold multi-year contracts with several independent contractors for the Larkspur extension project, for final Phase 1 construction expenses, for four new passenger train cars, and the new Windsor extension project. Most of these projects are grant-funded in nature and do not rely on sales tax or SMART's other revenue sources. At June 30, 2019, SMART's total outstanding commitments under these and other construction-related contracts were approximately \$38.8 million.

Request for Additional Information

This financial report is designed to provide a general overview of SMART's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Sonoma-Marín Area Rail Transit District, Chief Financial Officer, 5401 Old Redwood Highway, Suite 200, Petaluma, CA 94954.

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SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2019

ASSETS

Current Assets

Cash and cash equivalents (Note 2)	\$45,845,925
Restricted cash, cash equivalents, and investments with trustee (Note 2)	23,603,697
Due from other governments	12,445,500
Other receivables	9,535,860
Deposits with others	1,673,951
Inventory	2,962,805
Prepaid expenses	1,387,771
	<hr/>
Total current assets	97,455,509

Noncurrent Assets

Capital assets (Note 3):	
Non-depreciable:	
Land	43,532,414
Construction in progress	65,324,720
Intangible assets	20,770
Depreciable (net of accumulated depreciation):	
Infrastructure	370,742,113
Buildings and improvements	21,633,687
Equipment and vehicles	1,794,606
Revenue vehicles	39,978,070
Intangible assets	304,269
	<hr/>
Total capital assets, net	543,330,649
Total noncurrent assets	543,330,649
	<hr/>
Total Assets	640,786,158

DEFERRED OUTFLOWS OF RESOURCES

Pension related (Note 5)	2,125,397
OPEB related (Note 6)	1,021
	<hr/>
Total Deferred Outflows of Resources	2,126,418

LIABILITIES

Current Liabilities

Accounts payable and other current liabilities	10,851,883
Unearned revenue	451,627
Interest payable	2,437,533
Compensated absences - due within one year (Note 1H)	729,364
Long-term debt - due within one year (Note 4)	9,435,000
	<hr/>
Total current liabilities	23,905,407

Noncurrent Liabilities

Compensated absences (Note 1H)	546,713
Net post-employment benefits liability (Note 6)	1,995,296
Net pension liability (Note 5)	870,893
Long-term debt (Note 4)	147,728,502
Other noncurrent liabilities	41,047
	<hr/>
Total noncurrent liabilities	151,182,451
	<hr/>
Total Liabilities	175,087,858

DEFERRED INFLOWS OF RESOURCES

Pension related (Note 5)	35,771
OPEB related (Note 6)	224,341
	<hr/>
Total Deferred Inflows of Resources	260,112

NET POSITION (Note 1L)

Net investment in capital assets	403,239,649
Unrestricted	64,324,957
	<hr/>
Total Net Position	\$467,564,606

See accompanying notes to basic financial statements

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019

OPERATING REVENUES

Fare revenues	\$4,094,540
Other operating revenues	942,335
	942,335
Total operating revenues	5,036,875

OPERATING EXPENSES

Public transportation - rail/pathway development:	
Salaries and employee benefits	19,370,737
Capitalized employee costs	(917,612)
Services and supplies	11,336,573
Depreciation (Note 3)	19,033,577
Other charges	203,883
	203,883
Total program operating expenses	49,027,158
Operating loss	(43,990,283)

NON-OPERATING REVENUES (EXPENSES)

Sales/Use taxes	41,241,140
State operating assistance	5,000,756
Investment earnings	1,974,246
Miscellaneous revenue	4,174,454
Capital expense passed through to other agencies	(770,156)
Interest expense	(5,591,608)
	(5,591,608)
Total non-operating revenues, net	46,028,832
Income before capital grants and contributions	2,038,549

CAPITAL GRANTS

State of California	2,883,980
Metropolitan Transportation Commission	4,388,830
Sonoma County Transportation Authority- Measure M	55,249
Federal	21,270,383
Other governmental agencies	8,746,881
	8,746,881
Total capital grants	37,345,323
Change in net position	39,383,872

NET POSITION

Beginning of Year	428,180,734
	428,180,734
End of Year	\$467,564,606

See accompanying notes to basic financial statements

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$4,094,540
Receipts from others	1,192,911
Payments to suppliers for goods and services	(10,913,707)
Payments to and on behalf of employees	(17,926,790)
	<u>(23,553,046)</u>
Net cash provided (used) by operating activities	
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income received	1,889,662
	<u>1,889,662</u>
Net cash provided by investing activities	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Sales tax received	39,192,458
State operating assistance	5,028,743
	<u>44,221,201</u>
Net cash provided by noncapital and financing activities	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(43,886,802)
Labor costs related to capital projects	(917,612)
Capital grants received restricted for capital purposes	37,503,338
Cash paid on projects on behalf of other governments	(770,156)
Cash receipts for third party infrastructure	4,178,919
Principal payments on long-term debt	(8,365,000)
Interest paid on capital debt	(7,730,850)
	<u>(19,988,163)</u>
Net cash provided (used) by capital and related financing activities	
NET CHANGE IN CASH AND CASH EQUIVALENTS	
	2,569,654
CASH AND INVESTMENTS AT BEGINNING OF YEAR	
	<u>66,879,968</u>
CASH AND INVESTMENTS AT END OF YEAR	
	<u><u>\$69,449,622</u></u>
RECONCILIATION TO STATEMENT OF NET POSITION	
Cash and Cash Equivalents	\$45,845,925
Restricted cash, cash equivalents, and investments with trustee	23,603,697
	<u><u>\$69,449,622</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating loss	(\$43,990,283)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	19,033,577
Changes in operating assets and liabilities:	
Prepaid expenses	(86,517)
Accounts receivable	250,576
Accounts payable and other accrued liabilities	713,266
Compensated absences	91,427
Net post-employment benefits obligation	466,509
Net pension liability and related deferred outflow/inflow of resources	(31,601)
	<u>(23,553,046)</u>
Net cash provided (used) by operating activities	
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES	
Amortization of premiums	\$1,999,825
Inventory	(177,237)

See accompanying notes to basic financial statements

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SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

The Sonoma-Marín Area Rail Transit District (SMART or the District) was formed in January 2003 by provisions of the Sonoma-Marín Area Rail Transit District Act, as successor to the Sonoma-Marín Area Rail Transit Commission and the Northwestern Pacific Railroad Authority in the California Counties of Sonoma and Marin. Its purpose, as defined by the State, is to provide for a unified, comprehensive institutional structure for the ownership and governance of a passenger rail system within the Counties of Sonoma and Marin that shall operate in concert with existing freight service that operates upon the same rail line and serves the Counties of Humboldt, Marin, Mendocino, Napa and Sonoma. The District also owns and is constructing additional portions of a multiuse non-motorized pathway within its right-of-way.

SMART is governed by a 12-member Board of Directors consisting of two supervisors each from the counties of Marin and Sonoma, two members from the Golden Gate Bridge, Highway and Transportation District, and six members representing jurisdictions within the SMART District.

B. Fund Accounting

SMART uses a proprietary (enterprise) fund to account for its activities. An enterprise fund may be used to report any activity for which a fee is charged to external users for goods or services. Enterprise funds are required for any activity whose principal external revenue sources meet any of the following criteria: (1) issued debt is backed solely by fees and charges, (2) the cost of providing services for any activity (including capital costs such as depreciation or debt service) must be legally recovered through fees or charges, or (3) if the government's policy is to establish activity fees or charges designed to recover the cost of providing services.

C. Basis of Accounting

The District's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. All assets and liabilities associated with the operation of the District are included on the statement of net position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Sales taxes are recorded when earned and reported as non-operating revenue. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Proprietary funds distinguish operating from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges for services. Operating expenses for the District include expenses relating to the operating and maintaining passenger railway as well as administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash Equivalents

The District considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The District’s cash and investments in the Sonoma County Treasury Pool (Treasury Pool) are, in substance, demand deposits and are considered cash equivalents.

E. Investments

SMART measures its investments at fair value and categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, using observable market transactions or available market information.

F. Restricted Cash and Investments with Trustee

Assets whose use is restricted to specific purposes by bond indenture or otherwise are segregated on the statement of net position. These assets are primarily restricted for direct project-related expenses and debt service purposes. Bond interest and redemption represent funds accumulated for debt service payments due in the next twelve months and reserve funds set aside to make up potential future deficiencies. A bond trustee holds these funds.

G. Receivables

Receivables consist of amounts owed to SMART by other governmental agencies and the public. Amounts due from other governments are considered fully collectible. Accounts receivable from the public include reimbursements from other entities for services provided or for use of SMART owned assets. An allowance for doubtful accounts receivable is established when, based upon a review of outstanding accounts and the failure of all collection efforts, management determines that collection may not occur.

H. Compensated Absences

It is SMART’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay reported in the basic financial statements is accrued when earned. Twenty-five percent of sick leave is payable on termination and is accrued as it is earned.

Employee liabilities as of June 30, 2019 are as follows:

Beginning Balance	\$1,184,650
Additions	(637,937)
Payments	<u>(729,364)</u>
Ending Balance	<u><u>\$1,276,077</u></u>
Current Portion	<u><u>\$729,364</u></u>

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Risk Management

SMART is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which SMART carries commercial insurance, including, but not limited to, comprehensive railroad liability and other relevant liability policies, automobile, employment and workers compensation policies. In addition, SMART has policies and procedures that ensure appropriate insurance coverage and risk procedures for third-party service providers doing work on behalf of the agency. SMART did not settle any claims that exceeded SMART's insurance coverage during the past three years, nor did it reduce its insurance coverage from the prior year.

J. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

K. Deferred Inflow/Outflow of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expenses) until then.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

L. Net Position

Net Position is classified into two components: 1) net investment in capital assets and 2) unrestricted. These classifications are defined as follows:

- *Net investment in capital assets* – This component of net position consists of capital assets, net of accumulated depreciation and is reduced by outstanding debt related to financing the acquisition of capital assets. Deferred outflows of resources and deferred inflows of resources attributable to the acquisition, construction, or improvement of the capital assets or related debt are included in this component of net position.
- *Unrestricted* – This component of net position consists of resources that do not meet the definitions of “restricted” or “net investment in capital assets.”

SMART applies restricted resources first when expenses are incurred for purposes for which both restricted and unrestricted resources are available.

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs – other than quoted prices included within level 1 – that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

N. Implementation of Governmental Accounting Standards Board (GASB) Pronouncements

GASB 88 - Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements – The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. It requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This Statement is effective for SMART's fiscal year ending June 30, 2019. See Note 4 for relevant disclosures.

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

NOTE 2 - CASH AND INVESTMENTS

Cash, cash equivalents, and investments are carried at fair value and are categorized as follows at June 30, 2019:

	Available for Operations	Held by Trustee	Total
Cash equivalent:			
Sonoma County Treasury Pool	\$29,287,942	\$23,603,697	\$52,891,639
Deposits	16,557,983		16,557,983
Total Cash and Investments	\$45,845,925	\$23,603,697	\$69,449,622

A. *Investments Authorized by the District's Investment Policy*

SMART's pooled cash and investments in the Treasury Pool are invested pursuant to investment policy guidelines established by the Sonoma County Treasurer and approved by the Sonoma County Board of Supervisors. The objectives of the policy are, in order of priority: safety of capital, liquidity, and yield. The policy addresses the soundness of financial institutions in which Sonoma County will deposit funds, types of investment instruments as permitted by the California Government Code 53601, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

A copy of the Sonoma County investment policy is available upon request from the Sonoma County Auditor-Controller-Treasurer-Tax-Collector's Office at 585 Fiscal Drive, Room 100, Santa Rosa, California, 95403.

B. *Investments Authorized by Debt Agreements*

The District must maintain required amounts of cash and investments with fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds. The California Government Code requires these funds to be invested in accordance with SMART's Policy, bond indentures or State statute. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Certificates of Deposit	360 days	A-1/ P-1	None	None
Bankers Acceptances	360 days	A-1/ P-1	None	None
Commercial Paper	270 days	A-1	None	None
Money Market Mutual Funds	N/A	AAAm	None	None
Repurchase Agreements	N/A	N/A	None	None
Reverse Repurchase Agreements	N/A	N/A	None	None
Municipal Obligations	N/A	N/A	None	None
General Obligations of States	N/A	A 2/A	None	None
Local Agency Investment Fund (LAIF)	N/A	N/A	None	None
Shares in a common law trust	N/A	N/A	None	None
County Pooled Investment	N/A	N/A	None	None

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

NOTE 2 - CASH AND INVESTMENTS (Continued)

C. *Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates may adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, one of the ways that the Treasury Pool manages its exposure is by purchasing a combination of shorter term and longer term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturing evenly over time as necessary to provide the liquidity needed for operations.

D. *Credit Risk*

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Treasury Pool does not have a rating provided by a nationally recognized statistical rating organization.

E. *Custodial Credit Risk*

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Treasury Pool's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits and securities lending transactions:

- The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by depository regulated under state law. The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure SMART deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. SMART's cash deposits at the Bank of Marin are secured by at least 110% government issued securities.
- The California Government Code limits the total of all securities lending transactions to 20% of the fair value of the investment portfolio.

With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as the Treasury Pool).

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

NOTE 2 - CASH AND INVESTMENTS (Continued)

F. Concentration of Credit Risk

SMART's Investment Policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. SMART was invested in the Treasury Pool and the Bank of Marin at June 30, 2019. For a listing of investments in any one issuer (other than U.S. Treasury securities, mutual funds, or external investment pools) that represent 5% or more of total Treasury Pool, refer to the 2019 Sonoma County Comprehensive Annual Financial Report.

G. Fair Value Hierarchy

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The District only invests in the Sonoma County Treasury Pool which is exempt from the fair value hierarchy.

NOTE 3 - CAPITAL ASSETS

Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at their acquisition value at the date of donation. Capital assets include land, construction in progress, infrastructure (tracks & rails, switches, fencing, tunnels, bridges, and road crossings), buildings and improvements, and equipment. It is SMART's policy to capitalize qualifying machinery and equipment with an initial cost of more than \$5,000, land and buildings with an initial cost of more than \$25,000, infrastructure and intangible assets with an initial cost of more than \$100,000, and an estimated useful life in excess of one year.

Infrastructure and buildings and improvements are being depreciated using the straight-line method over their estimated useful lives of 20 to 99 years. Equipment is depreciated using the straight-line method over their estimated useful lives of 5 years. Computer equipment, which on the financial statements is included in equipment, is being depreciated using the straight-line method over 5 years based on commonly used governmental computer technology standards.

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized.

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

NOTE 3 - CAPITAL ASSETS (Continued)

Capital assets comprised the following at June 30, 2019:

	Balance June 30, 2018	Additions	Transfers	Balance June 30, 2019
Capital assets not being depreciated:				
Land	\$43,518,988		\$13,426	\$43,532,414
Intangible assets	20,770			20,770
Construction in progress	22,306,954	\$44,090,039	(1,072,273)	65,324,720
Total capital assets not being depreciated	<u>65,846,712</u>	<u>44,090,039</u>	<u>(1,058,847)</u>	<u>108,877,904</u>
Capital assets being depreciated:				
Infrastructure	428,606,660		113,602	428,720,262
Buildings and improvements	24,868,302			24,868,302
Equipment and vehicles	2,589,906		945,245	3,535,151
Revenue vehicles	42,833,647			42,833,647
Intangible assets	387,672			387,672
Total capital assets being depreciated	<u>499,286,187</u>		<u>1,058,847</u>	<u>500,345,034</u>
Less accumulated depreciation for:				
Infrastructure	(41,542,100)	(16,436,049)		(57,978,149)
Buildings and improvements	(2,583,666)	(650,949)		(3,234,615)
Equipment	(1,275,615)	(464,930)		(1,740,545)
Revenue vehicles	(1,427,789)	(1,427,788)		(2,855,577)
Intangible assets	(29,542)	(53,861)		(83,403)
Total accumulated depreciation	<u>(46,858,712)</u>	<u>(19,033,577)</u>		<u>(65,892,289)</u>
Total capital assets being depreciated, net	<u>452,427,475</u>	<u>(19,033,577)</u>	<u>1,058,847</u>	<u>434,452,745</u>
Capital assets, net	<u>\$518,274,187</u>	<u>\$25,056,462</u>		<u>\$543,330,649</u>

SMART recognized \$19 million in depreciation expense for assets previously placed in service.

NOTE 4 – LONG TERM DEBT

In December 2011, the District issued \$190,145,000 in variable rate Measure Q Sales Tax Revenue Bonds Series 2011A (Initial Series 2011A Bonds). The Initial Series 2011A Bonds had an initial term of 1% until January 10, 2013. Although the Initial Series 2011A Bonds had a maturity date of March 1, 2029, they had certain provisions that allowed SMART to remarket them. In May 2012, SMART successfully remarketed the Initial Series 2011A Bonds and raised \$199,172,032 (Remarketed Series 2011A Bonds). The Remarketed Series 2011A Bonds were issued to finance the construction of the initial phase of a passenger rail system and adjacent multi-use pathway from Santa Rosa, California to San Rafael, California. The fixed rate Remarketed Series 2011A Bonds will bear interest between 2-5% and mature by March 1, 2029.

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

NOTE 4 – LONG TERM DEBT (Continued)

Long-term debt activity for the year ended June 30, 2019 was as follows:

	Original Issue Amount	Balance June 30, 2018	Retirements	Balance June 30, 2019	Amount due within one year
Bonds Payable:					
Remarketed Series 2011A					
2.00-5.00%, due 3/1/2029	\$170,725,000	\$154,665,000	\$8,365,000	\$146,300,000	\$9,435,000
Unamortized bond premium	19,371,688	<u>12,863,327</u>	<u>1,999,825</u>	<u>10,863,502</u>	
Total long-term debt, net		<u>\$167,528,327</u>	<u>\$10,364,825</u>	<u>\$157,163,502</u>	<u>\$9,435,000</u>

The total projected Measure Q Sales Tax revenue, as reported in the 2014 Measure Q Strategic Plan, is expected to approximate \$756.6 million over the 20 year life of the tax, which is sufficient to repay the estimated debt service, including interest. The Measure Q Sales Tax revenue recognized during the fiscal year ended June 30, 2019 was \$41,241,140 whereas debt service on the Measure Q bonds was \$16,095,850 for the fiscal year ended June 30, 2019.

The following table presents the District's aggregate annual amount of principal and interest payments required to amortize the outstanding debt as of June 30, 2019:

For The Year Ending June 30	Principal	Interest
2020	9,435,000	7,312,600
2021	10,565,000	6,840,850
2022	11,745,000	6,315,000
2023	12,990,000	5,727,750
2024 - 2028	85,855,000	17,543,750
2029	<u>15,710,000</u>	<u>785,500</u>
	<u>146,300,000</u>	<u>\$44,525,450</u>
Plus: Unamortized Bond Premium	<u>10,863,502</u>	
	<u>\$157,163,502</u>	

If an event of default shall occur and be continuing, SMART shall immediately transfer to the Trustee all revenue held by it and the Trustee shall apply all revenue and any other funds then held or thereafter received by the Trustee under any of the provisions of the indenture to protect the interests of the Holders of the Bonds.

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

NOTE 5 – PENSION PLANS

A. *General Information about the Pension Plans*

SMART has contracts with the California Public Employees' Retirement System (CalPERS) for purposes of providing a defined pension benefit plan for its employees, defined by CalPERS as the "Miscellaneous Plan." SMART currently has different pension tiers, depending on an employee's hire date. For all employees hired before June 1, 2012, SMART is part of CalPERS cost-sharing multiple-employer plan known as the "Miscellaneous 2.0% at 55 Risk Pool" whereby the benefit obligations are pooled. There are two tiers of employee within this pool. The CalPERS reporting system does not track Tier 2, which contains three employees, separately. Therefore the liability for this tier is tracked under the Miscellaneous 2.0% at 55 Risk Pool. For employees hired on June 1, 2012, and through December 31, 2012, SMART is part of the "Miscellaneous 2% at 60 Risk Pool." As of January 2013, all new employees were subject to California's Public Employees' Pension Reform Act of 2013 (PEPRA), which mandates a "Miscellaneous 2% at 62 Plan." In December 2016, SMART approved a contract with CalPERS for the creation of a new Safety 2.7% at 57 Plan. SMART has only one full-time position eligible for this Tier. For each pool, an actuarial valuation is performed covering all participants, all employers contribute at the same rate, and all plan assets are available to pay plan benefits pertaining to the employees and retirees of any employer.

Plan Descriptions – All full-time and certain other qualifying employees of the District are eligible to participate in CalPERS, a cost-sharing multiple-employer Miscellaneous or Safety plan (the Plans). CalPERS acts as a common investment and administrative agent for various local and state governmental agencies within the State of California. CalPERS provides retirement, disability, and death benefits based on the employee's years of service, age and final compensation. Employees vest after five years of service. Benefit provisions and other requirements are established by State statute and by District resolution.

Benefits Provided – Through CalPERS, SMART provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees, and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. The death benefit provided by SMART is the 1959 Survivor Benefit. The cost of living adjustments for the plan are applied as specified by the Public Employees' Retirement Law.

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

NOTE 5 – PENSION PLANS (Continued)

The Plans' provisions and benefits in effect at June 30, 2019, are summarized as follows:

	<u>Miscellaneous</u>			
	<u>Tier I</u>	<u>Tier II</u>	<u>Tier III</u>	<u>PEPRA</u>
	Prior to September 1, 2011	On or after September 1, 2011	On or after June 2, 2012	On or after January 1, 2013
Hire date				
Benefit formula	2% @ 55	2% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life	monthly for life
Retirement age	55	55	60	62
Monthly benefits, as a % of eligible compensation	1.426%-2.418%	1.426%-2.418%	1.092%-2.418%	1.000%-2.500%
Required employee contribution rates	7%*	7%	7%	6.25%
Required employer contribution rates	8.892%	8.892%	7.634%	6.842%

*SMART pays employee share

	<u>Safety</u>
	<u>PEPRA</u>
	On or after January 1, 2013
Hire date	
Benefit formula	2.7% @ 57
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Retirement age	50
Monthly benefits, as a % of eligible compensation	2.0%-2.7%
Required employee contribution rates	11.5%
Required employer contribution rates	12.141%

Contributions – The Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2019, the contributions recognized as part of pension expense for the Plans were as follows:

	<u>Safety</u>	<u>Miscellaneous</u>
Contributions - employer	\$23,680	\$910,518

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

NOTE 5 – PENSION PLANS (Continued)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2019, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous Plans	\$870,184
Safety Plans	709
	\$870,893

The District’s net pension liability is measured as the proportionate share of the net pension liability of the cost-sharing plan. The net pension liability of each of the Plan is measured as of June 30, 2018, and the total pension liability for each of the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. The District’s proportion of the net pension liability was actuarially determined at the valuation date.

The District’s proportionate share of the net pension liability for the Plan as of June 30, 2017 and 2018 was as follows:

	Miscellaneous
Proportion - June 30, 2017	0.02376%
Proportion - June 30, 2018	0.02309%
Change - Increase (Decrease)	-0.00067%
	Safety
Proportion - June 30, 2017	0.00000%
Proportion - June 30, 2018	0.00001%
Change - Increase (Decrease)	0.00001%

For the year ended June 30, 2019, the District recognized a pension expense of \$726,205.

