

The delivery of the 2008 Bonds is subject to the opinion of Katten Muchin Rosenman LLP and Barclay, Dixon & Smith, P.C., Co-Bond Counsel, to the effect that under existing law, interest on the 2008 Bonds is not includable in the gross income of the owners thereof for federal income tax purposes and that, assuming continuing compliance with the applicable requirements of the Internal Revenue Code of 1986, interest on the 2008 Bonds will continue to be excluded from the gross income of the owners thereof for federal income tax purposes. Interest on the 2008 Bonds is not an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income, but must be taken into account as earnings and profits of a corporation when computing, for example, corporate minimum taxable income for purposes of the corporate alternative minimum tax. See “TAX MATTERS” herein. Interest on the 2008 Bonds is not exempt from present Illinois income taxes.

**\$250,000,000****CHICAGO TRANSIT AUTHORITY****\$100,000,000**

CAPITAL GRANT RECEIPTS REVENUE BONDS, SERIES 2008A
(FEDERAL TRANSIT ADMINISTRATION SECTION 5307
URBANIZED AREA FORMULA FUNDS)

\$150,000,000

CAPITAL GRANT RECEIPTS REVENUE BONDS, SERIES 2008
(FEDERAL TRANSIT ADMINISTRATION SECTION 5309 FIXED
GUIDEWAY MODERNIZATION FORMULA FUNDS)

Dated: Date of Issuance**Due: June 1, as shown on the inside cover**

The Chicago Transit Authority (the “Authority”) Capital Grant Receipts Revenue Bonds, Series 2008A (Federal Transit Administration Section 5307 Urbanized Area Formula Funds) (the “2008A 5307 Bonds”), are being issued pursuant to the Trust Indenture dated as of November 1, 2004, between the Authority and Amalgamated Bank of Chicago, as trustee, as supplemented by a Second Supplemental Indenture dated as of April 1, 2008 (the “5307 Indenture”).

The Chicago Transit Authority Capital Grant Receipts Revenue Bonds, Series 2008 (Federal Transit Administration Section 5309 Fixed Guideway Modernization Formula Funds) (the “2008 5309 Bonds” and, together with the 2008A 5307 Bonds, the “2008 Bonds”), are being issued pursuant to the Trust Indenture dated as of April 1, 2008 (the “5309 Indenture”), between the Authority and Amalgamated Bank of Chicago, as trustee.

The 2008 Bonds are deliverable in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). Individual purchases of 2008 Bonds will be made in principal amounts of \$5,000 and integral multiples thereof and will be in book-entry form only. Purchasers of 2008 Bonds will not receive bonds representing their beneficial ownership in the 2008 Bonds but will receive a credit balance on the books of their respective DTC Participants or DTC Indirect Participants. The 2008 Bonds will not be transferable or exchangeable except for transfer to another nominee of DTC or as otherwise described herein.

Interest on the 2008 Bonds, which is payable on June 1 and December 1 of each year, commencing June 1, 2008, and principal on the 2008 Bonds, is payable to Cede & Co. Such interest and principal payments are to be disbursed to the beneficial owners of the 2008 Bonds through their respective DTC Participants or DTC Indirect Participants. The 2008 Bonds are subject to redemption prior to maturity as described herein. See “DESCRIPTION OF THE 2008 BONDS – Optional Redemption.”

The 2008 Bonds are limited obligations of the Authority. The 2008A 5307 Bonds are secured under the 5307 Indenture by a pledge of the Authority’s share of Federal Transit Administration Section 5307 Urbanized Area Formula funds (the “5307 Grant Receipts”) on a parity with the Authority’s currently outstanding Series 2004 Bonds and Series 2006 Bonds. The 2008 5309 Bonds are secured under the 5309 Indenture by a pledge of the Authority’s share of Federal Transit Administration Section 5309 Fixed Guideway Modernization Formula funds (the “5309 Grant Receipts”).

The 2008 Bonds are not a general obligation of the Authority, and the revenues of the Authority (other than the 5307 Grant Receipts and the 5309 Grant Receipts) are not pledged or available for the payment of the 2008 Bonds or the interest thereon. The Authority has no taxing power.

The scheduled payment of principal of and interest on each Series of the 2008 Bonds when due will be guaranteed under separate financial guaranty insurance policies to be issued by Assured Guaranty Corp. concurrently with the delivery of the 2008 Bonds.



The maturities, amounts, interest rates and yields of the 2008 Bonds are set forth on the inside cover.

The 2008 Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of validity thereof by Katten Muchin Rosenman LLP, Chicago, Illinois, and Barclay, Dixon & Smith, P.C., Chicago, Illinois, Co-Bond Counsel. Certain legal matters will be passed upon for the Underwriters by Charity & Associates, P.C., Chicago, Illinois, and Chico & Nunes P.C., Chicago, Illinois, Co-Underwriters’ Counsel and for the Authority by its General Counsel. The 2008 Bonds are expected to be delivered through the facilities of DTC in New York, New York on or about April 29, 2008.

George K. Baum & Company
Banc of America Securities LLC
SBK-Brooks Investment Corp.

Cabrera Capital Markets LLC
M.R. Beal & Company
Siebert Brandford Shank & Co., LLC

\$100,000,000
CHICAGO TRANSIT AUTHORITY
CAPITAL GRANT RECEIPTS REVENUE BONDS, SERIES 2008A
(FEDERAL TRANSIT ADMINISTRATION SECTION 5307 URBANIZED AREA
FORMULA FUNDS)

MATURITY SCHEDULE

Maturity Date (June 1)	Principal Amount	Interest Rate	Yield	CUSIP**
2022	\$ 18,005,000	5.25%	4.22%*	167723 DC6
2023	18,955,000	5.25	4.28 *	167723 DD4
2024	19,950,000	5.25	4.34 *	167723 DE2
2025	20,995,000	5.25	4.39 *	167723 DF9
2026	22,095,000	5.25	4.43 *	167723 DG7

* Yield is to the first call date.

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\$150,000,000
CHICAGO TRANSIT AUTHORITY
CAPITAL GRANT RECEIPTS REVENUE BONDS, SERIES 2008
(FEDERAL TRANSIT ADMINISTRATION SECTION 5309 FIXED GUIDEWAY
MODERNIZATION FORMULA FUNDS)

MATURITY SCHEDULE

Maturity Date (June 1)	Principal Amount	Interest Rate	Yield	CUSIP**
2010	\$ 2,985,000	3.50%	2.57%	167723 CH6
2010	3,005,000	5.00	2.57	167723 CG8
2011	6,240,000	3.50	2.86	167723 CJ2
2012	2,200,000	3.50	3.07	167723 CK9
2012	4,260,000	5.00	3.07	167723 DA0
2013	2,450,000	3.75	3.23	167723 CL7
2013	4,300,000	5.00	3.23	167723 DB8
2014	3,535,000	3.75	3.34	167723 CM5
2014	3,525,000	5.00	3.34	167723 DH5
2015	3,685,000	4.00	3.48	167723 CN3
2015	3,680,000	5.00	3.48	167723 DJ1
2016	7,700,000	5.00	3.61	167723 CP8
2017	8,085,000	5.00	3.72	167723 CQ6
2018	8,490,000	5.00	3.83	167723 CR4
2019	8,910,000	5.25	4.00*	167723 CS2
2020	9,380,000	5.25	4.09*	167723 CT0
2021	9,870,000	5.25	4.18*	167723 CU7
2022	10,390,000	5.25	4.22*	167723 CV5
2023	10,935,000	5.25	4.28*	167723 CW3
2024	11,510,000	5.25	4.34*	167723 CX1
2025	12,115,000	5.25	4.39*	167723 CY9
2026	12,750,000	5.25	4.43*	167723 CZ6

* Yield is to the first call date.

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CHICAGO TRANSIT AUTHORITY

CHICAGO TRANSIT BOARD

Carole L. Brown, Chairman
Susan A. Leonis, Vice Chairman
Henry T. Chandler, Jr.
Cynthia A. Panayotovich
Charles E. Robinson
Alejandro Silva
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OFFICERS

Ron Huberman, President
Dennis O. Anosike, Senior Vice President/Treasurer
Karen Rowan, General Counsel
Gregory Longhini, Assistant Secretary

CO-BOND COUNSEL

Katten Muchin Rosenman LLP
Barclay, Dixon & Smith, P.C.
Chicago, Illinois

CO-FINANCIAL ADVISORS

DEPFA First Albany Securities LLC
A.C. Advisory, Inc.
Chicago, Illinois

In connection with this offering, the Underwriters may overallocate or effect transactions that stabilize or maintain the market prices of the 2008 Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriters may offer and sell the 2008 Bonds to certain dealers and others at prices lower than the public offering prices stated on the inside cover page of the Official Statement, and such public offering prices may be changed from time to time by the Underwriters.

This Official Statement does not constitute an offer to sell the 2008 Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. No dealer, broker, salesman or other person has been authorized by the Authority or the Underwriters to give any information or to make any representation other than that contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized. Neither the delivery of this Official Statement nor the sale of any of the 2008 Bonds implies that the information herein is correct as of any time subsequent to the date hereof. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create the implication that there has been no change in the matters described herein since the date hereof.

This Official Statement is not to be construed as a contract with the purchasers of the 2008 Bonds. All summaries of statutes and documents are made subject to the provisions of such statutes and documents, respectively, and do not purport to be complete statements of any or all of such provisions.

The information set forth herein has been obtained from the Authority and other sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Authority or the Underwriters. The Underwriters have provided the following sentence for inclusion in this 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. No representation, warranty or guarantee is made by the Co-Financial Advisors as to the accuracy or completeness of any information in this Official Statement, including, without limitation, the information contained in the appendices hereto, and nothing contained in this Official Statement is or shall be relied upon as a promise or representation by the Authority, the Underwriters or the Co-Financial Advisors.

Assured Guaranty makes no representation regarding the Bonds or the advisability of investing in the 2008 Bonds. In addition, Assured Guaranty has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding Assured Guaranty supplied by Assured Guaranty and presented under the heading "2008 BOND INSURANCE POLICIES" and APPENDIX G – "SPECIMEN OF THE 2008 BOND INSURANCE POLICIES".

This Official Statement contains forecasts, projections and estimates that are based on current expectations or assumptions. In light of the important factors that may materially affect the amount of Grant Receipts received, the inclusion in this Official Statement of such forecasts, projections and estimates should not be regarded as a representation by the Authority that such forecasts, projections and estimates will occur. Such forecasts, projections and estimates are not intended as representations of fact or guarantees of results.

If and when included in this Official Statement, the words "expects," "forecasts," "projects," "intends," "anticipates," "estimates," "assumes" and analogous expressions are intended to identify forward-looking statements, and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those that have been projected. Such risks and uncertainties which could affect the amount of Grant Receipts received include, among others, receipt of anticipated amounts under the FTA's Urbanized Area Formula Program (49 U.S.C. 5307) and Fixed Guideway Modernization Program (49 U.S.C. 5309), changes in political, social and economic conditions, federal, state and local statutory and regulatory initiatives, litigation, seismic events, and various other events, conditions and circumstances, many of which are beyond the control of the Authority. These forward-looking statements include, but are not limited to, certain statements contained in the information contained under the captions "SECURITY FOR THE BONDS" and "FEDERAL TRANSIT PROGRAM" and such statements speak only as of the date of this Official Statement. The Authority disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any changes in the Authority's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

This Official Statement is submitted in connection with the sale of securities referred to herein and may not be reproduced or be used, as a whole or in part, for any other purpose.

The 2008 Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption contained therein, and have not been registered or qualified under the securities laws of any state.

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OFFICIAL STATEMENT

\$250,000,000 **CHICAGO TRANSIT AUTHORITY**

\$100,000,000

CAPITAL GRANT RECEIPTS REVENUE BONDS, SERIES 2008A
(FEDERAL TRANSIT ADMINISTRATION SECTION 5307
URBANIZED AREA FORMULA FUNDS)

\$150,000,000

CAPITAL GRANT RECEIPTS REVENUE BONDS, SERIES 2008
(FEDERAL TRANSIT ADMINISTRATION SECTION 5309
FIXED GUIDEWAY MODERNIZATION FORMULA FUNDS)

INTRODUCTION

General

The purpose of this Official Statement, which includes the cover page and appendices hereto (the "Official Statement"), is to set forth certain information concerning the issuance by the Chicago Transit Authority (the "Authority" or the "CTA") of \$100,000,000 aggregate principal amount of Capital Grant Receipts Revenue Bonds, Series 2008A (Federal Transit Administration Section 5307 Urbanized Area Formula Funds) (the "2008A 5307 Bonds") and \$150,000,000 aggregate principal amount of Capital Grant Receipts Revenue Bonds, Series 2008 (Federal Transit Administration Section 5309 Fixed Guideway Modernization Formula Funds) (the "2008 5309 Bonds," and together with the 2008A 5307 Bonds, the "2008 Bonds"). The 2008A 5307 Bonds, together with the 2004 Bonds (as defined herein) and the 2006 Bonds (as defined herein), and any Series of Additional Bonds and Refunding Bonds that may be issued in the future under the 5307 Indenture (as such terms are defined herein), are collectively referred to in this Official Statement as the "5307 Bonds." The 2008 5309 Bonds and any Series of Additional Bonds and Refunding Bonds that may be issued in the future under the 5309 Indenture (as such terms are defined herein), are collectively referred to in this Official Statement as the "5309 Bonds," and collectively with the 5307 Bonds, the "Bonds."

The 2008 Bonds are being issued pursuant to the laws of the State of Illinois, including the Metropolitan Transit Authority Act (70 ILCS 3605) (the "Act") and the Local Government Debt Reform Act (30 ILCS 350). The 2008 Bonds are authorized by an ordinance adopted by the CTA Board on March 12, 2008.

The 2008A 5307 Bonds are being issued under and secured by the Trust Indenture dated as of November 1, 2004 (the "5307 Master Trust Indenture"), between the Authority and Amalgamated Bank of Chicago, Chicago, Illinois, as trustee (the "5307 Trustee"), as heretofore supplemented and as further supplemented by the Second Supplemental Indenture dated as of April 1, 2008 ("Second Supplemental Indenture"). The 5307 Master Trust Indenture, as heretofore supplemented and as further supplemented by the Second Supplemental Indenture is herein referred to as the "5307 Indenture."

The 2008 5309 Bonds are being issued under and secured by the Trust Indenture dated as of April 1, 2008 (the “5309 Indenture,” and together with the 5307 Indenture, the “Indentures”), between the Authority and Amalgamated Bank of Chicago, Chicago, Illinois, as trustee (the “5309 Trustee”).

A portion of the funding that the Authority receives for the support of urban mass transportation capital improvement projects that it undertakes is in the form of federal grant funding from the Federal Transit Administration of the United States Department of Transportation (the “FTA”). Under the FTA’s Urbanized Area Formula Program, 49 U.S.C. Section 5307 (“Section 5307”), funds are made available to urbanized areas to finance capital, operating and planning assistance for mass transportation (“Section 5307 Formula Funds”). Under the FTA’s Fixed Guideway Modernization Program, 49 U.S.C. Section 5309 (“Section 5309”), funds are made available for the modernization of existing rail systems (“Section 5309 Formula Funds”). See “FEDERAL TRANSIT PROGRAM.” The Authority has agreed to deposit all Section 5307 Formula Funds received by the Authority (the “5307 Grant Receipts”) in the Grant Receipts Deposit Fund established under the 5307 Indenture. The 5307 Indenture provides for the withdrawal of amounts from the Grant Receipts Deposit Fund for deposit with the 5307 Trustee for the purpose of paying debt service on the 5307 Bonds. The Authority has agreed to deposit all Section 5309 Formula Funds received by the Authority (the “5309 Grant Receipts,” and collectively with the 5307 Grant Receipts, the “Grant Receipts”) in the Grant Receipts Deposit Fund established under the 5309 Indenture. The 5309 Indenture provides for the withdrawal of amounts from the Grant Receipts Deposit Fund for deposit with the 5309 Trustee for the purpose of paying debt service on the 5309 Bonds. See “SECURITY FOR THE BONDS – Flow of Funds – Grant Receipts.”

The 2008 Bonds are being issued to provide funds to finance, or reimburse the Authority for prior expenditures relating to, a portion of the costs of the 2008 Project described in this Official Statement (see “THE 2008 PROJECT”) in anticipation of the receipt of the Grant Receipts. Proceeds of the 2008 Bonds will also be applied to fund capitalized interest on the 2008 Bonds and to pay certain costs of issuance of the 2008 Bonds. See “SOURCES AND USES OF FUNDS.”

The Authority

The Authority is a political subdivision, body politic and municipal corporation of the State of Illinois created by the Act. The Authority began operating in 1947. Currently, the Authority operates the nation’s second largest public transportation system, which covers the City of Chicago and 40 surrounding suburbs.

The 2008 Bonds

The 2008A 5307 Bonds are being issued pursuant to the Second Supplemental Indenture as a Series of Additional Bonds as defined in the 5307 Indenture and will be dated the date of their issuance and mature at the times and in the principal amounts set forth on the inside cover page of this Official Statement.

The 2008 5309 Bonds will be dated the date of their issuance and mature at the times and in the principal amounts set forth on the inside cover page of this Official Statement.

Interest on the 2008 Bonds shall be payable on June 1 and December 1 of each year, commencing June 1, 2008.

The 2008 Bonds are issuable as fully registered bonds and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the 2008 Bonds. Purchases of beneficial ownership interests in the 2008 Bonds will be made only in book-entry form in denominations of \$5,000 or any integral multiple thereof.

The 2008 Bonds are subject to redemption prior to their maturity at the option of the Authority as described herein under “DESCRIPTION OF THE 2008 BONDS – Optional Redemption.”

Security for the Bonds

2008A 5307 Bonds

The 5307 Bonds, including the 2008A 5307 Bonds, are limited obligations of the Authority payable from and secured solely by (i) the 5307 Grant Receipts, and (ii) amounts on deposit in the funds and accounts under the 5307 Indenture (except the Rebate Fund), including investment earnings thereon. See “SECURITY FOR THE BONDS.” The sole source of 5307 Grant Receipts is the Authority’s annual share of Section 5307 Formula Funds. See “FEDERAL TRANSIT PROGRAM – Section 5307 Program” and “– Authority Participation in Section 5307 Program and Section 5309 Program.”

The 2008A 5307 Bonds are being issued as Additional Bonds and Parity Obligations (as such terms are defined in the 5307 Indenture) under the 5307 Indenture on a parity with the Authority’s Capital Grant Receipts Revenue Bonds, Series 2004A (Federal Transit Administration Section 5307 Formula Funds), currently outstanding in the principal amount of \$124,440,000 (the “Series 2004A Bonds”), its Capital Grant Receipts Revenue Bonds, Series 2004B (Federal Transit Administration Section 5307 Formula Funds), currently outstanding in the principal amount of \$85,445,000 (the “Series 2004B Bonds” and, together with the Series 2004A Bonds, the “2004 Bonds”) and its Capital Grant Receipts Revenue Bonds, Series 2006A (Federal Transit Administration Section 5307 Formula Funds), currently outstanding in the principal amount of \$275,000,000 (the “Series 2006A Bonds,” which, together with the 2004 Bonds and the Series 2008A 5307 Bonds, as such Bonds may be Outstanding, are referred to in this Official Statement as the “Outstanding 5307 Bonds”), and with certain other obligations that may be issued by the Authority as described herein. See “SECURITY FOR THE BONDS – Parity Obligations.”

2008 5309 Bonds

The 2008 5309 Bonds are limited obligations of the Authority payable from and secured solely by (i) the 5309 Grant Receipts, and (ii) amounts on deposit in the funds and accounts under the 5309 Indenture (except the Rebate Fund), including investment earnings thereon. See “SECURITY FOR THE BONDS.” The sole source of 5309 Grant Receipts is the Authority’s annual share of Section 5309 Formula Funds. See “FEDERAL TRANSIT PROGRAM – Section 5309 Program” and “– Authority Participation in Section 5307 Program and Section 5309 Program.”

No General Obligation of the Authority

The Bonds are not a general obligation of the Authority, and the revenues of the Authority (other than as described herein) are not pledged for the payment of the Bonds or the interest thereon. The Indentures create no liens upon any physical properties of the Authority. The Act provides that the Bonds are not, and shall not be or become, an indebtedness or obligation of the State of Illinois or any political subdivision of the State (other than the limited obligation of the Authority) or of any municipality within the State, nor shall any Bond be or become an indebtedness of the Authority within the purview of any constitutional limitation or provision. The Authority has no taxing power.

Bond Insurance

The scheduled payment of principal and interest on each Series of the 2008 Bonds when due will be guaranteed under separate financial guaranty insurance policies to be issued by Assured Guaranty Corp. (the “2008 Bond Insurance Policies”) concurrently with the delivery of the 2008 Bonds.

Certain References

The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each document. All capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in APPENDIX A – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES – Definitions of Certain Terms” or, if not defined therein, in the Indentures.

PLAN OF FINANCE

The Authority currently plans to issue the 2008 Bonds in the aggregate principal amount of \$250,000,000 to finance the 2008 Project. The Authority expects, subject to receipt of all necessary Board approvals and as permitted by the Indentures, to issue Additional Bonds at future dates to finance capital needs as they may be identified in its Capital Plan from time to time and to the extent that they are also eligible under the FTA's Section 5307 Urbanized Area Formula Program (the "Section 5307 Program") and the Section 5309 Fixed Guideway Modernization Program (the "Section 5309 Program"). See "THE AUTHORITY – Capital Plan" for a further explanation of how the Authority's Capital Plan is developed.

SOURCES AND USES OF FUNDS

	<u>Series 2008A 5307 Bonds</u>	<u>Series 2008 5309 Bonds</u>
<u>Sources of Funds</u>		
Par Amount	\$100,000,000.00	\$150,000,000.00
Original Issue Premium	<u>7,391,052.95</u>	<u>11,246,394.05</u>
Total Sources of Funds	\$107,391,052.95	\$161,246,394.05
<u>Uses of Funds</u>		
Deposit to Construction Fund ¹	\$105,580,877.27	\$158,756,179.55
Costs of Issuance ²	<u>1,810,175.68</u>	<u>2,490,214.50</u>
Total Uses of Funds	\$107,391,052.95	\$161,246,394.05

¹ Under each Indenture, an amount will be deposited in the Capitalized Interest Account of the Construction Fund that, when invested as permitted under the applicable Indenture, is expected to be sufficient, together with the interest earnings thereon, to provide for the payment of scheduled interest on the applicable Series of 2008 Bonds through December 1, 2008. All amounts in excess of the amounts necessary for such purpose will be transferred to the Interest Account of the Debt Service Fund under the applicable Indenture.

² Includes Underwriters' Discount and any premium paid for bond insurance.

THE AUTHORITY

General

The Metropolitan Transportation Authority Act authorized the creation of the Authority in 1945 as a political subdivision, body politic, and municipal corporation of the State. The Authority began operating on October 1, 1947, after it acquired the properties of the Chicago Rapid Transit Company and the Chicago Surface Lines. On October 1, 1952, the Authority became the sole operator of Chicago transit when it purchased the Chicago Motor Coach system. The Authority was formed primarily for the purpose of operating and maintaining a public transportation system in the metropolitan area of Cook County.

On November 7, 2007, the Authority's Board of Directors (the "Chicago Transit Board" or the "CTA Board") adopted the 2008 Budget Recommendations of Ron Huberman, the President of the Authority (the "President's 2008 Budget Recommendations"). The President's 2008 Budget Recommendations include, among other things, the President's 2008 Proposed Operating Budget, 2009 – 2010 Proposed Operating Financial Plan and 2008 – 2012 Capital Improvement Plan and Program. The Authority's Operating Budget for Fiscal Year 2008 and its financial plan for Fiscal Years 2009 and 2010 was considered and approved by the CTA Board and approved by the Regional Transportation Authority (the "RTA"), as described below under "– RTA Financial Oversight." The Authority's current operating budget for 2008 is approximately \$1.033 billion. Approximately 45.5 percent of the operating budget is funded from fare revenues. Another 8.9 percent of the operating budget is funded from contributions from local governments, reduced fare subsidies and other revenue sources (including investment income and advertising and concession revenues). The balance of the operating budget is funded from public funding available through the RTA. Subsequent to the approval of the current operating budget for 2008, the Illinois state legislature passed legislation increasing funding for transit purposes, as described in the next paragraph. As a result, the RTA has issued new funding marks to the CTA and the CTA is in process of amending its 2008 budget to cancel anticipated service cuts and fare increases to reflect the new funding.

In addition to the funding sources described above, on January 18, 2008, Illinois Public Act 95-708 was enacted and provides additional funding a portion of which is for CTA operations, pension and retiree healthcare from four sources: 1) a 0.25 percent increase in the RTA sales tax in each Cook, DuPage, Kane, Lake, McHenry and Will Counties, 2) a \$1.50 per \$500 of transfer price increase in the City of Chicago's Real Property Transfer Tax, 3) an additional 5 percent State match on the real estate transfer tax and all sales tax receipts except for the replacement and use tax, and 4) a 25 percent State match on the new sales tax and real estate transfer tax. The proceeds from the increase in the RTA sales tax will be used to fund some existing programs such as ADA paratransit services, as well as some new initiatives such as the Suburban Community Mobility Fund and the Innovation, Coordination and Enhancement Fund. The balance of these additional proceeds along with the 5 percent State match on existing and additional sales tax and real estate transfer tax and the State 25 percent match on the new sales tax will, except as provided below, be divided among the CTA (48 percent), Metra (39 percent) and Pace (13 percent) according to the statutory formula. On February 6, 2008, the Chicago City Council authorized an increase in the Real Property Transfer Tax in the amount of \$1.50 per \$500 of transfer price, the proceeds of which (after deducting costs associated with collection) will be entirely directed to the CTA. Additionally, the State 25 percent match on the real estate transfer tax will be entirely directed to CTA. After financing debt service for pension and retiree healthcare in the amount of approximately \$124 million annually, and taking into consideration the potential fluctuations in the Real Property Transfer Tax, the combination of these two revenue sources are expected to yield approximately \$104 million annually for CTA operations in the short-term, with a potential for growth as the current economy rebounds.

The Authority's capital budget for 2008, as amended, is approximately \$627 million. The capital budget is funded from a combination of Federal, State, local dedicated funds and grants and the proceeds of bonds issued under the 5307 Indenture and the 5309 Indenture. The Authority's five-year capital budget for 2008 – 2012, as amended, is \$2.1 billion.

The Authority's current Capital Plan (see "Capital Plan" below) as well as the President's 2008 Budget Recommendations can be viewed online at: www.transitchicago.com/business/finance.html. Approved operating budgets, including the Authority's 2008 operating budget, may be obtained upon request of the Authority.

Administration

The governing and administrative body of the Authority is the CTA Board consisting of seven members. Three CTA Board members are appointed by the Governor of the State, by and with the advice and consent of the Senate, subject to approval by the Mayor of the City. One of the members appointed by the Governor must be a resident of the metropolitan area outside the City. Four members are appointed by the Mayor with the advice and consent of the City Council, subject to approval by the Governor. The CTA Board elects one of its members, as chairman for a maximum term of three years. Each member serves for a seven-year term and until his or her successor has been appointed and qualified; provided that, in the case of an appointment to fill a vacancy, the appointed member serves during the remainder of the vacated term and until his or her successor has been appointed and qualified.

The current members of the CTA Board are as follows:

Carole L. Brown, Chairman of the Board, was appointed to the CTA Board by Mayor Richard M. Daley in 2003. Her current terms as Chairman and member run through 2009 and 2013, respectively. Ms. Brown is a Managing Director and the Head of the Central Region for Lehman Brothers, an international investment banking firm. Ms. Brown has extensive experience in analyzing and understanding the budgets and investment priorities of governmental entities. Ms. Brown is a member of numerous boards of civic institutions, including the boards of the Chicago Children's Museum and Mercy Foundation.

Susan A. Leonis, Vice Chairman of the Board, was initially appointed to the CTA Board by Governor Jim Edgar in 1996 and reappointed by Governor Rod Blagojevich in November, 2005 for a term continuing until September, 2011. Ms. Leonis is the founder and principal of The Leonis Group, a consulting firm specializing in government and business management. Previously, Ms. Leonis served as Senior Vice-President for Government and Community Relations with the Prime Group, a real estate and development firm.

Henry T. Chandler, Jr. was initially appointed to the CTA Board by Mayor Richard M. Daley in March, 2006 and reappointed by the Mayor in 2008 for a term expiring in September, 2014. Mr. Chandler is Board Chair of Access Living of Metropolitan Chicago, a non-residential center dedicated to advocating on behalf of people with disabilities.

Cynthia A. Panayotovich formerly served as Senior Public Service Administrator in the Illinois Department of Commerce and Community Affairs, the predecessor agency to the Illinois Department of Commerce and Economic Opportunity. Ms. Panayotovich was appointed to the CTA Board by Governor George Ryan in 2002 for a term expiring in 2009. She previously served as Public Service Administrator and staff assistant to the Deputy Director of the Illinois Bureau of Business Development.

Reverend Charles E. Robinson has been pastor of Holy Starlight M.B. Church in the Lawndale community since 1987. Reverend Robinson was initially appointed to the CTA Board by Mayor Richard M. Daley in 2002 and reappointed by the Mayor in 2008 for a term expiring in September 2014. Reverend Robinson has served as Chairman of the Community Bank of Lawndale's Advisory Board, President of the North Lawndale Ministers' Council, and Vice President of the Westside Baptist Ministers' Conference.

Alejandro Silva, Chairman of the Committee on Finance, Audit and Budget, was appointed to the CTA Board by Mayor Richard M. Daley in March 2004. Mr. Silva's term expires on September 1, 2008. Mr. Silva is the chairman of the Evans Food Group, Ltd., an international food production company with facilities in North America and Europe. A native of Mexico, Mr. Silva is active in numerous business and civic organizations, such as the Mexican American Chamber of Commerce and the Chicago Council on Foreign Relations.

Nicholas C. Zagotta was appointed to the CTA Board by Governor Rod Blagojevich in May 2004. His term expired in 2007*. Mr. Zagotta is a principal in the law firm of Nicholas C. Zagotta and is the principal and owner of the Chicago Board of Trade commodities firm Zagotta Grain. Mr. Zagotta is also on the Board of Directors of United Community Bank in Lisle, Illinois.

The current officers of the Authority are as follows:

Ron Huberman, President of the Chicago Transit Authority, was appointed in May 2007. Mr. Huberman oversees the day-to-day operations of the second largest transit agency in the country. From 2005 to 2007, Mr. Huberman served as Chief of Staff for Chicago Mayor Richard M. Daley. From 2004 to 2005, Mr. Huberman served as Executive Director of the City of Chicago Office of Emergency Management and Communications (OEMC). Prior to his appointment as Executive Director at OEMC, Mr. Huberman served the Chicago Police Department for nine years, including 2 years as an Assistant Superintendent.

Karen A. Rowan, General Counsel of the Chicago Transit Authority, was appointed in May 2007. She was named the first female General Counsel to the Chicago Police Department in February 2000. She began her 22-year tenure with the Department as a police officer and retired as the Assistant Deputy Superintendent of the Internal Affairs Division. Ms. Rowan earned a Bachelor of Arts Degree in 1984 from the National College of Education in Evanston, Illinois and a Juris Doctor Degree from Loyola University of Chicago School of Law in 1989. She was admitted to the Illinois Bar in 1989.

Dennis O. Anosike, Senior Vice-President/Treasurer, joined the CTA in 1997. As chief financial officer, Mr. Anosike is responsible for overseeing the financial management of the nation's second largest transit agency. He previously served as Deputy Budget Director in the City of Chicago's Office of Budget and Management and as Director of Finance for the Chicago Police Department.

* Following the expiration of a term, CTA Board Members continue to serve until reappointment, resignation or replacement.

Gregory Longhini is the Assistant Board Secretary of the Chicago Transit Board. Mr. Longhini joined the CTA in 1998. Previously, Mr. Longhini had been a Deputy Commissioner of the Chicago Department of Planning and Development and a Senior Research Associate with the American Planning Association.

Divisions

The CTA is comprised of four major divisions: transit operations, facilities maintenance and construction, power and way maintenance and construction and operations support. For 2008, 4,495 employees serve in budgeted, non-scheduled transit operations positions. This number will be increased when the budget is amended to reflect the cancellation of anticipated service cuts.

Labor Relations

CTA has labor agreements with seventeen different unions. The Amalgamated Transit Union Locals 241 and 308 (the "ATU Locals") represent approximately 8,500 of the CTA's unionized employees. The collective bargaining agreement with the ATU Locals for years 2007 through 2011 has been decided by an interest arbitrator and its execution has been approved by the Chicago Transit Board. The parties are completing the documentation for this agreement.

Fourteen other unions represent another 1,500 craft union employees. Of these unions,

- (a) CTA has tentative agreements with its craft unions (11 separate trade unions) for years 2007 through 2011. Note that within these 11 unions is one local with which the CTA has four separate contracts: IBEW Local 134, which represents certain of CTA's electricians along with the controllers, yardmasters and roadmasters. The Chicago Transit Board has authorized management to execute collective bargaining agreements with those units consistent with the terms of the tentative agreements.
- (b) CTA has tentative agreements with the Operating Engineers Local 399, the United Steelworkers Local 9777, and the IAM/Mechanics Local 701 for 2007 through 2011.

Ironworkers Local 1 covers approximately 100 employees. CTA does not negotiate a separate bargaining agreement with them but participates in the area wide agreement. The area-wide agreement with Ironworkers Local 1 will expire on May 31, 2009.

CTA Transit Services

The Authority is the nation's second largest public transit system as measured by unlinked passenger trips. The Authority operates public mass transit service, including bus and rail service, in the City of Chicago and 40 surrounding suburbs. The service area of the Authority has a population of approximately 3.8 million. The Authority carries almost 80 percent of the public transit riders in the six-county Northeastern Illinois region.

The Authority has approximately 2,100 buses that operate over 154 routes. Authority buses make approximately 24,500 bus trips and provide about one million passenger trips each weekday. The buses serve approximately 12,000 posted bus stops.

The Authority's 1,190 rapid transit cars operate on eight routes. Authority trains make about 2,200 trips and provide approximately 600,000 passenger trips each weekday. These trains serve 144 stations.

Capital Asset Base

The Authority's public transit system has assets with an approximate book value of \$3.2 billion as of December 31, 2006. The composition of the Authority's asset base is shown in the following table:

**CTA CAPITAL ASSET BASE
(In Millions)**

<u>Description</u>	
Land and Land Improvement	\$ 127,037
Buildings	884,015
Vehicles	628,154
El Structure, Track, and Tunnels	543,186
Power, Signals, and Communications	237,718
Other Equipment	87,827
Construction in Progress	<u>694,234</u>
Total	\$3,202,171

Capital Plan

The Authority prepares a capital plan each year which is comprised of capital projects the Authority intends to undertake within a five-year period with respect to renovating and improving the physical infrastructure of its system, subject to available funding. Generally, available funding as used in the capital plan is based on available funding for the current year of the plan and on projected funding receipts for the four out-years of the plan. Sources of funding available to the Authority for its capital projects include: Section 5307 Formula Funds, Section 5309 Formula Funds, other federal funds (see "FEDERAL TRANSIT PROGRAM"), funding from the State of Illinois Department of Transportation, and funding from the RTA. A capital plan may be revised from time to time, depending on changing circumstances, to add or delete specific capital projects.

The Authority's 2008-2012 \$2.1 billion Capital Improvement Program (the "Capital Plan") includes funds to purchase replacement buses and railcars, and to continue the major rehabilitation of the Brown Line. Other projects will upgrade and renew the Authority's rail right-of-way, upgrade maintenance facilities, and implement vehicle overhauls for the Authority's bus and rail fleets.

Long-Term Obligations

On March 31, 2003, the Public Building Commission of Chicago (the "Commission"), on behalf of CTA, issued \$119,020,000 of Building Revenue Bonds, Series 2003 (Chicago Transit Authority) (the "Series 2003 PBC Bonds"). The Commission used the proceeds of the PBC Bonds, among other things, to acquire the site for and construct a 12-story office building, which the Commission will lease for a 20-year term to the CTA to be used as its headquarters. Upon satisfaction of all of the obligations of the CTA under the lease and payment, or provision for payment, of the Series 2003 PBC Bonds in full, the Commission will transfer title to the leased premises to the CTA. On October 26, 2006, the Series 2003 PBC Bonds were refunded with the proceeds of the Commission's Building Refunding Revenue Bonds, Series 2006 (Chicago Transit Authority), issued in the aggregate principal amount of \$91,340,000. The outstanding balance of the defeased debt was \$106,870,000 as of December 31, 2007.

On May 1, 1998 the Authority defeased a capital lease agreement with the Commission. The Authority placed approximately \$13.6 million into an irrevocable trust with a third party in order to meet all of its payment obligations throughout the term of the lease. The outstanding balance of the defeased debt was \$725,000 as of December 31, 2007.

On February 29, 2008, CTA concluded a municipal lease agreement with Traxis Financial Group, Inc. to lease 150 articulated buses. A municipal lease provides tax advantages to the lessor and as a result provides a lower finance rate to CTA competitive with municipal bonds. The lease debt is subordinate to the Bonds. The buses, manufactured by New Flyer, will be delivered between August 2008 and April 2009. The buses will be leased for a period of 12 years beginning with delivery of the first bus. Total lease payment in the years 2008 – 2020 will be \$156,488,077. The first lease payment of \$1,964,916 is due in December 2008. The subsequent 23 semi-annual lease payments of \$6,718,398 are payable on June 1 and December 1 through June 2020.

The Authority has entered into several economically defeased lease and leaseback agreements in fiscal years 1995 through 2003. These agreements were entered into with various third parties and pertain to certain assets of the Authority, including rail lines and equipment, rail cars, facilities, buses and qualified technology equipment. Under the lease/leaseback financings, the Authority entered into a long-term lease for applicable assets with a trust, established by the equity investor, which trust concurrently leased the respective assets back to the Authority under a sublease. Each sublease contains a fixed date and a fixed price purchase option that allows the Authority, at its option, to purchase the assets back from the lessor. As of December 31, 2006, the total obligations due under the lease agreements which have been economically defeased was approximately \$1.7 billion.

The Tax Increase Prevention and Reconciliation Act of 2005, enacted on May 17, 2006 ("TIPRA"), imposes an excise tax on the net income or proceeds of certain types of leasing transactions. Based upon the guidance provided by the Internal Revenue Service and the proposed IRS regulations issued under Section 4965 of the Internal Revenue Code, it is the opinion of the Authority that none of the above-mentioned lease and leaseback transactions would subject the Authority or its officers to this excise tax.

The 5307 Grant Receipts are available to pay long-term obligations upon release of the lien of the 5307 Indenture. The 5309 Grant Receipts are available to pay long-term obligations upon release of the lien of the 5309 Indenture.

CTA Ridership Trends

In 2007, total Authority ridership was 499.5 million, constituting approximately a 1.0 percent increase from the 2006 totals. The following table provides a breakdown of CTA ridership trends since 2003 (including rail-to-rail transfers). In 2006, CTA adopted the National Transit Database (“NTD”) reporting guidelines to the FTA for ridership. Ridership reported to the FTA is approximately 17 percent higher than that reported to the RTA due to the inclusion of rail cross-platform trips that are not captured by the fare equipment because the passenger does not have to exit and re-enter the station. These transfers are estimated using methodologies consistent with FTA specifications.

YEARLY RIDERSHIP UNLINKED PASSENGER TRIPS* (In Millions)

CTA	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Bus	293.6	296.2	305.6	299.6	309.3
Rail	<u>181.1</u>	<u>178.7</u>	<u>186.8</u>	<u>195.2</u>	<u>190.2</u>
Total CTA**	474.7	474.9	492.4	494.8	499.5
Percent Change		0.04%	3.68%	0.49%	0.95%

* Each boarding of a transit vehicle by a passenger is counted as an unlinked passenger trip. A single journey by one passenger, consisting of one or more trips (boardings), is referred to as a linked trip. Bus includes paratransit trips up to July 1, 2006.

** Effective July 1, 2006, the responsibility for providing paratransit service within the CTA’s service area was transferred to Pace.

Financial Information

The 2008 Bonds are not general obligations of the Authority and the revenues of the Authority (other than the Grant Receipts) are not pledged for the payment of the 2008 Bonds or the interest thereon. Solely for informational purposes, the Authority has included its audited financial statements for its fiscal years 2005 and 2006 attached hereto as APPENDIX B.

Pension and Other Post-Employment Benefit Obligations

General. The CTA maintains a trusted, single-employer, defined benefit pension plan covering substantially all full-time permanent union and nonunion employees. The Retirement Plan for Chicago Transit Authority Employees (the “Retirement Plan”) is governed by the terms of the employees’ collective bargaining agreements and by the provisions of Illinois Public Act 95-708. The CTA also maintains the following separate, single-employer, defined benefit pension plans for selected individuals (collectively, the “Supplemental Plans” and, together with the Retirement Plan, the “Plans”). The Supplemental Plans include: (1) a non-trusted Board

Member plan the activities of which are included in CTA’s financial statements; (2) a non-trusted closed supplemental plan for members who retired or who terminated employment before March 2005, including those who retired pursuant to an early retirement initiative, the activities of which are included in CTA’s financial statements, and (3) an open supplemental plan for active employees and members hired before January 18, 2008 and who retire after March 2005 that is trusted and reported in a fiduciary fund. The Supplemental Plans provide benefits in addition to the Retirement Plan to management employees in certain employment classifications and CTA Board members.

The CTA has adopted for the Plans GASB Statement No. 27 - Accounting for Pensions by State and Local Governmental Employers (“GASB 27”) of the Governmental Accounting Standards Board (“GASB”). GASB 27 requires the accrued pension liability be calculated as the cumulative difference, including interest, between the employer’s required contributions in accordance with the Plans’ actuarially required contribution funding requirements and the actual contributions made by the employer for all fiscal years beginning after December 15, 1986 and through the date of transition.

Substantially all non-temporary, full-time employees hired before January 18, 2008 and who have completed one year of continuous service are covered by the Retirement Plan. For those hired before September 5, 2001, employees who retire at or after age 65 (or at any age after completion of 25 years of continuous service) are entitled to an unreduced annual retirement benefit payable monthly for life, in an amount based upon compensation and credited service (a reduced benefit is available to those who are 55 years old who retire with at least three years of continuous service). For those hired after September 5, 2001, an unreduced annual retirement benefit is available to those who retire at or after age 65, or at age 55 and with 25 years of continuous service (an unreduced benefit is still available to those who are 55 years old who retire with three years of continuous service). Employees hired after January 18, 2008 are entitled to an unreduced retirement benefit at age 64 and 25 years of continuous service (and a reduced benefit at age 55 and 10 years of continuous service). The Retirement Plan also provides death and disability benefits. The Retirement Plan issues a separate stand-alone financial report and is available upon request.

Funding Status. The following summarizes the funding status of the Retirement Plan (in thousands of dollars and unaudited):

	Valuation Date (Jan. 1)	Covered Payroll	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio
Retirement Plan	2007	\$584,744	\$4,231,990	\$3,165,829	25.0%
	2006	547,532	3,483,403	2,284,348	34.4
	2005	544,442	3,510,619	2,128,355	39.4
	2004	486,626	3,258,627	1,677,581	48.5
	2003	480,740	3,026,597	1,299,660	57.1
	2002	459,343	2,812,194	947,467	66.3
	2001	431,703	2,358,856	530,761	77.5

Additional information relating to the funding of the Retirement Plan is contained in the CTA's audited financial statements attached to this Official Statement as Appendix B and the "Required Supplementary Information" contained therein.

State Mandated Contributions. Pursuant to P.A. 94-839, the CTA is required to make contributions to its retirement system in an amount which, together with the contributions of its participants, interest earned on investments and other income, are sufficient to bring the total assets of the retirement system up to 90 percent of its total actuarial liabilities by the end of fiscal year 2059. This legislation also requires the RTA to monitor the payment by the CTA of its required retirement system contributions. If the CTA's contributions are more than one month overdue, the RTA must pay the amount of the overdue contributions directly to the trustee of the CTA's retirement system out of moneys otherwise payable by the RTA to the CTA.

P.A. 95-708 modified this directive slightly and added a number of other requirements. First, a new Retirement Plan Trust is required to manage the Retirement Plan assets. Second, CTA contributions have been increased from 6 percent to 12 percent of compensation, and employee contributions have been increased from 3 percent to 6 percent of compensation. Third, in addition to the requirement that the Retirement Plan be 90 percent funded by 2059, there is a new requirement that the Retirement Plan be funded at a minimum of 60 percent by September 15, 2009. Any deviation from the stated projections could result in a directive from the State of Illinois Auditor General to increase the CTA and employee contributions. Fourth, P.A. 95-708 authorized the CTA to issue \$1.349 billion in pension obligation bonds to fund the Retirement Plan. Of this amount, \$1.111 billion must be deposited into the Retirement Plan Trust. While the Chicago Transit Board has not yet approved the issuance of these bonds, the CTA is preparing for this issuance predicated on the assumption that the debt service for the bonds will be retired with a portion of the additional funds provided to the CTA pursuant to this legislation. Finally, the legislation provides that CTA will have no future responsibility for retiree healthcare costs after the bond funding.

Other Post-Employment Benefits. In addition to those described above, the CTA provides other post-retirement benefits to various categories of former employees. These costs may be expected to rise substantially in the future. Such other post-employment benefits, other than pension benefits, are referred to as "OPEB." OPEB consists primarily of health care benefits, and may include other benefits such as disability benefits and life insurance. Until now, these benefits have generally been administered on a pay-as-you-go basis and have not been reported as a liability on most governmental financial statements. However, CTA's financial statements already include the OPEB liabilities.

P.A. 95-708 also addressed retiree healthcare. In addition to the separation between pension and healthcare that was mandated by P.A. 94-839, P.A. 95-708 provides funding and benefit changes to the retiree healthcare benefits. First, all CTA employees will be required to contribute 3 percent of their compensation into the new retiree healthcare trust. Second, all employees will be eligible for retiree healthcare, but after January 18, 2008, only those employees who retire at or after the age of 55 with 10 years of continuous service will actually receive the benefit. Third, retiree, dependent and survivor premiums can be raised up to 45 percent of the premium cost. Fourth, the legislature mandated that retirees are entitled to a healthcare plan that provides no greater benefit than 90 percent coverage for in-network services

and 70 percent coverage for out-of-network services. Fifth, the CTA has been given the authorization to issue \$640 million in pension obligation bonds to fund the healthcare trust. Of this amount, \$529 million must be deposited into the retiree healthcare trust. While the Chicago Transit Board has not yet approved the issuance of these bonds, the CTA is preparing for this issuance predicated on the assumption that the bonds will be repaid with the proceeds of the additional funds provided to the CTA from the legislation. Finally, the legislation states that once the new healthcare trust assumes responsibility for retiree healthcare (no later than July 1, 2009), the CTA has no responsibility for retiree healthcare.

GASB Statement No. 45 (“GASB 45”) requires governmental entities, such as the CTA, to account for post-retirement healthcare and other nonpension benefits. Implementation by the CTA began with the CTA’s fiscal year commencing January 1, 2007. Actuarial valuation will be required every two years for the CTA’s Plans. Further, CTA does not anticipate an impact on its financial reporting as a result of GASB 45 since its financial statements currently include the OPEB liabilities.

GASB 45 requires governmental entities to account for the OPEB liabilities in the same manner as they already account for pension liabilities. GASB 45 also requires governmental entities to adopt the actuarial methodologies used for pensions, with adjustments for the different characteristics of OPEB and the fact that most governmental entities have not set aside any funds against this liability. Unlike GASB 27, which covers accounting for pensions, GASB 45 does not require governmental entities to report a net OPEB obligation at the start.

Under GASB 45, based on actuarial valuation, an annual required contribution (“ARC”) will be determined for each governmental entity. The ARC is the sum of (a) the normal cost for the year (the present value of future benefits being earned by current employees) plus (b) amortization of the unfunded accrued liability (benefits already earned by current and former employees but not yet provided for), using an amortization period of not more than 30 years. If a governmental entity contributes an amount less than ARC, a net OPEB obligation will result, which is required to be recorded as a liability on its financial statements. GASB 45 does not require that the unfunded liability actually be amortized nor that it be advance funded, only that the government entity account for its unfunded accrued liability and compliance in meeting its ARC.

The RTA

The Regional Transportation Authority was created by the Regional Transportation Authority Act (70 ILCS 3615) (the “RTA Act”) in 1974. The RTA provides funding, planning and fiscal oversight for regional bus and rail operations in northeastern Illinois. The regional bus and rail systems are operated by three “Service Boards” – the Authority; the Commuter Rail Division (“Metra”) and the Suburban Bus Division (“Pace”).

Pursuant to P.A. 95-708, effective as of April 1, 2008, the governing body of the RTA is its Board of Directors which consists of sixteen persons. Five directors are appointed by the Mayor of the City of Chicago with the advice and consent of the City Council. Four directors are appointed by the commissioners of the Cook County Board elected from districts in which a majority of the electors reside outside the City of Chicago. One director is appointed by the

President of the Cook County Board, with the advice and consent of the commissioners of the Cook County Board, selected from districts in which a majority of electors reside outside the City of Chicago. One director each is appointed by the Chairman or Chief Executive of the County Boards of DuPage, Kane, Lake, McHenry and Will Counties, with the advice and consent of the respective Boards. The Chairman of the Board of the RTA is appointed by eleven members of the Board with at least two votes from each subregion of Chicago, Suburban Cook County and the collar counties. The Chairman and each director serve five-year terms and until his or her successor has been appointed and qualified.

The RTA, as an entity exercising financial controls, planning and policy review, and, pursuant to P.A. 95-708, strategic planning, maintains a staff of approximately 75 transportation professionals.

RTA Financial Oversight

The RTA Act vests responsibility for operating budget financial oversight for each Service Board in the RTA. Responsibility for operations and day-to-day management of rail and bus service rests with the Service Boards. The RTA's financial oversight responsibility is implemented principally through the operating budget process, in which each Service Board, including the Authority, submits an annual budget and two-year financial plan for approval by the RTA. The RTA Act sets criteria which proposed budgets and financial plans must meet in order for the RTA Board to adopt a consolidated budget and financial plan. The RTA Act requires that a system-generated revenue recovery ratio (the "Recovery Ratio") for the region within the RTA's jurisdiction equal or exceed 50 percent. The Authority's Recovery Ratio has remained above 50 percent since 1997.

The RTA Board, by the affirmative vote of twelve of its directors, determines whether the results of operations are substantially in accordance with the adopted budget and certifies such to the Governor, the Mayor of the City of Chicago and the Auditor General of the State. If a Service Board is found not to be substantially in compliance with its budget, the RTA may direct that Service Board to submit a revised budget meeting the mandated criteria. If a Service Board's budget does not meet the criteria, the RTA may not release any funds, other than 75 percent of a Service Board's statutory share of sales tax and Public Transportation Fund revenues to the Service Board.

The RTA Act also requires the RTA to prepare and adopt each year a five-year capital program. The Authority submits its five-year capital plan to the RTA for inclusion as a component of the RTA's five-year capital program. The Service Boards are prohibited from undertaking any capital project in excess of \$250,000, unless the project has been incorporated in the five-year capital program. The 2008 Project, by virtue of being a part of the CTA's Capital Plan, is included in the RTA's current five-year capital program and any revisions that may be made to the 2008 Project from time to time as part of revisions to the CTA's five-year capital plan will be reflected in the RTA's five-year capital program.

SECURITY FOR THE BONDS

The Bonds (and all other Parity Obligations) issued under each Indenture, including the 2008 Bonds, are limited obligations of the Authority issued pursuant to the Act and the Local Government Debt Reform Act.

The 5307 Bonds are payable solely from and secured solely by (i) 5307 Grant Receipts, and (ii) amounts on deposit in the funds and accounts established under the 5307 Indenture (except the Rebate Fund established under the 5307 Indenture), including investment earnings thereon.

The 5309 Bonds are payable solely from and secured solely by (i) 5309 Grant Receipts, and (ii) amounts on deposit in the funds and accounts established under the 5309 Indenture (except the Rebate Fund established under the 5309 Indenture), including investment earnings thereon.

The Bonds issued under each Indenture are not a general obligation of the Authority and the revenues of the Authority (other than as described above) are not pledged for the payment of the Bonds or the interest thereon. The Indentures create no liens upon any physical properties of the Authority. The Act provides that the Bonds are not, and shall not be or become, an indebtedness or obligation of the State of Illinois or any political subdivision of the State (other than the limited obligation of the Authority) or of any municipality within the State, nor shall any Bond be or become an indebtedness of the Authority within the purview of any constitutional limitation or provision. The Authority has no taxing power.

Grant Receipts

The sole source of 5307 Grant Receipts available to the Authority to pay principal of and interest on the 5307 Bonds is its annual share of Section 5307 Formula Funds.

The sole source of the 5309 Grant Receipts available to the Authority to pay principal of and interest on the 5309 Bonds is its annual share of Section 5309 Formula Funds.

See "FEDERAL TRANSIT PROGRAM" for descriptions of the Section 5307 Program and the Section 5309 Program and the methods by which the amount of Section 5307 Formula Funds and 5309 Formula Funds available to the Authority on an annual basis are determined.

Pledge of Security

Certain defined terms referenced in this section shall apply to both the 5307 Indenture and the 5309 Indenture. See APPENDIX A – “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES.” Reference is hereby made to the Indentures for a complete statement of the provisions thereof.

5307 Bonds. The 5307 Indenture pledges for the payment of the principal and Redemption Price of, and interest on, the 5307 Bonds and the payment of permitted obligations meeting the definition of Parity Obligations under the 5307 Indenture, in accordance with their terms and the provisions of the 5307 Indenture, and a lien is thereby granted for such purpose, subject only to the provisions of the 5307 Indenture permitting or requiring the application thereof for the purposes and on the terms and conditions set forth in the 5307 Indenture, (i) the 5307 Grant Receipts, (ii) amounts on deposit in all Funds, Accounts and Sub-Accounts established under the 5307 Indenture (except the Rebate Fund), subject however to the right of the Authority to make periodic withdrawals from the Grant Receipts Deposit Fund and the General Fund established under the 5307 Indenture as permitted under the 5307 Indenture (see “– Funds and Accounts” and “– Flow of Funds – Grant Receipts” below), and (iii) any and all other moneys and securities furnished from time to time to the 5307 Trustee by the Authority or on behalf of the Authority or by any other persons to be held by the 5307 Trustee under the terms of the 5307 Indenture; *provided*, that the application of moneys to the payments due to a Swap Provider under a Qualified Swap Agreement is expressly limited to the extent provided in the 5307 Indenture. See APPENDIX A – “SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE – Hedging Transactions.” Pursuant to Section 13 of the Local Government Debt Reform Act, the 5307 Grant Receipts and the other moneys and securities pledged by the 5307 Indenture shall immediately be subject to the lien and pledge thereof without any physical delivery or further act, and the lien and pledge thereof shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Authority, irrespective of whether such parties have notice thereof.

