Transit at a Crossroads

President's 2007 Budget Recommendations

Chicago Transit Authority

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Transit at a Crossroads

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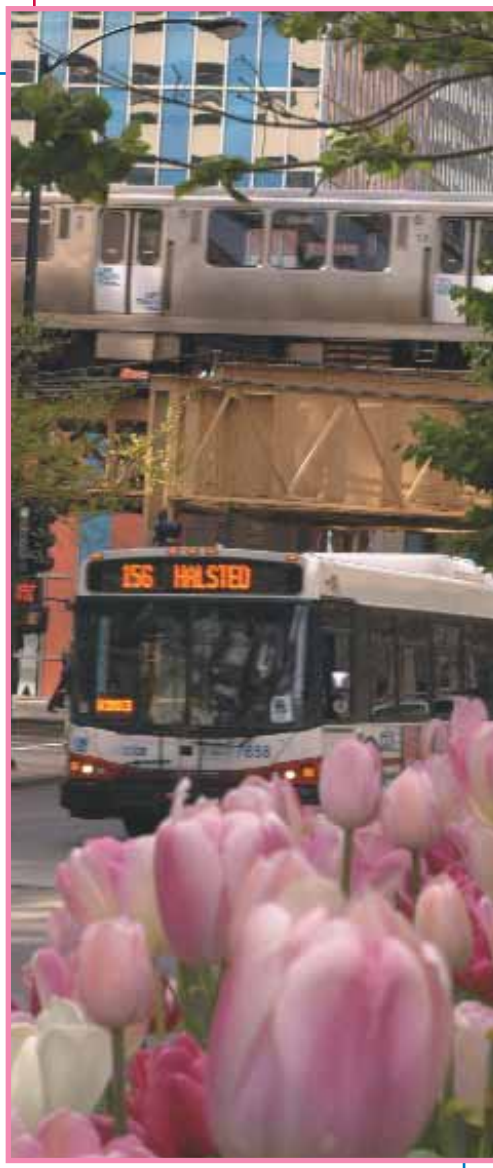
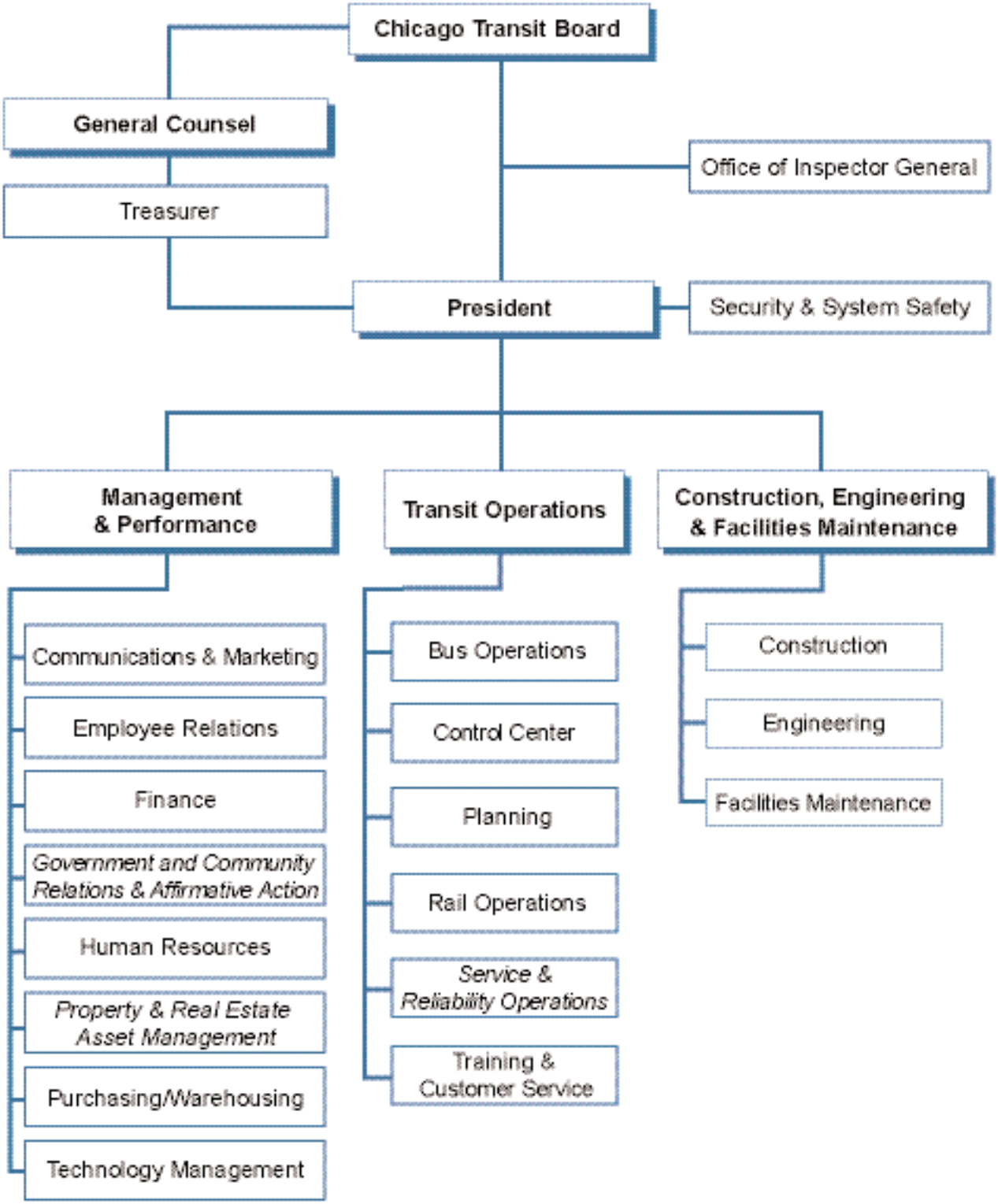