At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to the Miscellaneous Plan from the following sources:

	Miscellaneous	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$910,518	
Differences between actual and expected experience	33,387	(\$11,362)
Changes in assumptions	99,204	(24,313)
Net differences between projected and actual earnings on plan investments	4,302	
Net Change in proportion and differences between actual contributions and proportionate share of contributions	1,054,216	-
Total	\$2,101,627	(\$35,675)

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

NOTE 5 – PENSION PLANS (Continued)

At June 30, 2019, the District reported \$934,198 as deferred outflows of resources related to contributions paid subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Miscellaneous Plan	
Year Ended June 30	Annual Amortization
2020	\$605,123
2021	451,249
2022	106,890
2023	(7,828)
Total	\$1,155,434

At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to the Safety Plan from the following sources:

	Safety	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$23,680	
Differences between actual and expected experience	15	
Changes in assumptions	70	(\$9)
Net differences between projected and actual earnings on plan investments	5	
Net Change in proportion and differences between actual contributions and proportionate share of contributions		(87)
Total	\$23,770	(\$96)

At June 30, 2019, the District reported \$23,680 as deferred outflows of resources related to contributions paid subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Safety Plan	
Year Ended June 30	Annual Amortization
2020	\$34
2021	8
2022	(43)
2023	(5)
Total	(\$6)

**SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2019**

NOTE 5 – PENSION PLANS (Continued)

Actuarial Assumptions – The total pension liabilities was determined using the following actuarial assumptions:

	All Plans
Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry-Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table ⁽¹⁾	Derived using CalPers Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter

(1) The mortality table used was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website.

Change of Assumptions – For the measurement date of June 30, 2018, the inflation rate reduced from 2.75% to 2.50%.

Discount Rate – The discount rate used to measure the total pension liability for each Plan was 7.15%. The projection of cash flows used to determine the discount rate for each Plan assumed that contributions from all plan members in the Public Employees Retirement Fund (PERF) will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, each Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members for all plans in the PERF. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability for each Plan.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

NOTE 5 – PENSION PLANS (Continued)

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class (a)	New Strategic Allocation	Real Return Years 1 - 10(b)	Real Return Years 11+(c)
Global Equity	50.0%	4.80%	5.98%
Fixed Income	28.0%	1.00%	2.62%
Inflation Sensitive	0.0%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Estate	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	-0.92%
Total	<u>100%</u>		

(a) In the CalPERS CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

(b) An expected inflation of 2.0% used for this period.

(c) An expected inflation of 2.92% used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the District's proportionate share of the net pension liability of the Plans as of the measurement date, calculated using the discount rate of 7.15 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15 percent) or 1 percentage-point higher (8.15 percent) than the current rate:

	Miscellaneous	Safety
1% Decrease	6.15%	6.15%
Net Pension Liability	\$1,836,919	\$5,269
Current Discount Rate	7.15%	7.15%
Net Pension Liability	\$870,184	\$709
1% Increase	8.15%	8.15%
Net Pension Liability (Asset)	\$72,160	(\$3,028)

**SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2019**

NOTE 5 – PENSION PLANS (Continued)

Pension Plan Fiduciary Net Position – CalPERS issues a separate comprehensive annual financial report, copies of which may be obtained from the CalPERS Executive Offices, Lincoln Plaza East, 400 Q Street, Sacramento, California 95814.

NOTE 6 – OTHER POST- EMPLOYMENT HEALTH CARE BENEFITS (OPEB)

A. General Information about the District’s Other Post Employment Benefit (OPEB) Plan

By SMART Board of Directors resolution, SMART will provide certain health care benefits for retired employees under third-party insurance plans. The District’s Post Employment Benefit Plan is a single-employer defined benefit plan. Employees become eligible to retire and receive healthcare benefits upon reaching retirement age with at least 5 years of service or being converted to disability, retiring directly from the District, and continue participating in Public Employees’ Medical and Hospital Care Act (PEMHCA) after retirement. The PEMHCA minimum benefit was \$133 per month in 2018, and is \$136 per month in 2019. As of June 30, 2019, there were two retiree receiving OPEB benefits.

Employees Covered by Benefit Terms – Membership in the plan consisted of the following at the measurement date of June 30, 2018:

Active employees	106
Inactive employees or beneficiaries currently receiving benefit payments	1
Inactive employees entitled to but not yet receiving benefit payments	0
Total	107

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

NOTE 6 – OTHER POST- EMPLOYMENT HEALTH CARE BENEFITS (OPEB) (Continued)

B. Total OPEB Liability

Actuarial Methods and Assumptions – The District’s total OPEB liability was measured as of June 30, 2018 and the total OPEB liability was determined by an actuarial valuation dated July 1, 2017 that was rolled forward using standard update procedures to determine the \$1,995,295 total OPEB liability as of June 30, 2018, based on the following actuarial methods and assumptions:

	Actuarial Assumptions
Valuation Date	July 01, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry Age actuarial cost method
Actuarial Assumptions:	
Discount Rate	3.56% at June 30 2017, and 3.62% at June 30 2018. Since the benefits are not funded, the discount rate is equal to the 20-year bond rate.
20 Year Bond Rate	SMART has chosen to use the "Fidelity General Obligation AA" as its 20-year bond rate. That Index was 3.56% at June 30 2017, and 3.62% at June 30
Premium Increases	Medical Premiums and PEMHCA minimum are assumed to increase as follows: 2020-2023 to 4%, 2024-2027 to 4.5%, 2028 and later to 5.0%.
Payroll Growth	Total payroll is assumed to increase 3.0% per year in the future.
Mortality Rate	Rates are taken from 2014 CalPERS OPEB Assumption Model.
Retirement	Rates are taken from 2014 CalPERS OPEB Assumption Model for miscellaneous public employees with 2% at age 55, 2% at 60, or 2% at 62 retirement formula, depending on which the employee has now.
Coverage Elections	80% of future eligible retired employees are assumed to participate in this program. Employees with no current medical coverage are assumed to elect Kaiser employee-only coverage upon retirement.
Turnover (withdrawal)	Likelihood of termination within the next year is taken from the 2014 CalPERS OPEB Assumptions Model, rates for Public Miscellaneous employees.
Inflation	Long-term inflation is assumed to be 2.75% per year.
Age-Specific Medical Claims	The estimated per person medical claims (true cost of coverage) during the 2017-18 fiscal year are as follows: Ages 40, 45, 50, 55, 60, 64 amount per age respectfully are \$7,581; \$9,168; \$11,326; \$13,968; \$16,281; \$17,468.

C. Changes in Total OPEB Liability

The changes in the total OPEB liability follows:

	Total OPEB Liability
Balance at June 30, 2017	\$1,532,175
Changes Recognized for the Measurement Period:	
Service cost	438,273
Interest on the total OPEB liability	54,494
Differences between expected and actual experience	0
Changes of assumptions	(26,755)
Benefit payments	(2,891)
Net changes	463,121
Balance at June 30, 2018 (Measurement Date)	\$1,995,296

**SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2019**

NOTE 6 – OTHER POST- EMPLOYMENT HEALTH CARE BENEFITS (OPEB) (Continued)

D. Sensitivity of the Total OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower 2.62% or 1-percentage-point higher 4.62% than the current discount rate:

Total OPEB Liability/(Asset)		
Discount Rate -1%	Discount Rate	Discount Rate +1%
2.62%	3.62%	4.62%
\$2,507,891	\$1,995,296	\$1,609,092

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower 3% to 4% or 1-percentage-point higher 5% to 6% than the current healthcare cost trend rates:

Total OPEB Liability/(Asset)		
1% Decrease	Healthcare Cost Trend Rates	1% Increase
3% to 4%	4% to 5%	5% to 6%
\$1,589,935	\$1,995,296	\$2,532,125

E. OPEB Expenses and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2019, the District recognized OPEB expense of \$469,874. At June 30, 2019, the District reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions made subsequent to the measurement date	\$1,021	
Differences between actual and expected experience		
Net difference between projected and actual earnings on OPEB plan investments		
Changes of assumptions		\$224,341
Total	\$1,021	\$224,341

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

NOTE 6 – OTHER POST- EMPLOYMENT HEALTH CARE BENEFITS (OPEB) (Continued)

The \$1,021 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as part of OPEB expense as follows:

Year Ended June 30	Annual Amortization
2020	(\$22,893)
2021	(22,893)
2022	(22,893)
2023	(22,893)
2024	(22,893)
Thereafter	(109,876)
Total	<u><u>(\$224,341)</u></u>

NOTE 7 - COMMITMENTS

A. Lease Commitments

SMART's future noncancellable lease payments are:

Year Ending June 30	Minimum Lease Payment
2020	438,508
2021	448,966
2022	456,363
2023	73,582
Total	<u><u>\$1,417,419</u></u>

B. Purchase Commitments

At June 30, 2019, SMART had outstanding purchase and contract commitments for the rail and pathway project of \$38,775,387.

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REQUIRED SUPPLEMENTARY INFORMATION

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
Miscellaneous and Safety Cost Sharing Multiple-Employer Defined Pension Plan
As of fiscal year ending June 30, 2019
Last 10 Years*
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

	Miscellaneous Plan				
	2015	2016	2017	2018	2019
Measurement Period	6/30/2014	6/30/2015	6/30/2016	6/30/2017	6/30/2018
Plan's proportion of the Net Pension Liability (Asset)	0.01018%	0.02376%	0.02136%	0.02376%	0.02309%
Plan's proportion share of the Net Pension Liability (Asset)	\$633,530	\$585,152	\$742,146	\$936,778	\$870,893
Covered Payroll	3,073,231	3,572,374	6,017,592	9,930,773	11,175,297
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered Payroll	20.61%	16.38%	12.33%	9.43%	7.79%
Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	79.82%	78.40%	74.06%	73.31%	75.26%
	Safety Plan **				
	2019				
Measurement Period	6/30/2018				
Plan's proportion of the Net Pension Liability (Asset)	0.00001%				
Plan's proportion share of the Net Pension Liability (Asset)	\$709				
Covered Payroll	\$180,138				
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered Payroll	0.39%				
Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	75.26%				

* - Fiscal year 2015 was the first year of implementation.

** - Fiscal year 2019 was the first year that Safety Plan information was available.

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
Cost Sharing Multiple-Employer Defined Pension Plan
As of fiscal year ending June 30, 2018
Last 10 Years*
SCHEDULE OF CONTRIBUTIONS

Fiscal Year	Miscellaneous				
	2015	2016	2017	2018	2019
Actuarially determined contribution	\$347,672	\$409,897	\$699,783	\$747,878	\$910,518
Contributions in relation to the actuarially determined contributions	(347,672)	(477,840)	(699,783)	(747,878)	(910,518)
Contribution deficiency (excess)	-	(\$67,943)	-	-	-
Covered payroll	\$3,572,374	\$6,017,592	\$9,930,773	\$11,175,297	\$12,916,529
Contributions as a percentage of covered payroll	9.73%	7.94%	7.05%	6.69%	7.05%

Fiscal Year	Safety Plan **	
	2019	
Actuarially determined contribution	\$23,680	
Contributions in relation to the actuarially determined contributions	(347,672)	
Contribution deficiency (excess)	-	
Covered payroll	\$195,041	5610.40
Contributions as a percentage of covered payroll	178.26%	

Notes to Schedule Contributions

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry-Age Normal Cost in accordance with the requirements of GASB Statement No.68
Actual Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Payroll Growth	Varies by Entry Age and Service
Investment Rate of Return	7.15% (1)
Mortality	Derived using CalPERS Membership Data for all Funds (2)

(1) Net of pension plan investment expenses, including inflation

(2) The mortality table used was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the CalPERS 2017 experience study report available on CalPERS website.

* Fiscal year 2015 was the first year of implementation, therefore only three years are shown.

** - Fiscal year 2019 was the first year that Safety Plan information was available.

**SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
SINGLE EMPLOYER PLAN
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS**

Last 10 fiscal years*

Measurement Date	<u>6/30/17</u>	<u>6/30/18</u>
Total OPEB Liability		
Service Cost	\$478,730	\$438,273
Interest	36,782	54,494
Changes of benefit terms		
Differences between expected and actual experience		
Changes of assumptions	(241,085)	(26,755)
Benefit payments	<u>(3,801)</u>	<u>(2,891)</u>
Net change in total OPEB liability	270,626	463,121
Total OPEB liability - beginning	<u>1,261,549</u>	<u>1,532,175</u>
Total OPEB liability - ending	<u><u>\$1,532,175</u></u>	<u><u>\$1,995,296</u></u>
Covered payroll	<u><u>\$9,930,773</u></u>	<u><u>\$11,175,297</u></u>
Total OPEB liability as a percentage of covered payroll	-15.43%	-17.85%

* Fiscal year 2018 was the first year of implementation.

STATISTICAL SECTION

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STATISTICAL SECTION

This part of the District's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District's overall financial health. In contrast to the financial section, the statistical section information is not subject to independent audit.

Financial Trends

These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.

- Table 1- Net Position by Component
- Table 2- Changes in Net Position
- Table 3- Non-Capital Expenditures by Category

Revenue Capacity

These schedules contain information to help the reader assess the District's most significant revenue source, capital grants and contributions. Also included in this section is current information on the District's ongoing significant source of revenues, the sales tax.

- Table 4- General Revenue by Source
- Table 5- Revenue Base and Revenue Rate
- Table 6- Overlapping Governments and Sales Tax Rates
- Table 7- Principal Revenue Payers

Debt Capacity

These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.

- Table 8- Debt Service Coverage – Pledged Sales Tax Revenue
- Table 9- Ratios of Outstanding Debt

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.

- Table 10- Demographic and Economic Statistics
- Table 11- Principal Employers

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.

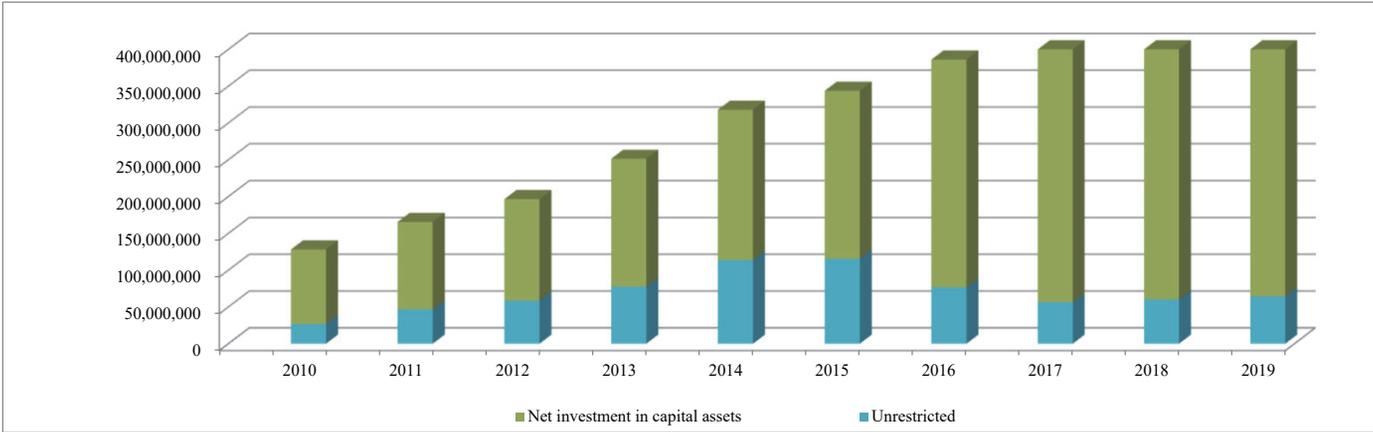
- Table 12- Operating Information
- Table 13- Employees – Full-Time Equivalent

Sources

Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

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Table 1
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
NET POSITION BY COMPONENT
Last Ten Fiscal Years



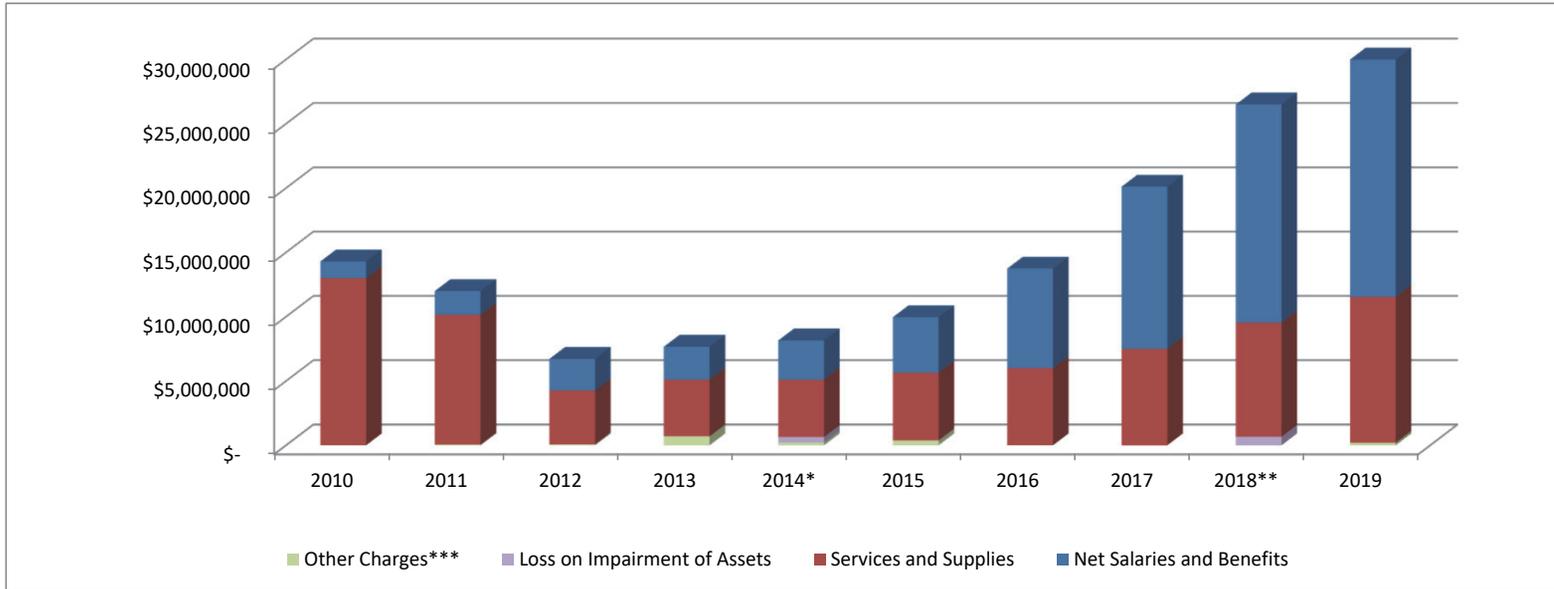
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Net investment in capital assets	\$101,247,802	\$118,948,132	\$137,997,431	\$173,996,072	\$204,389,312	\$228,244,612	\$309,724,259	\$353,088,871	\$367,957,650	\$403,239,649
Unrestricted	26,788,017	46,507,406	58,533,319	77,347,530	113,506,183	115,465,740	76,452,056	56,226,336	60,223,084	64,324,957
Total net position	\$128,035,819	\$165,455,538	\$196,530,750	\$251,343,602	\$317,895,495	\$343,710,352	\$386,176,315	\$409,315,207	\$428,180,734	\$467,564,606

Table 2
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
CHANGES IN NET POSITION
Last Ten Fiscal Years

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Operating Revenues:										
Operating Revenue	\$564,502	\$635,670	\$650,877	\$597,880	\$840,586	\$640,249	\$529,191	\$588,402	\$4,025,111	\$5,036,875
Total Operating Revenues	564,502	635,670	650,877	597,880	840,586	640,249	529,191	588,402	4,025,111	5,036,875
Operating Expenses:										
Public transportation - rail/pathway development:										
Net salaries and employee benefits	1,330,192	1,831,476	2,597,001	2,683,628	3,041,027	4,303,358	7,736,893	12,610,874	16,950,114	18,453,125
Services and supplies	13,000,858	10,097,972	4,179,668	4,772,700	4,466,562	5,275,106	5,998,630	7,498,986	8,877,465	11,336,573
Depreciation	420,488	472,061	4,527,575	4,527,575	4,473,500	4,575,530	4,610,295	4,716,779	17,800,126	19,033,577
Bad Debt	1,725									
Loss on impairment of assets					433,295				671,378	0
Other charges	3,180	53,471	76,671	700,783	215,922	380,000	7,541	212	954	203,883
Total Operating Expenses	14,756,443	12,454,980	11,380,915	12,684,686	12,630,306	14,533,994	18,353,359	24,826,851	44,300,037	49,027,158
Operating loss	(14,191,941)	(11,819,310)	(10,730,038)	(12,086,806)	(11,789,720)	(13,893,745)	(17,824,168)	(24,238,449)	(40,274,926)	(43,990,283)
Nonoperating Revenues (Expenses):										
Sales/Use taxes	24,059,929	26,826,843	28,303,501	30,435,753	32,473,329	33,845,426	34,776,012	36,061,895	37,135,476	41,241,140
State operating assistance									3,701,366	5,000,756
Investment earnings	93,215	192,500	437,618	1,495,066	1,182,159	1,384,557	585,178	366,748	724,313	1,974,246
Sale of contract option		758,825								
Capital expense passed through to other agencies						(1,557,743)	(295,894)	(62,636)	(3,778,891)	(770,156)
Miscellaneous revenue	38,445	46,400	26,236	62,178	65,638	49,351	2,264,334	438,639	2,236,508	4,174,454
Interest expense			(1,117,492)	(5,328,770)	(4,420,558)	(2,761,502)	(805,558)	(1,164,558)	(5,819,778)	(5,591,608)
Total Nonoperating Revenues	24,191,589	27,824,568	27,649,863	26,664,227	29,300,568	30,960,089	36,524,072	35,640,088	34,198,994	46,028,832
Income before capital contributions	9,999,648	16,005,258	16,919,825	14,577,421	17,510,848	17,066,344	18,699,904	11,401,639	(6,075,932)	2,038,549
Capital grants and contributions:										
State of California	12,810,517	9,787,099	8,148,143	24,130,596	4,295,318	3,381	284,094	458,549	837,950	2,883,980
Metropolitan Transportation Commission	1,871,307	6,046,018		4,541,421	35,500,504	7,119,973	2,683,108	5,007,846	9,939,309	4,388,830
Sonoma County Transportation Authority			4,594,099	5,758,121	5,136,487	35,358	47,780	33,440	356,219	55,249
Federal Grants		1,960,000	1,203,349	6,021,838	2,562,581	500,595	3,779,595	2,750,431	9,450,100	21,270,383
Other governmental agencies	18,456,229	3,621,344	209,796	666,592	1,543,983	1,534,698	749,376	3,036,898	4,357,881	8,746,881
Donated asset							16,222,106	1,116,726		
Total Capital Contributions	33,138,053	21,414,461	14,155,387	41,118,568	49,038,873	9,194,005	23,766,059	12,403,890	24,941,459	37,345,323
Change in net position	\$43,137,701	\$37,419,719	\$31,075,212	\$55,695,989	\$66,549,721	\$26,260,349	\$42,465,963	\$23,805,529	\$18,865,527	\$39,383,872

Source: SMART's basic financial statements.

