

In the opinion of Katten Muchin Rosenman LLP and Hardwick Law Firm, LLC, Co-Bond Counsel, under existing law, if there is continuing compliance with certain requirements of the Internal Revenue Code of 1986, interest on the Series 2010A Bonds will not be includable in gross income for federal income tax purposes. The interest on the Series 2010A Bonds is not an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income and is not taken into account when computing corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax. Interest on the Series 2010B Bonds will not be excludable from gross income for federal income tax purposes. Interest on the 2010 Bonds is not exempt from Illinois income taxes. See “TAX MATTERS” herein.

**\$550,000,000**

**CHICAGO TRANSIT AUTHORITY
SALES TAX RECEIPTS REVENUE BONDS**

**\$44,645,000
SERIES 2010A**

**\$505,355,000
TAXABLE SERIES 2010B
(BUILD AMERICA BONDS)**

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

The Chicago Transit Authority (the “Authority”) Sales Tax Receipts Revenue Bonds, Series 2010A (the “Series 2010A Bonds”) and the Sales Tax Receipts Revenue Bonds, Taxable Series 2010B (Build America Bonds) (the “Series 2010B Bonds” and together with the Series 2010A Bonds, the “2010 Bonds”) are being issued pursuant to a Trust Indenture dated as of March 1, 2010 (the “Master Indenture”), between the Authority and U.S. Bank National Association, Chicago, Illinois, as trustee (the “Trustee”), as supplemented by a First Supplemental Indenture dated as of March 1, 2010 (the “First Supplemental Indenture” and together with the Master Indenture, the “Indenture”), between the Authority and the Trustee.

The 2010 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 2010 Bonds will be made in principal amounts of \$5,000 and integral multiples thereof and will be in book-entry form only. Purchasers of 2010 Bonds will not receive physical bonds representing their beneficial ownership in the 2010 Bonds but will receive a credit balance on the books of their respective DTC Participants or DTC Indirect Participants. The 2010 Bonds will not be transferable or exchangeable except for transfer to another nominee of DTC or as otherwise described herein.

Interest on the 2010 Bonds, which is payable on June 1 and December 1 of each year, commencing December 1, 2010, and principal on the 2010 Bonds, is payable to Cede & Co. Such interest and principal payments are to be disbursed to the beneficial owners of the 2010 Bonds through their respective DTC Participants or DTC Indirect Participants. The Series 2010A Bonds are not subject to redemption prior to maturity. The Series 2010B Bonds are subject to optional, extraordinary optional and mandatory redemption prior to maturity as described herein. See “DESCRIPTION OF THE 2010 BONDS – Redemption.”

The proceeds from the sale of the Series 2010A Bonds will be used to (i) provide funds to finance, or reimburse the Authority for prior expenditures relating to, a portion of the costs of the 2010 Project, (ii) capitalize a portion of the interest on the Series 2010A Bonds and a portion of the interest on the Series 2010B Bonds, (iii) fund a portion of a consolidated debt service reserve fund for the 2010 Bonds, and (iv) pay the costs of issuance of the Series 2010A Bonds.

The proceeds from the sale of the Series 2010B Bonds will be used to (i) provide funds to finance, or reimburse the Authority for prior expenditures relating to, a portion of the costs of the 2010 Project, (ii) capitalize a portion of the interest on the Series 2010B Bonds, (iii) fund a portion of a consolidated debt service reserve fund for the 2010 Bonds, and (iv) pay the costs of issuance of the Series 2010B Bonds.

The Series 2010B Bonds are issued as bonds designated as “Build America Bonds” under the provisions of the American Recovery and Reinvestment Act of 2009. The interest on the Series 2010B Bonds is not excluded from gross income for purposes of federal income taxation. See “TAX MATTERS.” Bondholders will not receive a tax credit for the Series 2010B Bonds.

The 2010 Bonds are limited obligations of the Authority. The 2010 Bonds constitute Corporate Purpose Debt Obligations under the Trust Indenture dated as of July 1, 2008 (the “2008 Indenture”) between the Authority and U.S. Bank National Association, as trustee, that are payable from and secured by a lien on Sales Tax Receipts deposited in the Sales Tax Receipts Fund established under the 2008 Indenture and held by the Authority, subject however, to the parity pledge and lien and parity rights of certain other obligations described herein.

The 2010 Bonds are not a general obligation of the Authority, and the revenues of the Authority (other than the Sales Tax Receipts deposited in the Sales Tax Receipt Fund established under the 2008 Indenture) are not pledged or available for the payment of the 2010 Bonds or the interest thereon. The Authority has no taxing power.

The maturities, amounts, interest rates and yields of the 2010 Bonds are set forth on the inside cover.

The 2010 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 Hardwick Law Firm, LLC, Chicago, Illinois, Co-Bond Counsel. Certain legal matters will be passed upon for the Authority by its Acting General Counsel and by its special counsel, Thompson Coburn LLP, Chicago, Illinois and for the Underwriters by their counsel, Charity & Associates, P.C., Chicago, Illinois. The 2010 Bonds are expected to be delivered through the facilities of DTC in New York, New York on or about April 6, 2010.

Goldman, Sachs & Co.

**Blaylock Robert Van, LLC
Jefferies & Company
Melvin & Company**

**BMO Capital Markets
J.P. Morgan
Morgan Stanley**

Cabrera Capital Markets, LLC

**Duncan-Williams, Inc.
Loop Capital Markets, LLC
Wachovia Bank, National Association**

\$44,645,000
CHICAGO TRANSIT AUTHORITY
SALES TAX RECEIPTS REVENUE BONDS
SERIES 2010A

MATURITY SCHEDULE

| Maturity Date (December 1) | Principal Amount | Interest Rate | Yield | CUSIP* |
|---------------------------------------|-----------------------------|--------------------------|--------------|---------------|
| 2015 | \$1,180,000 | 4.00% | 2.43% | 16772PAA4 |
| 2015 | 4,535,000 | 5.00 | 2.43 | 16772PAE6 |
| 2016 | 7,675,000 | 5.00 | 2.84 | 16772PAF3 |
| 2017 | 950,000 | 4.00 | 3.11 | 16772PAB2 |
| 2017 | 8,975,000 | 5.00 | 3.11 | 16772PAG1 |
| 2018 | 2,230,000 | 4.00 | 3.39 | 16772PAC0 |
| 2018 | 8,185,000 | 5.00 | 3.39 | 16772PAH9 |
| 2019 | 1,000,000 | 4.00 | 3.56 | 16772PAD8 |
| 2019 | 9,915,000 | 5.00 | 3.56 | 16772PAJ5 |

\$505,355,000
CHICAGO TRANSIT AUTHORITY
SALES TAX RECEIPTS REVENUE BONDS
TAXABLE SERIES 2010B (BUILD AMERICA BONDS)

MATURITY SCHEDULE

| Maturity Date (December 1) | Principal Amount | Interest Rate | Price | CUSIP* |
|---------------------------------------|-------------------------|--------------------------|--------------|---------------|
| 2020 | \$11,510,000 | 5.07% | 100% | 16772PAK2 |
| 2021 | 12,095,000 | 5.22 | 100 | 16772PAL0 |
| 2022 | 12,720,000 | 5.37 | 100 | 16772PAM8 |
| 2023 | 13,405,000 | 5.47 | 100 | 16772PAN6 |
| 2024 | 14,135,000 | 5.62 | 100 | 16772PAP1 |

\$441,490,000 6.20% Term Bonds Due December 1, 2040, Price: 100%, CUSIP* 16772PAQ9

* Copyright 2010, 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 2010 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 2010 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 2010 Bonds.



FEBRUARY 2018

CTA and Pace Bus Routes

- CTA bus routes (1-206)
- CTA Hyde Park bus routes (170-172 and 192)
- Pace bus routes (208 and up)
- Part-time service only
- Night Owl service only
- No stops along bus route
- Limited stops along bus route
- Bus route terminal
- All CTA and Pace bus routes are accessible

CTA Trains and Stations

- Blue Line (Between O'Hare, Downtown, and Forest Park)
- Brown Line (Between Armitage and Downtown)
- Green Line (Between LaSalle, Downtown, and 63rd Street terminals)
- Orange Line (Between Midway Airport and Downtown)
- Pink Line (Between LaSalle, Central, and Downtown)
- Purple Line (Between Linden and Howard)
- Purple Line Express (Between Linden and Downtown, weekday rush periods only)
- Red Line (Between Howard, Downtown, and Loop)
- Yellow Line (Between State and Howard)
- Free train connections at stations

- Accessible station
- Sheltered bicycle parking
- Auxiliary station entrances
- Forward machines and staff at this entrance
- No forward machines at this entrance

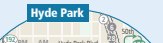
Metra Commuter Rail

- Station served daily
- Station served weekdays only
- Station served weekday rush periods only

Other Symbols

- Point of interest
- Park & Ride lot
- Expressway or tollway
- Chicago street numbers

Chicago street numbers start at State and Madison downtown. State Street divides east and west addresses, and Madison Street divides north and south addresses. Suburban street numbers vary, not all use Chicago's system. One mile is equal to 800 feet (approximately). International (408) 760-1000 for one mile north of Addison (3600 N).



168 UIC-Pilsen Express

Special UPS limited-stop service. Hyde Park 168th Street Station. UIC-Rosedale Station. Call 312-263-6666 for details. Hyde Park 168th Street Station: 168th Street, Hyde Park. UIC-Rosedale Station: 168th Street, UIC. Hyde Park 168th Street Station: 168th Street, Hyde Park. UIC-Rosedale Station: 168th Street, UIC.

169 69th-UPS Express

Special UPS limited-stop service. 69th Street Station. Palos Heights Station. Call 312-263-6666 for details. 69th Street Station: 69th Street, Palos Heights. Palos Heights Station: Palos Heights. 69th Street Station: 69th Street, Palos Heights. Palos Heights Station: Palos Heights.

CHICAGO TRANSIT AUTHORITY

CHICAGO TRANSIT BOARD

Terry Peterson, Chairman
John Bouman
Henry T. Chandler, Jr.
Jacquelyne Grimshaw
Kathryn McClain
Charles E. Robinson
Alejandro Silva

OFFICERS

Richard Rodriguez, President
Karen Walker, Chief Financial Officer and Treasurer
Brad Jansen, Acting General Counsel
Gregory Longhini, Assistant Secretary

CO-BOND COUNSEL

Katten Muchin Rosenman LLP
Hardwick Law Firm, LLC
Chicago, Illinois

CO-FINANCIAL ADVISORS

Robert W. Baird & Co.
Gardner, Underwood & Bacon LLC
Scott Balice Strategies, LLC
Chicago, Illinois

In connection with this offering, the Underwriters may overallocate or effect transactions that stabilize or maintain the market prices of the 2010 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 2010 Bonds to certain dealers and others at prices lower than the public offering prices stated on the 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 2010 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 2010 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 2010 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.

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 Sales Tax 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 Sales Tax Receipts received include, among others, 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 “SOURCES OF PAYMENT OF THE 2010 BONDS,” “HISTORICAL SALES TAX REVENUES” and “PRO FORMA DEBT SERVICE COVERAGE” 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 2010 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.

OVERVIEW

This Overview does not constitute a part of the Official Statement for the issuance and sale by the Chicago Transit Authority of its \$44,645,000 aggregate principal amount Sales Tax Receipts Revenue Bonds, Series 2010A (the “Series 2010A Bonds”) and \$505,355,000 aggregate principal amount Sales Tax Receipts Revenue Bonds, Taxable Series 2010B (Build America Bonds) (the “Series 2010B Bonds” and, together with the Series 2010A Bonds, the “2010 Bonds”) and does not purport to be complete. This Overview is for informational purposes only and is subject to a more complete discussion contained in the Official Statement. Capitalized terms used in this Overview are defined in the Official Statement.

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| Issuer | Chicago Transit Authority (the “Authority” or the “CTA”). The Authority operates the nation’s second largest public transportation system, providing mass transit services within a 356 square mile area covering the City of Chicago and 40 surrounding suburbs. The service area of the Authority has a population of approximately 3.9 million. The Authority carries approximately 80 percent of the public transit riders in the six-county northeastern Illinois region, including the Counties of Cook, DuPage, Kane, Lake, McHenry and Will. Transit services provided by the Authority are part of the regional public mass transportation service system in northeastern Illinois provided through the independent operations of the CTA, Metra (suburban rail) and Pace (suburban bus) (CTA, Metra and Pace referred to collectively, herein, as the “Service Boards”). For a detailed description of the Authority and its operations, see “THE AUTHORITY” in the Official Statement. |
| 2010 Bonds | <p>\$44,645,000 Sales Tax Receipts Revenue Bonds, Series 2010A.</p> <p>\$505,355,000 Sales Tax Receipts Revenue Bonds, Taxable Series 2010B (Build America Bonds).</p> |
| Build America Bond Election for the Series 2010B Bonds | Pursuant to Section 54AA(d)(1)(C) of the Code, the Authority irrevocably elects to have Section 54AA of the Code apply to the Series 2010B Bonds. Pursuant to Section 54AA(g)(2)(B) of the Code, the Authority irrevocably elects to have subsection (g) of said Section 54AA apply to the Series 2010B Bonds. Pursuant to the foregoing elections, the Series 2010B Bonds are issued as “Build America Bonds” as defined in Section 54AA(d)(1) of the Code and as “qualified bonds” as defined in Section 54AA(g)(2) of the Code. See “DESCRIPTION OF THE 2010 BONDS – Designation of the Series 2010B Bonds” in the Official Statement. |
| Ratings | Moody’s Investors Service has assigned the 2010 Bonds a rating of “A1” and Standard & Poor’s Ratings Service, a division of The McGraw-Hill Companies, Inc. has assigned the 2010 Bonds a rating of “AA.” See “RATINGS” in the Official Statement. |
| Plan of Finance | <p>The proceeds from the sale of the Series 2010A Bonds will be used to (i) provide funds to finance, or reimburse the Authority for prior expenditures relating to, a portion of the costs of the 2010 Project, (ii) capitalize a portion of the interest on the Series 2010A Bonds and a portion of the interest on the Series 2010B Bonds, (iii) fund a portion of a consolidated debt service reserve fund for the 2010 Bonds, and (iv) pay the costs of issuance of the Series 2010A Bonds.</p> <p>The proceeds from the sale of the Series 2010B Bonds will be used to (i) provide funds to finance, or reimburse the Authority for prior expenditures relating to, a portion of the costs of the 2010 Project, (ii) capitalize a portion of the interest on the Series 2010B Bonds, (iii) fund a portion of a consolidated debt service reserve fund for the 2010 Bonds, and (iv) pay the costs of issuance of the Series 2010B Bonds.</p> |

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| 2010 Project | The 2010 Project consists of the following capital improvements to the Transportation System: (i) the purchase of rail cars to replace existing cars and provide for expansion, including purchases pursuant to an existing contract with Bombardier Transit Corporation; (ii) 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; (iii) the purchase and installation of replacements and upgrades for rail system components including track and ties, structure, flange angles, right-of-way, footwalks, viaducts and embankments; and (iv) such additional capital improvements as may be designated as part of the 2010 Project by the Authority. |
| Regional Transportation Authority | The Regional Transportation Authority (the “RTA”) oversees public transportation in northeastern Illinois. The RTA provides funding, planning and fiscal oversight for the Service Boards (CTA, Metra and Pace) in part through the imposition of sales taxes throughout the northeastern Illinois region. The RTA Act vests responsibility for operating budget and financial oversight of the Service Boards in the RTA and responsibility for operations and day-to-day management of rail and bus service in the Service Boards. See “THE AUTHORITY—The RTA” in the Official Statement. |
| Sources of Payment | The sources of payment for the 2010 Bonds are the Sales Tax Receipts received by the CTA from the RTA and deposited into the Sales Tax Receipts Fund established under the 2008 Indenture, consisting of the Authority’s share of certain sales, use and occupation taxes imposed by the RTA throughout northeastern Illinois. See “SOURCES OF PAYMENT OF THE 2010 BONDS” in the Official Statement. |
| Sales Tax Receipts | The Sales Tax Receipts consist of all amounts received by the Authority from the RTA, representing the Authority’s share of (i) the RTA Sales Taxes imposed throughout the Northeastern Illinois Transit Region, which includes The Counties of Cook, DuPage, Kane, Lake, McHenry and Will, (ii) Replacement Revenues paid to the RTA by the State, and (iii) Public Transportation Fund Revenues paid to or on behalf of the RTA by the State. See “HISTORICAL SALES TAX REVENUES—Sales Tax Receipts” in the Official Statement. |
| Security for the 2010 Bonds | <p>The 2010 Bonds are secured by (i) amounts on deposit from time to time in the Sales Tax Receipts Fund, subject however to the PBC Parity Pledge Rights and the parity pledge and lien created with respect to Pension and Retirement Debt Obligations in accordance with the 2008 Indenture, (ii) all moneys, securities and earnings thereon in all Funds, Sub-Funds, Accounts and Sub-Accounts established under the Indenture for the payment and security of the 2010 Bonds, including the Consolidated Debt Service Reserve Fund, 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. See “SECURITY FOR THE 2010 BONDS” in the Official Statement.</p> <p>The Indenture establishes with the Trustee a separate and segregated Sub-Fund within the Debt Service Fund related to the 2010 Bonds (the “Series 2010AB Dedicated Sub-Fund”). Moneys on deposit in the Series 2010AB Dedicated Sub-Fund, and in each Account established therein as provided in the Indenture, shall be held in trust by the Trustee for the sole and exclusive benefit of the Owners of the 2010 Bonds and shall not be used or available for the payment of the other Parity Obligations, except as expressly provided in the Indenture. A Consolidated Debt Service Reserve Fund is established under the Indenture for the benefit and security of the owners of the 2010 Bonds and other Bonds designated Consolidated Reserve Fund Bonds to be maintained in an amount equal to the Consolidated Reserve Requirement, which as of the date of calculation, is an amount equal to fifty percent (50%) of the maximum amount of Principal and interest (exclusive of interest to be paid from a capitalized interest account) payable on Outstanding Consolidated Reserve Fund Bonds in the then current or any future Bond Year. The Consolidated Reserve Requirement may be satisfied in whole or in part with one or more Qualified Reserve Credit Instruments.</p> |

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| Limited Obligation | The 2010 Bonds are limited obligations of the Authority payable solely from the sources pledged for their payment in accordance with the Indenture and described under the heading “SECURITY FOR THE 2010 BONDS” in the Official Statement. The 2010 Bonds are not, and shall not be or become, an indebtedness or obligation of the State, the RTA 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 2010 Bond 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 or may be created by the Indenture. The Authority has no taxing power. |
| Interest Payment Dates | Interest on each series of the 2010 Bonds will be payable on June 1 and December 1 of each year, commencing December 1, 2010, until maturity or earlier redemption. Interest is computed on the basis of a 360-day year consisting of twelve 30-day months at the rates set forth on the inside cover of the Official Statement. |
| Redemption | The Series 2010A Bonds are not subject to redemption prior to maturity. The Series 2010B Bonds are subject to optional, extraordinary optional and mandatory redemption prior to maturity. See “DESCRIPTION OF THE 2010 BONDS—Redemption.” |
| Trustee | U.S. Bank National Association, Chicago, Illinois, will serve as Trustee and Paying Agent. |
| Book-Entry Form and Denominations | The 2010 Bonds will be issued in fully registered book-entry form in denominations of \$5,000 or any integral multiple thereof. |
| Tax Matters | In the opinion of Katten Muchin Rosenman LLP and Hardwick Law Firm, LLC, Co-Bond Counsel, under existing law, if there is continuing compliance with certain requirements of the Internal Revenue Code of 1986, interest on the Series 2010A Bonds will not be includable in gross income for federal income tax purposes. The interest on the Series 2010A Bonds is not an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income and is not taken into account when computing corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax. Interest on the Series 2010B Bonds will not be excludable from gross income for federal income tax purposes. Interest on the 2010 Bonds is not exempt from Illinois income taxes. See “TAX MATTERS” in the Official Statement. |
| Delivery and Clearance | The 2010 Bonds are expected to be available for delivery at DTC in New York, New York, on or about April 6, 2010. |
| Legal Matters | Certain legal matters will be passed upon for the parties to the financing as set forth on the cover page to the Official Statement. |
| Additional Information | Additional information may be obtained upon request to Karen Walker, Chief Financial Officer and Treasurer, Chicago Transit Authority, 567 West Lake Street, Chicago, Illinois 60661; phone: (312) 681-3400. |

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OFFICIAL STATEMENT

\$550,000,000
CHICAGO TRANSIT AUTHORITY
SALES TAX RECEIPTS REVENUE BONDS

\$44,645,000
SERIES 2010A

\$505,355,000
TAXABLE SERIES 2010B (BUILD AMERICA BONDS)

INTRODUCTION

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 \$44,645,000 aggregate principal amount of Sales Tax Receipts Revenue Bonds, Series 2010A (the “Series 2010A Bonds”), and \$505,355,000 aggregate principal amount of Sales Tax Receipts Revenue Bonds, Taxable Series 2010B (Build America Bonds) (the “Series 2010B Bonds” and, together with the Series 2010A Bonds, the “2010 Bonds”). The 2010 Bonds, together with any Series of Additional Bonds and Refunding Bonds that may be issued in the future under the Indenture (as such terms are defined herein), are collectively referred to in this Official Statement as the “Bonds.”

The 2010 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 2010 Bonds are authorized by an ordinance adopted by the CTA Board on February 10, 2010.

The 2010 Bonds are being issued under and secured by a Trust Indenture dated as of March 1, 2010 (the “Master Indenture”), between the Authority and U.S. Bank National Association, Chicago, Illinois, as trustee (the “Trustee”), as supplemented by that certain First Supplemental Indenture dated as of March 1, 2010 (the “First Supplemental Indenture” and together with the Master Indenture, the “Indenture”), between the Authority and the Trustee.

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 INDENTURE – Definitions of Certain Terms” or, if not defined therein, in the Indenture.

PLAN OF FINANCE

The Series 2010A Bonds are being issued by the Authority to (i) provide funds to finance, or reimburse the Authority for prior expenditures relating to, a portion of the costs of the 2010 Project, (ii) capitalize a portion of the interest on the Series 2010A Bonds and a portion of the interest on the Series 2010B Bonds, (iii) fund a portion of a consolidated debt service reserve fund for the 2010 Bonds, and (iv) pay the costs of issuance of the Series 2010A Bonds.

The Series 2010B Bonds are being issued by the Authority to (i) provide funds to finance, or reimburse the Authority for prior expenditures relating to, a portion of the costs of the 2010 Project, (ii) capitalize a portion of the interest on the Series 2010B Bonds, (iii) fund a portion of a consolidated debt service reserve fund for the 2010 Bonds, and (iv) pay the costs of issuance of the Series 2010B Bonds.

SOURCES AND USES OF FUNDS

| | <u>Series 2010A Bonds</u> | <u>Series 2010B Bonds</u> | <u>Total</u> |
|---|----------------------------|---------------------------|---------------------|
| <u>Sources of Funds</u> | | | |
| Par Amount | \$44,645,000.00 | \$505,355,000.00 | \$550,000,000.00 |
| Original Issue Premium | <u>5,186,219.50</u> | <u>-</u> | <u>5,186,219.50</u> |
| Total Sources of Funds | \$49,831,219.50 | \$505,355,000.00 | \$555,186,219.50 |
| <u>Uses of Funds</u> | | | |
| Deposit to Project Accounts | \$14,750,560.31 | \$456,915,278.78 | \$471,665,839.09 |
| Deposit to Capitalized Interest Accounts ¹ | 32,780,718.16 ² | 21,422,090.00 | 54,202,808.16 |
| Deposit to Consolidated Debt Service Reserve Fund | 1,967,325.76 | 22,268,964.24 | 24,236,290.00 |
| Costs of Issuance ³ | <u>332,615.27</u> | <u>4,748,666.98</u> | <u>5,081,282.25</u> |
| Total Uses of Funds | \$49,831,219.50 | \$505,355,000.00 | \$555,186,219.50 |

¹ Under the Indenture, an amount will be deposited in the applicable Series Capitalized Interest Account that, when invested as permitted under the Indenture, is expected to be sufficient, together with the interest earnings thereon, to provide for a portion of the payment of scheduled interest on the applicable Series of 2010 Bonds through December 1, 2011.

² \$29,199,731.43 of the net proceeds of the Series 2010A Bonds, upon receipt, shall be deposited into the 2010B Capitalized Interest Account.

³ Includes Underwriters' Discount.

THE 2010 PROJECT

A portion of the proceeds of the 2010 Bonds will be deposited under the Indenture and may be used to pay for, or reimburse the Authority for prior expenditures relating to any or all of the following: (i) the purchase of rail cars to replace existing cars and provide for expansion, including purchases pursuant to an existing contract with Bombardier Transit Corporation; (ii) 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; (iii) the purchase and installation of replacements and upgrades for rail system components including track and ties, structure, flange angles, right-of-way, footwalks, viaducts and embankments; and (iv) such additional capital improvements as may hereinafter be designated as part of the 2010 Project by the Authority. The Authority expects, subject to receipt of all necessary Board approvals, to finance future capital needs as they may be identified in its Capital Plan from time to time. Some or all of these needs may be financed with Additional Bonds as permitted by the Indenture. See “THE AUTHORITY – Capital Plan” for a further explanation of how the Authority’s Capital Plan is developed.

DESCRIPTION OF THE 2010 BONDS

General

The 2010 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 2010 Bonds shall be payable on June 1 and December 1 of each year, commencing December 1, 2010. Interest on the 2010 Bonds shall be computed on the basis of a 360-day year of twelve 30-day months.

The 2010 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 2010 Bonds. Ownership interests in the 2010 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 D – “DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

Designation of the Series 2010B Bonds

Pursuant to Section 54AA(d)(1)(C) of the Code, the Authority irrevocably elects to have Section 54AA of the Code apply to the Series 2010B Bonds. Pursuant to Section 54AA(g)(2)(B) of the Code, the Authority irrevocably elects to have subsection (g) of said Section 54AA apply to the Series 2010B Bonds. Pursuant to the foregoing elections, the Series 2010B Bonds are issued as “Build America Bonds” as defined in Section 54AA(d)(1) of the Code and as “qualified bonds” as defined in Section 54AA(g)(2) of the Code.

Redemption

Series 2010A Bonds

The Series 2010A Bonds are not subject to redemption prior to maturity.

Series 2010B Bonds

The Series 2010B Bonds are subject to optional and mandatory redemption prior to maturity, as described below.

Optional Redemption. Each maturity of the Series 2010B Bonds shall be subject to redemption prior to maturity at the option of the Authority, as a whole, or in part as provided in the Indenture, and upon notice as provided in the Indenture, on any Business Day, at a Redemption Price equal to the greater of: (A) the principal amount of the Series 2010B Bonds to be redeemed, or (B) the sum of the present value of the remaining scheduled payments of Principal and interest on the Series 2010B Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date such Series 2010B Bonds are to be redeemed, discounted to the date of redemption of the Series 2010B Bonds to be redeemed on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as defined below) plus 25 basis points; plus accrued and unpaid interest on the Series 2010B Bonds being redeemed to the date fixed for redemption.

“Treasury Rate” means, as of any redemption date, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available four Business Days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the Series 2010B Bonds to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

Extraordinary Optional Redemption. Each maturity of the Series 2010B Bonds is subject to redemption prior to their maturity at the option of the Authority, as a whole, or in part as provided in the Indenture, on any Business Day on or after the occurrence of an Extraordinary Event (as defined below), at a Redemption Price equal to the greater of (A) the principal amount of the Series 2010 Bonds to be redeemed, and (B) the sum of the present value of the remaining scheduled payments of Principal and interest to the maturity date of the Series 2010B Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Series 2010B Bonds are to be redeemed, discounted to the date of redemption of the Series 2010B Bonds to be redeemed on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate, plus 100 basis points; plus accrued interest on the Series 2010B Bonds to be redeemed to the redemption date.

“Extraordinary Event” means a change that has occurred to Section 54AA or Section 6431 of the Code, or to any guidance published by the Internal Revenue Service or the United States Treasury with respect to such sections or any other determination by the Internal Revenue

Service or the United States Treasury, pursuant to which the Authority's 35% cash subsidy payment from the United States Treasury with respect to interest paid on the Series 2010B Bonds is reduced or eliminated.

Mandatory Sinking Fund Redemption. The Series 2010B Bonds maturing on December 1, 2040 are Term Bonds subject to mandatory redemption at a Redemption Price of par, on December 1 of the following years and in the following principal amounts, each constituting a Sinking Fund Installment for the retirement of the Term Bonds as set forth in the following table, subject to adjustment pursuant to the Indenture:

| <u>Year</u> | <u>Principal Amount</u> |
|-------------|-------------------------|
| 2025 | \$14,930,000 |
| 2026 | 15,855,000 |
| 2027 | 16,835,000 |
| 2028 | 17,880,000 |
| 2029 | 18,985,000 |
| 2030 | 20,155,000 |
| 2031 | 21,400,000 |
| 2032 | 22,725,000 |
| 2033 | 24,135,000 |
| 2034 | 31,820,000 |
| 2035 | 33,785,000 |
| 2036 | 35,875,000 |
| 2037 | 38,090,000 |
| 2038 | 40,455,000 |
| 2039 | 42,955,000 |

The final maturity amount of the Term Bonds is \$45,610,000.

Adjustment of Sinking Fund Installments. In the event of the optional redemption by the Authority of less than all of the Term Bonds, the principal amount so redeemed shall be credited pro-rata against the unsatisfied balance of future Sinking Fund Installments and the final maturity amount established with respect to the Term Bonds.

Selection of Series 2010B Bonds to Be Redeemed. If less than all the Series 2010B Bonds of the same maturity are called for redemption, the Trustee shall instruct DTC to provide for the pro-rata redemption from each DTC Participant of an amount of Series 2010B Bonds determined by multiplying the principal amount of the Series 2010B Bonds to be redeemed on the redemption date by a fraction, the numerator of which is the principal amount of such Series 2010B Bonds held by the DTC Participant and the denominator of which is the principal amount of all such Series 2010B Bonds Outstanding immediately prior to the date the Series 2010B Bonds are selected for redemption, and then rounding the product to the next lower integral multiple of \$5,000. Any remaining amount allocated for such redemption shall be applied to the redemption of such Series 2010B Bonds by lot and in Authorized Denominations as determined by DTC. If, on the date of selection of Series 2010B Bonds for redemption as aforesaid, the Series 2010B Bonds are not held in book-entry form by DTC, then the Trustee shall provide for

the pro-rata selection of Series 2010B Bonds from registered owners in lieu of DTC Participants in the same manner as set forth in this Section.

Notice of Redemption. When the Trustee shall receive notice from the Authority of its election or direction to redeem Series 2010B Bonds pursuant to the Indenture, and when redemption of Series 2010B Bonds is authorized or required pursuant to the Indenture, the Trustee shall give notice, in the name of the Authority, of the redemption of such Series 2010B Bonds, which notice shall specify the maturities and interest rates of the Series 2010B Bonds to be redeemed, the date fixed for redemption and the place or places where amounts due upon such date fixed for redemption will be payable and, if less than all of the Series 2010B Bonds of any like maturity and interest rate are to be redeemed, the letters and numbers or other distinguishing marks of such Series 2010B Bonds so to be redeemed, and, in the case of Series 2010B Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. Such notice shall further state that on such date there shall become due and payable the Redemption Price of each Series 2010B Bond to be redeemed, or the Redemption Price of the specified portions of the principal thereof in the case of Series 2010B Bonds to be redeemed in part only, together with interest accrued to the date fixed for redemption, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall mail copies of such notice by first-class mail, postage prepaid, not more than 60 days nor less than 20 days before the date fixed for redemption, to the Owners of the Series 2010B Bonds to be redeemed at their addresses as shown on the registration books of the Authority maintained by the Registrar. If the Trustee mails notices of redemption as provided in the Indenture, notice shall be conclusively presumed to have been given to all Owners.

With respect to an optional redemption of any Series 2010B Bonds, unless moneys sufficient to pay the Redemption Price of, and interest on the Series 2010B Bonds to be redeemed shall have been received by the Trustee prior to the giving of such 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 the 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 Series 2010B Bonds and the 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 Series 2010B Bonds will not be redeemed.

Notice having been given in the manner provided in the Indenture, the Series 2010B Bonds or portions thereof so called for redemption shall become due and payable on the date fixed for redemption at the Redemption Price, plus interest accrued and unpaid to such date, and, upon presentation and surrender thereof at any place specified in such notice, such Series 2010B Bonds, or portions thereof, shall be paid at the Redemption Price, plus interest accrued and unpaid to such date. If there shall be called for redemption less than all of a Series 2010B Bond, the Authority shall execute and the Trustee shall authenticate and the appropriate Fiduciary shall deliver, upon the surrender of such Series 2010B Bond, without charge to the Owner thereof, for the unredeemed balance of the principal amount of the Series 2010B Bond so surrendered, fully registered Series 2010B Bonds of like maturity and interest rate in any Authorized Denominations. If, on the date fixed for redemption, moneys for the redemption of all the Series 2010B Bonds or portions thereof of like maturity and interest rate to be redeemed, together with

interest to such date, shall be held by the Trustee so as to be available therefor on said date and if notice of redemption shall have been given as aforesaid, then, from and after the date fixed for redemption, interest on the Series 2010B 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 Series 2010B 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.

Book-Entry Only System

As noted above, DTC will act as securities depository for the 2010 Bonds. See APPENDIX D – “DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

Payments of interest on and principal of the 2010 Bonds will be made to DTC or its nominee, Cede & Co., as registered owner of the 2010 Bonds. Each such payment to DTC or its nominee will be valid and effective to fully discharge all liability of the Authority or the Trustee with respect to interest on and principal of the 2010 Bonds to the extent of the sum or sums so paid.

The 2010 Bonds shall be initially issued in the form of a separate single fully registered 2010 Bond for each maturity with the same interest rate. Upon initial issuance, the ownership of each such 2010 Bond shall be registered in the registration books kept by the Trustee in the name of Cede & Co., as nominee of DTC, and except as provided in the Indenture, the ownership of all of the outstanding 2010 Bonds shall be registered in the name of Cede & Co., as nominee of DTC.

With respect to 2010 Bonds registered in the name of Cede & Co., as nominee of DTC, the Authority and the Trustee shall have no responsibility or obligation to any DTC Participant or to any person on behalf of whom such a DTC Participant holds an interest in the 2010 Bonds. Without limiting the immediately preceding sentence, the Authority and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co. or any DTC Participant with respect to any ownership interest in any 2010 Bond, (ii) the delivery to any DTC Participant or any other Person, other than the Owner of any 2010 Bond, of any notice with respect to such 2010 Bond, (iii) the payment to any DTC Participant or any other Person, other than the Owner of any 2010 Bond, of any amount with respect to Principal or Redemption Price of or interest on such 2010 Bond or (iv) the allocation method for the pro-rata redemption of 2010 Bonds among DTC Participants and the beneficial owners of the 2010 Bonds. The Authority, the Trustee and each other Paying Agent, if any, shall be entitled to treat and consider the Person in whose name each 2010 Bond is registered as the absolute owner of such 2010 Bond for the purpose of payment of Principal and interest with respect to such 2010 Bond, for the purpose of giving notices of redemption, for the purpose of registering transfers with respect to such 2010 Bond and for all other purposes whatsoever. The Trustee and each other Paying Agent, if any, shall pay all Principal of and interest on the 2010 Bonds only to or upon the order of the respective Owners thereof, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to satisfy and discharge fully the Authority's obligations with respect to payment of Principal of and interest on the 2010 Bonds to the extent of the sum or sums so paid. No Person other than an Owner of a 2010 Bond shall

receive a 2010 Bond certificate of the applicable Series evidencing the obligation of the Authority to make payments of Principal of and interest on the 2010 Bonds pursuant to the Indenture.

The Owners of the 2010 Bonds have no right to the appointment or retention of a depository for such 2010 Bonds. DTC may resign as securities depository under the conditions provided in the Letter of Representations. 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 2010 Bond certificates to such successor securities depository or (ii) notify DTC of the availability through DTC of 2010 Bond certificates and transfer or cause the transfer of one or more separate 2010 Bond certificates to DTC Participants having 2010 Bonds credited to their DTC accounts. In such event, the 2010 Bonds shall 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 2010 Bonds shall designate, in accordance with the provisions of the Indenture.

The Authority has heretofore executed and delivered the Letter of Representations to DTC. So long as DTC, or its designee, is the Owner of all 2010 Bonds, the provisions set forth in the Letter of Representations shall apply to the redemption of any 2010 Bonds and to the payment of Principal or Redemption Price of and interest on the 2010 Bonds, including without limitation, that: (1) presentation of 2010 Bonds to the Trustee at maturity shall be deemed made to the Trustee when the right to exercise ownership rights in the 2010 Bonds through DTC or DTC's Participants is transferred by DTC on its books; and (2) DTC may present notices, approvals, waivers or other communications required or permitted to be made by Owners of 2010 Bonds under the Indenture on a fractionalized basis on behalf of some or all of those Persons entitled to exercise ownership rights in the 2010 Bonds through DTC or DTC's Participants.

So long as the 2010 Bonds are registered in the name of Cede & Co., as nominee of DTC, the Trustee agrees to comply with the terms and provisions of the Letter of Representations.

Transfers and Exchanges of 2010 Bonds Upon Abandonment of Book-Entry-Only System

The Owners of the 2010 Bonds have no right to the appointment or retention of a depository for the 2010 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 2010 Bond certificates to such successor securities depository or (ii) notify DTC of the availability through DTC of 2010 Bond certificates and transfer or cause the transfer of one or more 2010 Bond certificates to DTC Participants having 2010 Bonds credited to their DTC accounts. In such event, the 2010 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 2010 Bonds shall designate, in accordance with the provisions of the Indenture.