5309 Bonds. The 5309 Indenture pledges for the payment of the principal and Redemption Price of, and interest on, the 5309 Bonds and the payment of permitted obligations meeting the definition of Parity Obligations under the 5309 Indenture, in accordance with their terms and the provisions of the 5309 Indenture, and a lien is thereby granted for such purpose, subject only to the provisions of the 5309 Indenture permitting or requiring the application thereof for the purposes and on the terms and conditions set forth in the 5309 Indenture, (i) the 5309 Grant Receipts, (ii) amounts on deposit in all Funds, Accounts and Sub-Accounts established under the 5309 Indenture (except the Rebate Fund), subject however to the right of the Authority to make periodic withdrawals from the Grant Receipts Deposit Fund and the General Fund established under the 5309 Indenture as permitted under the 5309 Indenture (see “– Funds and Accounts” and “– Flow of Funds – Grant Receipts” below), and (iii) any and all other moneys and securities furnished from time to time to the 5309 Trustee by the Authority or on behalf of the Authority or by any other persons to be held by the 5309 Trustee under the terms of the 5309 Indenture; *provided*, that the application of moneys to the payments due to a Swap Provider under a Qualified Swap Agreement is expressly limited to the extent provided in the 5309 Indenture. See APPENDIX A – “SUMMARY OF CERTAIN PROVISIONS OF THE 5309 INDENTURE – Hedging Transactions.” Pursuant to Section 13 of the Local Government

Debt Reform Act, the 5309 Grant Receipts and the other moneys and securities pledged by the 5309 Indenture shall immediately be subject to the lien and pledge thereof without any physical delivery or further act, and the lien and pledge thereof shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Authority, irrespective of whether such parties have notice thereof.

Parity Obligations

The 2008A 5307 Bonds are being issued as Additional Bonds and are secured, as described under this caption, on a parity with the Outstanding 5307 Bonds. Furthermore, each Indenture permits one or more Series of Bonds (“Additional Bonds”) to be issued on a parity with the 2008 Bonds issued thereunder (and with respect to the 5307 Bonds, the Outstanding 5307 Bonds) and any other Outstanding Bonds and Parity Obligations under such Indenture, for the purpose of paying the costs of construction of Eligible Projects or refunding any Subordinated Indebtedness issued under such Indenture for such purposes, to pay costs and expenses incident to the issuance of such Additional Bonds and to make deposits to any Fund, Account or Sub-Account under such Indenture. Each Indenture also permits the issuance of one or more Series of Bonds (“Refunding Bonds”) on a parity with the 2008 Bonds issued thereunder (and with respect to the 5307 Bonds, the Outstanding 5307 Bonds) and any other Outstanding Bonds and Parity Obligations under such Indenture, to refund or advance refund any or all Outstanding Bonds of one or more Series or any Outstanding Section 207 Obligations under such Indenture (as described in the next paragraph), to pay costs and expenses incident to the issuance of such Refunding Bonds and to make deposits to any Fund, Account or Sub-Account under such Indenture. See “– Additional Bonds” and “– Refunding Bonds” below.

Each Indenture permits the issuance of obligations, on a parity with the 2008 Bonds issued thereunder (and with respect to the 5307 Bonds, the Outstanding 5307 Bonds) and any other Outstanding Bonds and Parity Obligations under such Indenture, incurred by the Authority for the making of periodic payments (but not termination payments, which can only be secured on a subordinate basis) to any one or more Swap Providers (a “Section 206 Obligation”). Pursuant to each Indenture, the Authority may also incur obligations, that may be secured on a parity with the 2008 Bonds issued thereunder (and with respect to the 5307 Bonds, the Outstanding 5307 Bonds) and any other Outstanding Bonds and Parity Obligations under such Indenture, to reimburse amounts payable under reimbursement agreements or other evidences of indebtedness between the Authority and a Credit Bank (a “Section 207 Obligation”). Section 206 Obligations and Section 207 Obligations under an Indenture are referred to in this Official Statement, together with the Bonds issued under the same Indenture, as “Parity Obligations.”

Funds and Accounts

Establishment of Funds and Accounts. Pursuant to each Indenture, the Authority establishes (i) the Grant Receipts Deposit Fund, which is held by the Authority; and (ii) the Debt Service Fund, the Construction Fund and the General Fund, each of which is held in trust by the applicable Trustee. Subject to use and application in accordance with each Indenture, moneys and investments held in the Grant Receipts Deposit Fund, the Debt Service Fund, the Construction Fund and the General Fund are pledged as security for the payment of debt service on the Bonds and other Parity Obligations issued thereunder. Each Indenture also establishes a Rebate Fund which is not pledged to the payment of the Bonds or other Parity Obligations issued thereunder. Each Indenture establishes three separate accounts in the Debt Service Fund, known as the “Interest Account,” the “Principal Account” and the “Variable Rate Stabilization Account.” See the subheadings “Variable Rate Stabilization Account” and “General Fund” below for additional information regarding these funds and accounts. For a description of the priority of payments made from the Debt Service Fund, see APPENDIX A – “SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE – Debt Service Fund” and “SUMMARY OF CERTAIN PROVISIONS OF THE 5309 INDENTURE – Debt Service Fund.” The 5307 Indenture establishes two accounts in the Construction Fund, the “2008A Project Account” and the “2008A Capitalized Interest Account.” The 5309 Indenture establishes two accounts in the Construction Fund, the “2008 Project Account” and the “2008 Capitalized Interest Account.” On the date of issuance of the 2008 Bonds, the Authority will deposit into each Capitalized Interest Account cash and securities which, together with anticipated interest earnings thereon, is expected to capitalize interest on the 2008 Bonds through December 1, 2008.

Variable Rate Stabilization Account. The Variable Rate Stabilization Account established under each Indenture is required to be funded in an amount equal to the Variable Rate Stabilization Account Requirement, which is calculated as 3.5 percent of the sum of (a) the principal amount of certain Outstanding Variable Rate Bonds and (b) the notional amount of all Qualified Swap Agreements relating to Bonds that are not Variable Rate Bonds that, as of the date of computation, require the Authority to pay interest based upon a variable interest rate or to make swap payments based upon a variable rate index, as calculated under such Indenture. In the future, if the Authority issues Variable Rate Bonds or enters into Qualified Swap Agreements of the types described above pursuant to either Indenture, Grant Receipts pledged under the same Indenture may be applied to meet the requirement. See “– Flow of Funds – Grant Receipts” below and APPENDIX A – “SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE – Deposit and Application of Grant Receipts” and “SUMMARY OF CERTAIN PROVISIONS OF THE 5309 INDENTURE – Deposit and Application of Grant Receipts.” For a description of the application of amounts on deposit in the Variable Rate Stabilization Account, see APPENDIX A – “SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE – Debt Service Fund” and “SUMMARY OF CERTAIN PROVISIONS OF THE 5309 INDENTURE – Debt Service Fund.”

General Fund. A General Fund is established under each Indenture. Moneys in each General Fund shall be promptly withdrawn by the applicable Trustee and paid over to the Authority free from the lien of the Indenture under which it is established; provided that no such withdrawal from the General Fund may occur unless, at the time of such withdrawal, (i) no deficiency shall exist with respect to the required deposits to the Interest Account and the

Principal Account of the Debt Service Fund established under the same Indenture; (ii) the sum then held in the Variable Rate Stabilization Account established under the same Indenture shall be not less than the Variable Rate Stabilization Account Requirement and (iii) no Event of Default shall have occurred under such Indenture and remain unremedied. The Authority may establish (i) one or more Debt Service Reserve Accounts within each General Fund for the purpose of providing additional security for the payment of one or more Series of Bonds and (ii) one or more Subordinated Indebtedness Accounts within each General Fund for the purpose of securing the payment of Subordinated Indebtedness. See APPENDIX A – “SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE – General Fund” and “SUMMARY OF CERTAIN PROVISIONS OF THE 5309 INDENTURE – General Fund.”

Flow of Funds – Grant Receipts

Each Indenture requires that all Grant Receipts secured thereunder and received by the Authority shall be promptly deposited into the Grant Receipts Deposit Fund established thereunder. On the first Business Day of each Bond Year and (if required) on any subsequent Business Day during the Bond Year, the Authority is required to withdraw from the Grant Receipts Deposit Fund established under each Indenture and to pay over to the Trustee thereunder an amount sufficient to enable such Trustee to make payments into the following several Funds and Accounts established under the same Indenture:

First: Into the Interest Account of the Debt Service Fund, to the extent, if any, necessary to increase the amount in the Interest Account so that it equals the sum of the Interest Requirements for all Outstanding Bonds and Section 207 Obligations under such Indenture for each remaining Interest Period that ends in the current Bond Year;

Second: Into the Principal Account of the Debt Service Fund to the extent, if any, needed to increase the amount in the Principal Account so that it equals the Principal Requirements for all Outstanding Bonds and Section 207 Obligations under such Indenture for the current Bond Year;

Third: Into the Variable Rate Stabilization Account of the Debt Service Fund, to the extent, if any, needed to increase the amount in the Variable Rate Stabilization Account to the Variable Rate Stabilization Account Requirement;

Fourth: Into the Rebate Fund, the amount specified in a certificate of the Authority filed with the Trustee pursuant to such Indenture; and

Fifth: Into the General Fund, the amount specified in a certificate of an Authorized Officer of the Authority filed with the Trustee under such Indenture.

See APPENDIX A – “SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE – Deposit and Application of Grant Receipts” and – “SUMMARY OF CERTAIN PROVISIONS OF THE 5309 INDENTURE – Deposit and Application of Grant Receipts.”

Moneys held in the Grant Receipts Deposit Fund established under each Indenture may be withdrawn from time to time by the Authority for the payment or reimbursement of the costs of Eligible Projects (as defined under such Indenture). If, however, after the first Business Day of any Bond Year a deficiency then exists in the deposits required to be made to the Grant Receipts Deposit Fund as described above, no withdrawals may be made unless the Authority has obligated a sum sufficient for the payment to the Trustee under such Indenture of the amounts required by such Indenture as set forth above from appropriations applicable from the current or prior federal fiscal years (each a "Federal Fiscal Year" or "FFY"). The 5307 Indenture also requires that if, as of the last Business Day of any Federal Fiscal Year, the grant approvals required to make the payments to the 5307 Trustee as described above from current Federal Fiscal Year appropriations have not been obtained, then the Authority must take all necessary actions to reprogram available Section 5307 Formula Funds appropriated in prior Federal Fiscal Years to the extent required to make such payments. The 5309 Indenture also requires that if, as of the last Business Day of any Federal Fiscal Year, the grant approvals required to make the payments to the 5309 Trustee as described above from current Federal Fiscal Year appropriations have not been obtained, then the Authority must take all necessary actions to reprogram available Section 5309 Fixed Guideway Modernization Formula Funds appropriated in prior Federal Fiscal Years to the extent required to make such payments. See "FEDERAL TRANSIT PROGRAM – Section 5307 Program – *Program Implementation*," "FEDERAL TRANSIT PROGRAM – Section 5309 Program – *Program Implementation*" and APPENDIX A – "SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE – Covenants of the Authority" and "SUMMARY OF CERTAIN PROVISIONS OF THE 5309 INDENTURE – Covenants of the Authority."

Additional Bonds

The issuance of one or more Series of Additional Bonds is authorized pursuant to each Indenture for the purpose of paying the cost of construction of one or more Eligible Projects under such Indenture or refunding any Subordinated Indebtedness thereunder issued for such purposes, to pay costs and expenses incident to the issuance of such Additional Bonds and to make deposits to any Fund, Account or Sub-Account established under such Indenture. Such Additional Bonds may be issued only upon the delivery of a certificate of the Authority determining that the average Annual Apportionment Amount (as defined in APPENDIX A) for the three completed Federal Fiscal Years immediately preceding the date of issuance of such Series of Additional Bonds is not less than 150 percent of the Maximum Annual Debt Service Requirement determined as of the time immediately following the issuance of such Series of Additional Bonds.

In applying the foregoing test, if any of the Bonds Outstanding under such Indenture immediately following the issuance of such Additional Bonds constitute Optional Tender Bonds or Variable Rate Bonds, certain provisions in the Indenture shall be applied in determining the Annual Debt Service Requirements of such Bonds. See APPENDIX A – "SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE – Additional Bonds for Construction Purposes" and "SUMMARY OF CERTAIN PROVISIONS OF THE 5309 INDENTURE – Additional Bonds for Construction Purposes."

Refunding Bonds

Each Indenture authorizes the issuance of one or more Series of Refunding Bonds to refund or advance refund any or all Outstanding Bonds of one or more Series under such Indenture, and any or all Outstanding Section 207 Obligations under such Indenture, to pay costs and expenses incident to the issuance of such Refunding Bonds and to make deposits in any Fund, Account or Sub-Account established thereunder. Such Refunding Bonds may be issued only upon the receipt by the Trustee of either (a) the certificate of the Authority described above under “– Additional Bonds,” as applied to the Refunding Bonds or (b) a certificate of the Authority stating that for each Bond Year ending on or prior to the latest maturity date of any Bond Outstanding as the time immediately prior to the issuance of such Series of Refunding Bonds, the Annual Debt Service Requirements for any such Bond Year on account of all Bonds and Section 207 Obligations Outstanding under such Indenture, after the issuance of such Refunding Bonds and the redemption or provision for payment of the Bonds and Section 207 Obligations to be refunded, shall not exceed the Annual Debt Service Requirements for the corresponding Bond Years on account of all the Bonds and Section 207 Obligations Outstanding under such Indenture, including the Bonds and Section 207 Obligations to be refunded, immediately prior to the issuance of such Refunding Bonds.

In applying the foregoing tests, if any of the Bonds Outstanding under such Indenture immediately prior to or after the issuance of the Refunding Bonds constitute Optional Tender Bonds or Variable Rate Bonds, certain provisions in the Indenture shall be applied in determining the Annual Debt Service Requirements of such Bonds and of any Outstanding Section 207 Obligations. See APPENDIX A – “SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE – Refunding Bonds” and “SUMMARY OF CERTAIN PROVISIONS OF THE 5309 INDENTURE – Refunding Bonds.”

Subordinate Obligations

No provision of either Indenture limits the ability of the Authority to issue bonds or other obligations payable from Grant Receipts on a basis junior and subordinate to the payment of principal of, premium, if any, and interest on the Bonds issued thereunder. See APPENDIX A – “SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE – Subordinated Indebtedness” and “SUMMARY OF CERTAIN PROVISIONS OF THE 5309 INDENTURE – Subordinated Indebtedness.”

Investments

All amounts held under either Indenture are invested at the direction of the Authority in Investment Securities, as defined in Appendix A, subject to certain limitations contained therein. See APPENDIX A – “SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE – Investment of Certain Moneys” and “SUMMARY OF CERTAIN PROVISIONS OF THE 5309 INDENTURE – Investment of Certain Moneys.”

DESCRIPTION OF THE 2008 BONDS

General

The 2008 Bonds will be dated the date of their issuance and mature at the times and in the principal amounts set forth on the inside cover of this Official Statement. Interest on the 2008 Bonds shall be payable on June 1 and December 1 of each year, commencing June 1, 2008. Interest on the 2008 Bonds shall be computed on the basis of a 360-day year of twelve 30-day months.

The 2008 Bonds will be delivered in fully registered form only and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2008 Bonds. Ownership interests in the 2008 Bonds may be purchased by or through a DTC Participant (as described below) in book-entry form only in denominations of \$5,000 or any integral multiple thereof. See APPENDIX E – "DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Optional Redemption

The 2008 5307A Bonds are subject to redemption prior to maturity at the option of the Authority, in whole or in part on any date on or after June 1, 2018, and if in part, in such principal amounts and from such maturities as selected by the Authority, and by lot within a single maturity as provided in the 5307 Indenture, at a Redemption Price equal to the principal amount thereof to be redeemed, plus accrued interest to the date fixed for redemption.

The 2008 5309 Bonds maturing on or after June 1, 2019 are subject to redemption prior to maturity at the option of the Authority, in whole or in part on any date on or after June 1, 2018, and if in part, in such principal amounts and from such maturities as selected by the Authority, and by lot within a single maturity as provided in the 5309 Indenture, at a Redemption Price equal to the principal amount thereof to be redeemed, plus accrued interest to the date fixed for redemption.

Notice of Redemption

Upon receipt of notice from the Authority of its election or direction to redeem 2008 Bonds, the Trustee will give notice of the redemption of such Bonds. The Trustee will mail copies of such notice by first-class mail, postage prepaid, not more than 60 days nor less than 15 days before the date fixed for redemption, to the Owners of the 2008 Bonds to be redeemed at their addresses as shown on the registration books of the Authority. If the Trustee mails notices of redemption as provided by the Indentures, notice shall be conclusively presumed to have been given to all Owners.

If, on the date fixed for redemption, moneys for the redemption of the 2008 Bonds to be redeemed, together with interest to such date, shall be held by the applicable Trustee and if notice of redemption shall have been given, then, from and after the date fixed for redemption, interest on the 2008 Bonds or portions thereof of such maturity and interest rate so called for redemption shall cease to accrue and become payable. If said moneys shall not be so available on

the date fixed for redemption, such 2008 Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption. However, with respect to an optional redemption of the 2008 Bonds, unless moneys sufficient to pay the principal of, redemption premium, if any, and interest on the 2008 Bonds to be redeemed shall have been received by the applicable Trustee prior to the giving of the notice of redemption, such notice may, at the option of the Authority, state that said redemption shall be conditional upon the receipt of such moneys by such Trustee on or prior to the date fixed for redemption. If such moneys are not received, such notice shall be of no force and effect, the Authority shall not redeem such 2008 Bonds and such Trustee shall give notice, in the same manner in which the notice of redemption was given, that such moneys were not so received and that such 2008 Bonds will not be redeemed.

Book-Entry Only System

As noted above, DTC will act as securities depository for the 2008 Bonds. See APPENDIX E – “DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

Payments of interest on and principal of the 2008 Bonds will be made to DTC or its nominee, Cede & Co., as registered owner of the 2008 Bonds. Each such payment to DTC or its nominee will be valid and effective to fully discharge all liability of the Authority or the applicable Trustee with respect to interest on and principal of the 2008 Bonds to the extent of the sum or sums so paid.

The Authority and each Trustee cannot and do not give any assurances that DTC Participants or DTC Indirect Participants will distribute to the beneficial owners (i) payments of interest and principal with respect to the 2008 Bonds, (ii) confirmation of ownership interests in the 2008 Bonds, or (iii) redemption or other notices sent to DTC or Cede & Co., its nominee, as Owner of the 2008 Bonds, or that they will do so on a timely basis.

Transfers and Exchanges of 2008 Bonds Upon Abandonment of Book-Entry-Only System

The Owners of the 2008 Bonds have no right to the appointment or retention of a depository for the 2008 Bonds. DTC may resign as securities depository under the conditions provided in the Letter of Representations from the Authority to DTC. In the event of any such resignation, the Authority shall (i) appoint a successor securities depository, qualified to act as such under Section 17(a) of the Securities Exchange Act of 1934, as amended, notify DTC of the appointment of such successor securities depository and transfer or cause the transfer of one or more separate 2008 Bond certificates to such successor securities depository or (ii) notify DTC of the availability through DTC of 2008 Bond certificates and transfer or cause the transfer of one or more 2008 Bond certificates to DTC Participants having 2008 Bonds credited to their DTC accounts. In such event, the 2008 Bonds will no longer be restricted to being registered in the name of Cede & Co., as nominee of DTC, but may be registered in the name of the successor securities depository, or its nominee, or in whatever name or names the DTC Participants receiving 2008 Bonds shall designate, in accordance with the provisions of the Indentures.

DEBT SERVICE REQUIREMENTS FOR THE OUTSTANDING 5307 BONDS

The following table sets forth the debt service requirements for the Outstanding 5307 Bonds:

PERIOD ENDING JUNE 1	TOTAL SERIES 2004A AND SERIES 2004B	TOTAL SERIES 2006A	SERIES 2008A			COMBINED DEBT SERVICE
			Principal	Interest ⁽¹⁾	Total	
2008	\$30,336,650	\$21,363,213		\$ 466,667	\$ 466,667	\$51,699,863
2009	30,334,000	21,362,613		5,250,000	5,250,000	54,321,613
2010	30,336,138	21,359,013		5,250,000	5,250,000	56,945,150
2011	30,334,425	21,362,013		5,250,000	5,250,000	56,946,438
2012	30,336,288	21,360,813		5,250,000	5,250,000	56,947,100
2013	30,335,175	21,360,013		5,250,000	5,250,000	56,945,188
2014	30,339,225	21,360,013		5,250,000	5,250,000	56,949,238
2015	30,335,763	21,360,263		5,250,000	5,250,000	56,946,025
2016	30,333,050	21,364,513		5,250,000	5,250,000	56,947,563
2017		43,482,250		5,250,000	5,250,000	48,732,250
2018		43,478,750		5,250,000	5,250,000	48,728,750
2019		43,480,250		5,250,000	5,250,000	48,730,250
2020		43,477,250		5,250,000	5,250,000	48,727,250
2021		43,480,500		5,250,000	5,250,000	48,730,500
2022			\$ 18,005,000	5,250,000	23,255,000	23,255,000
2023			18,955,000	4,304,738	23,259,738	23,259,738
2024			19,950,000	3,309,600	23,259,600	23,259,600
2025			20,995,000	2,262,225	23,257,225	23,257,225
2026			22,095,000	1,159,987	23,254,988	23,254,988
TOTAL	\$273,020,713	\$409,651,463	\$100,000,000	\$85,003,217	\$185,003,217	\$864,583,729⁽²⁾

⁽¹⁾ Scheduled interest on the Series 2008A 5307 Bonds will be funded through December 1, 2008 with proceeds of the Series 2008A 5307 Bonds and interest earnings thereon.

⁽²⁾ Calculations reflect rounding.

2008 BOND INSURANCE POLICIES

The following information has been provided by Assured Guaranty Corp. (the “2008 Bond Insurer” or “Assured Guaranty”) for use in this Official Statement. Reference is made to APPENDIX G for a specimen of the 2008 Bond Insurance Policies. The Authority does not make any representation regarding the information contained under this heading.

THE INSURANCE POLICIES

Assured Guaranty has made a commitment to issue the 2008 Bond Insurance Policies relating to the 2008 Bonds, effective as of the date of issuance of such 2008 Bonds. Under the terms of the 2008 Bond Insurance Policies, Assured Guaranty will unconditionally and irrevocably guarantee to pay that portion of principal of and interest on the 2008 Bonds that becomes Due for Payment but shall be unpaid by reason of Nonpayment (the “Insured Payments”). Insured Payments shall not include any additional amounts owing by the Issuer solely as a result of the failure by the applicable Trustee or the applicable Paying Agent to pay such amount when due and payable, including without limitation any such additional amounts as may be attributable to penalties or to interest accruing at a default rate, to amounts payable in respect of indemnification, or to any other additional amounts payable by the applicable Trustee or the applicable Paying Agent by reason of such failure. The 2008 Bond Insurance Policies are non-cancelable for any reason, including without limitation the non-payment of premium.

“Due for Payment” means, when referring to the principal of the 2008 Bonds, the stated maturity date thereof, or the date on which such 2008 Bonds shall have been duly called for mandatory sinking fund redemption, and does not refer to any earlier date on which payment is due by reason of a call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless Assured Guaranty in its sole discretion elects to make any principal payment, in whole or in part, on such earlier date) and, when referring to interest on such Bonds, means the stated dates for payment of interest.

“Nonpayment” means the failure of the Authority to have provided sufficient funds to the applicable Trustee or the applicable Paying Agent for payment in full of all principal and interest Due for Payment on the Bonds. It is further understood that the term Nonpayment in respect of a 2008 Bond also includes any amount previously distributed to the Holder (as such term is defined in the 2008 Bond Insurance Policies) of such Bond in respect of any Insured Payment by or on behalf of the Authority, which amount has been recovered from such Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction that such payment constitutes an avoidable preference with respect to such Holder. Nonpayment does not include nonpayment of principal or interest caused by the failure of the applicable Trustee or the applicable Paying Agent to pay such amount when due and payable.

Assured Guaranty will pay each portion of an Insured Payment that is Due for Payment and unpaid by reason of Nonpayment, on the later to occur of (i) the date such principal or interest becomes Due for Payment, or (ii) the business day next following the day on which

Assured Guaranty shall have received a completed notice of Nonpayment therefor in accordance with the terms of the 2008 Bond Insurance Policies.

Assured Guaranty shall be fully subrogated to the rights of the Holders of the 2008 Bonds to receive payments in respect of the Insured Payments to the extent of any payment by Assured Guaranty under the 2008 Bond Insurance Policies.

The 2008 Bond Insurance Policies are not covered by any insurance or guaranty fund established under New York, California, Connecticut or Florida insurance law.

THE INSURER

Assured Guaranty Corp. (“Assured Guaranty”) is a Maryland-domiciled insurance company regulated by the Maryland Insurance Administration and licensed to conduct financial guaranty insurance business in all fifty states of the United States, the District of Columbia and Puerto Rico. Assured Guaranty commenced operations in 1988. Assured Guaranty is a wholly owned, indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO.” AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, structured finance and mortgage markets. Neither AGL nor any of its shareholders is obligated to pay any debts of Assured Guaranty or any claims under any insurance policy issued by Assured Guaranty.

Assured Guaranty is subject to insurance laws and regulations in Maryland and in New York (and in other jurisdictions in which it is licensed) that, among other things, (i) limit Assured Guaranty’s business to financial guaranty insurance and related lines, (ii) prescribe minimum solvency requirements, including capital and surplus requirements, (iii) limit classes and concentrations of investments, (iv) regulate the amount of both the aggregate and individual risks that may be insured, (v) limit the payment of dividends by Assured Guaranty, (vi) require the maintenance of contingency reserves, and (vii) govern changes in control and transactions among affiliates. Certain state laws to which Assured Guaranty is subject also require the approval of policy rates and forms.

Assured Guaranty’s financial strength is rated “AAA” by Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. (“S&P”), “AAA” by Fitch, Inc. (“Fitch”) and “Aaa” by Moody’s Investors Service, Inc. (“Moody’s”). Each rating of Assured Guaranty should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by Assured Guaranty. Assured Guaranty does not guaranty the market price of the securities it guarantees, nor does it guaranty that the ratings on such securities will not be revised or withdrawn.

Capitalization of Assured Guaranty Corp.

As of December 31, 2007, Assured Guaranty had total admitted assets of \$1,361,538,502 (unaudited), total liabilities of \$961,967,238 (unaudited), total surplus of \$399,571,264 (unaudited) and total statutory capital (surplus plus contingency reserves) of \$982,045,695 (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 2006, Assured Guaranty had total admitted assets of \$1,248,270,663 (audited), total liabilities of \$962,316,898 (audited), total surplus of \$285,953,765 (audited) and total statutory capital (surplus plus contingency reserves) of \$916,827,559 (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. The Maryland Insurance Administration recognizes only statutory accounting practices for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the Maryland Insurance Code, and for determining whether its financial condition warrants the payment of a dividend to its stockholders. No consideration is given by the Maryland Insurance Administration to financial statements prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) in making such determinations.

Incorporation of Certain Documents by Reference

The portions of the following documents relating to Assured Guaranty are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- The Annual Report on Form 10-K of AGL for the fiscal year ended December 31, 2007 (which was filed by AGL with the Securities and Exchange Commission (the “SEC”) on February 29, 2008); and
- The Current Reports on Form 8-K filed by AGL with the SEC, as they relate to Assured Guaranty.

All consolidated financial statements of Assured Guaranty and all other information relating to Assured Guaranty included in documents filed by AGL with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, subsequent to the date of this Official Statement and prior to the termination of the offering of the 2008 Bonds shall be deemed to be incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such consolidated financial statements.

Any statement contained in a document incorporated herein by reference or contained herein under the heading “2008 BOND INSURANCE POLICIES - The Insurer” shall be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any subsequently filed document which is incorporated by reference herein also modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

Copies of the consolidated financial statements of Assured Guaranty incorporated by reference herein and of the statutory financial statements filed by Assured Guaranty with the Maryland Insurance Administration are available upon request by contacting Assured Guaranty at 1325 Avenue of the Americas, New York, New York 10019 or by calling Assured Guaranty at

(212) 974-0100. In addition, the information regarding Assured Guaranty that is incorporated by reference in this Official Statement that has been filed by AGL with the SEC is available to the public over the Internet at the SEC's web site at <http://www.sec.gov> and at AGL's web site at <http://www.assuredguaranty.com>, from the SEC's Public Reference Room at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, and at the office of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

Assured Guaranty makes no representation regarding the 2008 Bonds or the advisability of investing in the 2008 Bonds. In addition, Assured Guaranty has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding Assured Guaranty supplied by Assured Guaranty and presented under the heading "2008 BOND INSURANCE POLICIES."

RIGHTS OF BOND INSURERS

So long as any Bond Insurance Policy (as defined in Appendix A) is in full force and effect and the Bond Insurer for such Bond Insurance Policy has not failed to perform any of its obligations thereunder, the Bond Insurer shall be deemed the owner of the Bonds insured thereunder for purposes of consenting to any supplements or amendments to the Indenture pursuant to which such Bonds were issued. See APPENDIX A – "SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE – Supplemental Indentures Effective upon Consent of Owners" and "SUMMARY OF CERTAIN PROVISIONS OF THE 5309 INDENTURE – Supplemental Indentures Effective upon Consent of Owners." Upon the occurrence and continuance of an Event of Default, a Bond Insurer will be treated as the owner of the Bonds upon which such Bond Insurer is obligated for the purposes of calculating whether or not the owners of the requisite percentage of Bonds have consented to certain actions for the enforcement of rights and remedies granted to the Owners of the Bonds or to the applicable Trustee for their benefit (except for certain rights related to the enforcement of tax covenants under each Indenture). See APPENDIX A – "SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE – Rights of Credit Bank or Bond Insurer" and "SUMMARY OF CERTAIN PROVISIONS OF THE 5309 INDENTURE – Rights of Credit Bank or Bond Insurer."

Payment when due of the principal of and interest on the Outstanding 5307 Bonds is insured by separate Bond Insurance Policies issued by Ambac Assurance Corporation. The scheduled payment of principal of and interest on each Series of the 2008 Bonds when due will be guaranteed under a financial guaranty insurance policy to be issued by Assured Guaranty Corp. concurrently with the delivery of the 2008 Bonds.

THE 2008 PROJECT

A portion of the proceeds of the 2008 Bonds will be deposited under the Indentures and used to pay for, or reimburse the Authority for prior expenditures relating to, a portion of the costs of capital improvements to the Transportation System operated by the Authority (as defined in the Act). Each of the capital improvements listed below is a component of the Authority's current Capital Plan (see "THE AUTHORITY – Capital Plan"). Subject to the approvals of its Board and the RTA and inclusion in the Authority's Capital Plan, additional capital improvements may, from time to time, be substituted for any of the capital improvements listed below as comprising the 2008 Project or added to the list; provided that there are funds in the related Project Account of the Construction Fund sufficient to pay for the costs of such additions and that such costs are also eligible for reimbursement under the applicable program.

Capital Improvements Comprising the 2008 Project Relating to the 5307 Program

Purchase Rail Cars – Purchase rail cars to replace existing cars and provide for expansion.

Rail Car Overhaul and Rehabilitation – The scheduled rehabilitation as well as life extending overhaul of Rail Cars, including quarter-life "C" Level overhaul of the 2600 Series and the mid-life "D" Level rehabilitation of the 3200 Series.

Replace Signal System and Rail – Blue Line – Milwaukee, Congress Branches and Dearborn Subway – The design, purchase and installation of a replacement signal system and the replacement and upgrade of interlockings on the Blue Line, including bi-directional cab signals, remote controlled interlockings and train control systems, and communications installation.

Replace/Upgrade Signals – Loop and Orange Line – The replacement of the signal and train control system at Tower 18 and on the Loop, as well as the upgrade of the interlocking logic at Tower 12 and the upgrade to the train detection circuitry on the Orange Line.

Replace/Upgrade Signals – Systemwide – The replacement of the signal and train control systems at selected locations throughout the system including the Howard and O'Hare terminals as well as signal house upgrades at 59th Street to improve reliability and reduce rail delays.

Reconstruct Rail Stations – The reconstruction of the Howard Station and other selected stations throughout the system, including all passenger facilities and terminals, rail operations and maintenance facilities.

Reconstruct Rail Stations – Washington Street Stations on the Blue and Red Lines – The design and construction of an expanded station connecting the two Washington Street Stations, and the provision of new passenger platforms, track, and support facilities to accommodate operation of trains between the Blue and Red Lines.

Replace and Upgrade Track and Structure (Systemwide) – The purchase and installation of replacements and upgrades for various rail system components including track and ties, structure, flange angles, right-of-way, footwalks, viaducts and embankment.

Bus Garages – The reconstruction of the 77th Bus Maintenance and Storage Facility and the construction or reconstruction of other support facilities.

Automated Fare Collection Projects – The design, purchase, and installation of revenue collection equipment for the bus fleet and rail system.

Security and Communications Infrastructure Improvements – The design, purchase and installation of fiber optic equipment and lines; security cameras, remote sensing equipment, Supervisory Control and Data Acquisition (SCADA) equipment and systems to enhance communication between operating units and to meet security requirements throughout rail lines, stations and facilities. The upgrade and modernization of fire alarm systems for bus garages, rail shops, and terminals and bus and rail vehicle location systems and customer communication.

Land Acquisition – The purchase of parcels to allow for track realignments to improve operational efficiency, construction of bus garages, improvements to bus turnarounds, enhancement of rail terminals and stations, locations for electrical power substations, and train control/signal equipment.

Expand Capacity – Brown Line – The reconstruction of existing platforms and stations on the existing Brown Line to accommodate eight-car trains, including the upgrade of several highway grade crossings, modernization of signal/communications system and enhancement of traction power system to support use of longer trains.

Replace Buses – The engineering, purchase, and inspection of fully accessible, air conditioned transit buses; including a spare parts inventory and associated bus equipment such as communication equipment and radios.

Traction Power System Upgrades and Improvements – Replace and upgrade traction power distribution, and substations systemwide including replacement and modernization of substations, transmission elements, and associated components.

Bus Overhaul and Rehabilitation - The Bus Overhaul and Upgrade Program will extend the useful life of the assets through scheduled tasks that will systematically upgrade the mechanical and appearance features of each bus in revenue service.

Rail Maintenance Facilities - The reconstruction of rail maintenance and storage facilities and the construction or reconstruction of other support facilities.

Purchase Equipment & Non-Revenue Vehicles - Provide for the purchase of equipment and tools to: maintain bus and rail related transit operations; provide for a variety of maintenance equipment that will be used throughout the system to maintain buildings, grounds and elevated structure; provide for the purchase of servers and other computer

related equipment; and to provide for the purchase of non-revenue vehicles needed to support bus and rail operations.

Replace Elevator/Escalators - Provide for elevator/escalator replacement/upgrades at various locations throughout the system.

Replace Signage - The design, fabrication, and installation of modern signage, on the bus and rail systems.

Capital Improvements Comprising the 2008 Project Relating to the 5309 Program

Purchase Rail Cars – Purchase rail cars to replace existing cars and provide for expansion.

Rail Car Overhaul and Rehabilitation – The scheduled rehabilitation as well as life extending overhaul of Rail Cars, including quarter-life “C” Level overhaul of the 2600 Series and the mid-life “D” Level rehabilitation of the 3200 Series.

Replace Signal System and Rail – Blue Line – Milwaukee, Congress Branches and Dearborn Subway – The design, purchase and installation of a replacement signal system and the replacement and upgrade of interlockings on the Blue Line, including bi-directional cab signals, remote controlled interlockings and train control systems, and communications installation.

Replace/Upgrade Signals – Loop and Orange Line – The replacement of the signal and train control system at Tower 18 and on the Loop, as well as the upgrade of the interlocking logic at Tower 12 and the upgrade to the train detection circuitry on the Orange Line.

Replace/Upgrade Signals – Systemwide - The replacement of the signal and train control systems at selected locations throughout the system including the Howard and O’Hare terminals as well as signal house upgrades at 59th Street to improve reliability and reduce rail delays.

Reconstruct Rail Stations – The reconstruction of the Howard Station and other selected stations throughout the system, including all passenger facilities and terminals, rail operations and maintenance facilities.

Reconstruct Rail Stations – Washington Street Stations on the Blue and Red Lines – The design and construction of an expanded station connecting the two Washington Street Stations, and the provision of new passenger platforms, track, and support facilities to accommodate operation of trains between the Blue and Red Lines.

Replace and Upgrade Track and Structure (Systemwide) – The purchase and installation of replacements and upgrades for various rail system components including track and ties, structure, flange angles, right-of-way, footwalks, viaducts and embankment.

Automated Fare Collection Projects – The design, purchase, and installation of revenue collection equipment for the rail system.

Security and Communications Infrastructure Improvements – The design, purchase and installation of fiber optic equipment and lines; security cameras, remote sensing equipment, Supervisory Control and Data Acquisition (SCADA) equipment and systems to enhance communication between operating units and to meet security requirements throughout rail lines, stations and facilities. The upgrade and modernization of fire alarm systems for rail shops, and terminals and rail vehicle location systems and customer communication.

Land Acquisition – The purchase of parcels to allow for track realignments to improve operational efficiency, enhancement of rail terminals and stations, locations for electrical power substations, and train control/signal equipment.

Expand Capacity – Brown Line – The reconstruction of existing platforms and stations on the existing Brown Line to accommodate eight-car trains, including the upgrade of several highway grade crossings, modernization of signal/communications system and enhancement of traction power system to support use of longer trains.

Traction Power System Upgrades and Improvements – Replace and upgrade traction power distribution, and substations systemwide including replacement and modernization of substations, transmission elements, and associated components.

Rail Maintenance Facilities - The reconstruction of rail maintenance and storage facilities and the construction or reconstruction of other support facilities.

Purchase Equipment & Non-Revenue Vehicles - Provide for the purchase of equipment and tools to: maintain rail related transit operations; provide for a variety of maintenance equipment that will be used throughout the system to maintain buildings, grounds and elevated structure; provide for the purchase of servers and other computer related equipment; and to provide for the purchase of non-revenue vehicles needed to support rail operations.

Replace Elevator/Escalators - Provide for elevator/escalator replacement/upgrades at various locations throughout the system.

Replace Signage - The design, fabrication, and installation of modern signage, on the rail systems.

FEDERAL TRANSIT PROGRAM

General

The FTA's Urbanized Area Formula Program and Fixed Guideway Modernization Program, under which Section 5307 Formula Funds and Section 5309 Formula Funds are disbursed to qualified recipients, is part of the Federal Transit Program (the "Federal Transit Program") created by Congress in support of public transit in the United States. As codified under Title 49 of the U.S. Code, one of the purposes of the Federal Transit Program is to provide funds for, and assist in financing, urban mass transportation capital improvement projects such as the 2008 Project. See APPENDIX C – "FEDERAL TRANSIT PROGRAM" for a more detailed history of the origins of the Federal Transit Program and its authorizing legislation.

The various purposes and administrative authority of the Federal Transit Program have been periodically modified and reauthorized by Congress; most recently under the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users ("SAFETEA-LU"). SAFETEA-LU went into effect on August 10, 2005. SAFETEA-LU authorizes a total of \$286.4 billion for the federal surface transportation programs in FFYs 2005 through 2009.

The authorization under SAFETEA-LU represents a 38 percent increase in authorization over TEA-21. SAFETEA-LU retains the most significant change to the Federal Transit Program enacted in the Transportation Equity Act for the 21st Century ("TEA-21"), the predecessor act to SAFETEA-LU. This change was the "guarantee" of certain fixed levels of funding for transit. These so-called "firewalls" were constructed around transit funding to prevent such funding from being used for any other purpose. Prior to the enactment of TEA-21, funding for surface transportation programs (highway and transit) was only one item among many on a list of discretionary priorities for federal spending in the budget. Under TEA-21 and now SAFETEA-LU, transit funding is "guaranteed" at a fixed amount throughout the SAFETEA-LU authorization period and can be used only to support transit programs. Congress, through the annual budget process, may choose to raise the total funding level for transit programs by allocating part of another federal program's budget to transit but, because of the established "firewall" around the Federal Transit Program, it may not use any of the "guaranteed" transit amount for any other federal program.

SAFETEA-LU retains the budgetary provisions of TEA-21 and provides approximately \$45 billion in "guaranteed" funding for transit projects nationally over its five year authorization period.

**SAFETEA-LU Federal Transit Program
“Guaranteed” Funding Levels
(Shown in billions of dollars)**

	<u>2005*</u>	<u>2006*</u>	<u>2007*</u>	<u>2008*</u>	<u>2009*</u>	<u>Total</u>
Highway Trust Fund	\$6.691	\$6.979	\$7.263	\$7.873	\$8.361	\$37.167
FTA General Fund	<u>0.956</u>	<u>1.643</u>	<u>1.712</u>	<u>1.858</u>	<u>1.977</u>	<u>8.146</u>
Total	\$7.646	\$8.623	\$8.975	\$9.731	\$10.338	\$45.313

* References are to Federal Fiscal Years.
Source: Federal Transit Administration.

The “guaranteed” funding level assumes that approximately 82.2 percent of total transit allocations will be funded from the Mass Transit Account (the “MTA”) of the Highway Trust Fund (“HTF”), with the remaining percentage funded through the General Fund of the FTA.

Funding of Federal Transit Program

The FTA administers payments under the Federal Transit Program through approved grants paid from the MTA, an account within the HTF. The following table shows historical annual HTF receipts deposited into the MTA for the period FFY 1998 to FFY 2007.

**Total Annual Receipts – Mass Transit Account
(\$000)**

<u>FFY</u>	<u>Receipts</u>	<u>FFY</u>	<u>Receipts</u>
1998	\$3,486,832	2003	\$4,671,000
1999	5,477,927	2004	4,939,000
2000	4,625,403	2005	4,998,000
2001	4,553,110	2006	4,838,000
2002	4,621,110	2007 [†]	4,994,000

Source: Federal Transit Administration.

[†] Estimated.

See APPENDIX C – “FEDERAL TRANSIT PROGRAM – Funding of Federal Transit Program” for a fuller description of the structure of funding for the Federal Transit Program.

Section 5307 Program

General. The Section 5307 Program is a formula grant program for standard metropolitan statistical areas with populations greater than 50,000 (each an “urbanized area”) providing capital, operating or planning assistance for mass transportation. Section 5307 Formula Funds for operating assistance are available only to urbanized areas with populations below 200,000. With a population greater than 200,000, the Authority does not qualify for grants for operating assistance under the Section 5307 Program, but is eligible for grants related

to capital and planning assistance. Funds are apportioned to urbanized areas utilizing a formula based on population, population density, and other factors associated with transit service and ridership.

Annual Apportionment of Funds. Once appropriated by Congress, FTA funds are allocated for transit purposes in several ways as specified in the authorizing legislation. Within ten days of the President's signing of appropriation legislation, FTA publishes a Notice in the Federal Register (the "Notice") listing, along with other information, the amount apportioned to each urbanized area in the case of Section 5307 Formula Funds. The Authority receives a portion of the funds that are apportioned to the Chicago, Illinois/Northwestern Indiana Urbanized Area (the "Local Urbanized Area").

Designated Recipient. For grant purposes and to assure coordination of funds in each urbanized area, Section 5307 requires the Governor of each state to designate a recipient or recipients (each a "designated recipient") to receive and dispense the Section 5307 Formula Funds. With respect to the Authority's receipt of Section 5307 Formula Funds, it is a designated recipient. For an urbanized region with more than one designated recipient, such as the Local Urbanized Area, the amounts available under the Federal Transit Program, as published in the Notice, must be further allocated among the region's designated recipients by the Metropolitan Planning Organization or Organizations (each a "MPO") for the urbanized area. For the Local Urbanized Area, this process is completed by the Chicago Metropolitan Agency for Planning ("CMAP") and the RTA.

Amount of Apportioned Section 5307 Formula Funds. The amount of Section 5307 Formula Funds apportioned to each urbanized area is determined based on a formula comprised of two components. The first component is a Congressionally-mandated formula based on population and population density in urbanized areas. For urbanized areas over 200,000 in population, such as the Authority, funds flow directly to the designated recipient.

The second component determining the amount of Section 5307 Formula Funds is operating and service-related data compiled in strict accordance with requirements set forth in the legislatively-mandated NTD. This summary of nation-wide transit data is compiled annually by FTA from operator-supplied, FTA-validated, individual reports containing extensive information about each transit property and the transit service it provides. Assuming no new transit service is added or dropped during the year, the yearly data submitted to FTA remains relatively constant and, consequently, the annual apportionment likewise remains relatively constant.

Grant Application and Section 5307 Formula Fund Obligation. Once the Notice is published listing actual amounts of Section 5307 Formula Funds available to each urbanized area and, in the case of designated recipients such as the Authority, the relevant MPO has made its allocations, eligible public bodies are able to submit grant applications to the FTA. Following FTA approval of an application, FTA obligates federal funds for specific eligible projects and reserves those funds under the various grant programs of the Federal Transit Program, including the Section 5307 Program. Once obligated and reserved for draw down by the designated recipient for the approved projects, such obligated funds are available to the designated recipient until expended.

Lapsing of Apportioned Section 5307 Formula Funds. Section 5307 Formula Funds apportioned to an urbanized area must be requested by the designated recipient in the area and obligated by FTA within three years following the year of apportionment. If such funds are not obligated within this time frame, the apportionment to the urbanized area lapses and the funds revert to FTA which reapportions them the following year. As stated above, however, once Section 5307 Formula Funds are obligated by FTA to a designated recipient, the funds remain available until spent by the designated recipient. Historically, the Authority has taken all steps necessary to apply for all apportioned and available funds in a Federal Fiscal Year.

Program Implementation. Program implementation includes a wide range of activities which occur after the federal grant approval, largely on the part of the designated recipient, to produce the project for which grant funds were made available and to seek draw downs from such grant funds for eligible costs. Once projects are in the implementation phase – where the FTA has approved project budgets and plans – but before actual implementation, projects and their corresponding sources of funding may be reprogrammed. Reprogramming involves the amendment of previously approved capital project plans and budgets to allow for the expenditure of apportioned and allocated Federal Transit Program formula funds on other eligible and approved projects. The Authority has agreed in the 5307 Indenture to take all the necessary steps to reprogram available Section 5307 Formula Funds appropriated in prior Federal Fiscal Years to the extent there are insufficient Grant Receipts to pay debt service on the Bonds. See “SECURITY FOR THE BONDS – Flow of Funds – Grant Receipts.”

For a more complete description of the Section 5307 Program and its several elements, see APPENDIX C – “FEDERAL TRANSIT PROGRAM – Section 5307 Program.”

Section 5309 Program

General. The Section 5309 Program is a formula grant program providing capital assistance for the modernization of existing rail systems. Funds are allocated by a statutory formula to urbanized areas with rail systems that have been in operation for at least seven years.

Annual Apportionment of Funds. Once appropriated by Congress, FTA funds are allocated for transit purposes in several ways as specified in the authorizing legislation. Within ten days of the President’s signing of appropriation legislation, FTA publishes the Notice in the Federal Register listing, along with other information, the amount apportioned to each urbanized area in the case of Section 5309 Formula Funds. The Authority receives a portion of the funds that are apportioned to the Local Urbanized Area.

Designated Recipient. The Authority is a designated recipient of Section 5309 Formula Funds and receives an amount allocated by the MPOs.

Amount of Apportioned Section 5309 Formula Funds. TEA-21 modified the formula for allocating the Section 5309 Formula Funds. The new formula contains seven tiers rather than the previous four. The allocation of funding under the first four tiers has been modified slightly and, through Federal Fiscal Year 2003, will be based on data used to apportion the funding in Federal Fiscal Year 1997. Apportionments in the three new tiers will be apportioned based on the latest available route miles and revenue vehicle miles on segments at least seven years old as reported

to the NTD, rather than on route miles and revenue vehicle miles on entire systems which are seven years old. Each year, the new fixed guideway modernization formula will allocate funds by seven tiers as follows:

Tier 1. The first \$497,700,000 will be apportioned to the following urbanized areas: Baltimore \$8,372,000; Boston \$38,948,000; Chicago/Northwestern Indiana \$78,169,000; Cleveland \$9,509,500; New Orleans \$1,730,588; New York \$176,034,461; Northeastern New Jersey \$50,604,653; Philadelphia/Southern New Jersey \$58,924,764; Pittsburgh \$13,662,463; San Francisco \$33,989,571; Southwestern Connecticut \$27,755,000.

Tier 2. The next \$70,000,000 will be apportioned as follows: Tier 2A: 50 percent to areas identified in Tier 1; and Tier 2B: 50 percent to other urbanized areas with fixed guideway in operation at least seven years. The apportionments for both Tiers 2A and 2B will be based on the Urbanized Area Formula Program fixed guideway tier formula factors that were used to apportion funds for fixed guideway modernization in Federal Fiscal Year 1997.

Tier 3. The next \$5,700,000 will be apportioned to the following urbanized areas as follows: Pittsburgh, 61.76 percent; Cleveland, 10.73 percent; New Orleans, 5.79 percent; the remaining 21.72 percent will be apportioned to areas in Tier 2B on the basis of the fixed guideway tier formula factors used in Federal Fiscal Year 1997.

Tier 4. The next \$186,600,000 will be apportioned to all eligible areas on the basis of the fixed guideway tier formula factors used in Federal Fiscal Year 1997.

Tier 5. The next \$70,000,000 will be apportioned as follows: 65 percent to the 11 areas specified in Tier 1, and 35 percent to all other urbanized areas using the most current Urbanized Area Formula Program fixed guideway tier formula factors. Any segment that is less than seven years old has been deleted from this data base.

Tier 6. The next \$50,000,000 will be apportioned as follows: 60 percent to the 11 areas specified in Tier 1, and 30 percent to the other urbanized areas with fixed guideway system segments in revenue service for at least seven years. Allocations will be based on the latest available route miles and revenue vehicle miles for fixed guideway segments at least seven years old as reported to the NTD.

Tier 7. Any remaining amounts will be apportioned as follows: 50 percent to the 11 urbanized areas specified in Tier 1, and 50 percent to the other urbanized areas with fixed guideway system segments in revenue service for at least 7 years. Allocations will be based on the latest available route miles and revenue vehicle miles for fixed guideway segments at least seven years old as reported to the NTD.

Grant Application and Section 5309 Formula Fund Obligation. Once the Notice is published listing actual amounts of Section 5309 Formula Funds available to each urbanized area and, in the case of designated recipients such as the Authority, the MPOs have made their allocations, eligible public bodies are able to submit grant applications to the FTA. Following FTA approval of an application, FTA obligates federal funds for specific eligible projects and reserves those funds under the various grant programs of the Federal Transit Program, including the Section 5309 Program. Once obligated and reserved for draw down by the designated recipient for the approved projects, such obligated funds are available to the designated recipient until expended.

Lapsing of Apportioned Section 5309 Formula Funds. Section 5309 Formula Funds apportioned to an urbanized area must be requested by the designated recipient in the area and obligated by FTA within three years following the year of apportionment. If such funds are not obligated within this time frame, the apportionment to the urbanized area lapses and the funds revert to FTA which reapportions them the following year. As stated above, however, once Section 5309 Formula Funds are obligated by FTA to a designated recipient, the funds remain available until spent by the designated recipient. Historically, the Authority has taken all steps necessary to apply for all apportioned and available funds in a Federal Fiscal Year.

Program Implementation. Program implementation includes a wide range of activities which occur after the federal grant approval, largely on the part of the designated recipient, to produce the project for which grant funds were made available and to seek draw downs from such grant funds for eligible costs. Once projects are in the implementation phase – where the FTA has approved project budgets and plans – but before actual implementation, projects and their corresponding sources of funding may be reprogrammed. Reprogramming involves the amendment of previously approved capital project plans and budgets to allow for the expenditure of apportioned and allocated Federal Transit Program formula funds on other eligible and approved projects. The Authority has agreed in the 5309 Indenture to take all the necessary steps to reprogram available Section 5309 Formula Funds appropriated in prior Federal Fiscal Years to the extent there are insufficient Grant Receipts to pay debt service on the Bonds. See “SECURITY FOR THE BONDS – Flow of Funds – Grant Receipts.”

Timing of Receipt of Federal Transit Program Funding Apportionment

The flow of FTA funds under Section 5307 and Section 5309 to the Authority and the resulting ability to pay debt service on the Outstanding Bonds will depend on several factors, most notably, the amount of funding provided to the Authority by the federal government under the Federal Transit Program and the Authority’s ability, pursuant to the grant application process, to use such funding. The apportioned amount of formula funding under the Federal Transit Program sets the upper limit on the federal government’s commitment to pay, through draw downs, its share of eligible expenditures on approved projects. Although the annual apportionment is not a direct representation of the amount of funding a designated recipient such as the Authority will receive under the applicable Federal Transit Program in a given year (due to the long-term nature of the construction and/or acquisition of capital projects), the apportionment level will determine over time the amount of funding that a designated recipient may receive.

While the Authority believes that sufficient Section 5307 Formula Funds and 5309 Formula Funds will be received to pay debt service on the Outstanding Bonds to their maturity, various factors beyond the control of the Authority may affect such receipts, including, without limitation, non-reauthorization of future federal transportation legislative programs, federal budgetary limitations and other possible changes in the Federal Transit Program that cannot now be anticipated.

Authority Participation in Section 5307 Program and Section 5309 Program

General. The financing of, or the reimbursement for prior expenditures related to, the 2008 Project is eligible for payment from the Grant Receipts made available to the Authority under the Section 5307 Program and the Section 5309 Program, which funds are the sole source of the Grant Receipts. The Authority may finance additional projects, not currently approved by the CTA and RTA Boards and included in the list of projects comprising the 2008 Project, with the proceeds of the 2008 Bonds to the extent that such additional projects are approved by the CTA and RTA Boards for inclusion in the Authority's Capital Plan and meet the eligibility requirements of the Indentures and the Section 5307 Program and the Section 5309 Program. See "THE 2008 PROJECT." In addition, the Authority may pay for the costs of projects meeting the eligibility requirements of the Section 5307 Program and the Section 5309 Program directly from Grant Receipts not pledged under the 5307 Indenture or the 5309 Indenture. The Authority has comparable rights with respect to the Outstanding Bonds and the Eligible Projects financed thereby. The Authority has covenanted in the Indentures to comply with all applicable laws of the United States of America and regulations of the FTA relating to the administration and disbursement of federal funds under the Section 5307 Program and the Section 5309 Program in order to be eligible to receive Grant Receipts for the payment of the Bonds and to facilitate the prompt receipt by the Authority of Grant Receipts. See APPENDIX A – "SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE – Covenants of the Authority" and "SUMMARY OF CERTAIN PROVISIONS OF THE 5309 INDENTURE – Covenants of the Authority."

Matching Funds Requirement. The Federal Transit Program, of which the Section 5307 Program and the Section 5309 Program is a part, requires the recipients of funds under said programs to provide a matching non-federal share for a portion of the total costs of projects eligible for reimbursement. The Section 5307 Program and the Section 5309 Program provide for funding of up to 80 percent of the net project cost for eligible capital projects. The remainder of the net project costs are required to be funded from non-federal sources and, with certain exceptions, sources other than revenues derived from providing mass transit. Federal legislation permits states to apply amounts equal to toll revenue that has been used for the construction or improvement of public highway facilities as a credit toward the non-federal matching requirement for transit projects. The Federal Highway Administration has allocated \$696 million in toll revenue credits to the State of Illinois that can be used to meet the non-federal matching requirements of Federal Transit Program funds available to transit providers in Illinois. If fully leveraged, this allocation represents the non-federal matching requirement for approximately \$3 billion in Federal Transit Program funds.