Table 3
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
NON-CAPITAL EXPENSE BY CATEGORY
Last Ten Fiscal Years



Fiscal Year Ended June 30	Net Salaries and Benefits	Services and Supplies	Other Charges***	Loss on Impairment of Assets	Debt Service (Cash Basis) Expense	Total
2010	\$ 1,290,967	\$ 13,000,858	\$ 3,180	\$ -	\$ -	\$ 14,295,005
2011	1,847,662	10,097,972	53,471	-	-	11,999,105
2012	2,462,175	4,179,668	76,671	-	192,575,357	6,718,514
2013	2,558,849	4,406,463	700,783	-	-	7,666,095
2014*	3,041,027	4,466,562	215,922	433,295	8,456,950	8,156,806
2015	4,303,358	5,275,106	380,000	-	8,456,950	9,958,464
2016	7,736,893	5,998,630	7,541	-	12,996,950	13,743,064
2017	12,610,874	7,498,986	212	-	13,600,350	20,110,072
2018**	16,950,114	8,877,475	954	671,378	14,204,100	26,499,921
2019	\$ 18,453,125	\$ 11,336,573	\$ 203,883	\$ -	\$ 16,095,850	\$ 29,993,581

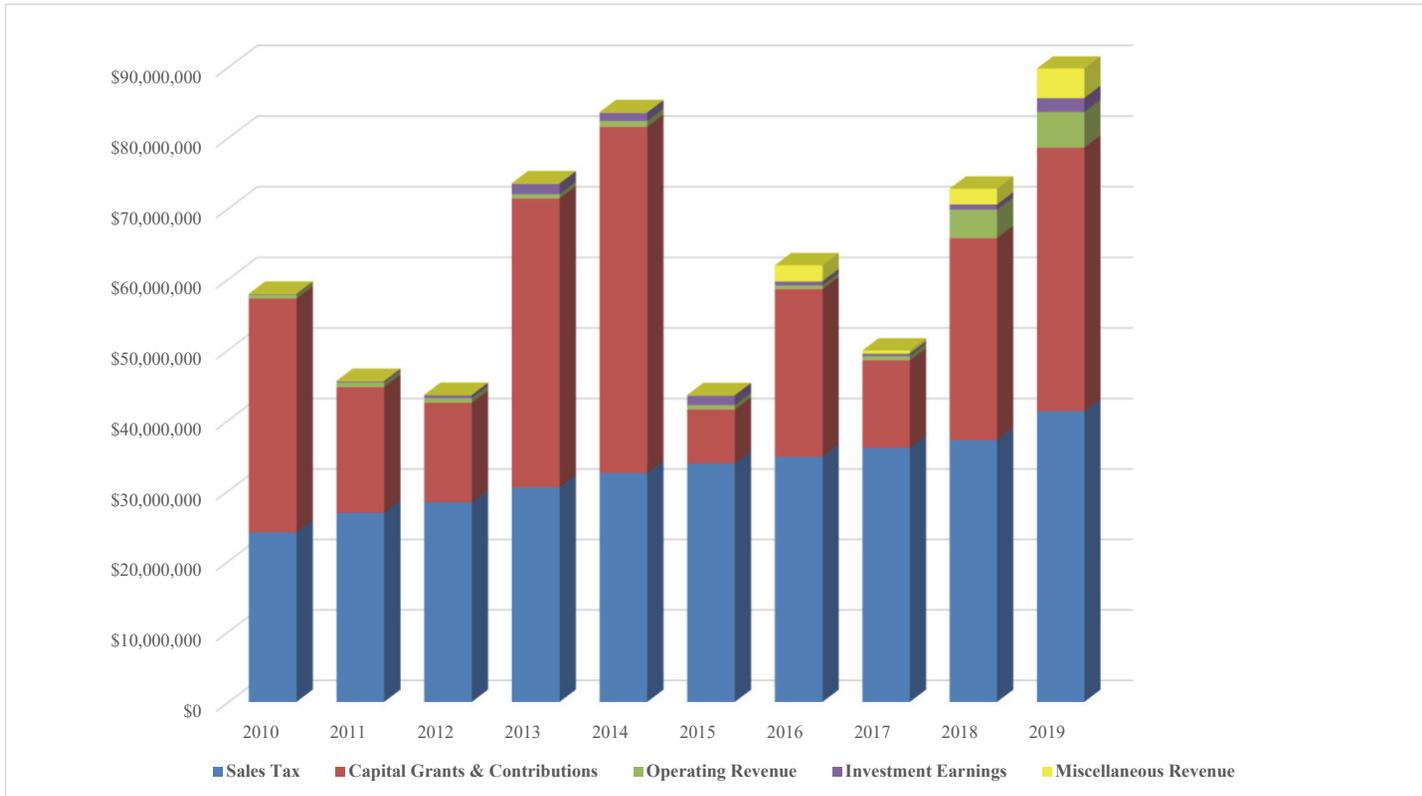
Source: Sonoma-Marin Area Rail Transit District Audit Reports

*2014 is the first year that the District presented financial reports in an enterprise format

**2018 is the first year of Operations; Other Charges Net of Non-cash adjustments

*** Other charges adjusted for non-cash transactions beginning 2018

Table 4
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
GENERAL REVENUE BY SOURCE
Last Ten Fiscal Years



Source: Sonoma-Marina Area Rail Transit District Financial Reports

Table 5
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
REVENUE BASE AND REVENUE RATE
Last Ten Fiscal Years

Fiscal Year	SMART Sales Tax Rate	Total Sales Tax Revenue	Marin County Total Taxable Sales (In Thousands)	Sonoma County Total Taxable Sales (In Thousands)	SMART District Total Taxable Sales (In Thousands)
2010	0.25%	\$ 24,059,929	\$ 3,751,474	\$ 6,321,094	\$ 10,072,568
2011	0.25%	26,826,843	3,928,074	6,701,426	10,629,500
2012	0.25%	28,303,501	4,185,542	7,152,875	11,338,417
2013	0.25%	30,435,753	4,500,247	7,711,052	12,211,299
2014	0.25%	32,473,329	4,769,878	8,264,339	13,034,217
2015	0.25%	33,845,426	4,957,364	8,626,295	13,583,659
2016	0.25%	34,776,012	5,091,014	8,843,184	13,934,198
2017	0.25%	36,061,895	5,004,443	9,154,084	14,158,526
2018	0.25%	37,135,476	5,343,038	9,444,873	14,787,910
2019	0.25%	\$ 41,241,140	\$ 5,454,389	\$ 9,966,334	\$ 15,420,723

Source: California Department of Tax and Fee Administration

Table 6
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
OVERLAPPING GOVERNMENTS AND SALES TAX RATES
Last Eight Fiscal Years*

Marin County					
Fiscal Year	State(a)	City	County(b)	SMART(d)	Total
2012	7.25%	0 to 0.50%	0.50%	0.25%	8% to 9%
2013	7.50%	0 to 0.50%	0.50%	0.25%	8% to 9%
2014	7.50%	0 to 0.50%	0.75%	0.25%	8.5% to 9%
2015	7.50%	0 to 0.50%	0.75%	0.25%	8.5% to 9%
2016	7.50%	0 to 0.50%	0.75%	0.25%	8.5% to 9%
2017	7.25%	0 to 0.75%	0.75%	0.25%	8.25% to 9%
2018	7.25%	0 to 0.75%	0.75%	0.25%	8.25% to 9%
2019	7.25%	0 to 0.75%	0.75%	0.25%	8.25% to 9%

Sonoma County					
Fiscal Year	State(a)	City	County(c)	SMART(d)	Total
2012	7.25%	0 to 0.50%	0.50%	0.25%	8.25% to 8.5%
2013	7.50%	0 to 0.50%	0.50%	0.25%	8.25% to 8.5%
2014	7.50%	0 to 0.75%	0.50%	0.25%	8.25% to 9%
2015	7.50%	0 to 0.75%	0.50%	0.25%	8.25% to 9%
2016	7.50%	0 to 0.75%	0.50%	0.25%	8.25% to 9%
2017	7.25%	0 to 1.00%	0.625%	0.25%	8.125% to 9.125%
2018	7.25%	0 to 1.00%	0.625%	0.25%	8.125% to 9.125%
2019	7.25%	0 to 1.00%	0.880%	0.25%	8.25% to 9.25%

FY2012 First Year SMART began compiling statistical data

The cities within each county sales tax varies and they are combined to create this chart.

(a) Statewide sales and use tax rate increased 0.25% on January 1, 2013, and decrease by 0.25% on January 1, 2017

(b) Marin Parks/Open Space/Farmland Preservation Transactions and Use Tax (0.25%, effective 04-01-13) and Transportation Authority of Marin County (0.50%, effective 04-01-05)

(c) Sonoma County Transportation Authority (0.25%, 04-01-05), Sonoma County Agricultural Preservation & Open Spa District Transactions and Use Tax (0.25%, 04-01-11), Sonoma County Library Maintenance, Restoration, Enhancement Act (0.125%, 4-1-17), Sonoma County Parks and Safety Transactions (0.25%, 04-01-19)

(d) SMART sales tax effective April 1, 2009

Source: California State Board of Equalization, California City & County Sales & Use Tax Rates , District Taxes, Rates, and Effective Dates (CDTFA-105)

Table 7
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
PRINCIPAL REVENUE PAYERS

Principal Revenue Payers: Sales Tax Generators	Fiscal Year 2019**		Fiscal Year 2011*	
	Percentage	Total Receipts	Percentage	Total Receipts
General Retail	27.8%	\$ 11,958,307	30.5%	\$ 7,978,547
Auto and Other Transportation	20.7%	8,928,732	21.4%	5,597,576
Food & Beverage Products	19.1%	8,229,575	19.0%	4,972,020
Business to Business	17.2%	7,405,134	15.9%	4,156,846
Construction Related	12.4%	5,317,838	10.7%	2,796,876
Miscellaneous	2.8%	1,214,355	2.5%	654,932
Totals	100%	\$ 43,053,941	100%	\$ 26,156,797

*First available year of SMART sales tax payer analysis

**Based on Analysis by MuniServices, Categorizations and Totals May Differ from BOE/Audited Data

Table 8
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
DEBT SERVICE COVERAGE - PLEDGED SALES TAX REVENUE

Fiscal Year Ending	Sales Tax Revenue Actual	Sales Tax Revenue Projected*	Series 2011A Bond Interest**	Series 2011A Bonds Principal	Series 2011A Bonds Debt Service Total	Annual Debt Service Coverage Ratio
6/30/2019	\$ 41,241,140	\$ 41,241,140	\$ 7,730,850	\$ 8,365,000	\$ 16,095,850	2.56
6/30/2020		42,478,374	7,312,600	9,435,000	16,747,600	2.54
6/30/2021		43,752,725	6,840,850	10,565,000	17,405,850	2.51
6/30/2022		45,065,307	6,315,000	11,745,000	18,060,000	2.50
6/30/2023		46,417,266	5,727,750	12,990,000	18,717,750	2.48
6/30/2024		47,809,784	5,078,250	14,290,000	19,368,250	2.47
6/30/2025		49,244,078	4,363,750	15,660,000	20,023,750	2.46
6/30/2026		50,721,400	3,580,750	17,100,000	20,680,750	2.45
6/30/2027		52,243,042	2,725,750	18,610,000	21,335,750	2.45
6/30/2028		53,810,334	1,795,250	20,195,000	21,990,250	2.45
6/30/2029		\$ 55,424,644	\$ 785,500	\$ 15,710,000	\$ 16,495,500	3.36
Maximum Annual Debt Service Coverage:						2.32x

*Sales tax revenue growth projected 3% in future years

**Debt service shown is cash basis

Table 9
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
RATIOS OF OUTSTANDING DEBT (Unaudited)

TOTAL DEBT TO INCOME RATIO
SMART District: Sonoma and Marin Counties Combined

Year	Total Outstanding Debt	Personal Income	Population	Ratio of Debt to Personal Income	Total Debt Per Capita
2014*	\$ 192,365,524	\$ 52,401,105,000	759,684	0.37%	\$ 253
2015	190,096,688	56,512,049,000	762,528	0.34%	249
2016	183,318,018	58,680,231,000	763,721	0.31%	240
2017	175,819,899	63,211,402,000	767,218	0.28%	229
2018**	167,528,327	63,843,516,020	774,890	0.26%	216

TOTAL DEBT SERVICE TO NON-CAPITAL EXPENSES

Year	Total Debt Service	Non-Capital Expenditures Including Debt Service	Ratio Debt Service to Non-Capital Expenditures
2014*	\$ 8,456,950	\$ 16,613,756	51%
2015	8,456,950	18,415,414	46%
2016	12,996,950	26,740,014	49%
2017	13,600,350	33,710,422	40%
2018	14,204,100	40,704,021	35%
2019	\$ 16,095,850	\$ 46,089,431	35%

*Fiscal Year 2013 is the first full year SMART had outstanding debt service payments on Series 2011A bonds

**2018 Most recent complete data available

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Series 2011A Bond; Table 3

Table 10
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
DEMOGRAPHIC AND ECONOMIC STATISTICS (Unaudited)
Last Ten Fiscal Years

Marin County					
Year	Population	Personal Income (in thousands)	Per Capita Personal Income	Unemployment Rate	
2010	252,731	\$ 20,748,885	\$ 82,021	8.0%	
2011	254,359	22,741,276	89,009	7.4%	
2012	254,882	23,918,732	93,407	6.3%	
2013	258,365	25,093,401	97,124	5.0%	
2014	260,516	27,176,774	104,319	4.3%	
2015	261,054	29,227,230	114,455	3.6%	
2016	260,651	30,222,883	117,552	3.4%	
2017	263,886	32,867,529	124,552	2.9%	
2018**	266,525	\$ 33,196,204	\$ 124,552	2.3%	

Sonoma County					
Year	Population	Personal Income (in thousands)	Per Capita Personal Income	Unemployment Rate	
2010	484,084	\$ 21,080,297	\$ 43,482	10.5%	
2011	486,778	22,356,767	45,805	9.8%	
2012	489,283	23,548,182	47,879	8.6%	
2013	495,025	24,905,827	50,312	6.7%	
2014	499,168	25,224,331	50,533	5.6%	
2015	501,474	27,284,819	55,445	4.5%	
2016	503,070	28,457,348	57,264	4.1%	
2017	503,332	30,343,873	60,286	3.4%	
2018*	508,365	\$ 30,647,311	\$ 60,286	2.7%	

*2018 Most recent complete data available

Sources:

Population, Per Capita

US Department of Commerce, Bureau of Economic Analysis - www.bea.gov, released Nov 14, 2019

Unemployment

Employment Development Department, Labor Market Information - www.labormarketinfo.edd.ca.gov

Table 11
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
MAJOR EMPLOYERS (UNAUDITED)
Current Year*

Marin County 2019		
Employer	Number of Employees	Percent of Total Employment**
BioMarin Pharmaceutical	2,500	1.78%
County of Marin	2,313	1.65%
Kaiser Permanente San Rafael Medical Center	2,014	1.43%
San Quentin State Prison	1,778	1.27%
Marin General Hospital	1,109	0.79%
Glassdoor	800	0.57%
Novato Unified School District	800	0.57%
Dominican University of California	750	0.53%
Autodesk	700	0.50%
Novato Community Hospital	354	0.25%

Sonoma County 2019		
Employer	Number of Employees	Percent of Total Employment**
County of Sonoma	3,722	1.43%
Kaiser Permanente	3,008	1.15%
Santa Rosa Junior College	3,006	1.15%
St. Joseph Health, Sonoma County	2,500	0.96%
Graton Resort and Casino***	2,000	0.77%
Keysight Technologies***	2,000	0.77%
Santa Rosa School District***	1,691	0.65%
City of Santa Rosa	1,300	0.50%
Safeway, Inc***	1,200	0.46%
Jackson Family Wines	1,098	0.42%

*The "9 Years Ago" data unavailable, SMART records began 2013
 Data Reflects August 2018 Employed

Sources:

-
- North Bay Business Journal
 - County of Marin
 - San Quentin State Prison
 - Novato Unified School District
 - BioMarin Pharmaceutical
 - County of Sonoma
 - Graton Resort & Casino
 - City of Santa Rosa
 - Santa Rosa School District

**Calculated using California Employment Development Department

***Utilized 2018 data, 2019 not available

Table 12
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
Operating Information (Unaudited)

Start of Operations	August 2017	Rail Stations in Service	10
Form of Governance	Board of Directors with General Manager	Park and Ride Lots	4
Service Area	Sonoma and Marin Counties, California	Rail Vehicles in Service	14
Miles of Commuter Rail in	43		

OPERATING STATISTICS

<u>Fiscal Year</u>	<u>Ridership</u>	<u>Fare Revenue</u>	<u>Average Fare</u>	<u>Revenue Vehicle Hours</u>	<u>Revenue Vehicle Service Miles</u>
2018-19*	710,472	\$3,704,380	\$5.74	32,560	923,002
2017-18	636,029	\$3,209,717	\$6.15	43,959	766,833

54

FARE INFORMATION

Daily Fares By Zone	1 Zone	2 Zones	3 Zones	4 Zones	5 Zones	Daily Max
Adult Fare	\$3.50	\$5.50	\$7.50	\$9.50	\$11.50	\$23.00
Seniors, youth, and disabled	\$1.75	\$2.75	\$3.75	\$4.75	\$5.75	\$11.50

Passes	Adult	Discount
31-Day Pass	\$200	\$100
Eco Pass - Monthly	\$213-\$138	

*2018-19 is the first full year of service; ridership subject to change through NTD review

Table 13
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
Employees- Full-Time Equivalent (Unaudited)

Division	Fiscal Year Ended June 30						
	2013*	2014	2015	2016	2017	2018	2019
General Manager	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Legal	0.0	0.8	1.0	1.3	2.8	3.0	3.0
Capital Projects	11.8	13.8	13.9	13.2	8.1	6.0	11.0
Administration	5.6	8.0	8.4	9.0	13.3	15.0	18.0
Finance	5.8	5.8	5.8	6.1	6.2	7.0	8.0
Operations	1.0	1.3	4.7	36.9	79.4	86.0	99.5
Safety & Security	0.0	0.0	0.8	1.0	2.0	3.0	4.5
Total	25.2	30.7	35.6	68.6	112.8	121.0	145.0

* FY 2013 was the first year SMART prepared Statistical Charts, no data available for prior years

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors of the
Sonoma-Marín Area Rail Transit District
Petaluma, California

We have audited, 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, the basic financial statements of the Sonoma-Marín Area Rail Transit District (District), California, as of and for the year ended June 30, 2019, and the related notes to the financial statements, and have issued our report thereon dated December 6, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of District's internal control. Accordingly, we do not express an opinion on the effectiveness of District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We have also issued a separate Memorandum on Internal Control dated December 6, 2019 which is an integral part of our audit and should be read in conjunction with this report.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maze + Associates

Pleasant Hill, California
December 6, 2019

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APPENDIX B

ECONOMIC AND DEMOGRAPHIC INFORMATION REGARDING THE COUNTY OF SONOMA AND THE COUNTY OF MARIN

COUNTY OF SONOMA

References to the County under this caption refer to the County of Sonoma. The County is not obligated to pay debt service on the Series 2020 Bonds.

General Information

One of California's original 27 counties (incorporated in 1850), Sonoma is the northernmost of the nine greater San Francisco Bay Area counties. Bordered on the north and east by Mendocino, Lake, and Napa counties and to the west and south by the Pacific Ocean, Marin County, and San Pablo Bay, its area encompasses 1,598 square miles.

Geographically, Sonoma County is divided almost equally into mountainous regions, rolling hills and valley land. Three narrow valleys, separated by mountains, run northwest to southeast. Elevations range from sea level to 4,262 feet at Mt. Saint Helena, where Sonoma, Napa and Lake counties converge.

As required by State and federal mandate, the County is responsible at the local level for activities involving public welfare, health and justice (courts and jails) and for the maintenance of public records. The County also maintains roads and other public facilities and operates recreational and cultural facilities serving the unincorporated areas of the County.

County Government

The County of Sonoma is governed by a five-member Board of Supervisors elected by district for overlapping terms. The County Administrative Officer manages the activities of the County's departments and the County Counsel provides legal counsel to the Board of Supervisors. Both officers are hired by and are directly responsible to the Board of Supervisors. Other elected officials include the Sheriff-Coroner, District Attorney, Clerk-Recorder-Assessor-Public Administrator, and Auditor-Controller-Treasurer-Tax Collector (the "Treasurer-Tax Collector").

Community Services

The County provides a wide range of services to its residents, including police protection, medical and health services, library services, judicial institutions including support programs, road maintenance, airport service, parks and a variety of public assistance programs. Other services provided by special districts, which are governed by the Board of Supervisors, include fire protection, lighting, sanitation and flood control. The Board of Supervisors and County departments also provide a wide variety of municipal services for residents in unincorporated areas of the County.

Recreation, Tourism and Convention Business

Sonoma County is famous for its scenic and recreational resources. Today, Sonoma County has State parks and County parks, as well as a premium wine industry to attract and entertain tourists and residents alike. A County regional park system was established in 1967 and now includes 15 parks providing coastlines, mountains, redwood forests, lakes and historical locations. These resources have generated a significant tourism and convention business.

Transportation

All modes of commercial transportation are available in Sonoma County. There are bus routes throughout the County, and the Petaluma River is capable of handling water barge freight from the San Francisco Bay Area to Petaluma. Northwestern Pacific Railroad provides rail transportation within the County with connections to major rail interchanges. The Sonoma County Airport, located just outside the City of Santa Rosa, handles commercial and private air traffic. Seven private airfields serve the County as well. In addition, several highways dissect the County. The major freeway is U.S. Highway 101 which runs from Marin and San Francisco counties in the south to Mendocino County in the north. State Highway 12 is the major east-west thoroughfare from Bodega Bay on the western coastline to Sonoma on the east.

Population characteristics

As of January 1, 2020, the County's population is estimated at 492,980. The following table shows the County's population between 2016 and 2020.

POPULATION OF SONOMA COUNTY AND INCORPORATED CITIES (As of January 1)

<u>Area</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Sonoma County	502,475	504,613	502,866	496,947	492,980
Cloverdale	8,927	8,988	9,141	9,279	9,213
Cotati	7,376	7,453	7,739	7,628	7,533
Healdsburg	11,734	11,757	12,232	12,166	12,089
Petaluma	61,488	61,657	62,251	62,195	61,873
Rohnert Park	42,586	42,490	43,178	43,134	43,069
Santa Rosa	176,937	178,064	177,017	175,183	173,628
Sebastopol	7,609	7,624	7,808	7,826	7,745
Sonoma	10,929	11,072	11,423	11,164	11,050
Windsor	27,445	27,492	28,356	28,596	28,248
Balance of County	147,444	148,016	143,721	139,776	138,532

Source: State of California, Department of Finance, Demographic Research Unit.

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Employment

The following chart compares labor force, employment, civilian employment and the unemployment rate in the County, the State of California and the United States during the period from 2015 through 2019.

**COUNTY OF SONOMA
LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT⁽¹⁾
Yearly Average for Years 2015 through 2019**

<u>Year and Area</u>	<u>Labor Force</u>	<u>Civilian Employment</u>	<u>Civilian Unemployment</u>	<u>Unemployment Rate (%)</u>
<u>2015</u>				
Sonoma County	257,600	246,100	11,600	4.5
California	18,828,800	17,660,700	1,168,100	6.2
United States	157,129,900	148,833,400	8,296,500	5.3
<u>2016</u>				
Sonoma County	259,200	248,900	10,300	4.0
California	19,021,200	17,980,100	1,041,100	5.5
United States	159,187,200	151,435,800	7,751,400	4.9
<u>2017</u>				
Sonoma County	260,100	251,300	8,800	3.4
California	19,176,400	18,257,100	919,300	4.8
United States	160,319,800	153,337,400	6,982,400	4.4
<u>2018</u>				
Sonoma County	260,900	253,600	7,300	2.8
California	19,280,800	18,460,700	820,100	4.3
United States	162,075,000	155,761,000	6,314,000	3.9
<u>2019</u>				
Sonoma County	259,400	252,400	7,000	2.7
California	19,411,600	18,627,400	784,200	4.0
United States	163,538,700	157,538,100	6,000,600	3.7

⁽¹⁾ Data not seasonally adjusted.

Source: State of California Employment Development Department; U.S. Department of Labor, Bureau of Labor Statistics.

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Employment by Industry

The following table shows employment by industry group in the County from 2015 through 2019.

COUNTY OF SONOMA ANNUAL AVERAGE EMPLOYMENT BY INDUSTRY GROUP For Years 2015 through 2019

Industry Group⁽¹⁾	2015	2016	2017	2018	2019
Total Agricultural ⁽²⁾⁽³⁾	6,000	6,100	6,100	6,700	6,500
Non-Agricultural Goods:					
Natural Resources, Mining & Construction ⁽⁴⁾	11,800	12,600	13,300	15,400	16,700
Manufacturing	22,000	22,700	23,000	23,400	23,400
Non-Agricultural Services:					
Transportation, Warehousing and Utilities	4,300	4,200	4,000	4,100	4,200
Wholesale Trade	7,200	7,300	7,400	7,500	7,600
Retail Trade	24,700	25,000	25,100	24,900	24,300
Finance and Insurance	5,000	5,200	5,200	4,900	4,700
Professional and Business Services	20,800	21,200	22,100	23,200	23,500
Administrative and Support Services	9,200	9,600	10,100	10,900	10,900
Educational and Health Services	32,100	33,000	34,100	34,800	35,800
Government ⁽⁵⁾	31,800	32,300	32,300	31,100	29,600
Other ⁽⁶⁾	7,000	7,200	7,200	7,100	7,200
Total Non-Agricultural	175,900	180,300	183,800	187,300	187,900
TOTAL ALL INDUSTRIES:	181,900	186,400	189,900	194,000	194,400

⁽¹⁾ Does not include proprietors, the self-employed, unpaid volunteers or family workers, domestic workers in households, and persons involved in labor management trade disputes. Detail may not add to totals due to independent rounding. Employment by place of work.