SECURITY FOR THE 2010 BONDS

Pledge of Security

Pursuant to a Trust Indenture dated July 1, 2008 by and between the Authority and U.S. Bank National Association, as trustee (the “2008 Trustee”) securing Chicago Transit Authority Sales and Transfer Tax Receipts Revenue Bonds, as supplemented (the “2008 Indenture”), the Authority has established and holds the Sales Tax Receipts Fund. The 2008 Indenture establishes the Authority’s right to issue Corporate Purpose Debt Obligations under the terms and conditions described therein on a parity with the lien on and pledge of the Sales Tax Receipts Fund granted by the 2008 Indenture as security for the payment of Pension and Retirement Debt Obligations. The 2008 Indenture defines “Corporate Purpose Debt Obligations” as any bond, note, installment contract, financing contract, lease or other evidence of indebtedness (other than a Pension and Retirement Debt Obligation or the PBC Lease) that is payable from or secured by a pledge of or lien on the Sales Tax Receipts Fund on a parity with any lien on or pledge of the Sales Tax Receipts Fund granted by the 2008 Indenture as security for the payment of Pension and Retirement Debt Obligations. The 2010 Bonds are being issued pursuant to the Indenture as Corporate Purpose Debt Obligations.

The 2010 Bonds are designated as a Consolidated Reserve Fund Bonds under the Indenture. For a discussion of Consolidated Reserve Fund Bonds see “Consolidated Debt Service Reserve Fund” below.

In the Indenture, the following sources are pledged for the payment of the principal of, and interest on, the 2010 Bonds:

(a) The Sales Tax Receipts Fund, subject however to the PBC Parity Pledge Rights and the parity pledge and lien created by the 2008 Indenture with respect to Pension and Retirement Debt Obligations;

(b) All moneys and securities and earnings thereon in all Funds, Sub-Funds, Accounts and Sub-Accounts established pursuant to the Indenture for the payment and security of the 2010 Bonds including the Consolidated Debt Service Reserve Fund; and

(c) 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.

Right to Issue Additional Pension and Retirement Debt Obligations

The Authority has heretofore issued \$1,936,855,000 original aggregate principal amount of Pension and Retirement Debt Obligations under the 2008 Indenture. The Authority reserves the right to issue additional Pension and Retirement Debt Obligations upon satisfaction of the requirements of, and subject to the limitations contained in, the 2008 Indenture. See “APPENDIX A” under the heading “THE INDENTURE - Right to Issue Pension and Retirement Debt Obligations” for the requirements to issue additional Pension and Retirement Debt Obligations.

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 Sales Tax Receipts, or (ii) incurring contractual obligations that are payable from Sales Tax Receipts, but, in each case, 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.

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, the PBC Lease, the Pension and Retirement Debt Obligations and Subordinated Indebtedness, which are secured by a pledge of or lien on the Sales Tax 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 Sales Tax Receipts or such moneys, securities or funds; *provided, however*, that nothing contained in the Indenture shall prevent the Authority from issuing or incurring evidences of indebtedness (a) payable from or secured by amounts that may be withdrawn from the Sales Tax Receipts Fund free from the lien of the Indenture as provided in the Indenture or from the Debt Service Fund or the Consolidated Debt Service Reserve Fund as provided in the Indenture or (b) payable from, or secured by the pledge of, Sales Tax Receipts to be derived on and after such date as the pledge of the Trust Estate provided in the Indenture shall be discharged and satisfied as provided in the Indenture.

Equality of Security

All Parity Obligations, regardless of Series, date of issuance or incurrence and date of sale, shall be secured by the pledge contained in the Indenture; and security so pledged shall not be used for any other purpose except as expressly permitted by the terms of the Indenture.

Equality of Parity Obligations

All Parity Obligations authorized under the Indenture or incurred as Section 206 Obligations and Section 207 Obligations (as defined in the Indenture) shall be on a parity and rank equally without preference, priority or distinction over any other as to security, regardless of the time or times of their issue, and the provisions, covenants and agreements set forth in the Indenture to be performed by and on behalf of the Authority shall be for the equal benefit, protection and security of the owners of any and all Parity Obligations.

Funds and Accounts

Pursuant to the 2008 Indenture the Authority has established the Sales Tax Receipts Fund as a special fund of the Authority held by the Authority as part of the Trust Estate subject to the PBC Parity Pledge Rights and the other parity pledges described above. In the Indenture, the Authority establishes the Debt Service Fund, which shall be a special fund of the Authority held in trust by the Trustee as part of the Trust Estate. The Authority also establishes the Consolidated Debt Service Reserve Fund, which shall be a special fund of the Authority held in trust by the Trustee as part of the Trust Estate for the benefit and security of the Owners of Consolidated Reserve Fund Bonds. Subject to use and application in accordance with the 2008 Indenture and the Indenture in the case of the Sales Tax Receipts Fund and the Indenture in the case of the Debt Service Fund and the Consolidated Debt Service Reserve Fund, all of the moneys and securities held in the Sales Tax Receipts Fund and the Debt Service Fund are pledged as security for the payment of the principal of, redemption premium, if any, and interest on the Parity Obligations to the extent provided in the Indenture and shall be subject to the lien of the Indenture.

In the Indenture, the Trustee shall, at the written request of the Authority, establish such additional Funds, Sub-Funds within the Funds, and Accounts and Sub-Accounts within any such Sub-Funds, as shall be specified in such written request, for the purpose of identifying more precisely the sources of payments into and disbursements from the Debt Service Fund or such Sub-Funds, Accounts and Sub-Accounts and in addition, the Authority shall, at the written request of the Trustee, establish additional Funds or Accounts for the purpose of segregating amounts available to pay the principal of, premium, if any, and interest on separate Series of Parity Obligations.

Additional Funds, Sub-Funds within the Funds and Accounts and Sub-Accounts within such Sub-Funds may also be created by any Supplemental Indenture; and any such Supplemental Indenture may provide that amounts on deposit in such Sub-Funds, Accounts and Sub-Accounts shall be held by the Trustee for the sole and exclusive benefit of such Parity Obligations as may be specifically designated in such Supplemental Indenture.

Any moneys and securities held in any Fund or any Sub-Fund, Account or Sub-Account created pursuant to the Indenture shall be held in trust by the Trustee, as provided in the Indenture or such Supplemental Indenture, and shall be applied, used and withdrawn only for the purposes authorized in the Indenture or such Supplemental Indenture. All moneys and securities held by the Authority in any Fund, Sub-Fund, Account or Sub-Account established for or with respect to Sales Tax Receipts shall be accounted for and held separate and apart from all other moneys and securities of the Authority, and, until so applied, used and withdrawn, shall be held in trust by the Authority for the purposes for which such Fund, Sub-Fund, Account or Sub-Account was established.

Series 2010AB Additional Deposits Fund

The Indenture establishes with the Trustee a separate trust fund to be designated the “Series 2010AB Additional Deposits Fund” (the “Additional Deposits Fund”). Moneys on deposit in the Additional Deposits Fund shall be held in trust by the Trustee and subject to the lien of the Indenture but for the sole and exclusive benefit of the Owners of the 2010 Bonds. Pursuant to the Indenture, the Authority may make at any time and from time to time, but is not obligated to make, deposits of moneys into the Additional Deposits Fund. Pursuant to the Indenture, the Authority may withdraw at any time and from time to time funds from the Additional Deposits Fund free from the lien of the Indenture.

Deposit and Application of Sales Tax Receipts

All Sales Tax Receipts received by the Authority shall be deposited promptly into the Sales Tax Receipts Fund.

Subject to the following two paragraphs, the Authority covenants and agrees in the Indenture to withdraw from the Sales Tax Receipts Fund and pay into the Debt Service Fund, not later than the 20th day of each calendar month, the sum required to make all of the Sub-Fund Deposits and Other Required Deposits to be disbursed from the Debt Service Fund in that calendar month pursuant to the Indenture.

Each withdrawal from the Sales Tax Receipts Fund is subject to the contractual obligations of the Authority to make monthly withdrawals from the Sales Tax Receipts Fund for the payment of Pension and Retirement Debt Payments on a parity with the payments to the Debt Service Fund, provided that each such monthly withdrawal shall be made in equal monthly installments that may commence no earlier than (i) in the case of interest, six months prior to the interest payment date and (ii) in the case of principal, 12 months prior to the principal payment date.

Whenever the PBC Parity Pledge Rights are in effect, the Authority may make monthly allocations from the Sales Tax Receipts Fund, on a parity with the payments to the Debt Service Fund, and sufficient to provide for the payment, in equal monthly installments, of the next payment of PBC Annual Rent.

In determining the monthly deposits to the Debt Service Fund, such deposit may be reduced by excess amounts in the Debt Service Fund available to make the deposits required under the Indenture.

Each month after making all of the payments required above, and if no Event of Default then exists, the Authority may withdraw all remaining moneys in the Sales Tax Receipts Fund free from the lien of the Indenture.

Disbursements from Debt Service Fund and Additional Deposits Fund

The moneys in the Debt Service Fund shall be disbursed and applied by the Trustee as required to make the deposits on the dates and in the amounts provided by a Supplemental Indenture creating a Series of Bonds, or by an instrument creating Section 206 Obligations or Section 207 Obligations, which in the case of the 2010 Bonds is described below.

Creation of Dedicated Sub-Fund. The Indenture establishes with the Trustee a separate and segregated Sub-Fund within the Debt Service Fund related to the 2010 Bonds (the “Series 2010AB Dedicated Sub-Fund”). Moneys on deposit in the Series 2010AB Dedicated Sub-Fund, and in each Account established therein as provided in the Indenture, shall be held in trust by the Trustee for the sole and exclusive benefit of the Owners of the 2010 Bonds and shall not be used or available for the payment of the other Parity Obligations, except as expressly provided in the Indenture.

Creation of Accounts. The First Supplemental Indenture establishes with the Trustee separate Accounts within the Series 2010AB Dedicated Sub-Fund, designated as follows:

(i) 2010A Capitalized Interest Account: an Account to be designated the “Series 2010A Capitalized Interest Account” (the “2010A Capitalized Interest Account”);

(ii) 2010B Capitalized Interest Account: an Account to be designated the “Series 2010B Capitalized Interest Account” (the “2010B Capitalized Interest Account”);

(iii) 2010A Project Account: an Account to be designated the “Series 2010A Project Account” (the “2010A Project Account”);

(iv) 2010B Project Account: an Account to be designated the “Series 2010B Project Account” (the “2010B Project Account”);

(v) 2010A Principal Account: an Account to be designated the “Series 2010A Principal Account” (the “2010A Principal Account”);

(vi) 2010B Principal Account: an Account to be designated the “Series 2010B Principal Account” (the “2010B Principal Account”);

(vii) 2010A Interest Account: an Account to be designated the “Series 2010A Interest Account” (the “2010A Interest Account”); and

(viii) 2010B Interest Account: an Account to be designated the “Series 2010B Interest Account” (the “2010B Interest Account”).

Capitalized Interest Accounts. The Trustee shall withdraw from the 2010A Capitalized Interest Account, prior to each of the following Interest Payment Dates, the amounts set forth in the following table, and apply the same to the payment of the interest on the Series 2010A Bonds due on such Interest Payment Date:

| <u>Interest Payment Date</u> | <u>Amount</u> |
|------------------------------|----------------|
| December 1, 2010 | \$1,422,174.31 |
| June 1, 2011 | 1,089,325.00 |
| December 1, 2011 | 1,089,325.00 |

The Trustee shall withdraw from the 2010B Capitalized Interest Account, prior to each of the following Interest Payment Dates, the amounts set forth in the following table, and apply the same to the payment of the interest on the Series 2010B Bonds due on such Interest Payment Date:

| <u>Interest Payment Date</u> | <u>Amount</u> |
|------------------------------|-----------------|
| December 1, 2010 | \$20,104,250.33 |
| June 1, 2011 | 15,399,000.25 |
| December 1, 2011 | 15,399,000.25 |

Any amount remaining in the 2010A Capitalized Interest Account on December 2, 2011, shall be withdrawn from the 2010A Capitalized Interest Account and deposited into the 2010A Interest Account. Any amount remaining in the 2010B Capitalized Interest Account on December 2, 2011, shall be withdrawn from the 2010B Capitalized Interest Account and deposited into the 2010B Interest Account.

Deposits into Series 2010AB Dedicated Sub-Fund and Accounts. On the 25th day of each month, or if such day is not a Business Day, the immediately preceding Business Day, commencing April 25, 2010 (each such date a “Deposit Date”) there shall be deposited into the Series 2010AB Dedicated Sub-Fund first, from amounts on deposit in the Additional Deposits Fund, if any, and second, if needed, from amounts on deposit in the Debt Service Fund, an amount equal to the aggregate of the amounts described in the following paragraph, which amounts shall have been calculated by the Trustee on the fifth day of each month (such aggregate amount with respect to any Deposit Date being referred to herein as the “Series 2010AB Deposit Requirement”).

On each Deposit Date the Trustee shall make the following deposits in the following order of priority and if the moneys deposited into the Series 2010AB Dedicated Sub-Fund are insufficient to make any required deposit, the deposit shall be made up on the next Deposit Date after required deposits into other Accounts having a higher priority shall have been made in full:

First: (i) for deposit into the 2010A Interest Account, an amount equal to the lesser of (A) (1) prior to the December 25, 2010 Deposit Date, one-eighth of the interest due on the Series 2010A Bonds on the December 1, 2010 Interest Payment Date, other than interest payable on such Interest Payment Date from the 2010A Capitalized Interest

Account; and (2) commencing on the December 25, 2010 Deposit Date, one-sixth of the interest due on the Series 2010A Bonds on the next Interest Payment Date, other than interest payable on such Interest Payment Date from the 2010A Capitalized Interest Account; or (B) the amount required so that the sum held in the 2010A Interest Account, when added to the interest payable from the 2010A Capitalized Interest Account on the next Interest Payment Date, will equal the interest due on the Series 2010A Bonds on the next Interest Payment Date and (ii) for deposit into the 2010B Interest Account, an amount equal to the lesser of (A) (1) prior to the December 25, 2010 Deposit Date, one-eighth of the interest due on the Series 2010B Bonds on the December 1, 2010 Interest Payment Date, other than interest payable on such Interest Payment Date from the 2010B Capitalized Interest Account; and (2) commencing on the December 25, 2010 Deposit Date, one-sixth of the interest due on the Series 2010B Bonds on the next Interest Payment Date, other than interest payable on such Interest Payment Date from the 2010B Capitalized Interest Account; or (B) the amount required so that the sum held in the 2010B Interest Account, when added to the interest payable from the 2010B Capitalized Interest Account on the next Interest Payment Date, will equal the interest due on the Series 2010B Bonds on the next Interest Payment Date;

Second: (i) commencing on December 25, 2014, for deposit into the 2010A Principal Account, an amount equal to the lesser of (A) one-twelfth of the Principal due on the Series 2010A Bonds on the first day of December next ensuing, or (B) the amount required so that the sum then held in the Principal Account will equal the Principal due on the Series 2010A Bonds on the first day of December next ensuing and (ii) commencing on December 25, 2019, for deposit into the 2010B Principal Account, an amount equal to the lesser of (A) one-twelfth of the Principal due on the Series 2010B Bonds on the first day of December next ensuing, or (B) the amount required so that the sum then held in the 2010B Principal Account will equal the Principal due on the Series 2010B Bonds on the first day of December next ensuing;

Third: commencing on the first Deposit Date following any draw of moneys under any Qualified Reserve Credit Instrument held in the Consolidated Debt Service Reserve Fund, to the provider thereof as reimbursement for such draw, the 2010 Bonds' Allocable Share of any amount required by the Indenture and specified by the Authority in a Certificate filed with the Trustee prior to such first Deposit Date, which Certificate shall specify the monthly deposit amounts (which shall be substantially equal amounts) to be made pursuant to this clause Third in order to fully restore the coverage of the Qualified Reserve Credit Instrument within one year of the date of initial draw thereunder; and

Fourth: commencing on the first Deposit Date that the amount held in the Consolidated Debt Service Reserve Fund is less than the Consolidated Reserve Requirement, the 2010 Bonds' Allocable Share of any amount required by the Indenture and specified by the Authority in a Certificate filed with the Trustee prior to such first Deposit Date, which Certificate shall specify the monthly deposit amounts (which shall be substantially equal amounts) to be made pursuant to this Clause Fourth in order to fully restore the amount held in the Consolidated Debt Service Reserve Fund to the

Consolidated Reserve Requirement within one year of the date of the initial deficiency in the Consolidated Debt Service Reserve Fund.

In addition to the Series 2010AB Deposit Requirement, there shall be deposited into the Series 2010AB Dedicated Sub-Fund any other moneys received by the Trustee under and pursuant to the Master Indenture or the First Supplemental Indenture, when accompanied by directions from the person depositing such moneys that such moneys are to be paid into the Series 2010AB Dedicated Sub-Fund and to one or more accounts in the Series 2010AB Dedicated Sub-Fund.

Upon calculation by the Trustee of each Series 2010AB Deposit Requirement, the Trustee shall notify the Authority of the Series 2010AB Deposit Requirement and the Deposit Date to which it relates together with such supporting documentation and calculations as the Authority may reasonably request.

Consolidated Debt Service Reserve Fund

A Consolidated Debt Service Reserve Fund is established under the Master Indenture for the benefit and security of owners of Consolidated Reserve Fund Bonds to be maintained in an amount equal to the Consolidated Reserve Requirement, which requirement may be satisfied in whole or in part with one or more Qualified Reserve Credit Instruments. The 2010 Bonds are designated as Consolidated Reserve Fund Bonds and other Bonds may be designated as Consolidated Reserve Fund Bonds in the Supplemental Indentures authorizing such Series of Bonds. The “Consolidated Reserve Requirement” means, as of the date of calculation, an amount equal to fifty percent (50%) of the maximum amount of Principal and interest (exclusive of interest to be paid from a capitalized interest account) payable on Outstanding Consolidated Reserve Fund Bonds in the then current or any future Bond Year.

Any such Qualified Reserve Credit Instrument shall be issued in the name of the Trustee and shall contain no restrictions on the ability of the Trustee to receive payments thereunder other than a certification of the Trustee that the funds drawn thereunder are to be used for the purposes for which moneys in the Consolidated Debt Service Reserve Fund may be used. If any time the Consolidated Debt Service Reserve Fund holds one or more Qualified Reserve Credit Instruments and Investment Securities, the Investment Securities shall be liquidated and the proceeds applied to fund transfers permitted under the following two paragraphs prior to any draw being made on any Qualified Reserve Credit Instrument. If the Consolidated Debt Service Reserve Fund holds multiple Qualified Reserve Credit Instruments, draws shall be made under such Qualified Reserve Credit Instruments on a pro-rata basis to the extent of available funds.

If on the Business Day prior to any Interest Payment Date there shall not be a sufficient amount in any Sub-Fund of the Debt Service Fund maintained under a Supplemental Indenture for the payment of interest on a Series of Consolidated Reserve Fund Bonds due on such Interest Payment Date, then the Trustee shall withdraw from the Consolidated Debt Service Reserve Fund and deposit into the appropriate Account or Sub-Account in such Sub-Fund, the amount needed to cure such deficiency and provide for the punctual payment of such interest.

If on any Business Day prior to any Principal Payment Date there shall not be a sufficient amount in any Sub-Fund of the Debt Service Fund maintained under a Supplemental Indenture for the payment of the principal of a Series of Consolidated Reserve Fund Bonds due on such Principal Payment Date, then the Trustee, after making all withdrawals then required by the prior paragraph, shall withdraw from the Consolidated Debt Service Reserve Fund and deposit into the appropriate Account or Sub-Account in such Sub-Fund, the amount needed to cure such deficiency and provide for the punctual payment of such principal.

Limited Obligations of the Authority

The 2010 Bonds and all other Parity Obligations are limited obligations of the Authority payable solely from and secured solely by (i) the Sales Tax Receipts Fund, subject however to (A) the PBC Parity Pledge Rights, and (B) the parity pledge and lien created by the 2008 Indenture with respect to Pension and Retirement Debt Obligations, and (ii) amounts on deposit in the funds and accounts established under the Indenture, including investment earnings thereon. The Bonds are not, and shall not constitute an indebtedness of the RTA or the State of Illinois or any other political subdivision of or municipality within the State of Illinois, except the Authority.

DEBT SERVICE REQUIREMENTS

The annual debt service for the existing Pension and Retirement Debt Obligations and the 2010 Bonds for each calendar year is set forth in the following table:

(Dollars in Thousands)

| <u>Period Ending December 1</u> | <u>Outstanding Pension and Retirement Debt Obligation Debt Service</u> | <u>Series 2010A Bonds Principal</u> | <u>Series 2010A Bonds Interest⁽¹⁾</u> | <u>Series 2010B Bonds Principal</u> | <u>Series 2010B Bonds Interest⁽¹⁾</u> | <u>Total 2010 Bonds Debt Service</u> | <u>Total Aggregate Pension and Retirement Debt Obligations and 2010 Bonds Debt Service</u> | <u>Series 2010B BAB Subsidy⁽²⁾</u> | <u>Total Aggregate Pension and Retirement Debt Obligations and 2010 Bonds Net of BAB Subsidy</u> |
|---|--|---|--|---|--|--|--|---|--|
| 2010 | \$131,367 | \$0 | \$1,422 | \$0 | \$20,104 | \$21,526 | \$152,893 | \$7,036 | \$145,857 |
| 2011 | 131,367 | - | 2,179 | - | 30,798 | 32,977 | 164,343 | 10,779 | 153,564 |
| 2012 | 141,387 | - | 2,179 | - | 30,798 | 32,977 | 174,363 | 10,779 | 163,584 |
| 2013 | 156,574 | - | 2,179 | - | 30,798 | 32,977 | 189,551 | 10,779 | 178,771 |
| 2014 | 156,578 | - | 2,179 | - | 30,798 | 32,977 | 189,554 | 10,779 | 178,775 |
| 2015 | 156,574 | 5,715 | 2,179 | - | 30,798 | 38,692 | 195,266 | 10,779 | 184,486 |
| 2016 | 156,574 | 7,675 | 1,905 | - | 30,798 | 40,378 | 196,951 | 10,779 | 186,172 |
| 2017 | 156,574 | 9,925 | 1,521 | - | 30,798 | 42,244 | 198,818 | 10,779 | 188,039 |
| 2018 | 156,573 | 10,415 | 1,034 | - | 30,798 | 42,247 | 198,820 | 10,779 | 188,041 |
| 2019 | 156,573 | 10,915 | 536 | - | 30,798 | 42,249 | 198,822 | 10,779 | 188,043 |
| 2020 | 156,576 | - | - | 11,510 | 30,798 | 42,308 | 198,884 | 10,779 | 188,105 |
| 2021 | 156,574 | - | - | 12,095 | 30,214 | 42,309 | 198,883 | 10,575 | 188,308 |
| 2022 | 156,576 | - | - | 12,720 | 29,583 | 42,303 | 198,880 | 10,354 | 188,525 |
| 2023 | 156,575 | - | - | 13,405 | 28,900 | 42,305 | 198,880 | 10,115 | 188,765 |
| 2024 | 156,575 | - | - | 14,135 | 28,167 | 42,302 | 198,876 | 9,858 | 189,018 |
| 2025 | 156,575 | - | - | 14,930 | 27,372 | 42,302 | 198,877 | 9,580 | 189,297 |
| 2026 | 156,575 | - | - | 15,855 | 26,447 | 42,302 | 198,877 | 9,256 | 189,620 |
| 2027 | 156,574 | - | - | 16,835 | 25,464 | 42,299 | 198,872 | 8,912 | 189,960 |
| 2028 | 156,574 | - | - | 17,880 | 24,420 | 42,300 | 198,874 | 8,547 | 190,327 |
| 2029 | 156,571 | - | - | 18,985 | 23,311 | 42,296 | 198,867 | 8,159 | 190,708 |
| 2030 | 156,575 | - | - | 20,155 | 22,134 | 42,289 | 198,865 | 7,747 | 191,118 |
| 2031 | 156,575 | - | - | 21,400 | 20,885 | 42,285 | 198,859 | 7,310 | 191,550 |
| 2032 | 156,576 | - | - | 22,725 | 19,558 | 42,283 | 198,859 | 6,845 | 192,014 |
| 2033 | 156,575 | - | - | 24,135 | 18,149 | 42,284 | 198,859 | 6,352 | 192,507 |
| 2034 | 156,571 | - | - | 31,820 | 16,653 | 48,473 | 205,043 | 5,828 | 199,215 |
| 2035 | 156,574 | - | - | 33,785 | 14,680 | 48,465 | 205,039 | 5,138 | 199,901 |
| 2036 | 156,576 | - | - | 35,875 | 12,585 | 48,460 | 205,036 | 4,405 | 200,631 |
| 2037 | 156,577 | - | - | 38,090 | 10,361 | 48,451 | 205,028 | 3,626 | 201,402 |
| 2038 | 156,570 | - | - | 40,455 | 7,999 | 48,454 | 205,024 | 2,800 | 202,225 |
| 2039 | 156,573 | - | - | 42,955 | 5,491 | 48,446 | 205,019 | 1,922 | 203,097 |
| 2040 | 156,575 | - | - | 45,610 | 2,828 | 48,438 | 205,013 | 990 | 204,023 |

(1) Scheduled interest on the 2010 Bonds will be funded to December 1, 2011 with proceeds of the 2010 Bonds and interest earnings thereon.

(2) Series 2010B Build America Bonds subsidy payments are not pledged for payment of the 2010 Bonds.

SOURCES OF PAYMENT OF THE 2010 BONDS

General

The sources of payment for the 2010 Bonds are the Sales Tax Receipts received by the Authority from the RTA and deposited into the Sales Tax Receipt Fund established under the 2008 Indenture and held by the Authority.

In the Indenture, the Authority covenants to comply with all applicable laws, including all provisions of the Regional Transportation Authority Act of the State of Illinois (70 ILCS 3615) (the “RTA Act”) and the Act, in order to be eligible to receive the Sales Tax Receipts for the payment of the 2010 Bonds and all other Parity Obligations and to facilitate the payment of the Sales Tax Receipts to the Authority. See “AUTHORITY – The RTA and - RTA Financial Oversight.”

The descriptions, summaries and statements of the provisions of the RTA Act hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to the RTA Act for a complete description thereof.

Sales Tax Receipts

General. The Sales Tax Receipts include all amounts received by the Authority from the RTA representing the Authority’s share (in accordance with the RTA Act) of (i) tax receipts derived from taxes imposed by the RTA pursuant to the RTA Act, (ii) amounts paid to the RTA by the State from transfers to (a) the Regional Transportation Authority Occupation and Use Tax Replacement Fund, (b) the Public Transportation Fund and (c) the Regional Transportation Authority tax fund created under the RTA Act from the County and Mass Transit District Fund (the “RTA County and Mass Transit Fund”) and (iii) funds derived by RTA from any other source designated by law as a replacement source of funds for all or a portion of the RTA tax receipts described in clause (i), or the State payments described in clause (ii), above.

RTA Sales Tax and RTA Sales Tax Collections. The following taxes are currently imposed by the RTA (collectively, the “RTA Sales Tax”) at rates increased by Illinois Public Act 95-0708 (the “2008 Amendatory Legislation”), which amended the RTA Act in 2008: (i) in Cook County, a tax of 1.25 percent of the gross receipts from sales of drugs, certain medical supplies and food prepared for consumption off the premises (other than for immediate consumption) imposed on all persons selling tangible personal property at retail (a “Food and Drug Tax”); (ii) a tax of 1.00 percent in Cook County, and 0.75 percent in the Counties of DuPage, Kane, Lake, McHenry and Will (the “Collar Counties”), of the gross receipts from all other taxable retail sales (a “General Sales Tax”); (iii) a tax of 1.00 percent on the use in Cook County, and 0.75 percent on the use in the Collar Counties, of tangible personal property purchased from a retailer outside northeastern Illinois and titled or registered with a State agency by a person with a northeastern Illinois address (a “Use Tax”); and (iv) a tax imposed in the same locations and at the same rates as the Food and Drug Tax and the General Sales Tax on persons engaged in a sale of service pursuant to which property in the form of tangible personal property or in the form of real estate is transferred incident to a sale of a service (a “Service Occupation Tax”).

The RTA Sales Tax, net of applicable retailers' discount, is collected by the State Department of Revenue, with such proceeds (the "RTA Sales Tax Collections") paid to the Treasurer of the State to be held in trust for the RTA outside the State Treasury in the RTA tax fund created under the RTA Act (the "RTA Tax Fund"). Moneys in the RTA Tax Fund are payable monthly, without appropriation, by the State Treasurer on the order of the State Comptroller directly to a trustee appointed pursuant to the RTA Act (the "RTA Trustee"), to serve as security for debt service on all RTA bonds and notes (the "RTA Obligations"). Pursuant to the RTA Act, the RTA adopted a Bond and Note General Ordinance on August 8, 1985 (as supplemented and amended, the "RTA General Ordinance"), which provides, among other things, for the assignment and direct payment of all RTA Sales Taxes to the RTA Trustee with respect to the RTA Obligations. The 2010 Bonds do not constitute RTA Obligations and are not secured by the RTA Sales Tax Collections segregated with the RTA Trustee. After the RTA Trustee has made all required deposits and payments with respect to the debt service on RTA Obligations, the RTA Trustee transfers all remaining RTA Sales Tax proceeds to the RTA for its corporate purposes, including distribution to the Authority and the other Service Boards. Pursuant to the RTA Act, the RTA is required to pay to the Authority and the other Service Boards the remainder of the RTA Sales Tax Collections pursuant to distribution ratios in the RTA Act and described in this Official Statement. Then, upon receipt by the Authority of its distribution from the RTA, those proceeds become Sales Tax Receipts.

The RTA is also authorized by the RTA Act to impose certain other taxes which it currently does not impose, including, but not limited to: (i) a tax on the gross receipts from automobile rentals at a rate not to exceed 1 percent in Cook County and 0.25 percent in the Collar Counties; (ii) a tax on the sale of motor fuel at a rate not to exceed 5 percent of the gross receipts of such sales; and (iii) a tax on the privilege of parking motor vehicles at off street parking facilities. The tax on motor fuel and the tax on the use of off street parking facilities cannot by law be imposed concurrently with the RTA Sales Taxes currently imposed by the RTA without additional legislative authority.

The Sales Tax Receipts also include amounts received by the Authority from its share of Replacement Revenues (as defined below) and Public Transportation Fund Revenues (as defined below) paid to the RTA by the State.

Replacement Revenues. In an attempt to simplify the rate structures and tax base for sales taxes imposed by the State and local governments, including the RTA, the Illinois General Assembly enacted a sales tax reform act (the "Sales Tax Reform Act"). Effective January 1, 1990, the Sales Tax Reform Act increased the rate for the State Retailers Occupation Tax, State Service Occupation Tax and State Use Taxes (collectively, the "State Sales Tax") and reduced sales tax rates imposed by local governments, including the RTA. In order to compensate local governments, including the RTA, for any lost revenues, the Sales Tax Reform Act provided for offsetting annual payments to local governments from State Sales Tax receipts. As a result, specified percentages from State Sales Tax receipts (the "Replacement Revenues") are paid monthly into the RTA Occupation and Use Tax Replacement Fund and RTA Tax Fund to offset

RTA revenue loss resulting from the Sales Tax Reform Act. The Sales Tax Receipts include the amounts received by the Authority from its share of Replacement Revenues.

Public Transportation Fund Revenues. Public Transportation Fund Revenues are amounts paid to or on behalf of the RTA from the Public Transportation Fund in the State Treasury. Pursuant to an irrevocable and continuing appropriation by the Illinois General Assembly, each month the State Comptroller is authorized to order and the State Treasurer is authorized to transfer from the State General Revenue Fund to the Public Transportation Fund in the State Treasury an amount equal to 25 percent of the net revenues realized from (i) 80 percent of the proceeds of the Food and Drug Tax, (ii) 75 percent of the proceeds of the General Sales Tax imposed by the RTA in Cook County, (iii) one-third of the proceeds of the General Sales Tax imposed by the RTA in the Collar Counties, (iv) 25 percent of the amount deposited in the RTA County and Mass Transit Fund, and (v) 25 percent of the amounts deposited into the RTA Occupation and Use Tax Replacement Fund from the State and Local Sales Tax Reform Fund. See “SOURCES OF PAYMENT OF THE 2010 BONDS - Sales Tax Receipts – Recent Developments Relating to Sales Tax Receipts.”

Pursuant to the 2008 Amendatory Legislation, the State Comptroller is authorized to order and the State Treasurer is authorized to transfer each month from the State General Revenue Fund to the Public Transportation Fund in the State Treasury an amount equal to 5 percent of the net revenues from any imposed RTA Sales Tax and 5 percent of the revenue realized by the Authority from the Transfer Tax Receipts (as defined in the 2008 Indenture). Beginning in January, 2009, the State Comptroller is authorized to order and the State Treasurer is authorized to transfer each month from the State General Revenue Fund to the Public Transportation Fund in the State Treasury an amount equal to 25 percent of the net revenues realized from (i) 20 percent of the proceeds of the Food and Drug Tax, (ii) 25 percent of the proceeds of the General Sales Tax imposed by the RTA in Cook County, and (iii) one-third of the proceeds of the General Sales Tax imposed by the RTA in the Collar Counties. Public Transportation Fund Revenues may not be paid to the RTA until the RTA has certified to the Governor, the State Comptroller and the Mayor of the City that it has adopted for that Fiscal Year a budget and two-year financial plan meeting the requirements of the RTA Act. In each year since the RTA has been statutorily required to do so, it has certified that its budget has met the requirements of the RTA Act. See “SOURCES OF PAYMENT OF THE 2010 BONDS - Sales Tax Receipts – Recent Developments Relating to Sales Tax Receipts.”

In addition, the RTA is required to determine, within six months following the end of each calendar year, whether an aggregate “system generated revenue recovery ratio” of 50 percent has been maintained. The RTA and the Service Boards are required to maintain a “System Generated Revenue Recovery Ratio,” *i.e.*, at least 50 percent of the operating costs of the public transportation services operated by the Service Boards (the “System”) must be recovered through (i) revenues generated by the System, including fare box receipts, (ii) revenues from certain other sources, such as investment income and concessions, and (iii) reduced fare reimbursements by the State. The ratio must equal at least 50 percent region-wide. To the extent that this coverage test is not met, the RTA is required to refund the amount of the deficiency in such coverage to the State, and the Public Transportation Fund Revenues paid by the RTA to a Service Board not meeting its System Generated Revenue Recovery Ratio are

reduced in proportion to the amount of the Service Board’s deficiency. Since the enactment of the System Generated Revenue Recovery Ratio requirement, the System has met the coverage tests required by law. See “THE AUTHORITY—The RTA.”

As with the RTA Sales Tax Collections, only Replacement Revenues and Public Transportation Fund Revenues in excess of amounts required by the RTA to be deposited with the RTA Trustee to secure RTA Obligations are transferred to the RTA for its corporate purposes, including distribution to the Authority and the other Service Boards.

The Sales Tax Receipts include the amounts received by the Authority from its share of Public Transportation Fund Revenues.

Distribution of RTA Sales Tax Collections, Replacement Revenues and Public Transportation Fund Revenues. The RTA Sales Tax Collections, Replacement Revenues and Public Transportation Fund Revenues to be applied to the payment of the 2010 Bonds are distributed to the Authority as described herein. Prior to the effectiveness of the tax increases imposed by the 2008 Amendatory Legislation, the RTA retained 15 percent of the RTA Sales Tax Collections then imposed and passed the remaining 85 percent to the Service Boards according to the following formula that is specified in the RTA Act and summarized in the Table below. In addition to distributions of the additional taxes imposed by the 2008 Amendatory Legislation, the Authority will continue to receive the statutory distribution summarized in the Table below of the 1 percent portion of the RTA sales tax rate imposed in Chicago and Cook County.

| | Chicago | Suburban Cook | Collar County |
|--------|--------------------------|--------------------------|--------------------------|
| | Sales Tax Revenue | Sales Tax Revenue | Sales Tax Revenue |
| CTA | 100% | 30% | 0% |
| Metra | 0% | 55% | 70% |
| Pace | 0% | 15% | 30% |
| Total: | 100% | 100% | 100% |

The 2008 Amendatory Legislation provided the Authority with a broader participation in the Region’s sales tax base. The law provides a 0.25 percent increase in the RTA Sales Tax in each of Cook, DuPage, Kane, Lake, McHenry and Will Counties. This new tax is pooled together with the Public Transportation Fund state match on the new tax and an additional 5 percent Public Transportation Fund state match on all RTA Sales Tax and the Transfer Tax Receipts. Prior to a statutory distribution of these new funds to the Service Boards, in 2008, funds were required to be first distributed as follows: \$100 million to the ADA paratransit services, \$20 million to the Suburban Community Mobility Fund and \$10 million to Innovation, Coordination and Enhancement Fund, subject to increase or decrease in each subsequent year, based upon the RTA Sales Tax Collections in the prior year. In addition, commencing in 2009

and continuing every year thereafter, the RTA is obligated to allocate \$7,500,000 for certain jobs programs, including the Suburban Job Access Fund. The remaining funds are then divided among the three Service Boards: CTA (48 percent), Metra (39 percent) and Pace (13 percent) according to the statutory formula. Table III under “HISTORICAL SALES TAX REVENUES - CTA Sales Tax Receipts and CTA Share of Discretionary Operating Funds” presents CTA Sales Tax Receipts during the period from 1998 through 2009 (estimated).

Additionally, the RTA distributes to the Authority and other Service Boards discretionary operating funds from its 15 percent retainage of collections of sales taxes imposed at the rates imposed prior to the effectiveness of the 2008 Amendatory Legislation, after payment of the RTA Obligations, of the historically collected sales taxes and the 25 percent match from Public Transportation Fund Revenues received from the State on such sales tax collections. Although the RTA Act does not specify how the remainder of such discretionary funds is to be allocated, the RTA has historically allocated between 90%-99% of the discretionary funds to the Authority. Table III under “HISTORICAL SALES TAX REVENUES - CTA Sales Tax Receipts and CTA Share of Discretionary Operating Funds” presents the Authority’s share of discretionary operating funds during the period from 1998 through 2009 (estimated).

See “INVESTMENT CONSIDERATIONS – Factors Affecting Sales Tax Receipts.”