The Illinois Department of Transportation (“IDOT”), as administrator of the toll revenue credits allocated to the State, approves the use of such credits for the purpose of fulfilling the non-federal matching requirement at the time grant applications are made to the FTA. IDOT and the FTA have approved the use of toll revenue credits to meet the non-federal matching requirements with respect to the projects for Outstanding Bonds. Use of soft-dollar toll credits to meet the federal matching requirement under the Section 5307 Program and the Section 5309 Program will enable the Authority to use Grant Receipts for 100 percent of the debt service on the 2008 Bonds. **The use of toll credits does not constitute a pledge of funds by the State. No assurance can be given that the State will approve the use of toll credits for the purpose of meeting the non-federal matching requirement; that credits for toll revenue expended on public highway facilities will continue to be recognized for this purpose under the Federal Transit Program; or whether the matching requirements will continue to be at the levels of the current Section 5307 Program and Section 5309 Program as authorized under SAFETEA-LU.**

MPO Allocation. Section 5307 Formula Funds and Section 5309 Formula Funds are apportioned by the FTA to the Local Urbanized Area. Funds apportioned to the Local Urbanized Area are currently allocated between Indiana and Illinois by CMAP, the MPO with jurisdiction over the Local Urbanized Area, and the RTA. Currently, 95 percent of the Local Urbanized Area’s apportionment is allocated to Illinois, to be further allocated by the RTA, and 5 percent to Indiana. **There can be no assurance that the future allocation of Section 5307 Formula Funds and Section 5309 Formula Funds will be the same as they are currently.**

The Chicago, Illinois share of the Section 5307 Formula Funds and the Section 5309 Formula Funds are further divided, as determined by the RTA, between the Service Boards based upon an allocation policy that generally divides the annual apportionment between the three Service Boards as follows: 58 percent to the Authority, 34 percent to Metra and 8 percent to Pace. See “THE AUTHORITY – The RTA.” This allocation policy has been deviated from on an exceptional basis as shown in the tables on the following page under the column “Percent of Apportionment Allocated by RTA to Service Boards that RTA Allocates to Authority.” The only deviation of the Section 5307 Formula Funds since FFY 1999, when the Illinois percent of the Apportionment for capital purposes stabilized at approximately 95 percent, as shown under the column “Illinois Percent of Apportionment for Capital Purposes” in the following 5307 table, occurred in FFY 2006 and is explained in footnote one to said table. **No assurance can be given that this allocation policy will not change in the future and that, if the allocation policy were to change, that such change would maintain the Authority’s current percentage of the Section 5307 Formula Funds and Section 5309 Formula Funds.**

The tables on the following pages sets forth, for the FFYs 1989 through 2009, the allocation of Section 5307 Formula Funds and Section 5309 Formula Funds to the Local Urbanized Area (such allocation referred to in the tables as the “Apportionment”), and the portion of the Apportionment designated for reallocation by the RTA. The tables also show the Section 5307 Formula Funds and the Section 5309 Formula Funds as allocated by the RTA to the Authority in these years. Please note that, prior to FFY 1998, a portion of the total Apportionment of Section 5307 Formula Funds was allocated to operating assistance rather than to capital purposes. Operating assistance, as a use of Section 5307 Formula Funds, was phased

out gradually over several years which had the effect of increasing the amount and percentage of the total apportionment that went to capital purposes (second column of the 5307 table).

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**Section 5307 Formula Funds Apportioned to
Chicago, Illinois – Northwestern Indiana Urbanized Area
Allocated to Illinois for further Allocation by RTA**

FFY	Chicago, Illinois – Northwestern Indiana Urbanized Area Apportionment	Illinois Share of Apportionment for Capital Purposes	Percent of Apportionment Representing Illinois Share of Apportionment for Capital Purposes	Additional Apportionment Allocated from Small Urbanized Areas to the Illinois Share	Amount of Apportionment Available for Allocation by RTA	Authority's Share of RTA's Allocation of Apportionment	Percent of Apportionment Allocated by RTA to Service Boards that RTA Allocates to Authority
1989	\$127,216,030	\$71,605,448	56.3%	\$3,076,379	\$74,681,827	\$39,779,442	53.3%
1990	129,537,325	74,565,100	57.6	3,123,179	77,688,279	42,359,009	54.5
1991	137,406,291	78,809,952	57.4	3,332,947	82,142,899	50,734,241	61.8
1992	135,294,920	79,835,897	59.0	4,366,737	84,202,634	45,416,143	53.9
1993	114,384,364	60,731,370	53.1	3,737,520	64,468,890	39,943,872	62.0
1994	158,569,976	102,756,433	64.8	5,346,931	108,103,364	62,391,453	57.7
1995	157,922,848	107,365,991	68.0	5,517,481	112,883,472	66,595,890	59.0
1996	127,782,235	97,425,146	76.2	4,522,303	101,947,449	59,949,288	58.8
1997	131,887,681	102,321,493	77.6	4,736,797	107,058,290	61,918,213	57.8
1998	152,230,242	138,704,840	91.1	5,509,622	144,214,462	79,916,844	55.4
1999	167,113,625	157,966,749	94.5	6,089,511	164,056,260	95,448,016	58.8
2000	178,741,915	169,753,163	95.0	6,624,296	176,377,459	102,610,363	58.2
2001	184,873,615	175,625,150	95.0	7,013,911	182,639,061	106,201,321	58.1
2002	202,416,015	191,012,720	94.3	7,687,200	198,699,920	115,798,354	58.3
2003	207,630,956	197,895,728	95.3	1,055,341	198,951,069	115,633,961	58.1
2004	206,199,235	196,777,085	95.4	3,577,960	200,355,045	116,345,988	58.1
2005	219,681,170	207,598,706	94.5	2,349,956	209,948,662	122,314,262	58.2
2006	206,185,774	196,964,492	95.5	3,478,895	200,443,387	103,368,905 ¹	51.6
2007	217,980,206	208,231,440	95.5	3,677,898	211,909,338	122,545,497	57.8
2008	236,394,434	225,822,125	95.5	3,988,594	229,810,719	133,087,409	57.9
2009 ²	251,463,774	240,217,516	95.5	4,242,854	244,460,370	141,727,895	58.0

Sources: FFYs 1989 – 2008: CTA; FFY 2009: RTA projections.

¹ In FFY2006 the RTA requested that the Authority, in its grant application to the FTA, request \$11.8 million less in Section 5307 Formula Funds than the amount that the RTA would have typically approved as the Authority's request from the Local Urbanized Area apportionment. The \$11.8 million in Section 5307 Formula Funds was instead requested as part of Pace's grant application. In return, the RTA distributed \$11.8 million in RTA discretionary capital funds to the Authority. These RTA discretionary capital funds were not deposited under the Indenture in the Grant Receipts Deposit Fund but were used by the Authority to finance Section 5307 eligible projects that would have otherwise been funded with Section 5307 Formula Funds. Without this exchange, the Authority's allocation of Section 5307 Formula Funds in FFY 2006 would have been \$115.2 million.

² Projections based on RTA sources.

**Section 5309 Fixed Guideway Formula Funds Apportioned to
Chicago, Illinois – Northwestern Indiana Urbanized Area
Allocated to Illinois for Further Allocation by RTA**

FFY	Chicago, Illinois – Northwestern Indiana Urbanized Area Apportionment	Illinois Share of Apportionment for Capital Purposes	Percent of Apportionment Representing Illinois Share of Apportionment for Capital Purposes	Additional Apportionment Allocated from Small Urbanized Areas to the Illinois Share ²	Amount of Apportionment Available for Allocation by RTA	Authority's Share of RTA's Allocation of Apportionment	Percent of Apportionment Allocated by RTA to Service Boards that RTA Allocates to Authority
1989	\$85,805,763	\$80,400,000	93.7%	\$	\$80,400,000	\$49,500,000	61.6%
1990	59,498,399	55,750,000	93.7	-	55,750,000	30,700,000	55.1
1991	89,765,208	84,110,000	93.7	-	84,110,000	35,435,000	42.1
1992	83,263,607	78,018,000	93.7	-	78,018,000	46,370,000	59.4
1993	95,910,090	89,867,754	93.7	-	89,867,754	52,695,000	58.6
1994	106,448,328	99,742,083	93.7	-	99,742,083	55,979,000	56.1
1995	104,160,523	97,598,410	93.7	-	97,598,410	55,819,000	57.2
1996	93,740,449	87,834,801	93.7	-	87,834,801	53,514,000	60.9
1997	103,913,474	97,366,925	93.7	-	97,366,925	57,727,067	59.3
1998	107,434,390	100,666,023	93.7	-	100,666,023	59,682,475	59.3
1999	113,008,639	105,900,396	93.7	-	105,900,396	61,126,843	57.7
2000	121,618,120	113,968,340	93.7	-	113,968,340	65,790,201	57.7
2001	126,992,048	119,004,246	93.7	-	119,004,246	68,752,957	57.8
2002	132,997,580	124,632,032	93.7	-	124,632,032	71,734,178	57.6
2003	139,131,661	130,380,280	93.7	-	130,380,280	75,368,893	57.8
2004	139,271,688	130,511,499	93.7	3,504,312	134,015,811	76,726,355	58.8
2005	139,260,042	130,506,540	93.7	1,943,575	132,450,115	76,278,262	58.4
2006	148,635,642	139,286,460	93.7	2,321,756	141,608,216	83,212,490	59.7
2007	158,124,928	148,178,870	93.7	2,661,899	150,840,769	87,868,470	59.3
2008	166,374,638	155,893,036	93.7	3,172,930	159,065,966	92,465,034	58.1
2009 ¹	174,879,926	163,862,491	93.7	3,237,509	167,100,000	97,000,000	58.0

Sources: FFY's 1989 – 2008: CTA; FFY 2009: RTA projections.

¹ Projections based on RTA sources.

² Prior to FFY 2004, RTA did not provide a separate breakout for funds from Small Urbanized Areas.

The Authority does not receive Section 5307 Formula Funds or Section 5309 Formula Funds from the FTA until moneys are expended for costs permitted by the underlying grants. Historically, the Authority does not expend the full amount of its Annual Apportionment Amount in the year the grants are awarded and the Section 5307 Formula Funds and the Section 5309 Formula Funds are obligated. The amount of Annual Apportionment Amounts from prior Federal Fiscal Years not expended varies throughout the year and from year to year. In 2007, 2006, 2005 and 2004, the average amount of unexpended Annual Apportionment Amounts of 5307 Formula Funds from prior Federal Fiscal Years was \$165,692,264, \$219,971,249, \$252,432,226 and \$210,334,644, respectively. In 2007, 2006, 2005 and 2004, the average amount of unexpended Annual Apportionment Amounts of 5309 Formula Funds from prior Federal Fiscal Years was \$148,533,984, \$153,029,041, \$97,704,780 and \$137,684,363, respectively. See “SECURITY FOR THE BONDS – Flow of Funds – Grant Receipts” and APPENDIX A – “SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE – Covenants of the Authority” and – “SUMMARY OF CERTAIN PROVISIONS OF THE 5309 INDENTURE – Covenants of the Authority” for a description of the use of such unexpended Annual Apportionment Amounts in the event that grant approvals required to provide sufficient Grant Receipts to pay debt service on the Bonds have not been obtained.

CERTAIN INVESTMENT CONSIDERATIONS

Attention should be given to the investment considerations described below, which, among others, could affect the ability of the Authority to pay principal of and interest on the 2008 Bonds, and which could also affect the marketability of, or the market price for, the 2008 Bonds to an extent that cannot be determined.

The purchase of the 2008 Bonds involves certain investment considerations that are discussed throughout this Official Statement. Certain of these investment considerations are set forth in this section for convenience and are not intended to be a comprehensive compilation of all possible investment considerations nor a substitute for an independent evaluation of the information presented in the Official Statement. **Each prospective purchaser of any 2008 Bonds should read this Official Statement in its entirety and consult such prospective purchaser’s own investment and/or legal advisor for a more complete explanation of the matters that should be considered when purchasing investments such as the 2008 Bonds.**

Uncertainties in Federal Funding

There can be no assurance that sufficient Grant Receipts will be received by the Authority to pay the debt service on the Outstanding Bonds. The amount of Grant Receipts available for allocation to the Authority for payment of debt service on the Outstanding Bonds is subject to annual appropriation by Congress and to approval on an annual basis by the FTA.

The legislation authorizing the Federal Transit Program under which the Grant Receipts are made available for allocation to the Authority expires in FFY 2009. No assurance can be given that Congress will pass a new multi-year authorization or continuing resolution authorization at that time; that, if such legislation is adopted, that it will be signed into law by the President; that, if such legislation is adopted and signed into law, provisions comparable to those

in the current authorizing legislation will be included; or that the amount of federal funds available to the Authority under any future reauthorization will not differ materially from the funds that are available under the current authorizing legislation.

As described under “FEDERAL TRANSIT PROGRAM – Authority Participation in Section 5307 Program and Section 5309 Program – *MPO Allocation*,” the RTA determines the allocation between the three Service Boards of the Section 5307 Formula Funds and the Section 5309 Formula Funds annually available to Illinois from the Local Urbanized Area. While this allocation has been performed in accordance with a policy put in place by the RTA, no assurance can be given that this policy (i) will not be deviated from on an exception basis, (ii) will not change in the future, or (iii) would maintain, if changed, the proportionate share the Authority receives under the current policy.

In addition to factors beyond the Authority’s control that may impact the amount of Grant Receipts available to the Authority for payment of debt service on the Outstanding Bonds (including, without limitation, non-reauthorization of future federal transportation legislative programs, federal budgetary limitations and other possible changes in the Federal Transit Program, and exercise by the RTA of its authority to allocate Section 5307 Formula Funds and Section 5309 Formula Funds among the Service Boards), the calculation of the annual apportionment under the Federal Transit Program from which the Grant Receipts are paid is based on a formula that takes into account, among other factors, transit properties, the transit services provided and the degree such services are utilized. Actions that the Authority may take as a result of its budgetary decisions, such as decreases in the amounts devoted to capital purposes, service cuts or fare increases, may have a negative impact on these components of the formula used to calculate the annual apportionment resulting in a decrease in the amount of federal transit funds available to the Authority for Grant Receipts. See particularly the discussion of the Authority’s pension obligations and the possible impact such obligations may have on the Authority’s operating budget under the caption “THE AUTHORITY – Pension and Other Post-Employment Benefit Obligations.”

If sufficient federal transit funds are not available for any of the reasons stated in this subcaption, sufficient Grant Receipts will not be received to pay the debt service on the Outstanding Bonds. See “FEDERAL TRANSIT PROGRAM.”

Certain Covenants with Respect to Section 5307 Program and Section 5309 Program

Failure to maintain general eligibility for the receipt of federal funds or failure to maintain the eligibility of components of the 2008 Project or of the project financed with the Outstanding Bonds for reimbursement under the Section 5307 Program and the Section 5309 Program could prevent the Authority from receiving Grant Receipts sufficient to pay debt service on the Outstanding Bonds. The Authority has covenanted in the Indentures to comply with all applicable laws of the United States of America and regulations of the FTA relating to the administration and disbursement of federal funds under the Section 5307 Program and the Section 5309 Program in order to be eligible to receive Grant Receipts for the payment of the Bonds and to facilitate the prompt receipt by the Authority of such Grant Receipts.

Limited Obligations

The Bonds (and all Parity Obligations) are limited obligations of the Authority payable solely from and secured solely by (i) Grant Receipts, and (ii) amounts on deposit in the funds and accounts established under the Indentures (except the Rebate Fund), including investment earnings thereon. The Bonds are not a general obligation of the Authority and the revenues of the Authority (other than as described above) are not pledged for the payment of the Bonds or the interest thereon. The Indentures create no liens upon any physical properties of the Authority. The Act provides that the Bonds are not, and shall not be or become, an indebtedness or obligation of the State of Illinois or any political subdivision of the State (other than the limited obligation of the Authority) or of any municipality within the State, nor shall any Bond be or become an indebtedness of the Authority within the purview of any constitutional limitation or provision. The Authority has no taxing power.

Limitations on Remedies of Bondholders

The remedies available upon an event of default under the Indentures are in many respects dependent upon judicial actions which are often subject to discretion and delay. The various legal opinions to be delivered concurrently with the delivery of the 2008 Bonds will be qualified as to the enforceability of the various documents by bankruptcy, insolvency or other similar laws affecting the rights of creditors generally.

No Acceleration Provision

The Indentures do not contain a provision allowing for the acceleration of the Bonds in the event of a default in the payment of principal and interest on the Bonds when due. In the event of a default under the Indentures, each Bondholder will have the right to exercise the remedies provided in the Indentures, subject to the rights of the Bond Insurer. See APPENDIX A – “SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE – Events of Default and Remedies” and “SUMMARY OF CERTAIN PROVISIONS OF THE 5309 INDENTURE – Events of Default and Remedies.”

Loss of Federal Tax Exemption

As discussed under “TAX MATTERS – Risk of Non-Compliance,” interest on the 2008 Bonds could become includable in federal gross income, possibly from the date of issuance of the 2008 Bonds, as a result of acts or omissions of the Authority subsequent to the issuance of the 2008 Bonds. Should interest become includable in federal gross income, the 2008 Bonds are not subject to redemption by reason thereof and will remain outstanding until maturity or earlier redemption.

LEGAL MATTERS

Legal matters incident to the issuance of the 2008 Bonds are subject to the approving opinion of Katten Muchin Rosenman LLP, Chicago, Illinois, and Barclay, Dixon & Smith, P.C., Chicago, Illinois, Co-Bond Counsel. The proposed form of the opinions to be delivered by Co-Bond Counsel is attached hereto as APPENDIX F. Approval of certain other legal matters will be passed upon for the Authority by its General Counsel, and for the Underwriters by Charity & Associates, P.C., Chicago, Illinois, and Chico & Nunes P.C., Chicago, Illinois, Co-Underwriters Counsel.

TAX MATTERS

Summary of Co-Bond Counsel Opinion

Katten Muchin Rosenman LLP and Barclay, Dixon & Smith, P.C., Co-Bond Counsel, are of the opinion that under existing law, interest on the 2008 Bonds is not includable in the gross income of the owners thereof for federal income tax purposes. If there is continuing compliance with the applicable requirements of the Internal Revenue Code of 1986 (the “Code”), Co-Bond Counsel are of the opinion that interest on the 2008 Bonds will continue to be excluded from the gross income of the owners thereof for federal income tax purposes. In addition, interest on the 2008 Bonds is not an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income, but must be taken into account as earnings and profits of a corporation when computing, for example, corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax. Interest on the 2008 Bonds is not exempt from Illinois income taxes.

Exclusion from Gross Income: Requirements

The Code contains certain requirements that must be satisfied from and after the date of issuance of the 2008 Bonds in order to preserve the exclusion from gross income for federal income tax purposes of interest on the 2008 Bonds. These requirements relate to the use and investment of the proceeds of the 2008 Bonds, the payment of certain amounts to the United States, the security and source of payment of the 2008 Bonds and the use of the property financed with the proceeds of the 2008 Bonds. The Authority covenants in the Indentures to comply with these requirements. Among these specific requirements are the following:

(a) *Investment Restrictions.* Except during certain “temporary periods,” proceeds of the 2008 Bonds and investment earnings thereon (other than amounts held in a reasonably required reserve or replacement fund, if any, or as part of a “minor portion”) may generally not be invested in investments having a yield that is materially higher than the yield on the 2008 Bonds.

(b) *Rebate of Permissible Arbitrage Earnings.* Earnings from the investment of the “gross proceeds” of the 2008 Bonds in excess of the earnings that would have been realized if such investments had been made at a yield equal to the yield on the 2008 Bonds are required to be paid to the United States at periodic intervals. For this purpose, the term “gross proceeds”

includes the original proceeds of the 2008 Bonds, amounts received as a result of investing such proceeds and amounts to be used to pay debt service on the 2008 Bonds.

(c) *Restrictions on Ownership and Use.* The Code includes restrictions on the ownership and use of the facilities financed with the proceeds of the 2008 Bonds. Such provisions may restrict future changes in the use of any property financed with the proceeds of the 2008 Bonds.

Covenants to Comply

The Authority covenants in the Indentures to comply with the requirements of the Code relating to the exclusion from gross income for federal income tax purposes of interest on the 2008 Bonds.

Risk of Non-Compliance

In the event that the Authority fails to comply with the requirements of the Code, interest on the 2008 Bonds may become includable in the gross income of the owners thereof for federal income tax purposes retroactively to the date of issue. In such event, the Indentures do not require acceleration of payment of principal or interest on the 2008 Bonds or payment of any additional interest or penalties to the owners of the 2008 Bonds.

Federal Income Tax Consequences

Pursuant to Section 103 of the Code, interest on the 2008 Bonds is not includable in the gross income of the owners thereof for federal income tax purposes. However, the Code contains a number of other provisions relating to the treatment of interest on the 2008 Bonds that may affect the taxation of certain types of owners, depending on their particular tax situations. Some of the potentially applicable federal income tax provisions are described in general terms below. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS CONCERNING THE PARTICULAR FEDERAL INCOME TAX CONSEQUENCES OF THEIR OWNERSHIP OF THE BONDS.

- (a) *Cost of Carry.* Owners of the 2008 Bonds will generally be denied a deduction for otherwise deductible interest on any debt that is treated for federal income tax purposes as incurred or continued to purchase or carry the 2008 Bonds. Financial institutions are denied a deduction for their otherwise allowable interest expense in an amount determined by reference to their adjusted basis in the 2008 Bonds.
- (b) *Corporate Owners.* Interest on the 2008 Bonds is generally taken into account in computing earnings and profits of a corporation and consequently may be subject to federal income taxes based thereon. Thus, for example, interest on the 2008 Bonds is taken into account not only in computing the corporate alternative minimum tax but also the branch profits tax imposed on certain foreign corporations, the passive investment income tax imposed on certain S corporations, and the accumulated earnings tax.

- (c) *Individual Owners.* Receipt of interest on the 2008 Bonds may increase the amount of social security and railroad retirement benefits included in the gross income of the recipients thereof for federal income tax purposes.
- (d) *Certain Blue Cross or Blue Shield Organizations.* Receipt of interest on the 2008 Bonds may reduce a special deduction otherwise available to certain Blue Cross or Blue Shield organizations.
- (e) *Property or Casualty Insurance Companies.* Receipt of interest on the 2008 Bonds may reduce otherwise deductible underwriting losses of a property or casualty insurance company.
- (f) *Foreign Personal Holding Company Income.* A United States shareholder of a foreign personal holding company may realize taxable income to the extent that interest on the 2008 Bonds held by such a company is properly allocable to the shareholder.

2008 Bonds Purchased at a Premium or at a Discount

The difference (if any) between the initial price at which a substantial amount of each maturity of the 2008 Bonds is sold to the public (the “Offering Price”) and the principal amount payable at maturity of such 2008 Bonds is given special treatment for federal income tax purposes. If the Offering Price is higher than the maturity value of a 2008 Bond, the difference between the two is known as “*bond premium*,” if the Offering Price is lower than the maturity value of a 2008 Bond, the difference between the two is known as “*original issue discount*.”

Bond premium and original issue discount are amortized over the term of a 2008 Bond on the basis of the owner’s yield from the date of purchase to the date of maturity, compounded at the end of each accrual period of one year or less with straight line interpolation between compounding dates, as provided more specifically in the Income Tax Regulations. The amount of bond premium accruing during each period is subtracted from the owner’s tax basis in the 2008 Bond. The amount of original issue discount accruing during each period is treated as interest that is excludable from the gross income of the owner of such 2008 Bond for federal income tax purposes, to the same extent and with the same limitations as current interest, and is added to the owner’s tax basis in the 2008 Bond. A 2008 Bond’s adjusted tax basis is used to determine whether, and to what extent, the owner realizes taxable gain or loss upon the disposition of the 2008 Bond (whether by reason of sale, acceleration, redemption prior to maturity or payment at maturity of the 2008 Bond).

Owners who purchase 2008 Bonds at a price other than the Offering Price, after the termination of the initial public offering or at a market discount should consult their tax advisors with respect to the tax consequences of their ownership of the 2008 Bonds. In addition, owners of 2008 Bonds should consult their tax advisors with respect to the state and local tax consequences of owning the 2008 Bonds; under the applicable provisions of state or local income tax law, bond premium and original issue discount may give rise to taxable income at different times and in different amounts than they do for federal income tax purposes.

Change of Law

The opinions of Co-Bond Counsel and the descriptions of the tax law contained in this Official Statement are based on statutes, judicial decisions, regulations, rulings, and other official interpretations of law in existence on the date the 2008 Bonds were issued. There can be no assurance that such law or the interpretation thereof will not be changed or that new provisions of law will not be enacted or promulgated at any time while the 2008 Bonds are outstanding in a manner that would adversely affect the value or the tax treatment of ownership of the 2008 Bonds.

MATERIAL LITIGATION

There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the knowledge of the Authority, threatened against the Authority in any way affecting the existence of the Authority or the titles of its officers to their respective offices or seeking to restrain or to enjoin the issuance, sale or delivery of the 2008 Bonds, the application of the proceeds thereof in accordance with the Indentures, or the collection or application of Grant Receipts or other moneys to be pledged to pay the principal of and interest on the 2008 Bonds, or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the 2008 Bonds, the Indentures of any other agreement entered into in connection therewith, or in any way contesting the completeness or accuracy of this Official Statement or the powers of the Authority or its authority with respect to the 2008 Bonds, or the Indentures or any other agreement entered into in connection therewith.

RATINGS

Moody's Investors Service ("Moody's"), Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies ("S&P"), and Fitch Ratings ("Fitch"), are expected to assign their municipal bond ratings of "Aaa" "AAA" and "AAA," respectively, to the 2008 Bonds with the understanding that upon the delivery of the 2008 Bonds, the 2008 Bond Insurance Policies will be issued. Moody's, S&P and Fitch have also assigned the 2008 Bonds the underlying ratings of "A2," "A" and "A," respectively. There is no assurance that any credit ratings given to the 2008 Bonds will be maintained for any period of time or that the ratings may not be lowered or withdrawn entirely by such rating agencies, if, in their judgment, circumstances so warrant. The Authority does not undertake any responsibility to oppose any downward revision or withdrawal of rating. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the 2008 Bonds. Such ratings reflect only the views of such organizations and an explanation of the significance of such ratings may be obtained from such rating agencies.

CO-FINANCIAL ADVISORS

DEPFA First Albany Securities LLC and A.C. Advisory, Inc., both of Chicago, Illinois, serve as Co-Financial Advisors to the Authority with respect to the sale of the 2008 Bonds. The Co-Financial Advisors have not conducted a detailed investigation of the affairs of the Authority to determine the completeness or accuracy of this Official Statement. Because of their limited participation, the Co-Financial Advisors have not independently verified any of the data contained herein and have no responsibility for the accuracy or completeness thereof.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with the requirements of Rule 15c2-12 promulgated by the Securities Exchange Commission (the “Rule”), the Authority will enter into a Continuing Disclosure Undertaking for the benefit of the Bondholders (as defined in such agreement) from time to time of the 2008 Bonds. The form of the Continuing Disclosure Undertaking, including therein the nature of the information that the Authority has agreed to supply on an annual basis, is attached to this Official Statement as APPENDIX D. The Authority has not failed to comply with any undertaking under the Rule. See “APPENDIX D – FORM OF CONTINUING DISCLOSURE UNDERTAKING.”

UNDERWRITING

The 2008 Bonds are being purchased by the Underwriters listed on the cover hereof (the “Underwriters”), subject to certain conditions set forth in bond purchase agreements relating to the 2008A 5307 Bonds (the “5307 Purchase Contract”) and the 2008 5309 Bonds (the “5309 Purchase Contract”).

Pursuant to the 5307 Purchase Contract, the Underwriters have agreed to purchase the 2008A 5307 Bonds at a purchase price of \$106,740,991.75 (representing the principal amount of the 2008A 5307 Bonds, less an underwriters’ discount of \$650,061.20, plus original issue premium of \$7,391,052.95). The initial public offering prices of the 2008A 5307 Bonds may be changed from time to time by the Underwriters after the 2008A 5307 Bonds have been released for sale. The 5307 Purchase Contract provides that the Underwriters will purchase all of the 2008A 5307 Bonds if any are purchased and that the obligations to make such purchases are subject to certain terms and conditions set forth in the 5307 Purchase Contract, including, among others, the approval of certain legal matters by their counsel.

Pursuant to the 5309 Purchase Contract, the Underwriters have agreed to purchase the 2008 5309 Bonds at a purchase price of \$160,310,589.75 (representing the principal amount of the 2008 5309 Bonds, less an underwriters’ discount of \$935,804.30, plus original issue premium of \$11,246,394.05). The initial public offering prices of the 2008 5309 Bonds may be changed from time to time by the Underwriters after the 2008 5309 Bonds have been released for sale. The 5309 Purchase Contract provides that the Underwriters will purchase all of the 2008 5309 Bonds if any are purchased and that the obligations to make such purchases are subject to certain

terms and conditions set forth in the 5309 Purchase Contract, including, among others, the approval of certain legal matters by their counsel.

MISCELLANEOUS

This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers, holders or beneficial owners of any of the 2008 Bonds. All of the summaries of the 2008 Bonds, the Indentures, applicable legislation and other agreements and documents in this Official Statement are made subject to the provisions of the 2008 Bonds and such documents, respectively, and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the Authority for further information in connection therewith.

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

The execution and delivery of this Official Statement has been duly authorized by the Authority.

CHICAGO TRANSIT AUTHORITY

By: /s/ Carole L. Brown
Chairman

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APPENDIX A

**DEFINITIONS AND SUMMARY OF
CERTAIN PROVISIONS OF THE INDENTURES**

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The following sets forth definitions of certain terms used in the Indentures and certain provisions of the Indentures. This summary is provided for the convenience of the reader and does not purport to be comprehensive or definitive. Reference is made to the Indentures for a complete statement of the provisions thereof.

Definitions of Certain Terms

The following are definitions of certain terms used in the Indentures.

“*Accountant*” means an independent certified public accountant or a firm of independent certified public accountants (who may be the accountants who regularly audit the books and accounts of the Authority) who are selected and paid by the Authority.

“*Accreted Amount*” means, with respect to any Capital Appreciation Bonds, the amount set forth in the Supplemental Indenture or Indenture authorizing such Bonds as the amount representing the initial public offering price thereof, plus the amount of interest that has accreted on such Bonds, compounded periodically, to the date of calculation, determined by reference to accretion tables contained in each such Bond or contained or referred to in any Supplemental Indenture authorizing the issuance of such Bonds. The Accreted Amounts for such Bonds as of any date not stated in such tables shall be calculated by adding to the Accreted Amount for such Bonds as of the date stated in such tables immediately preceding the date of computation a portion of the difference between the Accreted Amount for such preceding date and the Accreted Amount for such Bonds as of the date shown on such tables immediately succeeding the date of calculation, apportioned on the assumption that interest accretes during any period in equal daily amounts on the basis of a 360-day year consisting of twelve 30-day months.

“*Act*” means the Metropolitan Transit Authority Act, 70 Illinois Compiled Statutes 3605, as the same may be amended and supplemented from time to time.

“*Additional Bonds*” means Bonds authenticated and delivered pursuant to the provisions of the Indentures summarized under the heading “**Summary of Certain Provisions of the 5307 Indenture - Additional Bonds for Construction Purposes**” and “**Summary of Certain Provisions of the 5309 Indenture - Additional Bonds for Construction Purposes**” in this Appendix A.

“*Additional Project*” means any Eligible Project that the Authority determines to finance in whole or in part by the issuance of Additional Bonds.

“*Annual Apportionment Amount*” means, (i) in reference to the 5307 Program, with respect to any Federal Fiscal Year, the amount of FTA Section 5307 (49 United States Code Section 5307) Urbanized Area Formula funds that the Authority is entitled to receive from the FTA pursuant to appropriations designated for that Federal Fiscal Year, and, (ii) in reference to the 5309 Program, with respect to any Federal Fiscal Year, the amount of FTA Section 5309 (49 United States Code Section 5309) Fixed Guideway Modernization Formula funds that the Authority is entitled to receive from the FTA pursuant to appropriations designated for that Federal Fiscal Year.

“Annual Debt Service Requirement” means, with respect to any Bond Year, the aggregate of the Interest Requirement and the Principal Requirement for such Bond Year.

“Authority” means the Chicago Transit Authority, duly organized and existing under the Act.

“Authorized Denominations” means \$5,000 or any integral multiple thereof, or, in the case of Additional Bonds or Refunding Bonds, such other denominations as may be specified in the Supplemental Indenture authorizing the issuance thereof.

“Authorized Officer” means the Chairman of the Board, President or Treasurer of the Authority or any other officer or employee of the Authority authorized to perform specific acts or duties under the Indentures by ordinance duly adopted by the Authority.

“Average Annual Debt Service Requirement” means, as of any date of calculation, the mathematical mean of the Annual Debt Service Requirements for all Outstanding Parity Obligations.

“Board” means the Chicago Transit Board.

“Bond” or *“Bonds”* means, with respect to each Indenture, any bond or bonds, including the 2008 Bonds issued thereunder (and in the case of the 5307 Indenture, the 2004 Bonds and the 2006 Bonds), Additional Bonds and Refunding Bonds, authenticated and delivered thereunder, other than Subordinated Indebtedness.

“Bond Year” means the 12-month period commencing on October 2 of a year, and ending on October 1 of the next succeeding year.

“Bond Insurance Policy” means any municipal bond insurance policy insuring and guaranteeing the payment of the principal of and interest on a Series of Bonds or certain maturities thereof as may be provided in the Supplemental Indenture authorizing such Series or as otherwise may be designated by the Authority. See “RIGHTS OF BOND INSURERS.”

“Bond Insurer” means any person authorized under law to issue a Bond Insurance Policy, which in the case of the 5307 Indenture includes the issuer of the Bond Insurance Policy for the Outstanding 5307 Bonds.

“Business Day” means any day which is not a Saturday, a Sunday, a legal holiday or a day on which banking institutions in the city where the principal corporate trust office of any Fiduciary is located are authorized or required by law or executive order to close (and such Fiduciary is in fact closed).

“Capital Appreciation and Income Bond” means any Bond as to which accruing interest is not paid prior to the Interest Commencement Date specified therefor and is compounded periodically on certain designated dates prior to the Interest Commencement Date specified therefor, all as provided in the Supplemental Indenture authorizing the issuance of such Capital Appreciation and Income Bond.

“*Capital Appreciation Bond*” means any Bond the interest on which (i) shall be compounded periodically on certain designated dates, (ii) shall be payable only at maturity or redemption prior to maturity and (iii) shall be determined by subtracting from the Accreted Amount the initial public offering price thereof, all as provided in the Supplemental Indenture authorizing the issuance of such Capital Appreciation Bond. The term “Capital Appreciation Bond” as used throughout the Indentures also includes any Capital Appreciation and Income Bond prior to the Interest Commencement Date specified therefor.

“*Code*” or “*Code and Regulations*” means the Internal Revenue Code of 1986, and the regulations promulgated or proposed pursuant thereto as the same may be in effect from time to time.

“*Construction Fund*” means the Construction Fund established under each of the Indentures.

“*Cost of Construction*” means with respect to the 2008 Project or any Additional Project, the cost of acquisition, construction and equipping thereof, including the cost of acquisition of all land, rights of way, property, rights, easements and interests, acquired by the Authority for such construction, the cost of all machinery and equipment, financing charges, financial advisory fees, interest prior to and during construction and for such period after completion of construction as the Authority shall determine, the cost of design, engineering and legal expenses, plans, specifications, surveys, estimates of cost and revenues, other expenses necessary or incident to determining the feasibility or practicability of constructing the 2008 Project or any Additional Project, administrative expenses and such other costs, expenses and funding as may be necessary or incident to the construction, the financing of such construction and the placing of the 2008 Project or any Additional Project in operation.

“*Counsel’s Opinion*” means an opinion signed by an attorney or firm of attorneys of recognized standing in the area of law to which the opinion relates, who may be counsel to the Authority (including the General Counsel of the Authority).

“*Credit Bank*” means, as to any particular Series of Bonds, the person (other than a Bond Insurer) providing a Credit Facility.

“*Credit Facility*” means, as to any particular Series of Bonds, a letter of credit, a line of credit, a guaranty, a standby bond purchase agreement or other credit or liquidity enhancement facility, other than a Bond Insurance Policy.

“*Current Funds*” means moneys which are immediately available in the hands of the payee at the place of payment.

“*Current Interest Bond*” means any Bond the interest on which is payable on the Interest Payment Dates provided therefor in the Supplemental Indenture authorizing such Bond. The term “Current Interest Bond” also includes any Capital Appreciation and Income Bond from and after the Interest Commencement Date specified therefor.

“*Debt Service Fund*” means the Debt Service Fund established under each of the Indentures.

“Debt Service Reserve Account” means any debt service reserve account established within the General Fund pursuant to a Supplemental Indenture or an Indenture.

“Defeasance Obligations” means Government Obligations that are not subject to redemption or prepayment other than at the option of the holder thereof.

“Eligible Project” means a capital improvement to the Transportation System the financing costs of which may be paid by the Authority from Grant Receipts.

“Event of Default” means any event so designated and specified in the Indentures.

“Federal Fiscal Year” means the annual period commencing on October 1 of a calendar year and ending September 30 of the next calendar year.

“Fiduciary” or *“Fiduciaries”* means the Trustee, the Registrar, and the Paying Agents under each Indenture and any depository of moneys and securities held under the Indenture, or any or all of them, as may be appropriate.

“5307 Grant Receipts” means all amounts received by the Authority from its share of FTA Section 5307 (49 United States Code Section 5307) Urbanized Area Formula funds.

“5307 Indenture” means the 5307 Master Indenture, as supplemented by the First Supplemental Indenture and the Second Supplemental Indenture, and as from time to time supplemented and amended.

“5307 Master Indenture” means the Trust Indenture dated as of November 1, 2004, between the Authority and Amalgamated Bank of Chicago, Chicago, Illinois, as trustee.

“5307 Trustee” means Amalgamated Bank of Chicago, Chicago, Illinois, and any successor or successors appointed under the 5307 Indenture.

“5309 Grant Receipts” means all amounts received by the Authority from its share of FTA Section 5309 (49 United States Code Section 5309) Fixed Guideway Modernization Formula funds.

“5309 Indenture” means the Trust Indenture dated as of April 1, 2008, between the Authority and Amalgamated Bank of Chicago, Chicago, Illinois, as trustee, and as from time to time supplemented and amended.

“5309 Trustee” means Amalgamated Bank of Chicago, Chicago, Illinois, and any successor or successors appointed under the 5309 Indenture.

“First Supplemental Indenture” means the First Supplemental Indenture dated as of November 1, 2006, between the Authority and the 5307 Trustee, supplementing the 5307 Master Indenture.

“Fiscal Year” means the period January 1 through December 31 of the same year.

“*FTA*” means the Federal Transit Administration of the United States Department of Transportation of the United States of America.

“*General Fund*” means the General Fund established under each Indenture.

“*Government Obligations*” means any direct obligations of the United States of America and any obligations guaranteed as to the timely payment of principal and interest by the United States of America or any agency or instrumentality of the United States of America, when such obligations are backed by the full faith and credit of the United States of America.

“*Grant Receipts*” means with respect to the 5307 Indenture, the 5307 Grant Receipts and with respect the 5309 Indenture the 5309 Grant Receipts and, when referring to both Indentures, the 5307 Grant Receipts and the 5309 Grant Receipts, collectively.

“*Grant Receipts Deposit Fund*” means the Grant Receipts Deposit Fund established under each Indenture.

“*Indenture*” or “*Indentures*” means, individually, the 5307 Indenture or the 5309 Indenture, as applicable, and, collectively, the 5307 Indenture and the 5309 Indenture, in each case as from time to time amended and supplemented. References to the “*Indenture*” under “*Summary of Certain Provisions of the 5307 Indenture*” means the 5307 Indenture and references to the “*Indenture*” under “*Summary of Certain Provisions of the 5309 Indenture*” means the 5309 Indenture.

“*Insured Bond*” means any Bond with respect to which the payment of principal and interest is guaranteed under a Bond Insurance Policy.

“*Interest Account*” means the account of that name in the Debt Service Fund established under each Indenture.

“*Interest Commencement Date*” means, with respect to any Capital Appreciation and Income Bond, the date specified in the Supplemental Indenture authorizing the issuance of such Bond (which date must be prior to the maturity date for such Capital Appreciation and Income Bond) after which interest accruing on such Capital Appreciation and Income Bond shall be payable periodically, with the first such payment date being the applicable Interest Payment Date immediately succeeding such Interest Commencement Date.

“*Interest Payment Date*” means any Payment Date on which interest on any Parity Obligation is payable.

“*Interest Period*” means the period from the date of any Parity Obligation to and including the day immediately preceding the first Interest Payment Date and thereafter shall mean each period from and including an Interest Payment Date to and including the day immediately preceding the next Interest Payment Date.

“*Interest Requirement*” for any Bond Year or any Interest Period, as the context may require, as applied to Bonds of any Series then Outstanding and each Section 207 Obligation then Outstanding, means the total of the sums that would be deemed to accrue on

such Bonds or Section 207 Obligations during such Bond Year or Interest Period if the interest on the Bonds or Section 207 Obligations were deemed to accrue daily during such Bond Year or Interest Period in equal amounts, and employing the methods of calculation set forth (i) in the Indenture as described in this Appendix A under the headings “**Summary of Certain Provisions of the 5307 Indenture - Variable Interest Rates**” and “**Summary of Certain Provisions of the 5309 Indenture - Variable Interest Rates**” and “**Summary of Certain Provisions of the 5307 Indenture - Hedging Transactions**” and “**Summary of Certain Provisions of the 5309 Indenture - Hedging Transactions**” in the case of a Qualified Swap Agreement and (ii) as described in this Appendix A under the headings “**Summary of Certain Provisions of the 5307 Indenture - Variable Interest Rates**” and “**Summary of Certain Provisions of the 5309 Indenture - Variable Interest Rates**” and “**Summary of Certain Provisions of the 5307 Indenture - Optional Tender Bonds and Variable Rate Bonds**” and “**Summary of Certain Provisions of the 5309 Indenture - Optional Tender Bonds and Variable Rate Bonds**” in the cases of Optional Tender Bonds and Variable Rate Bonds; *provided, however*, that interest expense shall be excluded from the determination of Interest Requirement to the extent that such interest is to be paid from the proceeds of Bonds allocable to the payment of such interest as provided in the Indenture or a Supplemental Indenture or other available moneys or from investment (but not reinvestment) earnings thereon if such proceeds shall have been invested in Investment Securities and to the extent such earnings may be determined precisely. Unless the Authority shall otherwise provide in a Supplemental Indenture, interest expense on Credit Facilities drawn upon to purchase but not to retire Bonds, except to the extent such interest exceeds the interest otherwise payable on such Bonds, shall not be included in the determination of Interest Requirement.

“*Investment Securities*” means any of the following securities or investments authorized by law as permitted investments of Authority funds at the time of purchase thereof:

(i) Government Obligations;

(ii) obligations of any of the following federal agencies, which obligations are fully guaranteed by the full faith and credit of the United States of America:

Export-Import Bank
Rural Economic Community Development Administration
U.S. Maritime Administration
Small Business Administration
U.S. Department of Housing & Urban Development (PHAs)
Federal Housing Administration
Federal Financing Bank

(iii) 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 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 Bond Insurer

(iv) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's Investors Service and "A-1" by Standard & Poor's and maturing not more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);

(v) commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's Investors Service and "A-1+" by Standard & Poor's and which matures not more than 270 calendar days after the date of purchase;

(vi) investments in a money market fund rated "AAAm" or "AAAm-G" or better by Standard & Poor's and rated "Aaa" by Moody's Investors Service;

(vii) 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 Moody's Investors Service and Standard & Poor's or any successors thereto; or (B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or Defeasance Obligations, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (vii) on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(viii) municipal obligations rated "Aaa/AAA" or general obligations of states with a rating of "A2/A" or higher by both Moody's Investors Service and Standard & Poor's;

(ix) investment agreements approved in writing by each Bond Insurer (supported by appropriate opinions of counsel); and

(x) other forms of investments (including repurchase agreements) approved in writing by each Bond Insurer.

"Maximum Annual Debt Service Requirement" means, as of any date of calculation, the largest Annual Debt Service Requirement occurring in the then current and any succeeding Bond Year.

“*Optional Tender Bonds*” means any Bonds with respect to which the Owners thereof have the option to tender to the Authority, to any Fiduciary or to any agent thereof, all or a portion of such Bonds for payment or purchase.

“*Outstanding*,” when used with reference to Parity Obligations, means, as of any date, all Bonds theretofore or thereupon being authenticated and delivered under the applicable Indenture, all Section 206 Obligations incurred under Qualified Swap Agreements and all Section 207 Obligations incurred under Credit Facilities except:

(i) Any Parity Obligations canceled by the Trustee or the Person entitled to payment of any Section 206 Obligation or Section 207 Obligation, as the case may be, at or prior to such date or theretofore delivered to the Trustee or the Authority, as the case may be, for cancellation;

(ii) Parity Obligations (or portions of Parity Obligations) for the payment or redemption of which moneys and/or Defeasance Obligations, equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or date fixed for redemption, are held in trust under the applicable Indenture and set aside for such payment or redemption (whether at or prior to the maturity or redemption date), provided that if such Parity Obligations (or portions of Parity Obligations) are to be redeemed, notice of such redemption shall have been given as provided in the applicable Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice;

(iii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to the applicable Indenture as a result of transfer, exchange or redemption or in replacement of Bonds mutilated, destroyed, stolen or lost;

(iv) Parity Obligations deemed to have been paid as a result of defeasance in accordance with the applicable Indenture; and

(v) Optional Tender Bonds deemed to have been purchased in accordance with the provisions of the Supplemental Indenture authorizing their issuance in lieu of which other Bonds have been authenticated and delivered under such Supplemental Indenture.

“*Owner*” means any person who shall be the registered owner of any Bond or Bonds.

“*Parity Obligation*” means any Bond, any Section 206 Obligation and any Section 207 Obligation.

“*Paying Agent*” means with respect to any Bonds, any bank, national banking association or trust company designated by ordinance of the Board or by an Authorized Officer as paying agent for the Bonds of any Series, and any successor or successors appointed by an Authorized Officer under the Indenture and with respect to a Qualified Swap Agreement, the Swap Provider.

“*Payment Date*” means any date on which the principal of (including any Sinking Fund Installment) or interest on any Series of Bonds is payable in accordance with its terms and the terms of the Indenture or the Supplemental Indenture creating such Series or, in the case of Section 207 Obligations or amounts that are payable under any Qualified Swap Agreement, in accordance with the terms of the instrument creating such Section 207 Obligation or such Qualified Swap Agreement.

“*Person*” means and includes an association, unincorporated organization, a corporation, a partnership, a limited liability corporation, a joint venture, a business trust, or a government or an agency or a political subdivision thereof, or any other public or private entity, or a natural person.

“*Principal*” or “*principal*” means (i) with respect to any Capital Appreciation Bond, the Accreted Amount thereof (the difference between the stated amount to be paid at maturity and the Accreted Amount being deemed unearned interest) except as used in the Indenture in connection with the authorization and issuance of Bonds and with the order of priority of payments of Bonds after an event of default, in which case “*principal*” means the initial public offering price of a Capital Appreciation Bond (the difference between the Accreted Amount and the initial public offering price being deemed interest) but when used in connection with determining whether the Owners of the requisite principal amount of Bonds then Outstanding have given any request, demand, authorization, direction, notice, consent or waiver or with respect to the Redemption Price of any Capital Appreciation Bond, “*principal amount*” means the Accreted Amount (ii) with respect to the principal amount of any Current Interest Bond, the principal amount of such Bond payable in satisfaction of a Sinking Fund Installment, if applicable, or at maturity or (iii) with respect to a Section 207 Obligation, the principal amount payable on each repayment date.

“*Principal Account*” means the account of that name in the Debt Service Fund established under each Indenture.

“*Principal Payment Date*” means any Payment Date upon which the principal of any Parity Obligation is stated to mature or upon which the principal of any Term Bond is subject to redemption in satisfaction of a Sinking Fund Installment.

“*Principal Requirement*” for any Bond Year, as applied to the Bonds of any Series or any Section 207 Obligation, means, the last day of the Bond Year (the “Applicable Principal Payment Date”) an amount calculated beginning

(i) on the preceding Principal Payment Date, if any, that occurs one year or less before each Applicable Principal Payment Date, or

(ii) one year prior to each Applicable Principal Payment Date if there is no prior Principal Payment Date or if the preceding Principal Payment Date is more than one year prior to the Applicable Principal Payment Date;

which amount shall equal the sums that would be deemed to accrue on such Bonds or Section 207 Obligations during such Bond Year of

(i) the principal of the Current Interest Bonds of such Series or Section 207 Obligations scheduled to mature or have a required Sinking Fund Installment on or prior to the Applicable Principal Payment Date, and

(ii) the Accreted Amount of the Capital Appreciation Bonds of such Series, scheduled to become due or have a required Sinking Fund Installment on or prior to the Applicable Principal Payment Date,

determined by employing the methods of calculation set forth in the Indenture and summarized in this Appendix A under the heading “**Summary of Certain Provisions of the 5307 Indenture - Optional Tender Bonds and Variable Rate Bonds**” and “**Summary of Certain Provisions of the 5309 Indenture - Optional Tender Bonds and Variable Rate Bonds**” in the cases of Optional Tender Bonds and Variable Rate Bonds, were each deemed to accrue daily during such year in equal amounts to but not including the Applicable Principal Payment Date; *provided, however*, that an amount of principal shall be excluded from the determination of Principal Requirement to the extent that such amount is to be paid from the proceeds of Bonds allocable to the payment of such principal as provided in the Supplemental Indenture authorizing the issuance of such Bonds or other available moneys or from the investment (but not reinvestment) earnings thereon if such proceeds or other moneys shall have been invested in Investment Securities and to the extent such earnings may be determined precisely.

“*Project Account*” means any project account within the Construction Fund established under each of the Indentures, including the accounts established in connection with the issuance of the 2008 Bonds designated as the 2008A Project Account with respect to the 5307 Indenture and the 2008 Project Account with respect to the 5309 Indenture, and any additional project account established in connection with the issuance of a Series of Additional Bonds.

“*Purchase Price*” means the purchase price established in any Supplemental Indenture authorizing Optional Tender Bonds as the purchase price to be paid for such Bonds upon an optional or mandatory tender of all or a portion of such Bonds.

“*Qualified Swap Agreement*” means an agreement between the Authority and a Swap Provider under which the Authority agrees to pay the Swap Provider an amount calculated at an agreed-upon rate and/or index based upon a notional amount and the Swap Provider agrees to pay the Authority or the Authority agrees to pay the Swap Provider for a specified period of time an amount calculated at an agreed-upon rate or index based upon such notional amount, where (a) each Rating Service (if such Rating Service also rates the unsecured obligations of the Swap Provider or its guarantor) has assigned to the unsecured obligations of the Swap Provider, or of the person who guarantees the obligation of the Swap Provider to make its payments to the Authority, as of the date the swap agreement is entered into, a rating that is equal to or higher than “A” and (b) the Authority has notified each Rating Service (whether or not such Rating Service also rates the unsecured obligations of the Swap Provider or its guarantor) in writing at least 15 days prior to executing and delivering the swap agreement of its intention to enter into the swap agreement.

“*Rating Services*” means each and every one of the nationally recognized rating services that shall have assigned ratings to any Bonds Outstanding as requested by or on behalf of the Authority, and which ratings are then currently in effect.

“*Rebate Fund*” means the Rebate Fund established under each of the Indentures.

“*Redemption Price*” means, with respect to any Bond, the Principal thereof plus the applicable premium, if any, payable upon the date fixed for redemption.

“*Refunding Bonds*” means Bonds issued pursuant to the provisions of the Indenture summarized under the heading “**Summary of Certain Provisions of the 5307 Indenture - Refunding Bonds**” and “**Summary of Certain Provisions of the 5309 Indenture - Refunding Bonds**” in this Appendix A.

“*Registrar*” means any bank, national banking association or trust company appointed by an Authorized Officer under the Indenture and designated as registrar for the Bonds of any Series, and its successor or successors.

“*RTA*” means the Regional Transportation Authority, a political subdivision of the State of Illinois organized and existing under the Regional Transportation Authority Act, 70 Illinois Compiled Statutes 3615.

“*Section 207 Obligations*” means any obligations incurred by the Authority to reimburse the issuer or issuers of one or more Credit Facilities securing one or more Series of Bonds as described in the provisions of Section 207 of each Indenture summarized under the heading “**Summary of Certain Provisions of the 5307 Indenture – Credit Facilities to Secure Bonds; Section 207 Obligations**” and “**Summary of Certain Provisions of the 5309 Indenture – Credit Facilities to Secure Bonds; Section 207 Obligations**” in this Appendix A, including any fees or other amounts payable to the issuer of any such Credit Facilities, whether such obligations are set forth in one or more reimbursement agreements entered into between the Authority and the Credit Bank, or in one or more notes or other evidences of indebtedness executed and delivered by the Authority pursuant thereto, or any combination thereof.

“*Second Supplemental Indenture*” means the Second Supplemental Indenture dated as of April 1, 2008, between the Authority and the 5307 Trustee, supplementing the 5307 Master Indenture.

“*Section 206 Obligations*” means any payment obligations incurred by the Authority to any one or more Swap Providers pursuant to the provisions of the Indenture summarized in the first paragraph under the heading “**Summary of Certain Provisions of the 5307 Indenture – Hedging Transactions**” and “**Summary of Certain Provisions of the 5309 Indenture – Hedging Transactions**” in this Appendix A.

“*Serial Bonds*” means the Bonds of a Series which shall be stated to mature in annual installments.

“*Series*” means all of the Bonds designated as a series and authenticated and delivered on original issuance in a simultaneous transaction, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Indenture.

“*Series 2004A Bonds*” means the \$150,000,000 original principal amount of the Capital Grant Receipts Revenue Bonds, Series 2004A (Federal Transit Administration Section 5307 Formula Funds), of the Authority authorized by the Indenture.

“*Series 2004B Bonds*” means the \$100,000,000 original principal amount of Capital Grant Receipts Revenue Bonds, Series 2004B (Federal Transit Administration Section 5307 Formula Funds), of the Authority authorized by the Indenture.

“*Sinking Fund Installment*” means with respect to any Series of Additional Bonds or Refunding Bonds, each principal amount of Bonds scheduled to be redeemed through sinking fund redemption provisions by the application of amounts on deposit in the Principal Account, established pursuant to the Indenture.

“*SLG’s*” means United States Treasury Certificates of Indebtedness, Notes and Bonds State and Local Government Series.

“*Subordinated Indebtedness*” means indebtedness permitted to be issued or incurred pursuant to the Indenture. See “**Summary of Certain Provisions of the 5307 Indenture – Subordinated Indebtedness**” and “**Summary of Certain Provisions of the 5309 Indenture – Subordinated Indebtedness**”

“*Subordinated Indebtedness Account*” means any subordinate indebtedness account established within the General Fund pursuant to a Supplemental Indenture.