⁽²⁾ Excludes farmers and unpaid family workers.

⁽³⁾ Excludes veterinary, other animal, landscape and horticultural services.

⁽⁴⁾ Includes employees of construction contractors and operative builders; does not include force account or government construction workers.

⁽⁵⁾ Includes all civilian employees of federal, State and local governments regardless of the activity in which the employee is engaged.

⁽⁶⁾ Includes various industries including Social Assistance, Leisure and Hospitality, Arts Entertainment and Recreation.

Source: State of California Employment Development Department.

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Taxable Sales

The following table shows taxable transactions within the County from 2015 through the 2019.

	2015	2016	2017	2018	2019
Motor Vehicles and Parts Dealers	\$1,187,393	\$1,285,358	\$1,400,337	\$1,378,061	\$ 1,350,629
Home Furnishings and Appliance Stores	305,799	325,320	326,553	370,562	306,959
Building Material and Garden Equipment and Supplies Dealers	716,323	775,031	811,046	909,760	946,227
Food and Beverage Stores	564,781	578,636	600,264	609,942	625,835
Gasoline Stations	642,126	589,590	644,178	740,279	715,415
Clothing and Clothing Accessories Stores	380,415	393,731	397,097	416,012	406,229
General Merchandise Stores	741,098	746,010	783,148	795,518	776,603
Food Services and Drinking Places	877,903	922,721	970,123	1,009,481	1,030,422
Other Retail Group	770,937	817,026	845,885	887,352	937,792
Total Retail and Food Services	<u>6,186,774</u>	<u>6,433,421</u>	<u>6,778,629</u>	<u>7,116,968</u>	<u>7,096,111</u>
All Other Outlets	2,600,574	2,654,060	2,714,181	2,868,495	2,963,371
TOTAL ALL OUTLETS	<u>\$8,787,348</u>	<u>\$9,087,481</u>	<u>\$9,492,811</u>	<u>\$9,985,463</u>	<u>\$10,059,482</u>

Source: California Department of Tax and Fee Administration.

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Construction Activity

The following table provides a building permit valuation summary for the County for the years 2015 through 2019.

**COUNTY OF SONOMA
BUILDING PERMIT VALUATION
For Years 2015 through 2019
(Dollars in Thousands)**

<u>Type of Permit</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Residential:					
New Single-Family	\$ 65,968.4	\$112,941.1	\$202,169.1	\$1,071,852.3	\$527,761.2
New Multi-Family	27,797.3	26,149.2	46,674.0	127,743.3	117,333.8
Additions/Alterations	78,005.1	71,079.1	97,326.9	96,590.5	93,045.0
Total Residential	<u>\$171,770.8</u>	<u>\$210,169.4</u>	<u>\$346,170.0</u>	<u>\$1,296,186.1</u>	<u>\$738,140.0</u>
Non-Residential:					
New Commercial	\$53,975.7	\$93,462.5	\$79,737.8	\$141,873.8	\$45,903.3
New Industrial	2,484.9	156.4	759.6	1,277.3	199.0
New Other	16,513.4	19,255.1	25,572.7	66,129.7	42,809.2
Additions/Alterations	84,641.9	\$79,943.6	99,102.9	124,238.1	97,259.2
Total Non-Residential	<u>\$157,615.9</u>	<u>\$192,817.6</u>	<u>\$205,173.0</u>	<u>\$333,518.9</u>	<u>\$186,170.7</u>
TOTAL VALUATION	<u><u>\$329,386.7</u></u>	<u><u>\$402,987.0</u></u>	<u><u>\$551,343.0</u></u>	<u><u>\$1,629,705.0</u></u>	<u><u>\$924,310.7</u></u>

Source: Construction Industry Research Board.

Agricultural Production

The County Department of Agriculture estimates that agricultural production totaled \$1,106,662,100 in 2018. The following table provides an agricultural production summary from 2014 through 2018.

**COUNTY OF SONOMA
TOTAL AGRICULTURAL PRODUCTION
For Years 2014 through 2018**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Apiary Products	\$ 128,400	\$ 97,400	\$ 263,200	\$ 231,000	\$ 422,000
Field Crops	11,188,900	12,514,000	13,765,900	12,310,300	11,259,800
Vegetable Crops	12,613,200	12,390,100	9,961,300	8,448,200	8,383,100
Nursery Products	24,959,600	32,585,000	32,699,100	35,410,800	50,508,200
Livestock and Poultry	89,127,900	74,876,700	70,136,300	77,647,700	73,362,700
Livestock and Poultry Products	164,025,300	172,903,100	178,014,400	177,169,300	180,294,600
Fruit and Nut Crops	596,972,100	451,142,200	593,285,000	582,965,600	782,431,700
TOTAL	<u><u>\$899,015,400</u></u>	<u><u>\$756,508,500</u></u>	<u><u>\$898,125,200</u></u>	<u><u>\$894,182,900</u></u>	<u><u>\$1,106,662,100</u></u>

Source: Sonoma County Department of Agriculture.

COUNTY OF MARIN

References to the County under this caption refer to the County of Marin. The County is not obligated to pay debt service on the Series 2020 Bonds.

Population characteristics

As of January 1, 2020, the County's population is estimated at 260,831. The following table shows the County's population between 2016 and 2020.

POPULATION OF MARIN COUNTY AND INCORPORATED CITIES (As of January 1)

<u>Area</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Marin County	263,210	263,262	262,803	262,240	260,831
Belvedere	2,129	2,131	2,148	2,139	2,124
Corte Madera	9,631	9,625	10,043	10,138	10,114
Fairfax	7,528	7,533	7,714	7,443	7,399
Larkspur	12,312	12,325	12,588	12,331	12,253
Mill Valley	15,024	14,956	14,669	14,743	14,674
Novato	54,593	54,516	54,151	54,062	53,702
Ross	2,538	2,536	2,528	2,548	2,550
San Anselmo	13,017	12,982	12,908	12,845	12,757
San Rafael	60,551	60,661	60,020	60,207	59,807
Sausalito	7,227	7,234	7,421	7,301	7,252
Tiburon	9,644	9,647	9,366	9,581	9,540
Balance of County	69,016	69,116	69,237	68,902	68,659

Source: State of California, Department of Finance, Demographic Research Unit.

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Employment

The following chart compares labor force, employment, civilian employment and the unemployment rate in the County, the State of California and the United States during the period from 2015 through 2019.

**COUNTY OF MARIN
LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT⁽¹⁾
Yearly Average for Years 2015 through 2019**

<u>Year and Area</u>	<u>Labor Force</u>	<u>Civilian Employment</u>	<u>Civilian Unemployment</u>	<u>Rate (%)</u>
<u>2015</u>				
Marin County	138,700	133,800	4,900	3.6
California	18,828,800	17,660,700	1,168,100	6.2
United States	157,129,900	148,833,400	8,296,500	5.3
<u>2016</u>				
Marin County	139,600	135,000	4,600	3.3
California	19,021,200	17,980,100	1,041,100	5.5
United States	159,187,200	151,435,800	7,751,400	4.9
<u>2017</u>				
Marin County	139,800	135,800	4,000	2.9
California	19,176,400	18,257,100	919,300	4.8
United States	160,319,800	153,337,400	6,982,400	4.4
<u>2018</u>				
Marin County	139,900	136,400	3,400	2.4
California	19,280,800	18,460,700	820,100	4.3
United States	162,075,000	155,761,000	6,314,000	3.9
<u>2019</u>				
Marin County	140,000	136,800	3,200	2.3
California	19,411,600	18,627,400	784,200	4.0
United States	163,538,700	157,538,100	6,000,600	3.7

⁽¹⁾ Data not seasonally adjusted.

Source: State of California Employment Development Department; U.S. Department of Labor, Bureau of Labor Statistics.

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Employment by Industry

The following table shows employment by industry group in the County from 2015 through 2019.

COUNTY OF MARIN ANNUAL AVERAGE EMPLOYMENT BY INDUSTRY GROUP For Years 2015 through 2019

<u>Industry Group</u> ⁽¹⁾	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Total Agricultural ⁽²⁾⁽³⁾	300	300	300	300	400
Non-Agricultural Goods:					
Natural Resources, Mining & Construction ⁽⁴⁾	6,500	6,800	7,200	7,700	7,700
Manufacturing	4,000	4,500	4,900	5,100	5,300
Non-Agricultural Services:					
Transportation, Warehousing and Utilities	1,300	1,300	1,300	1,300	1,300
Wholesale Trade	2,500	2,500	2,500	2,400	2,500
Retail Trade	14,200	14,400	14,600	14,800	14,700
Financial Activities	6,400	6,200	5,800	5,600	5,600
Professional and Business Services	18,000	18,000	17,600	17,700	18,300
Educational and Health Services	20,100	20,600	21,000	21,000	21,300
Government ⁽⁵⁾	15,500	15,500	15,700	16,000	15,800
Other ⁽⁶⁾	5,200	5,500	5,700	5,700	5,700
Total Non-Agricultural	93,700	95,300	96,300	97,300	98,200
TOTAL ALL INDUSTRIES:	94,000	95,600	96,600	97,600	98,600

⁽¹⁾ Does not include proprietors, the self-employed, unpaid volunteers or family workers, domestic workers in households, and persons involved in labor management trade disputes. Detail may not add to totals due to independent rounding. Employment by place of work.

⁽²⁾ Excludes farmers and unpaid family workers.

⁽³⁾ Excludes veterinary, other animal, landscape and horticultural services.

⁽⁴⁾ Includes employees of construction contractors and operative builders; does not include force account or government construction workers.

⁽⁵⁾ Includes all civilian employees of federal, State and local governments regardless of the activity in which the employee is engaged.

⁽⁶⁾ Includes various industries including Social Assistance, Leisure and Hospitality, Arts Entertainment and Recreation.

Source: State of California Employment Development Department.

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Taxable Sales

The following table shows taxable transactions within the County from 2015 through 2019.

**COUNTY OF MARIN
TAXABLE SALES
For Years 2015 through 2019
(Dollars in Thousands)**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Motor Vehicles and Parts Dealers	\$ 798,160	\$ 797,811	\$ 784,401	\$ 862,089	\$ 802,376
Home Furnishings and Appliance Stores	235,961	237,546	242,627	242,732	260,941
Building Material and Garden Equipment and Supplies Dealers	359,379	366,565	392,758	420,185	434,229
Food and Beverage Stores	309,365	316,274	325,955	329,463	335,549
Gasoline Stations	325,560	297,093	328,138	380,097	383,226
Clothing and Clothing Accessories Stores	344,228	335,432	337,905	345,342	338,190
General Merchandise Stores	289,610	292,321	302,492	292,069	289,638
Food Services and Drinking Places	601,279	618,118	632,944	644,257	655,896
Other Retail Group	606,555	628,424	592,200	628,065	673,410
Total Retail and Food Services	<u>3,870,097</u>	<u>3,889,584</u>	<u>3,939,420</u>	<u>4,144,299</u>	<u>4,174,455</u>
All Other Outlets	1,210,163	1,190,123	1,244,681	1,249,266	1,317,634
TOTAL ALL OUTLETS	<u><u>\$5,080,260</u></u>	<u><u>\$5,079,707</u></u>	<u><u>\$5,184,100</u></u>	<u><u>\$5,393,565</u></u>	<u><u>\$5,492,089</u></u>

Source: California Department of Tax and Fee Administration.

Construction Activity

The following table provides a building permit valuation summary for the County for the years 2015 through 2019.

**COUNTY OF MARIN
BUILDING PERMIT VALUATION
For Years 2015 through 2019
(Dollars in Thousands)**

<u>Type of Permit</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Residential:					
New Single-Family	\$ 75,834	\$ 62,804	\$ 86,748	\$ 94,556	\$ 115,772
New Multi-Family	2,426	7,869	-	23,600	13,650
Additions/Alterations	203,754	194,742	194,772	180,662	202,354
Total Residential	<u>\$282,015</u>	<u>\$265,416</u>	<u>\$281,520</u>	<u>\$298,818</u>	<u>\$331,776</u>
Total Non-Residential	<u>550,397</u>	<u>125,041</u>	<u>126,066</u>	<u>156,050</u>	<u>243,211</u>
TOTAL VALUATION	<u><u>\$832,412</u></u>	<u><u>\$390,412</u></u>	<u><u>\$407,586</u></u>	<u><u>\$454,868</u></u>	<u><u>\$574,987</u></u>

Source: Construction Industry Research Board.

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain provisions of the Indenture (as defined in the forepart of this Official Statement). Such summary is not intended to be complete or definitive, is supplemental to the summary of other provisions of the Indenture contained elsewhere in this Official Statement, and is qualified in its entirety by reference to the full terms of the Indenture. All capitalized terms used and not otherwise defined in this Official Statement shall have the meanings assigned to such terms in the Indenture.

Definitions

“Accreted Value” means, with respect to any Capital Appreciation Bond, the principal amount thereof plus the interest accrued thereon, compounded at the approximate interest rate thereon on each date specified therein. The Accreted Value at any date shall be the amounts set forth in the Accreted Value Table as of such date, if such date is a compounding date, and if not, as of the immediately preceding compounding date. For purposes of the Indenture, the term “principal of” shall also include Accreted Value, if appropriate.

“Accreted Value Table” means the table denominated as such which appears as an exhibit to, and to which reference is made in, a Supplemental Indenture providing for a Series of Capital Appreciation Bonds issued pursuant to such Supplemental Indenture.

“Act” means the Sonoma-Marin Area Rail Transit District Act, being Part 16 of Division 10 (Sections 105000 et seq.) of the Public Utilities Code of the State of California, as amended or supplemented.

“Alternate Credit Enhancement” means, with respect to a Series of Bonds, any Insurance, letter of credit, line of credit, surety bond or other instrument, if any, which secures or guarantees the payment of principal of and interest on a Series of Bonds, issued by an insurance company, commercial bank, pension fund or other institution, and delivered or made available to the Trustee, as a replacement or substitution for any Credit Enhancement then in effect.

“Alternate Liquidity Facility” means, with respect to a Series of Bonds, a line of credit, letter of credit, standby purchase agreement or similar liquidity facility, issued by a commercial bank, insurance company, pension fund or other institution, and delivered or made available to the Trustee, as a replacement or substitute for any Liquidity Facility then in effect.

“Annual Debt Service” means, for any Fiscal Year, the aggregate amount (without duplication) of principal and interest on all Bonds and Parity Obligations becoming due and payable during such Fiscal Year calculated utilizing the assumptions set forth under the definition of Debt Service.

“Assumed Debt Service” means for any Fiscal Year the aggregate amount of principal and interest which would be payable on all Bonds if each Excluded Principal Payment were amortized on a substantially level debt service basis or other amortization schedule provided by the Issuer for a period commencing on the date of calculation of such Assumed Debt Service and ending on the earlier of (i) the date specified by the Issuer not exceeding twenty (20) years from the date of calculation, or (ii) the Tax Expiration Date, such Assumed Debt Service to be calculated on a level debt service basis or other amortization basis provided by the Issuer based on a fixed interest rate equal to the rate at which the Issuer could borrow for such period, as set forth in a certificate of a financial advisor or investment banker, delivered to the Trustee, who may

rely conclusively on such certificate, such certificate to be delivered within thirty (30) days of the date of calculation.

“Authorized Denomination,” with respect to each Series of Bonds, shall have the meaning specified in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

“Authorized Representative” means the Chairperson of the Board, the General Manager of the Issuer, the Chief Financial Officer of the Issuer or such other person as may be designated to act on behalf of the Issuer by a written certificate delivered to the Trustee containing the specimen signature of such person and signed on behalf of the Issuer by an Authorized Representative.

“Beneficial Owner” means any Person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of any Bond, including, without limitation, any Person holding Bonds through nominees or depositories, including the Securities Depository.

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

“Bond Obligation” means, as of any given date of calculation, (1) with respect to any Outstanding Current Interest Bond, the principal amount of such Bond, and (2) with respect to any Outstanding Capital Appreciation Bond, the Accreted Value thereof.

“Bond Reserve Fund” means any fund by that name established with respect to one or more Series of Bonds pursuant to the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

“Bond Reserve Requirement,” with respect to a Series of Bonds for which the Issuer shall have established a Bond Reserve Fund shall have the meaning specified in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

“Bondholder” or “Holder,” whenever used with respect to a Bond, means the person in whose name such Bond is registered.

“Bonds” means the Sonoma-Marín Area Rail Transit District Measure Q Sales Tax Revenue Bonds and/or Sonoma-Marín Area Rail Transit District Measure Q Sales Tax Revenue Notes authorized by, and at any time Outstanding pursuant to, the Indenture.

“Business Day” means, except as is otherwise provided in the Supplemental Indenture pursuant to which a Series of Bonds are issued, any day other than (1) a Saturday, Sunday, or a day on which banking institutions in the State or the State of New York or the jurisdiction in which the Corporate Trust Office of the Trustee is located are authorized or obligated by law or executive order to be closed; (2) for purposes of payments and other actions relating to Bonds secured by a Credit Enhancement or supported by a Liquidity Facility, a day upon which commercial banks in the city in which is located the office of the issuing bank at which demands for payment under the Credit Enhancement or Liquidity Facility, as applicable, are to be presented are authorized or obligated by law or executive order to be closed; (3) a day on which the New York Stock Exchange is closed; or (4) a day on which the payment system of the Federal Reserve System is not operational.

“Capital Appreciation Bonds” means the Bonds of any Series designated as Capital Appreciation Bonds in the Supplemental Indenture providing for the issuance of such Series of Bonds and on which interest is compounded and paid at maturity or on prior redemption.

“CDTFA” means the California Department of Tax and Fee Administration.

“Certificate,” “Statement,” “Request,” “Requisition” and “Order” of the Issuer mean, respectively, a written certificate, statement, request, requisition or order signed in the name of the Issuer by an Authorized Representative.

“Code” means the Internal Revenue Code of 1986, and the regulations applicable thereto or issued thereunder, or any successor to the Internal Revenue Code of 1986. Reference to any particular Code Section shall, in the event of such a successor Code, be deemed to be reference to the successor to such Code section.

“Continuing Disclosure Certificate” means, with respect to each Series of Bonds requiring an undertaking regarding disclosure under Rule 15c2-12, the Continuing Disclosure Certificate or Agreement, as applicable, dated the date of issuance of such Series of Bonds, executed by the Issuer, as the same may be supplemented, modified or amended in accordance with its terms.

“Corporate Trust Office” or corporate trust office means the corporate trust office of the Trustee at The Bank of New York Mellon Trust Company, N.A., 700 South Flower Street, Suite 500, Los Angeles, California 90017, Attention: Corporate Trust, or for purposes of the presentation or surrender of Bonds for payment, transfer, or exchange, the corporate trust agency office designated by the Trustee, or such other or additional offices as may be designated by the Trustee from time to time.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Issuer and related to the authorization, issuance, sale and delivery of a Series of Bonds, including but not limited to advertising and printing costs, costs of preparation and reproduction of documents, filing and recording fees, travel expenses and costs relating to rating agency meetings and other meetings concerning such Series of Bonds, initial fees, expenses and charges of the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, financial advisor fees and expenses, rating agency fees, fees and charges for preparation, execution, transportation and safekeeping of Bonds, surety, insurance, credit enhancement and liquidity costs, and any other cost, charge or fee incurred in connection with the issuance of a Series of Bonds or any Parity Obligations delivered in connection with a Series of Bonds.

“Credit Enhancement” means, with respect to a Series of Bonds, any Insurance, letter of credit, line of credit, surety bond or other instrument, if any, which secures or guarantees the payment of principal of and interest on a Series of Bonds, issued by an insurance company, commercial bank, pension fund or other institution, and delivered or made available to the Trustee, as from time to time supplemented or amended pursuant to its terms, or, in the event of the delivery or availability of an Alternate Credit Enhancement, such Alternate Credit Enhancement.

“Credit Enhancement Provider” means, with respect to a Series of Bonds, the Insurer, commercial bank, pension fund or other institution issuing (or having primary obligation, or acting as agent for the institutions obligated, under) a Credit Enhancement then in effect with respect to such Series of Bonds.

“Current Interest Bonds” means the Bonds of any Series designated as Current Interest Bonds in the Supplemental Indenture providing for the issuance of such Series of Bonds and that pay interest to the Holders thereof on a periodic basis prior to maturity.

“Debt Service,” when used with respect to any Bonds or Parity Obligations (for purposes of this definition of Debt Service, herein collectively referred to as “Obligations”), means, as of any date of calculation and with respect to any Fiscal Year, the sum of (1) the interest falling due on such Obligations during such Fiscal Year and (2) the principal or Mandatory Sinking Account Payments required with respect

to such Obligations during such Fiscal Year; computed on the assumption that no portion of such Obligations shall cease to be Outstanding during such Fiscal Year except by reason of the application of such scheduled payments; provided, however, that for purposes of such computation:

(A) Excluded Principal Payments (and the interest related thereto provided such interest is being paid from the same source as the Excluded Principal Payments) shall be excluded from such calculation and Assumed Debt Service shall be included in such calculation;

(B) in determining the principal amount due in each Fiscal Year, payment shall (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made in accordance with any amortization schedule established for such Obligations, including any Mandatory Sinking Account Payments or any scheduled redemption or payment of Obligations on the basis of Accreted Value, and for such purpose, the redemption payment or payment of Accreted Value shall be deemed a principal payment and interest that is compounded and paid as Accreted Value shall be deemed due on the scheduled redemption or payment date of such Capital Appreciation Bond;

(C) if any Obligations bear, or if any Obligations proposed to be issued will bear, interest at a variable interest rate and the interest on which is excluded or expected to be excluded from gross income for federal income tax purposes, the interest rate on such Obligations for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to the average of the SIFMA Swap Index for the five (5) years preceding such date of calculation (provided, however, that if such index is no longer published, the interest rate on such Obligations shall be calculated based upon such similar index as the Issuer shall designate in writing to the Trustee);

(D) if any Obligations bear, or if any Obligations proposed to be issued will bear, interest at a variable interest rate and the interest on which is included or expected to be included in gross income for federal income tax purposes, the interest rate on such Obligations shall be calculated at an interest rate equal to 100% of the average One Month USD LIBOR Rate during the five (5) years preceding such date of calculation or such higher rate as shall be specified in a Certificate of the Issuer delivered to the Trustee (provided, however, that if such index is no longer published, the interest rate on such Obligations shall be calculated based upon such similar index as the Issuer shall designate in writing to the Trustee);

(E) if any Obligations feature an option, on the part of the owners or an obligation under the terms of such Obligations, to tender all or a portion of such Obligations to the Issuer, the Trustee or other fiduciary or agent, and requires that such Obligations or portion thereof be purchased if properly presented, then for purposes of determining the amounts of principal and interest due in any Fiscal Year on such Obligations, the options or obligations of the owners of such Obligations to tender the same for purchase or payment prior to the stated maturity or maturities shall be ignored and not treated as a principal maturity; and

(F) principal and interest payments on Obligations shall be excluded to the extent such payments are to be paid from amounts on deposit with the Trustee or other fiduciary in escrow specifically therefor and interest payments shall be excluded to the extent that such interest payments are (i) to be paid from the proceeds of Obligations held by the Trustee or other fiduciary as capitalized interest specifically to pay such interest or (ii) paid or expected to be paid from Subsidy Payments.

“Electronic Means” means facsimile transmission, email transmission or other similar electronic means of communication providing evidence of transmission, including a telephone communication confirmed by any other method set forth in this definition.