Recent Developments Relating to Sales Tax Receipts

On February 16, 2010, the RTA advised the Authority that the State of Illinois was approximately \$250 million past due in funding to the RTA, resulting in a delay in the funding by the RTA of the Authority’s discretionary share of the Public Transportation Fund Revenues in the approximate amount of \$71 million. The RTA could intercept the RTA Sales Tax Collections, expected to be allocable to the Authority, to make debt service payments on certain RTA bond obligations. On March 8, 2010, the RTA transferred to the Authority a portion of Public Transportation Fund Revenues and the Authority’s discretionary share of Public Transportation Fund Revenues in the amount of \$24.8 million.

The RTA has advised the Authority that it continues to diligently seek to resolve the foregoing issue with the State, but there is no assurance that additional RTA discretionary funds allocable to the Authority will not be withheld, delayed or not paid in the future. The RTA is also seeking legislative approval to increase its working cash borrowing authority in order to fund potential future delayed payments. However, there is no assurance that RTA will receive such legislative approvals from the State.

HISTORICAL SALES TAX REVENUES

Sales Tax Rates

The following table sets forth the sales tax rates imposed by the RTA for the periods shown. See the discussion herein under the caption “SOURCES OF PAYMENT OF THE 2010 BONDS - Sales Tax Receipts-RTA Sales Tax and RTA Sales Tax Collections.”

**TABLE I
HISTORICAL
RTA SALES TAX RATES
1998-2009**

| YEAR | COOK COUNTY FOOD & DRUG TAX | COOK COUNTY GENERAL SALES TAX | COOK COUNTY USE TAX | COOK COUNTY SERVICE OCCUPATION TAX | COLLAR COUNTY GENERAL SALES TAX | COLLAR COUNTY USE TAX | COLLAR COUNTY SERVICE OCCUPATION TAX |
|------|-----------------------------|-------------------------------|---------------------|------------------------------------|---------------------------------|-----------------------|--------------------------------------|
| 1998 | 1.00% | 0.75% | 0.75% | 0.75% | 0.25% | 0.25% | 0.25% |
| 1999 | 1.00 | 0.75 | 0.75 | 0.75 | 0.25 | 0.25 | 0.25 |
| 2000 | 1.00 | 0.75 | 0.75 | 0.75 | 0.25 | 0.25 | 0.25 |
| 2001 | 1.00 | 0.75 | 0.75 | 0.75 | 0.25 | 0.25 | 0.25 |
| 2002 | 1.00 | 0.75 | 0.75 | 0.75 | 0.25 | 0.25 | 0.25 |
| 2003 | 1.00 | 0.75 | 0.75 | 0.75 | 0.25 | 0.25 | 0.25 |
| 2004 | 1.00 | 0.75 | 0.75 | 0.75 | 0.25 | 0.25 | 0.25 |
| 2005 | 1.00 | 0.75 | 0.75 | 0.75 | 0.25 | 0.25 | 0.25 |
| 2006 | 1.00 | 0.75 | 0.75 | 0.75 | 0.25 | 0.25 | 0.25 |
| 2007 | 1.00 | 0.75 | 0.75 | 0.75 | 0.25 | 0.25 | 0.25 |
| 2008 | 1.25 | 1.00 | 1.00 | 1.00 | 0.75 | 0.75 | 0.75 |
| 2009 | 1.25 | 1.00 | 1.00 | 1.00 | 0.75 | 0.75 | 0.75 |

Source: Regional Transportation Authority.

RTA Sales Tax Collections

The following table sets forth the amounts of RTA Sales Tax Collections (including Replacement Revenues) collected by the RTA for the periods shown. See the discussion herein under the caption "SOURCES OF PAYMENT OF THE 2010 BONDS - Sales Tax Receipts."

TABLE II
HISTORICAL
RTA SALES TAX COLLECTIONS
1998-2009⁽¹⁾

| YEAR | AMOUNT (MILLIONS) | PERCENT INCREASE/ (DECREASE) |
|------|----------------------|------------------------------------|
| 1998 | \$576.7 | 3.82% |
| 1999 | 613.5 | 6.38 |
| 2000 | 650.3 | 5.99 |
| 2001 | 653.5 | 0.50 |
| 2002 | 647.7 | (0.89) |
| 2003 | 655.0 | 1.13 |
| 2004 | 675.6 | 3.15 |
| 2005 | 700.4 | 3.67 |
| 2006 | 746.8 | 6.63 |
| 2007 | 752.9 | 0.82 |
| 2008 | 921.2 | 22.35 |
| 2009 | 894.2 | (2.93) |

(1) Historical RTA Sales Tax Collections for the years 1998 through 2007 are based on the RTA sales tax rates prior to the increases imposed by the 2008 Amendatory Legislation.

Source: Regional Transportation Authority.

CTA Sales Tax Receipts and CTA Share of Discretionary Operating Funds

The following table sets forth the amounts of RTA Sales Tax Collections (including Replacement Revenues) collected by the RTA and distributed to the Authority pursuant to the formulas specified in the RTA Act (the “CTA Sales Tax Receipts”), the formula based distribution of Public Transportation Fund Revenues imposed by the 2008 Amendatory Legislation (the “Additional Public Transportation Fund Revenues”), and the amounts of Public Transportation Fund Revenues distributions and the distributions from RTA’s 15 percent retainage of the RTA Sales Tax Collections (the “CTA Share of Discretionary Operating Funds”), for the periods shown. All of these sources of revenue constitute the Sales Tax Receipts. See the discussion herein under the caption “SOURCES OF PAYMENT OF THE 2010 BONDS - Sales Tax Receipts-Distribution of RTA Sales Tax Collections, Replacement Revenues and Public Transportation Fund Revenues.”

TABLE III
SALES TAX RECEIPTS
1998-2009
(\$ IN MILLIONS)

| YEAR | CTA SALES TAX RECEIPTS ⁽¹⁾ SPECIFIED IN THE RTA ACT (PRIOR TO 2008 AMENDATORY LEGISLATION) | ADDITIONAL CTA SALES TAX RECEIPTS ⁽²⁾ (IMPOSED BY 2008 AMENDATORY LEGISLATION) | ADDITIONAL PUBLIC TRANSPORTATION FUND REVENUES (IMPOSED BY 2008 AMENDATORY LEGISLATION) | CTA SHARE OF DISCRETIONARY OPERATING FUNDS | TOTAL |
|------|---|---|---|--|----------------------|
| 1998 | \$230.6 | - | - | \$146.7 | \$377.3 |
| 1999 | 244.8 | - | - | 140.0 | 384.8 |
| 2000 | 259.5 | - | - | 142.6 | 402.1 |
| 2001 | 258.9 | - | - | 160.1 | 419.0 |
| 2002 | 256.4 | - | - | 185.3 | 441.7 |
| 2003 | 259.5 | - | - | 194.0 | 453.5 |
| 2004 | 267.3 | - | - | 174.3 | 441.6 |
| 2005 | 277.2 | - | - | 164.4 | 441.6 |
| 2006 | 297.5 | - | - | 158.3 | 455.8 |
| 2007 | 302.0 | - | - | 162.3 | 464.3 |
| 2008 | 292.4 | \$41.3 | \$ 8.1 | 249.9 ⁽⁴⁾ | 591.7 |
| 2009 | 275.2 | 56.8 | 55.0 ⁽³⁾ | 150.2 ⁽³⁾⁽⁵⁾ | 537.2 ⁽³⁾ |

- (1) CTA Sales Tax Receipts are based on the CTA percentage rates prior to the increases imposed by the 2008 Amendatory Legislation.
- (2) Additional CTA Sales Tax Receipts based on increases to percentage rates and the broader Regional collection base effective April 1, 2008, as contained in the 2008 Amendatory Legislation.
- (3) Estimated; actual Additional Public Transportation Fund Revenues through November 30, 2009 are \$43.6 million; actual CTA Share of Discretionary Operating Funds through November 30, 2009 are \$127.9 million.
- (4) Includes additional distribution of CTA Share of Discretionary Operating Funds to meet shortfalls of budgeted tax receipts (including budgeted Transfer Tax Receipts). The Authority does not anticipate additional distribution of CTA Share of Discretionary Operating Funds in future years.
- (5) Includes a \$56.147 million working cash borrowing from the RTA, which is anticipated to be repaid to the RTA no earlier than fiscal year ending 2013.

Source: Chicago Transit Authority.

PRO FORMA DEBT SERVICE COVERAGE

The table below sets forth Pro Forma Debt Service Coverage for the years 2008 through 2012. The Sales Tax Receipts for 2008 and 2009 are actual and estimated, as reported in Table III. The Sales Tax Receipts for 2010 are the budgeted amounts allocated to the Authority pursuant to RTA's 2010 Adopted Budget, approved December 17, 2009. The Sales Tax Receipts for 2011 and 2012 are the projected amounts allocated to the Authority pursuant to RTA's 2011-2012 Financial Plan, approved December 17, 2009. The projections of CTA Sales Tax Receipts, Additional Public Transportation Fund Revenues, and Discretionary Operating Funds taken together constitute the projected revenues available in any year for the payment of debt service. Should CTA Sales Tax Receipts, Additional Public Transportation Fund Revenues, and Discretionary Operating Funds be less than projected, such shortfall could affect the debt service coverage projections for calendar years 2009-2012. See "CERTAIN INVESTMENT CONSIDERATIONS."

| | Fiscal Year Ending December 31 | | | | |
|--|--------------------------------|-------------------------------|---------------------|---------------------|---------------------|
| | 2008 | 2009 | 2010 ⁽¹⁾ | 2011 ⁽¹⁾ | 2012 ⁽¹⁾ |
| CTA Sales Tax Receipts ⁽²⁾ | \$292.4 | \$275.2 | \$261.6 | \$269.2 | \$277.0 |
| Additional CTA Sales Tax Receipts ⁽³⁾ | 41.3 | 56.8 | 59.3 | 61.0 | 62.8 |
| Additional Public Transportation Fund Revenues ⁽⁴⁾ | 8.1 | 55.0 ⁽¹⁾ | 56.3 | 58.3 | 60.4 |
| Discretionary Operating Funds | <u>249.9</u> | <u>150.2⁽¹⁾⁽⁵⁾</u> | <u>97.6</u> | <u>116.8</u> | <u>121.5</u> |
| Sales Tax Receipts | \$591.7 | \$537.2 ⁽¹⁾ | \$474.8 | \$505.3 | \$521.7 |
| Aggregate Gross Annual Debt Service on Pension and Retirement Debt Obligations and 2010 Bonds ⁽⁶⁾ | 42.0 | 131.4 | 131.4 | 131.4 | 174.4 |
| Aggregate Annual Debt Service Coverage | 14.1 x | 4.1 x ⁽⁵⁾ | 3.6 x | 3.8 x | 3.0 x |
| Maximum Annual Pro Forma Debt Service on Pension and Retirement Debt Obligations and 2010 Bonds ⁽⁶⁾ | 205.0 | 205.0 | 205.0 | 205.0 | 205.0 |
| Maximum Annual Pro Forma Debt Service Coverage on Pension and Retirement Debt Obligations and 2010 Bonds | 2.9 x | 2.6 x ⁽⁵⁾ | 2.3 x | 2.5 x | 2.5 x |

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- (1) Additional Public Transportation Fund Revenues and Discretionary Operating Funds for fiscal year 2009 receipts are based on actual through November 30, 2009, and estimated through year end based on the RTA's 2010 Budget (See footnote (3) to Table III under "HISTORICAL SALES TAX REVENUES" herein.); fiscal year 2010 receipts are based on the RTA's 2010 Budget; fiscal year 2011 and 2012 receipts are based on RTA's 2011-2012 Financial Plan, all budgeted information was adopted by the RTA on December 17, 2009.
 - (2) CTA Sales Tax Receipts are based on the CTA percentage rates prior to the increases imposed by the 2008 Amendatory Legislation.
 - (3) Additional CTA Sales Tax Receipts based on increases to percentage rates and the broader Regional collection base effective April 1, 2008, as contained in the 2008 Amendatory Legislation.
 - (4) CTA Share of Additional Public Transportation Fund Revenues imposed by 2008 Amendatory Legislation.
 - (5) Includes proceeds from a \$56.147 million working cash borrowing from the RTA, which is anticipated to be repaid to the RTA no earlier than fiscal year ending 2013. If the working cash borrowing amount was not included, coverage would have been 3.7x for Aggregate Annual Debt Service Coverage and 2.3x for Maximum Annual Pro Forma Debt Service Coverage on Pension and Retirement Debt Obligations and 2010 Bonds.
 - (6) Gross debt service does not net out any Build America Bonds subsidy payments but does net out capitalized interest.

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.

Operations

The Authority is the nation's second largest public transit system. 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 3.9 million. The Authority carries almost 80 percent of the public transit riders in the six-county Northeastern Illinois region, comprised of the Counties of Cook, DuPage, Kane, Lake, McHenry and Will (the "Northeastern Illinois Transit Region" or the "Region"). The transit services provided by the Authority are part of the regional public mass transportation service system in the Region provided through the independent operations of the Authority, Metra (suburban rail) and Pace (suburban bus). The Authority, Metra and Pace are referred to collectively herein as the "Service Boards."

The Authority has approximately 1,782 buses that operate over 141 routes. Authority buses provide about 1.014 million passenger trips each weekday. The buses serve approximately 11,577 posted bus stops. The Authority's 1,190 rapid transit cars operate on eight routes. Authority trains provide approximately 0.654 million passenger trips each weekday. These trains serve 144 stations.

Funding

The Authority's current operating budget for 2010 is approximately \$1.271 billion. Approximately 41 percent of the operating budget is funded from fare revenues. Another 6.3 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). An additional 13.6 percent is funded from transfers from capital. The balance of the operating budget of approximately 39.1 percent, or \$497.4 million, is funded from public funding available through the RTA and other sources.

Approved operating budgets, including the Authority's 2010 Operating Budget, may be obtained upon request of the Authority.

The proceeds of the 2010 Bonds and the annual cost of the 2010 Bonds is to be incorporated in the operating budget for 2010 and, prior to the issuance of the 2010 Bonds, such

incorporation will be approved by the RTA. The Authority shall include in an amended 2010 operating budget, all annual costs of the 2010 Bonds payable in 2010, including an amount sufficient to provide for the punctual payment of the principal and interest on the 2010 Bonds that shall become due and payable in 2010.

The Authority's capital budget (amended as of February 10, 2010) for 2010 is approximately \$1.223 billion. The capital budget is funded from a combination of Federal, State, local dedicated funds and grants and bond proceeds. The Authority's five-year capital budget for 2010 – 2014 is \$3.6 billion. See "Capital Plan" below.

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:

Terry Peterson, Chairman of the Board, was appointed to the CTA Board by Mayor Richard M. Daley in 2009. His current terms as Chairman run through 2012 and as a member through 2013. Mr. Peterson is Vice President of Governmental Affairs at Rush University Medical Center in which he leads and implements federal, state and local government relations initiatives. Formerly, he was CEO of the Chicago Hosing Authority and prior to that he was Alderman of the City of Chicago's 17th Ward.

John Bouman was appointed a temporary member of the Chicago Transit Board by Governor Pat Quinn in November 2009, until his appointment is confirmed by the Illinois Senate, for a term continuing until September 1, 2016. Mr. Bouman is the President and Director of Advocacy for the Sargent Shiver National Center on Poverty Law. He also previously worked for many years at the Legal Assistance Foundation of Chicago.

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 2010 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.

Jacquelyne D. Grimshaw was appointed a member of the Chicago Transit Board in October 2009 by Governor Pat Quinn for a term expiring September 1, 2014. She is currently the Vice President for Policy for the Center for Neighborhood Technology. Formerly she was the Director of the City of Chicago Mayor's Office of Intergovernmental Affairs and Deputy Treasurer for Economic Development for the former City of Chicago Treasurer Miriam Santos.

Kathryn L. McClain was appointed a temporary member of the Chicago Transit Board by Governor Pat Quinn in November 2009, until her appointment is confirmed by the Illinois Senate, for a term continuing until September 1, 2016. She is Chicago City Director of the William J. Clinton Foundation. She previously served as a Senior Policy Advisor in the Office of the Illinois Lieutenant Governor.

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 2010 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, 2010. 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.

The current officers of the Authority are as follows:

Richard Rodriguez, President of the Chicago Transit Authority, was appointed in March 2009. Mr. Rodriguez oversees the day-to-day operations of the second largest transit agency in the country. From 2008 to 2009, Mr. Rodriguez served as the Commissioner of the Chicago Department of Aviation. From 2007 to 2008, Mr. Rodriguez served as the Commissioner of the Chicago Department of Buildings. Previously, Mr. Rodriguez was the Executive Director of the Chicago Department of Construction and Permits. Mr. Rodriguez has also served in executive level positions for the Chicago Department of Aviation and the Chicago Housing Authority.

Brad Jansen, Acting General Counsel, was appointed on February 10, 2010, after serving as Acting Deputy General Counsel – Labor, Policy and Appeals. Mr. Jansen also served as Managing Attorney, Labor, Policy and Appeals at CTA. Previous positions at CTA include Deputy General Counsel – Labor; Managing Attorney – General Law; and Chief Attorney – Corporate Law. Prior to joining CTA, Mr. Jansen was Senior Attorney, Litigation Service Section at the Federal Deposit Insurance Corporation in Chicago. He also has held the title of Associate, Litigation Department at Greenberger, Kraus & Jacobs, Chtd; Lurie, Sklar & Simon, Ltd; and Friedman & Koven law firms all in Chicago. Mr. Jansen also served as Adjunct Professor, Lawyering Skills Program at John Marshall Law School and currently serves as Adjunct Professor, Paralegal Studies Program at Roosevelt University in Chicago. He earned his law degree from Chicago-Kent College of Law and holds a Bachelor of Arts degree in English from the University of Illinois at Chicago.

Karen Walker, Chief Financial Officer and Treasurer, joined the CTA in March 2009. As Chief Financial Officer, Ms. Walker is responsible for overseeing the financial management of the nation's second largest transit agency. She served as the Director of Financial Services for

the Illinois Finance Authority prior to joining the CTA. Ms. Walker is a CPA and has over 25 years of experience in accounting, finance and government.

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.

Operational 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 2009, 5,001 employees served in budgeted, non-scheduled transit operations positions.

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. Fourteen other unions represent another 1,500 craft union employees. Of these unions, the CTA has agreements with its craft unions (11 separate trade unions) for years 2007 through 2011. The CTA has four separate contracts with IBEW Local 134, which represents certain of the 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 tentative agreements. The CTA also has 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 48 employees. CTA does not negotiate a separate bargaining agreement with them but participates in the area-wide agreement negotiated for a three-year term beginning June 1, 2009.

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 capital funding 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: 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 and Fixed Guideway Modernization Program, 49 U.S.C. Section 5309, other federal funds, 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 eliminate specific capital projects.

The Authority's 2010-2014 \$3.6 billion Capital Improvement Program (the "Capital Plan") includes funds to purchase replacement buses and railcars (including purchases from the proceeds of the 2010 Bonds), and to complete 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.

CTA Ridership Trends

Total Authority ridership for 2009 was 521.2 million, constituting an approximately one percent decrease from the 2008 total. Given the fare increase implemented in January 2009, coupled with the national recession and unemployment, the decline in ridership is considered minimal to the Authority with respect to annual ridership trends. As a result of service cuts, the Authority projects that ridership will drop to approximately 513.5 million in 2010. See "2010 Operating Budget" below. The following table provides a breakdown of CTA ridership trends since 2004 (including rail-to-rail transfers).

YEARLY RIDERSHIP UNLINKED PASSENGER TRIPS* (In Millions)

| CTA | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> *** | <u>2009</u> | <u>2010</u> **** |
|-----------------------|--------------|--------------|--------------|--------------|-----------------|--------------|------------------|
| Bus | 296.2 | 305.6 | 299.6 | 309.3 | 328.2 | 318.7 | 306.8 |
| Rail | <u>178.7</u> | <u>186.8</u> | <u>195.2</u> | <u>190.2</u> | <u>198.1</u> | <u>202.6</u> | <u>206.7</u> |
| Total CTA** | 474.9 | 492.4 | 494.8 | 499.5 | 526.3 | 521.2 | 513.5 |
| Percent Change | | 3.68% | 0.49% | 0.95% | 5.37% | -0.99% | -1.48% |

* 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.

*** In 2008, the Illinois General Assembly and the Chicago City Council passed requirements that CTA provide free bus and rail service to certain qualifying groups. On March 17, 2008 the "Seniors Ride Free" program began. On May 1, 2008 CTA began to implement a military free ride program; this program was fully implemented on August 4, 2008. Beginning October 24, 2008 CTA also began providing free rides to eligible persons with disabilities through the "Circuit Breaker Permit Ride Free" program.

**** Estimated.

2010 Operating Budget

On November 12, 2009, CTA's Board approved the 2010 Operating Budget and 2011-2012 Financial Plan. RTA's Board subsequently approved the operating budget as submitted on December 18, 2009. CTA's 2010 Operating Budget is balanced, as required, at \$1.271 billion. The operating budget includes \$497.4 million in public funding and \$521.4 million in fare and pass revenues.

The operating budget includes service cuts of approximately 18 percent of bus service and 9 percent of rail service. The service cuts have resulted in the planned lay-off of approximately 1,057 union employees and an additional 100 non-union employees. The service reductions took effect on February 7, 2010.

The proposed operating budget initially included a recommended fare increase. However, as a result of an agreement between the Governor of Illinois, the RTA and the CTA, the RTA will make available to the CTA approximately \$83 million in additional funding in both 2010 and 2011. As a result, CTA will not raise fares in either 2010 or 2011. The new RTA funding will allow CTA to maintain a balanced operating budget.

As a result of the service cuts, and with no fare increase, CTA projects that ridership will drop to approximately 513.5 million in 2010.

Financial Information

The 2010 Bonds are not general obligations of the Authority and the revenues of the Authority (other than the Sales Tax Receipts) are not pledged for the payment of the 2010 Bonds or the interest thereon. Solely for informational purposes, the Authority has included its audited financial statements for its fiscal years 2007 and 2008 (ending December 31) attached hereto as APPENDIX B.

Other Long-Term Obligations

As of December 31, 2009, the CTA had approximately \$2.879 billion aggregate principal amount outstanding of bond debt and approximately \$184 million outstanding of other long-term obligations.

Pension and Other Post-Employment Benefit Obligations

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 the 2008 Amendatory Legislation. The 2008 Amendatory Legislation required the Authority to separate the funding of health care benefits for retirees and their dependents and survivors from the funding for its retirement system. On August 6, 2008, the CTA issued its Sales and Transfer Tax Receipts Revenue Bonds, Taxable Series 2008A (Pension Funding) and its Sales and Transfer Tax Receipts Revenue Bonds, Taxable Series 2008B (Retiree Health Care Funding) and deposited \$1.1 billion of the proceeds into the pension trust and \$528.8 million of the proceeds into the

healthcare trust. CTA no longer has any responsibility for funding retiree healthcare benefits. As of January 1, 2009, CTA's funded ratio for the Retirement Plan was 75.8 percent. Since January 1, 2009, the Authority has not been overdue on any portion of the required contributions to the Retirement Plan. Information relating to the Retirement Plan is contained in the CTA's audited financial statements attached to this Official Statement as APPENDIX B.

The RTA

The RTA was created by RTA Act in 1974. The RTA provides funding, planning and fiscal oversight for the Authority, Metra and Pace, the three Service Boards operating regional bus and rail operations in the Region.

Pursuant to the 2008 Amendatory Legislation, 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.

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 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 RTA Sales Tax Collections and Public Transportation Fund Revenues to the Service Board. The RTA has never withheld funds from the Authority as the result of a non-compliant budget submittal.

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.

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 2010 Bonds, and which could also affect the marketability of, or the market price for, the 2010 Bonds to an extent that cannot be determined.

The purchase of the 2010 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 2010 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 2010 Bonds.**

Factors Affecting Sales Tax Receipts

The following categories of information represent some of the factors that may affect the actual amount of RTA Sales Tax Collections available for payment to the Authority and Sales Tax Receipts realized by the CTA and available for payment of debt service on the 2010 Bonds. A significant change from historical results in any one of these factors may have a material impact on the availability of Sales Tax Receipts and the ability of the Authority to pay debt service on the 2010 Bonds.

Legislative Action. The Illinois General Assembly has the authority to amend the provisions of State law governing the RTA Sales Taxes. Changes to the tax base and exemptions could adversely affect the amount of RTA Sales Taxes collected by the RTA and made available to the Authority.

Changes in Economic and Demographic Conditions. Sales tax revenues historically have been sensitive to changes in local, regional and national economic conditions. For example, sales tax revenues have historically declined during economic recessions, when high unemployment adversely affects consumption. Demographic changes in the population of the Region may adversely affect the level of commercial and industrial activity in the Region and could reduce the number and value of taxable transactions and thus reduce the amount of Sales Tax Receipts.

Competition. Increases in sales tax rates in the Region may create incentives for certain purchases to be made in jurisdictions with lower overall sales tax rates. As a result, increasing sales tax rates may not result in a corresponding percentage increase in revenues.

Internet Sales. In future years, it is expected that increasing numbers of sales transactions will take place over the Internet. If these Internet sales are not treated, for sales and use tax purposes, comparably to, or if they displace, the types of transactions where sales and use taxes currently are collected, sales tax collections may be adversely affected.

Mandatory Funding of Authority's Retirement Plan Contributions From Sales Tax Receipts. The RTA is required to review continually the Authority's payment of required contributions to the Retirement Plan. Beginning January 1, 2009, if at any time the RTA determines that the Authority's payment of any portion of the required contributions to the Retirement Plan is more than one month overdue, the RTA is required as soon as possible to pay the amount of the overdue contributions to the Retirement Plan Board on behalf of the Authority out of moneys otherwise payable to the Authority, which includes moneys derived from Sales Tax Receipts, and to give notice to the Authority and certain other parties of such payment. Any such diversion by the RTA to the Retirement Plan will reduce the amount of funding available to pay debt service on the 2010 Bonds and may have an adverse impact on the financial condition and operations of the Authority.

Impact of Mandated Local Assistance on Authority Revenues. The RTA Act requires that no moneys be released by the RTA to the Authority in any Fiscal Year unless "...a unit or units of local government in Cook County (other than the Authority) enters or enter into an agreement with the CTA to make a monetary contribution for such year of at least \$5,000,000 for public transportation." The City and Cook County also must continue to provide services to the Authority at the same level and on the same basis as services were provided as of the effective date of the RTA Act or as otherwise approved by the RTA Board. If the mandated local assistance requirements are not met, it is possible that the RTA could withhold revenues otherwise payable to the Authority. Funds received from this mandated local assistance are not available for the payment of debt service on the 2010 Bonds. The Authority covenanted in the 2008 Indenture to enter into the monetary contribution agreement or agreements described above. The Authority further covenanted in the 2008 Indenture to request from the City and Cook County the level of services required by the RTA Act as described above. The City and Cook County have made the required monetary contributions to the CTA each year since the inception of such requirement.

RTA's Right to Intercept Sales Tax Revenues. Pursuant to the RTA Act, the RTA could intercept RTA Sales Taxes allocable to the Authority in order to make debt service payments on certain RTA bond obligations, in the event that funds from the State (including, but not limited to Public Transportation Fund Revenues) are not available to make such payments. Such occurrence may result in the RTA withholding, delaying or not making payments to the Authority of its share of certain RTA Sales Taxes.

Impact of Discretionary Funding. The RTA Act provides that a portion of the Public Transportation Fund Revenues are allocated as discretionary funds to the RTA. The RTA has historically allocated between 90%-99% of such available discretionary funds to the Authority. Delays by the State in providing Public Transportation Fund Revenues could delay the RTA in providing such discretionary funds to the Authority. However, RTA may fund such delayed payments from its reserves and/or from the proceeds of working cash note borrowings. RTA is currently seeking legislative approval to increase its working cash borrowing authority in order to fund potential future delayed payments. However, there is no assurance that RTA will receive such legislative approvals from the State.

Limitations on Remedies of Bondholders

The remedies available upon an event of default under the Indenture 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 2010 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 Indenture does not contain a provision allowing for the acceleration of the 2010 Bonds in the event of a default in the payment of principal and interest on the 2010 Bonds when due. In the event of a default under the Indenture, the Trustee will have the right to exercise the remedies provided in the Indenture. See APPENDIX A – “THE INDENTURE – Events of Default” and “- Remedies.”

LEGAL MATTERS

Legal matters incident to the issuance of the Bonds are subject to the approving opinion of Katten Muchin Rosenman LLP, Chicago, Illinois, and Hardwick Law Firm, LLC, Chicago, Illinois, Co-Bond Counsel. The proposed forms of the opinions to be delivered by Co-Bond Counsel are attached hereto as APPENDIX E. Approval of certain other legal matters will be passed upon for the Authority by its Acting General Counsel, and by its special counsel Thompson Coburn LLP, Chicago, Illinois, and for the Underwriters by Charity & Associates, P.C., Chicago, Illinois, Underwriters’ Counsel.

TAX MATTERS

Series 2010A Bonds

Summary of Co-Bond Counsel Opinion

Katten Muchin Rosenman LLP and Hardwick Law Firm, LLC, Co-Bond Counsel, are of the opinion that under existing law, interest on the Series 2010A 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 Series 2010A Bonds will continue to be excluded from the gross income of the owners thereof for federal income tax purposes. In addition, interest on the Series 2010A Bonds is not an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income and is not 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 Series 2010A 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 Series 2010A Bonds in order to preserve the exclusion from gross income for federal income tax purposes of interest on the Series 2010A Bonds. These requirements relate to the use and investment of the proceeds of the Series 2010A Bonds, the payment of certain amounts to the United States, the security and source of payment of the Series 2010A Bonds and the use of the property financed with the proceeds of the Series 2010A Bonds. The Authority covenants in the Indenture to comply with these requirements. Among these specific requirements are the following:

(a) *Investment Restrictions.* Except during certain “temporary periods,” proceeds of the Series 2010A 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 Series 2010A Bonds.

(b) *Rebate of Permissible Arbitrage Earnings.* Earnings from the investment of the “gross proceeds” of the Series 2010A 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 Series 2010A 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 Series 2010A Bonds, amounts received as a result of investing such proceeds and amounts to be used to pay debt service on the Series 2010A 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 Series 2010A Bonds. Such

provisions may restrict future changes in the use of any property financed with the proceeds of the Series 2010A Bonds.

Covenants to Comply

The Authority covenants in the Indenture to comply with the requirements of the Code relating to the exclusion from gross income for federal income tax purposes of interest on the Series 2010A Bonds.

Risk of Non-Compliance

In the event that the Authority fails to comply with the requirements of the Code, interest on the Series 2010A 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 Indenture does not require acceleration of payment of principal of or interest on the Series 2010A Bonds or payment of any additional interest or penalties to the owners of the Series 2010A Bonds.

Federal Income Tax Consequences

Pursuant to Section 103 of the Code, interest on the Series 2010A 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 Series 2010A 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 Series 2010A 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 Series 2010A 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 Series 2010A Bonds.

(b) *Corporate Owners.* Except as set forth above under “Summary of Co-Bond Counsel Opinion,” interest on the Series 2010A 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 Series 2010A Bonds is taken into account in computing 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 Series 2010A 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 Series 2010A 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 Series 2010A 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 Series 2010A Bonds held by such a company is properly allocable to the shareholder.

Series 2010A 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 Series 2010A Bonds is sold to the public (the “Offering Price”) and the principal amount payable at maturity of such Series 2010A Bonds is given special treatment for federal income tax purposes. If the Offering Price is higher than the maturity value of a Series 2010A Bond, the difference between the two is known as “*bond premium*;” if the Offering Price is lower than the maturity value of a Series 2010A 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 Series 2010A 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 Series 2010A 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 Series 2010A 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 Series 2010A Bond. A Series 2010A 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 Series 2010A Bond (whether by reason of sale, acceleration, redemption prior to maturity or payment at maturity of the Series 2010A Bond).

Owners who purchase Series 2010A 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 Series 2010A Bonds. In addition, owners of Series 2010A Bonds should consult their tax advisors with respect to the state and local tax consequences of owning the Series 2010A 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.

Series 2010B Bonds

General

Interest on the Series 2010B Bonds is not excludable from gross income of the owners thereof for federal income tax purposes. In addition, interest on the Series 2010B Bonds is not exempt from State of Illinois income taxes.

Certain United States Federal Income Tax Consequences

The following is a summary of the principal United States federal income tax consequences of ownership of Series 2010B Bonds. It deals only with Series 2010B Bonds held as capital assets by initial purchasers, and not with special classes of holders, such as dealers in securities or currencies, banks, tax-exempt organizations, life insurance companies, persons that hold Series 2010B Bonds that are a hedge or that are hedged against currency risks or that are part of a straddle or conversion transaction, or persons whose functional currency is not the U.S. dollar. The summary is based on the Code, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as currently in effect and all subject to change at any time, perhaps with retroactive effect.

The Code contains a number of provisions relating to the taxation of the Series 2010B Bonds (including but not limited to the treatment of and accounting for interest, premium, original issue discount and market discount thereon, gain from the disposition thereof and withholding tax on income therefrom) that may affect the taxation of certain owners, depending on their particular tax situations. Prospective purchasers of Series 2010B Bonds should consult their own tax advisors concerning the consequences, in their particular circumstances, under the Code and the laws of any other taxing jurisdiction, of ownership of Series 2010B Bonds.

Payments of Interest to United States Holders

Interest on the Series 2010B Bonds will be taxable to a United States Holder (as defined below) as ordinary income at the time it is received or accrued, depending on the holder's method of accounting for tax purposes in accordance with generally applicable principles.

You are a United States Holder for purposes of this discussion if you are a beneficial owner of a Series 2010B Bond for U.S. federal income tax law purposes and you are:

- a citizen or resident of the United States;
- a corporation or partnership which is created or organized in or under the laws of the United States or of any political subdivision thereof;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if (1) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust or (2) the

trust was in existence on August 10, 1996 and properly elected to continue to be treated as a U.S. person.

The term “Non-U.S. Holder” refers to any beneficial owner of a Series 2010B Bond who or which is not a United States Holder.

Original Issue Discount

In general, if the excess of a Series 2010B Bond’s stated redemption price at maturity over its issue price is less than one-quarter of one percent (0.25%) of the Series 2010B Bond’s stated redemption price at maturity multiplied by the number of complete years to its maturity, then such excess, if any, constitutes *de minimis* original issue discount. In such case, the Series 2010B Bond is not considered to be a Series 2010B Bond issued with original issue discount that is required to be included in income calculated using a constant-yield method without regard to the receipt of cash attributable to such income. Such excess will be treated as gain recognized upon retirement of the Series 2010B Bond.

Sale and Retirement of the Series 2010B Bonds

United States Holders of Series 2010B Bonds will recognize gain or loss on the sale, redemption, retirement or other disposition of such Series 2010B Bonds. The gain or loss is measured by the difference between the amount realized on the disposition of the Series 2010B Bond and the United States Holder’s adjusted tax basis in the Series 2010B Bond. Such gain or loss will be capital gain or loss, except to the extent of accrued market discount not previously included in income, and will be long term capital gain or loss if at the time of disposition such Series 2010B Bond has been held for more than one year.

United States Federal Income Tax Considerations for Non-U.S. Holders

Withholding Tax on Payments of Principal and Interest on Series 2010B Bonds. Generally, payments of principal and interest on a Series 2010B Bond will not be subject to U.S. federal withholding tax, *provided* that in the case of an interest payment:

- you are not a bank to whom the Series 2010B Bonds would constitute an extension of credit made pursuant to a loan agreement entered into in the ordinary course of your trade or business; and
- either (A) the beneficial owner of the Series 2010B Bond certifies to the applicable payor or its agent, under penalties of perjury on an IRS Form W-8BEN (or a suitable substitute form), that such owner is not a United States person and provides such owner’s name and address or (B) a securities clearing organization, bank or other financial institution, that holds customers’ securities in the ordinary course of its trade or business (a “financial institution”) and holds the Series 2010B Bond, certifies under penalties of perjury that such an IRS Form W-8BEN (or suitable substitute form) has been received from the beneficial owner by it or by a financial institution between it and the beneficial owner and furnishes the payor with a copy thereof.

Except to the extent otherwise provided under an applicable tax treaty, you generally will be taxed in the same manner as a United States Holder with respect to interest and original issue discount payments on a Series 2010B Bond if such interest and original issue discount is effectively connected with your conduct of a trade or business in the United States. Effectively connected interest and original interest discount received by a corporate Non-U.S. Holder may also, under certain circumstances, be subject to an additional “branch profits tax” at a 30% rate (or, if applicable, a lower treaty rate), subject to certain adjustments. Such effectively connected interest and original issue discount will not be subject to withholding tax if the holder delivers an IRS Form W-8ECI to the payor.

Gain on Disposition of the Series 2010B Bonds. You generally will not be subject to U.S. federal income tax on gain realized on the sale, exchange or redemption of a Series 2010B Bond unless:

- you are an individual present in the United States for 183 days or more in the year of such sale, exchange or redemption and either (A) you have a “tax home” in the United States and certain other requirements are met, or (B) the gain from the disposition is attributable to your office or other fixed place of business in the United States; or
- the gain is effectively connected with your conduct of a trade or business in the United States.

U.S. Federal Estate Tax. A Series 2010B Bond held by an individual who at the time of death is not a citizen or resident of the United States (as specially defined for U.S. federal estate tax purposes) will not be subject to United States federal estate tax if at the time of the individual’s death, payments with respect to such Series 2010B Bond would not have been effectively connected with the conduct by such individual of a trade or business in the United States. The United States federal estate tax recently was repealed effective January 1, 2010. In addition, the legislation repealing the estate tax expires in 2011, and thus the estate tax will be reinstated at that time unless future legislation extends the repeal.

Backup Withholding and Information Reporting

United States Holders. Information reporting will apply to payments of interest made by the Authority, or the proceeds of the sale or other disposition of the Series 2010B Bond with respect to certain non-corporate U.S. holders, and backup withholding may apply unless the recipient of such payment supplies a taxpayer identification number, certified under penalties of perjury, as well as certain other information or otherwise establishes an exemption from backup withholding. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against that holder’s U.S. federal income tax liability provided the required information is furnished to the IRS.