“*Supplemental Indenture*” means any Supplemental Indenture authorized pursuant to the Indenture.

“*Swap Provider*” means any counterparty with whom the Authority enters into a Qualified Swap Agreement.

“*Term Bonds*” means the Bonds of a Series other than Serial Bonds which shall be stated to mature on one or more dates through the payment of Sinking Fund Installments.

“*Transportation System*” means the Transportation System of the Authority, as defined in the Act.

“*Trust Estate*” means, with respect to each Indenture, the Grant Receipts and all other property pledged to the Trustee pursuant therefore.

“*Trustee*” means, with respect to the 5307 Indenture, the 5307 Trustee and with respect to the 5309 Indenture, the 5309 Trustee, as applicable.

“*2004 Bonds*” means the Series 2004A Bonds and the Series 2004B Bonds.

“2008 Bonds” means the 2008A 5307 Bonds together with the 2008 5309 Bonds.

“2008A 5307 Bonds” means the \$100,000,000 original principal amount of Capital Grant Receipts Revenue Bonds, Series 2008A (Federal Transit Administration Section 5307 Urbanized Area Formula Funds), of the Authority authorized by the 2008 Bond Ordinance and the 5307 Indenture.

“2008A Capitalized Interest Account” means the account of that name in the Construction Fund established under the 5307 Indenture.

“2008A Project Account” means the account by that name in the Construction Fund established under the 5307 Indenture.

“2008 5309 Bonds” means the \$150,000,000 original principal amount of Capital Grant Receipts Revenue Bonds, Series 2008 (Federal Transit Administration Section 5309 Fixed Guideway Modernization Formula Funds), of the Authority authorized by the 2008 Bond Ordinance and the 5309 Indenture.

“2008 Bond Ordinance” means the ordinance adopted by the Board on March 12, 2008.

“2008 Bond Insurer” means Assured Guaranty Corp.

“2008 Bond Insurance Policy” or “2008 Bond Insurance Policies” means, individually, (i) with respect to the 5307 Indenture, the financial guaranty insurance policy issued by the 2008 Bond Insurer insuring the payment of the principal of and interest on the 2008A 5307 Bonds and (ii) with respect to the 5309 Indenture, the financial guaranty insurance policy issued by the 2008 Bond Insurer insuring the payment of the principal of and interest on the 2008 5309 Bonds, and collectively, the policies described in (i) and (ii) above.

“2008 Capitalized Interest Account” means the account of that name in the Construction Fund established under the 5309 Indenture.

“2008 Project” means capital improvements to the Transportation System described under “THE 2008 PROJECT,” each constituting an Eligible Project, and such additional Eligible Projects as may hereinafter be designated as part of the 2008 Project pursuant to a certificate of the Authority.

“2008 Project Account” means the account by that name in the Construction Fund established under the 5309 Indenture.

“Variable Rate Bonds” means any Bonds the interest rate on which is not established at the time of issuance thereof at a single numerical rate for the entire term thereof.

“Variable Rate Stabilization Account” means the account by that name in the Debt Service Fund.

“Variable Rate Stabilization Account Requirement” means, as of any date of computation, the higher of (1) the amount determined by the Authority in a certificate of an Authorized Officer filed with the Trustee or (2) an amount equal to 3.5 percent of the sum of (a) the principal amount of all Outstanding Variable Rate Bonds, exclusive of (i) the principal amount of Outstanding Variable Rate Bonds that bear interest at a fixed rate to maturity and (ii) the principal amount of Outstanding Variable Rate Bonds with respect to which the Authority has entered into a Qualified Swap Agreement which, as of such date of computation and for at least the period of one year following such date of computation, requires the Authority to pay a fixed interest rate, and (b) the notional amount of all Qualified Swap Agreements, relating to Bonds that are not Variable Rate Bonds, that as of such date require the Authority to pay interest based upon a variable interest rate or to make swap payments based upon a variable rate index.

SUMMARY OF CERTAIN PROVISIONS OF THE 5307 INDENTURE

The following summary sets for certain provisions of the 5307 Indenture. The defined terms contained herein are to be read solely in reference to the 5307 Indenture. This summary is provided for the convenience of the reader and does not purport to be comprehensive or definitive. Reference is made to the 5307 Indenture for a complete statement of the provisions thereof.

Pledge Effected by the Indenture; Limited Obligations

Pursuant to the Indenture, (i) the 5307 Grant Receipts, (ii) amounts on deposit in all Funds, Accounts and Sub-Accounts established under the Indenture (except the Rebate Fund), subject, however, to the right of the Authority to make periodic withdrawals from the Grant Receipts Deposit Fund as permitted under the provisions of the Indenture summarized in this Appendix A under the heading “**Summary of Certain Provisions of the 5307 Indenture – Covenants of the Authority - FTA Funds**” below and from the General Fund as permitted under the provisions of the Indenture summarized in this Appendix A under the heading “**Summary of Certain Provisions of the 5307 Indenture - General Fund**” below, and (iii) any and all other moneys and securities furnished from time to time to the Trustee by the Authority or on behalf of the Authority or by any other persons to be held by the Trustee under the terms of the Indenture are pledged for the payment of the principal and Redemption Price of, and interest on, the Bonds and the payment of Section 206 Obligations and Section 207 Obligations and a lien is granted for such purpose, subject only to the provisions of the Indenture permitting or requiring the application thereof for the purposes and on the terms and conditions set forth in the Indenture, *provided*, that the application of moneys to the payments due to a Swap Provider under a Qualified Swap Agreement is expressly limited to the extent provided in the Indenture.

Pursuant to Section 13 of the Local Government Debt Reform Act, 30 Illinois Compiled Statutes 350/13, the 5307 Grant Receipts and the other moneys and securities pledged by the Indenture shall immediately be subject to the lien and pledge thereof without any physical delivery or further act, and the lien and pledge thereof shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Authority, irrespective of whether such parties have notice thereof.

The Parity Obligations are limited obligations of the Authority payable solely from the 5307 Grant Receipts pledged for their payment in accordance with the Indenture. The Parity Obligations are not, and shall not be or become, an indebtedness or obligation of the State of Illinois, the Regional Transportation Authority or any political subdivision of the State (other than the Authority) or of any municipality within the State nor shall any Parity Obligation be or become an indebtedness of the Authority within the purview of any constitutional limitation or provision.

No lien upon any physical properties of the Authority is created by the Indenture.

Variable Interest Rates

In determining the Interest Requirement for the purpose of determining Annual Debt Service Requirements and the Maximum Annual Debt Service Requirement under the provisions of the Indenture as summarized under the headings “**Summary of Certain Provisions of the 5307 Indenture - Additional Bonds for Construction Purposes**” and “**Summary of Certain Provisions of the 5307 Indenture - Refunding Bonds**” below and for the purpose of determining the amount to be deposited into the Interest Account pursuant to the Indenture, as summarized under the heading “**Summary of Certain Provisions of the 5307 Indenture - Deposit and Application of 5307 Grant Receipts**” below, interest on variable rate indebtedness, including Variable Rate Bonds and variable rate interest payments for Section 207 Obligations or under Qualified Swap Agreements, shall be calculated at the lower of (1) the maximum rate of interest permitted for such variable rate indebtedness under the terms of the Variable Rate Bonds, Section 207 Obligations or the Qualified Swap Agreement and (2) the highest rate of (a) the actual rate on the date of calculation or if the indebtedness is not yet outstanding, the initial rate (if established and binding), (b) if the indebtedness has been outstanding for at least 12 months, the average rate over the 12 months immediately preceding the date of calculation, (c) if interest on the indebtedness is excludable from gross income under the applicable provisions of the Code, the average rate over the 12 months immediately preceding the date of calculation of the Bond Market Association Municipal Swap Index, (d) if interest is not so excludable, the interest rate on Government Obligations with comparable maturities plus fifty basis points, and (e) the interest rate set forth in a certificate of an Authorized Officer filed with the Trustee.

Optional Tender Bonds and Variable Rate Bonds

If any of the Outstanding Bonds constitute Optional Tender Bonds, then in determining the Interest Requirement and the Principal Requirement of a Series of Bonds, the options of the Owners of such Bonds to tender the same for payment prior to their stated Principal Payment Date shall be ignored. If any of the Bonds constitute Variable Rate Bonds, the interest rate used in determining the Interest Requirement for such Variable Rate Bonds shall be the interest rate determined pursuant to the provisions of the Indenture, as summarized under the heading “**Summary of Certain Provisions of the 5307 Indenture - Variable Interest Rates**” above, or, if and so long as a Qualified Swap Agreement is in effect that provides for a fixed interest rate, the interest rate determined pursuant to the provisions of the Indenture, as summarized under the heading “**Summary of Certain Provisions of the 5307 Indenture - Hedging Transactions.**” The conversion of Variable Rate Bonds to bear interest at a different variable rate or a fixed rate or rates, in accordance with their terms, shall not constitute a new issuance of Bonds under the provisions of the Indenture, as summarized under the headings “**Summary of Certain Provisions of the 5307 Indenture - Additional Bonds for Construction Purposes**” and “**Summary of Certain Provisions of the 5307 Indenture - Refunding Bonds.**” In determining the Interest Requirement or the Principal Requirement of any Section 207 Obligation, such Section 207 Obligation shall be deemed to be Outstanding only to the extent that, on the date of computation, there are unpaid drawings or advances under the terms of the Credit Facility that created the Section 207 Obligation.

Funds and Accounts

The Authority under the Indenture establishes the Grant Receipts Deposit Fund, which shall be a special fund of the Authority held by the Authority as part of the Trust Estate, and the Construction Fund, the General Fund and the Debt Service Fund, each of which is a special fund of the Authority held in trust by the Trustee as part of the Trust Estate. Subject to use and application in accordance with the Indenture, all of the moneys and securities held in the Grant Receipts Deposit Fund, the Construction Fund, the Debt Service Fund and the General Fund are pledged as security for the payment of the principal of, redemption premium, if any, and interest on, the Parity Obligations and is subject to the lien of the Indenture. The Authority also establishes under the Indenture a Rebate Fund, which is not pledged to payment of the Bonds. The Interest Account, the Principal Account and the Variable Rate Stabilization Account are established as special accounts within the Debt Service Fund and the 2008A Project Account and the 2008A Capitalized Interest Account are established as special accounts within the Construction Fund.

The Trustee is required to make payment of the Cost of Construction of the 2008 Project from the 2008A Project Account as provided in the Indenture and, with respect to the payment of interest on the 2008A 5307 Bonds capitalized from the proceeds of the 2008A 5307 Bonds, from the 2008A Capitalized Interest Account as provided in the Indenture. The Trustee shall withdraw from the appropriate Project Account in the Construction Fund and deposit into the Rebate Fund the amount specified by the Authority. The Trustee shall also withdraw moneys from the appropriate Project Account in the Construction Fund to pay costs of issuance of the Bonds in accordance with the directions of the Authority. All other payments from the Construction Fund shall be subject to the provisions and restrictions set forth in the Indenture.

Deposit and Application of 5307 Grant Receipts

All 5307 Grant Receipts received by the Authority shall be deposited promptly into the Grant Receipts Deposit Fund. On the first Business Day of each Bond Year, and (if required) on any subsequent Business Day during the Bond Year the Authority shall withdraw from the Grant Receipts Deposit Fund and pay over to the Trustee an amount sufficient to enable the Trustee to make payments into the following several Funds and Accounts, but as to each such Fund or Account only within the limitation indicated below with respect thereto and only after maximum payment within such limitation into every such Fund or Account previously mentioned in the following tabulation:

FIRST: Into the Interest Account, to the extent, if any, necessary to increase the amount in the Interest Account so that it equals the sum of the Interest Requirements for all Outstanding Bonds and Section 207 Obligations for each remaining Interest Period that ends in the current Bond Year.

SECOND: Into the Principal Account, to the extent, if any, needed to increase the amount in the Principal Account so that it equals the Principal Requirements for all Outstanding Bonds and Section 207 Obligations for the current Bond Year.

THIRD: Into the Variable Rate Stabilization Account, to the extent, if any, needed to increase the amount in the Variable Rate Stabilization Account to the Variable Rate Stabilization Account Requirement.

FOURTH: Into the Rebate Fund, the amount specified in the certificate of an Authorized Officer filed with the Trustee pursuant to the Indenture.

FIFTH: Into the General Fund, the amount specified in a certificate of an Authorized Officer filed with the Trustee.

Debt Service Fund

The Trustee shall pay to the respective Paying Agents or to any Swap Provider, as applicable, in Current Funds (i) out of the capitalized interest account established for the 2004 Bonds on or before each Interest Payment Date set forth in the Indenture, the applicable amount set forth therein; (ii) out of any capitalized interest account established with respect to any other Series of Bonds, including the 2008A Bonds, on or before each Interest Payment Date specified in the Supplemental Indenture authorizing such Series, the applicable amount set forth in such Supplemental Indenture; (iii) out of the Interest Account on or before each Interest Payment Date or redemption date, as applicable, for any of the Outstanding Bonds and Section 207 Obligations, the amount required for the interest payable on such date (including net payments required to be made by the Authority to a Swap Provider under a Qualified Swap Agreement) and not provided for pursuant to clause (i) or clause (ii) above; (iv) out of the Variable Rate Stabilization Account on or before each Interest Payment Date or redemption date, as applicable, for any of the Outstanding Bonds and Section 207 Obligations, the amount required for the interest payable on such date (including net payments required to be made by the Authority to a Swap Provider under a Qualified Swap Agreement) and not provided for pursuant to clause (i), clause (ii) or clause (iii) above; (v) out of the Principal Account on or before each Principal Payment Date, an amount equal to the principal amount of the Outstanding Bonds and Section 207 Obligations, if any, which mature on such date; and (vi) out of the Principal Account on or before each Principal Payment Date occasioned by redemption of Outstanding Bonds from Sinking Fund Installments, the amount required for the payment of the Redemption Price of such Outstanding Bonds then to be redeemed. Such amounts shall be paid to the Owners of the Outstanding Bonds by the Paying Agents for the aforesaid purposes on the due dates thereof. The Trustee shall also pay out of the Interest Account (or from the Variable Rate Stabilization Account to the extent that the amount then held in the Interest Account is not sufficient to make such payment) the accrued interest included in the purchase price of Outstanding Bonds purchased for retirement.

Amounts in the Principal Account available for the payment of Sinking Fund Installments shall be applied to the purchase or redemption of Bonds as provided below.

(1) Amounts deposited to the credit of the Principal Account to be used in satisfaction of any Sinking Fund Installment may, and if so directed by the Authority shall, be applied by the Trustee, on or prior to the forty-fifth day next preceding the next Principal Payment Date on which a Sinking Fund Installment is due, to the purchase of

Outstanding Bonds of the Series and maturity for which such Sinking Fund Installment was established. That portion of the purchase price attributable to accrued interest shall be paid from the Interest Account (or from the Variable Rate Stabilization Account to the extent that the amount then held in the Interest Account is not sufficient to make such payment). All such purchases of Outstanding Bonds shall be made at prices not exceeding the applicable sinking fund Redemption Price of such Bonds plus accrued interest, and such purchases shall be made in such manner as the Authority shall determine. The principal amount of any Bonds so purchased shall be deemed to constitute part of the Principal Account until the Principal Payment Date on which such Sinking Fund Installment is due, for the purpose of calculating the amount on deposit in such Account.

(2) At any time up to the forty-fifth day next preceding the next Principal Payment Date on which a Sinking Fund Installment is due, the Authority may purchase with any available funds Outstanding Bonds for which such Sinking Fund Installment was established and surrender such Bonds to the Trustee at any time up to said date.

(3) After giving effect to the Outstanding Bonds purchased by the Trustee and Outstanding Bonds surrendered by the Authority as described in paragraphs (1) and (2) above, which shall be credited against the Sinking Fund Installment at the applicable sinking fund Redemption Price thereof, and as soon as practicable after the forty-fifth day next preceding the next Principal Payment Date on which a Sinking Fund Installment is due, the Trustee shall proceed to call for redemption on such Principal Payment Date Outstanding Bonds of the Series and maturity for which such Sinking Fund Installment was established in such amount as shall be necessary to complete the retirement of the unsatisfied portion of such Sinking Fund Installment. The Trustee shall pay out of the Principal Account to the appropriate Paying Agents, on or before the day preceding such redemption date, the Redemption Price required for the redemption of the Outstanding Bonds so called for redemption, and such amount shall be applied by such Paying Agents to such redemption.

(4) If the principal amount of Outstanding Bonds retired through application of amounts in satisfaction of any Sinking Fund Installment shall exceed such Sinking Fund Installment, or in the event of the purchase or redemption from moneys other than from the Principal Account of Outstanding Bonds of any Series and maturity for which Sinking Fund Installments have been established, such excess or the principal amount of Outstanding Bonds so purchased or redeemed, as the case may be, shall be credited toward future scheduled Sinking Fund Installments either (i) in the order of their due dates or (ii) in such order as the Authority establishes in a certificate delivered to the Trustee not more than 45 days after the payment in excess of such Sinking Fund Installment.

Moneys held in the Accounts of the Debt Service Fund shall be invested as provided in the Indenture. See “**Summary of Certain Provisions of the 5307 Indenture - Investment of Certain Moneys**” below in this Appendix A. Investment income earned as a result of such investment shall be retained in said Accounts.

The amount, if any, deposited in the Interest Account from the proceeds of Bonds shall be set aside in such Account and applied to the payment of the interest on the Bonds with respect to which such proceeds were deposited in accordance with the provisions of the Supplemental Indenture authorizing the issuance of such Bonds.

If on any date, the amount held in the Variable Rate Stabilization Account exceeds the Variable Rate Stabilization Account Requirement, the Trustee, at the direction of the Authority, is required to transfer such excess to the General Fund.

General Fund

The Authority may establish within the General Fund one or more Debt Service Reserve Accounts for the purpose of providing additional security for the payment of one or more Series of Bonds. The Authority may provide for the application of moneys in the General Fund to maintain such Debt Service Reserve Account and for the use of moneys held in such Debt Service Reserve Account.

The Authority may establish one or more Subordinated Indebtedness Accounts within the General Fund for the purpose of securing the payment of Subordinated Indebtedness; *provided, however*, that in no event shall the administration of any such Account limit the application of moneys in the General Fund (including any Account therein) for the payment of interest or Principal due on Outstanding Bonds and Section 207 Obligations (or any other net amounts payable by the Authority from the Interest Account to a Swap Provider under a Qualified Swap Agreement).

If on any Interest Payment Date or Principal Payment Date the aggregate amount to the credit of the Debt Service Fund is less than the amount required to pay interest or Principal due on the Outstanding Bonds and Section 207 Obligations (and any other net amounts payable by the Authority from the Interest Account to a Swap Provider under a Qualified Swap Agreement), the Trustee is required to apply amounts from the General Fund (including any amount then held in a Debt Service Reserve Account or a Subordinated Indebtedness Account) to the extent necessary to cure such deficiency, in the following order of priority: first, to the credit of the Interest Account and then to the credit of the Principal Account; provided, however, that any withdrawal from a Debt Service Reserve Account shall be limited by the terms and conditions governing withdrawals from such Account.

Subject to any provisions limiting withdrawals from Debt Service Reserve Accounts and Subordinated Indebtedness Accounts, at the direction of the Authority, moneys held in the General Fund may be withdrawn from the General Fund and (i) transferred to any other Fund, Account or Sub-Account maintained under the Indenture or any Supplemental Indenture; (ii) used to purchase, pay, redeem or defease Outstanding Bonds; or (iii) used for any other purpose permitted by the Indenture.

Subject to the following paragraph, moneys in the General Fund shall be withdrawn promptly by the Trustee and paid over to the Authority free from the lien of the Indenture.

Any withdrawal of amounts held in a Debt Service Reserve Account or a Subordinated Indebtedness Account pursuant to the above paragraph shall be limited by the terms of administration of such Account. No withdrawal from the General Fund pursuant to the above paragraph shall be made unless, at the time of such withdrawal, (i) no deficiency exists with respect to the required deposits to the Interest Account and the Principal Account pursuant to the provisions of the Indenture summarized under the heading “**Summary of Certain Provisions of the 5307 Indenture - Deposit and Application of 5307 Grant Receipts**” above; (ii) the sum then held in the Variable Rate Stabilization Account shall be not less than the Variable Rate Stabilization Account Requirement and (iii) no Event of Default shall have occurred and remain unremedied.

Investment of Certain Moneys

Moneys held in the Debt Service Fund and its Accounts, the General Fund and its Accounts, the Rebate Fund and the Construction Fund and its Accounts shall be invested and reinvested by the Trustee at the oral direction of the Authority to the fullest extent practicable in Investment Securities which mature no later than necessary to provide moneys when needed for payments to be made from such Funds or Accounts. In the event that no such directions are received by the Trustee, such amounts shall be invested in money market funds described in subparagraph (vi) of the definition of Investment Securities, pending receipt of investment directions. The Trustee may make any and all such investments through its own investment department or that of its affiliates or subsidiaries. Moneys held in any separate, segregated account of the Construction Fund held by the Authority in any depository of moneys and securities held under the Indenture may be invested and reinvested by the Authority in Investment Securities which mature no later than necessary to provide moneys when needed for payments to be made from such accounts.

Investment Securities in any Fund, Account or Sub-Account created under the provisions of the Indenture shall be deemed at all times to be part of such Fund, Account or Sub-Account and any profit realized from the liquidation of such investment shall be credited to such Fund, Account or Sub-Account and any loss resulting from liquidation of such investment shall be charged to such Fund, Account or Sub-Account.

Valuations of Investment Securities held in the Funds, Accounts and Sub-Accounts established under the Indenture shall be made by the Trustee as often as may be necessary to determine the amounts held therein, except that valuations of Government Obligations held in the Debt Service Fund and its Accounts shall be made at least once each year on such dates as shall be determined by the Trustee.

The value of Investment Securities shall mean the fair market value thereof, *provided, however*, that all SLG’s shall be valued at par and those obligations which are redeemable at the option of the holder shall be valued at the price at which such obligations are then redeemable. The Trustee shall determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers shall include, but are not limited to, pricing services provided by Financial Times Interactive Data Corporation, Merrill Lynch, Citibank/Salomon Smith Barney, Bear Stearns or Lehman Brothers.

Additional Bonds for Construction Purposes

One or more Series of Additional Bonds may be authorized and delivered upon original issuance for the purpose of paying the Cost of Construction of one or more Eligible Projects or refunding any Subordinated Indebtedness issued for such purposes, to pay costs and expenses incident to the issuance of such Additional Bonds and to make deposits to any Fund, Account or Sub-Account under the Indenture. The Additional Bonds of any such Series shall be authenticated and delivered by the Trustee only upon receipt by it of a certificate of an Authorized Officer:

- (1) Setting forth the average Annual Apportionment Amount for the three completed Federal Fiscal Years immediately preceding the date of issuance of such Series of Additional Bonds; and
- (2) Determining that the average Annual Apportionment Amount determined pursuant to clause (1) above is not less than 150 percent of the Maximum Annual Debt Service Requirement determined as of the time immediately following the issuance of such Series of Additional Bonds.

In applying the foregoing test, if any of the Bonds Outstanding immediately following the issuance of the Additional Bonds to be issued constitute Optional Tender Bonds or Variable Rate Bonds, the provisions set forth and summarized under the headings “**Summary of Certain Provisions of the 5307 Indenture - Variable Interest Rates**” and “**Summary of Certain Provisions of the 5307 Indenture - Optional Tender Bonds and Variable Rate Bonds**” shall be applied in determining the Annual Debt Service Requirements of such Bonds.

The proceeds, including accrued interest, of Additional Bonds of each Series shall be applied upon their delivery as follows:

- (a) there shall be deposited in any Fund, Account or Sub-Account under the Indenture the amount, if any, required by the Supplemental Indenture providing for the issuance of such Bonds; and
- (b) the remaining balance shall be deposited in the Project Account established in the Construction Fund for the Additional Project specified in such Supplemental Indenture.

Such Additional Bonds may be issued as Capital Appreciation Bonds, Capital Appreciation and Income Bonds, Current Interest Bonds, Variable Rate Bonds, Optional Tender Bonds (provided the Authority delivers to the Trustee upon the authentication of such Bonds a Credit Facility which the Trustee or another Fiduciary may draw upon to pay the Purchase Price of any such Bonds), Serial Bonds or Term Bonds or any combination thereof, all as provided in the Supplemental Indenture providing for their issuance.

Refunding Bonds

One or more Series of Refunding Bonds may be authenticated and delivered upon original issuance to refund or advance refund any or all Outstanding Bonds of one or more

Series, and any or all Outstanding Section 207 Obligations, to pay costs and expenses incident to the issuance of such Refunding Bonds and to make deposits in any Fund, Account or Sub-Account under the Indenture.

Refunding Bonds of a Series to refund or advance refund Outstanding Bonds or Section 207 Obligations shall be authenticated and delivered by the Trustee only upon receipt by it (in addition to certain other documents, securities and moneys required by the Indenture) of:

(1) Such instructions to the Trustee as necessary to comply with all requirements set forth in the Indenture and summarized under the heading “**Summary of Certain Provisions of the 5307 Indenture - Defeasance**” so that the Bonds and Section 207 Obligations to be refunded or advance refunded will be paid or deemed to be paid pursuant to the provisions of the Indenture summarized under the heading “**Summary of Certain Provisions of the 5307 Indenture - Defeasance.**”

(2) Either (i) moneys in an amount sufficient to effect payment of the principal and Redemption Price, if applicable, and interest due and to become due on the Bonds and Section 207 Obligations to be refunded or advance refunded on and prior to the redemption date or maturity date thereof, as the case any be, which moneys shall be held by the Trustee or any of the Paying Agents in a separate account irrevocably in trust for and assigned to the respective Owners of the Bonds or the Persons entitled to payment of the Section 207 Obligations, as the case may be, to be refunded or advance refunded, or (ii) Defeasance Obligations in such principal amounts, of such maturities, and bearing interest at such rates as shall be necessary, together with the moneys, if any, deposited with the Trustee at the same time, to comply with the defeasance provisions of the Indenture.

(3) Either (a) the certificate of an Authorized Officer required under the Indenture in connection with the issuance of Additional Bonds as described under “**Summary of Certain Provisions of the 5307 Indenture - Additional Bonds for Construction Purposes,**” as applied to the Refunding Bonds to be issued pursuant to the provisions of the Indenture summarized under this heading, or (b) a certificate of an Authorized Officer evidencing that for each Bond Year ending on or prior to the latest maturity date of any Bond Outstanding as of the time immediately prior to the issuance of such Series of Refunding Bonds, the Annual Debt Service Requirements for any such Bond Year on account of all Bonds and Section 207 Obligations Outstanding, after the issuance of such Refunding Bonds and the redemption of provision for payment of the Bonds and Section 207 Obligations to be refunded, shall not exceed the Annual Debt Service Requirements for the corresponding Bond Years on account of all the Bonds and Section 207 Obligations Outstanding, including the Bonds and Section 207 Obligations to be refunded, immediately prior to the issuance of such Refunding Bonds.

In applying the foregoing tests set forth in the previous paragraph, if any of the Bonds Outstanding immediately prior to or after the issuance of the Refunding Bonds to be issued constitute Optional Tender Bonds or Variable Rate Bonds, the provisions of the Indenture summarized under the headings “**Summary of Certain Provisions of the 5307 Indenture - Variable Interest Rates**” and “**Summary of Certain Provisions of the 5307 Indenture -**

Optional Tender Bonds and Variable Rate Bonds” shall be applied in determining the Annual Debt Service Requirements of such Bonds and of any Outstanding Section 207 Obligations.

The proceeds, including accrued interest, of the Refunding Bonds of each Series shall be applied upon their delivery as follows:

(1) there shall be deposited in any other Fund, Account or Sub-Account under the Indenture the amount, if any, required by the Supplemental Indenture authorizing such Series, including, but not limited to, an amount to be applied to the payment of costs and expenses incident to the issuance of such Refunding Bonds;

(2) the amount of such proceeds needed for the refunding of the Bonds to be refunded and for the payment of expenses incidental to such refunding shall be used for such purposes; and

(3) any balance of such proceeds shall be applied in accordance with the written instructions of the Authority, signed by an Authorized Officer and filed with the Trustee.

Refunding Bonds may be issued as Capital Appreciation Bonds, Capital Appreciation and Income Bonds, Current Interest Bonds, Variable Rate Bonds, Optional Tender Bonds (provided the Authority delivers upon authentication of such Bonds a Credit Facility which the Trustee or another Fiduciary may draw upon to pay the Purchase Price of any such Bonds), Serial Bonds and Term Bonds or any combination thereof, all as provided in the Supplemental Indenture providing for the issuance thereof.

Hedging Transactions

If the Authority shall enter into a Qualified Swap Agreement with a Swap Provider requiring the Authority to pay a fixed interest rate on a notional amount, or requiring the Authority to pay a variable interest rate on a notional amount, and the Authority has made a determination that such Qualified Swap Agreement was entered into for the purpose of providing substitute interest payments for Bonds of a particular maturity or maturities in a principal amount equal to the notional amount of the Qualified Swap Agreement, then during the term of the Qualified Swap Agreement and so long as the Swap Provider under such Qualified Swap Agreement is not in default under such Qualified Swap Agreement:

(1) for purposes of any calculation of Interest Requirements, the interest rate on the Bonds of such maturity or maturities shall be determined as if such Bonds bore interest at the fixed interest rate or the variable interest rate, as the case may be, payable by the Authority under such Qualified Swap Agreement;

(2) any net payments required to be made by the Authority to the Swap Provider pursuant to such Qualified Swap Agreement from 5307 Grant Receipts shall be made from amounts on deposit to the credit of the Interest Account (or from the Variable Rate Stabilization Account to the extent that the amount then held in the Interest Account is not sufficient to make such payment); and

(3) any net payments received by the Authority from the Swap Provider pursuant to such Qualified Swap Agreement shall be deposited to the credit of the Interest Account.

If the Authority shall enter into a swap agreement of the type generally described in the preceding paragraph that does not satisfy the requirements for qualification as a Qualified Swap Agreement, then:

(1) the interest rate adjustments or assumptions referred to in subparagraph (1) of the preceding paragraph shall not be made;

(2) any net payments required to be made by the Authority to the Swap Provider pursuant to such swap agreement shall be made either (i) from sources other than 5307 Grant Receipts or (ii) if made from 5307 Grant Receipts, such payments, and any lien on 5307 Grant Receipts securing such payments, shall be junior and subordinate to the pledge of and lien on 5307 Grant Receipts created by the Indenture as security for the payment of Parity Obligations; and

(3) any net payments received by the Authority from the Swap Provider pursuant to such swap agreement may be treated as 5307 Grant Receipts at the option of the Authority, and if so treated shall be deposited in the same manner as 5307 Grant Receipts are to be deposited. See **“Summary of Certain Provisions of the 5307 Indenture - Deposit and Application of 5307 Grant Receipts.”**

With respect to a Qualified Swap Agreement described in the first paragraph under this heading or a swap agreement described in the preceding paragraph, any termination payment required to be made by the Authority to the Swap Provider shall be made either (i) from sources other than 5307 Grant Receipts, or (ii) if made from 5307 Grant Receipts, such termination payment and any lien on 5307 Grant Receipts securing such termination payment, shall be junior and subordinate to the pledge of and lien on 5307 Grant Receipts created by the Indenture as security for the payment of Parity Obligations.

Credit Facilities to Secure Bonds; Section 207 Obligations

The Authority reserves the right to provide one or more Credit Facilities, or a combination thereof, to secure the payment of the principal of, premium, if any, and interest on one or more Series of Bonds, or in the event Owners of such Bonds have the right to require purchase thereof, to secure the payment of the purchase price of such Bonds upon the demand of the Owner thereof. In connection with any such Credit Facility, the Authority may execute and deliver an agreement setting forth the conditions upon which drawings or advances may be made under such Credit Facility, and the method by which the Authority will reimburse the Credit Bank that issued such Credit Facility for such drawings together with interest thereon at such rate or rates and otherwise make payments as may be agreed upon by the Authority and such Credit Bank.

At the election of the Authority expressed in a certificate of an Authorized Officer filed with the Trustee, any such obligation of the Authority to reimburse or otherwise make payments to the Credit Bank shall constitute a Parity Obligation under the Indenture (a “Section

207 Obligation”) to the same extent as any Series of Bonds, and any and all amounts payable by the Authority to reimburse such Credit Bank, together with interest thereon, shall for purposes of the Indenture be deemed to constitute the payment of principal of, premium, if any, and interest on Parity Obligations.

Each Section 207 Obligation shall be repayable over a period of not less than five years. The principal amount of all Section 207 Obligations incurred under a Credit Facility reimbursement agreement and payable in any period of 365 consecutive days shall not exceed 15 percent of the principal amount of all such Section 207 Obligations then Outstanding under such Credit Facility reimbursement agreement.

Subordinated Indebtedness

Nothing in the Indenture shall prohibit or prevent, or be deemed or construed to prohibit or prevent, the Authority (to the extent now or hereafter permitted by law) from (i) issuing bonds, certificates or other evidences of indebtedness or contractual obligations payable as to principal and interest from 5307 Grant Receipts, or (ii) incurring contractual obligations that are payable from 5307 Grant Receipts, but only if such indebtedness or contractual obligation is junior and subordinate in all respects to any and all Parity Obligations issued and Outstanding under the Indenture.

Covenants of the Authority

Pledge of 5307 Grant Receipts. The Authority covenants that the 5307 Grant Receipts and other moneys, securities and funds so pledged, and subject to the lien of the Indenture, are and will be free and clear of any other pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge and lien created by the Indenture, and all action on the part of the Authority to that end has been and will be duly and validly taken. The Authority shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of and lien on the 5307 Grant Receipts and other moneys, securities and funds pledged under the Indenture and all the rights of the Owners under the Indenture against all claims and demands.

Indebtedness and Liens. The Authority shall not issue any bonds or other evidences of indebtedness or incur any indebtedness, other than the Parity Obligations, Qualified Swap Agreements and Subordinated Indebtedness, which are secured by a pledge of or lien on the 5307 Grant Receipts or the moneys, securities or funds held or set aside by the Authority or by the Trustee under the Indenture, and shall not, except as expressly authorized in the Indenture, create or cause to be created any lien or charge on the 5307 Grant Receipts or such moneys, securities or funds; *provided, however*, that nothing contained in the Indenture shall prevent the Authority from issuing or incurring (i) evidences of indebtedness payable from or secured by amounts that may be withdrawn from the General Fund free from the lien of the Indenture as provided by the provisions of the Indenture summarized under the heading “**Summary of Certain Provisions of the 5307 Indenture - General Fund**” above or (ii) evidences of indebtedness payable from, or secured by the pledge of, 5307 Grant Receipts to be derived on and after such date as the pledge of 5307 Grant Receipts provided in the Indenture shall be discharged and satisfied as provided in the Indenture.

Construction of 2008 Project. The Authority shall forthwith proceed to complete the construction of the 2008 Project as an Eligible Project in conformity with all requirements of all governmental authorities having jurisdiction thereover, and in accordance with and as more fully shown on the plans therefor, and the specifications relative thereto, subject to such modifications of such plans and specifications as may be approved from time to time by the Authority.

Payment of Lawful Charges. The Authority shall pay or cause to be discharged, or will make adequate provision to satisfy and discharge, all judgments and court orders, and all lawful claims and demands for labor, materials, supplies or other objects which, if unsatisfied or unpaid, might by law become a lien upon the 5307 Grant Receipts; *provided, however,* that this covenant shall not require the Authority to pay or cause to be discharged, or make provision for, any such lien or charge, so long as the validity thereof shall be contested in good faith and by appropriate legal proceedings.

Accounts and Reports. The Authority shall keep proper books of record and account (separate from all other records and accounts) in which complete and correct entries shall be made of its transactions relating to the Project, 5307 Grant Receipts and the Funds, Accounts and Sub-Accounts established by the Indenture and any Supplemental Indenture, and which, shall at all reasonable times be available for the inspection of the Trustee and the Owners of not less than 25 percent in principal amount of Outstanding Bonds or their representatives duly authorized in writing. The Authority further covenants that it will keep an accurate record of the 5307 Grant Receipts received and of the payment thereof to the Trustee.

Not later than June 1 of each year the Authority will cause an independent audit to be made of its books and accounts for the preceding Fiscal Year, including its books and accounts relating to the 5307 Grant Receipts. Promptly thereafter reports of each such annual audit, signed by an Accountant, shall be mailed by the Authority to the Trustee and the Trustee shall make such reports available for inspection by the Owners of the Bonds.

Tax Covenants. The Authority shall not take, or omit to take, any action lawful and within its power to take, which action or omission would cause interest on any Bond to become subject to federal income taxes in addition to federal income taxes to which interest on such Bond is subject on the date of original issuance thereof. The Authority shall not permit any of the proceeds of the 2008 Bonds, or any facilities financed with such proceeds, to be used in any manner that would cause any 2008 Bond to constitute a "private activity bond" within the meaning of Section 141 of the Code. The Authority shall not permit any of the proceeds of the 2008 Bonds or other moneys to be invested in any manner that would cause any 2008 Bond to constitute an "arbitrage bond" within the meaning of Section 148 of the Code or a "hedge bond" within the meaning of Section 149(g) of the Code. The Authority shall comply with the provisions of Section 148(f) of the Code relating to the rebate of certain investment earnings at periodic intervals to the United States of America.

Capital Improvement Program. The Authority shall include the construction of the 2008 Project (and the payment of the Outstanding Parity Obligations from 5307 Grant Receipts) in each five year capital improvement program that the Authority prepares and submits to the RTA in accordance with the Regional Transportation Authority Act.

FTA Funds. (a) The Authority shall comply with all applicable laws of the United States of America and regulations of the FTA relating to the administration and disbursement of federal funds under 49 United States Code Section 5307 in order to be eligible to receive 5307 Grant Receipts for the payment of Parity Obligations and to facilitate the prompt receipt by the Authority of 5307 Grant Receipts.

(b) Within 10 days of the date that any FTA Section 5307 (49 United States Code Section 5307) Urbanized Area Formula funds appropriated with respect to a Federal Fiscal Year (commencing with the Federal Fiscal Year ending on September 30, 2005) become available for disbursement to the Authority for payment obligations then due, the Authority shall take all reasonable actions as shall be necessary or desirable to facilitate the prompt payment of such Section 5307 Urbanized Area Formula funds to the Authority. All of such moneys constituting 5307 Grant Receipts, when received by the Authority, shall be deposited promptly into the Grant Receipts Deposit Fund.

(c) For each Federal Fiscal Year (commencing with the Federal Fiscal Year ending on September 30, 2005), the Authority shall apply for the appropriation of FTA Section 5307 Urbanized Area Formula funds on a priority basis for the payment of a sum sufficient to fund all of the payments to the Trustee required to be made under the provisions of the Indenture summarized in this Appendix A under the heading “**Summary of Certain Provisions of the 5307 Indenture - Deposit and Application of 5307 Grant Receipts**” above to the end of the next Bond Year, and shall cause such FTA Section 5307 Urbanized Area Formula funds to be obligated for such purposes on the earliest possible date in each Federal Fiscal Year.

(d) If as of the last Business Day of any Federal Fiscal Year, the grant approvals required to make the payments to the Trustee as described under this heading in subsection (c) above from the current Federal Fiscal Year appropriations have not been obtained, then the Authority shall reprogram available FTA Section 5307 Urbanized Area Formula funds appropriated in prior Federal Fiscal Years to the extent required to make such payments.

(e) Moneys held in the Grant Receipts Deposit Fund may be withdrawn from time to time by the Authority for the payment or reimbursement of the costs of Eligible Projects; *provided, however,* that after the first Business Day of any Bond Year if any deficiency then exists in the deposits required to be made by the Trustee pursuant to the provisions of the Indenture summarized in this Appendix A under the heading “**Summary of Certain Provisions of the 5307 Indenture - Deposit and Application of 5307 Grant Receipts**” above, no such withdrawal shall be made unless the Authority shall have obligated from appropriations applicable from the current or prior Federal Fiscal Years a sum sufficient for the payments to the Trustee required to be made pursuant to the Indenture summarized in this Appendix A under the heading “**Summary of Certain Provisions of the 5307 Indenture - Deposit and Application of 5307 Grant Receipts**” in the current Bond Year.

Events of Default and Remedies

Each of the following events is declared an “*Event of Default*” under the Indenture:

- (1) if a default shall occur in the due and punctual payment of the principal or Redemption Price of any Parity Obligation when and as the same shall become due and payable, whether at maturity or by call for redemption or otherwise;
- (2) if a default shall occur in the due and punctual payment of interest on any Parity Obligation, when and as such interest shall become due and payable;
- (3) if a default shall occur in the performance or observance by the Authority of any other of the covenants, agreements or conditions in the Indenture or in the Parity Obligations contained, and such default shall continue for a period of 60 days after written notice thereof to the Authority by the Trustee or after written notice thereof to the Authority and to the Trustee by (a) the Owners of not less than a majority in principal amount of the Outstanding Bonds or (b) the Person entitled to payment under any other Outstanding Parity Obligation; or
- (4) if the Authority shall file a petition seeking a composition of indebtedness under the federal bankruptcy laws or under any other applicable law or statute of the United States of America or of the State of Illinois.

The Authority covenants that if an Event of Default shall happen and shall not have been remedied, the Authority, upon demand of the Trustee, shall pay over or cause to be paid over to the Trustee (i) forthwith, all moneys, securities and funds then held by the Authority in any Fund, Account or Sub-Account pursuant to the terms of the Indenture, and (ii) all 5309 Grant Receipts as promptly as practicable after receipt thereof.

During the continuance of an Event of Default, the Trustee shall apply such moneys, securities, funds and 5309 Grant Receipts and the income therefrom as follows and in the following order:

- (1) to the payment of the reasonable and proper charges and expenses of the Trustee, including the reasonable fees and expenses of counsel employed by it pursuant to the provisions summarized under this heading;
- (2) to the payment of the principal of, Redemption Price of and interest on the Parity Obligations then due, as follows:

FIRST: to the payment to the persons entitled thereto of all installments of interest then due on the Parity Obligations in the order of the maturity of such installments, together with accrued and unpaid interest on the Parity Obligations theretofore called for redemption, and, if the amount available shall not be sufficient to pay in full any installment or installments of interest maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

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

If and whenever all overdue installments of principal and Redemption Price of and interest on all Parity Obligations, together with the reasonable and proper charges and expenses of the Trustee, and all other overdue sums payable by the Authority under the Indenture, including the overdue principal and Redemption Price of and accrued unpaid interest on all Parity Obligations held by or for the account of the Authority have been paid, or provision satisfactory to the Trustee shall be made for such payment, and all defaults under the Indenture or the Parity Obligations shall be made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, the Trustee shall pay over to the Authority all moneys, securities and funds then remaining unexpended in the hands of the Trustee (except moneys, securities and funds deposited or pledged, or required by the terms of the Indenture to be deposited or pledged, with the Trustee), and thereupon the Authority, the Trustee, the Credit Banks, Swap Providers, Bond Insurers and the Owners shall be restored, respectively, to their former positions and rights under the Indenture. No such payment over to the Authority by the Trustee nor such restoration of the Authority and the Trustee to their former positions and rights shall extend to or affect any subsequent default under the Indenture or impair any right consequent thereon.

In the preceding three paragraphs, interest on Parity Obligations includes net payments to a Swap Provider under a Qualified Swap Agreement, as provided in the Indenture.

If an Event of Default shall happen and shall not have been remedied, then and in every such case, the Trustee, by its agents and attorneys, may proceed, and upon identical written request of the Owners of not less than a majority in principal amount of the Bonds Outstanding and upon being indemnified to its satisfaction shall proceed, to protect and enforce its rights and the rights of the Owners of the Bonds under the Indenture forthwith by a suit or suits in equity or at law, whether for the specific performance of any covenant contained in the Indenture, or in aid of the execution of any power granted therein, or for an accounting against the Authority as if the Authority were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the trustee, being advised by counsel, shall deem most effectual to enforce any of its rights or to perform any of its duties under the Indenture.

All rights of action under the Indenture may be enforced by the Trustee without the possession of any of the Parity Obligations or the production thereof in any suit or other proceeding, and any such suit or other proceeding instituted by the Trustee shall be brought in its name. All actions against the Authority under the Indenture shall be brought in a state or federal court located in the County of Cook, Illinois.

The Owners of not less than a majority in principal amount of the Bonds at the time Outstanding may direct the time, method and place of conducting any proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture or for the enforcement of any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, *provided* that the Trustee shall have the right to decline to follow any such direction if the Trustee shall be advised by counsel that the action or proceeding so directed may not lawfully be taken, or if the Trustee in good faith shall determine that the action or proceeding so directed would involve the Trustee in personal liability or be unjustly prejudicial to the Owners not parties to such direction.

Upon commencing any suit at law or in equity or upon commencement of other judicial proceedings by the Trustee to enforce any right under the Indenture, the Trustee shall be entitled to exercise any and all rights and powers conferred in the Indenture and provided to be exercised by the Trustee upon the occurrence of any Event of Default.

Regardless of the happening of an Event of Default, the Trustee shall have power, but unless requested in writing by the Owners of a majority in principal amount of the Bonds then Outstanding, and furnished with reasonable security and indemnity, shall be under no obligation, to institute and maintain such suits and proceedings as may be necessary or expedient to prevent any impairment of the security under the Indenture and to preserve or protect its interests and the interest of the Owners.

No remedy by the terms of the Indenture conferred upon or reserved to the Trustee, any Credit Bank, Swap Provider or Bond Insurer or the Owners is intended to be exclusive of any other remedy, but each remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or existing at law or in equity or by statute on or after the date of the execution and delivery of the Indenture.

Restriction on Owners' Action

No Owner of any Bond shall have any right to institute any suit or proceeding at law or in equity for the enforcement or violation of any provision of the Indenture or the execution of any trust under the Indenture or for any remedy under the Indenture, unless such Owner shall have previously given to the Trustee written notice of the happening of an Event of Default, as provided in the Indenture, and the Owners of at least a majority in principal amount of the Bonds then Outstanding shall have filed a written request with the Trustee, and shall have offered it reasonable opportunity either to exercise the powers granted in the Indenture or by the laws of Illinois or to institute such suit or proceeding in its own name, and unless such Owners shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or failed to comply with such request within 60 days after receipt by it of such notice, request and offer of indemnity, it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by its or their action to affect, disturb or prejudice the pledge created by the Indenture or to enforce any right under the Indenture, except in the manner provided in the Indenture; and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner provided in the Indenture and

for the equal benefit of all Owners of the Outstanding Bonds, subject only to the provisions of the Indenture relating to extension of payment of the Bonds.

Nothing in the Indenture or in the Bonds contained shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay at the respective dates of maturity and places therein expressed the principal of and interest on the Bonds to the respective Owners thereof, or affect or impair the right of action, which is also absolute and unconditional, of any Owner to enforce such payment of its Bond from the sources provided in the Indenture.

Rights of Bond Insurer Upon Event of Default

Subject to the provisions of the Indenture summarized below under “**Termination of Rights of Bond Insurers,**” upon the occurrence and continuance of an Event of Default, the 2008 Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owners of the 2008A Bonds or the Trustee for the benefit of the Owners of the 2008A Bonds under the Indenture, except that the Owners of the 2008A Bonds shall retain the right to exercise all rights under the Indenture related to the enforcement of the tax covenants of the Authority contained in the Indenture or any Supplemental Indenture.

In the event of any reorganization or liquidation of the Authority, the 2008 Bond Insurer shall have the right to vote on behalf of all Owners who hold 2008A Bonds secured by the 2008 Bond Insurance Policy absent a default by the 2008 Bond Insurer under the 2008 Bond Insurance Policy.

Rights of Credit Bank or Bond Insurer

Subject to the provisions of any applicable Supplemental Indenture, any Credit Bank or any Bond Insurer shall be treated as the Owner of Bonds upon which such Credit Bank or Bond Insurer is obligated pursuant to a Credit Facility or Bond Insurance Policy, as applicable, for the purposes of calculating whether or not the Owners of the requisite percentage of Bonds then Outstanding have consented to any request, consent, directive, waiver or other action permitted to be taken by the Owners of the Bonds pursuant to the provisions of the Indenture relating to events of default and remedies upon an event of default; *provided, however,* that (a) the Owners of the Bonds shall retain the right to exercise all rights under such provisions related to the enforcement of the tax covenants of the Authority contained in the Indenture, and (b) such Credit Bank or Bond Insurer shall cease to be so regarded as Owner of such Bonds in the event such Credit Bank or Bond Insurer is in default of its obligations under the applicable Credit Facility or Bond Insurance Policy.

Notwithstanding anything contained in the Indenture to the contrary, but subject to the provisions of any applicable Supplemental Indenture, until the Authority has reimbursed a Credit Bank for amounts paid under a Credit Facility to pay the interest on or the principal of any Bonds on any Interest Payment Date or Principal Payment Date or to the extent any Bond Insurer has exercised its rights as subrogee for the particular Bonds of which it has insured payment, such Bonds shall be deemed to be Outstanding and such Credit Bank or Bond Insurer shall succeed to the rights and interests of the Owners to the extent of the amounts paid under the

Credit Facility or as specified in respect of the applicable Bond Insurance Policy until such amount has been reimbursed.

Supplemental Indentures Not Requiring Consent of Owners

The Authority and the Trustee may without the consent of, or notice to, any of the Owners or any Credit Bank, Bond Insurer and Swap Provider, enter into a Supplemental Indenture or Supplemental Indentures as shall not be inconsistent with the terms and provisions of the Indenture for any one or more of the following purposes:

- (1) to authorize Additional Bonds and to specify, determine or authorize any matters and things concerning any such Bonds which are not contrary to or inconsistent with the Indenture;
- (2) to close the Indenture against, or impose additional limitations or restrictions on, the issuance of Parity Obligations, or of other notes, bonds, obligations or evidences of indebtedness;
- (3) to impose additional covenants or agreements to be observed by the Authority;
- (4) to impose other limitations or restrictions upon the Authority;
- (5) to surrender any right, power or privilege reserved to or conferred upon the Authority by the Indenture;
- (6) to confirm, as further assurance, any pledge of or lien upon the 5309 Grant Receipts or any other moneys, securities or funds;
- (7) authorize the issuance of Subordinated Indebtedness and in connection therewith, specify and determine any matters and things relative thereto which are not contrary to or inconsistent with the Indenture as then in effect;
- (8) to cure any ambiguity, omission or defect in the Indenture;
- (9) to provide for the appointment of a successor securities depository in the event any Series of Bonds is held in book-entry only form;
- (10) to provide for the appointment of any successor Fiduciary; and
- (11) to make any other change which, in the judgment of the Trustee, is not to the prejudice of the Trustee or the Owners.

Supplemental Indentures Effective upon Consent of Owners

Except for Supplemental Indentures described under the preceding heading, any modification or amendment of the Indenture and of the rights and obligations of the Authority

and of the Owners of the Bonds thereunder, in any particular, may be made by a Supplemental Indenture with the written consent given as provided in the Indenture (i) of the Owners of at least a majority in principal amount of the Bonds Outstanding at the time such consent is given, and (ii) in case less than all of the several Series of Bonds then outstanding are affected by the modification or amendment, of the Owners of at least a majority in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given; *provided, however*, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bonds, or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon or impair the exclusion from federal income taxation of interest on any Bond without the consent of the Owner of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto. A Series shall be deemed to be affected by a modification or amendment of the Indenture if the same adversely affects or diminishes the rights of the Owners of Bonds of such Series. The Trustee may in its discretion determine whether or not the rights of the Owners of Bonds of any particular Series or maturity would be adversely affected or diminished by any such modification or amendment, and its determination shall be binding and conclusive on the Authority and all Owners of the Bonds. Any amendment or modification of the Indenture that adversely affects or diminishes the rights of any Credit Bank or Swap Provider with respect to the payment of any Section 206 Obligation or any Section 207 Obligation or the security provided by the Indenture with respect to the payment of any Section 206 Obligation or Section 207 Obligation shall not take effect unless such amendment or modification is consented to by such Credit Bank or Swap Provider (or in the event of an assignment of such Section 206 Obligation or Section 207 Obligation, the Person entitled to payment of such Section 206 Obligation or Section 207 Obligation).

Subject to the provisions of the Indenture summarized below under “**Summary of Certain Provisions of the 5307 Indenture - Termination of Rights of Bond Insurers**,” the rights of the Owner of an Insured Bond to consent to any amendment or modification of the Indenture are abrogated and the Bond Insurer may exercise the rights of the Owner of any Insured Bond that is entitled to the benefits of the Bond Insurance Policy issued by the Bond Insurer for the purpose of any approval, request, demand, consent, waiver or other instrument of similar purpose. Upon the authorization of a Supplemental Indenture making an amendment or modification to the Indenture, a copy thereof shall be delivered to and held by the Trustee for the inspection of the Owners. A copy of such Supplemental Indenture (or summary thereof or reference thereto in form approved by the Trustee) together with a request to Owners for their consent thereto in form satisfactory to the Trustee, shall be mailed to the Owners, but failure to mail such copy and request shall not affect the validity of such Supplemental Indenture when consented to as in the Indenture provided. Such Supplemental Indenture shall not be effective unless and until, and shall take effect in accordance with its terms when (a) there shall have been filed with the Trustee (i) the written consents of the Owners of the required principal amount of Outstanding Bonds, and (ii) a Counsel’s Opinion stating that the execution and delivery of such Supplemental Indenture has been duly authorized by the Authority in accordance with the

provisions of the Indenture, is authorized or permitted by the Indenture and, when effective, will be valid and binding upon the Authority, the Owners and the Trustee, and (b) a notice shall have been mailed as hereinafter provided under this heading. A certificate or certificates by the Trustee delivered to the Authority that consents have been given by the Owners of the Bonds described in such certificate or certificates of the Trustee shall be conclusive. Any such consent shall be binding upon the Owner of the Bonds giving such consent and upon any subsequent Owner of such Bonds and of any Bonds issued in exchange therefor whether or not such subsequent Owner has notice thereof; *provided, however*, that any consent may be revoked by any Owner of such Bonds by filing with the Trustee, prior to the time when the Trustee's written statement hereafter described is filed, a written revocation, with proof that such Bonds are held by the signer of such revocation. The fact that a consent has not been revoked may be proved by a certificate of the Trustee to the effect that no revocation thereof is on file with it. Any consent, or revocation thereof, may be delivered or filed prior to any mailing or publication required by the provisions described under this heading and shall not be deemed ineffective by reason of such prior delivery or filing. Within 30 days of any date on which the consents on file with the Trustee and not theretofore revoked shall be sufficient, the Trustee shall make and deliver to the Authority a written statement that the consents of the Owners of the required principal amount of Outstanding Bonds have been filed with the Trustee. Such written statement shall be conclusive that such consents have been so filed.

The Indenture and the rights and obligations of the Authority and of the Owners of the Bonds thereunder may be modified or amended in any respect by a Supplemental Indenture effecting such modification or amendment and with the consents of the Owners of all the Bonds then Outstanding, each such consent to be accompanied by proof of the holding at the date of such consent of the Bonds with respect to which such consent is given.