“Eligible Account” means an account that is either (a) maintained with a federal or state-chartered depository institution or trust company that has a Standard & Poor’s short-term debt rating of at least ‘A-2’ (or, if no short-term debt rating, a long-term debt rating of ‘BBB+’); or (b) maintained with the corporate trust department of a federal depository institution or state-chartered depository institution subject to regulations regarding fiduciary funds on deposit similar to Title 12 of the U.S. Code of Federal Regulation Section 9.10(b), which, in either case, has corporate trust powers and is acting in its fiduciary capacity.

“Event of Default” means any of the events of default specified in the Indenture and described under the caption “Events of Default and Remedies - Events of Default” below.

“Excluded Principal Payments” means each payment of principal of Bonds or Parity Obligations which the Issuer determines (in the Certificate of the Issuer delivered to the Trustee) that the Issuer intends to pay with moneys that are not Sales Tax Revenues (such as commercial paper, balloon indebtedness or bond anticipation notes) but from future debt obligations of the Issuer, grants from the State or federal government, or any agency or instrumentality thereof, or any other source of funds of the Issuer, upon which determination of the Issuer the Trustee may conclusively rely. No such determination shall affect the security for such Bonds or the obligation of the Issuer to pay such payments from Revenues or amounts on deposit in the Bond Reserve Fund, if any, securing such Bonds. No payment of principal of Bonds may be determined to be an Excluded Principal Payment unless it is due on or prior to the Tax Expiration Date.

“Expenditure Plan” means the Sonoma-Marín Area Rail Transit District 2008 Expenditure Plan (attached to the Ordinance and incorporated in the Ordinance by reference), as in effect on the date of execution and delivery of the Indenture, and as such expenditure plan may be amended from time to time pursuant to its terms.

“Fee and Expense Obligations” means any obligations of the Issuer which constitute fees, expenses and similar charges in connection with any Bonds, Parity Obligations or Subordinate Obligations, which obligations are secured by the pledge made pursuant to the Indenture and payable from the Revenues on a basis subordinate to the Bonds, the Parity Obligations and the Subordinate Obligations.

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other 12-month period hereafter selected and designated as the official fiscal year period of the Issuer, which designation shall be provided to the Trustee in a Certificate delivered by the Issuer.

“Fitch” means Fitch Inc., and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency selected by the Issuer.

“Holder” or “Bondholder,” whenever used herein with respect to a Bond, means the person in whose name such Bond is registered.

“Indenture” means the Indenture, dated as of December 1, 2011, between the Trustee and the Issuer, as originally executed or as it may from time to time be supplemented or amended by any Supplemental Indenture delivered pursuant to the provisions thereof, including, without limitation, by the Third Supplemental Indenture.

“Insurance” means any financial guaranty insurance policy or municipal bond insurance policy issued by an Insurer insuring the payment when due of principal of and interest on a Series of Bonds as provided in such financial guaranty insurance policy or municipal bond insurance policy.

“Insurer” means any provider of Insurance with respect to a Series of Bonds.

“Interest Payment Date,” with respect to each Series of Bonds, shall have the meaning specified in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

“Interest Subsidy Bonds” means Bonds entitled to receive Subsidy Payments.

“Investment Securities” means any of the following:

(A) The following obligations may be used as Investment Securities for all purposes, including escrow fund investments in any escrow fund established pursuant to any Supplemental Indenture:

(1) Cash; and

(2) Direct obligations of (including obligations issued or held in book entry form on the books of) the Department of the Treasury of the United States of America;

(B) The following obligations may be used as Investment Securities for all purposes other than escrow fund investments in any escrow fund established pursuant to any Supplemental Indenture, including defeasance investments in refunding escrow accounts:

(1) Cash;

(2) Direct obligations of (including obligations issued or held in book entry form on the books of) the Department of the Treasury of the United States of America;

(3) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including

- Export-Import Bank
- Farm Credit System Financial Assistance corporation
- Rural Economic Community Development Administration (formerly the Farmers Home Administration)
- General Services Administration
- U.S. Maritime Administration
- Small Business Administration
- Government National Mortgage Association (GNMA)
- U.S. Department of Housing & Urban Development (PHA’s)
- Federal Housing Administration
- Federal Financing Bank; and

(4) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- Senior debt obligations rated “Aaa” by Moody’s and “AAA” by Standard & Poor’s issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage corporation (FHLMC)
- Obligations of the Resolution Funding Corporation (REFCORP)
- Senior debt obligations of the Federal Home Loan Bank System

- Senior debt obligations of other Government Sponsored Agencies approved by each Credit Enhancement Provider then providing credit enhancement for a Series of Bonds.

(c) The following obligations may be used as Investment Securities for all purposes other than defeasance investments in refunding escrow accounts:

(1) U.S. dollar denominated deposit accounts, time deposits, certificates of deposit (including those placed by a third party pursuant to an agreement between the Issuer and the Trustee), trust funds, trust accounts, overnight bank deposits, interest-bearing deposits, interest bearing money market accounts, federal funds and bankers' acceptances with domestic commercial banks (including the Trustee and its affiliates) which have a rating (ratings on holding companies are not considered as the rating of the banks) on their short-term certificates of deposit on the date of purchase of "A-1" or "A-1+" by Standard & Poor's and "P-1" by Moody's and maturing no more than three hundred sixty (360) days after the date of purchase or are fully insured by the FDIC;

(2) Commercial paper which is rated at the time of purchase in the single highest classification, "A-1" by Standard & Poor's or "P-1" by Moody's and which matures not more than two hundred seventy (270) days after the date of purchase;

(3) Investments in a money market mutual fund rated "AAAm or "AAAm-G" or better by Standard & Poor's or in the highest rating category of Moody's including funds for which the Trustee or an affiliate provides investment advice or other services including serving as investment manager, administrator, shareholder, servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from funds for services rendered, (ii) the Trustee collects fees for services rendered pursuant to the Indenture, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to the Indenture may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee;

(4) Repurchase and reverse repurchase agreements collateralized with Investment Securities described in clause (A)(2) of this definition, including those of the Trustee or any of its affiliates;

(5) Pre-refunded Municipal Obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(A) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Standard & Poor's and Moody's or any successors thereto; or

(B) (i) which are fully secured as to principal and interest and prepayment premium, if any, by an escrow consisting only of cash or obligations described in paragraph A(2) above, which escrow may be applied only to the payment of such principal of and interest and prepayment premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified prepayment date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by

an independent certified public accountant, to pay principal of and interest and prepayment premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(6) General obligations of states with a rating of at least “A2/A” or higher by both Moody’s and Standard & Poor’s;

(7) Any investment agreement with a financial institution or insurance company which has at the date of execution thereof an outstanding issue of unsecured, uninsured and unguaranteed debt obligations or a claims paying ability rated (or the parent company or guarantor of which is rated) in either of the two highest long-term Rating Categories by Moody’s and Standard & Poor’s;

(8) The Local Agency Investment Fund managed by the Treasurer of the State of California, as referred to in Section 16429.1 of the Government Code of the State;

(9) Shares in a common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State which invests exclusively in investments permitted by Section 53601 of Title 5 Division 2, Chapter 4 of the Government Code of the State, as it may be amended;

(10) The commingled investment fund of the County of Sonoma, California or the County of Marin, California, which is administered in accordance with the investment policy of the applicable County as established by the Treasurer thereof, as permitted by Section 53601 of the Government Code of the State, copies of which policy are available upon written request to said Treasurer; and

(11) Any other forms of investments, including repurchase agreements, approved in writing by each Credit Enhancement Provider then providing Credit Enhancement for a Series of Bonds.

“Issuer” means the Sonoma-Marin Area Rail Transit District, a public entity duly established and existing under the laws of the State, and any successor thereto.

“Issue Date,” with respect to each Series of Bonds, shall have the meaning specified in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

“Law” means the Act, Chapter 6 of Part 1 of Division 2 of Title 5 (Section 54300 et seq.) of the Government Code of the State as referenced in the Act and Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 (Section 53570 et seq.) of the Government Code of the State, in each case as now in effect and as it may from time to time hereafter be amended or supplemented.

“Letter of Credit Fund” means a fund by that name established to hold funds that are drawn on Credit Enhancement provided in the form of a letter of credit and that are to be applied to pay the principal of or interest on a Series of Bonds, which fund shall be established pursuant to the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

“Liquidity Facility” means, with respect to a Series of Bonds, a line of credit, letter of credit, standby purchase agreement or similar liquidity facility, which secures or guarantees the payment of purchase price of such Series of Bonds under certain conditions specified therein, issued by a commercial bank, insurance company, pension fund or other institution, and delivered or made available to the Trustee,

as from time to time supplemented or amended pursuant to its terms, or, in the event of the delivery or availability of an Alternate Liquidity Facility, such Alternate Liquidity Facility.

“Liquidity Facility Bonds” means any Bonds purchased with moneys drawn under (or otherwise obtained pursuant to the terms of) a Liquidity Facility, but excluding any Bonds no longer considered to be Liquidity Facility Bonds in accordance with the terms of the applicable Liquidity Facility. If designated as such in a Supplemental Indenture, Bonds purchased with moneys drawn under Credit Enhancement in the form of a letter of credit or other similar instrument shall be treated as Liquidity Facility Bonds.

“Liquidity Facility Provider” means, with respect to a Series of Bonds, the commercial bank, insurance company, pension fund or other institution issuing (or having primary obligation, or acting as agent for the institutions obligated, under) a Liquidity Facility then in effect with respect to such Series of Bonds.

“Liquidity Facility Rate” means, with respect to a Series of Bonds, the interest rate per annum, if any, specified in the Liquidity Facility delivered in connection with such Series of Bonds as applicable to Liquidity Facility Bonds.

“Mandatory Sinking Account Payment” means, with respect to Bonds of any Series and maturity, the amount required by the Supplemental Indenture establishing the terms and provisions of such Series of Bonds to be deposited by the Issuer in a Sinking Account for the payment of Term Bonds of such Series and maturity.

“Maturity Date” means, with respect to a Series of Bonds, the date of maturity or maturities specified in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

“Maximum Annual Debt Service” means the maximum amount of Annual Debt Service becoming due and payable on all Bonds Outstanding and all Parity Obligations (and Subordinate Obligations, if applicable) outstanding during the period from the date of such calculation through the final maturity date of the Bonds and Parity Obligations (and Subordinate Obligations, if applicable), calculated utilizing the assumptions set forth under the definition of Debt Service.

“Maximum Rate” means, with respect to any Bonds, the lesser of (i) the rate designated as the Maximum Rate for such Bonds in the Supplemental Indenture with respect to such Bonds and (ii) the maximum rate of interest that may legally be paid on the Bonds from time to time.

“Moody’s” means Moody’s Investors Service, a corporation duly organized and existing under the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency selected by the Issuer.

“Notice Parties” means, as and to the extent applicable, the Issuer, the Trustee, the Credit Enhancement Provider, if any, for the Series of Bonds to which the notice being given relates, the auction agent, if any, for the Series of Bonds to which the notice being given relates, the broker-dealer, if any, for the Series of Bonds to which the notice being given relates, the Liquidity Provider, if any, for the Series of Bonds to which the notice being given relates, and the remarketing agent, if any, for the Series of Bonds to which the notice being given relates.

“Obligations” has the meaning given to such term in the definition of “Debt Service.”

“Opinion of Bond Counsel” means a written opinion of a law firm of national standing in the field of public finance selected by the Issuer.

“Opinion of Counsel” means a written opinion of counsel that is selected by, or acceptable to, the Issuer.

“Ordinance” means Ordinance No. 2008-01 adopted by the Board on July 16, 2008, pursuant to the provisions of Article 5 of Chapter 4 of the Act, as now in effect and as it may from time to time hereafter be amended or supplemented.

“Outstanding,” when used as of any particular time with reference to Bonds, means all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except: (1) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (2) Bonds with respect to which all liability of the Issuer shall have been discharged in accordance with the provisions of the Indenture described below under the caption “Defeasance - Discharge of Liability on Bonds;” and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture; provided, however, that in the event the principal of or interest due on any Bonds shall be paid by the Credit Enhancement Provider pursuant to the Credit Enhancement issued in connection with such Bonds, such Bonds shall remain Outstanding for all purposes and shall not be considered defeased or otherwise satisfied or paid by the Issuer and the pledge of Revenues and all covenants, agreements and other obligations of the Issuer to the Holders shall continue to exist and shall run to the benefit of such Credit Enhancement Provider and such Credit Enhancement Provider shall be subrogated to the rights of such Holders.

“Parity Obligations” means (i) any indebtedness, installment sale obligation, lease obligation or other obligation of the Issuer for borrowed money, in each case incurred in accordance with the Indenture, or (ii) any obligation to pay the Rebate Requirement which obligations are secured by the pledge made pursuant to the Indenture and payable from the Revenues equally and ratably with the Bonds (whether or not any Bonds are Outstanding).

“Participating Underwriter” means any of the original underwriters of a Series of Bonds required to comply with Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission, under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“Person” means an association, corporation, firm, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

“Project” means the design, construction, implementation, operation, financing, maintenance and management of a passenger rail system and a bicycle/pedestrian pathway as permitted by the Ordinance and the Expenditure Plan.

“Project Fund” means, with respect to any Series of Bonds, a fund by that name established pursuant to the provisions of a Supplemental Indenture to hold the proceeds of a Series of Bonds or a portion thereof prior to expenditure on the portion of the Project being financed with the proceeds of such Series of Bonds.

“Proportionate Basis,” when used with respect to the redemption of Bonds, means that the amount of Bonds of each maturity to be redeemed shall be determined as nearly as practicable by multiplying the total amount of funds available for redemption by the ratio which the amount of Bond Obligation of Bonds of such maturity bears to the amount of all Bond Obligation of Bonds to be redeemed, provided, however that, any Bond may only be redeemed in an Authorized Denomination. For purposes of the foregoing,

Term Bonds shall be deemed to mature in the years and in the amounts of the Mandatory Sinking Account Payments, and Capital Appreciation Bonds and Current Interest Bonds maturing or subject to Mandatory Sinking Account Payments in the same year shall be treated as separate maturities. When used with respect to the payment or purchase of a portion of Bonds, “Proportionate Basis” shall have the same meaning set forth above except that “pay” or purchase” shall be substituted for “redeem” or “redemption” and “paid” or “purchased” shall be substituted for “redeemed.”

“Purchase Fund” means a fund by that name established to hold funds to be applied to pay the purchase price of a Series of Bonds, which fund shall be established pursuant to the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

“Rating Agency” means, as and to the extent applicable to a Series of Bonds, each of Fitch, Moody’s and Standard & Poor’s, but, in each instance, only so long as each such Rating Agency then maintains a rating on such Series of Bonds at the request of the Issuer.

“Rating Category” means: (i) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier; and (ii) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

“Rebate Requirement” means, with respect to any Series of Bonds, the rebate requirement determined in accordance with the Tax Certificate delivered in connection with such Series of Bonds.

“Redemption Price” means, with respect to any Bond (or portion thereof) the Bond Obligation of such Bond (or portion thereof) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the Indenture.

“Refunding Bonds” means a Series of Bonds or a portion of a Series of Bonds issued pursuant to the provisions of the Indenture.

“Repository” means the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission or any successor agency thereto to receive reports and notices pursuant to Rule 15c2-12.

“Reserve Facility” means any insurance policy, letter of credit or surety bond issued by a Reserve Facility Provider, meeting the requirements set forth in the Indenture, and delivered to the Trustee in satisfaction of all or a portion of the Bond Reserve Requirement applicable to one or more Series of Bonds.

“Reserve Facility Provider” means any issuer of a Reserve Facility.

“Revenues” means: (i) all Sales Tax Revenues; (ii) all investment earnings on amounts held by the Trustee in the funds and accounts established under the Indenture, excluding amounts deposited to the Rebate Fund, any Letter of Credit Fund and any Purchase Fund; and (iii) all Subsidy Payments. In accordance with the provisions set forth in the Indenture, the Issuer by Supplemental Indenture may provide for additional revenues or assets of the Issuer to be included in the definition of Revenues under the Indenture.

“Rule 15c2-12” means Securities and Exchange Commission Rule 15c2-12, as supplemented and amended from time to time.

“Sales Tax Revenues” means all amounts available for distribution to the Issuer after April 1, 2009 on account of the 2008 Measure Q Sales Tax after deducting amounts payable by the Issuer to the State CDTFEA for costs and expenses for its services in connection with the 2008 Measure Q Sales Tax collected pursuant to the Act and levied pursuant to the Ordinance.

“Securities Depository” means The Depository Trust Company, or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other securities depository, or no such depositories, as the Issuer may designate in a Request of the Issuer delivered to the Trustee.

“Serial Bonds” means Bonds, maturing in specified years, for which no Mandatory Sinking Account Payments are provided.

“Series,” whenever used herein with respect to Bonds, means all of the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction regardless of variations in maturity, interest rate, redemption and other provisions, and any Bonds thereafter authenticated and delivered upon transfer or exchange or in lieu of or in substitution for (but not to refund) such Bonds as provided in the Indenture.

“Series 2020 Bonds” means the Sonoma-Marín Area Rail Transit District Measure Q Sales Tax Revenue Bonds, Series 2020 (Taxable) authorized by, and at any time Outstanding pursuant to, the Indenture.

“Standard & Poor’s” or “S&P” means Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business, which is a subsidiary of The McGraw-Hill Companies, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “Standard & Poor’s” or “S&P” shall be deemed to refer to any other nationally recognized securities rating agency selected by the Issuer.

“State” means the State of California.

“State Board of Equalization” means the California State Board of Equalization.

“Subordinate Obligations” means any obligations of the Issuer issued or incurred in accordance with the Indenture, which obligations are secured by the pledge made pursuant to the Indenture and payable from the Revenues on a basis subordinate to the Bonds and the Parity Obligations.

“Subsidy Payments” means payments with respect to the interest due on a Series of Bonds made by the United States Treasury to the Trustee pursuant to Section 54AA of the Code, Section 6431 of the Code or Section 1400U-2 of the Code or any successor to or extension or replacement of any of such provisions of the Code, or any provisions of the Code that create substantially similar direct-pay subsidy programs to such programs created pursuant to Sections 54AA, Section 6431 or Section 1400U-2 of the Code.

“Supplemental Indenture” means any indenture hereafter duly executed and delivered, supplementing, modifying or amending the Indenture, but only if and to the extent that such supplemental indenture is authorized under the Indenture.

“Tax Certificate” means each Tax Certificate delivered by the Issuer at the time of issuance and delivery of a Series of Bonds, as the same may be amended or supplemented in accordance with its terms.

“Tax Expiration Date” means March 31, 2029 or such later date to which the levy of the 2008 Measure Q Sales Tax is extended in accordance with the Act.

“Term Bonds” means Bonds payable at or before their specified maturity date or dates from Mandatory Sinking Account Payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

“Third Supplemental Indenture” means the Third Supplemental Indenture, dated as of October 1, 2020, between the Trustee and the Issuer.

“Trustee” means The Bank of New York Mellon Trust Company, N.A., a national banking association duly organized and existing under and by virtue of the laws of the United States of America, or its successor, as Trustee as provided in the Indenture.

“2008 Measure Q” means the ballot measure which authorized the 2008 Measure Q Sales Tax.

“2008 Measure Q Sales Tax” means the retail transactions and use tax authorized by 2008 Measure Q.

“Variable Rate Indebtedness” means any indebtedness the interest rate on which is not fixed at the time of incurrence of such indebtedness, and has not at some subsequent date been fixed, at a numerical rate or rates for the entire term of such indebtedness.

Pledge of Revenues; Revenue Fund

The Issuer shall cause the Sales Tax Revenues to be transmitted by the CDTFA directly to the Trustee, such direct transmittal to commence as promptly as possible subsequent to the execution and delivery of the Indenture. The Trustee shall forthwith deposit in a trust fund, designated as the “Revenue Fund,” which fund the Trustee shall establish and maintain, all Sales Tax Revenues, when and as received by the Trustee.

As security for the payment of all amounts owing on the Bonds, the Parity Obligations, the Subordinate Obligations and the Fee and Expense Obligations, in the amounts and with the priorities set forth in the Indenture and in the Bonds, the Issuer irrevocably pledges to the Trustee: (i) all Revenues, (ii) all funds and accounts established under the Indenture (other than the Rebate Fund, all Letter of Credit Funds and all Purchase Funds) and all investments, money, instruments, and other property credited thereto or on deposit therein, and (iii) all proceeds thereof, whether now existing or hereafter arising, subject to the provision of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. Such collateral shall immediately be subject to such pledge, and such pledge shall constitute a lien and security interest which shall immediately attach to the collateral and be effective, binding and enforceable against the Issuer and all others asserting the rights therein, to the extent set forth, and in accordance with, the Indenture irrespective of whether those parties have notice of such pledge and without the need for any physical delivery, recordation, filing or further act.

All Bonds and Parity Obligations shall be of equal rank without preference, priority or distinction of any Bonds and Parity Obligations over any other Bonds and Parity Obligations. All Subordinate Obligations shall be of equal rank without preference, priority or distinction of any Subordinate Obligations over any other Subordinate Obligations. All Fee and Expense Obligations shall be of equal rank without preference, priority or distinction of any Fee and Expense Obligations over any other Fee and Expense Obligations.

All Revenues (other than Sales Tax Revenues) shall also be deposited in the Revenue Fund. The Trustee shall hold all funds and accounts established under the Indenture (other than the Rebate Fund, all Letter of Credit Funds and all Purchase Funds), and all investments, money, instruments and other property credited thereto or on deposit therein, in trust for the benefit of the holders of the Bonds, the Parity Obligations, the Subordinate Obligations and the Fee and Expense Obligations as their interests may appear under the Indenture. Such property shall be applied solely as provided in the Indenture. The Bonds are special obligations of the Issuer and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from the Sales Tax Revenues and other Revenues pledged under the Indenture.

Allocation of Revenues

So long as any Bonds are Outstanding and Parity Obligations, Subordinate Obligations, Fee and Expense Obligations and all other amounts payable under the Indenture remain unpaid, the Trustee shall set aside in each month following receipt of the Sales Tax Revenues the moneys in the Revenue Fund in the following respective funds (each of which the Trustee shall establish, maintain and hold in trust for the benefit of the Holders of the Bonds and, as and to the extent applicable, the holders of Parity Obligations, Subordinate Obligations and Fee and Expense Obligations) in the following amounts, in the following order of priority, the requirements of each such fund (including the making up of any deficiencies in any such fund resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any fund subsequent in priority; provided that (i) on a parity with such deposits the Trustee may set aside or transfer amounts with respect to any outstanding Parity Obligations as provided in the proceedings for such Parity Obligations delivered to the Trustee pursuant to the Indenture (which shall be proportionate in the event such amounts are insufficient to provide for all deposits required as of any date to be made with respect to the Bonds and such Parity Obligations), and (ii) in the event any of the deposits or transfers requires more than one such deposit or payment and there is not then on deposit in the Revenue Fund sufficient moneys to make all such deposits and payments, then such deposits and payments shall be made pro rata (based on the total amount of such deposits and payments then due) to the extent of available moneys.