Non-U.S. Holders. Backup withholding and information reporting on Form 1099 will not apply to payments of principal and interest on the Series 2010B Bonds by the Authority or its agent to a Non-U.S. Holder provided the Non-U.S. Holder provides the certification described above under “United States Federal Income Tax Considerations for Non-U.S. Holders-

Withholding Tax on Payments of Principal and Interest on Series 2010B Bonds” or otherwise establishes an exemption (provided that neither the Authority nor its agent has actual knowledge that the holder is a United States person or that the conditions of any other exemptions are not in fact satisfied). Interest payments made to a Non-U.S. Holder may, however, be reported to the IRS and to such Non-U.S. Holder on Form 1042-S.

Information reporting and backup withholding generally will not apply to a payment of the proceeds of a sale of Series 2010B Bonds effected outside the United States by a foreign office of a foreign broker. However, information reporting requirements (but not backup withholding) will apply to a payment of the proceeds of a sale of Series 2010B Bonds effected outside the United States by a foreign office of a broker if the broker (i) is a United States person, (ii) derives 50 percent or more of its gross income for certain periods from the conduct of a trade or business in the United States, (iii) is a “controlled foreign corporation” as to the United States, or (iv) is a foreign partnership that, at any time during its taxable year is 50 percent or more (by income or capital interest) owned by United States persons or is engaged in the conduct of a U.S. trade or business, unless in any such case the broker has documentary evidence in its records that the holder is a Non-U.S. holder (and has no actual knowledge to the contrary) and certain conditions are met, or the holder otherwise establishes an exemption. Payment by a United States office of a broker of the proceeds of a sale of Series 2010B Bonds will be subject to both backup withholding and information reporting unless the holder certifies its non-United States status under penalties of perjury or otherwise establishes an exemption.

Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against that holder’s U.S. federal income tax liability provided the required information is furnished to the IRS.

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 2010 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 2010 Bonds are outstanding in a manner that would adversely affect the value or the tax treatment of ownership of the 2010 Bonds.

Circular 230 Disclaimer

The description of certain tax matters under the heading “Tax Matters,” above is not intended to be used, and cannot be used by any purchaser of the 2010 Bonds, for the purpose of avoiding penalties that may be imposed on such purchaser. This advice is written to support the promotion or marketing of the 2010 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, to the knowledge of the Authority, pending or 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 2010 Bonds, the application of the proceeds thereof in accordance with the Indenture, or the receipt or application of Sales Tax Receipts or other moneys to be pledged to pay the principal of and interest on the 2010 Bonds, or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the 2010 Bonds, the Indenture or 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 2010 Bonds, or the Indenture or any other agreement entered into in connection therewith.

RATINGS

Moody's Investors Service ("Moody's") and Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies ("S&P"), have assigned their municipal bond ratings of "A1" and "AA," respectively, to the 2010 Bonds. There is no assurance that any credit ratings given to the 2010 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 2010 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

Robert W. Baird & Co., Gardner, Underwood & Bacon LLC and Scott Balice Strategies, LLC, all of Chicago, Illinois, serve as Co-Financial Advisors to the Authority with respect to the sale of the 2010 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 2010 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 C. The Authority

has not failed to comply with any undertaking under the Rule. See “APPENDIX C – FORM OF CONTINUING DISCLOSURE UNDERTAKING.”

Pursuant to the Authority’s continuing disclosure obligations relating to its Sales and Transfer Tax Receipts Revenue Bonds, Taxable Series 2008A (Pension Funding) and its Sales and Transfer Tax Receipts Revenue Bonds, Taxable Series 2008B (Retiree Health Care Funding) (the “Series 2008 Bonds”), on February 24, 2010, the Authority made material event notice filings with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access System (“EMMA”), which filings provided notice of ratings downgrades on the Series 2008 Bonds by Moody’s (from Aa3 to A1) and S&P (from AA+ to AA). In addition, in March of 2010, the Authority made certain filings with EMMA to address previous incomplete filings and to fulfill previous continuing disclosure undertaking filing obligations that had not yet been satisfied. As of the date hereof, the Authority is in compliance with the continuing disclosure obligations related to its outstanding bonds.

UNDERWRITING

The 2010 Bonds are being purchased by the Underwriters listed on the cover hereof (the “Underwriters”), subject to certain conditions set forth in a bond purchase agreement relating to the 2010 Bonds (the “Purchase Contract”).

Pursuant to the Purchase Contract, the Underwriters have agreed to purchase the Series 2010A Bonds at a purchase price of \$49,611,833.69 (representing the principal amount of the Series 2010A Bonds, less an underwriters’ discount of \$219,385.81, plus original issue premium of \$5,186,219.50) and the Series 2010B Bonds at a purchase price of \$501,888,023.56 (representing the principal amount of the Series 2010B Bonds, less an underwriters’ discount of \$3,466,976.44). The initial public offering prices of the 2010 Bonds may be changed from time to time by the Underwriters after the 2010 Bonds have been released for sale. The Purchase Contract provides that the Underwriters will purchase all of the 2010 Bonds if any are purchased and that the obligations to make such purchases are subject to certain terms and conditions set forth in the Purchase Contract, including, among others, the approval of certain legal matters by their counsel.

BMO Capital Markets is one of the Underwriters listed on the cover page hereof and is the trade name for certain capital markets and investment banking services of the Bank of Montreal and its subsidiaries, including BMO Capital Markets GKST Inc.

J.P. Morgan Securities Inc., one of the Underwriters of the 2010 Bonds, has entered into an agreement (the “Distribution Agreement”) with UBS Financial Services Inc. for the retail distribution of certain municipal securities offerings, including the 2010 Bonds, at the original issue prices. Pursuant to the Distribution Agreement, J.P. Morgan Securities Inc. will share a portion of its underwriting compensation with respect to the 2010 Bonds with UBS Financial Services Inc.

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 2010 Bonds. All of the summaries of the 2010 Bonds, the Indenture, applicable legislation and other agreements and documents in this Official Statement are made subject to the provisions of the 2010 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/ Karen L. Walker
Its: Chief Financial Officer and Treasurer

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APPENDIX A

DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

DEFINITIONS OF CERTAIN TERMS

The following are definitions of certain terms used in this Official Statement that are provided for the convenience of the reader and do not purport to be comprehensive or definitive. Certain capitalized terms used herein are defined elsewhere in this Official Statement. All references herein to terms defined in the Indenture are qualified in their entirety by the definitions set forth in the Indenture.

“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.

“Accounts” means the special accounts created and established pursuant to the Indenture.

“Accreted Amount” means, with respect to any Capital Appreciation Bonds, the amount set forth in the Supplemental 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 authorized and delivered on original issuance pursuant to the provisions of the Indenture summarized under the heading “THE INDENTURE-Additional Bonds” in this APPENDIX A.

“Allocable Share” means, with respect to any Series of Consolidated Reserve Fund Bonds and the funding of any deficiency in the Consolidated Debt Service Reserve Fund or any reimbursement of a draw of moneys under a Qualified Reserve Credit Instrument held in the Consolidated Debt Service Reserve Fund, the amount obtained by multiplying the amount needed to cure such deficiency or the amount needed to fully restore the coverage of the Qualified Reserve Credit Instrument by a fraction the numerator of which is the principal amount

of the Outstanding Bonds of such Series and the denominator of which is the principal amount of all Outstanding Consolidated Reserve Fund Bonds.

“Annual Coverage Requirement” means, with respect to any Bond Year, the aggregate of the Annual Debt Service Requirement for such Bond Year, the Pension and Retirement Debt Payments for such Bond Year and the PBC Annual Rent for such Bond 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.

“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 Indenture by ordinance duly adopted by the Authority.

“Board” means the Chicago Transit Board.

“Bond” or *“Bonds”* means any bond or bonds, including any 2010 Bond, any Additional Bond, and any Refunding Bond, authenticated and delivered under and pursuant to the Indenture.

“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.

“Bond Insurer” means any person authorized under law to issue a Bond Insurance Policy.

“Bond Ordinance” means Ordinance Number 010-17 adopted by the Board on February 10, 2010 and entitled: “Ordinance Authorizing The Execution And Delivery Of A Master Indenture Under Which The Chicago Transit Authority May Issue Corporate Purpose Debt Obligations Payable From The Sales Tax Receipts Fund And Authorizing One Or More Supplemental Indentures Thereunder, Authorizing The Issuance And Sale Of Not To Exceed \$550,000,000 Sales Tax Receipts Revenue Bonds Of The Authority, In One Or More Series, Providing The Security For The Repayment Of Said Bonds And Making Other Provisions With Respect To Said Bonds.”

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

“*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 Indenture also includes any Capital Appreciation and Income Bond prior to the Interest Commencement Date specified therefor.

“*Certificate*” means an instrument of the Authority in writing signed by an Authorized Officer.

“*City*” means the City of Chicago, a municipal corporation and a home rule unit of government of the State.

“*City Transfer Tax*” means the tax on the privilege of transferring title to real estate in the City in the amount of \$1.50 per \$500 of value or fraction thereof imposed under the provisions of Section 8-3-19 of the Illinois Municipal Code and Chapter 3-33 of the Municipal Code of Chicago.

“*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.

“*Consolidated Debt Service Reserve Fund*” means the Consolidated Debt Service Reserve Fund established in the Indenture for the benefit of Consolidated Reserve Fund Bonds.

“*Consolidated Reserve Fund Bonds*” means Bonds of a Series so designated by the Authority in the Supplemental Indenture authorizing such Series.

“*Consolidated Reserve Requirement*” means, as of the date of calculation, an amount equal to fifty percent (50%) of the maximum amount of Principal and interest (exclusive of interest to be paid from a capitalized interest account) payable on Outstanding Consolidated Reserve Fund Bonds in the then current or any future Bond Year.

“*Corporate Purpose Debt Obligation*” means any bond (including any Bond), note, installment contract, financing contract, lease or other evidence of indebtedness (other than a Pension and Retirement Obligation or the PBC Lease) that is payable from or secured by a pledge of or lien on the Sales Tax Receipts Fund on a parity with any lien on or pledge of the Sales Tax Receipts Fund granted by the Indenture as security for the payment of Parity Obligations.

“*Corporate Purpose Debt Payment*” means with respect to each Corporate Purpose Debt Obligation, the amounts payable by the Authority under the terms of such Corporate Purpose Debt Obligation, including payments of principal, interest, rent and any financing cost.

“*Cost of Construction*” means with respect to the 2010 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 2010 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 2010 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” as used throughout the Indenture 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 in the Indenture.

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

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

“Depository” means any bank, national banking association or trust company having capital stock, surplus and retained earnings aggregating at least \$10,000,000, selected by an Authorized Officer as a depository of moneys and securities held under the provisions of the Indenture, and may include the Trustee.

“DTC” means The Depository Trust Company, as securities depository for the 2010 Bonds.

“DTC Participant” means any securities broker or dealer, bank, trust company, clearing corporation or other organization depositing 2010 Bonds with DTC.

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

“Fiduciary” or *“Fiduciaries”* means the Trustee, the Registrar, the Paying Agents and any Depository, or any or all of them, as may be appropriate.

“First Supplemental Indenture” means the First Supplemental Indenture, dated as of March 1, 2010, by and between the Authority and the Trustee, as from time to time amended and supplemented.

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

“Funds” means the special funds created and established pursuant to the Indenture or any Supplemental 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.

“Indenture” means the Trust Indenture, dated as of March 1, 2010, by and between the Authority and the Trustee, securing Chicago Transit Authority Sales Tax Receipts Revenue Bonds, as from time to time amended and supplemented.

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

“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 and for the 2010 Bonds means December 1, 2010 and each June 1 and December 1 thereafter.

“*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, shall mean 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 heading “INDENTURE – Hedging Transactions” in the case of a Qualified Swap Agreement and (ii) in the Indenture as described in this APPENDIX A under the heading “INDENTURE – Optional Tender Bonds and Variable Rate Bonds and -Variable Interest Rates” 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 Supplemental Indenture authorizing the issuance of a Series of Bonds 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:
 - Department of Treasury
 - Commodity Credit Corporation
 - Small Business Administration
 - U.S. Department of Housing & Urban Development (PHAs)
 - Federal Housing Administration
 - Public Housing Agencies

(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)
- obligations of the Tennessee Valley Authority (TVA)
- senior debt obligations of the Federal Home Loan Bank System (FHLB)
- 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) any repurchase agreements collateralized by securities described in clauses (i), (ii) or (iii) above with any registered broker/dealer subject to the Securities Investors’ Protection Corporation jurisdiction or any commercial bank, if such broker/dealer or bank or parent holding company providing a guaranty has an uninsured, unsecured and unguaranteed obligation rated (an “unsecured rating”) Prime-1 and A3 or better by Moody’s Investors Service, Inc. or A- or better by Standard & Poor’s Ratings Services provided (1) a specific written agreement governs the transaction; (2) the securities are held by a depository acting solely as agent for the Trustee, and such third party is (a) a Federal Reserve Bank, or (b) a bank which is a member of the Federal Deposit Insurance Corporation and with combined capital, surplus and undivided profits of not less than \$25,000,000, and the Trustee shall have received written confirmation from such third party that it holds such securities; (3) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 *et seq.* or 31 C.F.R. 350.0 *et seq.* in such securities is created for the benefit of the Trustee; (4) the repurchase agreement has a term of one year or less, or the collateral securities will be valued no less frequently than monthly and will be liquidated if any deficiency in the required collateral percentage is not restored within two business days of such valuation; (5) the repurchase agreement matures at least 10 days (or other appropriate liquidation period) prior to a Payment Date; and (6) the fair market value of the securities in relation to the amount of the repurchase obligations, including principal and interest, is equal to at least 100 percent;

(x) investment agreements which represent the unconditional obligation of one or more banks, insurance companies or other financial institutions, or are guaranteed by a financial institution, in either case that has an unsecured rating, or which agreement is itself rated, as of the date of execution thereof, in one of the two highest rating categories by each of the Rating Services; or

(xi) any other type of investment in which the Authority directs the Trustee in writing to invest, provided that there is delivered to the Trustee a Certificate stating that each Rating Agency has been informed of the proposal to invest in such investment and each Rating Agency has confirmed that such investment will not adversely affect the rating then assigned by such Rating Agency to any Parity Obligations.

“*Maximum Annual Coverage Requirement*” means, as of any date of calculation, the largest Annual Coverage Requirement occurring in the then current or any future Bond Year.

“*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 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 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 Supplemental Indenture authorizing the issuance of such Series 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 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 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 (a) with respect to 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 (b) with respect to a Qualified Swap Agreement, the Swap Provider.

“*Payment Date*” shall mean 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 and 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.

“*PBC*” means the Public Building Commission of Chicago.

“*PBC Annual Rent*” means, with respect to any Bond Year, the scheduled annual rent payable by the Authority under the PBC Lease during such Bond Year calculated without regard to any additional rent payable under the PBC Lease or any amount required to replenish reserves or pay administrative costs.

“*PBC Lease*” means the Lease Agreement dated March 31, 2003 by and between the Authority and the PBC, as amended by the Amendment to Lease Agreement dated October 25, 2006, as the same may be amended and supplemented.

“*PBC Parity Pledge Rights*” means the provisions of Section 31 of the PBC Lease pursuant to which the Authority agreed that it will not pledge the sales taxes revenues it receives from RTA pursuant to Section 4.01 (now Section 4.03.3) of the RTA Act to secure its debt on a priority basis with respect to its rent and other payment obligations under the PBC Lease if the maximum annual debt service on all debt so secured exceeds 75% of the sales tax revenue received from the RTA pursuant to said Section 4.01 (now Section 4.03.3) during the preceding Fiscal Year, without equally and ratably securing its obligations under the PBC Lease.

“*Pension and Retirement Debt Obligation*” means any then outstanding “Parity Obligation,” as defined in the 2008 Indenture, including the Sales and Transfer Tax Receipts Revenue Bonds, Taxable Series 2008A (Pension Funding) of the Authority and the Sales and Transfer Tax Receipts Revenue Bonds, Taxable Series 2008B (Retiree Health Care Funding) of the Authority.

“*Pension and Retirement Debt Payment*” means with respect to each Pension and Retirement Debt Obligation, the amounts payable by the Authority under the terms of such Pension and Retirement Debt Obligations, including payments of principal, interest and financing cost.

“*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 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 as described in this APPENDIX A under the heading “INDENTURE – Optional Tender Bonds and Variable Rate Bonds and -Variable Interest Rates” 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.

“*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 Reserve Credit Instrument*” means a letter of credit, surety bond or non-cancelable insurance policy issued by a domestic or foreign bank, insurance company or other financial institution whose debt obligations are rated “Aa2” or better by Moody’s Investors Service, Inc. or “AA” or better by Standard & Poor’s Ratings Service or “AA” or better by Fitch Ratings as of the date of issuance thereof.

“*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 “AA”, without regard to sub-category designations; *provided, however* that if three or more Rating Services have assigned ratings to any Outstanding Bonds then such “AA” rating need only be assigned by two Rating Services, 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 the Authority, and which ratings are then currently in effect.

“*Record Date*” means the fifteenth (15th) day (whether or not a Business Day) of the calendar month next preceding each interest payment date (including any redemption date) or such other day as may be determined in the applicable Supplemental Indenture.

“*Redemption Price*” means, with respect to any Bond, the Principal thereof plus the applicable premium, if any, payable upon the date fixed for redemption or such other redemption price as shall be specified for such Bond in a Supplemental Indenture.

“*Refunding Bonds*” means Bonds issued pursuant to the provisions of the Indenture summarized under the heading “THE 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, and its successor or successors.

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

“*RTA Act*” means the Regional Transportation Authority Act, 70 Illinois Compiled Statutes 3615.

“*Sales Tax Receipts*” means all amounts received by the Authority from the RTA and representing the Authority’s share (in accordance with the RTA Act including Section 4.03.3 thereof) of (i) the tax receipts derived from taxes imposed by the RTA pursuant to the RTA Act; (ii) amounts paid to the RTA by the State from transfers to (a) the Regional Transportation Authority Occupation and Use Tax Replacement Fund, (b) the Public Transportation Fund and (c) the Regional Transportation Authority tax fund created by Section 4.03(n) of the RTA Act from the County and Mass Transit District Fund and (iii) funds derived by RTA from any other source designated by law as a replacement source of funds for all or a portion of the RTA tax receipts described in clause (i), or the State payments described in clause (ii), of this definition.

“*Sales Tax Receipts Fund*” means the Sales Tax Receipts Fund held by the Authority and established in the 2008 Indenture.

“*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 Section 207 of the Indenture summarized under the heading “THE INDENTURE- Credit Facilities to Secure Bonds” 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.

“*Section 206 Obligations*” means any payment obligations incurred by the Authority to any one or more Swap Providers pursuant to the Indenture summarized under the heading “THE 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 (including Working Cash Notes) 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 or the provisions of a Supplemental Indenture.

“*Sinking Fund Installment*” means, as of any particular date of determination and with respect to the Outstanding Bonds of any Series or consisting of any Section 207 Obligation, the

amount required by the Supplemental Indenture creating such Series or the instrument creating such Section 207 Obligation to be paid in any event by the Authority on a single future date for the retirement of such Bonds which mature after said future date, but does not include any amount payable by the Authority by reason only of the maturity of a Bond or Section 207 Obligation.

“*Series 2010A Bonds*” means the \$44,645,000 original principal amount of Sales Tax Receipts Revenue Bonds, Series 2010A of the Authority authorized by the Bond Ordinance and the Indenture.

“*Series 2010B Bonds*” means the \$505,355,000 original principal amount of Sales Tax Receipts Revenue Bonds, Taxable Series 2010B (Build America Bonds) of the Authority authorized by the Bond Ordinance and the Indenture.

“*State*” means the State of Illinois.

“*Sub-Account*” means any account so designated by the Authority pursuant to the Indenture.

“*Sub-Fund*” means any fund so designated by the Authority pursuant to the Indenture.

“*Subordinated Indebtedness*” means indebtedness permitted to be issued or incurred pursuant to the provisions of the Indenture summarized herein under “SECURITY FOR THE 2010 BONDS – Subordinated Indebtedness.”

“*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.

“*Trustee*” means U.S. Bank National Association, Chicago, Illinois, and any successor or successors appointed under the Indenture as hereinafter provided.

“*Trust Estate*” means the security for the payment of Parity Obligations established by the pledges and liens effected by the Indenture and all other property pledged to the Trustee pursuant to the Indenture.

“*2008 Indenture*” means the Trust Indenture between the Authority and the 2008 Trustee dated July 1, 2008, securing Chicago Transit Authority Sales and Transfer Tax Receipts Revenue Bonds, as from time to time amended and supplemented.

“*2008 Trustee*” means U.S. Bank National Association, Chicago, Illinois, and any successor or successors appointed under the 2008 Indenture.

“*2010 Bonds*” means any of the Bonds authorized to be issued by the Bond Ordinance.

“*2010 Project*” means, collectively, the following capital improvements to the Transportation System, and such additional capital improvements as may hereinafter be designated as part of the 2010 Project pursuant to a Certificate of the Authority signed by an Authorized Officer and filed with the Trustee:

Purchase Rail Cars – The purchase of 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 and Upgrade Track and Structure – The purchase and installation of replacements and upgrades for rail system components including track and ties, structure, flange angles, right-of-way, footwalks, viaducts and embankments.

“*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.

“*Working Cash Notes*” means any note or notes issued by the Authority pursuant to Section 12a of the Act.

THE INDENTURE

The following is a summary of certain provisions of the Indenture pursuant to which the 2010 Bonds will be issued not summarized elsewhere in this Official Statement. This summary does not purport to be complete or definitive, and is qualified in its entirety by reference to the Indenture, copies of which are on file with the Trustee.

Authorization of Bonds

The Indenture authorizes the Authority to issue Bonds to be issued from time to time in one or more Series. Working Cash Notes may also be issued under the Indenture as a Series of Bonds and shall contain the words “Working Cash Notes” as an additional designation and need not contain the word “Bonds.”

The Bonds Constitute a Corporate Purpose Debt Obligation Under the 2008 Indenture

Under the 2008 Indenture, prior to or concurrently with the issuance of a Corporate Purpose Debt Obligation the Authority shall file with the 2008 Trustee a certified copy of all proceedings taken by the Authority to authorize and issue such Corporate Purpose Debt Obligation together with a schedule setting forth the payment date and amount of such Corporate Purpose Debt Payment that the Authority will be obligated to pay under the terms of the Corporate Purpose Debt Obligation.

As a condition precedent to the issuance of any Corporate Purpose Debt Obligation under the 2008 Indenture, the Authority shall file with the 2008 Trustee not more than five Business Days prior to the date of issuance or the effective date of the Corporate Purpose Debt Obligation, a Certificate stating that (1) the aggregate amount of all Sales Tax Receipts and Transfer Tax Receipts (as defined in the 2008 Indenture) received by the Authority for a period of 12 consecutive calendar months out of the 18 calendar months next preceding the date of issuance of the Corporate Purpose Debt Obligation were at least equal to 200% of the Maximum Annual Coverage Requirement as of the time immediately following the date of issuance or effective date of the Corporate Purpose Debt Obligation or (2) the Annual Coverage Requirement for the then current and each future Bond Year as of the time immediately following the issuance of the Corporate Purpose Debt Obligation does not exceed the Annual Coverage Requirement for the corresponding Bond Year as of the time immediately prior to the issuance of the Corporate Purpose Debt Obligation. All capitalized terms used in the prior paragraph have the meanings set forth in the 2008 Indenture.

Under the 2008 Indenture, no Corporate Purpose Debt Obligation may contain a term or provision permitting an acceleration of the scheduled payment of the Corporate Purpose Debt Payments with respect to such Corporate Purpose Debt Obligation.

Variable Interest Rates

In determining the Interest Requirement for the purpose of determining Annual Debt Service Requirements, the Maximum Annual Debt Service Requirement and the Pension and Retirement Debt Payment under the provisions of the Indenture summarized below under “-

Refunding Bonds” or “- Right to Issue Pension and Retirement Debt Obligations” and for the purpose of determining the amount of any deposit pursuant to the provisions of the Indenture summarized below under “Deposit and Application of Tax Receipts,” interest on variable rate indebtedness, including Variable Rate Bonds and variable rate interest payments for Pension and Retirement Debt Obligations, 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, Pension and Retirement Debt Obligations, 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 75 basis points, and (e) the interest rate set forth in a Certificate 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 summarized above under “Variable Interest Rates,” 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 summarized below under “-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 Indenture. 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.

Additional Bonds

One or more Series of Bonds entitled to the benefit, protection and security of the Indenture and constituting a Series of Additional Bonds may be authorized and delivered upon original issuance for the purpose of financing any lawful project or purpose of the Authority, to pay costs and expenses incident to the issuance of such Additional Bonds and to make deposits into any Fund, Sub-Fund, Account or Sub-Account under the Indenture or any Supplemental Indenture. Any such Series shall be authenticated and delivered by the Trustee only upon receipt by it (in addition to the documents required by the Indenture with respect to Additional Bonds) of a Certificate of an Authorized Officer stating that the aggregate amount of all Sales Tax Receipts received by the Authority for any period of 12 consecutive calendar months out of the

18 calendar months next preceding the date of issuance of such Series were at least equal to 200% of the Maximum Annual Coverage Requirement as of the time immediately following the issuance of such Series. In applying the foregoing test, (1) if any of the Bonds Outstanding immediately prior to or after the issuance of the Additional Bonds to be issued constitute Optional Tender Bonds or Variable Rate Bonds, the applicable provisions of the Indenture summarized above under “-Optional Tender Bonds and Variable Rate Bonds” and “-Variable Interest Rates” shall be applied in determining the Annual Debt Service Requirements of such Bonds and of any Outstanding Section 207 Obligations and (2) if any Retirement and Pension Debt Obligation Outstanding immediately prior to or after the issuance of the Additional Bonds bears interest at variable rates, then the applicable provisions of the Indenture summarized above under “-Optional Tender Bonds and Variable Rate Bonds” and “-Variable Interest Rates” shall be applied in determining the Annual Coverage Requirement as if said Retirement and Pension Debt Obligation was a Bond.

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, Sub-Fund, Account or Sub-Account under the Indenture or any Supplemental Indenture.

Refunding Bonds of a Series shall be authenticated and delivered by the Trustee only upon receipt by it (in addition to the documents required by the Indenture with respect to Refunding Bonds) of:

(1) Such instructions to the Trustee as necessary to comply with all requirements set forth in the Indenture and summarized below under “-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 Indenture.

(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 provisions of the Indenture summarized below under the second paragraph under the caption “- Defeasance.”

(3) (a) a Certificate stating that the aggregate amount of all Sales Tax Receipts received by the Authority for any period of 12 consecutive calendar months out of the 18 calendar months next preceding the date of issuance of such Series were at least equal to 200% of the Maximum Annual Coverage Requirement as of the time immediately

following the issuance of such Series, or (b) a Certificate evidencing that for the then current and each future Bond Year, the Annual Debt Service Requirements for each such Bond Year on account of all Bonds and Section 207 Obligations Outstanding as of the time immediately after the issuance of such Refunding Bonds does not exceed the Annual Debt Service Requirements for the corresponding Bond Year on account of all the Bonds and Section 207 Obligations Outstanding as of the time immediately prior to the issuance of such Refunding Bonds.

In applying the foregoing tests set forth in clause (3) of the preceding paragraph, (1) 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 applicable provisions of the Indenture summarized above under “-Optional Tender Bonds and Variable Rate Bonds” and “-Variable Interest Rates” shall be applied in determining the Annual Debt Service Requirements of such Bonds and of any Outstanding Section 207 Obligations and (2) if any Pension and Retirement Debt Obligation Outstanding immediately prior to or after the issuance of the Refunding Bonds bears interest at variable rates, then the applicable provisions of the Indenture summarized above under “-Optional Tender Bonds and Variable Rate Bonds” and “-Variable Interest Rates” shall be applied in determining the Annual Coverage Requirement as if said Pension and Retirement Debt Obligation was a Bond.

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 Sales Tax Receipts shall be made from amounts on deposit to the credit of the appropriate Sub-Fund or Account in the Debt Service Fund designated by Supplemental Indenture to the extent that the amount then held in such Sub-Fund or 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 appropriate Sub-Fund or Account in the Debt Service Fund designated by Supplemental Indenture.

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 clause (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 Sales Tax Receipts or (ii) if made from Sales Tax Receipts, such payments, and any lien on Sales Tax Receipts securing such payments, shall be junior and subordinate to the pledge of and lien on Sales Tax 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 Sales Tax Receipts at the option of the Authority, and if so treated shall be deposited in the same manner as Sales Tax Receipts are to be deposited.

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

Credit Facilities to Secure Bonds

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.

Right to Issue Pension and Retirement Debt Obligations

The Authority reserves the right to issue additional Pension and Retirement Debt Obligations upon satisfaction of the requirements of the 2008 Indenture and the Indenture.

Prior to or concurrently with the issuance of a Pension and Retirement Debt Obligation the Authority shall file with the Trustee a certified copy of all proceedings taken by the Authority to authorize and issue such Pension and Retirement Debt Obligation together with a schedule setting forth the payment date and amount of such Pension and Retirement Debt Payment that the Authority will be obligated to pay under the terms of the Pension and Retirement Debt Obligation.

As a condition precedent to the issuance of any Pension and Retirement Debt Obligation the Authority shall file with the Trustee, not more than five Business Days prior to the date of issuance or the effective date of such Pension and Retirement Debt Obligation, a Certificate stating that (1) the aggregate amount of all Sales Tax Receipts and Transfer Tax Receipts received by the Authority for a period of 12 consecutive calendar months out of the 18 calendar months next preceding the date of issuance of such Pension and Retirement Debt Obligation were at least equal to 200% of the Maximum Annual Coverage Requirement as of the time immediately following the date of issuance or effective date of such Pension and Retirement Debt Obligation or (2) the Annual Coverage Requirement for the then current and each future Bond Year as of the time immediately following the issuance of such Pension and Retirement Debt Obligation does not exceed the Annual Coverage Requirement for the corresponding Bond Year as of the time immediately prior to the issuance of such Pension and Retirement Debt Obligation. In applying the foregoing tests, (1) if any of the Bonds Outstanding immediately after the issuance of the Pension and Retirement Debt Obligations to be issued constitute Optional Tender Bonds or Variable Rate Bonds, the applicable provisions of the Indenture summarized above under “-Optional Tender Bonds and Variable Rate Bonds” and “-Variable Interest Rates” shall be applied in determining the Annual Debt Service Requirements of such Bonds and of any Outstanding 207 Obligations and (2) if any Pension and Retirement Debt Obligation Outstanding immediately prior to or after the issuance of the Pension and Retirement Debt Obligation bears interest at variable rates, then the applicable provisions of the Indenture summarized above under “-Optional Tender Bonds and Variable Rate Bonds” and “-Variable Interest Rates” shall be applied in determining the Annual Coverage Requirement as if such Pension and Retirement Debt Obligation was a Bond.

No Pension and Retirement Debt Obligation may contain a term or provision permitting an acceleration of the scheduled payment of the Pension and Retirement Debt Payments with respect to such Pension and Retirement Debt Obligation.

Source of Payment; Pledge of Receipts

The Indenture provides that the Parity Obligations are limited obligations of the Authority payable solely from the Sales Tax Receipts Fund, subject however to the PBC Parity Pledge Rights and the parity pledge of or lien on the Sales Tax Receipts Fund as security for the payment of Pension and Retirement Debt Payments, (ii) all moneys, securities and earnings thereon in all Funds, Sub-Funds, Accounts and Sub-Accounts established under the Indenture or

any Supplemental Indenture, subject however to the right of the Authority to make periodic withdrawals from the Sales Tax Receipts Fund, the Debt Service Fund and the Consolidated Debt Service Reserve Fund all as permitted by the Indenture, 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; 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. The Parity Obligations do not constitute an indebtedness of the RTA, the State, or any political subdivision of the State, including the City, other than the Authority. No lien upon any physical properties of the Authority is, or shall ever be, created by the Indenture.

The Authority makes a pledge of the Trust Estate, to the extent set forth in the Granting Clauses of the Indenture, and of all moneys and securities held or set aside to be held or set aside by the Trustee under the Indenture or any Supplemental Indenture, to secure the payment of principal and Redemption Price of, and interest on, the Parity Obligations, subject only to the provisions of the Indenture or any Supplemental Indenture requiring or permitting the payment, setting apart or appropriation of such moneys and securities for or to the purposes and on the terms, conditions, priorities and order set forth in or provided under the Indenture or any Supplemental Indenture. Such pledge is valid and binding from and after the date of issuance of any Parity Obligations under the Indenture, without any physical delivery or further act, and the lien and pledge 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 of it.

Deposit and Application of Sales Tax Receipts

Pursuant to the 2008 Indenture the Authority has established the Sales Tax Receipts Fund as a special fund of the Authority held by the Authority as part of the Trust Estate subject to the PBC Parity Pledge Rights and other parity liens described herein. In the Indenture, the Authority establishes the Debt Service Fund to be held and administered by the Trustee. Subject to use and application in accordance with the 2008 Indenture and the Indenture in the case of the Sales Tax Receipt Fund and the Indenture in the case of the Debt Service Fund and the Consolidated Debt Service Reserve Fund, all of the moneys and securities held in the Sales Tax Receipts Fund and the Debt Service Fund are pledged as security for the payment of the principal of, redemption premium, if any, and interest on the Parity Obligations and shall be subject to the lien of the Indenture.

All Sales Tax Receipts received by the Authority shall be deposited promptly into the Sales Tax Receipts Fund.

Subject to the following paragraph, the Authority covenants and agrees in the Indenture to withdraw from the Sales Tax Receipts Fund and pay into the Debt Service Fund, not later than the 20th day of each calendar month, the sum required to make all of the Sub-Fund Deposits and Other Required Deposits to be disbursed from the Debt Service Fund in that calendar month pursuant to the Indenture.

Each withdrawal from the Sales Tax Receipts Fund is subject to the contractual obligations of the Authority to make monthly withdrawals from the Sales Tax Receipts Fund for the payment of Pension and Retirement Debt Payments on a parity with the payments to the Debt Service Fund, provided that each such monthly withdrawal shall be made in equal monthly installments that may commence no earlier than (i) in the case of interest, six months prior to the interest payment date and (ii) in the case of principal, 12 months prior to the principal payment date. In addition, whenever the PBC Parity Pledge Rights are in effect, the Authority may make monthly allocations from the Sales Tax Receipts Fund, on a parity with the payments to the Debt Service Fund, and sufficient to provide for the payment, in equal monthly installments, of the next payment of PBC Annual Rent. Each month, after making all the payments required by this paragraph, and, if no Event of Default then exists, the Authority may withdraw all remaining moneys in the Sales Tax Receipts Fund free from the lien of the Indenture.

On any date required by the provisions of a Supplemental Indenture creating a Series of Bonds, or by an instrument creating Section 206 Obligations or Section 207 Obligations, the Trustee will segregate within the Debt Service Fund and credit to such Sub-Funds, Accounts and Sub-Accounts therein as may have been created for the benefit of such Series, and such Section 206 Obligations or Section 207 Obligations (i) such amounts as may be required to be so credited under the provisions of such Supplemental Indenture or instrument creating Section 206 Obligations or Section 207 Obligations to pay the principal of and interest on such Parity Obligations and (ii) any other amounts required to be withdrawn or deposited by such Supplemental Indenture or instrument. Moneys on deposit in the Debt Service Fund and which have been credited to such Sub-Funds, Accounts and Sub-Accounts therein as may have been created for the benefit of a Series of Bonds, Section 206 Obligations or Section 207 Obligations shall be used for the purposes specified in the Supplemental Indenture creating such Series or instruments securing such Section 206 Obligations or Section 207 Obligations.

If on any date no Event of Default then exists and there are moneys in the Debt Service Fund in excess of the amounts required to be disbursed as required in the preceding paragraph, then the Authority, pursuant to the written direction of the Authority expressed in a Certificate filed with the Trustee, may direct the withdrawal of such excess amount free from the lien of the Indenture.

The Indenture creates and establishes with the Trustee a separate and segregated Sub-Fund within the Debt Service Fund (the "Series 2010AB Dedicated Sub-Fund"). Moneys on deposit in the Series 2010AB Dedicated Sub-Fund and in each Account established therein are to be held in trust by the Trustee for the sole and exclusive benefit of the Owners of the 2010 Bonds and shall not be used or available for the payment of any other Parity Obligations, except as expressly provided in the Indenture.

Consolidated Debt Service Reserve Fund

A Consolidated Debt Service Reserve Fund is established under the Master Indenture to be maintained in an amount equal to the Consolidated Reserve Requirement, which requirement may be satisfied in whole or in part with one or more Qualified Reserve Credit Instruments. Any such Qualified Reserve Credit Instrument shall be issued in the name of the Trustee and shall

contain no restrictions on the ability of the Trustee to receive payments thereunder other than a certification of the Trustee that the funds drawn thereunder are to be used for the purposes for which moneys in the Consolidated Debt Service Reserve Fund may be used. If any time the Consolidated Debt Service Reserve Fund holds one or more Qualified Reserve Credit Instruments and Investment Securities, the Investment Securities shall be liquidated and the proceeds applied to fund transfers permitted under the following two paragraphs prior to any draw being made on any Qualified Reserve Credit Instrument. If the Consolidated Debt Service Reserve Fund holds multiple Qualified Reserve Credit Instruments, draws shall be made under such Qualified Reserve Credit Instruments on a pro-rata basis to the extent of available funds.

If on the Business Day prior to any Interest Payment Date there shall not be a sufficient amount in any Sub-Fund of the Debt Service Fund maintained under a Supplemental Indenture for the payment of interest on a Series of Consolidated Reserve Fund Bonds due on such Interest Payment Date, then the Trustee shall withdraw from the Consolidated Debt Service Reserve Fund and deposit into the appropriate Account or Sub-Account in such Sub-Fund, the amount needed to cure such deficiency and provide for the punctual payment of such interest.

If on any Business Day prior to any Principal Payment Date there shall not be a sufficient amount in any Sub-Fund of the Debt Service Fund maintained under a Supplemental Indenture for the payment of the principal of a Series of Consolidated Reserve Fund Bonds due on such Principal Payment Date, then the Trustee, after making all withdrawals then required by the preceding paragraph, shall withdraw from the Consolidated Debt Service Reserve Fund and deposit into the appropriate Account or Sub-Account in such Sub-Fund, the amount needed to cure such deficiency and provide for the punctual payment of such principal.