Required Consent of Bond Insurer to Supplemental Indentures

Any provision of the Indenture expressly recognizing or granting rights in or to a Bond Insurer may not be amended in any manner which affects the rights of the Bond Insurer without the prior written consent of such Bond Insurer.

The consent of the Bond Insurer shall be required in addition to the consent of the Owners of the Bonds, when required, for the following purposes: (i) execution and delivery of any Supplemental Indenture; (ii) removal of the Trustee or any Paying Agent and selection and appointment of any successor Trustee or Paying Agent; and (iii) initiation or approval of any action not described in (i) or (ii) above which requires consent of the Owners of the Bonds.

Defeasance

If the Authority shall pay or cause to be paid or there shall otherwise be paid (i) to the Owners of all Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture, then the pledge of any 5309 Grant Receipts and other moneys and securities pledged under the Indenture and all covenants, agreements and other obligations of the Authority to the Owners shall thereupon be discharged and satisfied and (ii) to the applicable Credit Banks and Swap Providers (or their assignees) all payments due upon the instruments creating Section 206

Obligations and Section 207 Obligations, then the pledge of any 5309 Grant Receipts and other moneys and securities pledged under the Indenture and all covenants, agreements and obligations of the Authority to the Credit Banks, the Swap Providers and any of their assignees with respect to payment of Section 206 Obligations and Section 207 Obligations shall thereupon be discharged and satisfied. In such event, the Trustee, upon request of the Authority, shall provide an accounting of the assets managed by the Trustee to be prepared and filed with the Authority for any year or part thereof requested, and shall execute and deliver to the Authority all such instruments as may be desirable to evidence such discharge and satisfaction, and the Fiduciaries shall pay over or deliver to the Authority all moneys and securities held by them pursuant to the Indenture which are not required for the payment of Bonds not previously surrendered for such payment or redemption or for the payment of Section 206 Obligations and Section 207 Obligations. If the Authority shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of all Outstanding Bonds of a particular Series, maturity within a Series or portion of any maturity within a Series (which portion shall be selected by lot by the Trustee in the manner provided in the Indenture for the selection of Bonds to be redeemed in part), the principal or Redemption Price, if applicable, thereof and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture, such Bonds shall cease to be entitled to any lien, benefit or security under the Indenture, and all covenants, agreements and obligations of the Authority to the Owners of such Bonds and to the Trustee shall thereupon be discharged and satisfied.

Bonds or interest installments for the payment or redemption of which moneys shall have been set aside and held in trust by the Trustee at or prior to their maturity or redemption date shall be deemed to have been paid within the meaning of and with the effect expressed in the Indenture if the Authority shall have delivered to or deposited with the Trustee (i) irrevocable instructions to pay or redeem all of said Bonds in specified amounts no less than the respective amounts of, and on specified dates no later than the respective due dates of, their principal, (ii) irrevocable instructions to publish or mail the required notice of redemption of any Bonds so to be redeemed, (iii) either moneys in an amount which shall be sufficient, or Defeasance Obligations the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient, to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on said Bonds on and prior to each specified redemption date or maturity date thereof, as the case may be, and (iv) if any of said Bonds are not to be redeemed within the next succeeding 60 days, irrevocable instructions to mail to all Owners of said Bonds a notice that such deposit has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with the provisions of the Indenture summarized under this heading and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal or Redemption Price, if applicable, of said Bonds. The Defeasance Obligations and moneys deposited with the Trustee pursuant to the provisions of the Indenture summarized under this heading shall be held in trust for the payment of the principal or Redemption Price, if applicable, and interest on said Bonds. No payments of principal of any such Defeasance Obligations or interest thereon shall be withdrawn or used for any purpose other than the payment of such principal or Redemption Price of, or interest on, said Bonds unless after such withdrawal the amount held by the Trustee and interest to accrue on Defeasance Obligations so held shall be sufficient to provide fully for the payment of the principal of or Redemption Price and interest on such Bonds, at maturity or upon redemption, as the case may be.

Amounts deposited with the Trustee for the payment of the principal of and interest on any Bonds deemed to be paid pursuant to the Indenture, if so directed by the Authority, shall be applied by the Trustee to the purchase of such Bonds in accordance with this paragraph. Bonds for which a redemption date has been established may be purchased on or prior to the forty-fifth day preceding the redemption date. The principal amount of Bonds to be redeemed shall be reduced by the principal amount of Bonds so purchased. Bonds which mature on a single future date may be purchased at any time prior to the maturity date. All such purchases shall be made at prices not exceeding the applicable principal amount or Redemption Price established pursuant to the Indenture, plus accrued interest, and such purchases shall be made in such manner as the Trustee shall determine. No purchase shall be made by the Trustee pursuant to this paragraph if such purchase would result in the Trustee holding less than the moneys and Defeasance Obligations required to be held for the payment of all other Bonds deemed to be paid pursuant to the Indenture.

The Authority may purchase with any available funds any Bonds deemed to be paid pursuant to the Indenture in accordance with this paragraph. Bonds for which a redemption date has been established may be purchased by the Authority on or prior to the forty-fifth day preceding the redemption date. On or prior to the forty-fifth day preceding the redemption date the Authority shall give notice to the Trustee of its intention to surrender such Bonds on the redemption date. The Trustee shall proceed to call for redemption the remainder of the Bonds due on the redemption date and shall pay to the Authority on the redemption date the Redemption Price of and interest on such Bonds upon surrender of such Bonds to the Trustee. Bonds which mature on a single future date may be purchased at any time prior to the maturity date. The Trustee shall pay to the Authority the principal amount of and interest on such Bonds upon surrender of such Bonds on the maturity date.

Termination of Rights of Bond Insurers

All rights of any Bond Insurer under the Indenture, or any Supplemental Indenture shall cease and terminate if: (i) such Bond Insurer has failed to make any payment under its Bond Insurance Policy; (ii) such Bond Insurance Policy shall cease to be valid and binding on such Bond Insurer or shall be declared to be null and void, or the validity or enforceability of any provision thereof is being contested by such Bond Insurer, or such Bond Insurer is denying further liability or obligation under such Bond Insurance Policy; (iii) a petition has been filed and is pending against such Bond Insurer under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution, liquidation or rehabilitation law of any jurisdiction, and has not been dismissed within sixty days after such filing; (iv) such Bond Insurer has filed a petition, which is still pending, in voluntary bankruptcy or is seeking relief under any provision of any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution, liquidation or rehabilitation law of any jurisdiction, or has consented to the filing of any petition against it under any such law; or (v) a receiver has been appointed for such Bond Insurer under the insurance laws of any jurisdiction.

In addition, the existence of all rights given to the 2008 Bond Insurer under the Second Supplemental Indenture with respect to the giving of consents or approvals and the direction of proceedings or otherwise are expressly conditioned upon the timely and full performance of the obligations of the 2008 Bond Insurer under the 2008 Bond Insurance Policy.

SUMMARY OF CERTAIN PROVISIONS OF THE 5309 INDENTURE

The following summary sets forth certain provisions of the 5309 Indenture. The defined terms contained herein are to be read solely in reference to the 5309 Indenture. This summary is provided for the convenience of the reader and does not purport to be comprehensive or definitive. Reference is made to the 5309 Indenture for a complete statement of the provisions thereof.

Pledge Effected by the Indenture; Limited Obligations

Pursuant to the Indenture, (i) the 5309 Grant Receipts, (ii) amounts on deposit in all Funds, Accounts and Sub-Accounts established under the Indenture (except the Rebate Fund), subject, however, to the right of the Authority to make periodic withdrawals from the Grant Receipts Deposit Fund as permitted under the provisions of the Indenture summarized in this Appendix A under the heading “**Summary of Certain Provisions of the 5309 Indenture – Covenants of the Authority - FTA Funds**” below and from the General Fund as permitted under the provisions of the Indenture summarized in this Appendix A under the heading “**Summary of Certain Provisions of the 5309 Indenture - General Fund**” below, and (iii) any and all other moneys and securities furnished from time to time to the Trustee by the Authority or on behalf of the Authority or by any other persons to be held by the Trustee under the terms of the Indenture are pledged for the payment of the principal and Redemption Price of, and interest on, the Bonds and the payment of Section 206 Obligations and Section 207 Obligations and a lien is granted for such purpose, subject only to the provisions of the Indenture permitting or requiring the application thereof for the purposes and on the terms and conditions set forth in the Indenture, *provided*, that the application of moneys to the payments due to a Swap Provider under a Qualified Swap Agreement is expressly limited to the extent provided in the Indenture.

Pursuant to Section 13 of the Local Government Debt Reform Act, 30 Illinois Compiled Statutes 350/13, the 5309 Grant Receipts and the other moneys and securities pledged by the Indenture shall immediately be subject to the lien and pledge thereof without any physical delivery or further act, and the lien and pledge thereof shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Authority, irrespective of whether such parties have notice thereof.

The Parity Obligations are limited obligations of the Authority payable solely from the 5309 Grant Receipts pledged for their payment in accordance with the Indenture. The Parity Obligations are not, and shall not be or become, an indebtedness or obligation of the State of Illinois, the Regional Transportation Authority or any political subdivision of the State (other than the Authority) or of any municipality within the State nor shall any Parity Obligation be or become an indebtedness of the Authority within the purview of any constitutional limitation or provision.

No lien upon any physical properties of the Authority is created by the Indenture.

Variable Interest Rates

In determining the Interest Requirement for the purpose of determining Annual Debt Service Requirements and the Maximum Annual Debt Service Requirement under the provisions of the Indenture as summarized under the headings “**Summary of Certain Provisions of the 5309 Indenture - Additional Bonds for Construction Purposes**” and “**Summary of Certain Provisions of the 5309 Indenture - Refunding Bonds**” below and for the purpose of determining the amount to be deposited into the Interest Account pursuant to the Indenture, as summarized under the heading “**Summary of Certain Provisions of the 5309 Indenture - Deposit and Application of 5309 Grant Receipts**” below, interest on variable rate indebtedness, including Variable Rate Bonds and variable rate interest payments for Section 207 Obligations or under Qualified Swap Agreements, shall be calculated at the lower of (1) the maximum rate of interest permitted for such variable rate indebtedness under the terms of the Variable Rate Bonds, Section 207 Obligations or the Qualified Swap Agreement and (2) the highest rate of (a) the actual rate on the date of calculation or if the indebtedness is not yet outstanding, the initial rate (if established and binding), (b) if the indebtedness has been outstanding for at least 12 months, the average rate over the 12 months immediately preceding the date of calculation, (c) if interest on the indebtedness is excludable from gross income under the applicable provisions of the Code, the average rate over the 12 months immediately preceding the date of calculation of the Securities Industry and Financial Markets Association Municipal Swap Index, (d) if interest is not so excludable, the interest rate on Government Obligations with comparable maturities plus fifty basis points, and (e) the interest rate set forth in a certificate of an Authorized Officer filed with the Trustee.

Optional Tender Bonds and Variable Rate Bonds

If any of the Outstanding Bonds constitute Optional Tender Bonds, then in determining the Interest Requirement and the Principal Requirement of a Series of Bonds, the options of the Owners of such Bonds to tender the same for payment prior to their stated Principal Payment Date shall be ignored. If any of the Bonds constitute Variable Rate Bonds, the interest rate used in determining the Interest Requirement for such Variable Rate Bonds shall be the interest rate determined pursuant to the provisions of the Indenture, as summarized under the heading “**Summary of Certain Provisions of the 5309 Indenture - Variable Interest Rates**” above, or, if and so long as a Qualified Swap Agreement is in effect that provides for a fixed interest rate, the interest rate determined pursuant to the provisions of the Indenture, as summarized under the heading “**Summary of Certain Provisions of the 5309 Indenture - Hedging Transactions.**” The conversion of Variable Rate Bonds to bear interest at a different variable rate or a fixed rate or rates, in accordance with their terms, shall not constitute a new issuance of Bonds under the provisions of the Indenture, as summarized under the headings “**Summary of Certain Provisions of the 5309 Indenture - Additional Bonds for Construction Purposes**” and “**Summary of Certain Provisions of the 5309 Indenture - Refunding Bonds.**” In determining the Interest Requirement or the Principal Requirement of any Section 207 Obligation, such Section 207 Obligation shall be deemed to be Outstanding only to the extent that, on the date of computation, there are unpaid drawings or advances under the terms of the Credit Facility that created the Section 207 Obligation.

Funds and Accounts

The Authority under the Indenture establishes the Grant Receipts Deposit Fund, which shall be a special fund of the Authority held by the Authority as part of the Trust Estate, and the Construction Fund, the General Fund and the Debt Service Fund, each of which is a special fund of the Authority held in trust by the Trustee as part of the Trust Estate. Subject to use and application in accordance with the Indenture, all of the moneys and securities held in the Grant Receipts Deposit Fund, the Construction Fund, the Debt Service Fund and the General Fund are pledged as security for the payment of the principal of, redemption premium, if any, and interest on, the Parity Obligations and is subject to the lien of the Indenture. The Authority also establishes under the Indenture a Rebate Fund, which is not pledged to payment of the Bonds. The Interest Account, the Principal Account and the Variable Rate Stabilization Account are established as special accounts within the Debt Service Fund and the 2008 Project Account and the 2008 Capitalized Interest Account are established as special accounts within the Construction Fund.

The Trustee is required to make payment of the Cost of Construction of the 2008 Project from the 2008 Project Account as provided in the Indenture and, with respect to the payment of interest on the 2008 5309 Bonds capitalized from the proceeds of the 2008 5309 Bonds, from the 2008 Capitalized Interest Account as provided in the Indenture. The Trustee shall withdraw from the appropriate Project Account in the Construction Fund and deposit into the Rebate Fund the amount specified by the Authority. The Trustee shall also withdraw moneys from the appropriate Project Account in the Construction Fund to pay costs of issuance of the Bonds in accordance with the directions of the Authority. All other payments from the Construction Fund shall be subject to the provisions and restrictions set forth in the Indenture.

Deposit and Application of 5309 Grant Receipts

All 5309 Grant Receipts received by the Authority shall be deposited promptly into the Grant Receipts Deposit Fund. On the first Business Day of each Bond Year, and (if required) on any subsequent Business Day during the Bond Year the Authority shall withdraw from the Grant Receipts Deposit Fund and pay over to the Trustee an amount sufficient to enable the Trustee to make payments into the following several Funds and Accounts, but as to each such Fund or Account only within the limitation indicated below with respect thereto and only after maximum payment within such limitation into every such Fund or Account previously mentioned in the following tabulation:

First: Into the Interest Account, to the extent, if any, necessary to increase the amount in the Interest Account so that it equals the sum of the Interest Requirements for all Outstanding Bonds and Section 207 Obligations for each remaining Interest Period that ends in the current Bond Year.

Second: Into the Principal Account, to the extent, if any, needed to increase the amount in the Principal Account so that it equals the Principal Requirements for all Outstanding Bonds and Section 207 Obligations for the current Bond Year.

Third: Into the Variable Rate Stabilization Account, to the extent, if any, needed to increase the amount in the Variable Rate Stabilization Account to the Variable Rate Stabilization Account Requirement.

Fourth: Into the Rebate Fund, the amount specified in the certificate of an Authorized Officer filed with the Trustee pursuant to the Indenture.

Fifth: Into the General Fund, the amount specified in a certificate of an Authorized Officer filed with the Trustee.

Debt Service Fund

The Trustee shall pay to the respective Paying Agents or to any Swap Provider, as applicable, in Current Funds (i) out of the 2008 Capitalized Interest Account on or before each Interest Payment Date set forth in the Indenture, the applicable amount set forth therein; (ii) out of any capitalized interest account established with respect to any other Series of Bonds, on or before each Interest Payment Date specified in the Supplemental Indenture authorizing such Series, the applicable amount set forth in such Supplemental Indenture; (iii) out of the Interest Account on or before each Interest Payment Date or redemption date, as applicable, for any of the Outstanding Bonds and Section 207 Obligations, the amount required for the interest payable on such date (including net payments required to be made by the Authority to a Swap Provider under a Qualified Swap Agreement) and not provided for pursuant to clause (i) or clause (ii) above; (iv) out of the Variable Rate Stabilization Account on or before each Interest Payment Date or redemption date, as applicable, for any of the Outstanding Bonds and Section 207 Obligations, the amount required for the interest payable on such date (including net payments required to be made by the Authority to a Swap Provider under a Qualified Swap Agreement) and not provided for pursuant to clause (i), clause (ii) or clause (iii) above; (v) out of the Principal Account on or before each Principal Payment Date, an amount equal to the principal amount of the Outstanding Bonds and Section 207 Obligations, if any, which mature on such date; and (vi) out of the Principal Account on or before each Principal Payment Date occasioned by redemption of Outstanding Bonds from Sinking Fund Installments, the amount required for the payment of the Redemption Price of such Outstanding Bonds then to be redeemed. Such amounts shall be paid to the Owners of the Outstanding Bonds by the Paying Agents for the aforesaid purposes on the due dates thereof. The Trustee shall also pay out of the Interest Account (or from the Variable Rate Stabilization Account to the extent that the amount then held in the Interest Account is not sufficient to make such payment) the accrued interest included in the purchase price of Outstanding Bonds purchased for retirement.

Amounts in the Principal Account available for the payment of Sinking Fund Installments shall be applied to the purchase or redemption of Bonds as provided below.

(1) Amounts deposited to the credit of the Principal Account to be used in satisfaction of any Sinking Fund Installment may, and if so directed by the Authority shall, be applied by the Trustee, on or prior to the forty-fifth day next preceding the next Principal Payment Date on which a Sinking Fund Installment is due, to the purchase of

Outstanding Bonds of the Series and maturity for which such Sinking Fund Installment was established. That portion of the purchase price attributable to accrued interest shall be paid from the Interest Account (or from the Variable Rate Stabilization Account to the extent that the amount then held in the Interest Account is not sufficient to make such payment). All such purchases of Outstanding Bonds shall be made at prices not exceeding the applicable sinking fund Redemption Price of such Bonds plus accrued interest, and such purchases shall be made in such manner as the Authority shall determine. The principal amount of any Bonds so purchased shall be deemed to constitute part of the Principal Account until the Principal Payment Date on which such Sinking Fund Installment is due, for the purpose of calculating the amount on deposit in such Account.

(2) At any time up to the forty-fifth day next preceding the next Principal Payment Date on which a Sinking Fund Installment is due, the Authority may purchase with any available funds Outstanding Bonds for which such Sinking Fund Installment was established and surrender such Bonds to the Trustee at any time up to said date.

(3) After giving effect to the Outstanding Bonds purchased by the Trustee and Outstanding Bonds surrendered by the Authority as described in paragraphs (1) and (2) above, which shall be credited against the Sinking Fund Installment at the applicable sinking fund Redemption Price thereof, and as soon as practicable after the forty-fifth day next preceding the next Principal Payment Date on which a Sinking Fund Installment is due, the Trustee shall proceed to call for redemption on such Principal Payment Date Outstanding Bonds of the Series and maturity for which such Sinking Fund Installment was established in such amount as shall be necessary to complete the retirement of the unsatisfied portion of such Sinking Fund Installment. The Trustee shall pay out of the Principal Account to the appropriate Paying Agents, on or before the day preceding such redemption date, the Redemption Price required for the redemption of the Outstanding Bonds so called for redemption, and such amount shall be applied by such Paying Agents to such redemption.

(4) If the principal amount of Outstanding Bonds retired through application of amounts in satisfaction of any Sinking Fund Installment shall exceed such Sinking Fund Installment, or in the event of the purchase or redemption from moneys other than from the Principal Account of Outstanding Bonds of any Series and maturity for which Sinking Fund Installments have been established, such excess or the principal amount of Outstanding Bonds so purchased or redeemed, as the case may be, shall be credited toward future scheduled Sinking Fund Installments either (i) in the order of their due dates or (ii) in such order as the Authority establishes in a certificate delivered to the Trustee not more than 45 days after the payment in excess of such Sinking Fund Installment.

Moneys held in the Accounts of the Debt Service Fund shall be invested as provided in the Indenture. See “**Summary of Certain Provisions of the 5309 Indenture - Investment of Certain Moneys**” below in this Appendix A. Investment income earned as a result of such investment shall be retained in said Accounts.

The amount, if any, deposited in the Interest Account from the proceeds of Bonds shall be set aside in such Account and applied to the payment of the interest on the Bonds with respect to which such proceeds were deposited in accordance with the provisions of the Supplemental Indenture authorizing the issuance of such Bonds.

If on any date, the amount held in the Variable Rate Stabilization Account exceeds the Variable Rate Stabilization Account Requirement, the Trustee, at the direction of the Authority, is required to transfer such excess to the General Fund.

General Fund

The Authority may establish within the General Fund one or more Debt Service Reserve Accounts for the purpose of providing additional security for the payment of one or more Series of Bonds. The Authority may provide for the application of moneys in the General Fund to maintain such Debt Service Reserve Account and for the use of moneys held in such Debt Service Reserve Account.

The Authority may establish one or more Subordinated Indebtedness Accounts within the General Fund for the purpose of securing the payment of Subordinated Indebtedness; *provided, however*, that in no event shall the administration of any such Account limit the application of moneys in the General Fund (including any Account therein) for the payment of interest or Principal due on Outstanding Bonds and Section 207 Obligations (or any other net amounts payable by the Authority from the Interest Account to a Swap Provider under a Qualified Swap Agreement).

If on any Interest Payment Date or Principal Payment Date the aggregate amount to the credit of the Debt Service Fund is less than the amount required to pay interest or Principal due on the Outstanding Bonds and Section 207 Obligations (and any other net amounts payable by the Authority from the Interest Account to a Swap Provider under a Qualified Swap Agreement), the Trustee is required to apply amounts from the General Fund (including any amount then held in a Debt Service Reserve Account or a Subordinated Indebtedness Account) to the extent necessary to cure such deficiency, in the following order of priority: first, to the credit of the Interest Account and then to the credit of the Principal Account; provided, however, that any withdrawal from a Debt Service Reserve Account shall be limited by the terms and conditions governing withdrawals from such Account.

Subject to any provisions limiting withdrawals from Debt Service Reserve Accounts and Subordinated Indebtedness Accounts, at the direction of the Authority, moneys held in the General Fund may be withdrawn from the General Fund and (i) transferred to any other Fund, Account or Sub-Account maintained under the Indenture or any Supplemental Indenture; (ii) used to purchase, pay, redeem or defease Outstanding Bonds; or (iii) used for any other purpose permitted by the Indenture.

Subject to the following paragraph, moneys in the General Fund shall be withdrawn promptly by the Trustee and paid over to the Authority free from the lien of the Indenture.

Any withdrawal of amounts held in a Debt Service Reserve Account or a Subordinated Indebtedness Account pursuant to the above paragraph shall be limited by the terms of administration of such Account. No withdrawal from the General Fund pursuant to the above paragraph shall be made unless, at the time of such withdrawal, (i) no deficiency exists with respect to the required deposits to the Interest Account and the Principal Account pursuant to the provisions of the Indenture summarized under the heading “**Summary of Certain Provisions of the 5309 Indenture - Deposit and Application of 5309 Grant Receipts**” above; (ii) the sum then held in the Variable Rate Stabilization Account shall be not less than the Variable Rate Stabilization Account Requirement and (iii) no Event of Default shall have occurred and remain unremedied.

Investment of Certain Moneys

Moneys held in the Debt Service Fund and its Accounts, the General Fund and its Accounts, the Rebate Fund and the Construction Fund and its Accounts shall be invested and reinvested by the Trustee at the oral direction of the Authority to the fullest extent practicable in Investment Securities which mature no later than necessary to provide moneys when needed for payments to be made from such Funds or Accounts. In the event that no such directions are received by the Trustee, such amounts shall be invested in money market funds described in subparagraph (vi) of the definition of Investment Securities, pending receipt of investment directions. The Trustee may make any and all such investments through its own investment department or that of its affiliates or subsidiaries. Moneys held in any separate, segregated account of the Construction Fund held by the Authority in any depository of moneys and securities held under the Indenture may be invested and reinvested by the Authority in Investment Securities which mature no later than necessary to provide moneys when needed for payments to be made from such accounts.

Investment Securities in any Fund, Account or Sub-Account created under the provisions of the Indenture shall be deemed at all times to be part of such Fund, Account or Sub-Account and any profit realized from the liquidation of such investment shall be credited to such Fund, Account or Sub-Account and any loss resulting from liquidation of such investment shall be charged to such Fund, Account or Sub-Account.

Valuations of Investment Securities held in the Funds, Accounts and Sub-Accounts established under the Indenture shall be made by the Trustee as often as may be necessary to determine the amounts held therein, except that valuations of Government Obligations held in the Debt Service Fund and its Accounts shall be made at least once each year on such dates as shall be determined by the Trustee.

The value of Investment Securities shall mean the fair market value thereof, *provided, however*, that all SLG’s shall be valued at par, all Investment Securities maturing without 90 days shall be valued at par, and those obligations which are redeemable at the option of the holder shall be valued at the price at which such obligations are then redeemable. The Trustee shall determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers shall include, but are not limited to, pricing services provided by Financial Times Interactive Data Corporation, Merrill Lynch, Citibank/Salomon Smith Barney, Bear Stearns or Lehman Brothers.

Additional Bonds for Construction Purposes

One or more Series of Additional Bonds may be authorized and delivered upon original issuance for the purpose of paying the Cost of Construction of one or more Eligible Projects or refunding any Subordinated Indebtedness issued for such purposes, to pay costs and expenses incident to the issuance of such Additional Bonds and to make deposits to any Fund, Account or Sub-Account under the Indenture. The Additional Bonds of any such Series shall be authenticated and delivered by the Trustee only upon receipt by it of a certificate of an Authorized Officer:

(1) Setting forth the average Annual Apportionment Amount for the three completed Federal Fiscal Years immediately preceding the date of issuance of such Series of Additional Bonds; and

(2) Determining that the average Annual Apportionment Amount determined pursuant to clause (1) above is not less than 150 percent of the Maximum Annual Debt Service Requirement determined as of the time immediately following the issuance of such Series of Additional Bonds.

In applying the foregoing test, if any of the Bonds Outstanding immediately following the issuance of the Additional Bonds to be issued constitute Optional Tender Bonds or Variable Rate Bonds, the provisions set forth and summarized under the headings “**Summary of Certain Provisions of the 5309 Indenture - Variable Interest Rates**” and “**Summary of Certain Provisions of the 5309 Indenture - Optional Tender Bonds and Variable Rate Bonds**” shall be applied in determining the Annual Debt Service Requirements of such Bonds.

The proceeds, including accrued interest, of Additional Bonds of each Series shall be applied upon their delivery as follows:

(a) there shall be deposited in any Fund, Account or Sub-Account under the Indenture the amount, if any, required by the Supplemental Indenture providing for the issuance of such Bonds; and

(b) the remaining balance shall be deposited in the Project Account established in the Construction Fund for the Additional Project specified in such Supplemental Indenture.

Such Additional Bonds may be issued as Capital Appreciation Bonds, Capital Appreciation and Income Bonds, Current Interest Bonds, Variable Rate Bonds, Optional Tender Bonds (provided the Authority delivers to the Trustee upon the authentication of such Bonds a Credit Facility which the Trustee or another Fiduciary may draw upon to pay the Purchase Price of any such Bonds), Serial Bonds or Term Bonds or any combination thereof, all as provided in the Supplemental Indenture providing for their issuance.

Refunding Bonds

One or more Series of Refunding Bonds may be authenticated and delivered upon original issuance to refund or advance refund any or all Outstanding Bonds of one or more

Series, and any or all Outstanding Section 207 Obligations, to pay costs and expenses incident to the issuance of such Refunding Bonds and to make deposits in any Fund, Account or Sub-Account under the Indenture.

Refunding Bonds of a Series to refund or advance refund Outstanding Bonds or Section 207 Obligations shall be authenticated and delivered by the Trustee only upon receipt by it (in addition to certain other documents, securities and moneys required by the Indenture) of:

(1) Such instructions to the Trustee as necessary to comply with all requirements set forth in the Indenture and summarized under the heading “**Summary of Certain Provisions of the 5309 Indenture - Defeasance**” so that the Bonds and Section 207 Obligations to be refunded or advance refunded will be paid or deemed to be paid pursuant to the provisions of the Indenture summarized under the heading “**Summary of Certain Provisions of the 5309 Indenture - Defeasance.**”

(2) Either (i) moneys in an amount sufficient to effect payment of the principal and Redemption Price, if applicable, and interest due and to become due on the Bonds and Section 207 Obligations to be refunded or advance refunded on and prior to the redemption date or maturity date thereof, as the case may be, which moneys shall be held by the Trustee or any of the Paying Agents in a separate account irrevocably in trust for and assigned to the respective Owners of the Bonds or the Persons entitled to payment of the Section 207 Obligations, as the case may be, to be refunded or advance refunded, or (ii) Defeasance Obligations in such principal amounts, of such maturities, and bearing interest at such rates as shall be necessary, together with the moneys, if any, deposited with the Trustee at the same time, to comply with the defeasance provisions of the Indenture.

(3) Either (a) the certificate of an Authorized Officer required under the Indenture in connection with the issuance of Additional Bonds as described under “**Summary of Certain Provisions of the 5309 Indenture - Additional Bonds for Construction Purposes,**” as applied to the Refunding Bonds to be issued pursuant to the provisions of the Indenture summarized under this heading, or (b) a certificate of an Authorized Officer evidencing that for each Bond Year ending on or prior to the latest maturity date of any Bond Outstanding as of the time immediately prior to the issuance of such Series of Refunding Bonds, the Annual Debt Service Requirements for any such Bond Year on account of all Bonds and Section 207 Obligations Outstanding, after the issuance of such Refunding Bonds and the redemption of provision for payment of the Bonds and Section 207 Obligations to be refunded, shall not exceed the Annual Debt Service Requirements for the corresponding Bond Years on account of all the Bonds and Section 207 Obligations Outstanding, including the Bonds and Section 207 Obligations to be refunded, immediately prior to the issuance of such Refunding Bonds.

In applying the foregoing tests set forth in the previous paragraph, if any of the Bonds Outstanding immediately prior to or after the issuance of the Refunding Bonds to be issued constitute Optional Tender Bonds or Variable Rate Bonds, the provisions of the Indenture summarized under the headings “**Summary of Certain Provisions of the 5309 Indenture - Variable Interest Rates**” and “**Summary of Certain Provisions of the 5309 Indenture -**

Optional Tender Bonds and Variable Rate Bonds” shall be applied in determining the Annual Debt Service Requirements of such Bonds and of any Outstanding Section 207 Obligations.

The proceeds, including accrued interest, of the Refunding Bonds of each Series shall be applied upon their delivery as follows:

(1) there shall be deposited in any other Fund, Account or Sub-Account under the Indenture the amount, if any, required by the Supplemental Indenture authorizing such Series, including, but not limited to, an amount to be applied to the payment of costs and expenses incident to the issuance of such Refunding Bonds;

(2) the amount of such proceeds needed for the refunding of the Bonds to be refunded and for the payment of expenses incidental to such refunding shall be used for such purposes; and

(3) any balance of such proceeds shall be applied in accordance with the written instructions of the Authority, signed by an Authorized Officer and filed with the Trustee.

Refunding Bonds may be issued as Capital Appreciation Bonds, Capital Appreciation and Income Bonds, Current Interest Bonds, Variable Rate Bonds, Optional Tender Bonds (provided the Authority delivers upon authentication of such Bonds a Credit Facility which the Trustee or another Fiduciary may draw upon to pay the Purchase Price of any such Bonds), Serial Bonds and Term Bonds or any combination thereof, all as provided in the Supplemental Indenture providing for the issuance thereof.

Hedging Transactions

If the Authority shall enter into a Qualified Swap Agreement with a Swap Provider requiring the Authority to pay a fixed interest rate on a notional amount, or requiring the Authority to pay a variable interest rate on a notional amount, and the Authority has made a determination that such Qualified Swap Agreement was entered into for the purpose of providing substitute interest payments for Bonds of a particular maturity or maturities in a principal amount equal to the notional amount of the Qualified Swap Agreement, then during the term of the Qualified Swap Agreement and so long as the Swap Provider under such Qualified Swap Agreement is not in default under such Qualified Swap Agreement:

(1) for purposes of any calculation of Interest Requirements, the interest rate on the Bonds of such maturity or maturities shall be determined as if such Bonds bore interest at the fixed interest rate or the variable interest rate, as the case may be, payable by the Authority under such Qualified Swap Agreement;

(2) any net payments required to be made by the Authority to the Swap Provider pursuant to such Qualified Swap Agreement from 5309 Grant Receipts shall be made from amounts on deposit to the credit of the Interest Account (or from the Variable Rate Stabilization Account to the extent that the amount then held in the Interest Account is not sufficient to make such payment); and

(3) any net payments received by the Authority from the Swap Provider pursuant to such Qualified Swap Agreement shall be deposited to the credit of the Interest Account.

If the Authority shall enter into a swap agreement of the type generally described in the preceding paragraph that does not satisfy the requirements for qualification as a Qualified Swap Agreement, then:

(1) the interest rate adjustments or assumptions referred to in subparagraph (1) of the preceding paragraph shall not be made;

(2) any net payments required to be made by the Authority to the Swap Provider pursuant to such swap agreement shall be made either (i) from sources other than 5309 Grant Receipts or (ii) if made from 5309 Grant Receipts, such payments, and any lien on 5309 Grant Receipts securing such payments, shall be junior and subordinate to the pledge of and lien on 5309 Grant Receipts created by the Indenture as security for the payment of Parity Obligations; and

(3) any net payments received by the Authority from the Swap Provider pursuant to such swap agreement may be treated as 5309 Grant Receipts at the option of the Authority, and if so treated shall be deposited in the same manner as 5309 Grant Receipts are to be deposited. See **“Summary of Certain Provisions of the 5309 Indenture - Deposit and Application of 5309 Grant Receipts.”**

With respect to a Qualified Swap Agreement described in the first paragraph under this heading or a swap agreement described in the preceding paragraph, any termination payment required to be made by the Authority to the Swap Provider shall be made either (i) from sources other than 5309 Grant Receipts, or (ii) if made from 5309 Grant Receipts, such termination payment and any lien on 5309 Grant Receipts securing such termination payment, shall be junior and subordinate to the pledge of and lien on 5309 Grant Receipts created by the Indenture as security for the payment of Parity Obligations.

Credit Facilities to Secure Bonds; Section 207 Obligations

The Authority reserves the right to provide one or more Credit Facilities, or a combination thereof, to secure the payment of the principal of, premium, if any, and interest on one or more Series of Bonds, or in the event Owners of such Bonds have the right to require purchase thereof, to secure the payment of the purchase price of such Bonds upon the demand of the Owner thereof. In connection with any such Credit Facility, the Authority may execute and deliver an agreement setting forth the conditions upon which drawings or advances may be made under such Credit Facility, and the method by which the Authority will reimburse the Credit Bank that issued such Credit Facility for such drawings together with interest thereon at such rate or rates and otherwise make payments as may be agreed upon by the Authority and such Credit Bank.

At the election of the Authority expressed in a certificate of an Authorized Officer filed with the Trustee, any such obligation of the Authority to reimburse or otherwise make payments to the Credit Bank shall constitute a Parity Obligation under the Indenture (a “Section

207 Obligation”) to the same extent as any Series of Bonds, and any and all amounts payable by the Authority to reimburse such Credit Bank, together with interest thereon, shall for purposes of the Indenture be deemed to constitute the payment of principal of, premium, if any, and interest on Parity Obligations.

Each Section 207 Obligation shall be repayable over a period of not less than five years. The principal amount of all Section 207 Obligations incurred under a Credit Facility reimbursement agreement and payable in any period of 365 consecutive days shall not exceed 15 percent of the principal amount of all such Section 207 Obligations then Outstanding under such Credit Facility reimbursement agreement.

Subordinated Indebtedness

Nothing in the Indenture shall prohibit or prevent, or be deemed or construed to prohibit or prevent, the Authority (to the extent now or hereafter permitted by law) from (i) issuing bonds, certificates or other evidences of indebtedness or contractual obligations payable as to principal and interest from 5309 Grant Receipts, or (ii) incurring contractual obligations that are payable from 5309 Grant Receipts, but only if such indebtedness or contractual obligation is junior and subordinate in all respects to any and all Parity Obligations issued and Outstanding under the Indenture.

Covenants of the Authority

Pledge of 5309 Grant Receipts. The Authority covenants that the 5309 Grant Receipts and other moneys, securities and funds so pledged, and subject to the lien of the Indenture, are and will be free and clear of any other pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge and lien created by the Indenture, and all action on the part of the Authority to that end has been and will be duly and validly taken. The Authority shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of and lien on the 5309 Grant Receipts and other moneys, securities and funds pledged under the Indenture and all the rights of the Owners under the Indenture against all claims and demands.

Indebtedness and Liens. The Authority shall not issue any bonds or other evidences of indebtedness or incur any indebtedness, other than the Parity Obligations, Qualified Swap Agreements and Subordinated Indebtedness, which are secured by a pledge of or lien on the 5309 Grant Receipts or the moneys, securities or funds held or set aside by the Authority or by the Trustee under the Indenture, and shall not, except as expressly authorized in the Indenture, create or cause to be created any lien or charge on the 5309 Grant Receipts or such moneys, securities or funds; *provided, however*, that nothing contained in the Indenture shall prevent the Authority from issuing or incurring (i) evidences of indebtedness payable from or secured by amounts that may be withdrawn from the General Fund free from the lien of the Indenture as provided by the provisions of the Indenture summarized under the heading “**Summary of Certain Provisions of the 5309 Indenture - General Fund**” above or (ii) evidences of indebtedness payable from, or secured by the pledge of, 5309 Grant Receipts to be derived on and after such date as the pledge of 5309 Grant Receipts provided in the Indenture shall be discharged and satisfied as provided in the Indenture.

Construction of 2008 Project. The Authority shall forthwith proceed to complete the construction of the 2008 Project as an Eligible Project in conformity with all requirements of all governmental authorities having jurisdiction thereover, and in accordance with and as more fully shown on the plans therefor, and the specifications relative thereto, subject to such modifications of such plans and specifications as may be approved from time to time by the Authority.

Payment of Lawful Charges. The Authority shall pay or cause to be discharged, or will make adequate provision to satisfy and discharge, all judgments and court orders, and all lawful claims and demands for labor, materials, supplies or other objects which, if unsatisfied or unpaid, might by law become a lien upon the 5309 Grant Receipts; *provided, however,* that this covenant shall not require the Authority to pay or cause to be discharged, or make provision for, any such lien or charge, so long as the validity thereof shall be contested in good faith and by appropriate legal proceedings.

Accounts and Reports. The Authority shall keep proper books of record and account (separate from all other records and accounts) in which complete and correct entries shall be made of its transactions relating to the Project, 5309 Grant Receipts and the Funds, Accounts and Sub-Accounts established by the Indenture and any Supplemental Indenture, and which, shall at all reasonable times be available for the inspection of the Trustee and the Owners of not less than 25 percent in principal amount of Outstanding Bonds or their representatives duly authorized in writing. The Authority further covenants that it will keep an accurate record of the 5309 Grant Receipts received and of the payment thereof to the Trustee.

Not later than June 1 of each year the Authority will cause an independent audit to be made of its books and accounts for the preceding Fiscal Year, including its books and accounts relating to the 5309 Grant Receipts. Promptly thereafter reports of each such annual audit, signed by an Accountant, shall be mailed by the Authority to the Trustee and the Trustee shall make such reports available for inspection by the Owners of the Bonds.

Tax Covenants. The Authority shall not take, or omit to take, any action lawful and within its power to take, which action or omission would cause interest on any Bond to become subject to federal income taxes in addition to federal income taxes to which interest on such Bond is subject on the date of original issuance thereof. The Authority shall not permit any of the proceeds of the 2008 Bonds, or any facilities financed with such proceeds, to be used in any manner that would cause any 2008 Bond to constitute a "private activity bond" within the meaning of Section 141 of the Code. The Authority shall not permit any of the proceeds of the 2008 Bonds or other moneys to be invested in any manner that would cause any 2008 Bond to constitute an "arbitrage bond" within the meaning of Section 148 of the Code or a "hedge bond" within the meaning of Section 149(g) of the Code. The Authority shall comply with the provisions of Section 148(f) of the Code relating to the rebate of certain investment earnings at periodic intervals to the United States of America.

Capital Improvement Program. The Authority shall include the construction of the 2008 Project (and the payment of the Outstanding Parity Obligations from 5309 Grant Receipts) in each five year capital improvement program that the Authority prepares and submits to the RTA in accordance with the Regional Transportation Authority Act.

FTA Funds. (a) The Authority shall comply with all applicable laws of the United States of America and regulations of the FTA relating to the administration and disbursement of federal funds under 49 United States Code Section 5309 in order to be eligible to receive 5309 Grant Receipts for the payment of Parity Obligations and to facilitate the prompt receipt by the Authority of 5309 Grant Receipts.

(b) Within 10 days of the date that any FTA Section 5309 (49 United States Code Section 5309) Fixed Guideway Modernization Formula funds appropriated with respect to a Federal Fiscal Year (commencing with the Federal Fiscal Year ending on September 30, 2008) become available for disbursement to the Authority for payment obligations then due, the Authority shall take all reasonable actions as shall be necessary or desirable to facilitate the prompt payment of such 5309 Fixed Guideway Modernization Formula funds to the Authority. All of such moneys constituting 5309 Grant Receipts, when received by the Authority, shall be deposited promptly into the Grant Receipts Deposit Fund.

(c) For each Federal Fiscal Year (commencing with the Federal Fiscal Year ending on September 30, 2008), the Authority shall apply for the appropriation of FTA Section 5309 Fixed Guideway Modernization Formula funds on a priority basis for the payment of a sum sufficient to fund all of the payments to the Trustee required to be made under the provisions of the Indenture summarized in this Appendix A under the heading “**Summary of Certain Provisions of the 5309 Indenture - Deposit and Application of 5309 Grant Receipts**” above to the end of the next Bond Year, and shall cause such FTA 5309 Fixed Guideway Modernization Formula funds to be obligated for such purposes on the earliest possible date in each Federal Fiscal Year.

(d) If as of the last Business Day of any Federal Fiscal Year, the grant approvals required to make the payments to the Trustee as described under this heading in subsection (c) above from the current Federal Fiscal Year appropriations have not been obtained, then the Authority shall reprogram available FTA 5309 Fixed Guideway Modernization Formula funds appropriated in prior Federal Fiscal Years to the extent required to make such payments.

(e) Moneys held in the Grant Receipts Deposit Fund may be withdrawn from time to time by the Authority for the payment or reimbursement of the costs of Eligible Projects; *provided, however,* that after the first Business Day of any Bond Year if any deficiency then exists in the deposits required to be made by the Trustee pursuant to the provisions of the Indenture summarized in this Appendix A under the heading “**Summary of Certain Provisions of the 5309 Indenture - Deposit and Application of 5309 Grant Receipts**” above, no such withdrawal shall be made unless the Authority shall have obligated from appropriations applicable from the current or prior Federal Fiscal Years a sum sufficient for the payments to the Trustee required to be made pursuant to the Indenture summarized in this Appendix A under the heading “**Summary of Certain Provisions of the 5309 Indenture - Deposit and Application of 5309 Grant Receipts**” in the current Bond Year.

Events of Default and Remedies

Each of the following events is declared an “*Event of Default*” under the Indenture:

- (1) if a default shall occur in the due and punctual payment of the principal or Redemption Price of any Parity Obligation when and as the same shall become due and payable, whether at maturity or by call for redemption or otherwise;
- (2) if a default shall occur in the due and punctual payment of interest on any Parity Obligation, when and as such interest shall become due and payable;
- (3) if a default shall occur in the performance or observance by the Authority of any other of the covenants, agreements or conditions in the Indenture or in the Parity Obligations contained, and such default shall continue for a period of 60 days after written notice thereof to the Authority by the Trustee or after written notice thereof to the Authority and to the Trustee by (a) the Owners of not less than a majority in principal amount of the Outstanding Bonds or (b) the Person entitled to payment under any other Outstanding Parity Obligation; or
- (4) if the Authority shall file a petition seeking a composition of indebtedness under the federal bankruptcy laws or under any other applicable law or statute of the United States of America or of the State of Illinois.

The Authority covenants that if an Event of Default shall happen and shall not have been remedied, the Authority, upon demand of the Trustee, shall pay over or cause to be paid over to the Trustee (i) forthwith, all moneys, securities and funds then held by the Authority in any Fund, Account or Sub-Account pursuant to the terms of the Indenture, and (ii) all 5309 Grant Receipts as promptly as practicable after receipt thereof.

During the continuance of an Event of Default, the Trustee shall apply such moneys, securities, funds and 5309 Grant Receipts and the income therefrom as follows and in the following order:

- (1) to the payment of the reasonable and proper charges and expenses of the Trustee, including the reasonable fees and expenses of counsel employed by it pursuant to the provisions summarized under this heading;
- (2) to the payment of the principal of, Redemption Price of and interest on the Parity Obligations then due, as follows:

First: to the payment to the persons entitled thereto of all installments of interest then due on the Parity Obligations in the order of the maturity of such installments, together with accrued and unpaid interest on the Parity Obligations theretofore called for redemption, and, if the amount available shall not be sufficient to pay in full any installment or installments of interest maturing on the

same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

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

If and whenever all overdue installments of principal and Redemption Price of and interest on all Parity Obligations, together with the reasonable and proper charges and expenses of the Trustee, and all other overdue sums payable by the Authority under the Indenture, including the overdue principal and Redemption Price of and accrued unpaid interest on all Parity Obligations held by or for the account of the Authority have been paid, or provision satisfactory to the Trustee shall be made for such payment, and all defaults under the Indenture or the Parity Obligations shall be made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, the Trustee shall pay over to the Authority all moneys, securities and funds then remaining unexpended in the hands of the Trustee (except moneys, securities and funds deposited or pledged, or required by the terms of the Indenture to be deposited or pledged, with the Trustee), and thereupon the Authority, the Trustee, the Credit Banks, Swap Providers, Bond Insurers and the Owners shall be restored, respectively, to their former positions and rights under the Indenture. No such payment over to the Authority by the Trustee nor such restoration of the Authority and the Trustee to their former positions and rights shall extend to or affect any subsequent default under the Indenture or impair any right consequent thereon.

In the preceding three paragraphs, interest on Parity Obligations includes net payments to a Swap Provider under a Qualified Swap Agreement, as provided in the Indenture.

If an Event of Default shall happen and shall not have been remedied, then and in every such case, the Trustee, by its agents and attorneys, may proceed, and upon identical written request of the Owners of not less than a majority in principal amount of the Bonds Outstanding and upon being indemnified to its satisfaction shall proceed, to protect and enforce its rights and the rights of the Owners of the Bonds under the Indenture forthwith by a suit or suits in equity or at law, whether for the specific performance of any covenant contained in the Indenture, or in aid of the execution of any power granted therein, or for an accounting against the Authority as if the Authority were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the trustee, being advised by counsel, shall deem most effectual to enforce any of its rights or to perform any of its duties under the Indenture.

All rights of action under the Indenture may be enforced by the Trustee without the possession of any of the Parity Obligations or the production thereof in any suit or other proceeding, and any such suit or other proceeding instituted by the Trustee shall be brought in its name. All actions against the Authority under the Indenture shall be brought in a state or federal court located in the County of Cook, Illinois.

The Owners of not less than a majority in principal amount of the Bonds at the time Outstanding may direct the time, method and place of conducting any proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture or for the enforcement of any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, *provided* that the Trustee shall have the right to decline to follow any such direction if the Trustee shall be advised by counsel that the action or proceeding so directed may not lawfully be taken, or if the Trustee in good faith shall determine that the action or proceeding so directed would involve the Trustee in personal liability or be unjustly prejudicial to the Owners not parties to such direction.

Upon commencing any suit at law or in equity or upon commencement of other judicial proceedings by the Trustee to enforce any right under the Indenture, the Trustee shall be entitled to exercise any and all rights and powers conferred in the Indenture and provided to be exercised by the Trustee upon the occurrence of any Event of Default.

Regardless of the happening of an Event of Default, the Trustee shall have power, but unless requested in writing by the Owners of a majority in principal amount of the Bonds then Outstanding, and furnished with reasonable security and indemnity, shall be under no obligation, to institute and maintain such suits and proceedings as may be necessary or expedient to prevent any impairment of the security under the Indenture and to preserve or protect its interests and the interest of the Owners.

No remedy by the terms of the Indenture conferred upon or reserved to the Trustee, any Credit Bank, Swap Provider or Bond Insurer or the Owners is intended to be exclusive of any other remedy, but each remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or existing at law or in equity or by statute on or after the date of the execution and delivery of the Indenture.

Restriction on Owners' Action

No Owner of any Bond shall have any right to institute any suit or proceeding at law or in equity for the enforcement or violation of any provision of the Indenture or the execution of any trust under the Indenture or for any remedy under the Indenture, unless such Owner shall have previously given to the Trustee written notice of the happening of an Event of Default, as provided in the Indenture, and the Owners of at least a majority in principal amount of the Bonds then Outstanding shall have filed a written request with the Trustee, and shall have offered it reasonable opportunity either to exercise the powers granted in the Indenture or by the laws of Illinois or to institute such suit or proceeding in its own name, and unless such Owners shall have offered to the Trustee adequate security and indemnity against the costs, expenses and

liabilities to be incurred therein or thereby, and the Trustee shall have refused or failed to comply with such request within 60 days after receipt by it of such notice, request and offer of indemnity, it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by its or their action to affect, disturb or prejudice the pledge created by the Indenture or to enforce any right under the Indenture, except in the manner provided in the Indenture; and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner provided in the Indenture and for the equal benefit of all Owners of the Outstanding Bonds, subject only to the provisions of the Indenture relating to extension of payment of the Bonds.

Nothing in the Indenture or in the Bonds contained shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay at the respective dates of maturity and places therein expressed the principal of and interest on the Bonds to the respective Owners thereof, or affect or impair the right of action, which is also absolute and unconditional, of any Owner to enforce such payment of its Bond from the sources provided in the Indenture.

Rights of Bond Insurer Upon Event of Default

Subject to the provisions of the Indenture summarized below under “**Termination of Rights of Bond Insurers**,” upon the occurrence and continuance of an Event of Default, the 2008 Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owners of the 2008 Bonds or the Trustee for the benefit of the Owners of the 2008 Bonds under the Indenture, except that the Owners of the 2008 Bonds shall retain the right to exercise all rights under the Indenture related to the enforcement of the tax covenants of the Authority contained in the Indenture or any Supplemental Indenture.

In the event of any reorganization or liquidation of the Authority, the 2008 Bond Insurer shall have the right to vote on behalf of all Owners who hold 2008 Bonds secured by the 2008 Bond Insurance Policy absent a default by the 2008 Bond Insurer under the 2008 Bond Insurance Policy.

Rights of Credit Bank or Bond Insurer

Subject to the provisions of any applicable Supplemental Indenture, any Credit Bank or any Bond Insurer shall be treated as the Owner of Bonds upon which such Credit Bank or Bond Insurer is obligated pursuant to a Credit Facility or Bond Insurance Policy, as applicable, for the purposes of calculating whether or not the Owners of the requisite percentage of Bonds then Outstanding have consented to any request, consent, directive, waiver or other action permitted to be taken by the Owners of the Bonds pursuant to the provisions of the Indenture relating to events of default and remedies upon an event of default; *provided, however*, that (a) the Owners of the Bonds shall retain the right to exercise all rights under such provisions related to the enforcement of the tax covenants of the Authority contained in the Indenture, and (b) such Credit Bank or Bond Insurer shall cease to be so regarded as Owner of such Bonds in the event such Credit Bank or Bond Insurer is in default of its obligations under the applicable Credit Facility or Bond Insurance Policy.

Notwithstanding anything contained in the Indenture to the contrary, but subject to the provisions of any applicable Supplemental Indenture, until the Authority has reimbursed a Credit Bank for amounts paid under a Credit Facility to pay the interest on or the principal of any Bonds on any Interest Payment Date or Principal Payment Date or to the extent any Bond Insurer has exercised its rights as subrogee for the particular Bonds of which it has insured payment, such Bonds shall be deemed to be Outstanding and such Credit Bank or Bond Insurer shall succeed to the rights and interests of the Owners to the extent of the amounts paid under the Credit Facility or as specified in respect of the applicable Bond Insurance Policy until such amount has been reimbursed.

Supplemental Indentures Not Requiring Consent of Owners

The Authority and the Trustee may without the consent of any of the Owners or any Credit Bank, Bond Insurer and Swap Provider, enter into a Supplemental Indenture or Supplemental Indentures as shall not be inconsistent with the terms and provisions of the Indenture for any one or more of the following purposes:

- (1) to authorize Additional Bonds and Refunding Bonds and to specify, determine or authorize any matters and things concerning any such Bonds which are not contrary to or inconsistent with the Indenture;
- (2) to close the Indenture against, or impose additional limitations or restrictions on, the issuance of Parity Obligations, or of other notes, bonds, obligations or evidences of indebtedness;
- (3) to impose additional covenants or agreements to be observed by the Authority;
- (4) to impose other limitations or restrictions upon the Authority;
- (5) to surrender any right, power or privilege reserved to or conferred upon the Authority by the Indenture;
- (6) to confirm, as further assurance, any pledge of or lien upon the 5309 Grant Receipts or any other moneys, securities or funds;
- (7) authorize the issuance of Subordinated Indebtedness and in connection therewith, specify and determine any matters and things relative thereto which are not contrary to or inconsistent with the Indenture as then in effect;
- (8) to cure any ambiguity, omission or defect in the Indenture;
- (9) to provide for the appointment of a successor securities depository in the event any Series of Bonds is held in book-entry only form;
- (10) to provide for the appointment of any successor Fiduciary; and

(11) to make any other change which, in the judgment of the Trustee, is not to the prejudice of the Trustee or the Owners.

Supplemental Indentures Effective upon Consent of Owners

Except for Supplemental Indentures described under the preceding heading, any modification or amendment of the Indenture and of the rights and obligations of the Authority and of the Owners of the Bonds thereunder, in any particular, may be made by a Supplemental Indenture with the written consent given as provided in the Indenture (i) of the Owners of at least a majority in principal amount of the Bonds Outstanding at the time such consent is given, and (ii) in case less than all of the several Series of Bonds then outstanding are affected by the modification or amendment, of the Owners of at least a majority in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given; *provided, however,* that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bonds, or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon or impair the exclusion from federal income taxation of interest on any Bond without the consent of the Owner of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto. A Series shall be deemed to be affected by a modification or amendment of the Indenture if the same adversely affects or diminishes the rights of the Owners of Bonds of such Series. The Trustee may in its discretion determine whether or not the rights of the Owners of Bonds of any particular Series or maturity would be adversely affected or diminished by any such modification or amendment, and its determination shall be binding and conclusive on the Authority and all Owners of the Bonds. Any amendment or modification of the Indenture that adversely affects or diminishes the rights of any Credit Bank or Swap Provider with respect to the payment of any Section 206 Obligation or any Section 207 Obligation or the security provided by the Indenture with respect to the payment of any Section 206 Obligation or Section 207 Obligation shall not take effect unless such amendment or modification is consented to by such Credit Bank or Swap Provider (or in the event of an assignment of such Section 206 Obligation or Section 207 Obligation, the Person entitled to payment of such Section 206 Obligation or Section 207 Obligation).