Interest Fund. Following receipt of the Sales Tax Revenues in each month, the Trustee shall set aside in the Interest Fund as soon as practicable in such month an amount equal to (a) one-sixth of the aggregate half-yearly amount of interest becoming due and payable on the Outstanding Current Interest Bonds (except for Bonds constituting Variable Rate Indebtedness which shall be governed by clause (b) below) during the next ensuing 6 months (excluding any interest for which there are moneys deposited in the Interest Fund from the proceeds of any Series of Bonds or other source and reserved as capitalized interest or funded interest to pay such interest during said next ensuing 6 months), until the requisite half-yearly amount of interest on all such Outstanding Current Interest Bonds (except for Bonds constituting Variable Rate Indebtedness which shall be governed by clause (b) below) is on deposit in such fund; provided that from the date of delivery of a Series of Current Interest Bonds until the first Interest Payment Date with respect to such Series of Bonds the amounts set aside in such fund with respect to such Series of Bonds shall be sufficient on a monthly pro rata basis to pay the aggregate amount of interest becoming due and payable on said Interest Payment Date with respect to such Series of Bonds, plus (b) the aggregate amount of interest to accrue during that month on Outstanding Variable Rate Indebtedness, calculated, if the actual rate of interest is not known, at the interest rate specified in writing by the Issuer, or if the Issuer shall not have specified an interest rate in writing, calculated at the maximum interest rate borne by such Variable Rate Indebtedness during the month prior to the month of deposit plus one hundred (100) basis points (provided, however, that the amount of such deposit into the Interest Fund for any month may be reduced by the amount by which the deposit in the prior month exceeded the actual amount of interest accrued and paid during that month on said Outstanding Variable Rate Indebtedness and provided further that the amount of such deposit into the Interest Fund for any month shall be increased by the amount by

which the deposit in the prior month was less than the actual amount of interest accruing during that month on said Outstanding Variable Rate Indebtedness). No deposit need be made into the Interest Fund with respect to any Bonds if the amount contained therein is at least equal to the interest to become due and payable on the Interest Payment Dates falling within the next 6 months upon all of the Bonds issued under the Indenture and then Outstanding and on March 1 and September 1 of each year any excess amounts in the Interest Fund not needed to pay interest on such date (and not held to pay interest on Bonds having interest payment dates other than March 1 and September 1) shall be transferred to the Issuer (but excluding, in each case, any moneys on deposit in the Interest Fund from the proceeds of any Series of Bonds or other source and reserved as capitalized interest or funded interest to pay interest on any future Interest Payment Dates following such Interest Payment Dates).

If there are Liquidity Facility Bonds outstanding at the time of any required deposits to the Interest Fund, such deposits shall take into account and include the Liquidity Facility Rate on Liquidity Facility Bonds required by the Liquidity Facility then in effect with respect to such Bonds.

Principal Fund; Sinking Accounts. Following receipt of the Sales Tax Revenues in each month, the Trustee shall deposit in the Principal Fund as soon as practicable in such month an amount equal to at least (a) one-sixth of the aggregate semiannual amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds of all Series having semiannual maturity dates within the next 6 months, plus (b) one-twelfth of the aggregate yearly amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds of all Series having annual maturity dates within the next 12 months, plus (c) one-sixth of the aggregate of the Mandatory Sinking Account Payments to be paid during the next six-month period into the respective Sinking Accounts for the Term Bonds of all Series for which Sinking Accounts have been created and for which semiannual mandatory redemption is required from said Sinking Accounts, plus (d) one-twelfth of the aggregate of the Mandatory Sinking Account Payments to be paid during the next 12-month period into the respective Sinking Accounts for the Term Bonds of all Series for which Sinking Accounts shall have been created and for which annual mandatory redemption is required from such Sinking Accounts; provided that if the Issuer certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from amounts on deposit in the Bond Reserve Fund that would be in excess of the Bond Reserve Requirement applicable to such Bond Reserve Fund upon such payment, no amounts need be set aside towards such principal to be so refunded or paid. All of the aforesaid deposits made in connection with future Mandatory Sinking Account Payments shall be made without priority of any payment over any other such payment.

In the event that the Revenues shall not be sufficient to make the required deposits so that moneys in the Principal Fund on any principal or mandatory redemption date are equal to the amount of Bond Obligation to become due and payable on the Outstanding Serial Bonds of all Series plus the Bond Obligation amount of and redemption premium on the Outstanding Term Bonds required to be redeemed or paid at maturity on such date, then such moneys shall be applied on a Proportionate Basis and in such proportion as said Serial Bonds and said Term Bonds shall bear to each other, after first deducting for such purposes from said Term Bonds any of said Term Bonds required to be redeemed annually as shall have been redeemed or purchased during the preceding 12-month period and any of said Term Bonds required to be redeemed semiannually as shall have been redeemed or purchased during the six-month period ending on such date or the immediately preceding six month period. In the event that the Sales Tax Revenues shall not be sufficient to pay in full all Mandatory Sinking Account Payments required to be paid at any one time into all such Sinking Accounts, then payments into all such Sinking Accounts shall be made on a Proportionate Basis, in proportion that the respective Mandatory Sinking Account Payments required to be made into each Sinking Account during the then current 12-month period bear to the aggregate of all of the Mandatory Sinking Account Payments required to be made into all such Sinking Accounts during such 12-month period.

No deposit need be made into the Principal Fund so long as there shall be in such fund (i) moneys sufficient to pay the Bond Obligations of all Serial Bonds issued under the Indenture and then Outstanding and maturing by their terms within the next 12 months plus (ii) the aggregate of all Mandatory Sinking Account Payments required to be made in such 12-month period, but less any amounts deposited into the Principal Fund during such 12-month period and theretofore paid from the Principal Fund to redeem or purchase Term Bonds during such 12-month period; provided that if the Issuer certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from amounts on deposit in the Bond Reserve Fund that would be in excess of the Bond Reserve Requirement applicable to such Bond Reserve Fund upon such payment, no amounts need be on deposit with respect to such principal payments. At the beginning of each Fiscal Year and in any event not later than March 1 of each year, the Trustee shall request from the Issuer a Certificate of the Issuer setting forth the principal payments for which deposits will not be necessary pursuant to the preceding sentence and the reason therefor. On March 1 of each year or as soon as practicable thereafter any excess amounts in the Principal Fund not needed to pay principal on such date (and not held to pay principal on Bonds having principal payment dates other than March 1) shall be transferred to the Issuer.

If there are any Liquidity Facility Bonds outstanding at the time of any required deposits to the Principal Fund, such deposits shall take into account and include any amortizations or redemptions of any Liquidity Facility Bonds required by the Liquidity Facility then in effect with respect to such Bonds. For purposes of the provisions above relating to the Principal Fund, Liquidity Facility Bonds shall be treated as Serial Bonds with maturity dates on the payment dates of any amortization or redemptions.

Bond Reserve Fund. Upon the occurrence of any deficiency in any Bond Reserve Fund, the Trustee shall make such deposit to the Bond Reserve Fund, as is required pursuant to the provisions of the Indenture, each such deposit to be made as soon as possible in each month, until the balance therein is at least equal to the applicable Bond Reserve Requirement. The Series 2020 Bonds are not currently secured by any Bond Reserve Fund.

Subordinate Obligations Fund. After the transfers to the Interest Fund, the Principal Fund and the Bond Reserve Funds described above have been made, the Trustee shall deposit in the Subordinate Obligations Fund in each month such amount as the Issuer shall specify in writing is necessary to make payments due and payable during the following month with respect to Subordinate Obligations then outstanding.

Fees and Expenses Fund. After the transfers to the Interest Fund, the Principal Fund, the Bond Reserve Funds and the Subordinate Obligation Fund described above have been made, the Trustee shall deposit in the Fees and Expenses Fund in each month the amounts necessary for payment of Fee and Expense Obligations owing in such month or the following month by the Issuer.

Any Revenues remaining in the Revenue Fund after the foregoing transfers in the funds and accounts described above, except as the Issuer shall otherwise direct in writing or as is otherwise provided in a Supplemental Indenture, shall be transferred to the Issuer on the same Business Day or as soon as practicable thereafter. The Issuer may use and apply the Revenues when received by it for any lawful purpose of the Issuer, including the redemption of Bonds upon the terms and conditions set forth in the Supplemental Indenture relating to such Bonds and the purchase of Bonds as and when and at such prices as it may determine.

If 5 days prior to any principal payment date, Interest Payment Date or mandatory redemption date the amounts on deposit in the Revenue Fund, the Interest Fund, the Principal Fund, including the Sinking Accounts therein, and, as and to the extent applicable, the Bond Reserve Fund established in connection with a Series of Bonds with respect to the payments to be made on such upcoming date are insufficient to

make such payments, the Trustee shall immediately notify the Issuer, in writing, of such deficiency and direct that the Issuer transfer the amount of such deficiency to the Trustee on or prior to such payment date. The Issuer covenants and agrees to transfer to the Trustee from any Revenues in its possession the amount of such deficiency on or prior to the principal, interest or mandatory redemption date referenced in such notice.

In the event that the Issuer reasonably determines that the practice of the CDTFA has changed such that Sales Tax Revenues are distributed to the Trustee less frequently than monthly, the Issuer shall deliver to the Trustee an Order of the Issuer specifying such additional transfers, set asides or deposits to be made from the Revenue Fund at the time of each receipt by the Trustee of Sales Tax Revenues from the CDTFA as may be necessary to provide for timely transfers, set asides and deposits required by the Indenture. If the Issuer so determines, the Indenture may also be amended in the manner provided therein.

Application of Funds and Accounts

Application of Interest Fund. All amounts in the Interest Fund shall be used and withdrawn by the Trustee solely for the purposes of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture), or for reimbursing the Credit Enhancement Provider for a drawing for such purposes made on Credit Enhancement provided in the form of an irrevocable, direct-pay letter of credit. If amounts on deposit in the Interest Fund shall not be sufficient to pay in full all amounts payable from the Interest Fund, such amounts shall be applied pro rata (based on the total amount on deposit in the Interest Fund and payments then due).

Application of Principal Fund. All amounts in the Principal Fund shall be used and withdrawn by the Trustee solely for the purposes of paying the Bond Obligation of the Bonds when due and payable, except that all amounts in the Sinking Accounts shall be used and withdrawn by the Trustee solely to purchase or redeem or pay at maturity Term Bonds, as provided in the Indenture, or for reimbursing the Credit Provider for a drawing for such purposes made on Credit Enhancement provided in the form of an irrevocable, direct-pay letter of credit. If amounts on deposit in the Principal Fund shall not be sufficient to pay in full all amounts payable from the Principal Fund, such amounts shall be applied pro rata (based on the total amount on deposit in the Principal Fund and payments then due).

The Trustee shall establish and maintain within the Principal Fund a separate account for the Term Bonds of each Series and maturity, designated as the “_____ Sinking Account,” inserting therein the Series and maturity designation of such Bonds. On or before the Business Day prior to any date upon which a Mandatory Sinking Account Payment is due, the Trustee shall transfer the amount of such Mandatory Sinking Account Payment (being the principal thereof, in the case of Current Interest Bonds, and the Accreted Value, in the case of Capital Appreciation Bonds) from the Principal Fund to the applicable Sinking Account. With respect to each Sinking Account, on each Mandatory Sinking Account Payment date established for such Sinking Account, the Trustee shall apply the Mandatory Sinking Account Payment required on that date to the redemption (or payment at maturity, as the case may be) of Term Bonds of such Series and maturity for which such Sinking Account was established, in the manner provided in the Indenture or the Supplemental Indenture pursuant to which such Series of Bonds was created; provided that, at any time prior to giving such notice of such redemption, the Trustee shall, upon receipt of a Request of the Issuer, apply moneys in such Sinking Account to the purchase of Term Bonds of such Series and maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Fund) as is directed by the Issuer, except that the purchase price (excluding accrued interest, in the case of Current Interest Bonds) shall not exceed the principal amount or Accreted Value thereof. If, during the 12-month period (or six-month period with respect to Bonds having semi-annual Mandatory Sinking Account Payments) immediately preceding said

Mandatory Sinking Account Payment date, the Trustee has purchased Term Bonds of such Series and maturity with moneys in such Sinking Account, or, during said period and prior to giving said notice of redemption, the Issuer has deposited Term Bonds of such Series and maturity with the Trustee, or Term Bonds of such Series and maturity were at any time purchased or redeemed by the Trustee from the Redemption Fund and allocable to said Mandatory Sinking Account Payment, such Term Bonds so purchased or deposited or redeemed shall be applied, to the extent of the full principal amount thereof, to reduce said Mandatory Sinking Account Payment. All Term Bonds purchased or deposited pursuant to this subsection shall be cancelled by the Trustee and destroyed by the Trustee and a certificate of destruction shall be delivered to the Issuer by the Trustee. Any amounts remaining in a Sinking Account on March 1 of each year following the redemption as of such date of the Term Bonds for which such account was established shall be withdrawn by the Trustee and transferred as soon as practicable to the Issuer to be used for any lawful purpose. All Term Bonds purchased from a Sinking Account or deposited by the Issuer with the Trustee in a twelve month period ending February 28 or February 29, as applicable (or in a six-month period ending August 31 or February 28 or February 29, as applicable, with respect to Bonds having semi-annual Mandatory Sinking Account Payments) and prior to the giving of notice by the Trustee for redemption from Mandatory Sinking Account Payments for such period shall be allocated first to the next succeeding Mandatory Sinking Account Payment for such Series and maturity of Term Bonds, if any, occurring on the next March 1 or September 1, then as a credit against such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of the Issuer. All Term Bonds redeemed by the Trustee from the Redemption Fund shall be credited to such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of the Issuer.

Bond Reserve Fund. The Series 2020 Bonds are not currently secured by any Bond Reserve Fund. The Issuer may at its sole discretion at the time of issuance of any Series of Bonds or at any time thereafter by Supplemental Indenture provide for the establishment of a Bond Reserve Fund as additional security for one or more Series of Bonds. Any Bond Reserve Fund so established by the Issuer shall be available to secure one or more Series of Bonds as the Issuer shall determine and shall specify in the Supplemental Indenture establishing such Bond Reserve Fund. Any Bond Reserve Fund established by the Issuer shall be held by the Trustee. Unless otherwise specified in a Supplemental Indenture establishing the terms and provisions of a Series of Bonds, the terms and provision set forth in the Indenture shall apply to each Bond Reserve Fund established thereunder.

In lieu of making the Bond Reserve Requirement deposit applicable to one or more Series of Bonds in cash or in replacement of moneys then on deposit in the Bond Reserve Fund (which shall be transferred by the Trustee to the Issuer), or in substitution of any Reserve Facility comprising part of the Bond Reserve Requirement relating to one or more Series of Bonds, the Issuer may, at any time and from time to time, deliver to the Trustee an irrevocable letter of credit issued by a financial institution having unsecured debt obligations rated at the time of delivery of such letter of credit in one of the two highest Rating Categories of Moody's and Standard & Poor's, in an amount, which, together with cash, Investment Securities or other Reserve Facilities, as described in the next paragraph, then on deposit in the Bond Reserve Fund, will equal the applicable Bond Reserve Requirement. Such letter of credit shall have a term no less than 3 years or, if less, the final maturity of the Bonds in connection with which such letter of credit was obtained and shall provide by its terms that it may be drawn upon as provided in the Indenture as described in this paragraph. At least one year prior to the stated expiration of such letter of credit, the Issuer shall either (i) deliver a replacement letter of credit, (ii) deliver an extension of the letter of credit for at least one additional year or, if less, the final maturity of the Bonds in connection with which such letter of credit was obtained, or (iii) deliver to the Trustee a Reserve Facility satisfying the requirements of the Indenture as described in the next paragraph. Upon delivery of such replacement Reserve Facility, the Trustee shall deliver the then-effective letter of credit to or upon the order of the Issuer. If the Issuer shall fail to deposit a replacement Reserve Facility with the Trustee, the Issuer shall immediately commence to make monthly deposits with

the Trustee so that an amount equal to the applicable Bond Reserve Requirement will be on deposit in the Bond Reserve Fund no later than the stated expiration date of the letter of credit. If an amount equal to the applicable Bond Reserve Requirement as of the date following the expiration of the letter of credit is not on deposit in the Bond Reserve Fund one (1) week prior to the expiration date of the letter of credit (excluding from such determination the letter of credit), the Trustee shall draw on the letter of credit to fund the deficiency resulting therefrom in the Bond Reserve Fund.

In lieu of making a Bond Reserve Requirement deposit applicable to one or more Series of Bonds in cash or in replacement of moneys then on deposit in any Bond Reserve Fund (which shall be transferred by the Trustee to the Issuer) or in substitution of any Reserve Facility comprising part of a Bond Reserve Requirement for any Bonds, the Issuer may, at any time and from time to time, deliver to the Trustee a surety bond or an insurance policy in an amount which, together with moneys, Investment Securities, or other Reserve Facilities then on deposit in the Bond Reserve Fund, is no less than the applicable Bond Reserve Requirement. Such surety bond or insurance policy shall be issued by an insurance company whose claims paying ability or unsecured debt obligations (or for which obligations secured by such insurance company's insurance policies) are rated at the time of delivery in one of the two highest Rating Categories of Moody's and Standard & Poor's. Such surety bond or insurance policy shall have a term of no less than the final maturity of the Bonds in connection with which such surety bond or insurance policy is obtained. In the event that such surety bond or insurance policy for any reason lapses or expires, the Issuer shall immediately implement (i) or (iii) of the preceding paragraph or make the twelve equal monthly deposits to such Bond Reserve Fund so that the Bond Reserve Fund is replenished to the required level after a year.

Subject to the terms of the Indenture described in the last paragraph of this section, all amounts in any Bond Reserve Fund (including all amounts which may be obtained from a Reserve Facility on deposit in such Bond Reserve Fund) shall be used and withdrawn by the Trustee, as hereinafter described: (i) for the purpose of making up any deficiency in the Interest Fund or the Principal Fund relating to the Bonds of the Series to which such Bond Reserve Fund relates; or (ii) together with any other moneys available therefor, (x) for the payment or redemption of all Bonds then Outstanding of the Series to which such Bond Reserve Fund relates, (y) for the defeasance or redemption of all or a portion of the Bonds then Outstanding of the Series to which such Bond Reserve Fund relates, provided, however, that if funds on deposit in such Bond Reserve Fund are applied to the defeasance or redemption of a portion of the Series of Bonds to which such Bond Reserve Fund relates, the amount on deposit in the Bond Reserve Fund immediately subsequent to such partial defeasance or redemption shall equal the Bond Reserve Requirement applicable to all Bonds of such Series Outstanding immediately subsequent to such partial defeasance or redemption, or (z) for the payment of the final principal and interest payment of the Bonds of such Series. Unless otherwise directed in a Supplemental Indenture establishing the terms and provisions of a Series of Bonds, the Trustee shall apply amounts held in cash or Investment Securities in any Bond Reserve Fund prior to applying amounts held in the form of Reserve Facilities in any Bond Reserve Fund, and if there is more than one Reserve Facility being held on deposit in any Bond Reserve Fund, shall, on a *pro rata* basis with respect to the portion of such Bond Reserve Fund held in the form of a Reserve Facility (calculated by reference to the maximum amount of such Reserve Facility), draw under each Reserve Facility issued with respect to such Bond Reserve Fund, in a timely manner and pursuant to the terms of such Reserve Facility to the extent necessary in order to obtain sufficient funds on or prior to the date such funds are needed to pay the Bond Obligation of, Mandatory Sinking Account Payments with respect to, and interest on the Bonds of the Series to which such Bond Reserve Fund relates when due. In the event that the Trustee has received written notice that any payment of principal of or interest on a Bond has been recovered from a Holder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee, pursuant to the terms of, and if so provided by, the terms of the Reserve Facility, if any, securing the Bonds of such Series, shall so notify the issuer thereof

and draw on such Reserve Facility to the lesser of the extent required or the maximum amount of such Reserve Facility in order to pay to such Holders the principal and interest so recovered.

The Trustee shall notify the Issuer of any deficiency in any Bond Reserve Fund (i) due to a withdrawal from such Bond Reserve Fund for purposes of making up any deficiency in the Interest Fund or the Principal Fund relating to the Bonds of the Series to which such Bond Reserve Fund relates or (ii) resulting from a valuation of Investment Securities held on deposit in such Bond Reserve Fund and shall request that the Issuer replenish such deficiency or repay any and all obligations due and payable under the terms of any Reserve Facility comprising part of any Bond Reserve Requirement. Upon receipt of such notification from the Trustee, the Issuer shall instruct the Trustee to commence setting aside in each month following receipt of Sales Tax Revenues for deposit in the applicable Bond Reserve Fund an amount equal to one-twelfth (1/12th) of the aggregate amount of each unreplenished prior withdrawal from such Bond Reserve Fund or decrease resulting from a valuation pursuant to the Indenture and shall further instruct the Trustee to transfer to each Reserve Facility Provider providing a Reserve Facility satisfying a portion of the Bond Reserve Requirement relating to the Bonds of the Series to which such Bond Reserve Fund relates, an amount equal to one-twelfth (1/12th) of the aggregate amount of any unreplenished prior withdrawal on such Reserve Facility, such amount to be transferred by the Trustee as promptly as possible after receipt of the Sales Tax Revenues each month, commencing with the month following the Issuer's receipt of notification from the Trustee of withdrawal or decrease resulting from a valuation, as applicable, until the balance on deposit in such Bond Reserve Fund is at least equal to the applicable Bond Reserve Requirement.

Unless the Issuer shall otherwise direct in writing, any amounts in any Bond Reserve Fund in excess of the applicable Bond Reserve Requirement shall be transferred by the Trustee to the Issuer on the Business Day following March 1 of each year; provided that such amounts shall be transferred only from the portion of such Bond Reserve Fund held in the form of cash or Investment Securities. In addition, amounts on deposit in any Bond Reserve Fund shall be transferred by the Trustee to or at the direction of the Issuer (i) upon the defeasance, retirement or refunding of Bonds of the Series to which such Bond Reserve Fund relates provided that such transfer shall not be made unless (a) immediately thereafter all of the Bonds to which the Bond Reserve Fund relates shall be deemed to have been paid pursuant to the defeasance provisions of the Indenture, or (b) the amount remaining in the Bond Reserve Fund after such transfer shall not be less than the applicable Bond Reserve Requirement, (ii) upon the replacement of cash on deposit in the Bond Reserve Fund with one or more Reserve Facilities in accordance with the Indenture, or (iii) upon the occurrence of any event specified in a Supplemental Indenture providing for the issuance of any Series of Bonds that permits the termination and closure of the Bond Reserve Fund securing such Series of Bonds, subject in each case to the requirements of the applicable Tax Certificate.

Application of Subordinate Obligations Fund. All moneys in the Subordinate Obligations Fund shall be used and withdrawn by the Trustee to pay Subordinate Obligations as such amounts become due and payable. If amounts on deposit in the Subordinate Obligations Fund shall not be sufficient to pay in full all amounts payable from the Subordinate Obligations Fund, such amounts shall be applied pro rata (based on the total amount on deposit in the Subordinate Obligations Fund and payments then due).

Application of Fees and Expenses Fund. All amounts in the Fees and Expenses Fund shall be used and withdrawn by the Trustee solely for the purpose of paying fees, expenses and similar charges owed by the Issuer in connection with the Bonds or any Parity Obligations or Subordinate Obligations as such amounts shall become due and payable. If amounts on deposit in the Fees and Expenses Fund shall not be sufficient to pay in full all amounts payable from the Fees and Expenses Fund, such amounts shall be applied pro rata (based on the total amount on deposit in the Fees and Expenses Fund and payments then due).

Application of Redemption Fund. All moneys deposited by the Issuer with the Trustee for the purpose of optionally redeeming Bonds of any Series shall, unless otherwise directed by the Issuer, be deposited in the Redemption Fund. All amounts deposited in the Redemption Fund shall be used and withdrawn by the Trustee solely for the purpose of redeeming Bonds of such Series and maturity as shall be specified by the Issuer in a Request to the Trustee, in the manner, at the times and upon the terms and conditions specified in the Supplemental Indenture pursuant to which the Series of Bonds was created; provided that, at any time prior to giving such notice of redemption, the Trustee shall, upon receipt of a Request of the Issuer, apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding, in the case of Current Interest Bonds, accrued interest, which is payable from the Interest Fund) as is directed by the Issuer, except that the purchase price (exclusive of any accrued interest) may not exceed the Redemption Price or Accreted Value then applicable to such Bonds. All Term Bonds purchased or redeemed from the Redemption Fund shall be allocated to Mandatory Sinking Account Payments applicable to such Series and maturity of Term Bonds as may be specified in a Request of the Issuer.

Rebate Fund. Within the Rebate Fund, the Trustee shall maintain such accounts as shall be necessary in order to comply with the terms and requirements of each Tax Certificate as directed in writing by the Issuer. All money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement, for payment to the federal government of the United States of America, and neither the Trustee nor any Holder nor any other Person shall have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by the Indenture and by the applicable Tax Certificate.