In the event that the sum available for withdrawal from the Consolidated Debt Service Reserve Fund is not sufficient to satisfy all the withdrawals required by the preceding two paragraphs, then the sum held therein shall be allocated first for the withdrawals for interest and among the various withdrawals required above, pro-rata based upon the amount needed to cure each such deficiency.

Each Supplemental Indenture authorizing the issuance of a Series of Consolidated Reserve Fund Bonds shall provide for the transfer of moneys held in the Sub-Fund of the Debt Service Fund established in such Supplemental Indenture to fund any reimbursement amount due under any Qualified Reserve Credit Instrument and to cure any deficiency in the Consolidated Debt Service Reserve Fund. Any priority established by a Supplemental Indenture with respect to application of moneys in a Sub-Fund established with respect to a Series of Consolidated Reserve Fund Bonds, after making provision for any money deposited for the payment of the principal of and interest on such Series, shall next provide (i) first, for monthly payments to the provider of any Qualified Reserve Credit Instrument of amounts sufficient to fully restore the coverage of such Qualified Reserve Credit Instrument within one year of the date of initial draw thereunder and (ii) second, for monthly transfers to the Consolidated Debt Service Reserve Fund sufficient to fully restore the amount held on the Consolidated Debt Service Reserve Fund to the Consolidated Reserve Requirement within one year of the initial deficiency in the Consolidated Debt Service Reserve Fund. If, at the time that any payment or transfer required to be made by these paragraphs is to be made, there are then Outstanding two or more Series of Consolidated

Reserve Fund Bonds, then each Series and its associated Sub-Fund shall be charged for its Allocable Share of the amounts due under these paragraphs.

If on any date all withdrawals or payments from the Consolidated Debt Service Reserve Fund required by any other provision of the Indenture or any Supplemental Indenture shall have been made and no Event of Default then exists under the Indenture, the Trustee, at the direction of the Authority expressed in a Certificate filed with the Trustee, shall withdraw from the Consolidated Debt Service Reserve Fund the amount of any excess therein over the Consolidated Reserve Requirement and either (a) deposit such moneys into any one or more of the Funds, Sub-Funds, Accounts or Sub-Accounts maintained under the Indenture or any First Supplemental Indenture or (b) pay such moneys to the Authority free from the lien of the Indenture.

At the direction of the Authority expressed in a Certificate filed with the Trustee, moneys in the Consolidated Debt Service Reserve Fund may be withdrawn from the Consolidated Debt Service Reserve Fund and deposited with the Trustee for the payment of the Principal or Redemption Price of or the interest on Bonds in accordance with the Indenture, provided that immediately after such withdrawal the amount held in the Consolidated Debt Service Reserve Fund equals or exceeds the Consolidated Reserve Requirement.

Debt Service Reserve Accounts

Any Supplemental Indenture pursuant to which a Series is issued may establish a Debt Service Reserve Account and a Series reserve account requirement with respect thereto. Any such Supplemental Indenture may provide that the reserve account requirement may be satisfied as a whole or in part with one or more Qualified Reserve Credit Instruments. Any such Qualified Reserve Credit Instrument shall be issued in the name of the Trustee and shall contain no restrictions on the ability of the Trustee to receive payments thereunder other than a certification of the Trustee that the funds drawn thereunder are to be used for purposes for which moneys in the Debt Service Reserve Account may be used.

Additional Deposits Fund

In the First Supplemental Indenture, the Authority has established with the Trustee a separate trust fund to be designated the "Series 2010AB Additional Deposits Fund" (the "Additional Deposits Fund"). Moneys on deposit in the Additional Deposits Fund shall be held in trust by the Trustee and subject to the lien of the Indenture but for the sole and exclusive benefit of the Owners of the 2010 Bonds.

At any time and from time to time the Authority may make deposits of moneys into the Additional Deposits Fund. On each Deposit Date, the Trustee, without further direction from the Authority, shall transfer moneys then held in the Additional Deposits Fund to the Series 2010AB Dedicated Sub-Fund and the Accounts therein as provided in the Indenture.

At any time and from time to time, at the direction of the Authority expressed in a Certificate filed with the Trustee, the Trustee shall withdraw from the Additional Deposits Fund and pay to the Authority, free from the lien of the Indenture, any amount requested by the Authority.

In each year, on the first Business Day following the Principal Payment Date of the 2010 Bonds, the Trustee shall withdraw from the Additional Deposits Fund and pay over to the Authority, free from the lien of the Indenture, any funds then held in the Additional Deposits Fund.

Deposits into the Dedicated Sub-Fund and Accounts

On the 25th day of each month, or if such day is not a Business Day, the immediately preceding Business Day, commencing April 25, 2010 (each such date a "Deposit Date") there shall be deposited into the Series 2010AB Dedicated Sub-Fund first, from amounts on deposit in the Additional Deposits Fund, if any and second, if needed, from amounts on deposit in the Debt Service Fund, an amount equal to the aggregate of the amounts described in the following paragraph, which amounts shall have been calculated by the Trustee on the fifth day of each month (such aggregate amount with respect to any Deposit Date being referred to herein as the "Series 2010AB Deposit Requirement").

On each Deposit Date the Trustee shall make the following deposits in the following order of priority and if the moneys deposited into the Series 2010AB Dedicated Sub-Fund are insufficient to make any required deposit, the deposit shall be made up on the next Deposit Date after required deposits into other Accounts having a higher priority shall have been made in full:

First: (i) for deposit into the 2010A Interest Account, an amount equal to the lesser of (A) (1) prior to the December 25, 2010 Deposit Date, one-eighth of the interest due on the Series 2010A Bonds on the December 1, 2010 Interest Payment Date, other than interest payable on such Interest Payment Date from the 2010A Capitalized Interest Account; and (2) commencing on the December 25, 2010 Deposit Date, one-sixth of the interest due on the Series 2010A Bonds on the next Interest Payment Date, other than interest payable on such Interest Payment Date from the 2010A Capitalized Interest Account; or (B) the amount required so that the sum held in the 2010A Interest Account, when added to the interest payable from the 2010A Capitalized Interest Account on the next Interest Payment Date, will equal the interest due on the Series 2010A Bonds on the next Interest Payment Date and (ii) for deposit into the 2010B Interest Account, an amount equal to the lesser of (A) (1) prior to the December 25, 2010 Deposit Date, one-eighth of the interest due on the Series 2010B Bonds on the December 1, 2010 Interest Payment Date, other than interest payable on such Interest Payment Date from the 2010B Capitalized Interest Account; and (2) commencing on the December 25, 2010 Deposit Date, one-sixth of the interest due on the Series 2010B Bonds on the next Interest Payment Date, other than interest payable on such Interest Payment Date from the 2010B Capitalized Interest Account; or (B) the amount required so that the sum held in the 2010B Interest Account, when added to the interest payable from the 2010B Capitalized Interest Account on the next Interest Payment Date, will equal the interest due on the Series 2010B Bonds on the next Interest Payment Date;

Second: (i) commencing on December 25, 2014, for deposit into the 2010A Principal Account, an amount equal to the lesser of (A) one-twelfth of the Principal due on the Series 2010A Bonds on the first day of December next ensuing, or (B) the amount required so that the sum then held in the Principal Account will equal the Principal due on the Series 2010A Bonds on the first day of December next ensuing and (ii) commencing on December 25, 2019, for deposit into the 2010B Principal Account, an amount equal to the lesser of (A) one-twelfth of the Principal due on the Series 2010B Bonds on the first day of December next ensuing, or (B) the amount required so that the sum then held in the 2010B Principal Account will equal the Principal due on the Series 2010B Bonds on the first day of December next ensuing;

Third: commencing on the first Deposit Date following any draw of moneys under any Qualified Reserve Credit Instrument held in the Consolidated Debt Service Reserve Fund, to the provider thereof as reimbursement for such draw, the 2010 Bonds' Allocable Share of any amount required by the Indenture and specified by the Authority in a Certificate filed with the Trustee prior to such first Deposit Date, which Certificate shall specify the monthly deposit amounts (which shall be substantially equal amounts) to be made pursuant to this clause Third in order to fully restore the coverage of the Qualified Reserve Credit Instrument within one year of the date of initial draw thereunder; and

Fourth: commencing on the first Deposit Date that the amount held in the Consolidated Debt Service Reserve Fund is less than the Consolidated Reserve Requirement, the 2010 Bonds' Allocable Share of any amount required by the Indenture and specified by the Authority in a Certificate filed with the Trustee prior to such first Deposit Date, which Certificate shall specify the monthly deposit amounts (which shall be substantially equal amounts) to be made pursuant to this Clause Fourth in order to fully restore the amount held in the Consolidated Debt Service Reserve Fund to the Consolidated Reserve Requirement within one year of the date of the initial deficiency in the Consolidated Debt Service Reserve Fund.

In addition to the Series 2010AB Deposit Requirement, there shall be deposited into the Series 2010AB Dedicated Sub-Fund any other moneys received by the Trustee under and pursuant to the Master Indenture or the First Supplemental Indenture, when accompanied by directions from the person depositing such moneys that such moneys are to be paid into the Series 2010AB Dedicated Sub-Fund and to one or more accounts in the Series 2010AB Dedicated Sub-Fund.

Upon calculation by the Trustee of each Series 2010AB Deposit Requirement, the Trustee shall notify the Authority of the Series 2010AB Deposit Requirement and the Deposit Date to which it relates together with such supporting documentation and calculations as the Authority may reasonably request.

Covenant Against Pledge of Sales Tax Receipts

The Authority covenants not to issue any bonds or other evidences of indebtedness or incur any indebtedness, other than the Parity Obligations, Qualified Swap Agreements, the PBC Lease, the Corporate Purpose Debt Obligations and Subordinated Indebtedness, which are secured by a pledge of or lien on the Sales Tax 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 Sales Tax Receipts or such moneys, securities or funds; provided, however, that nothing contained in the Indenture shall prevent the Authority from issuing or incurring evidences of indebtedness (a) payable from or secured by amounts that may be withdrawn from the Sales Tax Receipts Fund free from the lien of the Indenture as provided in the provisions of the Indenture summarized above under “—Deposit and Application of Sales Tax Receipts” or from the Debt Service Fund as provided in the provisions of the Indenture summarized above under “—Deposit and Application of Sales Tax Receipts” or (b) payable from, or secured by the pledge of, Sales Tax Receipts to be derived on and after such date as the pledge of the Trust Estate provided in the Indenture shall be discharged and satisfied as provided in the Indenture and summarized below under the caption “—Defeasance”.

Project Accounts

The Trustee shall apply moneys in the 2010A Project Account for the payment of costs of issuance of the Series 2010A Bonds, as directed in a Certificate filed with the Trustee. The Trustee shall apply moneys in the 2010B Project Account for the payment of costs of issuance of the Series 2010B Bonds, as directed in a Certificate filed with the Trustee.

The Trustee shall make payment of the Costs of Construction of the 2010 Project from the 2010A Project Account and the 2010B Project Account as provided in the paragraphs below. With respect to each withdrawal for the payment of Costs of Construction of the 2010 Project, 3.12% shall be paid from the 2010A Project Account and 96.88% shall be paid from the 2010B Project Account.

At the direction of the Authority expressed in a Certificate of an Authorized Officer filed with the Trustee, moneys in any Project Account shall be applied to pay such amounts as are required to be paid to the United States of America pursuant to Section 148(f) of the Code. The Trustee shall withdraw from a Project Account and pay to the Authority the amounts stated in a Certificate of an Authorized Officer filed with the Trustee and directing such withdrawal.

The Trustee shall, during construction of the 2010 Project, pay from the appropriate Project Account to the Authority, upon its requisitions therefor, at one time or from time to time, a sum or sums aggregating not more than \$5,000,000, exclusive of and in addition to reimbursements as authorized, such sums and such reimbursements to be used by the Authority as a revolving fund for the payment of Costs of Construction that cannot conveniently be paid as otherwise provided under the Indenture. Such revolving fund shall be reimbursed by the Trustee from time to time for such expenses so paid, by payments from the appropriate Project Account

upon requisitions of the Authority accompanied by its certificate specifying the payee and the amount and particular purpose of each payment from such revolving fund for which such reimbursement is requested and certifying that each such amount so paid was necessary for the payment of an expense described and that such expense could not conveniently be paid except from such revolving fund. In making such reimbursements the Trustee may rely upon such requisitions and accompanying certificates.

The Trustee shall, during and upon completion of construction of the 2010 Project, make payments from the appropriate Project Account in addition to those made pursuant to the preceding paragraph, in the amounts, at the times, in the manner, and on the other terms and conditions set forth in the Indenture. Before any such payment shall be made, the Authority shall file with the Trustee:

(1) its requisition therefor, stating in respect of each payment to be made: (a) the name of the person, firm or corporation to whom payment is due, (b) the amount to be paid, and (c) in reasonable detail the purpose for which the obligation was incurred; and

(2) its certificate attached to the requisitions certifying: (a) that obligations in the stated amounts have been incurred by the Authority in or about the construction of the 2010 Project, and that each item thereof is a proper charge against the appropriate Project Account and is a proper Cost of Construction and has not been paid, (b) that there has not been filed with or served upon the Authority notice of any lien, right to lien, or attachment upon, or claim affecting the right to receive payment of, any of the moneys payable under such requisition, or if any such lien, attachment or claim has been filed or served upon the Authority, that such lien, attachment or claim has been released or discharged, and (c) that such requisition contains no item representing payment on account of any retained percentages which the Authority is at the date of such certificate entitled to retain.

Upon receipt of each such requisition and accompanying certificates the Trustee shall transfer from the appropriate Project Account to the credit of a special account in the name of the Authority, an amount equal to the total of the amounts to be paid as set forth in such requisition, the amounts in such special account to be held solely for the payment of the obligations set forth in such requisition. In making such transfer, the Trustee may rely upon such requisition and accompanying certificates. Each such obligation shall be paid by check or wire transfer signed by an Authorized Officer drawn on such special account to the order of the Person named in and in accordance with the requisition. Moneys deposited to the credit of such special account shall be deemed to be a part of the appropriate Project Account until paid out as above provided. If for any reason the Authority should decide prior to the payment of any item in a requisition to stop payment of such item, an Authorized Officer shall give notice of such decision to the Trustee and thereupon the Trustee shall transfer the amount of such item from such special account to the appropriate Project Account.

The Trustee shall withdraw from the 2010A Project Account and pay to the Authority free from the lien of the Indenture any balance in the 2010A Project Account, or any part thereof, in the amounts, at the times, in the manner, and on the other terms and conditions set forth in this

paragraph. The Trustee shall withdraw from the 2010B Project Account and pay to the Authority free from the lien of the Indenture, any balance in the 2010B Project Account or any part thereof, in the amounts, at the times, in the manner, and on the other terms and conditions, set forth in this paragraph. Before any such withdrawal and payment shall be made, the Authority shall file with the Trustee its certificate certifying: (1) that the 2010 Project has been completed or substantially completed, and (2) that a sum stated in the certificate is sufficient to pay, and is required to be reserved in such Project Accounts to pay, all Costs of Construction then remaining unpaid, including the estimated amount of any such items the amount of which is not finally determined and all claims against the Authority arising out of the construction thereof. Upon receipt of such requisition and accompanying certificates, the Trustee shall withdraw from each such Project Account and pay to, or upon the order of, the Authority the amount stated in such requisition, provided that no such withdrawal shall be made if it would reduce the amount in each Project Account below the amount stated in the respective certificate of the Authority as required to be reserved in each Project Account. Moneys so withdrawn from the Project Accounts may be reappropriated by the Authority if such appropriation is permitted by State law and will not adversely affect (i) the exclusion from gross income under the Code of interest on the Series 2010A Bonds or (ii) the status under the Code of the Series 2010B Bonds as “build America bonds.”

Depositaries

All moneys held by the Trustee under the provisions of the Indenture may be deposited with one or more Depositaries selected by an Authorized Officer in the name of and in trust for the Trustee. All moneys held by the Authority under the Indenture shall be deposited in one or more Depositaries (selected by an Authorized Officer) in the name of the Authority. All moneys deposited under the provisions of the Indenture with the Trustee, the Authority or any Depositary shall be held in trust and applied only in accordance with the provisions of the Indenture, and each of the Funds, Sub-Funds, Accounts and Sub-Accounts established by the Indenture shall be a trust fund.

All moneys held by any Depositary under the Indenture may be placed on demand or time deposit, as directed by an Authorized Officer, provided that such deposits shall permit the moneys so held to be available for use when needed. Any such deposit may be made in the commercial banking department of any Fiduciary which may honor checks and drafts on such deposit as if it were not a Fiduciary. All moneys held by a Fiduciary may be deposited in its banking department on demand or, if and to the extent directed by an Authorized Officer, on time deposit, provided that such moneys on deposit be available for use when needed. Such Fiduciary shall allow and credit on such moneys such interest, if any, as it customarily allows upon similar funds of similar size.

All moneys on deposit to the credit of the Debt Service Fund or the Consolidated Debt Service Reserve Fund not otherwise secured by deposit insurance shall be continuously and fully secured by the Trustee for the benefit of the Authority and the Owners of the Bonds by lodging with the Trustee as collateral security, Government Obligations having a market value (exclusive of accrued interest) of not less than the amount of such moneys. All other moneys held for the Authority under the Indenture shall be continuously and fully secured for the benefit of the

Authority and the Owners of the Bonds in the same manner as provided by the Authority for similar funds of the Authority.

All moneys deposited with the Trustee and each Depository shall be credited to the particular Fund, Sub-Fund, Account or Sub-Account to which such moneys belong.

Investment of Certain Moneys

Moneys held in the Debt Service Fund and its Sub-Funds, Accounts and Sub-Accounts shall be invested and reinvested by the Trustee at the oral direction of an Authorized Officer promptly confirmed in writing 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, Sub-Funds, Accounts and Sub-Accounts. In the event that no such directions are received by the Trustee, such amounts shall be invested in money market funds described in 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 two or more Funds, Sub-Funds, Accounts or Sub-Accounts may be jointly invested in one or more Investment Securities, provided that such investment complies with all the terms and conditions of the Indenture relating to the investment of moneys in such Funds, Accounts or Sub-Accounts, as the case may be, and the Authority maintains books and records as to the allocation of such investment as among such Funds, Sub-Funds, Accounts or Sub-Accounts. Investment income from investments held in the various Funds, Sub-Funds, Accounts and Sub-Accounts shall remain in and be a part of the respective Funds, Sub-Funds, Accounts and Sub-Accounts in which such investments are held, except as otherwise provided in the Indenture.

Valuation of Investment Securities held in the Funds, Sub-Funds, Accounts and Sub-Accounts established under the Indenture shall be made by the Trustee on each June 15 and December 15 and at any other time required by the Indenture.

Extension of Payment of Bonds

If the maturity of any Bond or installment of interest shall be extended pursuant to the written consent of the Owner thereof, such Bond or installment of interest shall not be entitled, in case of any default under the Indenture, to the benefit of the Indenture or to payment out of the Trust Estate or Funds, Sub-Funds, Accounts and Sub-Accounts established by the Indenture or moneys held by Fiduciaries or Depositories (except moneys held in trust for the payment of such Bond or installment of interest) until the prior payment of the principal of all Bonds Outstanding the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extended claims for interest. Nothing in the Indenture shall be deemed to limit the right of the Authority to issue Refunding Bonds and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

Construction of the 2010 Project

The Authority shall include the construction of the 2010 Project (and the payment of the 2010 Bonds from Sales Tax Receipts and other designated funds) in each five year capital improvement program that the Authority prepares and submits to the RTA in accordance with the Regional Transportation Authority Act.

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 Sales Tax 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 Sales Tax Receipts and the Funds, Sub-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 Sales Tax Receipts received and the deposit of Sales Tax Receipts into the Sales Tax Receipts Fund.

Not later than August 1 of each year the Authority shall 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 Sales Tax 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 Series 2010A Bond to become subject to federal income taxes in addition to federal income taxes to which interest on such Series 2010A Bond is subject on the date of original issuance thereof. The Authority shall not permit any of the proceeds of the Series 2010A Bonds, or any facilities financed with such proceeds, to be used in any manner that would cause any Series 2010A 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 Series 2010A Bonds or other moneys to be invested in any manner that would cause any Series 2010A 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.

Events of Default

Each of the following events is hereby declared an “Event of Default”:

(a) 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;

(b) 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;

(c) if the Authority shall fail to promptly deposit the Sales Tax Receipts into the Sales Tax Receipts Fund;

(d) 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 30 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

(e) 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.

Application of Funds After Default

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 (1) if any Pension and Retirement Debt Obligation is then outstanding, to the 2008 Trustee and (2) if no Pension and Retirement Debt Obligation is then outstanding, to the Trustee (a) the Sales Tax Receipts Fund, and (b) all Sales Tax Receipts for deposit as promptly as practicable after receipt thereof.

During the continuance of an Event of Default, (1) if any Pension and Retirement Debt Obligation is then outstanding, the Trustee shall demand of the 2008 Trustee the equitable distribution of the Sales Tax Receipts Fund for the payment of the PBC Annual Rent, if then subject to the PBC Parity Pledge Rights, and for the payment of Pension and Retirement Debt Payments and Corporate Purpose Debt Payments, as provided in the 2008 Indenture and (2) if no Pension and Retirement Debt Obligation is then outstanding, the Trustee shall provide for the equitable distribution of the Sales Tax Receipts Fund for the payment of the PBC Annual Rent, if then subject to the PBC Parity Pledge Rights, and for the payment of Corporate Purpose Debt Payments.

Moneys paid to the Trustee from the Sales Tax Receipts Fund pursuant to such equitable distribution or otherwise shall be applied 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 Indenture;

(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.

For purposes of the provisions of the Indenture summarized under this caption, interest on Parity Obligations includes net payments under a Qualified Swap Agreement.

Remedies

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, including by writ of mandamus, whether for the specific performance of any covenant contained in the Indenture, or in aid of the execution of any power granted in the Indenture, 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.

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 summarized under the caption “- Extension of Payment of Bonds” above.

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 by any suit or proceeding, including by writ of mandamus, such payment of its Bond from the sources provided in the Indenture.

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 Indenture; provided, however, that 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.

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

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 a Series of Bonds and to specify, determine or authorize any matters and things concerning any such Series 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 Trust Estate or any other moneys, securities or funds;
- (7) to cure any ambiguity, omission or defect in the Indenture;
- (8) to provide for the appointment of a successor securities depository in the event any Series of Bonds is held in book-entry only form;
- (9) to provide for the establishment of any Debt Service Reserve Account;
- (10) to provide for the appointment of any successor Fiduciary;
- (11) to conform the provisions of the Indenture to the provisions of the Act, the RTA Act, the Code, or other applicable law; and
- (12) to make any other change which, in the judgment of the Trustee, is not to the prejudice of the Trustee, any Bond Insurer, any Swap Provider, any Credit Bank or the Owners.

Powers of Amendment

Except for Supplemental Indentures described under the caption “Supplemental Indentures” above, any modification or amendment of the Indenture and of the rights and obligations of the Authority and of the Owners of the Bonds under the Indenture, 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 under the Indenture. 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 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).

Consent of Owners

The Authority may at any time authorize the execution and delivery of a Supplemental Indenture making a modification or amendment permitted by the provisions of the Indenture summarized above under “- Powers of Amendment”, to take effect when and as provided under this caption. Subject to the provisions of the Indenture summarized below under “Rights of Bond Insurers,” the rights of an owner of an Insured Bond to take action pursuant to this paragraph are abrogated and the Bond Insurer may exercise the rights of the owner of any Insured Bond that is entitled to the benefits of a Bond Insurance Policy issued by the Bond Insurer for the purpose of any approval, request, demand, consent, waiver or other instrument of similar purpose pursuant to the provisions of this caption. Upon the authorization of such Supplemental 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 this caption 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. 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 referred to 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 Indenture 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 under the Indenture, 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. Any time thereafter notice, stating in substance that the Supplemental Indenture has been consented to by the Owners of the required principal amount of Outstanding Bonds and will be effective as provided in the Indenture, shall be given by mailing to the Owners (but failure to mail such notice or any defect therein shall not prevent such Supplemental Indenture from becoming effective and binding). The Trustee shall deliver to the Authority proof of the mailing of such notice. A record, consisting of the information required or permitted by the Indenture to be delivered by or to the Trustee, shall be proof of the matters therein stated.

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 the Trust Estate 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 the Trust Estate 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 the 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, 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, (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 Indenture 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, (v) if any of said Bonds are not to be paid within the next succeeding 60 days, a report of an Accountant verifying the sufficiency of such Defeasance Obligations and moneys 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 (vi) a Counsel's Opinion to the effect that said Bonds are no longer Outstanding under the Indenture. The Trustee shall execute a certificate confirming the defeasance of said Bonds and the satisfaction of the foregoing conditions. The Defeasance Obligations and moneys deposited with the Trustee pursuant to the Indenture 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 the Indenture. 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 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 in accordance with the provisions of the Indenture summarized under this caption. 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.

Each Fiduciary shall continue to be entitled to reasonable compensation for all services rendered under the Indenture, notwithstanding that any Bonds are deemed to be paid pursuant to the Indenture.

Any moneys held by a Fiduciary in trust for the payment and discharge of any of the Parity Obligations which remain unclaimed for two years after the date when Parity Obligations have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for two years after the date of deposit of such moneys if deposited with the Fiduciary after the said date when such Parity Obligations become due and payable, shall, at the written request of the Authority, be repaid by the Fiduciary to the Authority, as its absolute property and free from trust, and the Fiduciary shall thereupon be released and discharged with respect thereto and the Owners of such Bonds and the Persons entitled to payment of any Section 206 Obligation or Section 207 Obligation shall look only to the Authority for the payment of such Parity Obligation.

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.

APPENDIX B
FINANCIAL STATEMENTS OF THE AUTHORITY

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CHICAGO TRANSIT AUTHORITY

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

December 31, 2008 and 2007
(With Independent Auditors' Report Thereon)

CHICAGO TRANSIT AUTHORITY
Chicago, Illinois

FINANCIAL STATEMENTS
December 31, 2008 and 2007

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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, 2008 and 2007, 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 opinions 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, 2008 and 2007, 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 28, 2009 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 14 and the schedules of funding progress and employer contributions on pages 69 through 73 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, 2008 and 2007 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, 2008 and 2007 on pages 74 and 75 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 audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole for the years ended December 31, 2008 and 2007.


Crowe Horwath LLP

Chicago, Illinois
April 28, 2009

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008 and 2007

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, 2008 and 2007. 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 2008

- *Net assets totaled \$1,467,507,000 at December 31, 2008.*
- *Net assets increased \$55,249,000 in 2008, which compares to a decrease of \$331,265,000 in 2007.*
- *Total net capital assets were \$4,018,650,000 at December 31, 2008, an increase of 16.63% over the balance at December 31, 2007 of \$3,445,706,000.*

Financial Highlights for 2007

- *Net assets totaled \$1,412,258,000 at December 31, 2007.*
- *Net assets decreased \$331,265,000 in 2007, which compares to a decrease of \$103,559,000 in 2006.*
- *Total net capital assets were \$3,445,706,000 at December 31, 2007, an increase of 7.61% over the balance at December 31, 2006 of \$3,202,171,000.*

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.

(Continued)

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008 and 2007

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.

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 from 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.

(Continued)

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008 and 2007

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 the commitments and contingencies. The reader is encouraged to review the notes in conjunction with the management discussion and analysis and the financial statements.

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, 2008, 2007, and 2006:

Table 1
Summary of Assets, Liabilities, and Net Assets
December 31, 2008, 2007, and 2006
(In thousands of dollars)

| | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|--|---------------------|---------------------|---------------------|
| Assets: | | | |
| Current assets | \$ 544,585 | \$ 625,685 | \$ 524,974 |
| Capital Assets, net | 4,018,650 | 3,445,705 | 3,202,170 |
| Noncurrent assets | 2,289,199 | 1,827,183 | 2,100,128 |
| Total assets | <u>\$ 6,852,434</u> | <u>\$ 5,898,573</u> | <u>\$ 5,827,272</u> |
| Liabilities: | | | |
| Current liabilities | \$ 604,035 | \$ 710,765 | \$ 501,238 |
| Long-term liabilities | 4,780,892 | 3,775,550 | 3,582,511 |
| Total liabilities | <u>5,384,927</u> | <u>4,486,315</u> | <u>4,083,749</u> |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 3,086,337 | 2,912,748 | 2,933,473 |
| Restricted for payment of leasehold obligations | 40,940 | 37,992 | 33,017 |
| Restricted for debt service | 32,373 | 32,233 | 31,379 |
| Unrestricted (unrestricted) | <u>(1,692,143)</u> | <u>(1,570,715)</u> | <u>(1,254,346)</u> |
| Total net assets | <u>1,467,507</u> | <u>1,412,258</u> | <u>1,743,523</u> |
| Total liabilities and net assets | <u>\$ 6,852,434</u> | <u>\$ 5,898,573</u> | <u>\$ 5,827,272</u> |

(Continued)

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008 and 2007

Year Ended December 31, 2008

Current assets decreased by 16.17% to \$544,585,000. The change in current assets is primarily due to the decrease in cash and investments.

Capital assets (net) increased by 16.63% to \$4,018,650,000 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.

Other non-current assets increased by 25.29% to \$2,289,199,000 primarily due to increased debt activity which resulted in an increase in bond proceeds at year end.

Current liabilities decreased 15.02% to \$604,035,000 primarily due to a decrease in the current portion of capital lease obligations.

Long-term liabilities increased 26.63% to \$4,780,892,000 due primarily to an increase in bonds payable. In 2008, CTA issued \$1,936,855,000 Sales and Transfer Tax Receipts Revenue Bonds to fund pension and retiree healthcare.

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.

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, decreased 7.73% over the prior year.

(Continued)

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008 and 2007

Year Ended December 31, 2007

Current assets increased by 19.18% to \$625,685,000. The change in current assets is primarily due to the increase in cash and investments.

Capital assets (net) increased by 7.61% to \$3,445,706,000 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.

Other non-current assets decreased by 13.0% to \$1,827,183,000 due to the utilization of bond proceeds during 2007.

Current liabilities increased 41.8% to \$710,765,000 primarily due to an increase in accounts payable, advances, and the current portion of capital lease obligations.

Long-term liabilities increased 5.39% to \$3,775,550,000 due primarily 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.

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, decreased 25.22% over the prior year, primarily due to unfunded pension and postemployment healthcare expense (i.e. increase in the net pension obligation) of \$305,126,000.

(Continued)

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008 and 2007

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, 2008, 2007, and 2006:

Table 2
Condensed Summary of Revenues, Expenses, and Changes in Net Assets
Years ended December 31, 2008, 2007, and 2006
(In thousands of dollars)

| | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|-------------------------------------|---------------------|---------------------|---------------------|
| Operating revenues | \$ 510,776 | \$ 493,350 | \$ 493,023 |
| Operating expenses: | | | |
| Operating expenses | 1,194,390 | 1,412,842 | 1,344,133 |
| Depreciation | 403,248 | 387,738 | 376,910 |
| Total operating expenses | <u>1,597,638</u> | <u>1,800,580</u> | <u>1,721,043</u> |
| Operating loss | (1,086,862) | (1,307,230) | (1,228,020) |
| Nonoperating revenues/expenses, net | 623,591 | 600,051 | 602,421 |
| Capital contributions | 518,520 | 375,914 | 522,040 |
| Change in net assets | 55,249 | (331,265) | (103,559) |
| Total net assets, beginning of year | <u>1,412,258</u> | <u>1,743,523</u> | <u>1,847,082</u> |
| Total net assets, end of year | <u>\$ 1,467,507</u> | <u>\$ 1,412,258</u> | <u>\$ 1,743,523</u> |

Year Ended December 31, 2008

Total operating revenues increased by \$17,426,000, or 3.53% primarily due to an increase in farebox and pass revenue. Farebox and pass revenue increased approximately \$13,800,000 or 3.0% over the prior year primarily due to an increase in ridership of 26.8 million rides or 5.4%. CTA's average fare decreased from \$0.915 in 2007 to \$0.895 in 2008. The decline in the average fare is due to riders continuing to transition from a per ride fare to an unlimited pass and due to the implementation of several free ride programs in 2008.

The Illinois General Assembly passed legislation to allow senior citizens aged 65 and over who live in the RTA service region to take free fixed route public transit rides on CTA, Metra and Pace beginning March 17, 2008. The Chicago City Council passed an ordinance to provide free CTA rides for active military personnel beginning May 1, 2008 and disabled veterans beginning August 1, 2008. The Illinois General Assembly also enacted legislation to require free rides on fixed-route transit to be made available to any Illinois resident who has been enrolled as a person with a disability in the Illinois Circuit Breaker program. CTA's free rides increased by 23.1 million trips over the prior year due to these new programs.

(Continued)

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008 and 2007

Total operating expenses decreased \$202,942,000, or 11.27%. The decrease is primarily driven by lower labor expense. Labor expense decreased \$258,651,000 or 23.3% due to the issuance of \$1.9 billion in pension obligation bonds to fund the retirement plan and post-employment healthcare. Materials expense increased \$16,390,000 due to increasing commodity prices, higher mileage and the aging life of the fleet. Fuel expense increased \$20,653,000 due to a higher average cost per gallon due to market driven forces. In 2008, the average fuel price increased \$1.00 to \$3.82 per gallon. Electric power increased \$7,301,000 due to higher contract rates. Other expense increased \$3,343,000 due to higher utilities and facilities maintenances costs. The provision for injuries and damages decreased by \$8,506,000 due to cost containment initiatives implemented by the CTA such as surveillance cameras and aggressive case management practices.

Year Ended December 31, 2007

Total operating revenues increased by \$327,000, or 0.07% due to a one-time utility settlement received in 2007. Farebox revenue decreased over the prior year by approximately \$5,000,000 or 1.1% despite an increase in ridership of approximately 4.7 million rides or 1.0%. The fare structure implemented on January 1, 2006 resulted in many riders transitioning from a per ride fare to an unlimited pass thereby driving the average fare down from \$0.934 in 2006 to \$0.915 in 2007.

Total operating expenses increased \$79,537,000, or 4.62%. The increase is primarily driven by higher labor, materials, electric power, and fuel expense. Labor expense increased due to higher healthcare, pension, and workers' compensation expenses. Materials expense increased \$1,028,000 due to increasing commodity prices, higher mileage and the aging life of the fleet. Electric power increased \$5,873,000 due to the end of the decade long rate freeze in Illinois. Fuel expense increased \$13,711,000 due to a higher average cost per gallon due to market driven forces. In 2007, the average fuel price increased \$0.50 to \$2.82 per gallon. Other expense increased due to higher utilities, rent and facilities maintenances costs. The provision for injuries and damages decreased by \$10,000,000 due to cost containment initiatives implemented by the CTA such as surveillance cameras and aggressive case management practices.

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, there is no paratransit expense for 2007.

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

(Continued)

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008 and 2007

Table 3

Operating Expenses

Years ended December 31, 2008, 2007, and 2006

(In thousands of dollars)

| | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|--|---------------------|---------------------|---------------------|
| Labor and fringe benefits | \$ 853,638 | \$ 1,112,290 | \$ 1,047,445 |
| Materials and supplies | 100,568 | 84,178 | 83,150 |
| Fuel | 91,834 | 71,181 | 57,470 |
| Electric power | 35,442 | 28,141 | 22,268 |
| Purchase of security services | 32,382 | 31,363 | 30,831 |
| Purchase of paratransit | - | - | 28,415 |
| Maintenance and repairs, utilities, rent, and other | <u>72,808</u> | <u>69,465</u> | <u>48,288</u> |
| Operating expense before provisions | 1,186,672 | 1,396,618 | 1,317,867 |
| Provision for injuries and damages | 7,718 | 16,224 | 26,266 |
| Provision for depreciation | <u>403,248</u> | <u>387,738</u> | <u>376,910</u> |
| Total operating expenses | <u>\$ 1,597,638</u> | <u>\$ 1,800,580</u> | <u>\$ 1,721,043</u> |

Capital Asset and Debt Administration

Capital Assets

The CTA invested \$8,281,512,000 (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, 2008. Net of accumulated depreciation, the CTA's capital assets at December 31, 2008 totaled \$4,018,650,000 (see Table 4). This amount represents a net increase (including additions and disposals, net of depreciation) of \$572,944,000, or 16.6%, over the December 31, 2007 balance of \$3,445,706,000.

The CTA invested \$7,463,364,000 (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, 2007. Net of accumulated depreciation, the CTA's capital assets at December 31, 2007 totaled \$3,445,706,000 (see Table 4). This amount represents a net increase (including additions and disposals, net of depreciation) of \$243,535,000, or 7.6%, over the December 31, 2006 balance of \$3,202,171,000.

(Continued)

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008 and 2007

Table 4
Capital Assets by Funding Source
December 31, 2008, 2007, and 2006
(In thousands of dollars)

| | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|-------------------------------|----------------------------|----------------------------|----------------------------|
| Funding source: | | | |
| Federal (FTA) | \$ 5,404,290 | \$ 4,766,864 | \$ 4,296,228 |
| State (principally IDOT) | 601,976 | 570,408 | 557,261 |
| RTA | 1,803,146 | 1,736,990 | 1,670,859 |
| CTA (generally prior to 1973) | 124,854 | 124,854 | 126,573 |
| Other | 347,245 | 264,248 | 257,882 |
| Total capital assets | <u>8,281,511</u> | <u>7,463,364</u> | <u>6,908,803</u> |
| Accumulated depreciation | <u>4,262,861</u> | <u>4,017,658</u> | <u>3,706,632</u> |
| Total capital assets, net | <u><u>\$ 4,018,650</u></u> | <u><u>\$ 3,445,706</u></u> | <u><u>\$ 3,202,171</u></u> |

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 2008 portion of the Five-Year Capital Plan. Additional information on the capital assets can be found in footnote 6 of the audited financial statements.