Chicago Transit Authority
Organization Chart



Chicago Transit Authority

Our Mission

We deliver quality, affordable transit services that link people, jobs and communities.

Our Values

We will accomplish our mission with a diverse workforce that is:

- Courteous — We will create a pleasant environment for ourselves and our customers.
- Innovative — We will seek out and encourage employees who initiate change, improvement, learning and advancement of our goals.
- Motivated — We will meet each task with spirit, enthusiasm and a sense of pride to be second to none.
- Professional — We will provide transit service with the highest standards of quality and safety for our customers and ourselves.
- Reliable — We will be dependable for our customers and fellow employees, and will maintain the highest standards of trust.
- Results-Oriented — We will focus on getting the job done and will derive personal satisfaction from the service we provide.

Our Commitments

We will accomplish our mission by:

- Setting clear goals, standards and priorities.
- Communicating openly with customers and employees.
- Helping all of our employees develop to their fullest potential through enhanced training and education.
- Being accountable to fellow employees and customers.
- Supporting employees so that they can serve customers.
- Engaging employees in decisions that affect them and their work and creating a stronger sense of ownership among our employees.

Letter from the President

Transit at a Crossroads

In 2006, the Regional Transportation Authority (RTA), CTA, Metra and Pace teamed up to launch the Moving Beyond Congestion project, an initiative designed to build consensus in the region for improved and expanded public transportation. Over 275 community organizations, businesses, labor unions and local governments have already come together as Partners for Transit to lend their voices to the dialogue. This positive step reflects a growing recognition that improving transit is essential to economic growth, which is increasingly threatened by congestion. According to the independent Texas Transportation Institute, Northeastern Illinois has gone from having the nation's seventh worst traffic congestion in 1983 to second today, now costing residents over $4.2 billion annually in lost productivity and wasted resources.

This is my tenth budget recommendation to the Chicago Transit Board. Given the strong support our partners have expressed for Moving Beyond Congestion, I am more optimistic than ever that transit will finally secure the resources necessary to thrive. At the same time, I am cognizant of the reality that the mere survival, let alone growth, of the existing transit network is in question if no action is taken to correct long-standing operating and capital funding shortfalls.

The symptoms of the problem are clear. Since the state last revisited funding for the day-to-day operations of CTA, Metra and Pace in 1983, CTA has grappled with a steep decline in inflation-adjusted funding levels. Between 1985 and 2004, CTA's public funding for mainline bus and rail operations trailed inflation by more than one percent every year. These reductions have added up. If funding had just kept even with inflation since 1985, CTA cumulatively would have received $1.6 billion more to operate its buses and trains.