Investment in Funds and Accounts

All moneys in any of the funds and accounts held by the Trustee or established pursuant to the Indenture, without limitation, any Project Fund, shall be invested, as directed by the Issuer, solely in Investment Securities. All Investment Securities shall, as directed by the Issuer in writing, be acquired subject to the limitations set forth in the Indenture, the limitations as to maturities as set forth in the Indenture and such additional limitations or requirements consistent with the foregoing as may be established by Request of the Issuer. If and to the extent the Trustee does not receive investment instructions from the Issuer with respect to the moneys in the funds and accounts held by the Trustee pursuant to the Indenture, such moneys shall be held uninvested and the Trustee shall thereupon request investment instructions from the Issuer for such moneys.

Moneys in any Bond Reserve Fund shall be invested in Investment Securities maturing in not more than five years, or having a put option or demand option providing funds upon request for the purpose of payment of the Bonds to which such Bond Reserve Fund relates as provided in the Indenture. Moneys in the remaining funds and accounts shall be invested in Investment Securities maturing or available on demand not later than the date on which it is estimated that such moneys will be required by the Trustee.

Unless otherwise provided in a Supplemental Indenture establishing the terms and provisions of a Series of Bonds or a Request of the Issuer delivered to the Trustee: (i) all interest, profits and other income received from the investment of moneys in the Interest Fund representing accrued interest or capitalized interest or funded interest shall be retained in the Interest Fund; (ii) all interest, profits and other income received from the investment of moneys in the Bond Reserve Fund shall be retained in such Bond Reserve Fund to the extent of any deficiency therein, and otherwise shall be transferred to the Project Fund established in connection with the Series of Bonds to which the Bond Reserve Fund relates, if any, until such time as such Project Fund shall be closed, and then shall be transferred to the Revenue Fund; (iii) all interest, profits and other income received from the investment of moneys in a Costs of Issuance Fund shall be retained in such Costs of Issuance Fund until such time as such Costs of Issuance Fund is closed, and

any earnings received on a Costs of Issuance Fund subsequent to the closure of such Costs of Issuance Fund shall be transferred to the Revenue Fund; (iv) all interest, profits and other income received from the investment of moneys in a Project Fund shall be retained in such Project Fund, unless the Issuer shall direct that such earnings be transferred to the Rebate Fund; (v) all interest, profits and other income received from the investment of moneys in the Rebate Fund shall be retained in the Rebate Fund, except as otherwise provided in the Indenture, (vi) all interest, profits and other income received from the investment of moneys in any Letter of Credit Fund or Purchase Fund shall be retained in such Letter of Credit Fund or Purchase Fund, as applicable; and (vii) all interest, profits and other income received from the investment of moneys in any other fund or account shall be transferred to the Revenue Fund. Notwithstanding anything to the contrary contained in this paragraph, an amount of interest received with respect to any Investment Security equal to the amount of accrued interest, if any, paid as part of the purchase price of such Investment Security shall be credited to the fund or account from which such accrued interest was paid.

Issuance of Additional Bonds and Other Obligations

Issuance of Additional Bonds. Subsequent to the issuance of the Series 2020 Bonds, the Issuer may by Supplemental Indenture establish one or more additional Series of Bonds, payable from Revenues and secured by the pledge made under the Indenture equally and ratably with the Series 2020 Bonds, and the Issuer may issue, and the Trustee may authenticate and deliver to the purchasers thereof, Bonds of any Series so established, in such principal amount as shall be determined by the Issuer, but only, with respect to each additional Series of Bonds issued subsequent to the Series 2020 Bonds issued under the Indenture, upon compliance by the Issuer with the provisions of the Indenture and any additional requirements set forth in said Supplemental Indenture and subject to the specific conditions set forth below, each of which is made a condition precedent to the issuance of any such additional Series of Bonds.

(A) No Event of Default shall have occurred and then be continuing (or the issuance of such Series will cure any such Event of Default).

(B) Subject to the provisions of the Indenture described above under the caption “Application of Funds and Accounts - Reserve Funds,” in the event a Supplemental Indenture providing for the issuance of such Series shall require either (i) the establishment of a Bond Reserve Fund to provide additional security for such Series of Bonds, or (ii) that the balance on deposit in an existing Bond Reserve Fund be increased, forthwith upon the receipt of the proceeds of the sale of such Series, to an amount at least equal to the Bond Reserve Requirement with respect to such Series of Bonds and all other Bonds secured by such Bond Reserve Fund to be considered Outstanding upon the issuance of such additional Series of Bonds, the Supplemental Indenture providing for the issuance of such additional Series of Bonds shall require deposit of the amount necessary. Said deposit shall be made as provided in the Supplemental Indenture providing for the issuance of such additional Series of Bonds and may be made from the proceeds of the sale of such Series of Bonds or from other funds of the Issuer or from both such sources or may be made in the form of a Reserve Facility.

(C) The aggregate principal amount of Bonds issued under the Indenture shall not exceed any limitation imposed by law or by any Supplemental Indenture.

(D) The Issuer shall deliver to the Trustee a Certificate of the Issuer certifying that (i) the amounts of Sales Tax Revenues for a period of 12 consecutive months (selected by the Issuer) during the 24 months immediately preceding the date on which such additional Series of Bonds will become Outstanding, or (ii) the estimated Sales Tax Revenues for the Fiscal Year in which such Series of Bonds are to be issued, shall have been, or will be, as applicable, at least equal to 1.5 times Maximum Annual Debt Service, on all Series of Bonds and Parity Obligations then Outstanding and the additional Series of

Bonds then proposed to be issued, which Certificate shall also set forth the computations upon which such Certificate is based.

(E) Principal payments of each additional Series of Bonds shall be due on March 1 or September 1 in each year in which principal is to be paid if and to the extent deemed practical in the reasonable judgment of the Issuer with regard to the type of Bond to be issued, and, if the interest on such Series of Bonds is to be paid semiannually, such interest payments shall be due on March 1 and September 1 in each year to the extent deemed practical in the reasonable judgment of the Issuer with regard to the type of Bond to be issued.

Nothing in the Indenture contained shall prevent or be construed to prevent the Supplemental Indenture providing for the issuance of an additional Series of Bonds from pledging or otherwise providing, in addition to the security given or intended to be given by the Indenture, additional security for the benefit of such additional Series of Bonds or any portion thereof.

In the event additional assets or revenues are included within the definition of “Revenues” by a Supplemental Indenture, such additional assets or revenues shall be included in the calculations to be provided pursuant to the provisions of the Indenture described in paragraph (D) above as if such additional assets or revenues had always been included in “Revenues.”

Issuance of Refunding Bonds. Refunding Bonds may be authorized and issued by the Issuer without compliance with the provisions of the Indenture; provided that the Trustee shall have been provided with a Certificate of the Issuer to the effect that the Issuer has determined one of the following: (i) that Maximum Annual Debt Service on all Bonds Outstanding and all Parity Obligations outstanding following the issuance of such Refunding Bonds is less than or equal to Maximum Annual Debt Service on all Bonds Outstanding and all Parity Obligations outstanding prior to the issuance of such Refunding Bonds, or (ii) that the Issuer expects a reduction in Debt Service on all Bonds Outstanding and all Parity Obligations outstanding to result from the refunding to be effected with the proceeds of such Refunding Bonds. Such Refunding Bonds may be issued in an aggregate principal amount sufficient (together with any additional funds available or to become available) to provide funds for the payment of all or a portion of the following:

- (1) the principal or Redemption Price of the Outstanding Bonds or outstanding Parity Obligations to be refunded;
- (2) all expenses incident to the calling, retiring or paying of such Outstanding Bonds or outstanding Parity Obligations and the Costs of Issuance of such Refunding Bonds;
- (3) interest on all Outstanding Bonds or outstanding Parity Obligations to be refunded to the date such Bonds or Parity Obligations will be called for redemption or paid at maturity;
- (4) interest on the Refunding Bonds from the date thereof to the date of payment or redemption of the Bonds or Parity Obligations to be refunded; and
- (5) funding the Bond Reserve Fund for the Refunding Bonds, if required.

Before such Series of Refunding Bonds shall be issued and delivered pursuant to the Indenture, the Issuer shall deliver each of the documents identified below to the Trustee (upon which documents the Trustee may conclusively rely in determining whether the conditions precedent to the issuance of such Series of Refunding Bonds have been satisfied).

(1) A Supplemental Indenture authorizing such Series of Refunding Bonds executed by the Issuer.

(2) A Certificate of the Issuer certifying: (i) that Maximum Annual Debt Service on all Bonds and Parity Obligations which will be outstanding following the issuance of such Series of Refunding Bonds is less than or equal to Maximum Annual Debt Service on all Bonds Outstanding and Parity Obligations outstanding prior to the issuance of such Refunding Bonds, or that the Issuer expects a reduction in Debt Service on all Bonds Outstanding and all Parity Obligations outstanding to result from the refunding to be effected with the proceeds of such Refunding Bonds; and (ii) that the requirements of the Indenture described in paragraphs (A), (B), and (C) under the caption “Issuance of Additional Bonds” are satisfied.

(3) If any of the Bonds to be refunded are to be redeemed prior to their stated maturity dates, irrevocable instructions to the Trustee to give the applicable notice of redemption or a waiver of the notice of redemption signed by the Holders of all or the portion of the Bonds or Parity Obligations to be redeemed, or proof that such notice has been given by the Issuer; provided, however, that in lieu of such instructions or waiver or proof of notice of redemption, the Issuer may cause to be deposited with the Trustee all of the Bonds and Parity Obligations proposed to be redeemed (whether canceled or uncanceled) with irrevocable instructions to the Trustee to cancel said Bonds or Parity Obligations so to be redeemed upon the exchange and delivery of said Refunding Bonds; and provided further that no provision of the Indenture shall be construed to require the redemption of Bonds prior to their respective maturity dates in connection with the refunding thereof.

(4) An Opinion of Bond Counsel to the effect that the Supplemental Indenture is being entered into in accordance with the Indenture and that such Series of Refunding Bonds, when duly executed by the Issuer and authenticated and delivered by the Trustee, will be valid and binding obligations of the Issuer.

Limitations on the Issuance of Obligations Payable from Revenues; Parity Obligations; Subordinate Obligations; Fee and Expense Obligations. The Issuer will not, so long as any of the Bonds are Outstanding, issue any obligations or securities, howsoever denominated, payable in whole or in part from Revenues except as set forth below.

(A) Bonds authorized pursuant to the Indenture, as described above under the caption “Issuance of Additional Bonds.”

(B) Refunding Bonds authorized pursuant to the Indenture, as described above under the caption “Issuance of Refunding Bonds.”

(C) Parity Obligations, provided that the following conditions to the issuance or incurrence of such Parity Obligations are satisfied:

(1) Such Parity Obligations have been duly and legally authorized by the Issuer for any lawful purpose, as evidenced by the delivery to the Trustee of a Certificate of the Issuer to that effect;

(2) No Event of Default shall have occurred and then be continuing (or the issuance of such Parity Obligations will cure any such Event of Default), as evidenced by the delivery to the Trustee of a Certificate of the Issuer to that effect;

(3) Such Parity Obligations are being issued or incurred either (i) for purposes of refunding in compliance with the requirements for the issuance of Refunding Bonds or (ii) the Issuer shall have delivered to the Trustee a Certificate of the Issuer, upon which the Trustee may

conclusively rely certifying that the requirements set forth in the Indenture relating to the issuance of an additional Series of Bonds have been satisfied with respect to such Parity Obligations, which Certificate shall also set forth the computations upon which such Certificate is based; and

(4) As and to the extent applicable, the Trustee shall be designated as paying agent or trustee for such Parity Obligations and the Issuer shall deliver to the Trustee a transcript of the proceedings providing for the issuance of such Parity Obligations (but the Trustee shall not be responsible for the validity or sufficiency of such proceedings or such Parity Obligations).

(D) Subordinate Obligations, provided that the following conditions to issuance or incurrence of such Subordinate Obligations are satisfied:

(1) Such Subordinate Obligations have been duly and legally authorized by the Issuer for any lawful purpose, as evidenced by the delivery to the Trustee of a Certificate of the Issuer to that effect;

(2) No Event of Default shall have occurred and then be continuing (or the issuance of such Subordinate Obligations will cure any such Event of Default), as evidenced by the delivery to the Trustee of a Certificate of the Issuer to that effect; and

(3) As and to the extent applicable, the Trustee shall be designated as paying agent or trustee for such Subordinate Obligations and the Issuer shall deliver to the Trustee a transcript of the proceedings providing for the issuance of such Subordinate Obligations (but the Trustee shall not be responsible for the validity or sufficiency of such proceedings or such Subordinate Obligations).

(E) Fee and Expense Obligations.

Calculation of Maximum Annual Debt Service with Respect to Bonds and Parity Obligations. Maximum Annual Debt Service with respect to Bonds shall be determined no later than the date of delivery of such Bonds, and no earlier than the 60th day preceding the date of pricing or sale of such Bonds, utilizing the assumptions set forth in the definition of Debt Service. Maximum Annual Debt Service with respect to Parity Obligations shall be determined no later than the date of incurrence of such Parity Obligations utilizing the assumptions set forth in the definition of Debt Service; provided, however, that if a Parity Obligation is contingent upon funds being provided pursuant to such Parity Obligation to pay principal, or purchase price of, or interest on a Bond, such Parity Obligations shall not be considered outstanding until such payment is made thereunder.

Designation of Parity Obligations, Subordinate Obligations and Fee and Expense Obligations

The Issuer shall designate additional Parity Obligations, Subordinate Obligations or Fee and Expense Obligations in a Supplemental Master Indenture or a Certificate of the Issuer delivered to the Trustee concurrently with the issuance or incurrence of such Parity Obligations, Subordinate Obligations or Fee and Expense Obligations.

Certain Covenants of the Issuer

Punctual Payments. The Issuer will punctually pay or cause to be paid the principal or Redemption Price of and interest on all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, and shall punctually pay or cause to be paid all Mandatory Sinking Account Payments, but in each case only out of Revenues as provided in the Indenture. The Issuer

will punctually pay or cause to be paid all Parity Obligations, Subordinate Obligations and Fee and Expense Obligations.

Extension of Payment of Bonds. The Issuer will not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any Bonds or claims for interest by the purchase or funding of such Bonds or claims for interest or by any other arrangement and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing described in this Section shall be deemed to limit the right of the Issuer to issue bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

Against Encumbrances. The Issuer will not create any pledge, lien or charge upon any of the Revenues having priority over or having parity with the lien of the Bonds, the Parity Obligations, the Subordinate Obligations and the Fee and Expense Obligations.

Collection of Sales Tax Revenues. The Issuer covenants and agrees that it has duly levied the 2008 Measure Q Sales Tax in accordance with the Act, pursuant to and in accordance with the Ordinance, duly passed and adopted by the Issuer and the electorate of the Counties of Sonoma and Marin. Said Ordinance has not and will not be amended, modified or altered so long as any of the Bonds are Outstanding or any Parity Obligations, Subordinate Obligations or Fee and Expense Obligations remain unpaid in any manner which would reduce the amount of or timing of receipt of Sales Tax Revenues, and the Issuer will continue to levy and collect the 2008 Measure Q Sales Tax to the full amount permitted by law. The Issuer has entered into an agreement with the State Board of Equalization, which has been assumed by the CDTFA, under and pursuant to which the CDTFA has agreed to process and supervise collection of the 2008 Measure Q Sales Tax and covenants and agrees to cause the Sales Tax Revenues to be transmitted by the State Board of Equalization directly to the Trustee, such direct transmittal to commence as promptly as possible subsequent to the execution and delivery of the Indenture. Said agreement with the State CDTFA will be continued in effect so long as any of any Bonds are Outstanding or any Parity Obligations, Subordinate Obligations or Fee and Expense Obligations remain unpaid and the Issuer covenants and agrees that said agreement shall not be further amended, modified or altered in any manner which would adversely affect the direct transmittal of the Sales Tax Revenues to the Trustee so long as any of the Bonds are Outstanding or any Parity Obligation, Subordinate Obligation or Fee and Expense Obligations remain unpaid.. The Issuer will receive and hold in trust for (and remit immediately to) the Trustee any Sales Tax Revenues paid to the Issuer by the CDTFA. Sales Tax Revenues received by the Trustee shall be transmitted to the Issuer pursuant to the Indenture; provided that, during the continuance of an Event of Default, any Sales Tax Revenues received by the Trustee shall be applied in accordance with the provisions of the Indenture described below under the caption "Events of Default and Remedies - Application of Revenues and Other Funds After Default; No Acceleration." The Issuer covenants and agrees to separately account for all Revenues and to provide to the Trustee access to such accounting records at reasonable hours and under reasonable circumstances. The Issuer covenants that so long as the Bonds are Outstanding, it will not, to the best of its ability, suffer or permit any change, modification or alteration to be made to the Act which would materially and adversely affect the rights of Bondholders.

Continuing Disclosure. Upon the issuance of any Series of Bonds requiring an undertaking regarding continuing disclosure under Rule 15c2-12, the Issuer covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate executed and delivered in connection with such Series of Bonds. Notwithstanding any other provision of the Indenture, failure of the Issuer to comply with the provisions of any Continuing Disclosure Certificate shall not be considered an

Event of Default; however, the Trustee shall, at the written request of any Participating Underwriter or of the Holders of at least twenty-five (25%) aggregate principal amount of any Series of Bonds then Outstanding (but only to the extent funds in an amount satisfactory to the Trustee have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges and fees of the Trustee whatsoever, including, without limitation, reasonable fees and expenses of its attorneys), or any Holder or beneficial owner may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under the Indenture.

Events of Default and Remedies

Events of Default. The following events shall be Events of Default:

(A) default in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise, or default in the redemption from any Sinking Account of any Bonds in the amounts and at the times provided therefor;

(B) default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(C) if the Issuer shall fail to observe or perform any covenant, condition, agreement or provision in the Indenture on its part to be observed or performed, other than as referred to in subsection (A) or (B) of this section, for a period of 60 days after written notice, specifying such failure and requesting that it be remedied, has been given to the Issuer by the Trustee or by any Credit Enhancement Provider; except that, if such failure can be remedied but not within such 60 day period and if the Issuer has taken all action reasonably possible to remedy such failure within such 60 day period, such failure shall not become an Event of Default for so long as the Issuer shall diligently proceed to remedy the same within 180 days of such default notice;

(D) if any payment default shall exist under any agreement governing any Parity Obligations and such default shall continue beyond the grace period, if any, provided for with respect to such default;

(E) if the Issuer files a voluntary bankruptcy or commences any similar proceeding under any state or federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or admits in writing to its insolvency or inability to pay debts as they mature, or consents in writing to the appointment of a trustee or receiver for itself;

(F) if a court of competent jurisdiction shall enter an order, judgment or decree declaring the Issuer insolvent, or adjudging it bankrupt, or ordering relief under any applicable bankruptcy or insolvency law, or appointing a trustee or receiver of the Issuer, or approving a bankruptcy petition filed against the Issuer under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within 60 days from the date of the entry thereof;

(G) if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Issuer or of the Revenues, and such custody or control shall not be terminated within 60 days from the date of assumption of such custody or control;

(H) if the Legislature of the State shall repeal or amend all or any portion of the provisions of the Act relating to the retail transactions and use tax, being Section 105115 of the Public Utilities Code of

the State or Part 1.6 (commencing with Section 7251) of Division 2 of the Revenue and Taxation Code of the State, unless the Issuer has determined that said repeal or amendment does not materially and adversely affect the rights of Bondholders; or

- (I) any Event of Default designated as such in a Supplemental Indenture.

Application of Revenues and Other Funds After Default; No Acceleration. If an Event of Default shall occur and be continuing, the Issuer shall immediately transfer to the Trustee all Revenues held by it and the Trustee shall apply all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture (excluding the Rebate Fund, any Letter of Credit Fund and any Purchase Fund and except as otherwise provided in the Indenture) as follows and in the following order:

- (1) to the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Holders of the Bonds and Parity Obligations, including the costs and expenses of the Trustee and the Bondholders in declaring such Event of Default, and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel and other agents) incurred in and about the performance of its powers and duties under the Indenture;

- (2) to the payment of the whole amount of Bond Obligation then due on the Bonds and amounts then due on Parity Obligations (upon presentation of the Bonds and Parity Obligations to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, with interest on such Bond Obligation, at the rate or rates of interest borne by the respective Bonds and on Parity Obligations, to the payment to the persons entitled thereto of all installments of interest then due and the unpaid principal or Redemption Price of any Bonds and Parity Obligations which shall have become due, whether at maturity, by call for redemption or otherwise, in the order of their due dates, with interest on the overdue Bond Obligation and Parity Obligations at the rate borne by the respective Bonds and Parity Obligations, and, if the amount available shall not be sufficient to pay in full all the Bonds and Parity Obligations due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or Accreted Value (plus accrued interest) or other amounts due on such date to the persons entitled thereto, without any discrimination or preference;

- (3) to the payment of Subordinate Obligations, provided that if the amount available shall not be sufficient to pay in full all Subordinate Obligations due on any date, then to the payment thereof ratably, according to the amounts due on such date to the persons entitled thereto, without any discrimination or preference;

- (4) to the payment of Fee and Expense Obligations, provided that, if the amount available shall not be sufficient to pay in full all Fee and Expense Obligations due on any date, then to the payment thereof ratably, according to the amounts due on such date to the persons entitled thereto, without any discrimination or preference; and

- (5) to the payment of all other obligations payable under the Indenture.

Notwithstanding anything to the contrary in the Indenture, in no event are the Bonds subject to acceleration if an Event of Default occurs and is continuing except that Liquidity Facility Bonds are subject to acceleration as set forth in the Liquidity Facility.

Trustee to Represent Bondholders. The Trustee is irrevocably appointed (and the successive respective Holders of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Holders of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such

Holder under the provisions of the Bonds, the Indenture, the Law and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bondholders, the Trustee in its discretion may, and, with respect to any Series of Bonds for which a Credit Enhancement has been provided, upon the written request of the Credit Enhancement Provider providing such Credit Enhancement, or if such Credit Enhancement Provider is then failing to make a payment required pursuant to such Credit Enhancement, upon the written request of the Holders of not less than a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power granted in the Indenture, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Holders under the Indenture, the Law or any other law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Sales Tax Revenues and other assets pledged under the Indenture, pending such proceedings; provided, however, that, with respect to any Series of Bonds for which a Credit Enhancement has been provided, the Trustee may only act with the consent of the Credit Enhancement Provider providing such Credit Enhancement. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Holders of such Bonds, subject to the provisions of the Indenture. Nothing in the Indenture shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment, or composition affecting the Bonds or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding without the approval of the Holders so affected.

Bondholders' Direction of Proceedings. Anything in the Indenture to the contrary (except provisions relating to the rights of a Credit Enhancement Provider to direct proceedings as set forth in the Indenture as described below) notwithstanding, the Holders of a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee and upon furnishing the Trustee with indemnification satisfactory to it, to direct the method of conducting all remedial proceedings taken by the Trustee under the Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, that the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders or holders of Parity Obligations not parties to such direction.

Limitation on Bondholders' Right to Sue. No Holder of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Law or any other applicable law with respect to such Bond, unless: (1) such Holder shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Holders of not less than a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted by the Indenture or to institute such suit, action or proceeding in its own name; (3) such Holder or said Holders shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; provided, however, that the written consent of a Credit Enhancement Provider providing a Credit Enhancement with respect to a Series of Bonds shall be required if the Credit Enhancement with respect to such Series of Bonds is in full force and effect and if the credit Enhancement

Provider providing such Credit Enhancement is not then failing to make a payment as required in connection therewith.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Holder of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Holders of Bonds, or to enforce any right under the Indenture, the Law or other applicable law with respect to the Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Holders of the Outstanding Bonds, subject to the provisions of the Indenture.