Debt Administration

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

At December 31, 2008, the CTA had \$1,779,859,000 in capital lease obligations outstanding, a 2% increase from December 31, 2007 primarily due to a new bus lease. The net pension obligation and the other post-employment healthcare liability decreased by \$890,592,000 and \$659,729,000, respectively from the prior year due to the issuance of the 2008 Sales and Transfer Tax Receipts Revenue Bonds. These bonds were issued for the purpose of funding the retirement plan and the healthcare trust and are the primary cause for the increase in bonds payable of \$2,334,380,000. The bonds payable liability also increased due to the issuance of approximately \$425,000,000 of 2008 Capital Grant Receipts Revenue Bonds. In 2008, the CTA also issued Certificates of Participation (COPs) of \$78,430,000 to finance the acquisition of new buses.

At December 31, 2007, the CTA had \$1,750,421,000 in capital lease obligations outstanding, a 0.5% increase from December 31, 2006. The net pension obligation at December 31, 2007 was \$908,609,000, a 21.5% increase from December 31, 2006. The increase in net pension obligation is primarily due to contributions that are less than the actuarially determined amount. The

(Continued)

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008 and 2007

other postemployment healthcare benefit liability (OPEB) at December 31, 2007 was \$659,729,000 a 28.0% increase from December 31, 2006. The increase in OPEB at December 31, 2007 is due to the rising cost of healthcare.

Additional information on the debt activity can be found in footnote 8 and 9 of the audited financial statements.

Economic Factors and Next Year's Budget

The CTA Board adopted a 2009 Annual Operating Budget on November 13, 2008 that includes an increase in the price of fares and passes, an overall headcount reduction, but no change in current service levels. The budget was then submitted to the RTA and approved on December 18, 2009. The 2009 Operating Budget provides for total expenses of \$1,321,533, a 9.25% increase over the 2008 Amended Budget. The increase is due to higher base labor, healthcare, pension, material, fuel and power costs and debt service on the pension obligation bonds and bus lease.

The CTA has been provided with public funding marks from the RTA that total \$723.3 Million for 2009, these marks are based on revenue from sales tax and from the City of Chicago's real estate transfer tax. The current fiscal forecast indicates that the nation and the region are facing a dire economic outlook. The unemployment rates for the City of Chicago ended 2008 at 6.4%, which is a 1.5% increase over the average for 2007. National unemployment ended 2008 at an average of 5.8%, which is a 1.2% increase over the average for 2007. Higher unemployment rates have an adverse effect on sales tax revenue, a major funding source for the CTA. These are of the same challenges that the CTA was facing in 2008, and is likely to endure in 2009. The RTA has acknowledged these issues and has reduced the public funding mark for 2009. CTA's 2009 Operating Budget will be amended to reflect the revised level of public funding that is available. The CTA is currently reviewing all options to close the funding gap in the 2009 Operating Budget.

In 2009, system-generated revenue is projected to be \$598.2 Million representing a \$50.1 Million (9.1%) increase over the 2008 amended budget and a \$45.7 Million (8.3%) increase over 2008 actual revenue. The growth in estimated system-generated revenue for 2009 is primarily due to the fare increase, but the anticipated increase is also driven by the revenue from the sale of excess property, increased advertising and other new revenue generating initiatives for 2009. Free ride policies (Seniors, required by the State Legislature and disabled veterans and military personnel, required by the Chicago City Council) are estimated to reduce system generated revenue by \$35.8 Million in 2009.

(Continued)

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008 and 2007

New Legislation

On January 18, 2008, Public Act 95-708 became law. This legislation provides funding for CTA operations, pension and retiree healthcare from four sources: 1) a 0.25 percent increase in the RTA sales tax in each of the six 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% state match on the real estate transfer tax and all sales tax receipts except for the replacement and use tax, and 4) a 25% 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% state match on: existing, additional sales tax and real estate transfer tax; and the state 25% match on the new sales tax will be divided among the CTA (48%), Metra (39%) and Pace (13%) 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% match on the real estate transfer tax will be entirely directed to CTA as well. 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 were expected to yield approximately \$104 million annually for CTA operations in the short-term, with a potential for growth as the economy rebounds. However, since the enactment of the new taxes, the economy has slipped into a recession. Revenue collections came in substantially lower than projected. Revenues from the real estate transfer tax were projected at \$63.0 million in 2008; actual receipts were \$30.2 million. Sales tax receipts from both the new and old legislation were \$25.9 million lower than projected. Looking forward to 2009, expected funding is \$155.0 million lower than projected.

Pursuant to Public Act 94-839, the CTA was 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, were sufficient to bring the total assets of the retirement system up to 90% of its total actuarial liabilities by the end of fiscal year 2058. This legislation also required the RTA to monitor the payment by the CTA of its required retirement system contributions. If the CTA's contributions were more than one month overdue, the RTA would 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.

Public Act 95-708 modified this directive slightly and added a number of other requirements. First, a new Retirement Plan Trust will be created to manage the Retirement Plan assets. Second, CTA contributions have been increased from 6% to 12%, and employee contributions have been increased from 3% to 6%. Third, in addition to the requirement that the Retirement Plan be 90% funded by 2059, there is a new requirement that the Retirement Plan be funded at a minimum of 60% by September 15, 2009. Any deviation from the stated projections could result

(Continued)

CHICAGO TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008 and 2007

in a directive from the State of Illinois Auditor General to increase the CTA and employee contributions. Fourth, Public Act 95-708 authorized the CTA to issue \$1.349 billion in pension obligation bonds to fund the Retirement Plan. Finally, the legislation provides that CTA will have no future responsibility for retiree healthcare costs after the bond funding.

Public Act 95-708 also addressed retiree healthcare. In addition to the separation between pension and healthcare that was mandated by Public Act 94-839, Public Act 95-708 provides funding and benefit changes to the retiree healthcare benefits. First, all CTA employees will be required to contribute 3% 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% of the premium cost. Finally, the CTA has been given the authorization to issue \$640 million in pension obligation bonds to fund the healthcare trust.

The pension and retiree healthcare bonds were issued on August 6, 2008 and \$1.1 billion was deposited in the pension trust and \$528.8 million was deposited in the healthcare trust.

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, 2008 and 2007
(In thousands of dollars)

| Assets | <u>2008</u> | <u>2007</u> |
|---|---------------------|---------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 61,672 | \$ 151,104 |
| Cash and cash equivalents restricted for damage reserve | 5,894 | 109,057 |
| Investments | <u>1,000</u> | <u>900</u> |
| Total cash, cash equivalents, and investments | <u>68,566</u> | <u>261,061</u> |
| Grants receivable: | | |
| Due from the RTA | 258,832 | 87,809 |
| Capital improvement projects from federal and state sources | 21,115 | 4,974 |
| Unbilled work in progress | 58,459 | 158,725 |
| Other | <u>506</u> | <u>1,485</u> |
| Total grants receivable | 338,912 | 252,993 |
| Accounts receivable, net | 29,762 | 28,080 |
| Materials and supplies, net | 102,919 | 78,412 |
| Prepaid expenses and other assets | <u>4,426</u> | <u>5,139</u> |
| Total current assets | <u>544,585</u> | <u>625,685</u> |
| Noncurrent assets: | | |
| Other noncurrent assets: | | |
| Restricted assets for repayment of leasing commitments | 1,613,435 | 1,699,448 |
| Bond proceeds held by trustee | 536,690 | 112,557 |
| Assets held by trustee for supplemental retirement plan | 206 | 138 |
| Net pension asset supplemental retirement plan | 15,576 | 7,847 |
| Net pension asset employee's retirement plan | 96,376 | - |
| Bond issue costs | <u>26,916</u> | <u>7,192</u> |
| Total other noncurrent assets | <u>2,289,199</u> | <u>1,827,182</u> |
| Capital assets: | | |
| Capital assets not being depreciated: | | |
| Land | 119,938 | 119,257 |
| Construction in process | <u>904,892</u> | <u>666,046</u> |
| Total capital assets not being depreciated | <u>1,024,830</u> | <u>785,303</u> |
| Capital assets being depreciated: | | |
| Land improvements | 22,280 | 20,954 |
| Buildings | 1,911,175 | 1,734,898 |
| Transportation vehicles | 2,184,702 | 2,068,102 |
| Elevated structures, tracks, tunnels, and power system | 1,570,949 | 1,462,301 |
| Signals | 1,012,639 | 864,781 |
| Other equipment | 554,936 | 527,025 |
| Less accumulated depreciation | <u>(4,262,861)</u> | <u>(4,017,658)</u> |
| Total capital assets being depreciated, net | <u>2,993,820</u> | <u>2,660,403</u> |
| Total capital assets, net | <u>4,018,650</u> | <u>3,445,706</u> |
| Total noncurrent assets | <u>6,307,849</u> | <u>5,272,888</u> |
| Total assets | <u>\$ 6,852,434</u> | <u>\$ 5,898,573</u> |

(Continued)

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Balance Sheets
December 31, 2008 and 2007
(In thousands of dollars)

| | <u>2008</u> | <u>2007</u> |
|--|---------------------|---------------------|
| Liabilities and Net Assets | | |
| Current liabilities: | | |
| Account payable and accrued expenses | \$ 207,026 | \$ 172,190 |
| Accrued payroll, vacation pay, and related liabilities | 95,456 | 99,626 |
| Accrued interest payable | 16,909 | 3,480 |
| Advances, deposits, and other | 2,508 | 49,552 |
| Advances from RTA | 10,949 | 20,302 |
| Deferred passenger revenue | 33,617 | 29,273 |
| Other deferred revenue | 2,211 | 2,705 |
| Deferred operating assistance | 25,215 | 24,602 |
| Current portion of self-insurance claims | 76,848 | 74,795 |
| Current portion of capital lease obligations | 99,688 | 206,765 |
| Current portion of bonds payable | 28,715 | 27,475 |
| Current portion of certificates of participation | 4,893 | - |
| Total current liabilities | <u>604,035</u> | <u>710,765</u> |
| Long-term liabilities: | | |
| Self-insurance claims, less current portion | 120,018 | 117,955 |
| Capital lease obligations, less current portion | 1,680,171 | 1,543,656 |
| Premium on capital lease obligation | 5,387 | 5,721 |
| Deferred revenue - leasing transactions | 32,973 | 37,235 |
| Bonds payable | 2,794,550 | 461,410 |
| Premium on bonds payable | 54,146 | 36,902 |
| Certificates of participation | 72,015 | - |
| Accrued pension costs (net pension obligation) | 17,335 | 908,609 |
| Other Post-Employment Healthcare Liability | 434 | 659,729 |
| Other long-term liabilities | 3,863 | 4,333 |
| Total long-term liabilities | <u>4,780,892</u> | <u>3,775,550</u> |
| Total liabilities | <u>5,384,927</u> | <u>4,486,315</u> |
| Net assets: | | |
| Invested in capital assets, net of related debt | 3,086,337 | 2,912,748 |
| Restricted for payment of leasehold obligations | 40,940 | 37,992 |
| Restricted for debt service | 32,373 | 32,233 |
| Unrestricted (deficit) | <u>(1,692,143)</u> | <u>(1,570,715)</u> |
| Total net assets | <u>1,467,507</u> | <u>1,412,258</u> |
| Total liabilities and net assets | <u>\$ 6,852,434</u> | <u>\$ 5,898,573</u> |

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Statements of Revenues, Expenses, and Changes in Net Assets
Years ended December 31, 2008 and 2007
(In thousands of dollars)

| | <u>2008</u> | <u>2007</u> |
|---|---------------------|---------------------|
| Operating revenues: | | |
| Fare box revenue | \$ 250,994 | \$ 253,987 |
| Pass revenue | <u>220,105</u> | <u>203,313</u> |
| Total fare box and pass revenue | 471,099 | 457,300 |
| Advertising and concessions | 27,661 | 23,164 |
| Other revenue | <u>12,016</u> | <u>12,886</u> |
| Total operating revenues | <u>510,776</u> | <u>493,350</u> |
| Operating expenses: | | |
| Labor and fringe benefits | 853,638 | 1,112,290 |
| Materials and supplies | 100,568 | 84,178 |
| Fuel | 91,834 | 71,181 |
| Electric power | 35,442 | 28,141 |
| Purchase of security services | 32,382 | 31,363 |
| Maintenance and repairs, utilities, rent, and other | <u>72,808</u> | <u>69,465</u> |
| | 1,186,672 | 1,396,618 |
| Provisions for injuries and damages | 7,718 | 16,224 |
| Provision for depreciation | <u>403,248</u> | <u>387,738</u> |
| Total operating expenses | <u>1,597,638</u> | <u>1,800,580</u> |
| Operating expenses in excess of operating revenues | <u>(1,086,862)</u> | <u>(1,307,230)</u> |
| Nonoperating revenues (expenses): | | |
| Public funding from the RTA | 641,832 | 548,249 |
| Reduced-fare subsidies | 31,855 | 33,308 |
| Operating grant revenue | 795 | 3,740 |
| Contributions from local government agencies | 5,000 | 5,000 |
| Investment income | 9,330 | 16,207 |
| Gain on sale of assets | 350 | 27 |
| Recognition of leasing transaction proceeds | 4,262 | 4,262 |
| Interest expense on bonds | (72,028) | (15,718) |
| Interest revenue from leasing transactions | 118,962 | 120,795 |
| Interest expense on leasing transactions | <u>(116,767)</u> | <u>(115,819)</u> |
| Total nonoperating revenues, net | <u>623,591</u> | <u>600,051</u> |
| Change in net assets before capital contributions | (463,271) | (707,179) |
| Capital contributions | <u>518,520</u> | <u>375,914</u> |
| Change in net assets | 55,249 | (331,265) |
| Total net assets – beginning of year | <u>1,412,258</u> | <u>1,743,523</u> |
| Total net assets – end of year | <u>\$ 1,467,507</u> | <u>\$ 1,412,258</u> |

See accompanying notes to financial statements.

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Statements of Cash Flows
Years ended December 31, 2008 and 2007
(In thousands of dollars)

| | <u>2008</u> | <u>2007</u> |
|---|--------------------|-------------------|
| Cash flows from operating activities: | | |
| Cash received from fares | \$ 475,443 | \$ 457,283 |
| Payments to employees | (2,498,635) | (780,884) |
| Payments to suppliers | (315,122) | (270,497) |
| Other receipts | <u>(18,896)</u> | <u>87,095</u> |
| Net cash flows provided by (used in) operating activities | <u>(2,357,210)</u> | <u>(507,003)</u> |
| Cash flows from noncapital financing activities: | | |
| Public funding from the RTA | 471,422 | 591,161 |
| Reduced-fare subsidies | 31,855 | 48,423 |
| Operating grant revenue | 795 | 3,740 |
| Contributions from local governmental agencies | <u>5,000</u> | <u>5,000</u> |
| Net cash flows provided by (used in) noncapital financing activities | <u>509,072</u> | <u>648,324</u> |
| Cash flows from capital and related financing activities: | | |
| Interest income from assets restricted for payment of leasehold obligations | 118,962 | 120,795 |
| Interest expense on bonds | (62,519) | (19,130) |
| Decrease in restricted assets for repayment of leasing commitments | 86,013 | (15,943) |
| Repayment of lease obligations | (207,852) | (107,226) |
| Proceeds from capital leases | 120,523 | - |
| Proceeds from issuance of bonds | 2,441,725 | - |
| Proceeds from other long-term liabilities | (470) | (246) |
| Repayment of bonds payable | (28,997) | (18,410) |
| Payments for acquisition and construction of capital assets | (1,000,845) | (613,772) |
| Proceeds from the sale of property and equipment | 350 | 1,075 |
| Capital grants | <u>603,624</u> | <u>323,430</u> |
| Net cash flows provided by (used in) capital and related financing activities | <u>2,070,514</u> | <u>(329,427)</u> |
| Cash flows from investing activities: | | |
| Purchases of unrestricted investments | (1,000) | (900) |
| Proceeds from maturity of unrestricted investments | 900 | 10,914 |
| Restricted cash and investment accounts: | | |
| Purchases and withdrawals | (1,267,749) | (11,077,990) |
| Proceeds from maturities and deposits | 843,548 | 11,365,919 |
| Investment revenue | <u>9,330</u> | <u>16,207</u> |
| Net cash flows provided by (used in) investing activities | <u>(414,971)</u> | <u>314,150</u> |
| Net increase (decrease) in cash and cash equivalents | (192,595) | 126,044 |
| Cash and cash equivalents - beginning of year | <u>260,161</u> | <u>134,117</u> |
| Cash and cash equivalents - end of year | <u>\$ 67,566</u> | <u>\$ 260,161</u> |

(Continued)

CHICAGO TRANSIT AUTHORITY
Business-Type Activities
Statements of Cash Flows
Years ended December 31, 2008 and 2007
(In thousands of dollars)

| | <u>2008</u> | <u>2007</u> |
|---|-----------------------|---------------------|
| Reconciliation of expenses in excess of operating revenue to net cash used in operating activities: | | |
| Operating expenses in excess of operating revenue | \$ (1,086,862) | \$ (1,307,230) |
| Adjustments to reconcile operating expenses in excess of operating revenues to net cash used in operating activities: | | |
| Depreciation | 403,248 | 387,738 |
| (Increase) decrease in assets: | | |
| Accounts receivable | (1,682) | 9,113 |
| Materials and supplies | (24,507) | (896) |
| Prepaid expenses and other assets | 713 | (13) |
| Net pension asset | (104,105) | 242 |
| Increase (decrease) in liabilities: | | |
| Accounts payable and accrued expenses | 59,155 | 29,581 |
| Accrued payroll, vacation pay, and related liabilities | (4,170) | 701 |
| Self-insurance reserves | 4,116 | 26,907 |
| Deferred passenger revenue | 4,344 | (17) |
| Other deferred revenue | (494) | 1,713 |
| Advances, deposits, and other | (56,397) | 40,219 |
| Accrued pension costs and OPEB | <u>(1,550,569)</u> | <u>304,939</u> |
| Net cash flows used in operating activities | <u>\$ (2,357,210)</u> | <u>\$ (507,003)</u> |
| 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 | 116,767 | 115,819 |
| Retirement of fully depreciated capital assets | 158,265 | 76,962 |

CHICAGO TRANSIT AUTHORITY
Fiduciary Activities
Statements of Fiduciary Net Assets
Open Supplemental Retirement Plan
December 31, 2008 and 2007
(In thousands of dollars)

| | <u>2008</u> | <u>2007</u> |
|---|------------------|------------------|
| Assets: | | |
| Contributions from employees | \$ 30 | \$ 23 |
| Investments at fair value: | | |
| Short-term investments | 4,011 | 808 |
| Government agencies | 4,620 | 5,653 |
| Common stock | 8,590 | 13,024 |
| Total investments at fair value | <u>17,221</u> | <u>19,485</u> |
| Receivables | 5,000 | 3 |
| Securities lending collateral | <u>1,697</u> | <u>11,679</u> |
| Total assets | <u>23,948</u> | <u>31,190</u> |
| Liabilities: | | |
| Accounts payable and other liabilities | 45 | 55 |
| Securities lending collateral obligation | <u>1,697</u> | <u>11,679</u> |
| Total liabilities | <u>1,742</u> | <u>11,734</u> |
| Net assets held in trust for pension benefits (an unaudited schedule of funding progress is included on page 50) | <u>\$ 22,206</u> | <u>\$ 19,456</u> |

CHICAGO TRANSIT AUTHORITY
Fiduciary Activities
Statements of Changes in Fiduciary Net Assets
Open Supplemental Retirement Plan
Years ended December 31, 2008 and 2007
(In thousands of dollars)

| | <u>2008</u> | <u>2007</u> |
|--|------------------|------------------|
| Additions: | | |
| Contributions: | | |
| Employee | \$ 394 | \$ 141 |
| Employer | <u>8,000</u> | <u>-</u> |
| Total contributions | <u>8,394</u> | <u>141</u> |
| Investment income: | | |
| Net increase (decrease) in fair value of investments | (5,867) | 369 |
| Investment income | <u>1,005</u> | <u>563</u> |
| Total investment income | <u>(4,862)</u> | <u>932</u> |
| Total additions | <u>3,532</u> | <u>1,073</u> |
| Deductions: | | |
| Benefits paid to participants or beneficiaries | 606 | 386 |
| Trust fees | <u>176</u> | <u>168</u> |
| Total deductions | <u>782</u> | <u>554</u> |
| Net increase | 2,750 | 519 |
| Net assets held in trust for pension benefits: | | |
| Beginning of year | <u>19,456</u> | <u>18,937</u> |
| End of year | <u>\$ 22,206</u> | <u>\$ 19,456</u> |

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 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.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 1 - ORGANIZATION (Continued)

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 or terminating after 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The principal operating revenues of the CTA are bus and rail passenger fares. The CTA also recognizes as operating revenue the rental fees received from concessionaires, the fees collected from advertisements on CTA property, and miscellaneous operating revenues. Operating expenses for the CTA include the costs of operating the mass transit system, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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 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.

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.

Cash and Cash Equivalents restricted for damage reserve: 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.

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.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Other noncurrent assets: Other noncurrent assets include (a) cash and claims to cash that are restricted as to withdrawal or use for other than current operations, (b) resources that are designated for expenditure in the acquisition or construction of noncurrent assets, or (c) resources that are segregated for the liquidation of long-term debts.

Restricted assets for repayment of leasing commitments: 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.

Bond proceeds held by trustee: In 2004, 2006 and 2008, 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.

In 2003, 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. In 2006, the PBC issued refunding revenue bonds to refund all outstanding Series 2003 bonds.

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.

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.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capitalized interest cost is amortized on the same basis as the related asset is depreciated. Capitalized interest expense was \$13,813,000 and \$9,565,000 during the years ended December 31, 2008 and 2007, 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, 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.

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 13. A liability for 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.

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.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Bond Premiums and Issuance Cost: Bond premiums and issuance costs are deferred and amortized over the life of the bonds using the bonds outstanding method.

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."

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 30 years.

Fare Box and Pass Revenues: Fare box and pass revenues are recorded as revenue at the time services are performed.

Classification of Revenues: The CTA has classified its revenues as either operating or nonoperating. 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.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unbilled Work In Progress: Unbilled Work in Progress represents grant expense that has not been billed to the funding agencies as of year end. This would include contract retentions, accruals and expenditures for which, due to requisitioning restrictions of the agencies or the timing of the expenditures, reimbursement is requested in a subsequent period.

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.

Reclassifications: Certain amounts from the prior year have been reclassified to conform to the current year presentation.

New Pronouncements: In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. It defines an intangible asset's required characteristics, and generally requires that they be treated as capital assets. Statement 51 is effective for the Authority's fiscal year ending December 31, 2010. The Authority is currently evaluating the impact of adopting Statement No. 51.

In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement is intended to improve how state and local governments report information about derivative instruments in their financial statements. Statement 53 is effective for the Authority's fiscal year ending December 31, 2010. The Authority is currently evaluating the impact of adopting Statement No. 53.

NOTE 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 exclusion of certain income and expenses. For 2008 and 2007, 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.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 3 - BUDGET AND BUDGETARY BASIS OF ACCOUNTING (Continued)

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.

NOTE 4 - BUDGETED PUBLIC FUNDING FROM THE REGIONAL TRANSPORTATION AUTHORITY AND THE STATE OF ILLINOIS

Most of the CTA's public funding for operating and capital needs is funneled through the RTA. The RTA allocates funds to the service boards based on a formula included in the 1983 Regional Transportation Authority Act and the 2008 Legislation (P.A. 95-0708) approved by Illinois lawmakers to provide increased operating funds to the Northeastern Illinois Transit System. Other funds are allocated based on the RTA's discretion.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 4 - BUDGETED PUBLIC FUNDING FROM THE REGIONAL TRANSPORTATION AUTHORITY AND THE STATE OF ILLINOIS (Continued)

The funding “marks” represent the amount of funds that each Service Board can expect to receive from the RTA and other sources. During 2008 and 2007, the RTA amended the funding marks and directed the CTA to amend the budget.

The components of the budgeted operating funding from the RTA were as follows (in thousands of dollars):

| | | <u>2008</u> | <u>2007</u> |
|------------------|--|-------------------|-------------------|
| 1983 Legislation | Illinois state sales tax allocation | \$ 303,341 | \$ 295,098 |
| 1983 Legislation | RTA discretionary funding and other | 198,059 | 169,251 |
| 2008 Legislation | Illinois state sales tax allocation & PTF | 57,432 | N/A |
| 2008 Legislation | Real Estate Transfer Tax | 63,000 | N/A |
| | Subtotal funding per 1983 and 2008 legislation | <u>621,832</u> | <u>464,349</u> |
| RTA provision | Capital - preventative maintenance | 20,000 | 83,900 |
| RTA provision | Prior year positive balance | 20,000 | - |
| | Total Funding | <u>\$ 661,832</u> | <u>\$ 548,249</u> |

Reduced-fare subsidies received from the State of Illinois were \$31,855,000 and \$33,308,000 during the years ended December 31, 2008 and 2007, respectively, for discounted services provided to the elderly, disabled, or student riders.

NOTE 5 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

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, 2008 and 2007 (in thousands):

| | <u>2008</u> | <u>2007</u> |
|--|-------------------|-------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 61,672 | \$ 151,104 |
| Restricted for injury and damage reserve | 5,894 | 109,057 |
| Investments | 1,000 | 900 |
| Noncurrent assets: | | |
| Bond proceeds held by trustee | 536,690 | 112,557 |
| Cash for supplemental retirement plan | 206 | 138 |
| Total | <u>\$ 605,462</u> | <u>\$ 373,756</u> |

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 5 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Cash, cash equivalents, and investments of the business-type activities consist of the following as of December 31, 2008 and 2007 (in thousands):

| | 2008 | 2007 |
|--------------------------------------|-------------|-------------|
| Investments: | | |
| Certificates of deposit | \$ 4,029 | \$ 4,020 |
| Guaranteed investment contracts | - | 44,508 |
| Money market mutual funds | 211,313 | 47,062 |
| Repurchase agreements | 23,900 | 95,935 |
| U.S. government agencies | 250,221 | 93,035 |
| U.S. Treasury bills | 90,801 | - |
| Commercial paper | 19,816 | 79,896 |
| Total investments | 600,080 | 364,456 |
| Deposits with financial institutions | 5,382 | 9,300 |
| Total deposits and investments | \$ 605,462 | \$ 373,756 |

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).

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 5 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

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; 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, 2008, the CTA's bank balances were fully insured or collateralized. As of December 31, 2007, the CTA's bank balances of \$16,085,000 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:

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 5 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

| Instrument type | Term of investment |
|---------------------------------|--------------------|
| 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. |

As of December 31, 2008, 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 |
| Money market mutual funds | \$ 211,313 | \$ 211,313 | \$ - |
| Repurchase agreements | 23,900 | 23,900 | - |
| U.S. government agencies | 250,221 | 250,221 | - |
| U.S. treasury bills | 90,801 | 90,801 | - |
| Commercial paper | 19,816 | 19,816 | - |
| Total | \$ 596,051 | \$ 596,051 | \$ - |

As of December 31, 2007, 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 | \$ 44,508 | \$ 44,508 | \$ - |
| Money market mutual funds | 47,062 | 47,062 | - |
| Repurchase agreements | 99,935 | 99,935 | - |
| U.S. government agencies | 93,035 | 93,035 | - |
| Commercial paper | 79,896 | 79,896 | - |
| Total | \$ 364,436 | \$ 364,436 | \$ - |

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, 2008, the CTA had the following fixed-income investments which are rated by both Moody's and Standard and Poor's (in thousands):

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 5 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

| | Fair value | Credit ratings | | | Not rated |
|---------------------------|------------------|------------------|---------------|--------------|------------------|
| | | A1P1 or AAA | A2P2 or AA | A3P3 or A | |
| Money market mutual funds | \$211,313 | \$ - | \$ - | \$ - | \$211,313 |
| Repurchase agreements | 23,900 | 23,900 | - | - | - |
| U.S. government agencies | 250,221 | 13,026 | - | - | 237,195 |
| U.S. treasury bills | 90,801 | 90,801 | - | - | - |
| Commercial paper | 19,816 | 19,816 | - | - | - |
| Total | <u>\$596,051</u> | <u>\$147,543</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$448,508</u> |

As of December 31, 2007, the CTA had the following fixed-income investments which are rated by both Moody's and Standard and Poor's (in thousands):

| | Fair value | Credit ratings | | | Not rated |
|---------------------------------|------------------|------------------|---------------|------------------|------------------|
| | | A1P1 or AAA | A2P2 or AA | A3P3 or A | |
| Guaranteed investment contracts | \$ 44,508 | \$ - | \$ - | \$ - | \$ 44,508 |
| Money market mutual funds | 47,062 | - | - | - | 47,062 |
| Repurchase agreements | 95,935 | 79,000 | - | - | 16,935 |
| U.S. government agencies | 93,035 | 86,381 | - | - | 6,654 |
| Commercial paper | 79,896 | - | - | 79,896 | - |
| Total | <u>\$360,436</u> | <u>\$165,381</u> | <u>\$ -</u> | <u>\$ 79,896</u> | <u>\$115,159</u> |

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 Investment Policy requires that investment securities be held by an authorized custodial bank pursuant to a written custodial agreement.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 5 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

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, 2008 and 2007 (in thousands):

| | <u>2008</u> | <u>2007</u> |
|------------------------------------|------------------|------------------|
| Investments, at fair value: | | |
| Short-term investments | \$ 4,011 | \$ 808 |
| Government agency commingled funds | 4,620 | 5,653 |
| Common stock | 8,590 | 13,024 |
| Total | <u>\$ 17,221</u> | <u>\$ 19,485</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.

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:

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 5 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

| Asset class | Allocation |
|-------------------------|------------|
| U.S. large cap equities | 55.00% |
| U.S. small cap equities | 10.00 |
| Non-U.S. equities | 10.00 |
| U.S. fixed income | 25.00 |
| | 100.00% |

As of December 31, 2008, the maturities for the Plan's fixed-income investments are as follows (in thousands):

| | Fair value | Investment Maturities (in years) | |
|---|---------------|----------------------------------|-------|
| | | Less Than 1 | 1 - 5 |
| Short-term investment funds | \$ 4,011 | \$ 4,011 | \$ - |
| U.S. government agency commingled funds | 4,620 | 4,620 | - |
| Total | \$ 8,631 | \$ 8,631 | \$ - |

As of December 31, 2007, the maturities for the Plan's fixed-income investments are as follows (in thousands):

| | Fair value | Investment Maturities (in years) | |
|---|---------------|----------------------------------|-------|
| | | Less Than 1 | 1 - 5 |
| Short-term investment funds | \$ 808 | \$ 808 | \$ - |
| U.S. government agency commingled funds | 5,653 | 5,653 | - |
| Total | \$ 6,461 | \$ 6,461 | \$ - |

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, 2008, the Plan had the following fixed-income investments which are rated by both Moody's and Standard and Poor's (in thousands):

| | Fair value | Credit ratings | |
|---|---------------|-----------------------|--------------|
| | | Government Secured | Not Rated |
| Short-term investment funds | \$ 4,011 | \$ - | \$ 4,011 |
| U.S. government agency commingled funds | 4,620 | 4,620 | - |
| Total | \$ 8,631 | \$ 4,620 | \$ 4,011 |

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 5 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

As of December 31, 2007, the Plan had the following fixed-income investments which are rated by both Moody's and Standard and Poor's (in thousands):

| | Fair value | Credit ratings | |
|---|-----------------|-----------------------|---------------|
| | | Government Secured | Not Rated |
| Short-term investment funds | \$ 808 | \$ - | \$ 808 |
| U.S. government agency commingled funds | 5,653 | 5,653 | - |
| Total | <u>\$ 6,461</u> | <u>\$ 5,653</u> | <u>\$ 808</u> |

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 \$1,136,000 and \$1,184,000 as of December 31, 2008 and 2007, 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 US 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 \$1,693,000 and \$11,392,000 as of December 31, 2008 and 2007, respectively. The fair value of the associated collateral received was approximately \$1,697,000 and \$11,679,000 as of December 31, 2008 and 2007, respectively.

NOTE 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 \$263,708,000 and \$469,782,000 have been entered into for federal and state (including local) capital grant contracts as of December 31, 2008 and 2007, respectively.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 6 - CAPITAL ASSETS (Continued)

The CTA also has additional capital grant contracts, which are 100% funded by the RTA, IDOT, or CTA bonds. Commitments of approximately \$120,809,000 and \$245,801,000 have been entered into for these state and local capital grants as of December 31, 2008 and 2007, respectively.

Funding sources for transportation property and equipment of the CTA are as follows as of December 31, 2008 and 2007 (in thousands of dollars):

| | <u>2008</u> | <u>2007</u> |
|-------------------------------|---------------------|---------------------|
| Funding source: | | |
| Federal (FTA) | \$ 5,404,290 | \$ 4,766,864 |
| State (principally IDOT) | 601,976 | 570,408 |
| RTA | 1,803,146 | 1,736,990 |
| CTA (generally prior to 1973) | 124,854 | 124,854 |
| Other | <u>347,245</u> | <u>264,248</u> |
| Total | <u>\$ 8,281,511</u> | <u>\$ 7,463,364</u> |

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 6 - CAPITAL ASSETS (Continued)

Changes in capital assets for the year ended December 31, 2008 are as follows (in thousands of dollars):

| | Balance at January 1, 2008 | Increase | Decrease | Balance at December 31, 2008 |
|---|---|---------------------|---------------------|---|
| Capital assets not being depreciated: | | | | |
| Land | \$ 119,257 | \$ 689 | \$ (8) | \$ 119,938 |
| Construction in process | 666,046 | 1,079,165 | (840,319) | 904,892 |
| Total capital assets not being depreciated | <u>785,303</u> | <u>1,079,854</u> | <u>(840,327)</u> | <u>1,024,830</u> |
| Capital assets being depreciated: | | | | |
| Land improvements | 20,954 | 1,326 | - | 22,280 |
| Buildings | 1,734,898 | 177,235 | (958) | 1,911,175 |
| Vehicles | 2,068,102 | 252,327 | (135,727) | 2,184,702 |
| Elevated structure track | 1,462,301 | 108,893 | (245) | 1,570,949 |
| Signal and communication | 864,781 | 151,884 | (4,026) | 1,012,639 |
| Other equipment | 527,025 | 51,582 | (23,671) | 554,936 |
| Total capital assets being depreciated | <u>6,678,061</u> | <u>743,247</u> | <u>(164,627)</u> | <u>7,256,681</u> |
| Less accumulated depreciation for: | | | | |
| Land improvements | 13,264 | 1,781 | - | 15,045 |
| Buildings | 735,373 | 76,364 | (958) | 810,779 |
| Vehicles | 1,476,248 | 175,089 | (135,679) | 1,515,658 |
| Elevated structure track | 859,878 | 64,940 | (245) | 924,573 |
| Signal and communication | 513,134 | 50,650 | (4,027) | 559,757 |
| Other equipment | 419,761 | 34,424 | (17,136) | 437,049 |
| Total accumulated depreciation | <u>4,017,658</u> | <u>403,248</u> | <u>(158,045)</u> | <u>4,262,861</u> |
| Total capital assets being depreciated, net | <u>2,660,403</u> | <u>339,999</u> | <u>(6,582)</u> | <u>2,993,820</u> |
| Total capital assets, net | <u>\$ 3,445,706</u> | <u>\$ 1,419,853</u> | <u>\$ (846,909)</u> | <u>\$ 4,018,650</u> |

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 6 - CAPITAL ASSETS (Continued)

Changes in capital assets for the year ended December 31, 2007 are as follows (in thousands of dollars):

| | Balance at January 1, 2007 | Increase | Decrease | Balance at December 31, 2007 |
|---|---|---------------------|----------------------|---|
| Capital assets not being depreciated: | | | | |
| Land | \$ 119,419 | \$ 490 | \$ (652) | \$ 119,257 |
| Construction in process | 694,234 | 1,014,077 | (1,042,265) | 666,046 |
| Total capital assets not being depreciated | <u>813,653</u> | <u>1,014,567</u> | <u>(1,042,917)</u> | <u>785,303</u> |
| Capital assets being depreciated: | | | | |
| Land improvements | 19,141 | 1,813 | - | 20,954 |
| Buildings | 1,549,652 | 185,792 | (546) | 1,734,898 |
| Vehicles | 1,971,486 | 152,502 | (55,886) | 2,068,102 |
| Elevated structure track | 1,349,446 | 112,956 | (101) | 1,462,301 |
| Signal and communication | 724,628 | 152,319 | (12,166) | 864,781 |
| Other equipment | 480,797 | 55,289 | (9,061) | 527,025 |
| Total capital assets being depreciated | <u>6,095,150</u> | <u>660,671</u> | <u>(77,760)</u> | <u>6,678,061</u> |
| Less accumulated depreciation for: | | | | |
| Land improvements | 11,523 | 1,741 | - | 13,264 |
| Buildings | 665,637 | 70,282 | (546) | 735,373 |
| Vehicles | 1,343,332 | 188,802 | (55,886) | 1,476,248 |
| Elevated structure track | 806,260 | 53,719 | (101) | 859,878 |
| Signal and communication | 486,910 | 38,389 | (12,165) | 513,134 |
| Other equipment | 392,970 | 34,798 | (8,007) | 419,761 |
| Total accumulated depreciation | <u>3,706,632</u> | <u>387,731</u> | <u>(76,705)</u> | <u>4,017,658</u> |
| Total capital assets being depreciated, net | <u>2,388,518</u> | <u>272,940</u> | <u>(1,055)</u> | <u>2,660,403</u> |
| Total capital assets, net | <u>\$3,202,171</u> | <u>\$ 1,287,507</u> | <u>\$(1,043,972)</u> | <u>\$ 3,445,706</u> |

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 7 - LONG-TERM OBLIGATIONS

Changes in long-term obligations for the year ended December 31, 2008 are as follows (in thousands of dollars):

| | Balance at January 1, 2008 | Additions | Reductions | Balance at December 31, 2008 | Amount due within one year |
|---|----------------------------------|---------------------|-----------------------|------------------------------------|----------------------------------|
| Self insurance claims (note 13) | \$ 192,750 | \$ 260,829 | \$ (256,713) | \$ 196,866 | \$ 76,848 |
| Capital lease obligations (note 8) | 1,750,421 | 236,538 | (207,100) | 1,779,859 | 99,688 |
| Premium on capital lease obligation | 5,721 | - | (334) | 5,387 | - |
| Deferred revenue - leasing transactions (note 8) | 37,235 | - | (4,262) | 32,973 | - |
| Bonds payable (note 9) | 488,885 | 2,361,855 | (27,475) | 2,823,265 | 28,715 |
| Certificates of Participation (note 10) | - | 78,430 | (1,522) | 76,908 | 4,893 |
| Premium on bonds payable | 36,902 | 22,398 | (5,154) | 54,146 | - |
| Accrued pension costs (note 11): | | | | | |
| Employees Retirement Plan | 890,592 | - | (890,592) | - | - |
| Supplemental Retirement Plans | 18,017 | - | (682) | 17,335 | - |
| Other Postemployment healthcare (note 12) | 659,729 | 212 | (659,507) | 434 | - |
| Other | 4,333 | - | (470) | 3,863 | - |
| Total | <u>\$ 4,084,585</u> | <u>\$ 2,960,262</u> | <u>\$ (2,053,811)</u> | <u>\$ 4,991,036</u> | <u>\$ 210,144</u> |

Changes in long-term obligations for the year ended December 31, 2007 are as follows (in thousands of dollars):

| | Balance at January 1, 2007 | Additions | Reductions | Balance at December 31, 2007 | Amount due within one year |
|---|----------------------------------|-------------------|---------------------|------------------------------------|----------------------------------|
| Self insurance claims (note 13) | \$ 165,843 | \$ 265,066 | \$ (238,159) | \$ 192,750 | \$ 74,795 |
| Capital lease obligations (note 8) | 1,741,828 | 115,819 | (107,226) | 1,750,421 | 206,765 |
| Premium on capital lease obligation | 6,062 | - | (341) | 5,721 | - |
| Deferred revenue - leasing transactions (note 8) | 41,497 | - | (4,262) | 37,235 | - |
| Bonds payable (note 9) | 507,295 | - | (18,410) | 488,885 | 27,475 |
| Premium on bonds payable | 41,060 | - | (4,158) | 36,902 | - |
| Accrued pension costs (note 11): | | | | | |
| Employees Retirement Plan | 729,163 | 161,429 | - | 890,592 | - |
| Supplemental Retirement Plans | 18,857 | - | (840) | 18,017 | - |
| Other Postemployment healthcare (note 12) | 515,374 | 144,355 | - | 659,729 | - |
| Other | 4,579 | - | (246) | 4,333 | - |
| Total | <u>\$ 3,771,558</u> | <u>\$ 686,669</u> | <u>\$ (373,642)</u> | <u>\$ 4,084,585</u> | <u>\$ 309,035</u> |

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 8 - CAPITAL LEASE OBLIGATIONS

Capital Lease - 2008 Bus Lease: During 2008, the CTA entered into a lease-purchase agreement to finance the purchase of 150 sixty foot New Flyer articulated hybrid buses and certain related parts and equipment at an estimated aggregate cost of \$120,522,624. The terms of the agreement allow CTA to lease the buses for 12 years and retain ownership at the conclusion of the lease. Lease payments are due every June 1 and December 1 of each year, beginning on December 1, 2008. The present value of the future payments to be made by the CTA under the lease of approximately \$120,189,000 is reflected in the accompanying December 31, 2008 balance sheet as a capital lease obligation.