Subject to the provisions of the Indenture summarized below under “**Summary of Certain Provisions of the 5309 Indenture - Termination of Rights of Bond Insurers,**” the rights of the Owner of an Insured Bond to consent to any amendment or modification of the Indenture are abrogated and the Bond Insurer may exercise the rights of the Owner of any Insured Bond that is entitled to the benefits of the Bond Insurance Policy issued by the Bond Insurer for the purpose of any approval, request, demand, consent, waiver or other instrument of similar purpose. Upon the authorization of a Supplemental Indenture making an amendment or modification to the Indenture, a copy thereof shall be delivered to and held by the Trustee for the inspection of the Owners. A copy of such Supplemental Indenture (or summary thereof or reference thereto in form approved by the Trustee) together with a request to Owners for their

consent thereto in form satisfactory to the Trustee, shall be mailed to the Owners, but failure to mail such copy and request shall not affect the validity of such Supplemental Indenture when consented to as in the Indenture provided. Such Supplemental Indenture shall not be effective unless and until, and shall take effect in accordance with its terms when (a) there shall have been filed with the Trustee (i) the written consents of the Owners of the required principal amount of Outstanding Bonds, and (ii) a Counsel's Opinion stating that the execution and delivery of such Supplemental Indenture has been duly authorized by the Authority in accordance with the provisions of the Indenture, is authorized or permitted by the Indenture and, when effective, will be valid and binding upon the Authority, the Owners and the Trustee, and (b) a notice shall have been mailed as hereinafter provided under this heading. A certificate or certificates by the Trustee delivered to the Authority that consents have been given by the Owners of the Bonds described in such certificate or certificates of the Trustee shall be conclusive. Any such consent shall be binding upon the Owner of the Bonds giving such consent and upon any subsequent Owner of such Bonds and of any Bonds issued in exchange therefor whether or not such subsequent Owner has notice thereof; *provided, however*, that any consent may be revoked by any Owner of such Bonds by filing with the Trustee, prior to the time when the Trustee's written statement hereafter described is filed, a written revocation, with proof that such Bonds are held by the signer of such revocation. The fact that a consent has not been revoked may be proved by a certificate of the Trustee to the effect that no revocation thereof is on file with it. Any consent, or revocation thereof, may be delivered or filed prior to any mailing or publication required by the provisions described under this heading and shall not be deemed ineffective by reason of such prior delivery or filing. Within 30 days of any date on which the consents on file with the Trustee and not theretofore revoked shall be sufficient, the Trustee shall make and deliver to the Authority a written statement that the consents of the Owners of the required principal amount of Outstanding Bonds have been filed with the Trustee. Such written statement shall be conclusive that such consents have been so filed.

The Indenture and the rights and obligations of the Authority and of the Owners of the Bonds thereunder may be modified or amended in any respect by a Supplemental Indenture effecting such modification or amendment and with the consents of the Owners of all the Bonds then Outstanding, each such consent to be accompanied by proof of the holding at the date of such consent of the Bonds with respect to which such consent is given.

Defeasance

If the Authority shall pay or cause to be paid or there shall otherwise be paid (i) to the Owners of all Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture, then the pledge of any 5309 Grant Receipts and other moneys and securities pledged under the Indenture and all covenants, agreements and other obligations of the Authority to the Owners shall thereupon be discharged and satisfied and (ii) to the applicable Credit Banks and Swap Providers (or their assignees) all payments due upon the instruments creating Section 206 Obligations and Section 207 Obligations, then the pledge of any 5309 Grant Receipts and other moneys and securities pledged under the Indenture and all covenants, agreements and obligations of the Authority to the Credit Banks, the Swap Providers and any of their assignees with respect to payment of Section 206 Obligations and Section 207 Obligations shall thereupon be discharged and satisfied. In such event, the Trustee, upon request of the Authority, shall provide

an accounting of the assets managed by the Trustee to be prepared and filed with the Authority for any year or part thereof requested, and shall execute and deliver to the Authority all such instruments as may be desirable to evidence such discharge and satisfaction, and the Fiduciaries shall pay over or deliver to the Authority all moneys and securities held by them pursuant to the Indenture which are not required for the payment of Bonds not previously surrendered for such payment or redemption or for the payment of Section 206 Obligations and Section 207 Obligations. If the Authority shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of all Outstanding Bonds of a particular Series, maturity within a Series or portion of any maturity within a Series (which portion shall be selected by lot by the Trustee in the manner provided in the Indenture for the selection of Bonds to be redeemed in part), the principal or Redemption Price, if applicable, thereof and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture, such Bonds shall cease to be entitled to any lien, benefit or security under the Indenture, and all covenants, agreements and obligations of the Authority to the Owners of such Bonds and to the Trustee shall thereupon be discharged and satisfied.

Bonds or interest installments for the payment or redemption of which moneys shall have been set aside and held in trust by the Trustee at or prior to their maturity or redemption date shall be deemed to have been paid within the meaning of and with the effect expressed in the Indenture if the Authority shall have delivered to or deposited with the Trustee (i) irrevocable instructions to pay or redeem all of said Bonds in specified amounts no less than the respective amounts of, and on specified dates no later than the respective due dates of, their principal, (ii) irrevocable instructions to publish or mail the required notice of redemption of any Bonds so to be redeemed, (iii) either moneys in an amount which shall be sufficient, or Defeasance Obligations the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient, to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on said Bonds on and prior to each specified redemption date or maturity date thereof, as the case may be, and (iv) if any of said Bonds are not to be redeemed within the next succeeding 60 days, irrevocable instructions to mail to all Owners of said Bonds a notice that such deposit has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with the provisions of the Indenture summarized under this heading and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal or Redemption Price, if applicable, of said Bonds. The Defeasance Obligations and moneys deposited with the Trustee pursuant to the provisions of the Indenture summarized under this heading shall be held in trust for the payment of the principal or Redemption Price, if applicable, and interest on said Bonds. No payments of principal of any such Defeasance Obligations or interest thereon shall be withdrawn or used for any purpose other than the payment of such principal or Redemption Price of, or interest on, said Bonds unless after such withdrawal the amount held by the Trustee and interest to accrue on Defeasance Obligations so held shall be sufficient to provide fully for the payment of the principal of or Redemption Price and interest on such Bonds, at maturity or upon redemption, as the case may be.

Amounts deposited with the Trustee for the payment of the principal of and interest on any Bonds deemed to be paid pursuant to the Indenture, if so directed by the Authority, shall be applied by the Trustee to the purchase of such Bonds in accordance with this paragraph. Bonds for which a redemption date has been established may be purchased on or

prior to the forty-fifth day preceding the redemption date. The principal amount of Bonds to be redeemed shall be reduced by the principal amount of Bonds so purchased. Bonds which mature on a single future date may be purchased at any time prior to the maturity date. All such purchases shall be made at prices not exceeding the applicable principal amount or Redemption Price established pursuant to the Indenture, plus accrued interest, and such purchases shall be made in such manner as the Trustee shall determine. No purchase shall be made by the Trustee pursuant to this paragraph if such purchase would result in the Trustee holding less than the moneys and Defeasance Obligations required to be held for the payment of all other Bonds deemed to be paid pursuant to the Indenture.

The Authority may purchase with any available funds any Bonds deemed to be paid pursuant to the Indenture in accordance with this paragraph. Bonds for which a redemption date has been established may be purchased by the Authority on or prior to the forty-fifth day preceding the redemption date. On or prior to the forty-fifth day preceding the redemption date the Authority shall give notice to the Trustee of its intention to surrender such Bonds on the redemption date. The Trustee shall proceed to call for redemption the remainder of the Bonds due on the redemption date and shall pay to the Authority on the redemption date the Redemption Price of and interest on such Bonds upon surrender of such Bonds to the Trustee. Bonds which mature on a single future date may be purchased at any time prior to the maturity date. The Trustee shall pay to the Authority the principal amount of and interest on such Bonds upon surrender of such Bonds on the maturity date.

Termination of Rights of Bond Insurers

All rights of any Bond Insurer under the Indenture, or any Supplemental Indenture shall cease and terminate if: (i) such Bond Insurer has failed to make any payment under its Bond Insurance Policy; (ii) such Bond Insurance Policy shall cease to be valid and binding on such Bond Insurer or shall be declared to be null and void, or the validity or enforceability of any provision thereof is being contested by such Bond Insurer, or such Bond Insurer is denying further liability or obligation under such Bond Insurance Policy; (iii) a petition has been filed and is pending against such Bond Insurer under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution, liquidation or rehabilitation law of any jurisdiction, and has not been dismissed within sixty days after such filing; (iv) such Bond Insurer has filed a petition, which is still pending, in voluntary bankruptcy or is seeking relief under any provision of any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution, liquidation or rehabilitation law of any jurisdiction, or has consented to the filing of any petition against it under any such law; or (v) a receiver has been appointed for such Bond Insurer under the insurance laws of any jurisdiction.

In addition, the existence of all rights given to the 2008 Bond Insurer under the Indenture with respect to the giving of consents or approvals and the direction of proceedings or otherwise are expressly conditioned upon the timely and full performance of the obligations of the 2008 Bond Insurer under the 2008 Bond Insurance Policy.

APPENDIX B
FINANCIAL STATEMENTS OF THE AUTHORITY

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CHICAGO TRANSIT AUTHORITY

Financial Statements and Supplementary Information

December 31, 2006 and 2005

(With Independent Auditors' Report Thereon)

CHICAGO TRANSIT AUTHORITY

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KPMG LLP
303 East Wacker Drive
Chicago, IL 60601-5212

Independent Auditors' Report

Chicago Transit Board
Chicago Transit Authority
Chicago, Illinois:

We have audited the accompanying financial statements of the business-type and fiduciary activities of the Chicago Transit Authority (CTA) as of and for the years ended December 31, 2006 and 2005, which collectively comprise the CTA's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the CTA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the business-type and fiduciary activities of the CTA as of December 31, 2006 and 2005, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 30, 2007 on our consideration of the CTA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



The management's discussion and analysis on pages 3 through 11 and the schedules of funding progress and employer contributions on pages 53 through 55 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits for the years ended December 31, 2006 and 2005 were made for the purpose of forming opinions on the basic financial statements taken as a whole. The supplementary information included in the schedules of expenses and revenues – budget and actual for the years ended December 31, 2006 and 2005 on pages 56 and 57 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole for the years ended December 31, 2006 and 2005.

KPMG LLP

Chicago, Illinois
April 30, 2007

CHICAGO TRANSIT AUTHORITY

Management's Discussion and Analysis

December 31, 2006 and 2005

(Unaudited)

Introduction

The following discussion and analysis of the financial performance and activity of the Chicago Transit Authority (CTA) provide an introduction and understanding of the basic financial statements of the CTA for the fiscal years ended December 31, 2006 and 2005. This discussion was prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Financial Highlights for 2006

- Net assets totaled \$1,743,523,000 at December 31, 2006.
- Net assets decreased \$103,559,000 in 2006, which compares to a decrease of \$153,572,000 in 2005.
- Total net capital assets were \$3,202,171,000 at December 31, 2006, an increase of 7.54% over the balance at December 31, 2005 of \$2,977,603,000.

Financial Highlights for 2005

- Net assets totaled \$1,847,082,000 at December 31, 2005.
- Net assets decreased \$153,572,000 in 2005, which compares to a decrease of \$38,733,000 in 2004.
- Total net capital assets were \$2,977,603,000 at December 31, 2005, an increase of 0.02% over the balance at December 31, 2004 of \$2,977,017,000.

The Financial Statements

The basic financial statements provide information about the CTA's business-type activities and the Open Supplemental Retirement Fund (fiduciary activities). The financial statements are prepared in accordance with U.S. generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB).

Overview of the Financial Statements for Business-Type Activities

The financial statements consist of the (1) balance sheet, (2) statement of revenues, expenses, and changes in net assets, (3) statement of cash flows, and (4) notes to the financial statements. The financial statements are prepared on the accrual basis of accounting, meaning that all expenses are recorded when incurred and all revenues are recognized when earned, in accordance with U.S. generally accepted accounting principles.

Balance Sheet

The balance sheet reports all financial and capital resources for the CTA (excluding fiduciary activities). The statement is presented in the format where assets equal liabilities plus net assets, formerly known as equity. Assets and liabilities are presented in order of liquidity and are classified as current (convertible into cash within one year) and noncurrent. The focus of the balance sheet is to show a picture of the liquidity and health of the organization as of the end of the year.

CHICAGO TRANSIT AUTHORITY

Management's Discussion and Analysis

December 31, 2006 and 2005

(Unaudited)

The balance sheet (the unrestricted net assets) is designed to present the net available liquid (noncapital) assets, net of liabilities, for the entire CTA. Net assets are reported in three categories:

- *Net Assets Invested in Capital Assets, Net of Related Debt*—This component of net assets consists of all capital assets, reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- *Restricted Net Assets*—This component of net assets consists of restricted assets where constraints are placed upon the assets by creditors (such as debt covenants), grantors, contributors, laws, and regulations, etc.
- *Unrestricted Net Assets*—This component consists of net assets that do not meet the definition of net assets invested in capital assets, net of related debt, or restricted net assets.

Statement of Revenues, Expenses, and Changes in Net Assets

The statement of revenues, expenses, and changes in net assets includes operating revenues, such as bus and rail passenger fares, rental fees received from concessionaires, and the fees collected from advertisements on CTA property; operating expenses, such as costs of operating the mass transit system, administrative expenses, and depreciation on capital assets; and nonoperating revenue and expenses, such as grant revenue, investment income, and interest expense. The focus of the statement of revenues, expenses, and changes in net assets is the change in net assets. This is similar to net income or loss and portrays the results of operations of the organization for the entire operating period.

Statement of Cash Flows

The statement of cash flows discloses net cash provided by or used for operating activities, investing activities, noncapital financing activities, and capital and related financing activities. This statement also portrays the health of the CTA in that current cash flows are sufficient to pay current liabilities.

Notes to Financial Statements

The notes to financial statements are an integral part of the basic financial statements and describe the significant accounting policies, related-party transactions, deposits and investments, capital assets, capital lease obligations, bonds payable, long-term liabilities, defined-benefit pension plans, derivative financial instruments, and commitments and contingencies. The reader is encouraged to review the notes in conjunction with management's discussion and analysis and the financial statements.

CHICAGO TRANSIT AUTHORITY

Management's Discussion and Analysis

December 31, 2006 and 2005

(Unaudited)

Financial Analysis of the CTA's Business-Type Activities

Balance Sheet

The following table reflects a condensed summary of assets, liabilities, and net assets of the CTA as of December 31, 2006, 2005, and 2004:

Table 1

Summary of Assets, Liabilities, and Net Assets

December 31, 2006, 2005, and 2004

(In thousands of dollars)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Assets:			
Current assets	\$ 418,591	407,698	331,278
Restricted assets	2,190,409	2,052,990	2,078,122
Other assets	16,101	16,390	39,948
Capital assets, net	<u>3,202,171</u>	<u>2,977,603</u>	<u>2,977,017</u>
Total assets	\$ <u>5,827,272</u>	<u>5,454,681</u>	<u>5,426,365</u>
Liabilities:			
Current liabilities	\$ 501,238	429,054	437,741
Long-term liabilities	<u>3,582,511</u>	<u>3,178,545</u>	<u>2,987,970</u>
Total liabilities	<u>4,083,749</u>	<u>3,607,599</u>	<u>3,425,711</u>
Net assets:			
Invested in capital assets, net of related debt	2,933,473	2,767,809	2,753,262
Restricted for payment of leasehold obligations	33,017	24,211	23,525
Restricted for debt service	31,379	32,840	39,225
Restricted by RTA for operations and capital improvements	5,818	7,460	20,890
Unrestricted (deficit)	<u>(1,260,164)</u>	<u>(985,238)</u>	<u>(836,248)</u>
Total net assets	<u>1,743,523</u>	<u>1,847,082</u>	<u>2,000,654</u>
Total liabilities and net assets	\$ <u>5,827,272</u>	<u>5,454,681</u>	<u>5,426,365</u>

Year Ended December 31, 2006

Current assets increased by 2.67% to \$418,591,000. The change in current assets is primarily due to the increase in grants receivable which is offset by a decrease in cash, investments, and inventory.

CHICAGO TRANSIT AUTHORITY

Management's Discussion and Analysis

December 31, 2006 and 2005

(Unaudited)

Restricted assets increased by 6.69% to \$2,190,409,000 due to the receipt of bond proceeds that were not yet expended at year-end. During 2006, CTA issued Capital Grant Receipts Revenue Bonds, "2006 Project," in the amount of \$275,000,000, along with a premium of \$19,652,000, in anticipation of the receipt of grants from the federal government pursuant to a full funding grant agreement. The bonds were issued to provide funds to finance the costs of capital improvements to the transportation system referred to as the "2006 Project." At December 31, 2006, approximately \$291,000,000 of the proceeds from this bond were unspent.

Other assets decreased by 1.76% to \$16,101,000 primarily due to the amortization of bond issue costs and decrease in the net pension asset.

Capital assets (net) increased by 7.54% to \$3,202,171,000 due to the CTA's capital improvement projects. The CTA's capital improvement projects were funded primarily by the Federal Transit Administration (FTA), the Illinois Department of Transportation (IDOT), the Regional Transportation Authority (RTA), and CTA bonds.

Current liabilities increased 16.82% to \$501,238,000 primarily due to an increase in accounts payable and accrued expenses.

Long-term liabilities increased 12.71% to \$3,582,511,000 due primarily to an increase in net pension obligation and the issuance of Capital Grant Receipts Revenue Bonds in 2006.

Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, and reduced by the amount of outstanding indebtedness attributable to the acquisition, construction, or improvement of those assets. This category increased 5.99% from the prior year primarily due to capital assets, acquisitions during the year that were funded by capital grants of \$522,040,000, offset by depreciation expense of \$376,910,000.

The net asset balances restricted for other purposes include amounts restricted for three distinct purposes. The first restriction is for the assets restricted for future payments on the lease obligations. The second restriction is for the assets restricted for debt service payments. The third restriction is for operating grants received from the RTA that are restricted for future operations and capital improvements.

Unrestricted net assets (deficit), which represent assets available for operations, increased 27.90% over the prior year, primarily due to unfunded pension expense (i.e., increase in the net pension obligation) of \$241,202,000.

Year Ended December 31, 2005

Current assets increased by 23.1% to \$407,698,000. The change in current assets is primarily due to the increase in cash and investments and grants receivable.

Restricted assets decreased by 1.2% due to the use of bond proceeds.

Other assets decreased by 59.0% to \$16,390,000 primarily due to a decrease in cash and investments held by trustee for the supplemental retirement plan. In 2005, a qualified plan was established and, therefore, a transfer of assets was made to the new plan.

CHICAGO TRANSIT AUTHORITY

Management's Discussion and Analysis

December 31, 2006 and 2005

(Unaudited)

Capital assets (net) increased by 0.02% to \$2,977,603,000 due to the CTA's capital improvement projects. The CTA's capital improvement projects were funded primarily by the Federal Transit Administration (FTA), the Illinois Department of Transportation (IDOT), the Regional Transportation Authority (RTA), and CTA bonds.

Current liabilities decreased 2.0%. Long-term liabilities increased 6.4% due to an increase in net pension obligation.

Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, and reduced by the amount of outstanding indebtedness attributable to the acquisition, construction, or improvement of those assets. This category increased 0.5% from the prior year primarily due to capital assets, acquisitions during the year that were funded by capital grants of \$398,654,000, offset by depreciation expense of \$360,559,000.

The net asset balances restricted for other purposes include amounts restricted for three distinct purposes. The first restriction is for the assets restricted for future payments on the lease obligations. The second restriction is for the assets restricted for debt service payments. The third restriction is for operating grants received from the RTA that are restricted for future operations and capital improvements.

Unrestricted net assets (deficit), which represent assets available for operations, increased 17.8% over the prior year, primarily due to unfunded pension expense (i.e., increase in the net pension obligation) of \$235,584,000.

CHICAGO TRANSIT AUTHORITY

Management's Discussion and Analysis

December 31, 2006 and 2005

(Unaudited)

Statement of Revenues, Expenses, and Changes in Net Assets

The following table reflects a condensed summary of the revenues, expenses, and changes in net assets (in thousands) for the years ended December 31, 2006, 2005, and 2004:

Table 2

Condensed Summary of Revenues, Expenses, and Changes in Net Assets

Years ended December 31, 2006, 2005, and 2004

(In thousands of dollars)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating revenues	\$ 493,023	448,411	432,619
Operating expenses:			
Operating expenses	1,344,133	1,216,217	1,125,934
Depreciation	376,910	360,559	349,162
Total operating expenses	<u>1,721,043</u>	<u>1,576,776</u>	<u>1,475,096</u>
Operating loss	(1,228,020)	(1,128,365)	(1,042,477)
Nonoperating revenues/expenses, net	602,421	576,139	513,342
Capital contributions	<u>522,040</u>	<u>398,654</u>	<u>490,402</u>
Change in net assets	(103,559)	(153,572)	(38,733)
Total net assets, beginning of year	<u>1,847,082</u>	<u>2,000,654</u>	<u>2,039,387</u>
Total net assets, end of year	\$ <u><u>1,743,523</u></u>	<u><u>1,847,082</u></u>	<u><u>2,000,654</u></u>

Year Ended December 31, 2006

Operating revenues increased by \$44,612,000, or 9.95%. The revenue increase is primarily due to higher ridership and a higher average fare. The higher average fare is due to the new fare structure which eliminated cash transfers and increased cash and rail transit card fares. Additionally, systemwide ridership increased by 0.5% in 2006.

Total operating expenses increased \$144,267,000, or 9.15%. The increase is primarily driven by higher labor, materials, and fuel expense.

Labor expense increased due to higher wages, pension, and workers' compensation expenses. Materials expense increased \$11,784,000 due to increasing commodity prices, higher mileage, and the aging life of the fleet. Fuel expense increased \$11,682,000 due to a higher average cost per gallon due to market-driven forces. In 2006, the average fuel price increased \$0.45 to \$2.32 per gallon.

CHICAGO TRANSIT AUTHORITY

Management's Discussion and Analysis

December 31, 2006 and 2005

(Unaudited)

At the direction of the Illinois General Assembly, on July 1, 2006, the responsibility for providing paratransit service in the region was transitioned to Pace Suburban Bus. As a result, paratransit expense declined by \$24,800,000, or 46%, over the prior year.

Year Ended December 31, 2005

Operating revenues increased by \$15,792,000, or 3.7%. The revenue increase is primarily due to higher fare revenue from an increase in ridership in 2005. In 2005, systemwide ridership increased by 3.6%.

Total operating expenses increased \$101,680,000, or 6.9%. The increases are primarily driven by higher labor and fuel expenses.

Labor expense increased due to higher health insurance, pension, and workers' compensation expenses. Fuel expense increased \$15,695,000 due to a higher average cost per gallon.

Table 3, which follows, provides a comparison of amounts for these items:

Table 3
Operating Expenses
Years ended December 31, 2006, 2005, and 2004
(In thousands of dollars)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Labor and fringe benefits	\$ 1,047,445	914,034	867,829
Materials and supplies	83,150	71,366	61,387
Fuel	57,470	45,788	30,093
Electric power	22,268	22,909	21,640
Purchase of security services	30,831	31,221	27,555
Purchase of paratransit	28,415	53,257	48,999
Maintenance and repairs, utilities, rent, and other	48,288	51,069	46,577
Operating expense before provisions	1,317,867	1,189,644	1,104,080
Provision for injuries and damages	26,266	26,573	21,854
Provision for depreciation	376,910	360,559	349,162
Total operating expenses	<u>\$ 1,721,043</u>	<u>1,576,776</u>	<u>1,475,096</u>

Capital Asset and Debt Administration

Capital Assets

The CTA invested \$6,908,803,000 (not adjusted for inflation) in capital assets, including buildings, vehicles, elevated railways, signal and communication equipment, as well as other equipment as of December 31, 2006.

CHICAGO TRANSIT AUTHORITY

Management's Discussion and Analysis

December 31, 2006 and 2005

(Unaudited)

Net of accumulated depreciation, the CTA's capital assets at December 31, 2006 totaled \$3,202,171,000 (see Table 4). This amount represents a net increase (including additions and disposals, net of depreciation) of \$224,568,000, or 7.54%, over the December 31, 2005 balance of \$2,977,603,000.

Table 4

Capital Assets by Funding Source
December 31, 2006, 2005 and 2004
(In thousands of dollars)

	2006	2005	2004
Funding source:			
Federal (FTA)	\$ 4,296,228	3,912,142	3,758,513
State (principally IDOT)	557,261	527,502	514,200
RTA	1,670,859	1,556,002	1,463,883
CTA (generally prior to 1973)	126,573	126,573	126,573
Other	257,882	243,921	254,819
Total capital assets	6,908,803	6,366,140	6,117,988
Accumulated depreciation	3,706,632	3,388,537	3,140,971
Total capital assets, net	\$ 3,202,171	2,977,603	2,977,017

The year-over-year increase in capital assets resulted primarily from rolling stock purchases, overhauls of railcars and buses, and the infrastructure improvement projects identified in the 2006 portion of the Five-Year Capital Plan.

Debt Administration

Long-term debt includes capital lease obligations payable, accrued pension costs, and bonds payable.

At December 31, 2006, the CTA had \$1,741,828,000 in capital lease obligations outstanding, a 0.3% increase from December 31, 2005. The net pension obligation at December 31, 2006 was \$1,263,399,000, a 23.6% increase from December 31, 2005. The increase in net pension obligation is primarily because the CTA contributes to the employee pension plans based on the requirements of union contracts rather than an actuarially determined amount. The increase in net pension obligation is also due to the rising cost of post-employment healthcare.

At December 31, 2005, the CTA had \$1,736,677,000 in capital lease obligations outstanding, a 0.8% increase from December 31, 2004. The net pension obligation at December 31, 2005 was \$1,022,192,000, a 27.9% increase from December 31, 2004. The increase in net pension obligation is primarily because the CTA contributes to the employee pension plans based on the requirements of union contracts rather than an actuarially determined amount. The increase in net pension obligation is also due to the rising cost of post-employment healthcare.

CHICAGO TRANSIT AUTHORITY

Management's Discussion and Analysis

December 31, 2006 and 2005

(Unaudited)

More detailed information about the CTA's long-term debt and pension obligation is presented in the notes to the financial statements.

Economic Factors and Next Year's Budget

The CTA adopted the 2007 Annual Budget on November 14, 2006. This budget was then submitted to the RTA and approved by the RTA on December 14, 2006. This budget provides for operating expenses of \$1,133,151,000. The operating budget increase of 9.3% over the 2006 Annual Budget is primarily due to higher healthcare, pension, fuel, and power costs. Comparatively, the U.S. City Average Annual Consumer Price Index (CPI) grew by 3.2% for 2006. The primary economic indicators impacting ridership and operating funds are area employment and retail sales. CTA's public funding is primarily based on sales tax. The 2006 annual unemployment rate for the City of Chicago ended the year at 4.3%, compared to 6.2% at the end of 2005. National unemployment also ended the year at 4.3%. Employment in the Chicago metropolitan region was 3,944,721 at the end of 2006. This represents an increase of 190,229 jobs since the end of 2005.

CTA's labor contracts expired on December 31, 2006. Any wage increases or other benefit changes differing substantially from the assumptions used in the 2007 budget will cause an increase in CTA's funding needs.

Budgeted system-generated revenues for 2007 are higher than the 2006 Annual Budget by \$40,065,000, or 7.8%. This projected increase over 2006 budgeted operating revenues is due to a fare adjustment in 2006 that resulted in 8.4% higher fare revenue than budgeted. CTA's revenue projections for 2007 reflect the higher average fare seen in 2006 and also higher ridership.

The 2007 budget includes \$110,000,000 of new transit funding. If this new funding is not approved by the legislators, CTA will have to fill the budget funding gap through service cuts and fare increases.

New Legislation

On May 4, 2006, the Illinois General Assembly approved a bill requiring CTA, beginning in 2009, to achieve a funded ratio of 90% for its employee pension plan by 2058. To meet the proposed funding level of 90%, it is estimated, based on the current actuarial assumptions and the number of employees, that CTA and employees would have to contribute \$232 million annually to the pension plan. This would be an increase in contributions of approximately \$187 million annually over the current annual employer and employee combined contributions of approximately \$45 million. To meet this new required obligation as well as address the funding needed to meet normal operating needs, the CTA would require additional annual funding beginning in 2009. Without additional funding and/or legislative authority to the region, CTA may be forced to implement service cuts and fare increases in order to meet this new pension contribution obligation.

Contacting the CTA's Financial Management

This financial report is designed to provide our bondholders, patrons, and other interested parties with a general overview of the CTA's finances and to demonstrate the CTA's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Chicago Transit Authority's Finance Division, P.O. Box 7565, Chicago, IL 60680-7565.

CHICAGO TRANSIT AUTHORITY

Business-Type Activities

Balance Sheets

December 31, 2006 and 2005

(In thousands of dollars)

Assets	2006	2005
Current assets:		
Cash and cash equivalents	\$ 27,736	45,696
Investments	10,914	28,211
Total cash, cash equivalents, and investments	38,650	73,907
Grants receivable:		
Due from the RTA	144,507	120,740
Capital improvement projects from federal and state sources	8,912	11,370
Unbilled work in progress	106,686	85,849
Other	1	172
Total grants receivable	260,106	218,131
Accounts receivable, net	37,193	27,188
Materials and supplies, net	77,516	83,608
Prepaid expenses and other assets	5,126	4,864
Total current assets	418,591	407,698
Restricted cash and investments:		
Bond proceeds held by trustee	400,523	298,720
Restricted by RTA	23,201	32,478
Restricted for injury and damage reserve	83,180	72,024
Restricted assets for repayment of leasing commitments	1,683,505	1,649,768
Total restricted assets	2,190,409	2,052,990
Other assets:		
Cash and investments held by trustee for supplemental retirement plan	96	84
Bond issue costs	7,916	8,175
Net pension asset	8,089	8,131
Total other assets	16,101	16,390
Capital assets:		
Capital assets not being depreciated:		
Land	119,419	104,102
Construction in process	694,234	378,141
Total capital assets not being depreciated	813,653	482,243
Capital assets being depreciated:		
Land improvements	19,141	12,757
Buildings	1,549,652	1,532,399
Transportation vehicles	1,971,486	1,855,931
Elevated structures, tracks, tunnels, and power system	1,349,446	1,314,934
Signals	724,628	712,681
Other equipment	480,797	455,195
Less accumulated depreciation	(3,706,632)	(3,388,537)
Total capital assets being depreciated, net	2,388,518	2,495,360
Total capital assets, net	3,202,171	2,977,603
Total assets	\$ 5,827,272	5,454,681

CHICAGO TRANSIT AUTHORITY

Business-Type Activities

Balance Sheets

December 31, 2006 and 2005

(In thousands of dollars)

Liabilities and Net Assets	2006	2005
Current liabilities:		
Accounts payable and accrued expenses	\$ 123,719	79,041
Accrued payroll, vacation pay, and related liabilities	98,925	87,875
Accrued interest payable	3,458	3,357
Advances, deposits, and other	9,333	10,725
Advances from RTA	23,201	32,478
Deferred passenger revenue	29,290	23,188
Other deferred revenue	992	785
Deferred operating assistance	23,273	22,645
Current portion of self-insurance claims	63,411	62,432
Current portion of capital lease obligations	107,226	88,823
Current portion of bonds payable	18,410	17,705
Total current liabilities	501,238	429,054
Long-term liabilities:		
Self-insurance claims, less current portion	102,432	106,526
Capital lease obligations, less current portion	1,634,602	1,647,854
Premium on capital lease obligation	6,062	6,687
Deferred revenue – leasing transactions	41,497	45,759
Bonds payable	488,885	318,330
Premium on bonds payable	41,060	26,007
Accrued pension costs (net pension obligation)	1,263,394	1,022,192
Other long-term liabilities	4,579	5,190
Total long-term liabilities	3,582,511	3,178,545
Total liabilities	4,083,749	3,607,599
Net assets:		
Invested in capital assets, net of related debt	2,933,473	2,767,809
Restricted for payment of leasehold obligations	33,017	24,211
Restricted for debt service	31,379	32,840
Restricted by RTA for future operations and capital improvements	5,818	7,460
Unrestricted (deficit)	(1,260,164)	(985,238)
Total net assets	1,743,523	1,847,082
Total liabilities and net assets	\$ 5,827,272	5,454,681

See accompanying notes to financial statements.

CHICAGO TRANSIT AUTHORITY

Business-Type Activities

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended December 31, 2006 and 2005

(In thousands of dollars)

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Fare box revenue	\$ 276,408	303,868
Pass revenue	185,809	113,556
Total fare box and pass revenue	<u>462,217</u>	<u>417,424</u>
Advertising and concessions	24,402	23,963
Other revenue	6,404	7,024
Total operating revenues	<u>493,023</u>	<u>448,411</u>
Operating expenses:		
Labor and fringe benefits	1,047,445	914,034
Materials and supplies	83,150	71,366
Fuel	57,470	45,788
Electric power	22,268	22,909
Purchase of security services	30,831	31,221
Purchase of paratransit	28,415	53,257
Maintenance and repairs, utilities, rent, and other	48,288	51,069
	<u>1,317,867</u>	<u>1,189,644</u>
Provisions for injuries and damages	26,266	26,573
Provision for depreciation	376,910	360,559
Total operating expenses	<u>1,721,043</u>	<u>1,576,776</u>
Operating expenses in excess of operating revenues	<u>(1,228,020)</u>	<u>(1,128,365)</u>
Nonoperating revenues (expenses):		
Public funding from the RTA	524,056	495,885
Reduced-fare subsidies	29,604	31,961
Operating grant revenue	13,143	26,823
Contributions from local government agencies	5,000	5,000
Investment income	36,079	19,705
Gain on sale of assets	28	8,177
Recognition of leasing transaction proceeds	4,262	4,262
Interest expense on bonds	(14,557)	(20,360)
Interest revenue from leasing transactions	118,559	117,247
Interest expense on leasing transactions	(113,753)	(112,561)
Total nonoperating revenues, net	<u>602,421</u>	<u>576,139</u>
Change in net assets before capital contributions	<u>(625,599)</u>	<u>(552,226)</u>
Capital contributions	522,040	398,654
Change in net assets	<u>(103,559)</u>	<u>(153,572)</u>
Total net assets – beginning of year	<u>1,847,082</u>	<u>2,000,654</u>
Total net assets – end of year	\$ <u><u>1,743,523</u></u>	\$ <u><u>1,847,082</u></u>

See accompanying notes to financial statements.

CHICAGO TRANSIT AUTHORITY

Business-Type Activities

Statements of Cash Flows

Years ended December 31, 2006 and 2005

(In thousands of dollars)

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Cash received from fares	\$ 468,319	420,575
Payments to employees	(798,078)	(685,772)
Payments to suppliers	(293,570)	(302,103)
Other receipts	19,616	20,325
Net cash flows used in operating activities	<u>(603,713)</u>	<u>(546,975)</u>
Cash flows from noncapital financing activities:		
Public funding from the RTA	500,776	488,836
Reduced-fare subsidies	29,745	31,219
Operating grant revenue	13,143	26,823
Contributions from local governmental agencies	5,000	5,000
Net cash flows provided by noncapital financing activities	<u>548,664</u>	<u>551,878</u>
Cash flows from capital and related financing activities:		
Interest income from assets restricted for payment of leasehold obligations	118,559	117,247
Interest expense on bonds	(19,220)	(23,549)
Decrease in restricted assets for repayment of leasing commitments	(33,737)	(21,464)
Repayment of lease/leaseback obligations	(84,822)	(95,783)
Proceeds from capital leases	98,016	—
Payment for capital lease obligations	(4,000)	(3,900)
Payment to escrow agent for refunded capital lease obligations	(116,599)	—
Proceeds from issuance of bonds	291,377	—
Proceeds from (repayment of) other long-term liabilities	(611)	178
Repayment of bonds payable	(103,740)	(39,400)
Payments for acquisition and construction of capital assets	(553,908)	(358,473)
Proceeds from the sale of property and equipment	1,537	9,253
Capital grants	503,832	377,597
Net cash flows provided by (used in) capital and related financing activities	<u>96,684</u>	<u>(38,294)</u>
Cash flows from investing activities:		
Purchases of unrestricted investments	(10,914)	(28,211)
Proceeds from maturity of unrestricted investments	28,211	59,416
Restricted cash and investment accounts:		
Purchases and withdrawals	(5,854,660)	(1,475,288)
Proceeds from maturities and deposits	5,741,689	1,502,380
Investment revenue	36,079	19,705
Net cash flows provided by (used in) investing activities	<u>(59,595)</u>	<u>78,002</u>
Net increase (decrease) in cash and cash equivalents	<u>(17,960)</u>	<u>44,611</u>
Cash and cash equivalents – beginning of year	<u>45,696</u>	<u>1,085</u>
Cash and cash equivalents – end of year	\$ <u><u>27,736</u></u>	<u><u>45,696</u></u>

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Statements of Cash Flows
Years ended December 31, 2006 and 2005
(In thousands of dollars)

	2006	2005
Reconciliation of expenses in excess of operating revenue to net cash used in operating activities:		
Operating expenses in excess of operating revenue	\$ (1,228,020)	(1,128,365)
Adjustments to reconcile operating expenses in excess of operating revenues to net cash used in operating activities:		
Depreciation	376,910	360,559
(Increase) decrease in assets:		
Accounts receivable	(10,005)	(10,689)
Materials and supplies	6,092	2,370
Prepaid expenses and other assets	(262)	83
Net pension asset	42	(8,131)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(2,524)	(3,298)
Accrued payroll, vacation pay, and related liabilities	11,050	5,872
Self-insurance reserves	(3,115)	8,616
Deferred passenger revenue	6,102	3,151
Other deferred revenue	207	(416)
Advances, deposits, and other	(1,392)	443
Accrued pension costs	241,202	222,830
Net cash flows used in operating activities	\$ (603,713)	(546,975)
Noncash investing and financing activities:		
Recognition of leasing proceeds	\$ 4,262	4,262
Decrease in deferred revenue – leasing transactions	(4,262)	(4,262)
Accretion of interest on lease/leaseback obligations	113,753	112,561
Retirement of fully depreciated capital assets	59,066	113,188

See accompanying notes to financial statements.

CHICAGO TRANSIT AUTHORITY

Fiduciary Activities

Statements of Fiduciary Net Assets

Open Supplemental Retirement Plan

December 31, 2006 and 2005

(In thousands of dollars)

	<u>2006</u>	<u>2005</u>
Assets:		
Contributions from employees	\$ 3	27
Investments at fair value:		
Short-term investments	813	395
Common stock	1,780	1,633
Equity commingled funds	10,840	9,446
Government agencies commingled funds	5,571	5,621
Total investments at fair value	<u>19,004</u>	<u>17,095</u>
Securities lending collateral	<u>2,127</u>	<u>419</u>
Total assets	<u>21,134</u>	<u>17,541</u>
Liabilities:		
Accounts payable and other liabilities	70	77
Securities lending collateral obligation	<u>2,127</u>	<u>419</u>
Total liabilities	<u>2,197</u>	<u>496</u>
Net assets held in trust for pension benefits (an unaudited schedule of funding progress is included on page 53)	<u>\$ 18,937</u>	<u>17,045</u>

See accompanying notes to financial statements.

CHICAGO TRANSIT AUTHORITY
Fiduciary Activities
Statements of Changes in Fiduciary Net Assets
Open Supplemental Retirement Plan
Years ended December 31, 2006 and 2005
(In thousands of dollars)

	2006	2005
Additions:		
Contributions:		
Employer	\$ —	15,786
Employee	269	479
Total contributions	269	16,265
Investment income:		
Investment income	534	295
Net increase in fair value of investments	1,460	602
Total investment income	1,994	897
Total additions	2,263	17,162
Deductions:		
Benefits paid to participants or beneficiaries	250	44
Trust fees	121	73
Total deductions	371	117
Net increase	1,892	17,045
Net assets held in trust for pension benefits:		
Beginning of year	17,045	—
End of year	\$ 18,937	17,045

See accompanying notes to financial statements.

CHICAGO TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2006 and 2005

(1) Organization

The Chicago Transit Authority (CTA) was formed in 1945 pursuant to the Metropolitan Transportation Authority Act passed by the Illinois Legislature. The CTA was established as an independent governmental agency (an Illinois municipal corporation) “separate and apart from all other government agencies” to consolidate Chicago’s public and private mass transit carriers. The City Council of the City of Chicago has granted the CTA the exclusive right to operate a transportation system for the transportation of passengers within the City of Chicago.

The Regional Transportation Authority Act (the Act) provides for the funding of public transportation in the six-county region of Northeastern Illinois. The Act established a regional oversight board, the Regional Transportation Authority (RTA), and designated three service boards (CTA, Commuter Rail Board, and Suburban Bus Board). The Act requires, among other things, that the RTA approve the annual budget of the CTA, that the CTA obtain agreement from local governmental units to provide an annual monetary contribution of at least \$5,000,000 for public transportation, and that the CTA (collectively with the other service boards) finance at least 50% of its operating costs, excluding depreciation and certain other items, from system-generated sources on a budgetary basis.

Financial Reporting Entity

As defined by U.S. generally accepted accounting principles (GAAP), the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

- 1) Appointment of a voting majority of the component unit’s board and either (a) the ability to impose will by the primary government or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- 2) Fiscal dependency on the primary government.

Based upon the application of these criteria, the CTA has no component units and is not a component unit of any other entity.

The CTA participates in the Employees’ Retirement Plan, which is a single-employer, defined benefit pension plan covering substantially all full-time permanent union and nonunion employees. The Employees’ Plan is governed by the terms of the employees’ collective bargaining agreement. The fund established to administer the Employees’ Retirement Plan is not a fiduciary fund or a component unit of the CTA. This fund is a legal entity separate and distinct from the CTA. This fund is administered by its own oversight committee, of which the CTA appoints half the members, over which the CTA has no direct authority and assumes no fiduciary responsibility. Accordingly, the accounts of this fund are not included in the accompanying financial statements.

The CTA administers supplemental retirement plans that are separate, defined benefit pension plans for selected individuals. The supplemental retirement plans provide benefits to employees of the CTA in certain employment classifications. The supplemental retirement plans consist of the: (1) board member plan, (2) closed supplemental plan for members retired or terminated from employment before March 2005, including early retirement incentive, and (3) open supplemental plan for members retiring after

CHICAGO TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2006 and 2005

March 2005. The CTA received qualification under Section 401(a) of the Internal Revenue Code for the supplemental plan and established a qualified trust during 2005 for members retiring after March 2005 (Open Supplemental Retirement Plan). The Open Supplemental Retirement Plan is reported in a fiduciary fund, whereas the activities for the closed and board plans are included in the financial statements of the CTA's business-type activities.

The CTA is not considered a component unit of the RTA because the CTA maintains separate management, exercises control over all operations, and is fiscally independent from the RTA. Because governing authority of the CTA is entrusted to the Chicago Transit Board, comprising four members appointed by the Mayor of the City of Chicago and three members appointed by the Governor of the State of Illinois, the CTA is not financially accountable to the RTA and is not included as a component unit in the RTA's financial statements, but is combined in pro forma statements with the RTA, as statutorily required.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The basic financial statements provide information about the CTA's business-type and fiduciary (Open Supplemental Retirement Plan) activities. Separate statements for each category—business-type and fiduciary—are presented. The basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. On an accrual basis, revenues from operating activities are recognized in the fiscal year that the operations are provided; revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied; and revenue from investments is recognized when earned.

The financial statements for the CTA's business-type activities are used to account for the CTA's activities that are financed and operated in a manner similar to a private business enterprise. Accordingly, the CTA maintains its records on the accrual basis of accounting. Revenues from operations, investments, and other sources are recorded when earned. Expenses (including depreciation and amortization) of providing services to the public are accrued when incurred. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, depreciation of assets is recognized, and all assets and liabilities associated with the operation of the CTA are included in the balance sheet.

Nonexchange transactions, in which the CTA receives value without directly giving equal value in return, include grants from federal, state, and local governments. On an accrual basis, revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, and expenditure requirements, in which the resources are provided to the CTA on a reimbursement basis.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the CTA applies Financial Accounting Standards Board pronouncements and Accounting Principles Board opinions issued on

CHICAGO TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2006 and 2005

or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails, and all of the GASB pronouncements issued subsequently.

The financial statements for the fiduciary activities are used to account for the assets held by the CTA in trust for the payment of future retirement benefits under the Open Supplemental Retirement Plan. The assets of the Open Supplemental Retirement Plan cannot be used to support CTA operations.

(b) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with maturities when purchased of three months or less.

(c) Investments

Investments, including the supplemental retirement plan assets, are reported at fair value based on quoted market prices and valuations provided by external investment managers.

Chapter 30, Paragraph 235/2 of the *Illinois Compiled Statutes* authorizes the CTA to invest in obligations of the United States Treasury and United States agencies, direct obligations of any bank, repurchase agreements, commercial paper rated within the highest classification set by two standard rating services, or money market mutual funds investing in obligations of the United States Treasury and United States agencies.

(d) Restricted Assets

The CTA entered into various lease/leaseback agreements in fiscal years 1995 through 2003. These agreements, which provide certain cash and tax benefits to the third party, also provide for a trust established by the CTA to lease the related capital assets to an equity investor trust, which would then lease the capital assets back to another trust established by the CTA under a separate lease. The CTA received certain funds as prepayment by the equity investor trust. These funds have been deposited in designated investment accounts sufficient to meet the payments required under the leases and are recorded as assets restricted for repayment of leasing commitments.

The CTA issued Capital Grant Receipt Revenue Bonds. The proceeds from each sale were placed in trust accounts restricted for financing the costs of capital improvement projects associated with each issuance.

The Public Building Commission of Chicago (PBC) issued revenue bonds for the benefit of the CTA. The proceeds from the sale were placed in trust accounts restricted for financing the costs of acquisition of real property and construction of a building and facilities, including certain furniture, fixtures, and equipment. The real property, building and facilities, and all furniture, fixtures, and equipment are owned by the PBC and leased to the CTA for use as its headquarters.

The CTA has an agreement with the RTA to provide advance funding of capital projects. Funds received as an advance are restricted for future capital projects, subject to RTA approval.

CHICAGO TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2006 and 2005

The CTA maintained cash and investment balances to fund the annual injury and damage obligations that are required to be designated under provisions of Section 39 of the Metropolitan Transportation Authority Act.

(e) *Materials and Supplies*

Materials and supplies are stated at the lower of average cost or market value and consist principally of maintenance, supplies, and repair parts.

(f) *Capital Assets*

All capital assets are stated at cost. Capital assets are defined as assets which (1) have a useful life of more than one year and a unit cost of more than \$5,000, (2) have a unit cost of \$5,000 or less, but which are part of a network or system conversion, or (3) were purchased with grant money. The cost of maintenance and repairs is charged to operations as incurred. Interest is capitalized on constructed capital assets. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Capitalized interest cost is amortized on the same basis as the related asset is depreciated. Capitalized interest expense was \$2,510,000 and \$537,000 during the years ended December 31, 2006 and 2005, respectively.

The provision for depreciation of transportation property and equipment is calculated under the straight-line method using the respective estimated useful lives of major asset classifications, as follows:

	<u>Years</u>
Buildings	40
Elevated structures, tracks, tunnels, and power system	20-40
Transportation vehicles:	
Bus	12
Rail	25
Signals	10-20
Other equipment	3-10

A full month's depreciation is taken in the month after an asset is placed in service. When property and equipment are disposed of, depreciation is removed from the respective accounts and the resulting gain or loss, if any, is recorded.

The transportation system operated by the CTA includes certain facilities owned by others. The CTA has the exclusive right to operate these facilities under the terms of the authorizing legislation and other agreements.

(g) *Self-Insurance*

The CTA is self-insured for various risks of loss, including public liability and property damage, workers' compensation, and health benefit claims, as more fully described in note 11. A liability for

CHICAGO TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2006 and 2005

each self-insured risk is provided based upon the present value of the estimated ultimate cost of settling claims using a case-by-case review and historical experience. A liability for claims incurred but not reported is also provided.

(h) *Compensated Absences*

Substantially all employees receive compensation for vacations, holidays, illness, and certain other qualifying absences. The number of days compensated for the various categories of absence is based generally on length of service. Vacation leave that has been earned but not paid has been accrued in the accompanying financial statements. Compensation for holidays, illness, and other qualifying absences is not accrued in the accompanying financial statements because rights to such compensation amounts do not accumulate or vest.

Under GASB Statement No. 16, *Accounting for Compensated Absences*, applicable salary-related employer obligations are accrued in addition to the compensated absences liability. This amount is recorded as a portion of the accrued payroll, vacation pay, and related liabilities on the balance sheets.

(i) *Bond Premiums, Issuance Costs, and Deferred Amounts on Refundings*

Bond premiums, issuance costs, and deferred amounts on refundings are deferred and amortized over the life of the bonds using the bonds outstanding method, which approximates the effective interest method.

(j) *Net Assets*

Equity is displayed in three components as follows:

Invested in Capital Assets, Net of Related Debt – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the CTA's policy to use restricted resources first, and then unrestricted resources when they are needed.

Unrestricted – This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

(k) *Retirement Plan*

The CTA has a retirement plan for all nontemporary, full-time employees with service greater than one year. Pension expense recorded by the CTA includes a provision for current service costs and the amortization of past service cost over a period of approximately 40 years.

CHICAGO TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2006 and 2005

(l) *Fare Box and Pass Revenues*

Fare box and pass revenues are recorded as revenue at the time services are performed.

(m) *Classification of Revenues and Expenses*

The CTA classifies its revenues and expenses as either operating or nonoperating in the statement of revenues, expenses, and changes in net assets.

Operating revenues include activities that have the characteristics of exchange transactions, including bus and rail passenger fares, rental fees received from concessionaires, the fees collected from advertisements on CTA property, and miscellaneous operating revenues. Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as federal, state, and local grants and contracts.

Operating expenses include the costs of operating the mass transit system, administrative expenses, and depreciation on capital assets. All expenses not meeting this definition, including interest expense, are reported as nonoperating expenses.

(n) *Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

(o) *Reclassifications*

Certain amounts from the prior year have been reclassified to conform to the current year presentation.

(p) *Recent Pronouncements*

In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes accounting and financial reporting standards for employers that participate in a defined benefit "other postemployment benefit" (OPEB) plan. Specifically, the CTA will be required to measure and disclose an amount for annual OPEB cost on the accrual basis for health and insurance benefits that will be provided to retired CTA employees in future years. The CTA is also required to record a net OPEB obligation, which is defined as the cumulative difference between annual OPEB cost and the employer's contributions to a plan, including the OPEB liability or asset at transition, if any. The CTA is currently evaluating the impact of adopting Statement No. 45. The CTA will implement Statement No. 45 beginning with the year ended December 31, 2007.

(3) *Budget and Budgetary Basis of Accounting*

The CTA is required under Section 4.01 of the Regional Transportation Authority Act to submit for approval an annual budget to the RTA by November 15 prior to the commencement of each fiscal year. The budget is prepared on a basis consistent with generally accepted accounting principles, except for the

CHICAGO TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2006 and 2005

exclusion of certain income and expenses. For 2006 and 2005, these amounts include provision for injuries and damage in excess of (or under) budget, depreciation expense, pension expense in excess of pension contributions, revenue from leasing transactions, interest income and expense from sale/leaseback transactions, and capital contributions.

The Act requires that expenditures for operations and maintenance in excess of budget cannot be made without approval of the Chicago Transit Board. All annual appropriations lapse at fiscal year-end. The RTA, in accordance with the RTA Act, has approved for budgetary basis presentation the CTA's recognition of the amount of the injury and damage reserve and pension contribution funded by the RTA in the approved annual budget. Provisions in excess of the approved annual budget that are unfunded are excluded from the recovery ratio calculation.

The RTA funds the budgets of the service boards rather than the actual operating expenses in excess of system-generated revenue. Favorable variances from budget remain as deferred operating assistance to the CTA, and can be used in future years with RTA approval.

The RTA approves the proposed budget based on a number of criteria:

- That the budget is in balance with regard to anticipated revenues from all sources, including operating subsidies and the costs of providing services and funding operating deficits;
- That the budget provides for sufficient cash balances to pay, with reasonable promptness, costs and expenses when due;
- That the budget provides for the CTA to meet its required system-generated revenue recovery ratio; and
- That the budget is reasonable, prepared in accordance with sound financial practices, and complies with such other RTA requirements as the RTA Board of Directors may establish.

The RTA monitors the CTA's performance against the budget on a quarterly basis. If, in the judgment of the RTA, this performance is not substantially in accordance with the CTA's budget for such period, the RTA shall so advise the CTA and the CTA must, within the period specified by the RTA, submit a revised budget to bring the CTA into compliance with the budgetary requirements listed above.

(4) Budgeted Public Funding from the Regional Transportation Authority and the State of Illinois

As discussed in note 1, the Act established the RTA as a regional oversight board and defined the sources of funding to the RTA. Under the Act, each service board is entitled to a portion of the funds collected by the RTA. The allocation of these funds to each service board is based on various methods as defined in the Act. Sales tax is allocated based upon a statutory formula, while discretionary funds are allocated based on the RTA's discretion.

During 2006, the RTA board added \$27 million in funding to the 2006 "marks" for CTA for the funding of ADA paratransit services and for other costs and services. The funding "marks" represent the amount of funds that each Service Board can expect to receive from the RTA and other sources. The 2006 funding "marks" also include \$41.2 million of capital funding for operations.

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The components of the budgeted operating funding from the RTA were as follows (in thousands of dollars):

	2006	2005
Illinois state sales tax allocation	\$ 284,636	276,308
Public Transportation Fund/RTA discretionary funding/other	239,420	219,577
Total	\$ 524,056	495,885

Reduced-fare subsidies received from the State of Illinois were \$29,604,000 and \$31,961,000 during the years ended December 31, 2006 and 2005, respectively, for discounted services provided to the elderly, disabled, or student riders.

(5) Cash, Cash Equivalents, and Investments

(a) Cash, Cash Equivalents, and Investments of the Business-type Activities

Cash, cash equivalents, and investments are reported in the balance sheets of the business-type activities as follows as of December 31, 2006 and 2005 (in thousands):

	2006	2005
Current assets:		
Cash and cash equivalents	\$ 27,736	45,696
Investments	10,914	28,211
Restricted cash and investments:		
Bond proceeds held by trustee	400,523	298,720
Restricted by RTA	23,201	32,478
Restricted for injury and damage reserve	83,180	72,024
Other assets:		
Cash and investments for supplemental retirement plan	96	84
Total	\$ 545,650	477,213

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Cash, cash equivalents, and investments of the business-type activities consist of the following as of December 31, 2006 and 2005(in thousands):

	<u>2006</u>	<u>2005</u>
Investments:		
Certificates of deposit	\$ 4,020	4,020
Guaranteed investment contracts	291,377	—
Money market mutual funds	34,864	48,100
Repurchase agreements	126,485	321,558
U.S. government agencies	49,589	50,089
U.S. Treasury bills	10,015	9,943
Commercial paper	39,972	45,422
Total investments	<u>556,322</u>	<u>479,132</u>
Deposits with financial institutions	<u>(10,672)</u>	<u>(1,919)</u>
Total deposits and investments	\$ <u>545,650</u>	<u>477,213</u>

Investment Policy

CTA investments are made in accordance with the Public Funds Investment Act (30 ILCS 235/1) (the Act) and, as required under the Act, the Chicago Transit Authority Investment Policy (the Investment Policy). The Investment Policy does not apply to the Employees Retirement Plan, which is a separate legal entity. Additionally, the CTA Investment Policy does not apply to the Supplemental Retirement Plan, which is directed by the Employee Retirement Review Committee.