Credit Enhancement Provider Directs Remedies Upon Event of Default. Anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default as defined in the Indenture, the Credit Enhancement Provider then providing Credit Enhancement for any Series of Bonds shall be entitled to control and direct the enforcement of all rights and remedies granted to the Holders of the Bonds secured by such Credit Enhancement or granted to the Trustee for the benefit of the Holders of the Bonds secured by such Credit Enhancement, provided that the Credit Enhancement Provider's consent shall not be required as otherwise provided in the Indenture if such Credit Enhancement Provider is in default of any of its payment obligations as set forth in the Credit Enhancement provided by such Credit Enhancement Provider.

Modification or Amendment to the Indenture

Amendments Permitted With Consent of Holders. The Indenture and the rights and obligations of the Issuer, the Holders of the Bonds and the Trustee may be modified or amended by a Supplemental Indenture, which the Issuer and the Trustee may enter into when the written consent of the Holders of a majority in aggregate amount of Bond Obligation of the Bonds (or, if such Supplemental Indenture is only applicable to a Series of Bonds, such Series of Bonds) then Outstanding shall have been filed with the Trustee; provided that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any particular maturity remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding. The Credit Enhancement Provider for a Series of Bonds shall be deemed to be the Holder of such Series for all purposes of the Indenture except the payment of principal of and interest on such Series of Bonds.

No such modification or amendment shall (a) extend the maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment provided for the payment of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Holder of each Bond so affected, or (b) reduce the aforesaid percentage of Bond Obligation the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture, or deprive the Holders of the Bonds of the lien created by the Indenture on such Revenues and other assets (in each case, except as expressly provided in the Indenture), without the consent of the Holders of all of the Bonds then Outstanding. It shall not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution and delivery by the Issuer and the Trustee of any Supplemental Indenture, the Trustee shall mail a notice, setting forth in general terms the substance of such Supplemental Indenture to the Holders of the Bonds at the

addresses shown on the registration books of the Trustee. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

Amendments Permitted Without Consent of Holders. The Indenture and the rights and obligations of the Issuer, of the Trustee and of the Holders of the Bonds may also be modified or amended by a Supplemental Indenture, which the Issuer and the Trustee may enter without the consent of any Bondholders, but only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the Issuer in the Indenture contained other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved in the Indenture to or conferred upon the Issuer;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Issuer may deem necessary or desirable, and which shall not materially and adversely affect the interests of the Holders of the Bonds;

(3) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially and adversely affect the interests of the Holders of the Bonds;

(4) to provide for the issuance of an additional Series of Bonds pursuant to the provisions of Article III of the Indenture;

(5) to make modifications or adjustments necessary, appropriate or desirable to provide for the issuance or incurrence, as applicable, of Interest Subsidy Bonds, Capital Appreciation Bonds, Parity Obligations, Subordinate Obligations, Fee and Expense Obligations or Variable Rate Indebtedness, with such interest rate, payment, maturity and other terms as the Issuer may deem desirable; subject to the provisions of the Indenture relating to the Issuance of Additional Bonds or Issuance of Refunding Bonds;

(6) to make modifications or adjustments necessary, appropriate or desirable to provide for change from one interest rate period to another in connection with any Series of Bonds, including, without limitation, conversion to a commercial paper interest rate period or an index rate interest rate period;

(7) to make modifications or adjustments necessary, appropriate or desirable to accommodate Credit Enhancements, Liquidity Facilities and Reserve Facilities;

(8) to make modifications or adjustments necessary, appropriate or desirable to provide for the appointment of an auction agent, a broker-dealer, a remarketing agent, a tender agent and/or a paying agent in connection with any Series of Bonds;

(9) to provide for any additional covenants or agreements necessary to maintain the tax-exempt status of interest on any Series of Bonds;

(10) if the Issuer agrees in a Supplemental Indenture to maintain the exclusion of interest on a Series of Bonds from gross income for purposes of federal income taxation, to make such provisions as are necessary or appropriate to ensure such exclusion;

(11) to provide for the issuance of Bonds in book-entry form or bearer form and/or to modify or eliminate the book-entry registration system for any Series of Bonds;

(12) to modify, alter, amend or supplement the Indenture in any other respect, including amendments that would otherwise be described in the Indenture as described above under the caption “Amendments Permitted With Consent of Holders,” if the effective date of such amendments is a date on which all Bonds affected thereby are subject to mandatory tender for purchase pursuant to the provisions of the Indenture or if notice of the proposed amendments is given to Holders of the affected Bonds at least 30 days before the proposed effective date of such amendments and, on or before such effective date, such Holders have the right to demand purchase of their Bonds pursuant to the provisions of the Indenture or if all Bonds affected thereby are in an auction mode and a successful auction is held following notice of such amendment;

(13) in the event of a determination by the Issuer pursuant to the Indenture, to modify, amend or supplement the Indenture in any manner necessary, appropriate or desirable to conform the Indenture to the current practice of the CDTFB; and

(14) for any other purpose that does not materially and adversely affect the interests of the Holders of the Bonds.

Any Supplemental Indenture entered into pursuant to the Indenture as described in this Section shall be deemed not to materially adversely affect the interest of the Holders so long as (i) all Bonds are secured by a Credit Enhancement and (ii) each credit Enhancement Provider shall have given its written consent to such Supplemental Indenture.

Defeasance

Discharge of Indenture. Bonds of any Series or a portion thereof may be paid by the Issuer in any of the following ways:

(A) by paying or causing to be paid the Bond Obligations of and interest on such Outstanding Bonds, as and when they become due and payable;

(B) by depositing with the Trustee, an escrow agent or other fiduciary, in trust, at or before maturity, money or securities in the necessary amount (as provided in the Indenture and described below under the caption “Deposit of Money or Securities”) to pay or redeem such Outstanding Bonds; or

(C) by delivering to the Trustee, for cancellation by it, such Outstanding Bonds.

If the Issuer shall pay all Series for which any Bonds are Outstanding and also pay or cause to be paid all other sums payable and to be payable under the Indenture and under any Parity Obligations, Subordinate Obligations and Fee and Expense Obligations by the Issuer, then and in that case, at the election of the Issuer (evidenced by a Certificate of the Issuer, filed with the Trustee, signifying the intention of the Issuer to discharge all such indebtedness and the Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, the Indenture and the pledge of Sales Tax Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the Issuer under the Indenture shall cease, terminate, become void and be completely discharged and satisfied (except for the obligations of the Issuer relating to the compensation and indemnification of the Trustee which shall survive the discharge of the Bonds and the Indenture). In such event, upon Request of the Issuer, the Trustee shall cause an accounting for such period or periods as may be requested by the Issuer to be prepared and filed with the Issuer and shall execute and deliver to the Issuer all such instruments as may be necessary or

desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver to the Issuer all moneys or securities or other property held by it pursuant to the Indenture which, as evidenced by a verification report, upon which the Trustee may conclusively rely, from an independent certified public accountant, a firm of independent certified public accountants or other independent consulting firm, are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

Discharge of Liability on Bonds. Upon the deposit with the Trustee, escrow agent or other fiduciary, in trust, at or before maturity, of money or securities in the necessary amount (as provided in the Indenture and described below under the caption “Deposit of Money or Securities”) to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the Issuer in respect of such Bond shall cease, terminate and be completely discharged, provided that the Holder thereof shall thereafter be entitled to the payment of the principal of and premium, if any, and interest on the Bonds, and the Issuer shall remain liable for such payment, but only out of such money or securities deposited with the Trustee as aforesaid for their payment.

If the Bonds being discharged are Variable Rate Indebtedness, (i) the Bonds shall be redeemed at the first possible redemption date or purchase date applicable to such Bonds after any required notice is provided and to the extent the rate of interest payable on such Bonds prior to such redemption or purchase date is not known, such rate of interest shall be assumed to be the maximum rate payable thereon or (ii) the Trustee shall receive a confirmation from the Rating Agency then rating the Bonds that the defeasance will not result in the reduction or withdrawal of the then-current ratings on the Bonds.

The Issuer may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the Issuer may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

Notwithstanding anything to the contrary, if the principal of or interest on a Series of Bonds shall be paid by a Credit Enhancement Provider pursuant to the Credit Enhancement issued in connection with such Series of Bonds, the obligations of the Issuer shall not be deemed to be satisfied or considered paid by the Issuer by virtue of such payments, and the right, Title and interest of the Issuer in the Indenture and the obligations of the Issuer under the Indenture shall not be discharged and shall continue to exist and to run to the benefit of such Credit Enhancement Provider, and such Credit Enhancement Provider shall be subrogated to the rights of the Holders of the Bonds of such Series.

Deposit of Money or Securities. Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and shall be:

(A) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or

(B) Investment Securities described in clause (A) of the definition thereof the principal of and interest on which when due will, in the opinion of an independent certified public accountant, a firm of

independent certified public accountants or independent consulting firm delivered to the Trustee (as confirmed by a verification report upon which verification report the Trustee may conclusively rely), provide money sufficient to pay the principal or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or Redemption Price and interest become due, provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice; provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of the Indenture or by Request of the Issuer) to apply such money to the payment of such principal or Redemption Price and interest with respect to such Bonds.

Payment of Bonds After Discharge of Indenture. Any moneys held by the Trustee in trust for the payment of the principal, Redemption Price, or interest on any Bond and remaining unclaimed for one year after such principal, Redemption Price, or interest has become due and payable (whether at maturity or upon call for redemption as provided in the Indenture), if such moneys were so held at such date, or one year after the date of deposit of such principal, Redemption Price or interest on any Bond if such moneys were deposited after the date when such Bond became due and payable, shall be repaid to the Issuer (without liability for interest) free from the trusts created by the Indenture, and all liability of the Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the Issuer as aforesaid, the Trustee may (at the cost of the Issuer) first mail to the Holders of any Bonds remaining unpaid at the addresses shown on the registration books maintained by the Trustee a notice, in such form as may be deemed appropriate by the Trustee, with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Issuer of the moneys held for the payment thereof. All moneys held by or on behalf of the Trustee for the payment of principal or Accreted Value of or interest or premium on Bonds, whether at redemption or maturity, shall be held in trust for the account of the Holders thereof and the Trustee shall not be required to pay Holders any interest on, or be liable to the Holders or any other person (other than the Issuer) for interest earned on, moneys so held. Any interest earned thereon shall belong to the Issuer and shall be deposited upon receipt by the Trustee into the Revenue Fund.

Disqualified Bonds

In determining whether the Holders of the requisite aggregate Bond Obligation of Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, Bonds that are owned or held by or for the account of the Issuer, or by any other obligor on the Bonds, or by any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Issuer or any other obligor on the Bonds, shall be disregarded and deemed not to be Outstanding for the purpose of any such determination unless all such Bonds are so owned; except that in determining whether the Trustee shall be protected in relying upon any such approval or consent of a Holder, only Bonds which the Trustee actually knows to be owned or held by or for the account of the Issuer, any other obligor on the Bonds or by any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Issuer or any other obligor on the Bonds shall be disregarded.. Bonds so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such Bonds and that the pledgee is not a person directly or indirectly controlled by, or under direct or indirect common control with, the Issuer. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee. Upon request of the Trustee, the Issuer shall specify in a Certificate to the Trustee those Bonds disqualified pursuant to the Indenture and the Trustee may conclusively rely on such certificate.

Waiver of Personal Liability

No Board member, officer, agent or employee of the Issuer or the Trustee shall be individually or personally liable for the payment of the principal or Redemption Price of or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing contained in the Indenture shall relieve any such Board member, officer, agent or employee of the Issuer or the Trustee from the performance of any of any official duty provided by law or by the Indenture.

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APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this “Disclosure Certificate”) is executed and delivered by the Sonoma-Marín Area Rail Transit District (the “District”) in connection with the issuance of the \$122,970,000 Sonoma-Marín Area Rail Transit District Measure Q Sales Tax Revenue Refunding Bonds, Series 2020 (Taxable) (the “Bonds”). The Bonds are being issued pursuant to an Indenture, dated as of December 1, 2011, as supplemented and amended (the “Master Indenture”), between the District and The Bank of New York Mellon Trust Company, N.A. (the “Trustee”), and a Third Supplemental Indenture, dated as of October 1, 2020, between the District and the Trustee (the “Third Supplemental Indenture” and, together with the Master Indenture and all other supplements thereto, the “Indenture”). The Bonds are special limited obligations of the District payable solely from and secured solely by the Revenues (as defined in the Indenture), consisting primarily of revenues from a sales tax imposed pursuant to the California Transactions and Use Tax Law, being Sections 7251 *et seq.* of the California Revenue and Taxation Code. The District covenants and agrees as follows:

SECTION 1. Purpose of this Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Beneficial Owner” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“Dissemination Agent” shall mean the District and thereafter an entity selected by the District.

“EMMA” shall mean the Electronic Municipal Market Access system, maintained on the internet at <http://emma.msrb.org> by the MSRB.

“Fiscal Year” shall mean the period beginning on July 1 of each year and ending on the next succeeding June 30, or any twelve-month or fifty-two week period hereafter selected by the District, with notice of such selection or change in fiscal year to be provided as set forth herein.

“Listed Events” shall mean any of the events listed in Section 5 of this Disclosure Certificate and any other event legally required to be reported pursuant to the Rule.

“MSRB” shall mean the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934 or any other entity designated or authorized by the SEC to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through EMMA

“Official Statement” shall mean the Official Statement, dated October 21, 2020, relating to the Bonds.

“Participating Underwriters” shall mean any of the original underwriter or underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

“Repository” shall mean, until otherwise designated by the SEC, EMMA.

“Rule” shall mean Rule 15c2-12 adopted by the SEC pursuant to the Securities Exchange Act of 1934, as amended.

“SEC” shall mean the United States Securities and Exchange Commission.

SECTION 3. Provision of Annual Reports.

(a) The District shall provide, or shall cause the Dissemination Agent to provide, to MSRB, through EMMA, not later than 240 days after the end of the District's fiscal year, commencing with the fiscal year ending June 30, 2020, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Official Statement shall serve as the first Annual Report. The Annual Report must be submitted in electronic format, accompanied by such identifying information as provided by the MSRB. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to such date, the District shall provide the Annual Report to the Dissemination Agent. If the Fiscal Year changes for the District, the District shall give notice of such change in the manner provided under Section 5(e) hereof.

(b) If by 15 Business Days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, through EMMA, the Dissemination Agent has not received a copy of the Annual Report the Dissemination Agent shall contact the District to determine if the District is in compliance with subsection (a). The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the District and shall have no duty or obligation to review such Annual Report.

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a), the Dissemination Agent shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine the electronic filing address of, and then-current procedures for submitting Annual Reports to, the MSRB each year prior to the date for providing the Annual Report; and

(ii) (if the Dissemination Agent is other than the District), to the extent appropriate information is available to it, file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided.

SECTION 4. Content of Annual Reports. The District's Annual Report shall contain or include by reference the following:

(a) The audited financial statements of the District for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement relating to the Bonds (the "Official Statement"), and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) The amount of 2008 Measure Q Sales Tax (as such term is defined in the Official Statement) received as of the most recently ended fiscal year of the District).

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the District is an "obligated person" (as defined by the Rule), which are available to the public on EMMA or filed with the SEC. The District shall clearly identify each such document to be included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, in a timely manner not more than ten (10) Business Days after the event:

- (1) Principal and interest payment delinquencies;
- (2) Nonpayment related defaults, if material;
- (3) Unscheduled draws on any 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, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2020 Bonds, or other material events affecting the tax status of the Series 2020 Bonds;
- (7) Modifications to the rights of Bondholders, if material;
- (8) Bond calls, if material, and tender offers;
- (9) Defeasances;

- (10) Release, substitution, or sale of property securing repayment of the Series 2020 Bonds, if material;
- (11) Rating changes;
- (12) Bankruptcy, insolvency, receivership or similar event of the obligated person;
- (13) Consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (14) Appointment of a successor or additional trustee or the change of name of a trustee;
- (15) Incurrence of a financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material;
- (16) Default, event of acceleration, termination event, modification of terms or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties.

For these purposes, any event described in the immediately preceding paragraph (9) is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

(b) The term “financial obligation” as used in Listed Events (15) and (16) means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term financial obligation shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with S.E.C. Rule 15c2-12.

(c) Whenever the District obtains knowledge of the occurrence of a Listed Event, the District will, in a timely manner not in excess of ten business days after the occurrence of the Listed Event, file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of a Listed Event described in Section 5(a)(8) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders and Beneficial Owners of affected Bonds pursuant to the Indenture.

(d) Any information received by the Dissemination Agent before 6:00 p.m. Eastern time on any business day that it is required to file with the MSRB pursuant to the terms of this Disclosure Certificate and that is accompanied by a Certification and all other information required by the terms of this Disclosure

Agreement will be filed by the Dissemination Agent with the MSRB no later than 11:59 p.m. Eastern time on the same business day; provided, however, the Dissemination Agent shall have no liability for any delay in filing with the MSRB if such delay is caused by a *force majeure* event provided that the Dissemination Agent uses reasonable efforts to make any such filing as soon as possible.

SECTION 6. Filings with the MSRB. All information, operating data, financial statements, notices and other documents provided to the MSRB in accordance with this Disclosure Certificate shall be provided in an electronic format prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 7. Termination of Reporting Obligation. The obligations of the District and the Dissemination Agent under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5.

SECTION 8. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign at any time by providing at least 30 days' notice in writing to the District. The District hereby appoints Digital Assurance Certification LLC as initial Dissemination Agent hereunder. Notwithstanding any other provision to this Disclosure Certificate to the contrary, the District may provide any Annual Report to Beneficial Owners by means of posting such Annual Report on an internet site that provides open access to Beneficial Owners.

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, provided no amendment increasing or affecting the obligations or duties of the Dissemination Agent shall be made without the consent of such party, and any provision of this Disclosure Certificate may be waived if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to the District and the Dissemination Agent to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule.

SECTION 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 11. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions, as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their respective powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the District for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the District, the Bondholders, or any other party. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

[Signature page follows]

SECTION 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Dated: October 29, 2020

SONOMA-MARIN AREA RAIL TRANSIT
DISTRICT

By: _____
General Manager

DIGITAL ASSURANCE CERTIFICATION LLC,
as Dissemination Agent

By: _____
Authorized Representative

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Sonoma-Marin Area Rail Transit District
Name of Bond Issue: \$122,970,000 Sonoma-Marin Area Rail Transit District Measure Q Sales Tax Revenue Refunding Bonds (Green Bonds), Series 2020 A (Taxable)
Date of Issuance: October 29, 2020

NOTICE IS HEREBY GIVEN that the Sonoma-Marin Rail Transit District (the “District”) has not provided an Annual Report with respect to the above-named Bonds as required by that certain Indenture, dated as of December 1, 2011, as supplemented and amended, between the District and The Bank of New York Mellon Trust Company, N.A. (the “Trustee”), and a Third Supplemental Indenture, dated as of October 1, 2020, between the District and the Trustee. The District anticipates that the Annual Report will be filed by _____.

Dated: _____, 20__

SONOMA-MARIN AREA RAIL TRANSIT
DISTRICT

By: _____

Its: _____

APPENDIX E

BOOK-ENTRY SYSTEM

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Series 2020 Bonds. The Series 2020 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 2020 Bond certificate will be issued for each issue of the Series 2020 Bonds, each in the aggregate principal amount of such issue and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. The information contained in such website is not incorporated by reference herein.

Purchases of Series 2020 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2020 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2020 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 2020 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2020 Bonds except in the event that use of the book-entry system for the Series 2020 Bonds is discontinued.

So long as Cede & Co. is the registered owner of the Series 2020 Bonds, as a nominee of DTC, references herein to the Series 2020 Bondholders, bondholders, holders, bondowners or owners of Series 2020 Bonds shall mean Cede & Co. (which shall be the registered owner of the Series 2020 Bonds as shown on the registry books of the District kept for that purpose at the Corporate Trust Offices of the Trustee, acting as Bond Registrar) and shall not mean the Beneficial Owners of the Series 2020 Bonds.

To facilitate subsequent transfers, all Series 2020 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 2020 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 2020 Bonds. DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2020 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. Beneficial Owners of the Series 2020 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2020 Bonds, such as redemptions (if applicable), defaults and proposed amendments to the Indenture. For example, Beneficial Owners of Series 2020 Bonds may wish to ascertain that the nominee holding the Series 2020 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2020 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2020 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District 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 2020 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions and payments on the Series 2020 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 District 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 District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or 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 2020 Bonds at any time by giving reasonable notice to the District or Trustee. Under such circumstances, in the event that a successor depository is not obtained, Series 2020 Bond certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2020 Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

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APPENDIX F

PROPOSED FORM OF OPINION OF BOND COUNSEL

October 29, 2020

Sonoma-Marín Area Rail Transit District
Petaluma, California

Re: \$122,970,000 Sonoma-Marín Area Rail Transit District Measure Q Sales Tax Revenue Refunding Bonds (Green Bonds), Series 2020A (Taxable)

Ladies and Gentlemen:

We have acted as Bond Counsel to the Sonoma-Marín Area Rail Transit District (the “District”) in connection with the authorization, issuance, sale and delivery of the District’s \$122,970,000 Sonoma-Marín Area Rail Transit District Measure Q Sales Tax Revenue Refunding Bonds (Green Bonds), Series 2020A (Taxable) (the “Bonds”) being issued and delivered by the District on the date hereof. The Bonds are issued pursuant to, and payable from and secured under, an Indenture, dated as of December 1, 2011, as amended and supplemented (the “Master Indenture”), by and between the District and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”), including by the Third Supplemental Indenture, dated as of October 1, 2020, by and between the District and the Trustee. The Master Indenture as so amended is referred to herein as the “Agreement.” Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Agreement.

As Bond Counsel, we have examined the Agreement, opinions of counsel to the District and the Trustee, certificates of the District, the Trustee and others, copies, certified to us as being true and complete, of the proceedings of the District for the issuance of the Bonds, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein, although in doing so, we have not undertaken to verify independently the accuracy of the factual matters represented, warranted or certified therein, and we have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and the validity against, any parties thereto other than the District.

The opinions expressed herein are based upon an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have neither undertaken to determine, nor to inform any person, whether any such actions are taken or omitted or events do occur or whether any other matters come to our attention after the date hereof. We call attention to the fact that the rights and obligations under the Bonds and the Agreement may be subject to (i) any applicable bankruptcy, reorganization, insolvency, reorganization, arrangement, moratorium or similar laws affecting creditors’ rights generally (including, without limitation, fraudulent conveyance laws), (ii) general principles of equity,

including without limitation, concepts of materiality, reasonableness, good faith and fair dealing and the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law, (iii) the exercise of judicial discretion in appropriate cases, (iv) the limitations on legal remedies imposed on actions against public entities in the State of California and (v) the application of California laws relating to conflicts of interest to which public entities are subject. We express no opinion as to any provision in the Agreement or the Bonds with respect to the priority of any pledge or security interest, or any opinion as to the enforceability of any provision in the Agreement or the Bonds providing for indemnification or a governing law. We undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto in this letter.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Agreement has been duly authorized, executed and delivered by the District and constitutes the legally valid and binding obligation of the District, enforceable in accordance with its terms.
2. The Bonds are valid and legally binding special sales tax obligations of the District, payable from and secured by a pledge of Pledged Revenues as defined in the Agreement, subject to the provisions of the Agreement permitting the application thereof for the purposes and on the terms and conditions set forth therein. The Bonds do not constitute general obligations of the District.
3. Interest on the Bonds is exempt from personal income taxes of the State of California under present state law.

Except as stated in paragraph 3 above, we express no opinion as to any other federal, state or local tax consequences of the ownership or disposition of the Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof upon the advice or approval of other counsel.

The opinion set forth in opinion 2 above assumes that the Trustee has duly authenticated the Bonds.

We have acted in this transaction solely as Bond Counsel to the District. This opinion is addressed to you solely for your benefit in connection with the initial issuance and delivery of the Bonds on the date hereof. This opinion speaks only as of its date and is limited to the opinions expressly stated herein. We assume no obligation to review, supplement or update this opinion subsequent to its date, whether by reason of a change in law, legislative or regulatory action, judicial decision or for any other reason.

Respectfully submitted,