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, 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 Public Building Commission of Chicago (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 an 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.

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 8 - CAPITAL LEASE OBLIGATIONS (Continued)

The bonds are payable from and secured by the lease entered into between the Commission 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 \$87,175,000 is reflected in the accompanying December 31, 2008 balance sheet as a capital lease obligation.

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 \$17,581,000 at December 31, 2008. 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 \$15,557,000 is reflected in the accompanying December 31, 2008 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 \$30,169,000 at December 31, 2008. 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 \$111,611,000 is reflected in the accompanying December 31, 2008 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 \$12,758,000 at December 31, 2008. 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 \$80,793,000 is reflected in the accompanying December 31, 2008 balance sheet as a capital lease obligation.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 8 - CAPITAL LEASE OBLIGATIONS (Continued)

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 \$240,605,000 at December 31, 2008. 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 \$251,355,000 is reflected in the accompanying December 31, 2008 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 \$47,577,000 at December 31, 2008. 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 \$34,906,000 is reflected in the accompanying December 31, 2008 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 \$51,407,000 at December 31, 2008. 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 \$35,008,000 is reflected in the accompanying December 31, 2008 balance sheet as a capital lease obligation.

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.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 8 - CAPITAL LEASE OBLIGATIONS (Continued)

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 nineteen years beginning on the date of the respective transaction. At December 31, 2008, the total payments due under the 1995 Agreements are recorded as capital lease obligations totaling \$1,043,264,000. 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.

Change in Capital Lease Obligations: Changes in capital leases for the year ended December 31, 2008 are as follows (in thousands of dollars):

| 2008 | Beginning balance | Additions* | Principal paid | Ending balance | Interest paid | Due in one year |
|--------------------------------|----------------------|-------------------|---------------------|---------------------|-------------------|--------------------|
| 2003 (Buses) | \$ 15,022 | \$ 535 | \$ - | \$ 15,557 | \$ 535 | \$ - |
| 2002 (Buses) | 106,255 | 5,356 | - | 111,611 | 5,356 | - |
| 2002 (QTE) | 173,733 | 10,154 | (103,094) | 80,793 | 10,154 | - |
| 1998 (Green) | 271,031 | 18,508 | (38,184) | 251,355 | 18,508 | 25,885 |
| 1997 (Garages) | 32,464 | 2,442 | - | 34,906 | 2,442 | - |
| 1996 (Skokie/Racine) | 32,611 | 2,397 | - | 35,008 | 2,397 | - |
| 1995 (Pickle) | 1,030,340 | 76,622 | (63,698) | 1,043,264 | 75,680 | 63,698 |
| Total lease/leasebacks | 1,661,456 | 116,014 | (204,976) | 1,572,494 | 115,072 | 89,583 |
| 2006 PBC lease | 88,965 | - | (1,790) | 87,175 | 4,384 | 1,880 |
| 2008 Bus Lease | - | 120,523 | (333) | 120,190 | 1,631 | 8,225 |
| Total capital lease obligation | <u>\$ 1,750,421</u> | <u>\$ 236,537</u> | <u>\$ (207,099)</u> | <u>\$ 1,779,859</u> | <u>\$ 121,087</u> | <u>\$ 99,688</u> |

* Additions include accretion of interest.

Changes in capital leases for the year ended December 31, 2007 are as follows (in thousands of dollars):

| 2007 | Beginning balance | Additions* | Principal paid | Ending balance | Interest paid | Due in one year |
|--------------------------------|----------------------|-------------------|---------------------|---------------------|-------------------|--------------------|
| 2003 (Buses) | \$ 23,555 | \$ 840 | \$ (9,373) | \$ 15,022 | \$ 840 | \$ - |
| 2002 (Buses) | 101,157 | 5,098 | - | 106,255 | 5,098 | - |
| 2002 (QTE) | 169,877 | 10,784 | (6,928) | 173,733 | 10,784 | 103,094 |
| 1998 (Green) | 276,971 | 18,912 | (24,852) | 271,031 | 18,912 | 38,183 |
| 1997 (Garages) | 30,194 | 2,270 | - | 32,464 | 2,270 | - |
| 1996 (Skokie/Racine) | 30,377 | 2,234 | - | 32,611 | 2,233 | - |
| 1995 (Pickle) | 1,018,357 | 75,681 | (63,698) | 1,030,340 | 75,680 | 63,698 |
| Total lease/leasebacks | 1,650,488 | 115,819 | (104,851) | 1,661,456 | 115,817 | 204,975 |
| 2006 PBC lease | 91,340 | - | (2,375) | 88,965 | 3,794 | 1,790 |
| Total capital lease obligation | <u>\$ 1,741,828</u> | <u>\$ 115,819</u> | <u>\$ (107,226)</u> | <u>\$ 1,750,421</u> | <u>\$ 119,611</u> | <u>\$ 206,765</u> |

* Additions include accretion of interest.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 8 - CAPITAL LEASE OBLIGATIONS (Continued)

Future Minimum Lease Payments: As of December 31, 2008, future minimum lease payments for capital leases, in the aggregate, are as follows (in thousands of dollars):

| | | |
|---------------------------------|----|------------------|
| 2009 | \$ | 109,209 |
| 2010 | | 122,647 |
| 2011 | | 112,647 |
| 2012 | | 111,440 |
| 2013 | | 191,063 |
| 2014 - 2018 | | 1,750,021 |
| 2019 - 2023 | | 311,950 |
| 2024 - 2028 | | 139,834 |
| 2029 - 2033 | | 30,942 |
| | | <hr/> |
| Total minimum lease payments | | 2,879,753 |
| Less interest | | 1,099,895 |
| | | <hr/> |
| | \$ | <u>1,779,858</u> |

NOTE 9 - BONDS PAYABLE

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.

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 9 - BONDS PAYABLE (Continued)

The bond debt service requirements to maturity are as follows (in thousands of dollars):

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------|-------------------|------------------|-------------------|
| 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>\$ 194,550</u> | <u>\$ 43,093</u> | <u>\$ 237,643</u> |

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."

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> |
|-------|-------------------|-------------------|-------------------|
| 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>\$ 266,860</u> | <u>\$ 121,429</u> | <u>\$ 388,289</u> |

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 9 - BONDS PAYABLE (Continued)

2008 (5309) and 2008A (5307) Series Capital Grant Receipts Revenue Bonds: On April 16, 2008, the CTA issued Capital Grant Receipts Revenue Bonds, "2008 Project," in the amount of \$250,000,000, along with a premium of \$18,637,000, 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 "2008 Project." The Federal Transit Administration's section 5307 program is a formula grant program for metropolitan areas providing capital, operating or planning assistance for mass transportation. The section 5309 program is a formula grant program providing capital assistance for the modernization of existing rail systems.

The Series 2008 (5309) and 2008A (5307) bonds bear interest ranging from 3.5% to 5.25%. Scheduled interest on the 2008 bonds was funded through December 1, 2008 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, 2009 through June 1, 2026.

The bond debt service requirements to maturity are as follows (in thousands of dollars):

| | 2008 (5309) Principal | 2008 (5309) Interest | 2008A (5307) Principal | 2008A (5307) Interest | Total Principal | Total Interest |
|-------|--------------------------|-------------------------|---------------------------|--------------------------|--------------------|-------------------|
| 2009 | \$ - | \$ 7,432 | \$ - | \$ 5,250 | \$ - | \$ 12,682 |
| 2010 | 5,990 | 7,304 | - | 5,250 | 5,990 | 12,554 |
| 2011 | 6,240 | 7,068 | - | 5,250 | 6,240 | 12,318 |
| 2012 | 6,460 | 6,813 | - | 5,250 | 6,460 | 12,063 |
| 2013 | 6,750 | 6,515 | - | 5,250 | 6,750 | 11,765 |
| 2014 | 7,060 | 6,207 | - | 5,250 | 7,060 | 11,457 |
| 2015 | 7,365 | 5,887 | - | 5,250 | 7,365 | 11,137 |
| 2016 | 7,700 | 5,529 | - | 5,250 | 7,700 | 10,779 |
| 2017 | 8,085 | 5,134 | - | 5,250 | 8,085 | 10,384 |
| 2018 | 8,490 | 4,720 | - | 5,250 | 8,490 | 9,970 |
| 2019 | 8,910 | 4,274 | - | 5,250 | 8,910 | 9,524 |
| 2020 | 9,380 | 3,794 | - | 5,250 | 9,380 | 9,044 |
| 2021 | 9,870 | 3,288 | - | 5,250 | 9,870 | 8,538 |
| 2022 | 10,390 | 2,757 | 18,005 | 5,250 | 28,395 | 8,007 |
| 2023 | 10,935 | 2,197 | 18,955 | 4,305 | 29,890 | 6,502 |
| 2024 | 11,510 | 1,608 | 19,950 | 3,310 | 31,460 | 4,918 |
| 2025 | 12,115 | 987 | 20,995 | 2,262 | 33,110 | 3,249 |
| 2026 | 12,750 | 335 | 22,095 | 1,160 | 34,845 | 1,495 |
| Total | \$ 150,000 | \$ 81,849 | \$ 100,000 | \$ 84,537 | \$ 250,000 | \$ 166,386 |

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 9 - BONDS PAYABLE (Continued)

2008A (5309) Series Capital Grant Receipts Revenue Bonds: On November 20, 2008, the CTA issued Capital Grant Receipts Revenue Bonds, "2008 Project," in the amount of \$175,000,000, along with a premium of \$3,760,000, 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 "2008 Project."

The Series 2008A (5309) bonds bear interest ranging from 5.0% to 6.0%. Scheduled interest on the 2008A (5309) bonds was funded through December 1, 2008 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, 2009 through June 1, 2026.

The bond debt service requirements to maturity are as follows (in thousands of dollars):

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------|-------------------|-------------------|-------------------|
| 2009 | \$ - | \$ 9,466 | \$ 9,466 |
| 2010 | 6,705 | 9,169 | 15,874 |
| 2011 | 7,040 | 8,825 | 15,865 |
| 2012 | 7,395 | 8,464 | 15,859 |
| 2013 | 7,765 | 8,085 | 15,850 |
| 2014 | 8,150 | 7,688 | 15,838 |
| 2015 | 8,560 | 7,270 | 15,830 |
| 2016 | 8,990 | 6,831 | 15,821 |
| 2017 | 9,440 | 6,358 | 15,798 |
| 2018 | 9,935 | 5,837 | 15,772 |
| 2019 | 10,480 | 5,276 | 15,756 |
| 2020 | 11,055 | 4,711 | 15,766 |
| 2021 | 11,610 | 4,145 | 15,755 |
| 2022 | 12,190 | 3,550 | 15,740 |
| 2023 | 12,800 | 2,909 | 15,709 |
| 2024 | 13,470 | 2,169 | 15,639 |
| 2025 | 14,280 | 1,337 | 15,617 |
| 2026 | 15,135 | 454 | 15,589 |
| Total | <u>\$ 175,000</u> | <u>\$ 102,544</u> | <u>\$ 277,544</u> |

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 9 - BONDS PAYABLE (Continued)

2008A Series (Pension Funding) and 2008B Series (Retiree Health Care Funding) Sales and Transfer Tax Receipts Revenue Bonds: On July 30, 2008, the CTA issued Sales and Transfer Tax Receipts Revenue Bonds in the amount of \$1,936,855,000 to fund the employee retirement plan and to create a retiree health care trust. The bonds were sold in two tranches, a \$1.3 billion Series A to fund the employee's retirement plan and a \$640 million Series B to fund a permanent trust that was established to cover other post employment benefits for retirees' health care. The bonds are secured primarily by a pledge of and lien on the Sales Tax Receipts Fund and the Transfer Tax Receipts Fund deposits. The bonds were issued pursuant to the pension and retiree health care reform requirements set forth in Public Acts 94-839 and 95-705.

Public Act 94-839 required the CTA 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, were sufficient to bring the total assets of the retirement system up to 90% of its total actuarial liabilities by the end of fiscal year 2058. Additionally, Public Act 94-839 required that the Retirement Plan's pension and retiree health care programs be separated into two distinct trusts by December 31, 2008.

Public Act 95-708 modified this directive slightly and added a number of other requirements. First, a new Retirement Plan Trust will be created to manage the Retirement Plan assets. Second, CTA contributions and employee contributions were increased. Third, in addition to the requirement that the Retirement Plan be 90% funded by 2059, there is a new requirement that the Retirement Plan be funded at a minimum of 60% 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, Public Act 95-708 authorized the CTA to issue \$1.9 billion in pension obligation bonds to fund the pension and retiree health care. Finally, the legislation provides that CTA will have no future responsibility for retiree healthcare costs after the bond funding. In accordance with Public Act 95-708, all retiree healthcare benefits are to be paid from the newly established Retiree Health Care Trust no earlier than January 1, 2009, but no later than July 1, 2009.

The Series 2008A and 2008B bonds bear interest ranging from 5.1% to 6.8%. Scheduled interest on the 2008A and 2008B bonds will be funded through June 1, 2009 and June 1, 2010, respectively, 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, 2012 through June 1, 2040.

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 9 - BONDS PAYABLE (Continued)

The bond debt service requirements to maturity are as follows (in thousands of dollars):

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------|---------------------|---------------------|---------------------|
| 2009 | \$ - | \$ 131,367 | \$ 131,367 |
| 2010 | - | 131,367 | 131,367 |
| 2011 | - | 131,367 | 131,367 |
| 2012 | 10,020 | 131,367 | 141,387 |
| 2013 | 25,720 | 130,854 | 156,574 |
| 2014 | 27,040 | 129,538 | 156,578 |
| 2015 | 28,740 | 127,834 | 156,574 |
| 2016 | 30,550 | 126,024 | 156,574 |
| 2017 | 32,475 | 124,099 | 156,574 |
| 2018 | 34,520 | 122,053 | 156,573 |
| 2019 | 36,695 | 119,878 | 156,573 |
| 2020 | 39,010 | 117,566 | 156,576 |
| 2021 | 41,465 | 115,109 | 156,574 |
| 2022 | 44,080 | 112,496 | 156,576 |
| 2023 | 47,120 | 109,455 | 156,575 |
| 2024 | 50,370 | 106,205 | 156,575 |
| 2025 | 53,845 | 102,730 | 156,575 |
| 2026 | 57,560 | 99,015 | 156,575 |
| 2027 | 61,530 | 95,044 | 156,574 |
| 2028 | 65,775 | 90,799 | 156,574 |
| 2029 | 70,310 | 86,261 | 156,571 |
| 2030 | 75,165 | 81,410 | 156,575 |
| 2031 | 80,350 | 76,225 | 156,575 |
| 2032 | 85,895 | 70,681 | 156,576 |
| 2033 | 91,820 | 64,755 | 156,575 |
| 2034 | 98,150 | 58,421 | 156,571 |
| 2035 | 104,925 | 51,649 | 156,574 |
| 2036 | 112,165 | 44,411 | 156,576 |
| 2037 | 119,905 | 36,672 | 156,577 |
| 2038 | 128,170 | 28,400 | 156,570 |
| 2039 | 137,015 | 19,558 | 156,573 |
| 2040 | 146,470 | 10,105 | 156,575 |
| Total | <u>\$ 1,936,855</u> | <u>\$ 2,982,715</u> | <u>\$ 4,919,570</u> |

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 9 - BONDS PAYABLE (Continued)

The total bond debt service requirements to maturity for all outstanding bonds are as follows (in thousands of dollars):

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|---------------------|---------------------|---------------------|
| 2009 | \$ 28,715 | \$ 175,976 | \$ 204,691 |
| 2010 | 42,790 | 174,142 | 216,932 |
| 2011 | 44,825 | 172,085 | 216,910 |
| 2012 | 56,940 | 169,908 | 226,848 |
| 2013 | 74,915 | 167,069 | 241,984 |
| 2014 - 2018 | 422,005 | 772,281 | 1,194,286 |
| 2019 - 2023 | 471,355 | 648,743 | 1,120,098 |
| 2024 - 2028 | 431,380 | 507,415 | 938,795 |
| 2029 - 2033 | 403,540 | 379,332 | 782,872 |
| 2034 - 2038 | 563,315 | 219,553 | 782,868 |
| 2039 - 2040 | 283,485 | 29,663 | 313,148 |
| Total | <u>\$ 2,823,265</u> | <u>\$ 3,416,167</u> | <u>\$ 6,239,432</u> |

NOTE 10 - CERTIFICATES OF PARTICIPATION

In August 2008, the Bank of New York Mellon issued Certificates of Participation (COP) totaling \$78,430,000 on behalf of the CTA with an interest rate of 4.725%. The COPs will be used to finance the purchase of 200 (40 ft.) New Flyer low floor buses and certain related parts and equipment. On August 1, 2008, the CTA entered into an installment purchase agreement with the Bank of New York Mellon. The obligation of the CTA to make installment payments is an unconditional obligation of the CTA and is payable from legally available funds. The installment agreement requires the CTA to make annual COP payments to the Bank of New York Mellon which are then remitted to the COP holders. Scheduled maturity dates occur at various times through December 1, 2020. The total principal and interest remaining to be paid on the COPs is \$101,642,000. Principal and interest paid for the current fiscal year was approximately \$2,706,000. As of December 31, 2008, debt service requirements to maturity are as follows:

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 10 - CERTIFICATES OF PARTICIPATION (Continued)

| | Principal | Interest | Total |
|------|------------------|------------------|-------------------|
| 2009 | \$ 4,893 | \$ 3,577 | \$ 8,470 |
| 2010 | 5,128 | 3,342 | 8,470 |
| 2011 | 5,373 | 3,097 | 8,470 |
| 2012 | 5,629 | 2,841 | 8,470 |
| 2013 | 5,898 | 2,572 | 8,470 |
| 2014 | 6,180 | 2,290 | 8,470 |
| 2015 | 6,476 | 1,994 | 8,470 |
| 2016 | 6,786 | 1,684 | 8,470 |
| 2017 | 7,110 | 1,360 | 8,470 |
| 2018 | 7,450 | 1,020 | 8,470 |
| 2019 | 7,806 | 664 | 8,470 |
| 2020 | 8,179 | 293 | 8,472 |
| | <u>\$ 76,908</u> | <u>\$ 24,734</u> | <u>\$ 101,642</u> |

NOTE 11 - DEFINED BENEFIT PENSION PLANS

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 hired prior to September 5, 2001, 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, but prior to January 18, 2008, benefits will be reduced if they retire before age 65 or with less than a combination of age 55 and 25 years of service. Employees hired after January 18, 2008, are eligible for unreduced pension benefits after attaining age 64 with at least 25 years of service, and reduced pension benefits after attaining age 55 with at least 10 years of service. Employees retiring after January 18, 2008, are eligible for retiree healthcare benefits, after attaining age 55 with at least 10 years of service. The minimum age and service requirements do not apply to members on a disability allowance. In accordance with Public Act 95-708, all retiree healthcare benefits are to be paid from the newly established Retiree Health Care Trust no earlier than January 1, 2009, but no later than July 1, 2009. The retiree health care trust is described in note 12. The covered payroll for the Employees' Plan for the fiscal years

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

ended December 31, 2008 and 2007 was \$578,163,000 and \$562,567,000, respectively. The Employees' Plan issues a separate stand-alone financial report and is available upon request.

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.

During fiscal year 2008, a Voluntary Termination Program ("VTP") was adopted which allowed certain active members eligible for Supplemental Plan benefits under the qualified trust to purchase up to five years of "air-time" and the first year of eligibility service if not included in the determination of pension benefits. Members purchase "air-time" and the first year of eligibility service at a rate of six percent of pay. Members were required to make the election within a certain window of time and agree to terminate employment at a date accepted by the Board. Approximately 70 members have elected to participate in the VTP. For the qualified portion of the Supplemental Plan, the actuarial accrued liabilities at January 1, 2009, increased from \$15.97 million at January 1, 2008, to \$36.52 million at January 1, 2009. The adoption of the VTP increased actuarial liabilities by approximately \$19.4 million as of January 1, 2009.

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

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, 2008 are as follows:

| | <u>Open</u> | <u>Closed</u> | <u>Board</u> |
|---|-------------|---------------|--------------|
| Retirees and beneficiaries currently receiving benefits | 49 | 438 | 18 |
| Terminated employees entitled to but not yet receiving benefits | 16 | - | 4 |
| Active plan members | 94 | - | 7 |
| Total | <u>159</u> | <u>438</u> | <u>29</u> |

Participants in the supplemental retirement plans at December 31, 2007 are as follows:

| | <u>Open</u> | <u>Closed</u> | <u>Board</u> |
|---|-------------|---------------|--------------|
| Retirees and beneficiaries currently receiving benefits | 27 | 455 | 18 |
| Terminated employees entitled to but not yet receiving benefits | 12 | - | 3 |
| Active plan members | 116 | - | 7 |
| Total | <u>155</u> | <u>455</u> | <u>28</u> |

The covered payroll for the Open Supplemental Retirement Plan for the fiscal years ended December 31, 2008 and 2007 was \$11,691,000 and \$13,551,000, respectively. The covered payroll for the Board Supplemental Retirement Plan was \$200,000 for the fiscal years ended December 31, 2008 and 2007.

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 Plan. The CTA's annual pension cost for the current year and related information for each plan are as follows (in thousands of dollars):

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CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

| | Employees' Plan Pension | Open Supplemental | Closed Supplemental | Board Plan |
|-------------------------------|------------------------------------|------------------------------|--------------------------------|-----------------------|
| Contribution rates: | | | | |
| CTA** | 9.7% | Actuarial | Pay-Go Funding | Pay-Go Funding |
| Plan members** | 4.9 | None | None | None |
| Annual pension cost (APC) | \$178,941 | \$271 | \$2,772 | \$269 |
| Actual 2008 contributions: | | | | |
| CTA* | \$1,165,909 | \$8,000 | \$3,460 | \$263 |
| Plan members | \$27,704 | \$34 | \$0 | \$6 |
| Actuarial valuation date | January 1, 2008 | January 1, 2008 | January 1, 2008 | January 1, 2008 |
| 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 | 30 years | 30 years | 13 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 | 8.75% | 8.0% | 6.0% | 6.0% |
| Projected salary increases | 5.5 | 5.5 | N/A | — |
| Includes inflation at | 3.5 | 3.5 | 3.5 | 3.5 |

* includes extraordinary contribution of \$1,110,500,000 representing bond proceeds deposited per P.A. 95-708

** Employee pension plan employer contributions are allocated between the pension and retiree healthcare account

The per capita healthcare claim costs and dependent contribution rates were assumed to increase as follows:

| | Medical and Prescription Trend Rate |
|----------------|--|
| Plan year: | |
| 2009 | 10% |
| 2010 | 9% |
| 2011 | 8% |
| 2012 | 7% |
| 2013 | 6% |
| 2014 | 5% |
| 2015 and after | 5% |

There were no significant assumption changes for either plan from the prior year valuation.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

The following represents the significant components of the APC and changes in net pension obligation (asset) (NPO) during the year ended December 31, 2008 (in thousands of dollars):

| | Employees' Plan | Supplemental Retirement Plans | | |
|-------------------------------|------------------------|--------------------------------------|------------------|-----------------|
| | Pension | Open | Closed | Board |
| Annual required contribution | \$ 178,965 | \$ 230 | \$ 3,599 | \$ 282 |
| Interest on NPO | 77,927 | (627) | 1,002 | 78 |
| Adjustment to ARC | <u>(77,951)</u> | <u>668</u> | <u>(1,829)</u> | <u>(92)</u> |
| Annual pension cost | 178,941 | 271 | 2,772 | 268 |
| Contributions made | 55,409 | 8,000 | 3,459 | 263 |
| Extraordinary contribution | <u>1,110,500</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Increase (decrease) in NPO | (986,968) | (7,729) | (687) | 5 |
| NPO - December 31, 2007 | 890,592 | <u>(7,847)</u> | 16,716 | 1,301 |
| NPO - December 31, 2008 | <u>\$ (96,376)</u> | <u>\$ (15,576)</u> | <u>\$ 16,029</u> | <u>\$ 1,306</u> |

The following represents the significant components of the APC and changes in net pension obligation (asset) (NPO) during the year ended December 31, 2007 (in thousands of dollars):

| | Employees' Plan | Supplemental Retirement Plans | | |
|-------------------------------|------------------------|--------------------------------------|------------------|-----------------|
| | Pension | Open | Closed | Board |
| Annual required contribution | \$ 185,944 | \$ 200 | \$ 3,450 | \$ 288 |
| Interest on NPO | 65,625 | (647) | 1,053 | 78 |
| Adjustment to ARC | <u>(65,114)</u> | <u>689</u> | <u>(1,829)</u> | <u>(92)</u> |
| Annual pension cost | 186,455 | 242 | 2,674 | 274 |
| Contributions made | <u>25,026</u> | <u>-</u> | <u>3,504</u> | <u>284</u> |
| Increase (decrease) in NPO | 161,429 | 242 | (830) | (10) |
| NPO - December 31, 2006 | <u>729,163</u> | <u>(8,089)</u> | <u>17,546</u> | <u>1,311</u> |
| NPO - December 31, 2007 | <u>\$ 890,592</u> | <u>\$ (7,847)</u> | <u>\$ 16,716</u> | <u>\$ 1,301</u> |

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

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, 2008 | \$ 178,941 | \$ 1,165,909 | 651.6% | \$ (96,376) |
| | December 31, 2007 | 186,455 | 25,026 | 13.4 | 890,592 |
| | December 31, 2006 | 156,020 | 23,850 | 15.3 | 729,163 |
| Open Supplemental Plan | December 31, 2008 | \$ 271 | \$ 8,000 | 2,952.0% | \$ (15,576) |
| | December 31, 2007 | 242 | - | 0.0 | (7,847) |
| | December 31, 2006 | 42 | - | 0.0 | (8,089) |
| Closed Supplemental Plan | December 31, 2008 | \$ 2,772 | \$ 3,460 | 124.8% | \$ 16,029 |
| | December 31, 2007 | 2,674 | 3,504 | 131.0 | 16,716 |
| | December 31, 2006 | 2,748 | 3,467 | 126.2 | 17,546 |
| Board Supplemental Plan | December 31, 2008 | \$ 269 | \$ 263 | 97.8% | \$ 1,306 |
| | December 31, 2007 | 274 | 284 | 103.6 | 1,301 |
| | December 31, 2006 | 262 | 292 | 111.5 | 1,311 |

Funded Status and Funding Progress: The following is funded status information for the Employees' Plan - Pension as of 1/1/08, and the three supplemental plans as of 1/1/09, the most recent actuarial valuation dates (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 | 1/1/2008 | \$ 941,864 | \$ 2,531,440 | \$ 1,589,576 | 37.2% | \$ 578,163 | 274.9% |
| Open Supplemental Plan | 1/1/2009 | 22,434 | 36,519 | 14,085 | 61.4% | 11,691 | 120.5% |
| Closed Supplemental Plan | 1/1/2009 | - | 31,459 | 31,459 | 0.0% | - | N/A |
| Board Supplemental Plan | 1/1/2009 | 45 | 3,257 | 3,212 | 1.4% | 200 | 1606.0% |

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 12 - POSTEMPLOYMENT HEALTHCARE

Plan Descriptions - OPEB

Employees' Plan - Retiree Healthcare Benefits: 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 CTA employees (the Employees' Plan) is governed by the terms of the employees' collective bargaining agreement and is described in detail at Note 11.

The Employees' Plan provides death, disability, and health benefits to participants. In accordance with Public Act 95-708, all retiree healthcare benefits are to be paid from the newly established Retiree Health Care Trust no earlier than January 1, 2009, but no later than July 1, 2009. For financial reporting purposes, the postemployment healthcare benefits are considered, in substance, a postemployment healthcare plan administered by the pension plan. Members are eligible for health benefits if they are in receipt of retirement or disability benefits from the Plan. The Employees' Plan issues a separate stand-alone financial report and is available upon request.

Supplemental Plans - Retiree Healthcare Benefits: Employees of the CTA in certain employment classifications are eligible to participate in the supplemental retirement plan. Members of the Supplemental Plan with bridged service or service purchased through the Voluntary Termination Program are eligible for Supplemental Healthcare benefits if they retire under the Supplemental Plan and do not immediately qualify for healthcare benefits under the CTA Retiree Healthcare Trust. Supplemental Healthcare Plan benefits are similar to those provided under the Base Healthcare Plan in effect as of December 31, 2008. Supplemental Healthcare Plan benefits are administered through the CTA's healthcare program covering active members. Supplemental healthcare benefits cease when the member becomes eligible for healthcare coverage under the newly established Retiree Health Care Trust. Certain members not eligible for benefits under the Retiree Health Care Trust will continue to receive benefits through the CTA's healthcare program covering active members.

The benefits are dependent on the amount of bridged service and the amount of service at the CTA that is credited in the Employees Plan. In general, employees with less than 10 years of CTA service will receive healthcare benefits from the supplemental plan only. Employees with more than 10 years of CTA service are eligible for retiree healthcare benefits from the Employees Plan.

Chicago Transit Board members participate in a separate Board Member Retirement Plan and a Supplemental Plan. Board members with greater than five years of service are eligible for healthcare benefits immediately after termination or retirement.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 12 - POSTEMPLOYMENT HEALTHCARE (Continued)

Funding Policy - OPEB

Employees' Plan - Retiree Healthcare Benefits: The contribution levels are set by the collective bargaining agreement. The collective bargaining agreement in effect during 2007 required contributions of six percent and three percent of payroll from the employer and employees, respectively which covers both pension and healthcare benefits. In 2008 the required contributions were twelve percent and six percent of payroll from the employer and employees per the statutory plan change implemented January 18, 2008 per Public Act 95-708. The employer and employee contributions are allocated between pension and healthcare by the plan. The allocation is based on the annual required contribution for pension and healthcare benefits for the fiscal year and is limited by Section 401 (h) of the Internal Revenue Code. For the fiscal year 2008 contribution, approximately 2.3 percent of payroll for the CTA and 1.1 percent of payroll for the employees were allocated to healthcare benefits.

Supplemental Plan - Retiree Healthcare Benefits: Funding for the Supplemental and Board Retiree Healthcare Plans are on a pay-as-you-go basis. Active employees are not required to make contributions to the supplemental healthcare plan.

Annual OPEB Cost and Net OPEB Obligation. The annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation during the year ended December 31, 2008 (dollar amounts in thousands):

| | Employees' Plan | | |
|--|------------------------|---------------------|--------------|
| | Healthcare | Supplemental | Total |
| Annual required contribution | \$ 17,524 | \$ 508 | \$ 18,032 |
| Interest on net OPEB obligation | 32,975 | 11 | 32,986 |
| Adjustment to ARC | (659,507) | (14) | (659,521) |
| Annual OPEB expense | (609,008) | 505 | (608,503) |
| Contributions made | (13,031) | (292) | (13,323) |
| Statutory plan change | (37,468) | - | (37,468) |
| Increase (decrease) in net OPEB obligation | (659,507) | 213 | (659,294) |
| Net OPEB obligation - December 31, 2007 | 659,507 | 222 | 659,729 |
| Net OPEB obligation - December 31, 2008 | \$ - | \$ 435 | \$ 435 |

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 12 - POSTEMPLOYMENT HEALTHCARE (Continued)

The following table shows the components of the annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation during the year ended December 31, 2007 (dollar amounts in thousands):

| | Employees' Plan | | Total |
|--|------------------------|---------------------|-------------------|
| | Healthcare | Supplemental | |
| Annual required contribution | \$ 159,021 | \$ 556 | \$ 159,577 |
| Interest on net OPEB obligation | 25,769 | - | 25,769 |
| Adjustment to ARC | (31,929) | - | (31,929) |
| Annual OPEB expense | 152,861 | 556 | 153,417 |
| Contributions made | (8,728) | (334) | (9,062) |
| Increase (decrease) in net OPEB obligation | 144,133 | 222 | 144,355 |
| Net OPEB obligation - December 31, 2006 | 515,374 | - | 515,374 |
| Net OPEB obligation - December 31, 2007 | <u>\$ 659,507</u> | <u>\$ 222</u> | <u>\$ 659,729</u> |

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2008 and the two preceding years were as follows (dollar amounts in thousands):

Employees Plan:

| Fiscal Year Ended | OPEB Cost | Percent OPEB Cost Contributed | Net OPEB Obligation |
|------------------------------|----------------------|--|--------------------------------|
| 2008 | \$ (609,008) | -2.1% | \$ - |
| 2007 | 152,861 | 5.7 | 659,507 |
| 2006 | 121,481 | 9.6 | 515,374 |

Supplemental Plan:

| Fiscal Year Ended | OPEB Cost | Percent OPEB Cost Contributed | Net OPEB Obligation |
|------------------------------|----------------------|--|--------------------------------|
| 2008 | \$ 505 | 57.9% | \$ 434 |
| 2007 | 556 | 60.2 | 222 |
| 2006 | - | - | - |

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 12 - POSTEMPLOYMENT HEALTHCARE (Continued)

Funded Status and Funding Progress - OPEB

Employee's Plan - Retiree Healthcare Benefits:

As of January 1, 2008 the most recent actuarial valuation date, the plan was 65.9 percent funded. The actuarial accrued liability for benefits was \$68,826,000, and the actuarial value of assets was \$45,373,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$23,453,000. The covered payroll (annual payroll of active employees covered by the plan) was \$578,163,000, and the ratio of the UAAL to the covered payroll was 4.1 percent. This is a significant decrease from the prior year liability because PA 95-708 removed responsibility for paying for healthcare benefits from the Retirement Plan. The liabilities above reflect one-year of net healthcare benefits expected to be paid in Plan year 2008.

As of January 1, 2007, the plan was 3.3 percent funded. The actuarial accrued liability for benefits was \$1,765,884,000, and the actuarial value of assets was \$58,856,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,707,028,000. The covered payroll (annual payroll of active employees covered by the plan) was \$562,567,000, and the ratio of the UAAL to the covered payroll was 303.4 percent.

Supplemental and Board Plans - Retiree Healthcare Benefits

As of January 1, 2009 the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$16,830,000, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$16,830,000. The covered payroll (annual payroll of active employees covered by the plan) was \$4,420,000, and the ratio of the UAAL to the covered payroll was 380.8 percent.

As of January 1, 2008, the plan was not funded. The actuarial accrued liability for benefits was \$6,287,000, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$6,287,000. The covered payroll (annual payroll of active employees covered by the plan) was \$2,771,000, and the ratio of the UAAL to the covered payroll was 226.9 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 12 - POSTEMPLOYMENT HEALTHCARE (Continued)

assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the actuarial valuation as of January 1, 2008, and January 1, 2009, the projected unit credit cost method was used. The actuarial assumptions included a 5.0 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and a medical and prescription trend rate of 10 percent, reduced by one percent per year until an ultimate rate of 5 percent is reached. Both rates included a 3.5 percent inflation assumption. The actuarial value of assets for the Employees' healthcare plan was marked to the market value of the retiree healthcare account as of January 1, 2008. The UAAL is being amortized as a level percentage of projected payroll over one year for the Employee's healthcare plan and over an open 30-year period for the supplemental healthcare plan.

NOTE 13 - 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.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 13 - RISK MANAGEMENT (Continued)

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 for general liability and terrorism currently maintained by the CTA. On November 8, 2005, a new policy was established through May 7, 2009 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. In 2008 and 2007, no CTA claim existed that is expected to exceed the \$15,000,000 self insured retention under this insurance policy.