In accordance with the Act and the Investment Policy, CTA invests in the following types of securities:

1. United States Treasury Securities (Bonds, Notes, Certificates of Indebtedness, and Bills). CTA may invest in obligations of the United States government, which are guaranteed by the full faith and credit of the United States of America as to principal and interest.
2. United States Agencies. CTA may invest, bonds, notes, debentures, or other similar obligations of the United States or its agencies. Agencies include: (a) federal land banks, federal intermediate credit banks, banks for cooperative, federal farm credit bank, or other entities authorized to issue debt obligations under the Farm Credit Act of 1971, as amended; (b) federal home loan banks and the federal home loan mortgage corporation; and (c) any other agency created by an act of Congress.
3. Bank Deposits. CTA may invest in interest-bearing savings accounts, interest-bearing certificates of deposit, or interest-bearing time deposits or other investments constituting direct obligations of any bank as defined by the Illinois Banking Act (205 ILCS 5/1 et seq.), provided that any such bank must be insured by the Federal Deposit Insurance Corporation (the FDIC).
4. Commercial Paper. CTA may invest in short-term obligations (commercial paper) of corporations organized in the United States with assets exceeding \$500 million, provided that: (a) such obligations are at the time of purchase at the highest classification established by at least two standard rating services and which mature not later than 180 days from the date of purchase;

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and (b) such purchases do not exceed 10% of the corporation's outstanding obligations.

5. Mutual Funds. CTA may invest in mutual funds which invest exclusively in United States government obligations and agencies.
6. Discount Obligations. CTA may invest in short-term discount obligations of the Federal National Mortgage Association.
7. Investment Pool. CTA may invest in a Public Treasurers' Investment Pool created under Section 17 of the State Treasurer Act (15 ILCS 505/17).
8. Repurchase Agreements. CTA may invest in repurchase agreements for securities that are authorized investments under the Investment Policy, subject to all of the requirements of the Act, provided that: (a) the securities shall be held by an authorized custodial bank; and (b) each transaction must be entered into under terms of an authorized master repurchase agreement.
9. Investment Certificates. CTA may invest in investment certificates issued by FDIC-insured savings banks or FDIC-insured savings and loan associations.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the CTA's deposits may not be returned. The CTA's investment policy requires that deposits which exceed the amount insured by the FDIC be collateralized, at the rate of 102% of such deposits, by bonds, notes, certificates of indebtedness, treasury bills, or other securities which are guaranteed by the full faith and credit of the U.S. Government. As of December 31, 2006 and 2005, the CTA's bank balances of \$258,000 and \$1,415,000, respectively, were subject to custodial credit risk as they were neither insured nor collateralized.

Interest Rate Risk

Interest rate risk is the risk that the fair value of the CTA's investments will decrease as a result of an increase in interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Investment Policy limits the term of investments as follows:

<u>Instrument type</u>	<u>Term of investment</u>
U.S. treasuries	3 years
Repurchase agreements	330 days
Certificates of deposit	365 days
Commercial paper	180 days
U.S. Government obligations	3 years
Federal National Mortgage Assn.	3 years
Mutual funds	n.a.
Investment pool	n.a.

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As of December 31, 2006, the maturities for the CTA's fixed-income investments are as follows (in thousands):

	Fair value	Investment maturities (by years)	
		Less than 1	1-5
Guaranteed investment contracts	\$ 291,377	291,377	—
Money market mutual funds	34,864	34,864	—
Repurchase agreements	126,485	126,485	—
U.S. government agencies	49,589	45,600	3,989
U.S. Treasury bills	10,015	10,015	—
Commercial paper	39,972	39,972	—
Total	\$ 552,302	548,313	3,989

As of December 31, 2005, the maturities for the Plan's fixed income investments are as follows (in thousands):

	Fair value	Investment maturities (by years)	
		Less than 1	1-5
Money market mutual funds	\$ 48,100	48,100	—
Repurchase agreements	321,558	321,558	—
U.S. government agencies	50,089	48,842	1,247
U.S. Treasury bills	9,943	9,943	—
Commercial paper	45,422	45,422	—
Total	\$ 475,112	473,865	1,247

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in any one single issuer. The CTA's policy does not limit the amounts that it may invest in any one issuer. The CTA is considered to have a concentration of credit risk if its investment in any one single issuer is greater than 5% of the total fixed-income investments. Investments which comprise more than 5% of the CTA's total fixed-income investments as of December 31, 2006 are as follows:

Investment	Fair value
Federal Home Loan Bank	\$ 40,220
Guaranteed Investment Contract—FSA Capital Management Services LLC	291,377

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Credit Risk

Credit risk is the risk that the CTA will not recover its investments due to the failure of the counterparty to fulfill its obligation. As of December 31, 2006, the CTA had the following fixed-income investments which are rated by both Moody's and Standard & Poor's (in thousands):

	Fair value	Credit ratings			
		AAA	AA	A	Not rated
Guaranteed investment contracts	\$ 291,377	—	—	—	291,377
Money market mutual funds	34,864	—	—	—	34,864
Repurchase agreements	126,485	53,000	—	—	73,485
U.S. government agencies	49,589	49,589	—	—	—
U.S. Treasury bills	10,015	10,015	—	—	—
Commercial paper	39,972	—	—	39,972	—
Total investments	\$ 552,302	112,604	—	39,972	399,726

As of December 31, 2005, the Plan had the following fixed-income investments which are rated by both Moody's & Standard & Poor's (in thousands):

	Fair value	Credit ratings			
		AAA	AA	A	Not rated
Money market mutual funds	\$ 48,100	26,140	3,657	—	18,303
Repurchase agreements	321,558	77,000	244,558	—	—
U.S. government agencies	50,089	50,089	—	—	—
U.S. Treasury bills	9,943	9,943	—	—	—
Commercial paper	45,422	—	—	45,422	—
Total investments	\$ 475,112	163,172	248,215	45,422	18,303

In addition, the Investment Policy requires that whenever funds are deposited in a financial institution in an amount which causes the total amount of the Authority's funds deposited with such institution to exceed the amount which is protected by the FDIC, all deposits which exceed the amount insured be collateralized, at the rate of 102% of such deposit, by bonds, notes, certificates of indebtedness, Treasury bills, or other securities which are guaranteed by the full faith and credit of the United States of America as to principal and interest or, at the rate of 110% of such deposit, by bonds, notes, debentures, or other similar obligations of agencies of the United States of America.

Custodial Credit Risk – Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, CTA will not be able to recover the value of its investments or collateral securities that are in the possession of a third party. The

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Investment Policy requires that investment securities be held by an authorized custodial bank pursuant to a written custodial agreement.

(b) Cash, Cash Equivalents, and Investments of the Fiduciary Activities

Cash, cash equivalents, and investments are reported in the Fiduciary Fund as follows as of December 31, 2006 and 2005 (in thousands):

	<u>2006</u>	<u>2005</u>
Investments, at fair value:		
Short-term investments	\$ 813	395
Common stock	1,780	1,633
Equity commingled funds	10,840	9,446
Government agencies commingled funds	5,571	5,621
Total	<u>\$ 19,004</u>	<u>17,095</u>

Investment Policy

The Employee Retirement Review Committee has been appointed as the fiduciary having responsibility for administering the Open Supplemental Retirement Plan, including the responsibility for allocating the assets of the trust fund among the separate accounts, for monitoring the diversification of the investments of the trust fund, for determining the propriety of investments of the trust fund in foreign securities and of maintaining the custody of foreign investments abroad, for assuring that the plan does not violate any provisions of applicable law limiting the acquisition or holding of certain securities or other property, and for the appointment and removal of an investment fiduciary. The Open Supplemental Retirement Plan is a qualified plan that is not subject to the Public Funds Investment Act.

In March 2005, the Employee Retirement Review Committee engaged a registered investment adviser under the Investment Advisers Act of 1940. The investment adviser is authorized to invest and reinvest the assets of the Open Supplemental Retirement Plan and keep the same invested, without distinction between principal and income, in any property, real, personal or mixed or share or part thereof, or part interest thereof, or part interest therein, wherever situated, and whether or not productive of income, including capital, common and preferred stock, and short-term investments.

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Interest Rate Risk

Interest rate risk is the risk that the fair value of the Open Supplemental Retirement Plan investments will decrease as a result of an increase in interest rates. The Employee Retirement Review Committee mitigates exposure to changes in interest rates by requiring that the assets of the Trust be invested in accordance with the following asset allocation guidelines:

<u>Asset class</u>	<u>Allocation</u>
U.S. large cap equities	50.00%
U.S. small cap equities	10.00
Non-U.S. equities	5.00
U.S. fixed income	35.00
	<u>100.00%</u>

As of December 31, 2006, the maturities for the Plan's fixed-income investments are as follows (in thousands):

	<u>Fair value</u>	<u>Investment maturities (in years)</u>	
		<u>Less than 1</u>	<u>1-5</u>
Short-term investment funds	\$ 813	813	—
U.S. government agencies commingled funds	5,571	—	5,571
Total	\$ <u>6,384</u>	<u>813</u>	<u>5,571</u>

As of December 31, 2005, the maturities for the Plan's fixed-income investments are as follows (in thousands):

	<u>Fair value</u>	<u>Investment maturities (in years)</u>	
		<u>Less than 1</u>	<u>1-5</u>
Short-term investment funds	\$ 395	395	—
U.S. government agencies commingled funds	5,621	—	5,621
Total	\$ <u>6,016</u>	<u>395</u>	<u>5,621</u>

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Credit Risk

Credit risk is the risk that the Open Supplemental Retirement Plan will not recover its investments due to the failure of the counterparty to fulfill its obligation. As of December 31, 2006, the Plan had the following fixed-income investments which are rated by both Moody's and Standard & Poor's (in thousands):

	Fair value	Credit ratings	
		AAA	AA
Short-term investment funds	\$ 813	813	—
U.S. government commingled bond funds	5,571	—	5,571
Total	\$ 6,384	813	5,571

As of December 31, 2005, the Plan had the following fixed-income investments which are rated by both Moody's and Standard & Poor's (in thousands):

	Fair value	Credit ratings	
		AAA	AA
Short-term investment funds	\$ 395	395	—
U.S. government commingled bond funds	5,621	—	5,621
Total	\$ 6,016	395	5,621

Custodial Credit Risk – Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Open Supplemental Retirement Plan will not be able to recover the value of its investments or collateral securities that are in the possession of a third party. The investment securities are held in trust pursuant to a written trust agreement.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Plan's foreign currency risk is limited to its investments in an international equity commingled fund with a fair value of \$1,105,000 and \$898,000 as of December 31, 2006 and 2005, respectively.

Securities Lending

The Open Supplemental Plan of the CTA participates in a domestic and international securities lending program whereby securities are loaned to investment brokers/dealers (borrower). Securities loaned are collateralized at 102% of the domestic equity and U.S. dollar-denominated securities that can be loaned and not less than 105% of the borrowed securities if they are denominated in different currencies. The fair value of the securities loaned was approximately \$2,095,000 and \$408,000 as of December 31, 2006 and

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2005, respectively. The fair value of the associated collateral received was approximately \$2,127,000 and \$419,000 as of December 31, 2006 and 2005, respectively.

(6) Capital Assets

The CTA has capital grant contracts with federal, state, and regional agencies, including the U.S. Department of Transportation, Federal Transit Administration (FTA), the State of Illinois Department of Transportation (IDOT), established under the Transportation Bond Act, and the RTA. Under these contracts, the CTA has acquired rapid-transit cars, buses, and equipment and is constructing, renewing, and improving various portions of track structures and related operating facilities and systems. It is anticipated that the FTA will finance approximately 80% of the total cost of the federal projects, with the balance of the cost being financed principally by IDOT, the RTA, and CTA bonds. Commitments of approximately \$474,283,000 and \$471,985,000 have been entered into for federal and state (including local) capital grant contracts as of December 31, 2006 and 2005, respectively.

The CTA also has additional capital grant contracts, which are 100% funded by the RTA, IDOT, or CTA bonds. Commitments of approximately \$220,062,000 and \$243,806,000 have been entered into for these federal and state (including local) capital grants as of December 31, 2006 and 2005, respectively.

Funding sources for transportation property and equipment of the CTA are as follows as of December 31, 2006 and 2005 (in thousands of dollars):

	<u>2006</u>	<u>2005</u>
Funding source:		
Federal (FTA)	\$ 4,296,228	3,912,142
State (principally IDOT)	557,261	527,502
RTA	1,670,859	1,556,002
CTA (generally prior to 1973)	126,573	126,573
Other	<u>257,882</u>	<u>243,921</u>
Total	<u>\$ 6,908,803</u>	<u>6,366,140</u>

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Changes in capital assets for the year ended December 31, 2006 are as follows (in thousands of dollars):

	<u>Balance at January 1, 2006</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at December 31, 2006</u>
Capital assets not being depreciated:				
Land	\$ 104,102	15,613	(296)	119,419
Construction in process	378,141	924,757	(608,664)	694,234
Total capital assets not being depreciated	<u>482,243</u>	<u>940,370</u>	<u>(608,960)</u>	<u>813,653</u>
Capital assets being depreciated:				
Land improvements	12,757	6,384	—	19,141
Buildings	1,532,399	21,404	(4,151)	1,549,652
Vehicles	1,855,931	156,058	(40,503)	1,971,486
Elevated structure track	1,314,934	35,710	(1,198)	1,349,446
Signal and communication	712,681	16,584	(4,637)	724,628
Other equipment	455,195	35,663	(10,061)	480,797
Total capital assets being depreciated	<u>5,883,897</u>	<u>271,803</u>	<u>(60,550)</u>	<u>6,095,150</u>
Less accumulated depreciation for:				
Land improvements	10,098	1,783	(358)	11,523
Buildings	606,629	62,111	(3,103)	665,637
Vehicles	1,212,490	171,328	(40,486)	1,343,332
Elevated structure track	744,387	62,854	(981)	806,260
Signal and communication	456,549	34,983	(4,622)	486,910
Other equipment	358,384	43,851	(9,265)	392,970
Total accumulated depreciation	<u>3,388,537</u>	<u>376,910</u>	<u>(58,815)</u>	<u>3,706,632</u>
Total capital assets being depreciated, net	<u>2,495,360</u>	<u>(105,107)</u>	<u>(1,735)</u>	<u>2,388,518</u>
Total capital assets, net	<u>\$ 2,977,603</u>	<u>835,263</u>	<u>(610,695)</u>	<u>3,202,171</u>

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Changes in capital assets for the year ended December 31, 2005 are as follows (in thousands of dollars):

	<u>Balance at January 1, 2005</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at December 31, 2005</u>
Capital assets not being depreciated:				
Land	\$ 92,761	11,341	—	104,102
Construction in process	213,525	361,341	(196,725)	378,141
Total capital assets not being depreciated	<u>306,286</u>	<u>372,682</u>	<u>(196,725)</u>	<u>482,243</u>
Capital assets being depreciated:				
Land improvements	10,231	2,687	(161)	12,757
Buildings	1,498,124	38,731	(4,456)	1,532,399
Vehicles	1,890,679	49,338	(84,086)	1,855,931
Elevated structure track	1,292,633	23,350	(1,049)	1,314,934
Signal and communication	676,826	39,095	(3,240)	712,681
Other equipment	443,209	33,063	(21,077)	455,195
Total capital assets being depreciated	<u>5,811,702</u>	<u>186,264</u>	<u>(114,069)</u>	<u>5,883,897</u>
Less accumulated depreciation for:				
Land improvements	8,805	1,454	(161)	10,098
Buildings	552,053	60,498	(5,922)	606,629
Vehicles	1,146,271	149,619	(83,400)	1,212,490
Elevated structure track	678,139	66,917	(669)	744,387
Signal and communication	423,797	35,958	(3,206)	456,549
Other equipment	331,906	46,113	(19,635)	358,384
Total accumulated depreciation	<u>3,140,971</u>	<u>360,559</u>	<u>(112,993)</u>	<u>3,388,537</u>
Total capital assets being depreciated, net	<u>2,670,731</u>	<u>(174,295)</u>	<u>(1,076)</u>	<u>2,495,360</u>
Total capital assets, net	\$ <u><u>2,977,017</u></u>	<u><u>198,387</u></u>	<u><u>(197,801)</u></u>	<u><u>2,977,603</u></u>

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(7) Long-Term Obligations

Changes in long-term obligations for the year ended December 31, 2006 are as follows (in thousands of dollars):

	Balance at January 1, 2006	Additions	Reductions	Balance at December 31, 2006	Amount due within one year
Self-insurance claims (note 11)	\$ 168,958	255,522	(258,637)	165,843	63,411
Capital lease obligations (note 8)	1,736,677	205,093	(199,942)	1,741,828	107,226
Premium on capital lease obligation	6,687	6,062	(6,687)	6,062	—
Deferred revenue – leasing transactions (note 8)	45,759	—	(4,262)	41,497	—
Bonds payable (note 9)	336,035	275,000	(103,740)	507,295	18,410
Premium on bonds payable	26,007	19,652	(4,599)	41,060	—
Accrued pension costs (note 10):					
Employees' Retirement Plan	1,002,586	241,951	—	1,244,537	—
Supplemental Retirement Plans	19,606	—	(749)	18,857	—
Other	5,190	—	(611)	4,579	—
Total	\$ 3,347,505	1,003,280	(579,227)	3,771,558	189,047

Changes in long-term obligations for the year ended December 31, 2005 are as follows (in thousands of dollars):

	Balance at January 1, 2005	Additions	Reductions	Balance at December 31, 2005	Amount due within one year
Self-insurance claims (note 11)	\$ 160,342	241,586	(232,970)	168,958	62,432
Capital lease obligations (note 8)	1,723,799	112,561	(99,683)	1,736,677	88,823
Premium on capital lease obligation	7,365	—	(678)	6,687	—
Deferred revenue – leasing transactions (note 8)	50,022	—	(4,263)	45,759	—
Bonds payable (note 9)	375,435	—	(39,400)	336,035	17,705
Premium on bonds payable	30,307	—	(4,300)	26,007	—
Accrued pension costs (note 10):					
Employees' Retirement Plan	767,002	235,584	—	1,002,586	—
Supplemental Retirement Plans	32,360	—	(12,754)	19,606	—
Other	5,011	179	—	5,190	—
Total	\$ 3,151,643	589,910	(394,048)	3,347,505	168,960

(8) Capital Lease Obligations

(a) Capital Lease – Public Building Commission

In 2003, the Public Building Commission of Chicago (PBC) issued revenue bonds for the benefit of the CTA in the amount of \$119,020,000. The bonds were issued to pay costs associated with the acquisition of real property and construction of a building and facilities, including certain furniture,

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fixtures, and equipment. The real property, building and facilities, and all furniture, fixtures, and equipment are owned by the PBC and leased to the CTA for use as its headquarters.

On October 26, 2006, the PBC issued Building Refunding Revenue Bonds for the benefit of the CTA in the amount of \$91,340,000. The proceeds of the bonds were used to advance refund the Public Building Commission of Chicago, Series 2003 bonds. The principal amount of the bonds refunded was \$111,120,000.

The proceeds from the sale of the 2006 bonds are being held in escrow under an escrow refunding agreement and have been invested in United States Treasury obligations. The principal amount of such obligations, together with interest earned thereon, will permit the payment of principal and interest on the refunded bonds up to and including their respective call dates. The refunded bonds are treated in the financial statements as defeased obligations. Accordingly, neither the trust account assets nor the refunded bonds appear in the accompanying financial statements. This refunding decreased debt service payments over the next 27 years by approximately \$388,000, resulting in an economic gain of approximately \$20,404,000. Based upon the requirements of GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Accounts*, the CTA recorded a deferred amount (loss) on refunding of \$2,395,000. This amount is recorded as a component of long-term debt in the accompanying balance sheets.

The new bonds are payable from and secured by the lease entered into between the PBC and the CTA and are considered a general obligation of the CTA payable from any lawfully available funds. Bond issue costs and premium related to this transaction are presented as such on the balance sheets. The present value of the future payments to be made by the CTA under the lease of approximately \$91,340,000 is reflected in the accompanying December 31, 2006 balance sheet as a capital lease obligation.

(b) Capital Lease – Lease and Leaseback Transactions

In 2003, CTA entered into a lease and leaseback agreement with a third party pertaining to certain buses, with a book value of \$25,778,000 at December 31, 2006. Under the bus lease agreement, which provides certain cash and tax benefits to the third party, the CTA entered into a long-term lease for applicable assets with a trust, established by the equity investor, in which the trust concurrently leased the respective assets back to the CTA under a sublease. The present value of the future payments to be made by the CTA under the lease of approximately \$23,555,000 is reflected in the accompanying December 31, 2006 balance sheet as a capital lease obligation.

During 2002, CTA entered into two lease and leaseback agreements with a third party pertaining to certain buses (lots 1 and 2), with a book value of \$42,125,000 at December 31, 2006. Under the bus lease agreements, which provide certain cash and tax benefits to the third party, the CTA entered into a long-term lease for applicable assets with a trust, established by the equity investor, in which the trust concurrently leased the respective assets back to the CTA under a sublease. The present value of the future payments to be made by the CTA under the lease of approximately \$101,157,000 is reflected in the accompanying December 31, 2006 balance sheet as a capital lease obligation.

During 2002, CTA entered into a lease and leaseback agreement with a third party pertaining to certain qualified technological equipment (QTE), with a book value of \$28,613,000 at

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December 31, 2006. Under the QTE lease agreement, which provides certain cash and tax benefits to the third party, the CTA entered into a long-term lease for applicable assets with a trust, established by the equity investor, in which the trust concurrently leased the respective assets back to the CTA under a sublease. The present value of the future payments to be made by the CTA under the lease of approximately \$169,877,000 is reflected in the accompanying December 31, 2006 balance sheet as a capital lease obligation.

During 1998, the CTA entered into a lease and leaseback agreement (the 1998 Agreement) with a third party pertaining to a rail line (green line), with a book value of \$273,023,000 at December 31, 2006. The 1998 Agreement, which provides certain cash and tax benefits to the third party, also provides for a trust established by the CTA to lease the rail line to an equity investor trust (the 1998 Equity Trust), which would then lease the facilities back to another trust established by the CTA under a separate lease (the 1998 Lease). The present value of the future payments to be made by the CTA under the lease of approximately \$276,971,000 is reflected in the accompanying December 31, 2006 balance sheet as a capital lease obligation.

During 1997, the CTA entered into four lease and leaseback agreements (the 1997 Agreements) with a third party pertaining to certain of its facilities having a book value of \$54,232,000 at December 31, 2006. The 1997 Agreements, which provide certain cash and tax benefits to the third party, also provide for a trust established by the CTA to lease the facilities to an equity investor trust (the Equity Trust), which would then lease the facilities back to another trust established by the CTA under separate leases (the Leases). The CTA received certain funds as prepayment by the Equity Trust. The funds have been deposited in designated investment accounts sufficient to meet the payments required under the Leases and are recorded as assets restricted for repayment of leasing commitments. The Equity Trust has a security interest in the deposits to guarantee the payments due by the CTA and may take possession of the facilities upon a default by the CTA under the Lease. No other lease payments are required until the end of each lease. The present value of the future payments to be made by the CTA under the leases (net of the payment due from the Equity Trust in 2023 and 2024) of approximately \$30,194,000 is reflected in the accompanying December 31, 2006 balance sheet as a capital lease obligation.

In connection with the 1997 Agreements, the CTA also received proceeds of \$11,900,000. The FTA has approved the CTA's right to the benefit received from these transactions. The CTA has elected to defer recognition of the proceeds over the remaining lease term.

During 1996, the CTA entered into similar lease and leaseback agreements (the 1996 Agreements) with a third party pertaining to certain of its facilities, with a book value of \$57,524,000 at December 31, 2006. The 1996 Agreements, which provide certain cash and tax benefits to the third party, also provide for a trust established by the CTA to lease the facilities to an equity investor trust (the 1996 Equity Trust), which would then lease the facilities back to another trust established by the CTA under a separate lease (the 1996 Lease). The present value of the future payments to be made by the CTA under the leases (net of the payment due from the 1996 Equity Trust in 2024) of approximately \$30,377,000 is reflected in the accompanying December 31, 2006 balance sheet as a capital lease obligation.

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In connection with the 1996 Agreements, the CTA also received proceeds of \$10,900,000 and agreed to make approximately \$80,000,000 of improvements to one of the facilities. The FTA has approved the CTA's right to the benefit received from these transactions. The CTA has elected to defer recognition of the proceeds over the remaining lease term.

During 1995, the CTA entered into sale/leaseback agreements (the 1995 Agreements) with third parties. The 1995 Agreements provided for the CTA to sell and lease back certain rail equipment totaling \$487,100,000 at cost for a period of 19 years beginning on the date of the respective transactions. At December 31, 2006, the total payments due under the 1995 Agreements are recorded as capital lease obligations totaling \$1,018,356,000. The CTA has deposited funds into designated cash and investment accounts sufficient to meet all of its payment obligations throughout the terms of the leases, and recorded such amounts as assets restricted for repayment of leasing commitments.

(c) Change in Capital Lease Obligations

Changes in capital leases for the year ended December 31, 2006 are as follows (in thousands of dollars):

	Balance at January 1, 2006	Additions*	Principal paid	Balance at December 31, 2006	Interest paid	Due in one year
2003 (Buses)	\$ 24,058	859	(1,362)	23,555	859	9,373
2002 (Buses)	96,302	4,855	—	101,157	4,855	—
2002 (QTE)	166,251	10,554	(6,928)	169,877	10,554	6,928
1998 (Green)	271,319	18,487	(12,835)	276,971	18,487	24,852
1997 (Garages)	28,081	2,113	—	30,194	2,113	—
1996 (Skokie/Racine)	28,299	2,078	—	30,377	2,078	—
1995 (Pickle)	1,007,247	74,807	(63,697)	1,018,357	74,807	63,698
Total lease/leasebacks	<u>1,621,557</u>	<u>113,753</u>	<u>(84,822)</u>	<u>1,650,488</u>	<u>113,753</u>	<u>104,851</u>
2003 PBC lease	115,120	—	(115,120)	—	5,848	—
2006 PBC lease	—	91,340	—	91,340	—	2,375
Total PBC leases	<u>115,120</u>	<u>91,340</u>	<u>(115,120)</u>	<u>91,340</u>	<u>5,848</u>	<u>2,375</u>
Total capital lease obligation \$	<u><u>1,736,677</u></u>	<u><u>205,093</u></u>	<u><u>(199,942)</u></u>	<u><u>1,741,828</u></u>	<u><u>119,601</u></u>	<u><u>107,226</u></u>

* Additions include accretion of interest.

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Changes in capital leases for the year ended December 31, 2005 are as follows (in thousands of dollars):

	Balance at January 1, 2005	Additions*	Principal paid	Balance at December 31, 2005	Interest paid	Due in one year
2003 (Buses)	\$ 24,480	873	(1,295)	24,058	843	1,362
2002 (Buses)	91,682	4,620	—	96,302	4,620	—
2002 (QTE)	162,841	10,338	(6,928)	166,251	10,338	6,928
1998 (Green)	276,350	18,832	(23,863)	271,319	18,832	12,835
1997 (Garages)	26,118	1,963	—	28,081	2,350	—
1996 (Skokie/Racine)	26,361	1,938	—	28,299	1,938	—
1995 (Pickle)	996,947	73,997	(63,697)	1,007,247	73,997	63,698
Total lease/ leasebacks	1,604,779	112,561	(95,783)	1,621,557	112,918	84,823
PBC lease	119,020	—	(3,900)	115,120	6,045	4,000
Total capital lease obligations	\$ <u>1,723,799</u>	<u>112,561</u>	<u>(99,683)</u>	<u>1,736,677</u>	<u>118,963</u>	<u>88,823</u>

* Additions include accretion of interest.

(d) Future Minimum Lease Payments

As of December 31, 2006, future minimum lease payments for capital leases, in the aggregate, are as follows (in thousands of dollars):

2007	\$ 111,020
2008	211,149
2009	95,772
2010	109,211
2011	99,210
2012 – 2016	1,761,746
2017 – 2021	374,295
2022 – 2026	241,679
2027 – 2031	30,940
2032 – 2033	12,374
Total minimum lease payments	<u>3,047,396</u>
Less interest	<u>1,305,568</u>
	\$ <u><u>1,741,828</u></u>

(9) Bonds Payable

(a) 2003 Series Capital Grant Receipts Revenue Bonds

On March 12, 2003, the CTA issued Capital Grant Receipts Revenue Bonds, Douglas Branch Project, in the amount of \$207,200,000, along with a premium of \$9,857,000, in anticipation of the receipt of grants from the federal government pursuant to a full funding grant agreement. The bonds

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were issued to provide funds to finance a portion of the costs of the extensive rehabilitation of eight rail stations and five miles of track, as well as the installation of signal and communication equipment, the traction power system, and various infrastructure improvements that together constitute the Douglas Branch Reconstruction Project.

The Series 2003 bonds outstanding as of December 31, 2005, totaling \$86,035,000, bear interest ranging from 4.25% to 5.0%. Interest is payable semiannually on June 1 and December 1, and the bonds mature serially on June 1, 2005 through June 1, 2008.

During 2006, the CTA redeemed all the outstanding Series 2003 bonds prior to maturity.

(b) 2004 Series Capital Grant Receipts Revenue Bonds

On October 20, 2004, the CTA issued Capital Grant Receipts Revenue Bonds, "2004 Project," in the amount of \$250,000,000, along with a premium of \$26,713,000, in anticipation of the receipt of grants from the federal government pursuant to a full funding grant agreement. The bonds were issued to provide funds to finance or reimburse the CTA for prior expenditures relating to a portion of the costs of capital improvements to the Transportation System referred to as the "2004 Project."

The Series 2004 bonds bear interest ranging from 3.60% to 5.25%. Interest is payable semiannually on June 1 and December 1 and the bonds mature serially on June 1, 2006 through June 1, 2016.

The bond debt service requirements to maturity are as follows (in thousands of dollars):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 18,410	11,462	29,872
2008	19,335	10,543	29,878
2009	20,250	9,563	29,813
2010	21,295	8,493	29,788
2011	22,390	7,368	29,758
2012	23,545	6,173	29,718
2013	24,780	4,905	29,685
2014	26,085	3,602	29,687
2015	27,385	2,232	29,617
2016	28,820	757	29,577
Total	\$ <u>232,295</u>	<u>65,098</u>	<u>297,393</u>

(c) 2006 Series Capital Grant Receipts Revenue Bonds

On November 1, 2006, the CTA issued Capital Grant Receipts Revenue Bonds, "2006 Project," in the amount of \$275,000,000, along with a premium of \$19,652,000, in anticipation of the receipt of grants from the federal government pursuant to a full funding grant agreement. The bonds were issued to provide funds to finance or reimburse the CTA for expenditures relating to a portion of the costs of capital improvements to the Transportation System referred to as the "2006 Project."

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The Series 2006 bonds bear interest ranging from 4.0% to 5.0%. Scheduled interest on the 2006 bonds will be funded through June 1, 2007 with bond proceeds and interest earnings thereon. Interest is payable semiannually on June 1 and December 1 and the bonds mature serially on June 1, 2008 through June 1, 2021.

The bond debt service requirements to maturity are as follows (in thousands of dollars):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ —	7,199	7,199
2008	8,140	13,223	21,363
2009	8,465	12,898	21,363
2010	8,800	12,559	21,359
2011	9,155	12,207	21,362
2012	9,520	11,841	21,361
2013	9,900	11,460	21,360
2014	10,395	10,965	21,360
2015	10,915	10,445	21,360
2016	11,465	9,900	21,365
2017	34,070	9,412	43,482
2018	35,770	7,709	43,479
2019	37,560	5,920	43,480
2020	39,435	4,042	43,477
2021	41,410	2,071	43,481
Total	\$ <u>275,000</u>	<u>141,851</u>	<u>416,851</u>

(10) Defined Benefit Pension Plans

(a) Plan Descriptions

Employees' Plan

The CTA maintains a trusted, single-employer, defined benefit pension plan covering substantially all full-time permanent union and nonunion employees. The Employees' Retirement Plan (the Employees' Plan) is governed by the terms of the employees' collective bargaining agreement.

Substantially all nontemporary, full-time employees who have completed one year of continuous service are covered by the Employees' Plan. Employees who retire at or after age 65 (or after completion of 25 years of continuous service with full benefits or at age 55 with reduced benefits) are entitled to an annual retirement benefit payable monthly for life, in an amount based upon compensation and credited service. For those hired after September 5, 2001, benefits will be reduced if they retire before age 65 or with less than a combination of age 55 and 25 years of service. The Employees' Plan also provides death, disability, and hospitalization benefits, except that employees hired after September 5, 2001 will not be eligible for retiree health benefits. The covered payroll for the Employees' Plan for the fiscal years ended December 31, 2006 and 2005 was \$592,500,000 and \$506,311,000, respectively. The Employees' Plan issues a separate stand-alone financial report and is available upon request.

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Supplemental Plans

The CTA also maintains separate single-employer, defined benefit pension plans for selected individuals. The supplemental retirement plans provide benefits to employees of the CTA in certain employment classifications. The supplemental retirement plans consist of the: (1) board member plan (2) closed supplemental plan for members that retired or terminated employment before March 2005 including early retirement incentive, and (3) open supplemental plan for active employees and members retiring after March 2005. CTA received qualification under Section 401(a) of the Internal Revenue Code for the supplemental plan and established a qualified trust during 2005 for members retiring after March 2005 (Open Supplemental Retirement Plan). The Open Supplemental Retirement Plan is reported in a fiduciary fund, whereas the activities for the closed and board plans are included in the financial statements of the CTA's business-type activities.

Employees of the applicable employment classifications are eligible for retirement benefits based on age and service credit as follows: at age 65; or age 55 with at least 3 years of service credit; or at any age with 25 or more years of service credit. The minimum monthly benefit is equal to one-sixth of one percent of the employee's average annual compensation multiplied by the years of continuous service. Employees are eligible for disability benefits after completion of 10 years of creditable continuous service or 5 years if the disability results from an on-the-job injury. Death benefits are payable to a designated beneficiary upon death of the retiree. Qualified dependents of the employee are eligible for monthly survivor benefits if the option was selected by the retiree. Any purchased service credit will be included in the determination of retirement benefits.

The CTA makes contributions from time to time to the trustee of the Open Supplemental Retirement Plan, while funding for the Closed and Board Supplemental Retirement Plans are on a pay-as-you-go basis. Employees are not required to make contributions to the supplemental retirement plans except those related to purchase service credit (approved prior governmental service).

Participants in the supplemental retirement plans at December 31, 2006 are as follows:

	<u>Open</u>	<u>Closed</u>	<u>Board</u>
Retirees and beneficiaries currently receiving benefits	15	464	17
Terminated employees entitled to but not yet receiving benefits	9	—	5
Active plan members	129	—	7
Total	<u>153</u>	<u>464</u>	<u>29</u>

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Participants in the supplemental retirement plans at December 31, 2005 are as follows:

	<u>Open</u>	<u>Closed</u>	<u>Board</u>
Retirees and beneficiaries currently receiving benefits	5	475	15
Terminated employees entitled to but not yet receiving benefits	—	7	7
Active plan members	141	—	6
Total	<u>146</u>	<u>482</u>	<u>28</u>

The covered payroll for the Open Supplemental Retirement Plan for the fiscal years ended December 31, 2006 and 2005 was \$14,840,000 and \$14,871,000, respectively. The covered payroll for the Board Supplemental Retirement Plan for the fiscal years ended December 31, 2006 and 2005 was \$200,000 and \$175,000, respectively.

(b) Funding Policy and Annual Pension Cost

Contribution requirements of the Employees' Plan are governed by collective bargaining agreements. Contributions for the supplemental plans are actuarially determined, but may be amended by the board of trustees of the Employees' Plan. The CTA's annual pension cost for the current year and related information for each plan are as follows (in thousands of dollars):

	<u>Employees' Plan – Pension & Healthcare</u>	<u>Open Supplemental</u>	<u>Closed Supplemental</u>	<u>Board Plan</u>
Contribution rates:				
CTA	6.0%	Actuarial	Pay-Go Funding	Pay-Go Funding
Plan members	3.0	None	None	None
Annual pension cost (APC)	\$ 277,501	42	2,748	262
Actual 2006 contributions:				
CTA	\$ 35,550	—	3,467	292
Plan members	17,775	269	—	6
Actuarial valuation date	January 1, 2006	January 1, 2006	January 1, 2006	January 1, 2006
Actuarial cost method	Projected unit credit	Projected unit credit	Projected unit credit	Projected unit credit
Amortization method	Level dollar	Level dollar	Level dollar	Level dollar
Remaining amortization period	40 years	30 years	15 years	30 years
Asset valuation method	5-year smoothed market	Fair market value	Fair market value	Fair market value
Actuarial assumptions:				
Investment rate of return	9.0%	8.0%	6.0%	6.0%
Projected salary increases	5.5	5.5	—	—
Includes inflation at	3.0	3.5	—	—

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The per capita healthcare claim costs and dependent contribution rates were assumed to increase a follows:

	Medical Trend Rate	Prescription Trend Rate
Plan year:		
2007	9%	11%
2008	8%	10%
2009	7%	9%
2010	6%	8%
2011	6%	7%
2012 and after	6%	6%

There were no significant assumption changes for either plan from the prior year valuation.

The following represents the significant components of the APC and changes in net pension obligation (asset) (NPO) during the year ended December 31, 2006 (in thousands of dollars):

	Employees' Plan		Supplemental Retirement Plans		
	Pension	Healthcare	Open	Closed	Board
Annual required contribution (ARC) \$	183,001	89,772	—	3,474	276
Interest on NPO	67,979	22,254	(650)	1,096	80
Adjustment to ARC	(64,417)	(21,088)	692	(1,822)	(94)
Annual pension cost	186,563	90,938	42	2,748	262
Contributions made	23,850	11,700	—	3,467	292
Increase (decrease) in NPO	162,713	79,238	42	(719)	(30)
NPO – December 31, 2005	755,323	247,263	(8,131)	18,265	1,341
NPO – December 31, 2006	\$ 918,036	326,501	(8,089)	17,546	1,311

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The following represents the significant components of the APC and changes in net pension obligation (asset) (NPO) during the year ended December 31, 2005 (in thousands of dollars):

	Employees' Plan		Supplemental Retirement Plans		
	Pension	Healthcare	Open	Closed	Board
Annual required contribution	\$ 170,443	92,026	1,623	2,439	266
Interest on NPO	54,166	14,864	366	1,173	83
Adjustment to ARC	(51,328)	(14,085)	(429)	(1,376)	(97)
Annual pension cost	173,281	92,805	1,560	2,236	252
Contributions made	19,807	10,695	15,786	3,521	292
Increase (decrease) in NPO	153,474	82,110	(14,226)	(1,285)	(40)
NPO – December 31, 2004	601,849	165,153	—	25,645	1,381
Transfer to new plan	—	—	6,095	(6,095)	—
NPO – December 31, 2005	\$ 755,323	247,263	(8,131)	18,265	1,341

(c) Three-Year Trend Information

The following summarizes fund information for the plans (in thousands of dollars):

	Year ended	Annual pension cost (APC)	Actual contributions	Percentage of APC contributed	Net pension obligation
Employees' Plan – Pension	December 31, 2006	\$ 186,563	23,850	12.8%	\$ 918,036
	December 31, 2005	173,281	19,807	11.4	755,323
	December 31, 2004	145,378	20,107	13.8	601,849
Employees' Plan – Healthcare	December 31, 2006	\$ 90,938	11,700	12.9%	\$ 326,501
	December 31, 2005	92,805	10,651	11.5	247,263
	December 31, 2004	73,889	10,382	14.1	165,153
Open Supplemental Plan	December 31, 2006	\$ 42	—	0.0%	\$ (8,089)
	December 31, 2005	1,560	15,786	1,011.9	(8,504)
	December 31, 2004	*	*	*	*
Closed Supplemental Plan	December 31, 2006	\$ 2,748	3,467	126.2%	\$ 17,546
	December 31, 2005	2,236	3,521	157.5	18,265
	December 31, 2004	*	*	*	*
Board Supplemental Plan	December 31, 2006	\$ 262	292	111.5%	\$ 1,311
	December 31, 2005	252	291	115.5	1,341
	December 31, 2004	*	*	*	*
Total supplemental plans	December 31, 2004	\$ 4,092	3,688	90.1%	\$ 27,026

*Prior to 2005, all supplemental plans were combined for reporting purposes.

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(11) Risk Management

The CTA is exposed to various types of risk of loss, including torts; theft of, damage to, or destruction of assets; errors or omissions; job-related illnesses or injuries to employees; natural disasters; and environmental occurrences. Also included are risks of loss associated with providing health, dental, and life insurance benefits to employees and retirees.

The CTA provides health insurance benefits to employees through two fully insured health maintenance organizations and a self-insured comprehensive indemnity/PPO plan. The CTA provides dental insurance benefits through two fully insured dental maintenance organizations and a self-insured dental indemnity plan. The CTA does not purchase stop-loss insurance for its self-insured comprehensive indemnity/PPO plan. The CTA provides life insurance benefits for active and retired employees through an insured life insurance program.

The CTA is also self-insured for general liability, property and casualty, workers' compensation, employee accidents, environmental, business interruption, terrorism, and automotive liability losses arising from automotive liability, property, property-related business interruption, terrorism, employment-related suits, including discrimination and sexual harassment, and management liability of board members, directors, and officers of the CTA.

The RTA provides excess liability insurance to protect the self-insurance programs currently maintained by the CTA. On November 8, 2005, a new policy was established through May 7, 2008 that covered injury and damage claims up to \$35,000,000 per occurrence and \$70,000,000 in the aggregate, with a \$15,000,000 deductible. On November 15, 2003, CTA's insurance covered injury and damage claims up to \$35,000,000 per occurrence and in the aggregate, with a \$15,000,000 deductible. This policy was extended on November 15, 2004 for a one-year period. In 2006 and 2005, no CTA claim existed that would have been submitted under these insurance policies.

The CTA participates in a Joint Self-Insurance Fund (the Fund) with the RTA that permits the CTA to receive monies necessary to pay injury and damage claims in excess of \$2,500,000 per occurrence up to a maximum of \$47,500,000 from the Fund. The CTA is obligated to reimburse the Fund for any damages paid plus a floating interest rate. However, reimbursement payments, including interest, cannot exceed \$3,500,000 in any one year. No borrowings were made from the Fund in fiscal year 2006 or 2005 to pay injury and damage claims.

Self-insured liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The estimate for injury and damage claims is adjusted for a current trend rate and discount factor of 5.0% and 5.0%, respectively. The estimate for workers' compensation claims is adjusted for a current trend rate and discount factor of 3.0% and 5.0%, respectively.

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Changes in the balance of claims liabilities during the past two years are as follows (in thousands of dollars):

	<u>Injury and damage</u>	<u>Group health and dental</u>	<u>Workers' compensation</u>	<u>Total</u>
Balance at December 31, 2004	\$ 91,435	13,000	55,907	160,342
Cash funded	31,500	173,118	36,968	241,586
Funding excess per actuarial requirement	(4,927)	—	—	(4,927)
Payments	<u>(25,649)</u>	<u>(172,133)</u>	<u>(30,261)</u>	<u>(228,043)</u>
Balance at December 31, 2005	92,359	13,985	62,614	168,958
Cash funded	45,266	178,695	31,561	255,522
Funding excess per actuarial requirement	(18,999)	—	—	(18,999)
Payments	<u>(26,454)</u>	<u>(177,957)</u>	<u>(35,227)</u>	<u>(239,638)</u>
Balance at December 31, 2006	<u>\$ 92,172</u>	<u>14,723</u>	<u>58,948</u>	<u>165,843</u>

Chapter 70, Paragraph 3605/39 of the *Illinois Compiled Statutes* requires the CTA to establish an injury and damage reserve in order to provide for the adjustment, defense, and satisfaction of all suits, claims, and causes of action, and the payment and satisfaction of all judgments entered against the CTA for damages caused by injury to or death of any person and for damages to property resulting from the construction, maintenance, and operation of the transportation system. The statute also requires the CTA to separately fund the current year's budgeted provision for the injury and damage reserve. See note 5 regarding cash and investment amounts maintained in this account.

(12) Derivative Financial Instruments

(a) *Objective of the Derivative*

The CTA negotiated commodity swap agreements with financial institutions to protect against market fluctuations in the price of diesel fuel.

(b) *Terms*

The CTA entered into commodity swap agreements for NYMEX No. 2 heating oil as shown below. Payment between the swap parties is calculated as the average of the daily settlement price per gallon for the first nearby month of the NYMEX No. 2 heating oil futures contract.

CHICAGO TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2006 and 2005

2006 Commodity Swap Agreements:

Effective date	Termination date	Notional quantity per calculation period (gallons)	Total notional quantity (gallons)	Fair value
11/1/2006	12/31/2006	712,500	1,425,000	\$ (306,446)
11/1/2006	12/31/2006	475,000	950,000	(221,398)
11/1/2006	12/31/2006	712,500	1,425,000	(307,159)
1/1/2007	12/31/2007	380,000	4,560,000	(1,422,584)
1/1/2007	12/31/2007	380,000	4,560,000	(2,057,914)
1/1/2007	12/31/2007	190,000	2,280,000	(927,882)
1/1/2007	12/31/2007	190,000	2,280,000	(793,485)
1/1/2007	12/31/2007	190,000	2,280,000	(927,882)
1/1/2007	12/31/2007	190,000	2,280,000	(793,485)
1/1/2007	12/31/2007	190,000	2,280,000	(406,955)
1/1/2007	12/31/2007	190,000	38,974	(406,955)
				<u>\$ (8,572,145)</u>

2005 Commodity Swap Agreements:

Effective date	Termination date	Notional quantity per calculation period (gallons)	Total notional quantity (gallons)	Fair value
1/1/2005	12/31/2005	285,000	3,420,000	\$ 146,006
2/1/2005	1/31/2006	285,000	3,420,000	286,997
3/1/2005	2/28/2006	285,000	3,420,000	231,585
4/1/2005	3/31/2006	285,000	3,420,000	150,720
5/1/2005	4/30/2006	285,000	3,420,000	436,109
11/1/2005	10/31/2006	Variable	4,560,000	(480,021)
11/1/2005	10/31/2006	Variable	12,255,000	(163,419)
				<u>\$ 607,977</u>

(c) **Fair Value**

As of December 31, 2006 and 2005, the commodity swaps had a fair value of (\$8,572,146) and \$607,977, respectively, estimated by discounting forward market prices available from exchange trading.

CHICAGO TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2006 and 2005

(d) Credit Risk

The CTA is exposed to credit risk in the amount of its fair value. As of December 31, 2006, the swap counterparty's long-term deposit ratings were Aaa and Aaa per Moody's Investors Service and AA and AA+ by Standard & Poor's. To mitigate the potential for credit risk, if the counterparty's credit quality falls below Aa2/AA, the fair value of the swap will be fully collateralized by the counterparty with cash, U.S. Treasury, or U.S. agency securities. Collateral is posted with a third-party custodian.

(13) Commitments and Contingencies

(a) Litigation

In April 2003, the CTA was named as a co-defendant in a lawsuit that alleges the Retirement Allowance Committee for the Employees' Retirement Plan breached its fiduciary duties by approving payments from plan assets to reimburse the CTA for actual healthcare costs paid on behalf of the Plan for retired members from 1995 to present. The combined amount currently alleged totals over \$60 million. Based on information currently available, management believes there has been no breach of fiduciary duties, breach of contract, or any other alleged illegality and that payments were properly made for the reimbursement of actual healthcare costs paid by CTA on behalf of retired plan members. Accordingly, no liability has been recorded in the financial statements as of December 31, 2006. However, the ultimate outcome of this claim cannot be determined at this time.

The CTA has been named as a defendant in various other legal proceedings arising in the normal course of operations. Although the ultimate outcome of these matters cannot be presently determined, it is the opinion of management of the CTA that resolution of these matters will not have a material adverse impact on the CTA's financial position.

(b) Defeased Debt

On May 1, 1998, the CTA defeased the capital lease agreement with the Public Building Commission of Chicago (the PBC) for the 901 W. Division facility. The CTA placed approximately \$13,600,000 into an irrevocable trust with a third party in order to meet all of its payment obligations throughout the term of the lease. The outstanding balance of the defeased debt was \$1,425,000 as of December 31, 2006.

On October 26, 2006, the PBC issued Building Refunding Revenue Bonds for the benefit of the CTA in the amount of \$91,340,000. The proceeds of the bonds were used to advance refund the Public Building Commission of Chicago, Series 2003 bonds. The outstanding balance of the defeased debt was \$111,120,000 as of December 31, 2006.

CHICAGO TRANSIT AUTHORITY

Notes to Financial Statements

December 31, 2006 and 2005

(c) Operating Leases

As of December 31, 2006, future minimum lease payments for operating leases, in the aggregate, are as follows (in thousands of dollars):

2007	\$	<u>281</u>
Total minimum lease payments	\$	<u><u>281</u></u>

(d) Pension Funding (unaudited)

On May 4, 2006, the Illinois General Assembly approved a bill requiring CTA, beginning in 2009, to achieve a funded ratio of 90% for its employee pension plan by 2058. To meet the proposed funding level of 90%, it is estimated, based on the current actuarial assumptions and the number of employees, that CTA and employees would have to contribute \$232 million annually to the pension plan. This would be an increase in contributions of approximately \$187 million annually over the current annual employer and employee combined contributions of approximately \$45.0 million. To meet this new required obligation as well as address the funding needed to meet normal operating needs, the CTA would require additional annual funding beginning in 2009. Without additional funding and/or legislative authority to the region, CTA may be forced to implement service cuts and fare increases in order to meet this new pension contribution obligation.

REQUIRED SUPPLEMENTARY INFORMATION

CHICAGO TRANSIT AUTHORITY

Required Supplementary Information –
Schedules of Funding Progress (Unaudited)

December 31, 2006

(In thousands of dollars)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	Percentage of covered payroll ((b-a)/c)
Employees' Plan – Pension:						
1/1/2006	\$ 810,336	2,354,125	1,543,789	34.4%	\$ 547,532	282.0%
1/1/2005	902,117	2,291,162	1,389,045	39.4	544,442	255.1
1/1/2004	1,062,399	2,189,666	1,127,267	48.5	486,626	231.6
1/1/2003	1,190,087	2,085,724	895,637	57.1	480,740	186.3
1/1/2002	1,355,567	2,044,330	688,763	66.3	459,343	149.9
1/1/2001	1,595,609	2,058,999	463,390	77.5	431,703	107.3
Employees' Plan – Healthcare:						
1/1/2006	\$ 388,719	1,129,278	740,559	34.4%	\$ 547,532	135.3%
1/1/2005	480,147	1,219,457	739,310	39.4	544,442	135.8
1/1/2004	518,647	1,068,961	550,314	48.5	486,626	113.1
1/1/2003	536,850	940,873	404,023	57.1	480,740	84.0
1/1/2002	509,160	767,864	258,704	66.3	459,343	56.3
1/1/2001	232,486	299,857	67,371	77.5	431,703	15.6
Open Supplemental Plan:						
1/1/2007	\$ 18,937	15,503	(3,434)	122.2%	\$ 14,840	(23.1)%
1/1/2006	17,001	10,064	(6,937)	168.9	14,871	(46.6)
1/1/2005	*	*	*	*	*	*
1/1/2004	*	*	*	*	*	*
1/1/2003	*	*	*	*	*	*
1/1/2002	*	*	*	*	*	*
Closed Supplemental Plan:						
1/1/2007	\$ —	33,104	33,104	—	\$ —	N/A
1/1/2006	—	34,835	34,835	—	—	N/A
1/1/2005	408	45,959	45,551	0.9	15,953	285.5
1/1/2004	301	46,820	46,519	0.6	17,590	264.5
1/1/2003	265	48,372	48,107	0.5	18,685	257.5
1/1/2002	204	47,762	47,558	0.4	17,502	271.7
Board Supplemental Plan:						
1/1/2007	\$ 50	3,312	3,262	1.5%	\$ 200	1,631.0%
1/1/2006	47	3,270	3,223	1.4	175	1,841.7
1/1/2005	42	3,001	2,959	1.4	175	1,690.9
1/1/2004	55	2,579	2,524	2.1	175	1,442.3
1/1/2003	55	2,369	2,314	2.3	200	1,157.0
1/1/2002	56	2,127	2,071	2.6	200	1,035.5

*During the year ended December 31, 2005, the CTA established a qualified trust for members of the supplemental retirement plan retiring after March 2005 (Open Supplemental Retirement Plan). With the establishment of the trust, the old supplemental retirement plan was effectively closed and subsequently only includes employees who retired prior to March 2005.

See accompanying independent auditors' report.

SUPPLEMENTARY SCHEDULES

CHICAGO TRANSIT AUTHORITY

Employees' Plan

Required Supplementary Information –
Schedules of Employer Contributions (Unaudited)

December 31, 2006

(In thousands of dollars)

Employees' Plan – Pension		
Year ended	Annual required contribution	Percentage contributed
12/31/06	\$ 183,001	13.0%
12/31/05	170,443	11.6
12/31/04	143,130	14.1
12/31/03	107,492	18.2
12/31/02	51,536	38.4
12/31/01	61,757	39.0

Employees' Plan – Healthcare		
Year ended	Annual required contribution	Percentage contributed
12/31/06	\$ 89,772	13.0%
12/31/05	92,026	11.6
12/31/04	73,410	14.1
12/31/03	55,072	18.2
12/31/02	24,278	38.3
12/31/01	8,047	39.0

See accompanying independent auditors' report.

CHICAGO TRANSIT AUTHORITY

Supplemental Plans

Required Supplementary Information –
Schedules of Employer Contributions (Unaudited)

December 31, 2006

(In thousands of dollars)

Open Supplemental Plan

Year ended	Annual required contribution	Percentage contributed
12/31/06	\$ —	N/A
12/31/05	1,623	972.4
12/31/04	*	*
12/31/03	*	*
12/31/02	*	*
12/31/01	*	*

Closed Supplemental Plan

Year ended	Annual required contribution	Percentage contributed
12/31/06	\$ 2,021	93.1%
12/31/05	2,439	144.4
12/31/04	*	*
12/31/03	*	*
12/31/02	*	*
12/31/01	*	*

Board Supplemental Plan

Year ended	Annual required contribution	Percentage contributed
12/31/06	\$ 275	106.0%
12/31/05	266	109.5
12/31/04	*	*
12/31/03	*	*
12/31/02	*	*
12/31/01	*	*

Total Supplemental Plans

Year ended	Annual required contribution	Percentage contributed
12/31/06	\$ 3,750	100.3%
12/31/05	4,328	452.8
12/31/04	4,368	86.0
12/31/03	4,690	65.3
12/31/02	4,543	108.6
12/31/01	3,817	96.0

*Prior to 2005, all supplemental plans were combined for reporting purposes.

See accompanying independent auditors' report.

CHICAGO TRANSIT AUTHORITY

Schedule of Expenses and Revenues –
Budget and Actual – Budgetary Basis

Year ended December 31, 2006

(In thousands of dollars)

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual – budgetary basis</u>	<u>Variance favorable (unfavorable)</u>
Operating expenses:				
Labor and fringe benefits	\$ 748,922	748,922	760,751	(11,829)
Materials and supplies	67,088	67,088	83,150	(16,062)
Fuel	48,000	48,000	57,470	(9,470)
Electric power	24,526	24,526	22,268	2,258
Purchase of security services	35,335	35,335	30,831	4,504
Purchase of paratransit services	29,582	29,582	28,415	1,167
Other	50,232	50,232	48,288	1,944
Provision for injuries and damages	33,000	33,000	45,266	(12,266)
Total operating expenses	<u>1,036,685</u>	<u>1,036,685</u>	<u>1,076,439</u>	<u>(39,754)</u>
System-generated revenues:				
Fares and passes	426,522	426,522	462,218	35,696
Reduced-fare subsidies	30,590	30,590	29,604	(986)
Advertising and concessions	24,800	24,800	24,402	(398)
Investment income	4,944	4,944	11,608	6,664
Contributions from local governmental units	5,000	5,000	5,000	—
Other revenue	20,773	20,773	19,574	(1,199)
Total system-generated revenues	<u>512,629</u>	<u>512,629</u>	<u>552,406</u>	<u>39,777</u>
Operating expenses in excess of system-generated revenues:	524,056	524,056	524,033	23
Public funding from the RTA:				
Operating assistance	<u>524,056</u>	<u>524,056</u>	<u>524,056</u>	<u>—</u>
Change in net assets – budgetary basis	\$ <u>—</u>	<u>—</u>	23	<u>23</u>
Reconciliation of budgetary basis to GAAP basis:				
Provision for depreciation			(376,910)	
Pension expense in excess of pension contributions			(286,694)	
Provision for injury and damage claims			19,000	
Revenue from leasing transactions			4,262	
Interest revenue on bond transactions			24,471	
Interest expense on bond transactions			(14,557)	
Interest income from sale/leaseback			118,559	
Interest expense from sale/leaseback			(113,753)	
Capital contributions			522,040	
Change in net assets – GAAP basis			<u>\$ (103,559)</u>	
CTA recovery ratio:				
Total operating expenses			\$ 1,076,439	
Less mandated security costs			(30,831)	
Plus City of Chicago in-kind services			22,000	
Total operating expenses for recovery ratio calculation (B)			<u>\$ 1,067,608</u>	
Total system-generated revenues			\$ 552,406	
Plus FTA funds			8,000	
Plus City of Chicago in-kind services			22,000	
Total system-generated revenues for recovery ratio calculation (A)			<u>\$ 582,406</u>	
Recovery ratio (A/B)				54.55%

See accompanying independent auditors' report.

CHICAGO TRANSIT AUTHORITY

Schedule of Expenses and Revenues --
Budget and Actual – Budgetary Basis

Year ended December 31, 2005

(In thousands of dollars)

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual – budgetary basis</u>	<u>Variance favorable (unfavorable)</u>
Operating expenses:				
Labor and fringe benefits	\$ 718,537	718,537	714,336	4,201
Materials and supplies	65,334	65,334	71,366	(6,032)
Fuel	33,837	33,837	45,788	(11,951)
Electric power	24,526	24,526	22,909	1,617
Purchase of security services	34,777	34,777	31,221	3,556
Purchase of paratransit services	52,473	52,473	53,257	(784)
Other	47,646	47,646	51,069	(3,423)
Provision for injuries and damages	19,000	19,000	31,500	(12,500)
Total operating expenses	<u>996,130</u>	<u>996,130</u>	<u>1,021,446</u>	<u>(25,316)</u>
System-generated revenues:				
Fares and passes	406,948	406,948	417,424	10,476
Reduced-fare subsidies	30,590	30,590	31,961	1,371
Advertising and concessions	24,313	24,313	23,963	(350)
Investment income	2,949	2,949	5,432	2,483
Contributions from local governmental units	5,000	5,000	5,000	—
Other revenue	30,445	30,445	42,024	11,579
Total system-generated revenues	<u>500,245</u>	<u>500,245</u>	<u>525,804</u>	<u>25,559</u>
Operating expenses in excess of system-generated revenue:	495,885	495,885	495,642	243
Public funding from the RTA:				
Operating assistance	495,885	495,885	495,885	—
Change in net assets – budgetary basis	<u>\$ —</u>	<u>—</u>	243	<u>243</u>
Reconciliation of budgetary basis to GAAP basis:				
Provision for depreciation			(360,559)	
Supplemental retirement			6,261	
Incentive retirement			651	
Pension expense in excess of pension contributions			(206,610)	
Provision for injury and damage claims			4,927	
Revenue from leasing transactions			4,262	
Interest revenue on bond transactions			14,273	
Interest expense on bond transactions			(20,360)	
Interest income from sale/leaseback			117,247	
Interest expense from sale/leaseback			(112,561)	
Capital contributions			398,654	
Change in net assets – GAAP basis			<u>\$ (153,572)</u>	
CTA recovery ratio:				
Total operating expenses			\$ 1,021,446	
Less mandated security costs			(31,221)	
Plus City of Chicago in-kind services			21,000	
Total operating expenses for recovery ratio calculation (B)			<u>\$ 1,011,225</u>	
Total system-generated revenues			\$ 525,804	
Plus City of Chicago in-kind services			21,000	
Total system-generated revenues for recovery ratio calculation (A)			<u>\$ 546,804</u>	
Recovery ratio (A/B)				54.07%

See accompanying independent auditors' report.

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APPENDIX C

FEDERAL TRANSIT PROGRAM

General

The Federal Transit Program (the “Federal Transit Program”) in support of public transit in the United States had its origin in 1955 when Congress authorized the Administrator of the Housing and Home Finance Agency to make loans to public bodies to assist in financing urban mass transportation capital improvement projects. This authority was later transferred to the United States Department of Housing and Urban Development and then expanded in 1964 with the passage of the Urban Mass Transportation Act (the “UMT Act”). In 1968, the Secretary of the Department of Transportation (the “Secretary of Transportation”) was given the authority to administer the UMT Act and the Urban Mass Transportation Administration (the “UMTA”) was created within the United States Department of Transportation. The UMT Act was reauthorized in 1970, 1974, 1978, 1982, 1987, 1991, 1998 and most recently in 2005. Reauthorization in each of these years represents Congress’ approval to expend federal revenues on federal transportation programs.

In 1991, Congress passed the Intermodal Surface Transportation Efficiency Act (“ISTEA”) which made important changes to the UMTA, most notably, changing the name of the UMTA to the FTA. In 1994, the UMT Act was codified under Title 49 of the U.S. Code.

The most recent reauthorization legislation, the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (“SAFETEA-LU”) was signed into law in 2005 and extended authorization of the Federal Transit Program through FFY 2009. Components of the Federal Transit Program authorized by SAFETEA-LU include the Urbanized Area Formula Program (the “Section 5307 Program”), 49 U.S.C. Section 5307, under which funds (“Section 5307 Formula Funds”) are made available to standard metropolitan statistical areas with populations greater than 50,000 population (each an “urbanized area”) to finance capital, operating and planning assistance for mass transportation and the Fixed Guideway Modernization Program (the “Section 5309 Program”), 49 U.S.C, Section 5309, under which funds (“Section 5309 Formula Funds”) are made available for the modernization of existing rail systems.

SAFETEA-LU retained the “guarantee” of certain fixed levels of funding for transit that was contained in the previous authorization. These so-called “firewalls” were constructed around the transit funding to prevent such funding from being used for any other purpose. Originally, funding for surface transportation programs (highway and transit) was only one item among many on a list of discretionary priorities for federal spending in the budget. This was changed so that transit funding was “guaranteed” at a fixed amount throughout an authorization period and could be used only to support transit programs. Congress, through the annual budget process, may choose to raise the total funding level for transit programs by allocating part of another federal program’s budget to transit but, because of the established “firewall” around the Federal Transit Program, it may not use any of the “guaranteed” transit amount for any other federal program.

Under the Federal Transit Program, both contract and budget authority are required before revenues may be committed and spent. The authority is provided through a two-step process. The authorizing legislation provides contract authority, describes the purposes for the Federal Transit Program, and sets a proposed level of spending in advance of appropriations. Appropriations legislation provides the budget authority or legal ability to spend federal revenues.

The second step of the federal funding process occurs when revenues are appropriated and obligated for a specific purpose. FTA funds are allocated for transit purposes in several ways as specified in the authorizing legislation. Within ten days of the President's signing of appropriation legislation, FTA publishes a Notice in the Federal Register (the "Notice") listing the amount apportioned for the several purposes of the Federal Transit Program, including amounts apportioned (i) to each urbanized area (in the case of Section 5307 Formula Funds), (ii) to certain areas which operate existing rail service (in the case of 5309 Formula Funds), and (iii) to each state (in the case of certain elderly/disabled and non-urbanized area programs). FTA also lists in the Notice specific Congressionally-mandated projects which have been allocated discretionary funds under 49 U.S.C. 5309 (including grants pursuant to full funding grant agreements) in the legislation itself.

Following submission of an application for funds by a public body and FTA approval of such application, FTA obligates federal funds for specific eligible projects and reserves those funds until expended by the grant recipient. This is the process through which FTA makes appropriated funds available to grant recipients under the various components of the Federal Transit Program.

The third step, program implementation, includes a wide range of activities which occur after FTA grant approval, largely on the part of the grant recipient, to produce the project for which grant funds were made available and to seek federal reimbursement from such grant funds for eligible costs.

Funding of Federal Transit Program

The FTA administers payments under the Federal Transit Program through approved grants paid from the Mass Transit Account (the "MTA"), an account within the Highway Trust Fund ("HTF"). The "guaranteed" funding level provisions of SAFETEA-LU discussed above, assume that approximately 80 percent of transit spending would derive from the MTA and the remaining percentage would derive from the General Fund of the U.S. Treasury. Using revenues in the MTA, the FTA makes grants to recipients for expenditures related to approved transit projects. The FTA distributes these revenues based on formulae, specific criteria and directives prescribed by federal law (see, for example, the description of the Section 5307 Program below).

The HTF is funded by collection of federally-imposed motor vehicle user fees, primarily fuel taxes, and is a dedicated fund with dedicated revenues that are held in trust for reimbursement of the costs of transportation projects, including transit and highway projects. The HTF presently contains the Highway Account and the MTA. The MTA receives approximately 16 percent of federal gasoline tax revenues and 12 percent of federal diesel fuel tax revenues collected nationwide, with the remaining share of such revenues deposited in the

Highway Account. The 18.4 cents per gallon of federal gasoline excise taxes are the largest revenue source for the HTF. Of this amount, 15.45 cents per gallon go to the Highway Account, while the remaining 2.95 cents per gallon go to the MTA.

Collections of HTF taxes (“HTF collections”) must periodically be reauthorized by Congress. Historically, the HTF and its constituent taxes have been authorized for prescribed periods of time. The HTF has been reauthorized several times. Most recently, SAFETEA-LU authorized HTF collections through FFY 2011, thereby extending these collections two Federal Fiscal Years beyond the effective expiration of SAFETEA-LU.

Program Operations

General. The Section 5307 Program is a formula grant program for urbanized areas providing capital, operating (Section 5307 Formula Funds for operations are available only to urbanized areas with populations below 200,000; the Authority therefore does not qualify for funds related to operating assistance), and planning assistance for mass transportation. The Section 5307 Program was initiated by the Surface Transportation Act of 1982 and became FTA’s primary transit assistance program in FFY 1984. Funds are apportioned to urbanized areas utilizing a formula based on population, population density, and other factors associated with transit service and ridership.

The Section 5309 Program is a formula grant program providing capital assistance for the modernization of existing rail systems. Funds are allocated by a statutory formula to urbanized areas with rail systems that have been in operation for at least seven years.

Annual Apportionment of Funds. Funds are allocated for transit purposes specified in the authorizing legislation in several ways. Within ten days of the President’s signing of appropriation legislation, FTA publishes the Notice in the Federal Register listing, along with other information, the amount apportioned to each urbanized area (in the case of Section 5307 Formula Funds), to certain areas which operate existing rail service (in the case of Section 5309 Formula Funds). Also included in the Notice are any changes to program implementation guidelines which will govern the grant application/award cycle and/or implementation of the Section 5307 Program or the Section 5309 Program after the grant awards have been made. The Authority receives a portion of the funds that are apportioned to the Chicago, Illinois/Northwestern Indiana Urbanized Area (the “Local Urbanized Area”).

Designated Recipient. For block grant purposes and to assure coordination of funds in each urbanized area, Section 5307 requires the Governor of each state to designate a recipient or recipients (each a “designated recipient”) to receive and dispense the Section 5307 Formula Funds. With respect to the Authority’s receipt of Section 5307 Formula Funds, it is a designated recipient. The Authority is also a designated recipient of Section 5309 Formula Funds. For an urbanized region with more than one designated recipient, such as the Local Urbanized Area, the amounts available under the Federal Transit Program, as published in the FTA Notice, must be further allocated among the region’s designated recipients by the Metropolitan Planning Organization or Organizations (each a “MPO”) for the urbanized area. For the Local Urbanized Area, this process is completed by the Chicago Metropolitan Agency for Planning (“CMAP”) and the RTA.

Amount of Apportioned Funds. The amount of Section 5307 Formula Funds apportioned to each urbanized area is determined based on a formula comprised of the following two components. The first component is a Congressionally-mandated formula based on population and population density in urbanized areas. Different formulas apply to urbanized areas with populations of 200,000 or more and urbanized areas with populations less than 200,000. For urbanized areas over 200,000 in population, such as the Authority, funds flow directly to the designated recipient.

The second component determining the amount of Section 5307 Formula Funds is operating and service-related data compiled in strict accordance with requirements set forth in the legislatively-mandated National Transit Database (“NTD”). This summary of nation-wide transit data is compiled annually by FTA from operator-supplied, FTA-validated, individual reports containing extensive information about each transit property and the transit service it provides. Assuming no new transit service is added or dropped during the year, the yearly data submitted to FTA remains relatively constant and, consequently, the annual apportionment likewise remains relatively constant.

The formula for allocating Section 5309 Formula Funds contains seven tiers. The apportionment of funding under the first four tiers is based on amounts specified in law and NTD data used to apportion funds in FFY 1997. Funding under the last three tiers is apportioned based on the latest available data on rote miles and revenue vehicle miles on segments at least seven years old, as reported to the NTD.

Grant Application Process. Once the Notice is published listing actual amounts of Section 5307 Formula Funds and Section 5309 Formula Funds available to each urbanized area and, in the case of designated recipients such as the Authority, the relevant MPO has made its allocation, eligible public bodies are able to electronically submit grant applications to the FTA. A typical grant application for Section 5307 Formula Funds and Section 5309 Formula Funds is made up of a “program of projects,” a line-item budget and project implementation information. The program of projects consists of a list of individual projects (i.e., lease/purchase of buses, construction of a facility, overhaul of locomotives, etc.) with brief descriptions of the work to be accomplished for each of the individual projects for which money is requested. During the application review process, the FTA confirms that required planning, environmental, and other necessary legal requirements have been satisfactorily fulfilled. Since 1995, the FTA has allowed grant applicants to self-certify compliance with many of the statutory requirements.

Obligation of Funds. When FTA has determined that all legal requirements have been met for the approval of a grant application, it obligates the requested funds in its main computer under a grant number unique to each designated recipient, thus reserving the funds for draw down by the designated recipient for the approved projects. Funds are available to the designated recipient until expended.

Lapsing of Apportioned Funds. Funds apportioned to an urbanized area must be requested by the designated recipient in the area and obligated by FTA within three years following the year of apportionment. If such funds are not obligated within this time frame, the apportionment to the urbanized area lapses and the funds revert to FTA which reapportions them

the following year. As stated above, however, once funds are obligated by FTA to a designated recipient, the funds remain available until spent by the designated recipient.

Program Implementation. Program implementation occurs after funds have been obligated by FTA to designated recipients in specific urbanized areas. Once funds have been authorized and obligated, designated recipients must have developed transit plans and programs which comply with applicable laws and regulations. This process has five stages: (1) Budgeting; (2) Planning; (3) Programming; (4) Grant Approval; and (5) Project Implementation, Fiscal Management and FTA Reimbursement.

Budgeting. Budgetary information about availability of capital funding is crucial to the development of transit capital programs. Projected state, federal and other funding levels are used to budget transportation needs. Transit operators must estimate the availability of short and long-term state, federal and other funding in order to plan their transit programs. They use this information as a guide during long-range planning, and as a strict constraint on short-term programming.

Planning. The long-range planning process provides a comprehensive perspective of anticipated project needs statewide. Explicitly listed among the transit elements of such a transportation system is the replacement of overage vehicles, such as buses, rail cars and locomotives, at the end of their useful lives. Such plans are reviewed by the FTA and, where applicable, other state or federal agencies.

Current federal law requires that individual urbanized area Transportation Improvement Programs (each a "TIP") be developed from long-range plans and provide a detailed outline of projects that are proposed for implementation in the urbanized area within a five-year timeframe. The TIP, which includes both highway and transit projects, is developed by CMAP. The Authority's five-year capital plan, as approved by the CTA and RTA Boards, is one of the components to the TIP developed by CMAP. See "THE AUTHORITY – Capital Plan" in the Official Statement. CMAP is designated by the Governor of Illinois and northeastern Illinois local officials as the region's MPO. CMAP consists of an executive committee, City of Chicago, Cook County and collar county appointees and agency representatives.

Specific transit projects are not eligible for federal reimbursement unless they are included in the TIP in a level of detail which includes the estimated project cost and the amount of federal revenues proposed to be obligated during each Federal Fiscal Year. Although not required by federal law, non-federal funds are also included in CMAP's TIP in order to give a complete picture of transportation initiatives for the five year period.

Programming. Programming is the annual process through which individual projects are selected and scheduled for implementation in a given year. A variety of projects are typically included in the list approved by the CTA Board, including rehabilitation of rail stations and bus maintenance facilities, scheduled vehicle replacements, annual lease payments, cyclical railroad track, bridge, signal and communication system improvements, construction of park/ride lots, computer enhancements and many more. For those projects which are programmed to use federal funds, the approved project list forms the basis of the Authority's grant application to FTA.

Approved project lists may be amended through a process called reprogramming. Through reprogramming, the Authority may use Section 5307 Formula Funds or Section 5309 Formula Funds that have been obligated to the project or projects that are the subject of an approved grant application to provide reimbursement for projects that are the subject of a different approved grant application. Such reprogramming must be approved by the FTA.

Grant Approval. The FTA has implemented electronic grant making. Applicants input all necessary information into the FTA's computer system to which they are networked. The information is reviewed and approved by the FTA on-line. An "offer" of financial assistance, the federal commitment to reimburse the designated recipient for the federal share of eligible project costs, is extended on-line. In taking this action, FTA reserves the obligated amount in the MTA and "debits" the urbanized area apportionment. These funds cannot be used for any other purpose or by any other designated recipient.

Project Implementation, Fiscal Management and FTA Reimbursements. Once budgeting, planning, programming and the FTA approval have taken place, projects move into the implementation phase. During this phase, work to accomplish the project is undertaken, either by contractors or the designated recipient's own forces, invoices are submitted, reimbursement is requested and received from FTA and payments are made.

FTA reimbursement funds flow directly from the U.S. Treasury to the designated recipient's bank account via electronic transfer. This FTA reimbursement to the designated recipient liquidates its obligation for the federal share of the costs incurred to that point. The designated recipient is allowed to requisition funds if it has actually received an invoice for eligible expenses, if it expects to receive such an invoice within 30 days, or if a recurring payment is due within 30 days. The designated recipient is expected to time the request for funds, however, so that federal funds are not held in the designated recipient's bank account for more than three days.

Once it has approved a project and obligated funds for the work, the FTA does not normally insert itself into the implementation phase. Designated recipients are required to make purchases and perform construction in accordance with all applicable federal and state statutes, rules and regulations. Quarterly written reports and periodic on-site review meetings, designed to keep the FTA informed of progress and any problems, occur as work proceeds.

APPENDIX D

FORM OF CONTINUING DISCLOSURE UNDERTAKING

CONTINUING DISCLOSURE UNDERTAKING FOR THE PURPOSE OF PROVIDING CONTINUING DISCLOSURE INFORMATION UNDER SECTION (B)(5) OF RULE 15C2-12

This Continuing Disclosure Undertaking (the “*Agreement*”) is executed and delivered by the Chicago Transit Authority, a political subdivision, body politic and municipal corporation of the State of Illinois (the “*Issuer*”), in connection with the issuance by the Issuer of \$100,000,000 aggregate principal amount of Capital Grant Receipts Revenue Bonds, Series 2008A (Federal Transit Administration Section 5307 Urbanized Area Formula Funds) (the “*2008A 5307 Bonds*”) and \$150,000,000 aggregate principal amount of Capital Grant Receipts Revenue Bonds, Series 2008 (Federal Transit Administration Section 5309 Fixed Guideway Modernization Formula Funds) (the “*2008 5309 Bonds*,” and collectively with the 2008A 5307 Bonds, the “*Bonds*”). The Bonds are being issued pursuant to the laws of the State of Illinois, including the Metropolitan Transit Authority Act (70 ILCS 3605) and the Local Government Debt Reform Act (30 ILCS 350). The Bonds are authorized by an ordinance adopted by the Chicago Transit Board of the Issuer on March 12, 2008. The 2008A 5307 Bonds are being issued pursuant to the Trust Indenture dated as of November 1, 2004 (the “*5307 Master Trust Indenture*”), between the Authority and Amalgamated Bank of Chicago, Chicago, Illinois, as trustee (the “*5307 Trustee*”), as supplemented by a First Supplemental Indenture, dated as of November 1, 2006 (the “*First Supplemental Indenture*”) and a Second Supplemental Indenture, dated April 1, 2008 (the “*Second Supplemental Indenture*” and, together with the First Supplemental Indenture and the 5307 Master Trust Indenture, the “*5307 Indenture*”), by and between the Authority and the 5307 Trustee. The 2008 5309 Bonds are being issued pursuant to the Trust Indenture dated as of April 1, 2008 (the “*5309 Indenture*,” and together with the 5307 Indenture, the “*Indentures*”), between the Authority and Amalgamated Bank of Chicago, Chicago, Illinois, as trustee (the “*5309 Trustee*”).

In consideration of the issuance of the Bonds by the Issuer and the purchase of such Bonds by the beneficial owners thereof, the Issuer covenants and agrees as follows:

1. **PURPOSE OF THIS AGREEMENT.** This Agreement is executed and delivered by the Issuer as of the date set forth below, for the benefit of the beneficial owners of the Bonds and in order to assist the Participating Underwriters in complying with the requirements of the Rule (as defined below). The Issuer represents that it will be the only obligated person with respect to the Bonds at the time the Bonds are delivered to the Participating Underwriters and that no other person is expected to become so committed at any time after the issuance of the Bonds.

2. DEFINITIONS. The terms set forth below shall have the following meanings in this Agreement, unless the context clearly otherwise requires.

Annual Financial Information means the financial information and operating data described in *Exhibit I*.

Annual Financial Information Disclosure means the dissemination of disclosure concerning Annual Financial Information and the dissemination of the Audited Financial Statements as set forth in Section 4.

Audited Financial Statements means the audited financial statements of the Issuer prepared pursuant to the standards and as described in *Exhibit I*.

Bondholder means any registered owner of any of the Bonds and any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any of the Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any of the Bonds for federal income tax purposes.

Commission means the Securities and Exchange Commission.

Dissemination Agent shall mean any dissemination agent designated in writing by the Issuer and that has filed with the Trustee a written acceptance of such designation.

Event means the occurrence of any of the events set forth in *Exhibit II*.

Exchange Act means the Securities Exchange Act of 1934, as amended.

Material Event means the occurrence of any of the Events with respect to the Bonds set forth in *Exhibit II* that is material, as materiality is interpreted under the Exchange Act.

Material Events Disclosure means the dissemination of a notice of a Material Event as set forth in Section 5.

MSRB means the Municipal Securities Rulemaking Board.

NRMSIRs means, as of any date, all Nationally Recognized Municipal Securities Information Repositories then recognized by the Commission for purposes of the Rule. The names and addresses of the current NRMSIRs are presently set forth on the following website: www.sec.gov/info/municipal/nrmsir.htm. The names and addresses of all current NRMSIRs should be verified each time information is delivered to the NRMSIRs pursuant to this Agreement.

Participating Underwriter means each broker, dealer or municipal securities dealer acting as an underwriter in the primary offering of the Bonds.

Rule means Rule 15c2-12 adopted by the Commission under the Exchange Act, as the same may be amended from time to time.

SID means the public or private repository designated by the State as the state repository and recognized as such by the Commission for purposes of the Rule. As of the date of this Agreement there is no SID.

State means the State of Illinois.

Undertaking means the obligations of the Issuer pursuant to Sections 4 and 5.

3. CUSIP NUMBERS/FINAL OFFICIAL STATEMENT. The CUSIP numbers of the Bonds are as set forth in *Exhibit III* hereto. The Final Official Statement relating to the Bonds is dated April 16, 2008 (the "*Final Official Statement*").

4. ANNUAL FINANCIAL INFORMATION DISCLOSURE. The Issuer hereby covenants that it will disseminate its Annual Financial Information and its Audited Financial Statements (in the form and by the dates set forth in *Exhibit I*) to each NRMSIR and to the SID, if any. The Issuer is required to deliver such information in such manner and by such time so that such entities receive the information by the dates specified in *Exhibit I*.

If any part of the Annual Financial Information can no longer be generated because the operations to which it is related have been materially changed or discontinued, the Issuer will provide a statement to such effect as part of its Annual Financial Information for the year in which such event first occurs.

If any amendment is made to this Agreement, the Annual Financial Information for the year in which such amendment is made (or in any notice or supplement provided to each NRMSIR and the SID, if any) shall contain a narrative description of the reasons for such amendment and its impact on the type of information being provided.

5. MATERIAL EVENTS DISCLOSURE. Subject to Section 9 of this Agreement, the Issuer hereby covenants that it will disseminate in a timely manner Material Events Disclosure to each NRMSIR or the MSRB and to the SID, if any. Notwithstanding the foregoing, notice of optional or unscheduled redemption of any Bonds or defeasance of any Bonds need not be given under this Agreement any earlier than the notice (if any) of such redemption or defeasance is given to the Bondholders pursuant to the Indentures.

6. DUTY TO UPDATE NRMSIRs/SID. The Issuer shall determine, in the manner it deems appropriate, the names and addresses of the then existing NRMSIRs and SID each time it is required to file information with such entities.

7. CONSEQUENCES OF FAILURE OF THE ISSUER TO PROVIDE INFORMATION. The Issuer shall give notice in a timely manner to each NRMSIR or to the MSRB and to the SID, if any, of any failure to provide disclosure of Annual Financial Information and Audited Financial Statements when the same are due hereunder.

In the event of a failure of the Issuer to comply with any provision of this Agreement, the beneficial owner of any Bond may seek mandamus or specific performance by court order, to cause the Issuer to comply with its obligations under this Agreement. Any such action to enforce any provision of this Agreement shall be commenced in the Circuit Court of Cook County, Illinois. A default under this Agreement shall not be deemed an Event of Default under the Indentures (as that term is defined therein), and the sole remedy under this Agreement in the event of any failure of the Issuer to comply with this Agreement shall be an action to compel performance.

8. **AMENDMENTS; WAIVER.** Notwithstanding any other provision of this Agreement, the Issuer may amend this Agreement, and any provision of this Agreement may be waived, if:

(a) The amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Issuer, or type of business conducted;

(b) This Agreement, as amended, or the provision, as waived, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not materially impair the interests of the beneficial owners of the Bonds, as determined either by parties unaffiliated with the Issuer (such as the Trustee or nationally recognized bond counsel), or by an approving vote of Bondholders pursuant to the terms of the Indenture at the time of the amendment.

9. **TERMINATION OF UNDERTAKING.** The Undertaking of the Issuer shall be terminated hereunder with respect to the Bonds if the Issuer shall no longer have any legal liability for any obligation on or relating to repayment of such series of the Bonds under the Indenture. If this Section is applicable, the Issuer shall give notice in a timely manner to each NRMSIR or to the MSRB and to the SID, if any.

10. **INTERNET FILINGS.** The Issuer may elect to make its continuing disclosure filings electronically at www.DisclosureUSA.org, an Internet-based electronic filing system, for immediate transmission, together with CUSIP numbers and other indexing information, to each NRMSIR and any appropriate SID.

11. **ADDITIONAL INFORMATION.** Nothing in this Agreement shall be deemed to prevent the Issuer from providing any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Financial Information or Audited Financial Statements or notice of occurrence of a Material Event, in addition to that which is required by this Agreement. If the Issuer chooses to include any information from any document or notice of occurrence of a Material Event in addition to that which is specifically required by this Agreement, the Issuer

shall have no obligation under this Agreement to update such information or include it in any future disclosure or notice of occurrence of a Material Event.

12. **BENEFICIARIES.** This Agreement has been executed in order to assist the Participating Underwriters in complying with the Rule; however, this Agreement shall inure solely to the benefit of the Issuer, the Dissemination Agent, if any, and the beneficial owners of the Bonds, and shall create no rights in any other person or entity.

13. **RECORDKEEPING.** The Issuer shall maintain records of all Annual Financial Information Disclosure and Material Events Disclosure including the content of such disclosure, the names of the entities with whom such disclosure was filed and the date of filing such disclosure.

14. **DISSEMINATION AGENT.** The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist in carrying out its obligations under this Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the Issuer shall be the Dissemination Agent.

15. **ASSIGNMENT.** The Issuer shall not transfer its obligations under the Indentures unless the transferee agrees to assume all obligations of the Issuer under this Agreement or to execute an Undertaking under the Rule.

16. **GOVERNING LAW.** This Agreement shall be governed by the laws of the State.

CHICAGO TRANSIT AUTHORITY

By _____
Name: _____
Title: _____

Date: _____, 2008

Exhibit I

ANNUAL FINANCIAL INFORMATION AND TIMING AND AUDITED FINANCIAL STATEMENTS

“*Annual Financial Information*” means financial information as set forth below. All or a portion of the Annual Financial Information and the Audited Financial Statements as set forth below may be included by reference to other documents, including other official statements (subject to the following sentence), which have been submitted to each NRMSIR or filed with the SEC. If the information included by reference is contained in a final official statement, the final official statement shall have been submitted by the Issuer to the MSRB. The Issuer shall clearly identify each such item of information included by reference.

1. Annual Financial Information:

(a) Annual Financial Information means:

(i) The information detailing the Issuer’s annual receipt of Grant Receipts (as defined in the Indenture) appearing in the table entitled “Section 5307 Formula Funds Apportioned to Chicago, Illinois – Northwestern Indiana Urbanized Area Allocated to Illinois for Further Allocation by RTA” under the captions “FEDERAL TRANSIT PROGRAM – Authority Participation in Section 5307 Program and Section 5309 Program” in the Final Official Statement; and

(ii) The information detailing the Issuer’s annual receipt of Grant Receipts (as defined in the Indenture) appearing in the table entitled “Section 5309 Fixed Guideway Formula Funds Apportioned to Chicago, Illinois -- Northwestern Indiana Urbanized Area Allocated to Illinois for Further Allocation by RTA” under the captions “FEDERAL TRANSIT PROGRAM – Authority Participation in Section 5307 Program and Section 5309 Program” in the Final Official Statement; and

(ii) Audited Financial Statements as described in Part 2 below.

(b) Annual Financial Information will be provided to each NRMSIR not more than 210 days after the end of each Fiscal Year (as defined in the Indenture). Audited Financial Statements are expected to be filed as part of the Annual Financial Information on the schedule described in this Part 1. If Audited Financial Statements are not available to be filed as part of the Annual Financial Information at the time the Annual Financial Information is required to be filed, the Annual Financial Information shall contain unaudited financial statements in a format similar to the financial statements contained in the Final Official Statement relating to the Bonds, and the Audited Financial Statements shall be filed in the same manner as the Annual Financial Information promptly after they become available.

2. Audited Financial Statements:

(a) Audited Financial Statements means:

Annual audited financial statements of the Issuer prepared in accordance with the requirements of the Indenture.

- (b) Audited Financial Statements shall be provided to each NRMSIR as described in Part 1(b) above.

Exhibit II

**EVENTS WITH RESPECT TO THE BONDS FOR WHICH
MATERIAL EVENTS DISCLOSURE IS REQUIRED**

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

Exhibit III

CUSIP NUMBERS

Series 2008A 5307 Bonds Maturing June 1	CUSIP¹
2022	167723 DC6
2023	167723 DD4
2024	167723 DE2
2025	167723 DF9
2026	167723 DG7

Series 2008 5309 Bonds Maturing June 1	CUSIP¹
2010	167723 CH6
2010	167723 CG8
2011	167723 CJ2
2012	167723 CK9
2012	167723 DA0
2013	167723 CL7
2013	167723 DB8
2014	167723 CM5
2014	167723 DH5
2015	167723 CN3
2015	167723 DJ1
2016	167723 CP8
2017	167723 CQ6
2018	167723 CR4
2019	167723 CS2
2020	167723 CT0
2021	167723 CU7
2022	167723 CV5
2023	167723 CW3
2024	167723 CX1
2025	167723 CY9
2026	167723 CZ6

¹Copyright 2008, American Bankers Association. CUSIP data herein are provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The CUSIP numbers listed above are being provided solely for the convenience of bondholders only at the time of issuance of the Bonds and the Authority does not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

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APPENDIX E

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The following information concerning DTC has been furnished by DTC for use in this Official Statement. Neither the Authority nor the Underwriters are responsible for its accuracy or completeness.

DTC will act as securities depository for the 2008 Bonds. The 2008 Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the 2008 Bonds, each in the aggregate principal amount of such maturity and will be deposited with DTC.

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

Purchases of the 2008 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2008 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2008 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 2008 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 2008 Bonds, except in the event that use of the book-entry system for the 2008 Bonds is discontinued.

To facilitate subsequent transfers, all 2008 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 2008 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2008 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2008 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 2008 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2008 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2008 Bond documents. For example, Beneficial Owners of 2008 Bonds may wish to ascertain that the nominee holding the 2008 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 2008 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2008 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 Trustee as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2008 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2008 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by 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 Authority or the Trustee, as applicable, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of

DTC) is the responsibility of the Authority, or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2008 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, 2008 Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, 2008 Bond certificates are required to be printed and delivered.

The foregoing information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

NEITHER THE AUTHORITY NOR THE TRUSTEE HAS ANY RESPONSIBILITY OR OBLIGATION TO THE PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, CEDE & CO. OR ANY PARTICIPANT; THE PAYMENT BY DTC OR ANY PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR PURCHASE PRICE OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS; ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO BENEFICIAL OWNERS UNDER THE INDENTURE; THE SELECTION BY DTC OR ANY PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE BONDS; OR ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC.

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APPENDIX F

PROPOSED FORMS OF OPINIONS OF CO-BOND COUNSEL

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April 29, 2008

The Chicago Transit Board
of the Chicago Transit Authority

Dear Members:

We have examined a record of proceedings relating to the issuance of \$100,000,000 aggregate principal amount of Capital Grant Receipts Revenue Bonds, Series 2008A (Federal Transit Administration Section 5307 Urbanized Area Formula Funds) (the “Bonds”) of the Chicago Transit Authority, a political subdivision, body politic and municipal corporation of the State of Illinois (the “Authority”) duly organized and existing under the Metropolitan Transit Authority Act, 70 Illinois Compiled Statutes 3605 (the “Act”). The Bonds are authorized and issued under and pursuant to the Act and the Local Government Debt Reform Act, 30 Illinois Compiled Statutes 350, and by virtue of Ordinance Number 008-34 adopted by the Chicago Transit Board on March 12, 2008 (the “Bond Ordinance”). The Bonds are issued and secured under the Trust Indenture dated as of November 1, 2004 (the “Indenture”) by and between the Authority and Amalgamated Bank of Chicago, as trustee (the “Trustee”), as supplemented by the Second Supplemental Indenture dated as of April 1, 2008 (the “Second Supplemental Indenture”) by and between the Authority and the Trustee. The Bonds are a Series of Additional Bonds and Parity Obligations under the Indenture.

The Bonds are dated April 29, 2008 and bear interest from their date at the rate of five and one-quarter percentum (5.25%) per annum, payable on June 1, 2008 and semiannually thereafter on each June 1 and December 1. The Bonds mature on June 1 in each of the following years in the respective principal amount set opposite each such year in the following table:

<u>Year</u>	<u>Principal Amount</u>
2022	\$18,005,000
2023	18,955,000
2024	19,950,000
2025	20,995,000
2026	22,095,000

The Bonds are subject to redemption prior to maturity at the option of the Authority, in such principal amounts and from such maturities as the Authority shall determine and by lot within a single maturity, on June 1, 2018 and on any date thereafter, at a redemption price equal to the principal amount thereof to be redeemed, plus accrued interest to the redemption date.

The Bonds are payable from the Authority’s share of Section 5307 Urbanized Area Formula funds (“Section 5307 Funds”) to be received by the Authority from the United States of America, acting through the Department of Transportation, Federal Transit Administration (the “Grant Receipts”) pursuant to 49 United States Code Section 5307. The payment of Section 5307 Funds is not a contractual obligation of the United States of America and the eligibility of the Authority to receive Section 5307 Funds for the payment of the Bonds is subject to the Authority’s continuing compliance with the provisions of 49 United States Code Section 5307 and applicable regulations of the Federal Transit

Administration. We express no opinion as to the rights or remedies of the Authority with respect to the payment of Section 5307 Funds.

Pursuant to the Indenture the Authority has previously issued bonds (the "Outstanding Bonds") that are Parity Obligations and are currently outstanding. The Bonds, the Outstanding Bonds and all other Parity Obligations hereafter issued or incurred under the Indenture shall be entitled equally to the benefits and security of the Indenture, including the pledge of Grant Receipts and other moneys and securities herein mentioned.

Based upon our examination of said record of proceedings, we are of the opinion that:

1. The Authority has all requisite power and authority under the Constitution and the laws of the State of Illinois to adopt the Bond Ordinance, to enter into the Indenture and the Second Supplemental Indenture, to issue the Bonds thereunder, and to perform all of its obligations under the Bond Ordinance, the Indenture and the Second Supplemental Indenture in those respects.

2. The Indenture and the Second Supplemental Indenture have been duly authorized, executed and delivered by the Authority and constitute valid and binding contractual obligations of the Authority enforceable in accordance with their terms.

3. The Bonds have been duly authorized and issued, are the legal, valid and binding limited obligations of the Authority, are entitled to the benefits and security of the Indenture and the Second Supplemental Indenture, and are enforceable in accordance with their terms.

4. The Bonds are payable solely from Grant Receipts and other moneys and securities pledged therefor under the Indenture and the Second Supplemental Indenture. The Indenture and the Second Supplemental Indenture create a valid pledge of the Grant Receipts and other moneys and securities held thereunder for the benefit and security of the Bonds, subject to application thereof in the manner provided in the Indenture and the Second Supplemental Indenture. The Act provides that the Bonds are not, and shall not be or become, an indebtedness or obligation of the State of Illinois or any political subdivision of the State (other than the Authority) or of any municipality within the State, nor shall any Bond be or become an indebtedness of the Authority within the purview of any constitutional limitation or provision.

5. Under existing law, interest on the Bonds is not includable in the gross income of the owners thereof for Federal income tax purposes. If there is continuing compliance with the requirements of the Internal Revenue Code of 1986 (the "Code"), interest on the Bonds will continue to be excluded from the gross income of the owners thereof for Federal income tax purposes. The Bonds are not private activity bonds; therefore, interest on the Bonds does not constitute an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income. You are advised, however, that interest on the Bonds is includable in corporate earnings and profits and therefore must be taken into account when computing, for example, corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax.

The Code contains certain requirements that must be satisfied from and after the date hereof in order to preserve the exemption from Federal income taxes of interest on the Bonds. These requirements relate to the use and investment of the proceeds of the Bonds, the payment of certain amounts to the United States, the security and source of payment of the Bonds and the use and tax ownership of the property financed with the proceeds of the Bonds. The Authority has covenanted in the Second Supplemental Indenture to comply with these requirements.

Interest on the Bonds is not exempt from Illinois income taxes.

In rendering the foregoing opinion, we advise you that the enforceability (but not the validity or binding effect) of the Bonds, the Indenture and the Second Supplemental Indenture (i) may be limited by any applicable bankruptcy, insolvency or other laws affecting the rights or remedies of creditors now or hereafter in effect and (ii) is subject to principles of equity in the event that equitable remedies are sought, either in an action at law or in equity.

Respectfully yours,

April 29, 2008

The Chicago Transit Board
of the Chicago Transit Authority

Dear Members:

We have examined a record of proceedings relating to the issuance of \$150,000,000 aggregate principal amount of Capital Grant Receipts Revenue Bonds, Series 2008 (Federal Transit Administration Section 5309 Fixed Guideway Modernization Formula Funds) (the "Bonds") of the Chicago Transit Authority, a political subdivision, body politic and municipal corporation of the State of Illinois (the "Authority") duly organized and existing under the Metropolitan Transit Authority Act, 70 Illinois Compiled Statutes 3605 (the "Act"). The Bonds are authorized and issued under and pursuant to the Act and the Local Government Debt Reform Act, 30 Illinois Compiled Statutes 350, and by virtue of Ordinance Number 008-34 adopted by the Chicago Transit Board on March 12, 2008 (the "Bond Ordinance"). The Bonds are issued and secured under the Trust Indenture dated as of April 1, 2008 (the "Indenture") by and between the Authority and Amalgamated Bank of Chicago, as trustee (the "Trustee"). The Bonds are a Series of Parity Obligations under the Indenture.

The Bonds are dated April 29, 2008 and bear interest from their date payable on June 1, 2008 and semiannually thereafter on each June 1 and December 1. The Bonds mature on June 1 in each of the following years in the respective principal amount set opposite each such year in the following table and bear interest at the respective rate of interest per annum set forth opposite such principal amount:

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2010	\$ 2,985,000	3.50%
2010	3,005,000	5.00
2011	6,240,000	3.50
2012	2,200,000	3.50
2012	4,260,000	5.00
2013	2,450,000	3.75
2013	4,300,000	5.00
2014	3,535,000	3.75
2014	3,525,000	5.00
2015	3,685,000	4.00
2015	3,680,000	5.00
2016	7,700,000	5.00
2017	8,085,000	5.00
2018	8,490,000	5.00
2019	8,910,000	5.25
2020	9,380,000	5.25
2021	9,870,000	5.25
2022	10,390,000	5.25
2023	10,935,000	5.25
2024	11,510,000	5.25
2025	12,115,000	5.25
2026	12,750,000	5.25

The Bonds maturing on or after June 1, 2019 are subject to redemption prior to maturity at the option of the Authority, in such principal amounts and from such maturities as the Authority shall determine and by lot within a single maturity, on June 1, 2018 and on any date thereafter, at a redemption price equal to the principal amount thereof to be redeemed, plus accrued interest to the redemption date.

The Bonds are payable from the Authority's share of Section 5309 Fixed Guideway Modernization Formula funds ("Section 5309 Funds") to be received by the Authority from the United States of America, acting through the Department of Transportation, Federal Transit Administration (the "Grant Receipts") pursuant to 49 United States Code Section 5309. The payment of Section 5309 Funds is not a contractual obligation of the United States of America and the eligibility of the Authority to receive Section 5309 Funds for the payment of the Bonds is subject to the Authority's continuing compliance with the provisions of 49 United States Code Section 5309 and applicable regulations of the Federal Transit Administration. We express no opinion as to the rights or remedies of the Authority with respect to the payment of Section 5309 Funds.

The Bonds and all other Parity Obligations hereafter issued or incurred under the Indenture shall be entitled equally to the benefits and security of the Indenture, including the pledge of Grant Receipts and other moneys and securities herein mentioned.

Based upon our examination of said record of proceedings, we are of the opinion that:

1. The Authority has all requisite power and authority under the Constitution and the laws of the State of Illinois to adopt the Bond Ordinance, to enter into the Indenture, to issue the Bonds thereunder, and to perform all of its obligations under the Bond Ordinance and the Indenture in those respects.

2. The Indenture has been duly authorized, executed and delivered by the Authority and constitute valid and binding contractual obligation of the Authority enforceable in accordance with its terms.

3. The Bonds have been duly authorized and issued, are the legal, valid and binding limited obligations of the Authority, are entitled to the benefits and security of the Indenture, and are enforceable in accordance with their terms.

4. The Bonds are payable solely from Grant Receipts and other moneys and securities pledged therefor under the Indenture. The Indenture creates a valid pledge of the Grant Receipts and other moneys and securities held thereunder for the benefit and security of the Bonds, subject to application thereof in the manner provided in the Indenture. The Act provides that the Bonds are not, and shall not be or become, an indebtedness or obligation of the State of Illinois or any political subdivision of the State (other than the Authority) or of any municipality within the State, nor shall any Bond be or become an indebtedness of the Authority within the purview of any constitutional limitation or provision.

5. Under existing law, interest on the Bonds is not includable in the gross income of the owners thereof for Federal income tax purposes. If there is continuing compliance with the requirements of the Internal Revenue Code of 1986 (the "Code"), interest on the Bonds will continue to be excluded from the gross income of the owners thereof for Federal income tax purposes. The Bonds are not private activity bonds; therefore, interest on the Bonds does not constitute an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income. You are advised, however, that interest on the Bonds is includable in corporate earnings and profits and therefore must be taken into account when computing, for example, corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax.

The Code contains certain requirements that must be satisfied from and after the date hereof in order to preserve the exemption from Federal income taxes of interest on the Bonds. These requirements relate to the use and investment of the proceeds of the Bonds, the payment of certain amounts to the United States, the security and source of payment of the Bonds and the use and tax ownership of the property financed with the proceeds of the Bonds. The Authority has covenanted in the Indenture to comply with these requirements.

Interest on the Bonds is not exempt from Illinois income taxes.

In rendering the foregoing opinion, we advise you that the enforceability (but not the validity or binding effect) of the Bonds and the Indenture (i) may be limited by any applicable bankruptcy, insolvency or other laws affecting the rights or remedies of creditors now or hereafter in effect and (ii) is subject to principles of equity in the event that equitable remedies are sought, either in an action at law or in equity.

Respectfully yours,

APPENDIX G

SPECIMEN OF THE 2008 BOND INSURANCE POLICIES

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Assured Guaranty Corp.
 1325 Avenue of the Americas
 New York, NY 10019
 t. 212.974.0100
 www.assuredguaranty.com

Financial Guaranty Insurance Policy

Issuer:

Policy No.:

Obligations:

Premium:

Effective Date:

Assured Guaranty Corp., a Maryland corporation ("**Assured Guaranty**"), in consideration of the payment of the Premium and on the terms and subject to the conditions of this Policy (which includes each endorsement hereto), hereby unconditionally and irrevocably agrees to pay to the trustee (the "**Trustee**") or the paying agent (the "**Paying Agent**") for the Obligations (as set forth in the documentation providing for the issuance of and securing the Obligations) for the benefit of the Holders that portion of the Insured Payments which shall become Due for Payment but shall be unpaid by reason of Nonpayment.

Assured Guaranty will make such Insured Payments to the Trustee or the Paying Agent on the later to occur of (i) the date applicable principal or interest becomes Due for Payment, or (ii) the Business Day next following the day on which Assured Guaranty shall have Received a completed Notice of Nonpayment. If a Notice of Nonpayment by Assured Guaranty is incomplete or does not in any instance conform to the terms and conditions of this Policy, it shall be deemed not Received, and Assured Guaranty shall promptly give notice to the Trustee or the Paying Agent. Upon receipt of such notice, the Trustee or the Paying Agent may submit an amended Notice of Nonpayment. The Trustee or the Paying Agent will disburse the Insured Payments to the Holders only upon receipt by the Trustee or the Paying Agent, in form reasonably satisfactory to it of (i) evidence of the Holder's right to receive such payments, and (ii) evidence, including without limitation any appropriate instruments of assignment, that all of the Holder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Assured Guaranty. Upon and to the extent of such disbursement, Assured Guaranty shall become the Holder of the Obligations, any appurtenant coupon thereto and right to receipt of payment of principal thereof or interest thereon, and shall be fully subrogated to all of the Holder's right, title and interest thereunder, including without limitation the right to receive payments in respect of the Obligations. Payment by Assured Guaranty to the Trustee or the Paying Agent for the benefit of the Holders shall discharge the obligation of Assured Guaranty under this Policy to the extent of such payment.

This Policy is non-cancelable by Assured Guaranty for any reason. The Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment premium or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Assured Guaranty, nor against any risk other than Nonpayment.

Except to the extent expressly modified by any endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "**Avoided Payment**" means any amount previously distributed to a Holder in respect of any Insured Payment by or on behalf of the Issuer, which amount has been recovered from such Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction that such payment constitutes an avoidable preference with respect to such Holder. "**Business Day**" means any day other than (i) a Saturday or Sunday, (ii) any day on which the offices of the Trustee, the Paying Agent or Assured Guaranty are closed, or (iii) any day on which banking institutions are authorized or required by law, executive order or governmental decree to be closed in the City of New York or in the State of Maryland. "**Due for Payment**" means (i) when referring to the principal of an Obligation, the stated maturity date thereof, or the date on which such Obligation shall have been duly called for mandatory sinking fund redemption, and does not refer to any earlier date on which payment is due by reason of a call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless Assured Guaranty in its sole discretion elects to make any principal payment, in whole or in part, on such earlier date) and (ii) when referring to interest on an Obligation, the stated date for payment of such interest. "**Holder**" means, in respect of any Obligation, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Obligation to payment of principal or interest thereunder, except that Holder shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Obligations. "**Insured Payments**" means that portion of the principal of and interest on the Obligations that shall become Due for Payment but shall be unpaid by reason of Nonpayment. Insured Payments shall not include any additional amounts owing by the Issuer solely as a result of the failure by the Trustee or the Paying Agent to pay such amount when due and payable, including without limitation any such additional amounts as may be attributable to penalties or to interest accruing at a default rate, to amounts payable in respect of indemnification, or to any other additional amounts payable by the Trustee or the Paying Agent by reason of such failure. "**Nonpayment**" means, in respect of an Obligation, the failure of the Issuer to have provided sufficient funds to the Trustee or the Paying Agent for payment in full of all principal and interest Due for Payment on such Obligation. It is further understood that the term "Nonpayment" in respect of an Obligation includes any Avoided Payment. "**Receipt**" or "**Received**" means actual receipt or notice of or, if notice is given by overnight or other delivery service, or by certified or registered United States mail, by a delivery receipt signed by a person authorized to accept delivery on behalf of the person to whom the notice was given. Notices to Assured Guaranty may be mailed by registered mail or personally delivered or telecopied to it at 1325 Avenue of the Americas, New York, New York 10019, Telephone Number: (212) 974-0100, Facsimile Number: (212) 581-3268, Attention: Risk Management Department - Public Finance Surveillance, with a copy to the General Counsel, or to such other address as shall be specified by Assured Guaranty to the Trustee or the Paying Agent in writing. A Notice of Nonpayment will be deemed to be Received by Assured Guaranty on a given Business Day if it is Received prior to 12:00 noon (New York City time) on such Business Day; otherwise it will be deemed Received on the

next Business Day. "Term" means the period from and including the Effective Date until the earlier of (i) the maturity date for the Obligations, or (ii) the date on which the Issuer has made all payments required to be made on the Obligations.

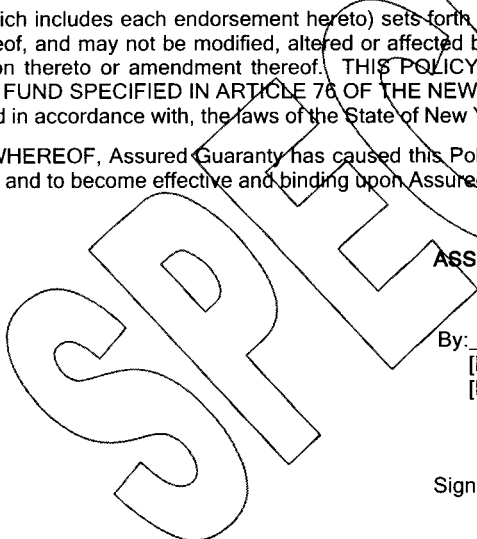
At any time during the Term of this Policy, Assured Guaranty may appoint a fiscal agent (the "Fiscal Agent") for purposes of this Policy by written notice to the Trustee or the Paying Agent, specifying the name and notice address of such Fiscal Agent. From and after the date of Receipt of such notice by the Trustee or the Paying Agent, copies of all notices and documents required to be delivered to Assured Guaranty pursuant to this Policy shall be delivered simultaneously to the Fiscal Agent and to Assured Guaranty. All payments required to be made by Assured Guaranty under this Policy may be made directly by Assured Guaranty or by the Fiscal Agent on behalf of Assured Guaranty. The Fiscal Agent is the agent of Assured Guaranty only, and the Fiscal Agent shall in no event be liable to the Trustee or the Paying Agent for any acts of the Fiscal Agent or any failure of Assured Guaranty to deposit, or cause to be deposited, sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Assured Guaranty hereby waives, in each case for the benefit of the Holders only, all rights and defenses of any kind (including, without limitation, the defense of fraud in the inducement or in fact or any other circumstance that would have the effect of discharging a surety, guarantor or any other person in law or in equity) that may be available to Assured Guaranty to deny or avoid payment of its obligations under this Policy in accordance with the express provisions hereof. Nothing in this paragraph will be construed (i) to waive, limit or otherwise impair, and Assured Guaranty expressly reserves, Assured Guaranty's rights and remedies, including, without limitation, its right to assert any claim or to pursue recoveries (based on contractual rights, securities law violations, fraud or other causes of action) against any person or entity, in each case, whether directly or acquired as a subrogee, assignee or otherwise, subsequent to making any payment to the Trustee or the Paying Agent, in accordance with the express provisions hereof, and/or (ii) to require payment by Assured Guaranty of any amounts that have been previously paid or that are not otherwise due in accordance with the express provisions of this Policy.

This Policy (which includes each endorsement hereto) sets forth in full the undertaking of Assured Guaranty with respect to the subject matter hereof, and may not be modified, altered or affected by any other agreement or instrument, including, without limitation, any modification thereto or amendment thereof. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. This Policy will be governed by, and shall be construed in accordance with, the laws of the State of New York.

IN WITNESS WHEREOF, Assured Guaranty has caused this Policy to be affixed with its corporate seal, to be signed by its duly authorized officer, and to become effective and binding upon Assured Guaranty by virtue of such signature.

(SEAL)



ASSURED GUARANTY CORP.

By: _____
[Insert Authorized Signatory Name]
[Insert Authorized Signatory Title]

Signature attested to by:

Counsel