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 2008 or 2007 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 6.0% and 3.0%, respectively. The estimate for workers' compensation claims is adjusted for a current trend rate and discount factor of 6.0% and 3.0%, respectively.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 13 - RISK MANAGEMENT (Continued)

Changes in the balance of claims liabilities during the past two years are as follows (in thousands of dollars):

| | Injury and damage | Group health and dental | Workers' compensation | Total |
|--|------------------------------|--|----------------------------------|-------------------|
| Balance at December 31, 2006 | \$ 92,172 | \$ 14,723 | \$ 58,948 | \$ 165,843 |
| Funded* | 25,000 | 190,084 | 37,158 | 252,242 |
| Funding (excess) per actuarial requirement | (8,776) | - | 21,600 | 12,824 |
| Payments* | (14,840) | (187,250) | (36,069) | (238,159) |
| Balance at December 31, 2007 | 93,556 | 17,557 | 81,637 | 192,750 |
| Funded* | 14,000 | 195,833 | 39,086 | 248,919 |
| Funding (excess)/ deficiency per actuarial requirement | (6,281) | - | 18,191 | 11,910 |
| Payments* | (17,450) | (194,890) | (44,373) | (256,713) |
| Balance at December 31, 2008 | <u>\$ 83,825</u> | <u>\$ 18,500</u> | <u>\$ 94,541</u> | <u>\$ 196,866</u> |

*Group insurance amounts include funding and reimbursement for retiree healthcare

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.

NOTE 14 - DERIVATIVE FINANCIAL INSTRUMENTS

Objective of the Derivative: The CTA negotiated a commodity swap agreement with two financial institutions to protect against market fluctuations in the price of diesel fuel.

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.

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 14 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

2008 Commodity Swap Agreements:

| Effective date | Termination date | Notional quantity per calculation period (gallons) | Total notional quantity (gallons) | Fair value |
|----------------|------------------|--|-----------------------------------|-----------------|
| 5/1/2008 | 3/31/2009 | 210,000 | 2,310,000 | \$ (1,560,937) |
| 6/1/2008 | 6/30/2009 | 420,000 | 5,460,000 | (7,216,401) |
| 7/1/2008 | 12/31/2008 | 238,000 | 1,428,000 | (538,765) |
| 4/1/2009 | 12/31/2009 | 420,000 | 3,780,000 | (8,830,001) |
| 5/1/2009 | 12/31/2009 | 476,000 | 4,284,000 | (10,946,355) |
| 1/1/2010 | 12/31/2010 | 210,000 | 2,520,000 | (3,686,020) |
| 5/1/2008 | 3/31/2009 | 271,091 | 2,982,000 | (1,701,496) |
| 5/1/2008 | 3/31/2009 | 271,091 | 2,982,000 | (2,030,048) |
| 6/1/2008 | 4/30/2009 | 210,000 | 2,310,000 | (1,896,660) |
| 6/1/2008 | 4/30/2009 | 439,091 | 4,830,000 | (4,559,300) |
| 4/1/2009 | 12/31/2009 | 434,000 | 3,906,000 | (8,588,485) |
| 5/1/2009 | 12/31/2009 | 535,500 | 4,284,000 | (10,513,134) |
| | | | | \$ (62,067,602) |

2007 Commodity Swap Agreements:

| Effective date | Termination date | Notional quantity per calculation period (gallons) | Total notional quantity (gallons) | Fair value |
|----------------|------------------|--|-----------------------------------|------------|
| 1/1/2007 | 12/31/2007 | 380,000 | 4,560,000 | \$ 181,184 |
| 1/1/2007 | 12/31/2007 | 380,000 | 4,560,000 | 126,844 |
| 1/1/2007 | 12/31/2007 | 190,000 | 2,280,000 | 72,067 |
| 1/1/2007 | 12/31/2007 | 190,000 | 2,280,000 | 83,562 |
| 1/1/2007 | 12/31/2007 | 190,000 | 2,280,000 | 72,067 |
| 1/1/2007 | 12/31/2007 | 190,000 | 2,280,000 | 83,562 |
| 1/1/2007 | 12/31/2007 | 190,000 | 2,280,000 | 116,622 |
| 1/1/2007 | 12/31/2007 | 190,000 | 2,280,000 | 116,622 |
| | | | | \$ 852,530 |

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 14 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Fair Value: As of December 31, 2008 and 2007, the commodity swaps had a fair value of (\$62,067,602) and \$852,530, respectively, estimated by discounting forward market prices available from exchange trading.

Credit Risk: The CTA is exposed to credit risk in the amount of its fair value. As of December 31, 2007, the swap counterparty's long-term deposit ratings were Aa3 and A2 per Moody's Investors Service and A+ and A 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.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Litigation: 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.

Defeased Debt: 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 \$102,370,000 as of December 31, 2008.

Operating Leases: As of December 31, 2008, future minimum lease payments for operating leases, in the aggregate, are as follows (in thousands of dollars):

| | |
|------------------------------|---------------------|
| 2009 | \$ 332,941 |
| 2010 | 342,930 |
| 2011 | 353,217 |
| 2012 | 241,978 |
| Total minimum lease payments | <u>\$ 1,271,066</u> |

NOTE 16 - SUBSEQUENT EVENTS

Green Line Lease

During 1998, the CTA entered into a lease and leaseback agreement with three equity investors pertaining to the railway tracks, train stations and adjacent property on the Green Line. The CTA's payments associated with this agreement were guaranteed by American International Group Inc (AIG).

(Continued)

CHICAGO TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 16 - SUBSEQUENT EVENTS (Continued)

During 2008, AIG's credit rating was reduced amid the U.S. global economic crisis. Although each equity investor had the right to demand that the CTA replace AIG as guarantor, one of the investors decided to simply exercise the option to terminate the Green Line transaction with CTA. CTA entered negotiations with this investor to unwind the transaction at the current market value in the equity defeasance account. These negotiations were finalized in 2009 and final payment was made and a termination agreement was executed. The restricted lease assets and associated lease liability related to this transaction were removed from CTA's financial statements upon termination and payment in 2009.

CTA is in negotiations with the remaining two equity investors to determine whether to unwind the transaction or restructure the agreements with a new guarantor.

Pension Obligation Bond Interest Rate Swap

During 2008, CTA issued nearly \$2 billion in Sales and Transfer Tax Receipts Revenue Bonds for the purpose of funding the pension and retiree healthcare. These bonds were initially executed as fixed rate bonds with a relatively high interest rate. In April 2009, CTA executed a basis swap transaction that has a net effect of changing the interest rate characteristics of the debt for a portion of the bonds from a fixed rate to a variable interest rate. The transaction was structured such that CTA will receive upfront cash payments in 2009 and 2010. Beginning in 2011 CTA will pay a percentage of a tax-exempt index (SIFMA) and receive a taxable index (LIBOR) plus a fixed payment annually over 20 years based on the notional amount of the transaction of \$567,130,000. CTA has the right to terminate this basis swap transaction at any time.

REQUIRED SUPPLEMENTARY INFORMATION

CHICAGO TRANSIT AUTHORITY
Required Supplementary Information - Pension
Schedules of Funding Progress (Unaudited)
December 31, 2008
(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: | | | | | | |
| 1/1/2008 | \$ 941,864 | \$ 2,531,440 | \$ 1,589,576 | 37.2% | \$ 578,163 | 274.9% |
| 1/1/2007 | 1,007,305 | 2,466,106 | 1,458,801 | 40.8 | 562,567 | 259.3 |
| 1/1/2006 | 1,144,669 | 2,354,125 | 1,209,456 | 48.6 | 547,532 | 220.9 |
| 1/1/2005 | 1,313,087 | 2,291,162 | 978,075 | 57.3 | 544,442 | 179.6 |
| 1/1/2004 | 1,491,574 | 2,189,666 | 698,092 | 68.1 | 486,626 | 143.5 |
| 1/1/2003 | 1,671,055 | 2,085,724 | 414,669 | 80.1 | 480,740 | 86.3 |
| 1/1/2002 | 1,688,873 | 2,044,330 | 355,457 | 82.6 | 459,343 | 77.4 |
| 1/1/2001 | 1,634,254 | 2,058,999 | 424,745 | 79.4 | 431,703 | 98.4 |
| Open Supplemental Plan: | | | | | | |
| 1/1/2009 | \$ 22,434 | \$ 36,519 | \$ 14,085 | 61.4% | \$ 11,691 | 120.5% |
| 1/1/2008 | 19,457 | 15,974 | (3,483) | 121.8 | 13,551 | -25.7 |
| 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: | | | | | | |
| 1/1/2009 | \$ - | \$ 31,459 | \$ 31,459 | -% | \$ - | -% |
| 1/1/2008 | - | 32,887 | 32,887 | - | - | - |
| 1/1/2007 | - | 33,104 | 33,104 | - | - | - |
| 1/1/2006 | - | 34,835 | 34,835 | - | - | - |
| 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: | | | | | | |
| 1/1/2009 | \$ 45 | \$ 3,257 | \$ 3,212 | 1.4% | \$ 200 | 1606.0% |
| 1/1/2008 | 56 | 3,193 | 3,137 | 1.8 | 200 | 1568.5 |
| 1/1/2007 | 50 | 3,312 | 3,262 | 1.5 | 200 | 1631.0 |
| 1/1/2006 | 47 | 3,270 | 3,223 | 1.4 | 175 | 1841.7 |
| 1/1/2005 | 42 | 3,001 | 2,959 | 1.4 | 175 | 1690.9 |
| 1/1/2004 | 55 | 2,579 | 2,524 | 2.1 | 175 | 1442.3 |
| 1/1/2003 | 55 | 2,369 | 2,314 | 2.3 | 200 | 1157.0 |
| 1/1/2002 | 56 | 2,127 | 2,071 | 2.6 | 200 | 1035.5 |

*During the year ended December 31, 2005, the CTA established a qualified trust for members of the supplement 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.

CHICAGO TRANSIT AUTHORITY
Required Supplementary Information - Other Post Employment Healthcare
Schedules of Funding Progress (Unaudited)
December 31, 2008
(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 - Healthcare: | | | | | | |
| 1/1/2008 | \$ 45,373 | \$ 68,826 | \$ 23,453 | 65.9% | \$ 578,163 | 4.1% |
| 1/1/2007 | 58,856 | 1,765,884 | 1,707,028 | 3.3 | 562,567 | 303.4 |
| 1/1/2006 | 54,386 | 1,129,278 | 1,074,892 | 4.8 | 547,532 | 196.3 |
| 1/1/2005 | 69,177 | 1,219,457 | 1,150,280 | 5.7 | 544,442 | 211.3 |
| 1/1/2004 | 89,472 | 1,068,961 | 979,489 | 8.4 | 486,626 | 201.3 |
| 1/1/2003 | 55,882 | 940,873 | 884,991 | 5.9 | 480,740 | 184.1 |
| 1/1/2002 | 175,854 | 767,864 | 592,010 | 22.9 | 459,343 | 128.9 |
| 1/1/2001 | 193,841 | 299,857 | 106,016 | 64.6 | 431,703 | 24.6 |
| Supplemental Plan - Healthcare: | | | | | | |
| 1/1/2009 | \$ - | \$ 16,830 | \$ 16,830 | 0.0% | \$ 4,420 | 380.8% |
| 1/1/2008 | - | 6,287 | 6,287 | - | 2,771 | 226.9 |
| 1/1/2007 | - | 6,796 | 6,796 | - | 3,332 | 204.0 |

CHICAGO TRANSIT AUTHORITY
Employees' Plan
Required Supplementary Information -
Schedules of Employer Contributions (Unaudited)
December 31, 2008
(In thousands of dollars)

| Employees' Plan - Pension | | |
|---------------------------|------------------------------------|---------------------------|
| Year ended | Annual required contribution | Percentage contributed |
| 12/31/08 | \$ 178,966 | 651.5% |
| 12/31/07 | 185,944 | 13.5 |
| 12/31/06 | 153,204 | 15.6 |
| 12/31/05 | 133,816 | 14.8 |
| 12/31/04 | 104,881 | 19.2 |
| 12/31/03 | 64,627 | 30.0 |
| 12/31/02 | 33,973 | 57.5 |
| 12/31/01 | 58,317 | 41.3 |

CHICAGO TRANSIT AUTHORITY
Other Post Employment Healthcare
Required Supplementary Information -
Schedules of Employer Contributions (Unaudited)
December 31, 2008
(In thousands of dollars)

| Employees' Plan - Healthcare | | |
|------------------------------|------------------------------|------------------------|
| Year ended | Annual required contribution | Percentage contributed |
| 12/31/08 | \$ 17,524 | 74.4% |
| 12/31/07 | 159,021 | 5.5 |
| 12/31/06 | 119,568 | 9.8 |
| 12/31/05 | 128,653 | 8.3 |
| 12/31/04 | 111,659 | 9.3 |
| 12/31/03 | 97,936 | 10.1 |
| 12/31/02 | 41,841 | 22.0 |
| 12/31/01 | 11,488 | 27.3 |

| Supplemental Plans - Healthcare | | |
|---------------------------------|------------------------------|------------------------|
| Year ended | Annual required contribution | Percentage contributed |
| 12/31/08 | \$ 508 | 57.6% |
| 12/31/07 | 556 | 60.2 |

CHICAGO TRANSIT AUTHORITY
Supplemental Plans
Required Supplementary Information –
Schedules of Employer Contributions (Unaudited)
December 31, 2008
(In thousands of dollars)

| Open Supplemental Plan | | |
|------------------------|------------------------------|------------------------|
| Year ended | Annual required contribution | Percentage contributed |
| 12/31/08 | \$ 230 | 3475.0% |
| 12/31/07 | 200 | — |
| 12/31/06 | - | N/A |
| 12/31/05 | 1,545 | 1,016.5 |
| 12/31/04 | * | * |
| 12/31/03 | * | * |
| 12/31/02 | * | * |

| Closed Supplemental Plan | | |
|--------------------------|------------------------------|------------------------|
| Year ended | Annual required contribution | Percentage contributed |
| 12/31/08 | \$ 3,599 | 96.1% |
| 12/31/07 | 3,450 | 101.6 |
| 12/31/06 | 3,474 | 99.8 |
| 12/31/05 | 2,439 | 144.4 |
| 12/31/04 | * | * |
| 12/31/03 | * | * |
| 12/31/02 | * | * |

| Board Supplemental Plan | | |
|-------------------------|------------------------------|------------------------|
| Year ended | Annual required contribution | Percentage contributed |
| 12/31/08 | \$ 282 | 93.3% |
| 12/31/07 | 288 | 98.8 |
| 12/31/06 | 275 | 106.0 |
| 12/31/05 | 261 | 109.7 |
| 12/31/04 | * | * |
| 12/31/03 | * | * |
| 12/31/02 | * | * |

| Total Supplemental Plans | | |
|--------------------------|------------------------------|------------------------|
| Year ended | Annual required contribution | Percentage contributed |
| 12/31/04 | \$ 4,368 | 84.0% |
| 12/31/03 | 4,690 | 65.3 |
| 12/31/02 | 4,543 | 108.6 |

*Prior to 2005, all supplemental plans were combined for reporting purposes.

SUPPLEMENTARY SCHEDULES

CHICAGO TRANSIT AUTHORITY
Schedule of Expenses and Revenues –
Budget and Actual – Budgetary Basis
Year ended December 31, 2008
(In thousands of dollars)

| | Original <u>budget</u> | Final <u>budget</u> | Actual – budgetary <u>basis</u> | Variance favorable <u>(unfavorable)</u> |
|--|---------------------------|------------------------|---------------------------------------|---|
| Operating expenses: | | | | |
| Labor and fringe benefits | \$ 751,451 | \$ 876,350 | \$ 873,636 | \$ 2,714 |
| Materials and supplies | 72,911 | 92,430 | 100,568 | (8,138) |
| Fuel | 49,267 | 89,919 | 91,834 | (1,915) |
| Electric power | 29,797 | 35,331 | 35,442 | (111) |
| Purchase of security services | 33,600 | 33,600 | 32,382 | 1,218 |
| Other | 68,310 | 68,010 | 72,807 | (4,797) |
| Provision for injuries and damages | <u>28,000</u> | <u>14,000</u> | <u>7,718</u> | <u>6,282</u> |
| Total operating expenses | <u>1,033,336</u> | <u>1,209,640</u> | <u>1,214,387</u> | <u>(4,747)</u> |
| System-generated revenues: | | | | |
| Fares and passes | 470,376 | 463,467 | 471,099 | 7,632 |
| Reduced-fare subsidies | 32,271 | 32,000 | 31,855 | (145) |
| Advertising and concessions | 27,381 | 28,000 | 27,661 | (339) |
| Investment income | 11,736 | 6,340 | 3,779 | (2,561) |
| Contributions from local governmental units | 5,000 | 5,000 | 5,000 | - |
| Other revenue | <u>14,744</u> | <u>13,001</u> | <u>13,161</u> | <u>160</u> |
| Total system-generated revenues | <u>561,508</u> | <u>547,808</u> | <u>552,555</u> | <u>4,747</u> |
| Operating expenses in excess of system-generated revenues | 471,828 | 661,832 | 661,832 | - |
| Public funding from the RTA: | | | | |
| Operating assistance | 471,828 | 641,832 | 641,832 | - |
| Prior Year Positive Balance | <u>-</u> | <u>20,000</u> | <u>20,000</u> | <u>-</u> |
| | <u>471,828</u> | <u>661,832</u> | <u>661,832</u> | <u>-</u> |
| Change in net assets – budgetary basis | <u>\$ -</u> | <u>\$ -</u> | - | <u>\$ -</u> |
| Reconciliation of budgetary basis to GAAP basis: | | | | |
| Prior year positive balance - lease proceeds | | | (20,000) | |
| Provision for depreciation | | | (403,248) | |
| Pension expense in excess of pension contributions | | | 24,606 | |
| Supplemental Retirement | | | 8,179 | |
| Incentive Retirement | | | 403 | |
| Workers Compensation | | | (13,191) | |
| Revenue from leasing transactions | | | 4,262 | |
| Interest expense on bond transactions | | | (72,028) | |
| Interest revenue on bond transactions | | | 4,385 | |
| Interest on lease proceeds | | | 1,166 | |
| Interest income from sale/leaseback | | | 118,962 | |
| Interest expense from sale/leaseback | | | (116,767) | |
| Capital contributions | | | <u>518,520</u> | |
| Change in net assets – GAAP basis | | | <u>\$ 55,249</u> | |
| CTA recovery ratio: | | | | |
| Total operating expenses | | | \$ 1,214,387 | |
| Less mandated security costs | | | (32,382) | |
| Plus City of Chicago in-kind services | | | <u>22,000</u> | |
| Total operating expenses for recovery ratio calculation (B) | | | <u>\$ 1,204,005</u> | |
| Total system-generated revenues | | | | |
| Plus Senior Free Rides | | | 17,500 | |
| Plus City of Chicago in-kind services | | | <u>22,000</u> | |
| Total system-generated revenues for recovery ratio calculation (A) | | | <u>\$ 592,055</u> | |
| Recovery ratio (A/B) | | | | 49.17% |

CHICAGO TRANSIT AUTHORITY
Schedule of Expenses and Revenues –
Budget and Actual – Budgetary Basis
Year ended December 31, 2007
(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 | \$ 850,332 | \$ 818,724 | \$ 784,841 | \$ 33,883 |
| Materials and supplies | 77,894 | 77,894 | 84,178 | (6,284) |
| Fuel | 61,233 | 61,233 | 71,181 | (9,948) |
| Electric power | 28,057 | 28,057 | 28,141 | (84) |
| Purchase of security services | 35,334 | 35,334 | 31,363 | 3,971 |
| Purchase of paratransit services | - | - | - | - |
| Other | 55,301 | 54,751 | 69,465 | (14,714) |
| Provision for injuries and damages | <u>25,000</u> | <u>25,000</u> | <u>25,000</u> | <u>-</u> |
| Total operating expenses | <u>1,133,151</u> | <u>1,100,993</u> | <u>1,094,169</u> | <u>6,824</u> |
| System-generated revenues: | | | | |
| Fares and passes | 468,334 | 468,334 | 457,300 | (11,034) |
| Reduced-fare subsidies | 32,000 | 32,000 | 33,308 | 1,308 |
| Advertising and concessions | 24,990 | 24,990 | 23,164 | (1,826) |
| Investment income | 12,120 | 12,120 | 10,495 | (1,625) |
| Contributions from local governmental units | 5,000 | 5,000 | 5,000 | - |
| Other revenue | <u>10,250</u> | <u>10,300</u> | <u>16,653</u> | <u>6,353</u> |
| Total system-generated revenues | <u>552,694</u> | <u>552,744</u> | <u>545,920</u> | <u>(6,824)</u> |
| Operating expenses in excess of system-generated revenues | 580,457 | 548,249 | 548,249 | - |
| Public funding from the RTA: | | | | |
| Operating assistance | <u>580,457</u> | <u>548,249</u> | <u>548,249</u> | <u>-</u> |
| Change in net assets – budgetary basis | <u>\$ -</u> | <u>\$ -</u> | <u>-</u> | <u>\$ -</u> |
| Reconciliation of budgetary basis to GAAP basis: | | | | |
| Provision for depreciation | | | (387,738) | |
| Pension expense in excess of pension contributions | | | (306,406) | |
| Supplemental Retirement | | | 49 | |
| Incentive Retirement | | | 507 | |
| Workers Compensation | | | (21,599) | |
| Provision for injury and damage claims | | | 8,776 | |
| Revenue from leasing transactions | | | 4,262 | |
| Interest revenue on bond transactions | | | 5,712 | |
| Interest expense on bond transactions | | | (15,718) | |
| Interest income from sale/leaseback | | | 120,795 | |
| Interest expense from sale/leaseback | | | (115,819) | |
| Capital contributions | | | <u>375,914</u> | |
| Change in net assets – GAAP basis | | | <u>\$ (331,265)</u> | |
| CTA recovery ratio: | | | | |
| Total operating expenses | | | \$ 1,094,169 | |
| Less mandated security costs | | | (31,363) | |
| Plus City of Chicago in-kind services | | | <u>22,000</u> | |
| Total operating expenses for recovery ratio calculation (B) | | | <u>\$ 1,084,806</u> | |
| Total system-generated revenues: | | | | |
| Total system-generated revenues | | | \$ 545,920 | |
| Plus FTA funds | | | 8,000 | |
| Plus City of Chicago in-kind services | | | <u>22,000</u> | |
| Total system-generated revenues for recovery ratio calculation (A) | | | <u>\$ 575,920</u> | |
| Recovery ratio (A/B) | | | | 53.09% |

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APPENDIX C

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 \$44,645,000 aggregate principal amount of Sales Tax Receipts Revenue Bonds, Series 2010A (the “*Series 2010A Bonds*”), and \$505,355,000 aggregate principal amount of Sales Tax Receipts Revenue Bonds, Taxable Series 2010B (Build America Bonds) (the “*Series 2010B Bonds*” and, together with the Series 2010A Bonds, the “*2010 Bonds*”). The 2010 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 2010 Bonds are authorized by an ordinance adopted by the Chicago Transit Board on February 10, 2010. The 2010 Bonds are being issued pursuant to the Trust Indenture dated as of March 1, 2010 (the “*Master Indenture*”), between the Issuer and U.S. Bank National Association, Chicago, Illinois, as trustee (the “*Trustee*”), as supplemented by that certain First Supplemental Indenture dated as of March 1, 2010, between the Authority and the Trustee (the “*First Supplemental Indenture*” and together with the Master Indenture, the “*Indenture*”).

In consideration of the issuance of the 2010 Bonds by the Issuer and the purchase of such 2010 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 2010 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 2010 Bonds at the time the 2010 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 2010 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 2010 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 2010 Bonds (including persons holding 2010 Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any of the 2010 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.

EMMA means the MSRB through its Electronic Municipal Market Access system for municipal securities disclosure or through any other electronic format or system prescribed by the MSRB for purposes of the Rule.

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 2010 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.

Participating Underwriter means each broker, dealer or municipal securities dealer acting as an underwriter in the primary offering of the 2010 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 2010 Bonds are as set forth in *Exhibit III* hereto. The Final Official Statement relating to the 2010 Bonds is dated March 23, 2010 (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 EMMA 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 EMMA 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 EMMA and to the SID, if any, in such manner and format and accompanied by identifying information as is prescribed by the MSRB or the Commission or the State, with respect to any SID, at the time of delivery of such information. Notwithstanding the foregoing, notice of optional or unscheduled redemption of any 2010 Bonds or defeasance of any 2010 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 MSRB 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 EMMA 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, 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 2010 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 Indentures at the time of the amendment.

9. **TERMINATION OF UNDERTAKING.** The Undertaking of the Issuer shall be terminated hereunder with respect to the 2010 Bonds if the Issuer shall no longer have any legal liability for any obligation on or relating to repayment of such series of the 2010 Bonds under the Indentures. If this Section is applicable, the Issuer shall give notice in a timely manner to EMMA and to the SID, if any.

10. **FILINGS.** In the event that the Commissioner or the MSRB or other regulatory authority shall approve or require Material Events Disclosure to be made to a central post office, governmental agency or similar entity other than EMMA or in lieu of EMMA, the Issuer shall, if required, make such dissemination to such central post office, governmental agency or similar entity without the necessity of amending this Agreement.

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 2010 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.

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CHICAGO TRANSIT AUTHORITY

By _____
Name: _____
Title: _____

Date: _____, 2010

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 EMMA 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 EMMA. 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 set forth in the Official Statement under “HISTORICAL SALES TAX REVENUES,” set forth in Tables I , II and III;

(ii) The information set forth in the Official Statement under “PRO FORMA DEBT SERVICE COVERAGE;” and

(iii) Audited Financial Statements as described in Part 2 below.

(b) Annual Financial Information will be provided to EMMA 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 2010 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 EMMA as described in Part 1(b) above.

Exhibit II

**EVENTS WITH RESPECT TO THE 2010 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 2010A Bonds Maturing December 1 | CUSIP¹ |
|---|--------------------------|
| 2015 | 16772PAA4 |
| 2015 | 16772PAE6 |
| 2016 | 16772PAF3 |
| 2017 | 16772PAB2 |
| 2017 | 16772PAG1 |
| 2018 | 16772PAC0 |
| 2018 | 16772PAH9 |
| 2019 | 16772PAD8 |
| 2019 | 16772PAJ5 |

| Series 2010B Bonds Maturing December 1 | CUSIP¹ |
|---|--------------------------|
| 2020 | 16772PAK2 |
| 2021 | 16772PAL0 |
| 2022 | 16772PAM8 |
| 2023 | 16772PAN6 |
| 2024 | 16772PAP1 |
| 2040 | 16772PAQ9 |

¹Copyright 2010, 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 2010 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 is subject to being changed after the issuance of the 2010 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 the 2010 Bonds.

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APPENDIX D

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.

The Depository Trust Company (“DTC”), New York, NY will act as securities depository for the 2010 Bonds. The 2010 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 2010 Bonds, each in the aggregate principal amount of such maturity and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has 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 2010 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2010 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 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 2010 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 2010 Bonds, except in the event that use of the book-entry system for the 2010 Bonds is discontinued.

To facilitate subsequent transfers, all 2010 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 2010 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 2010 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2010 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 2010 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2010 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of 2010 Bonds may wish to ascertain that the nominee holding the 2010 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 2010 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 2010 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 2010 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2010 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.

A Beneficial Owner shall give notice to elect to have its 2010 Bonds purchased or tendered, through its Participant, to the tender agent, and shall effect delivery of such 2010 Bonds by causing the Direct Participant to transfer the Participant's interest in the 2010 Bonds, on DTC's records, to the tender agent. The requirement for physical delivery of 2010 Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the 2010 Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered 2010 Bonds to the tender agent's DTC account.

DTC may discontinue providing its services as securities depository with respect to the 2010 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, 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, 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 2010 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 2010 BONDS; OR ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC.

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APPENDIX E

PROPOSED FORMS OF OPINIONS OF CO-BOND COUNSEL

April 6, 2010

The Chicago Transit Board
of the Chicago Transit Authority

Dear Members:

We have examined a record of proceedings relating to the issuance of \$44,645,000 aggregate principal amount of Sales Tax Receipts Revenue Bonds, Series 2010A (the “Bonds”) of the Chicago Transit Authority (the “Authority”). The Bonds are authorized and issued under and pursuant to Section 12 of the Metropolitan Transit Authority Act, 70 Illinois Compiled Statutes 3605 (the “Act”) and the Local Government Debt Reform Act, 30 Illinois Compiled Statutes 350, and by virtue of Ordinance Number 010-17 adopted by the Chicago Transit Board on February 10, 2010 (the “Bond Ordinance”). The Bonds are issued and secured under the Trust Indenture dated as of March 1, 2010 (the “Indenture”) by and between the Authority and U.S. Bank National Association, as trustee (the “Trustee”), as supplemented by the First Supplemental Indenture dated as of March 1, 2010 (the “First Supplemental Indenture”) by and between the Authority and the Trustee. The Bonds are Corporate Purpose Debt Obligations, Parity Obligations and Consolidated Reserve Fund Bonds under the Indenture.

The Bonds are dated April 6, 2010 and bear interest from their date payable on December 1, 2010 and semiannually thereafter on each June 1 and December 1. The Bonds mature (without option of prior redemption) on December 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> |
|-------------|-------------------------|----------------------|
| 2015 | \$1,180,000 | 4.00% |
| 2015 | 4,535,000 | 5.00 |
| 2016 | 7,675,000 | 5.00 |
| 2017 | 950,000 | 4.00 |
| 2017 | 8,975,000 | 5.00 |
| 2018 | 2,230,000 | 4.00 |
| 2018 | 8,185,000 | 5.00 |
| 2019 | 1,000,000 | 4.00 |
| 2019 | 9,915,000 | 5.00 |

Pursuant to the Indenture and concurrently with the issuance of the Bonds, the Authority has issued \$505,355,000 aggregate principal amount of Sales Tax Receipts Revenue Bonds, Taxable Series 2010B (Build America Bonds) of the Authority (the “2010B Bonds”) that are

Parity Obligations. The Bonds, the 2010B Bonds and all other Parity Obligations hereafter issued or incurred under the Indenture are ratably and equally entitled to the benefits and security of the Indenture, including the pledge of the Trust Estate under the Indenture. The Trust Estate includes (i) the Sales Tax Receipts Fund held by the Authority, subject however to the PBC Parity Pledge Rights (as defined in the Indenture) and the parity pledge and lien created with respect to the Pension and Retirement Debt Obligations (as defined in the Indenture); (ii) the Debt Service Fund held by the Trustee under the Indenture, subject to the allocation of the Debt Service Fund into dedicated sub-funds, including the Series 2010AB Dedicated Sub-Fund established and maintained for the benefit of the Bonds and the 2010B Bonds under the First Supplemental Indenture and (iii) the Consolidated Debt Service Reserve Fund held by the Trustee as security for the payment of the principal of and interest on Consolidated Reserve Fund Bonds.

The Act provides that the Bonds are not, and shall not constitute an indebtedness of the Regional Transportation Authority or the State of Illinois or any political subdivision of or municipality within the State of Illinois, other than the Authority.

Based upon our examination of said record of proceedings, we are of the opinion that:

1. The Authority is a political subdivision, body politic and municipal corporation of the State of Illinois duly organized and existing under the Act and the Bonds are entitled to the benefits of Section 12 of the Act.

2. 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 First Supplemental Indenture, to issue the Bonds thereunder, and to perform all of its obligations under the Bond Ordinance, the Indenture and the First Supplemental Indenture in those respects.

3. The Bond Ordinance has been duly adopted by the Chicago Transit Board and is in full force and effect.

4. The Indenture and the First 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.

5. The Bonds have been duly authorized and issued, are the legal, valid and binding limited obligations of the Authority payable from the Series 2010AB Dedicated Sub-Fund and the Consolidated Debt Service Reserve Fund, are entitled to the benefits and security of the Indenture and the First Supplemental Indenture, and are enforceable in accordance with their terms.

6. All Parity Obligations, including the Bonds, are ratably and equally secured under the Indenture by the pledges and assignments created by the Indenture, including the pledge of the Trust Estate. The Indenture creates a valid pledge of and lien on the Trust Estate for the benefit and security of all Parity Obligations, subject to application of the Trust Estate in accordance with the terms of the Indenture, including periodic withdrawals of moneys free from the lien of the Indenture.

7. 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 applicable 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. Interest on the Bonds is not an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income and is not taken into account when computing 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 exclusion from gross income for Federal income tax purposes 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 of the property financed with the proceeds of the Bonds. The Authority has covenanted in the Indenture to comply with these requirements.

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 First 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 6, 2010

The Chicago Transit Board
of the Chicago Transit Authority

Dear Members:

We have examined a record of proceedings relating to the issuance of \$505,355,000 aggregate principal amount of Sales Tax Receipts Revenue Bonds, Taxable Series 2010B (Build America Bonds) (the “Bonds”) of the Chicago Transit Authority (the “Authority”). The Bonds are authorized and issued under and pursuant to Section 12 of the Metropolitan Transit Authority Act, 70 Illinois Compiled Statutes 3605 (the “Act”) and the Local Government Debt Reform Act, 30 Illinois Compiled Statutes 350, and by virtue of Ordinance Number 010-17 adopted by the Chicago Transit Board on February 10, 2010 (the “Bond Ordinance”). The Bonds are issued and secured under the Trust Indenture dated as of March 1, 2010 (the “Indenture”) by and between the Authority and U.S. Bank National Association, as trustee (the “Trustee”), as supplemented by the First Supplemental Indenture dated as of March 1, 2010 (the “First Supplemental Indenture”) by and between the Authority and the Trustee. The Bonds are Corporate Purpose Debt Obligations, Parity Obligations and Consolidated Reserve Fund Bonds under the Indenture.

The Bonds are dated April 6, 2010 and bear interest from their date payable on December 1, 2010 and semiannually thereafter on each June 1 and December 1. The Bonds mature on December 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 year:

| <u>Year</u> | <u>Principal Amount</u> | <u>Interest Rate</u> |
|-------------|-------------------------|----------------------|
| 2020 | \$ 11,510,000 | 5.07% |
| 2021 | 12,095,000 | 5.22 |
| 2022 | 12,720,000 | 5.37 |
| 2023 | 13,405,000 | 5.47 |
| 2024 | 14,135,000 | 5.62 |
| 2040 | 441,490,000 | 6.20 |

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 pro-rata within a single maturity, on any date, at a redemption price determined pursuant to the First Supplemental Indenture, plus accrued interest to the redemption date.

The Bonds due December 1, 2040 are subject to mandatory redemption, in part and pro-rata, on December 1 of the years and in the respective principal amounts set forth in the following table, at the redemption price of par and by the application of sinking fund installments as provided in the First Supplemental Indenture.

| <u>Year</u> | <u>Principal Amount</u> |
|-------------|-------------------------|
| 2025 | \$14,930,000 |
| 2026 | 15,855,000 |
| 2027 | 16,835,000 |
| 2028 | 17,880,000 |
| 2029 | 18,985,000 |
| 2030 | 20,155,000 |
| 2031 | 21,400,000 |
| 2032 | 22,725,000 |
| 2033 | 24,135,000 |
| 2034 | 31,820,000 |
| 2035 | 33,785,000 |
| 2036 | 35,875,000 |
| 2037 | 38,090,000 |
| 2038 | 40,455,000 |
| 2039 | 42,955,000 |

Pursuant to the Indenture and concurrently with the issuance of the Bonds, the Authority has issued \$44,645,000 aggregate principal amount of Sales Tax Receipts Revenue Bonds, Series 2010A of the Authority (the “2010A Bonds”) that are Parity Obligations. The Bonds, the 2010A Bonds and all other Parity Obligations hereafter issued or incurred under the Indenture are ratably and equally entitled to the benefits and security of the Indenture, including the pledge of the Trust Estate under the Indenture. The Trust Estate includes (i) the Sales Tax Receipts Fund held by the Authority, subject however to the PBC Parity Pledge Rights (as defined in the Indenture) and the parity pledge and lien created with respect to the Pension and Retirement Debt Obligations (as defined in the Indenture); (ii) the Debt Service Fund held by the Trustee under the Indenture, subject to the allocation of the Debt Service Fund into dedicated sub-funds, including the Series 2010AB Dedicated Sub-Fund established and maintained for the benefit of the Bonds and the 2010A Bonds under the First Supplemental Indenture and (iii) the Consolidated Debt Service Reserve Fund held by the Trustee as security for the payment of the principal of and interest on Consolidated Reserve Fund Bonds.

The Act provides that the Bonds are not, and shall not constitute an indebtedness of the Regional Transportation Authority or the State of Illinois or any political subdivision of or municipality within the State of Illinois, other than the Authority.

Interest on the Bonds is includible in the gross income of the owners thereof for United States Federal income tax purposes and is not exempt from State of Illinois income taxes.

Based upon our examination of said record of proceedings, we are of the opinion that:

1. The Authority is a political subdivision, body politic and municipal corporation of the State of Illinois duly organized and existing under the Act and the Bonds are entitled to the benefits of Section 12 of the Act.

2. 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 First Supplemental Indenture, to issue the Bonds thereunder, and to perform all of its obligations under the Bond Ordinance, the Indenture and the First Supplemental Indenture in those respects.

3. The Bond Ordinance has been duly adopted by the Chicago Transit Board and is in full force and effect.

4. The Indenture and the First 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.

5. The Bonds have been duly authorized and issued, are the legal, valid and binding limited obligations of the Authority payable from the Series 2010AB Dedicated Sub-Fund and the Consolidated Debt Service Reserve Fund, are entitled to the benefits and security of the Indenture and the First Supplemental Indenture, and are enforceable in accordance with their terms.

6. All Parity Obligations, including the Bonds, are ratably and equally secured under the Indenture by the pledges and assignments created by the Indenture, including the pledge of the Trust Estate. The Indenture creates a valid pledge of and lien on the Trust Estate for the benefit and security of all Parity Obligations, subject to application of the Trust Estate in accordance with the terms of the Indenture, including periodic withdrawals of moneys free from the lien of the Indenture.

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 First 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,

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