CTA also faces a severe capital funding shortfall that threatens its ability to reach a state of good repair. In just the past two years, CTA's capital budget has been slashed by over $400 million. Not only has capital money been used to cover operating budget shortfalls, but new state capital funding for transit has also stopped with the expiration of Illinois FIRST. This state legislation, which funded transit, roads, and other infrastructure improvements, had provided as much as $176 million annually for critical CTA capital projects. Capital funding shortfalls have resulted in deferred maintenance, delays in infrastructure improvements, and difficulty in planning, financing and implementing multi-year projects. While Illinois FIRST funding for transit has ended, dedicated state funding for roads has continued to flow. This unbalanced policy does not exist at the federal level. When the federal transportation program expires, Congress continues to appropriate funds for roads and transit until a new program is authorized.

CTA is grateful for the support it does receive from the state. Indeed, the General Assembly already recognizes that a serious funding problem exists. The Mass Transit Committee of the Illinois House, established two years ago, affirmed many of the points CTA identified regarding inadequate funding levels and changing allocations over time. In 2005 and 2006, the General Assembly provided an additional $54 million in operating grants to RTA. CTA received all of these

Letter from the President

funds in 2005 and half in 2006. With this funding, CTA rescinded cuts that would have eliminated over 50 transit routes and consequently achieved its highest ridership since 1992.

While we wait for a long-term solution, we have worked to preserve service in an increasingly difficult financial environment with escalating fuel, security, health care and benefit expenses. To do so, CTA has had to take various short-term, unsustainable measures with their own consequences. For example, over the past two years, CTA has delayed key infrastructure improvements by diverting $60 million from capital projects to fill operating budget gaps – on top of not receiving over $350 million in state capital funding after Illinois FIRST expired. CTA has also increased operating revenues by raising cash fares twice, from $1.50 to $1.75 and then to $2.00, a 33-percent jump since 2003. While customers have remained with CTA so far, fare increases of this magnitude cannot continue indefinitely without driving people away from transit.

CTA is also always working to improve efficiency. Since 1997, CTA has pursued major efficiency initiatives that cumulatively have saved over $1 billion. Based on recommendations made through a recent independent review of CTA by AECOM Consult, CTA is taking further steps to be even more cost effective. In addition, after the initial bids for the Brown Line Capacity Expansion Project did not meet cost estimates, CTA reduced expenses by over $100 million by repackaging the bids and modifying the construction plan without sacrificing essential station improvements for customers. This year, at the direction of the General Assembly, all paratransit operations in the six-county RTA service area have been consolidated under Pace to ensure a regional approach to delivering this important service.

For 2007, my budget recommendations reflect CTA's ongoing efforts to work smarter, cut expenses and seek innovative revenue sources. But even with these efforts, $580.5 million is needed for operations and to meet retiree pension and health care liabilities growing through an arbitration award and under state law. At present, only $470.3 million has been identified. But following the funding marks RTA adopted for the CTA, my budget recommendation anticipates that new funding sources will be identified in 2007 to maintain service. If no additional funding is obtained, CTA will be required to take actions to balance its operating budget. RTA Chairman Jim Reilly has expressed confidence, however, that a solution will be found and I personally share his confidence.

Metra and Pace are also beginning to feel the pinch that CTA has experienced for many years. We all understand how urgent it is to address the funding challenge. As Chairman Reilly said last month, "Over the long term, the resources that we have on the operating side and the resources that we have on the capital side just aren't adequate to keep the system that we have, let alone expand it … At the end of the day, if we don't have the resources we need, the average commuter is going to have fewer options. They'll either have fewer routes or they will have less service on each route. And the system physically will at some point have to get smaller if we don't have the money needed to maintain trains and buses…"

Noting that the $27 billion asset of regional transit infrastructure belongs to the people of Northeastern Illinois, the RTA states that "together, we all need to decide on whether we are going to invest in this asset or shrink it."

Crafting an appropriate solution to the funding problem requires understanding its origins and consequences. In 1983, state law established how revenues from a sales tax of one percent in Cook County and a quarter of a percent in the collar counties would be used in conjunction with supplementary state funds to support CTA, Metra and Pace operations. It also introduced a

Letter from the President

recovery ratio requirement mandating that fares and other system-generated revenues cover at least 50 percent of total regional operating expenses.

Although these key provisions of the law have not changed since 1983, they have made CTA look very different than two decades ago. Between 1985 and 1997, the declining purchasing power of CTA's public operating funding contributed to a vicious cycle of fare hikes, service reductions, and ridership losses in the most transit-supportive part of the region. Several major cuts occurred between the late-1980s and mid-1990s. Between 1989 and 1991, fares increased 50 percent. The disinvestment was painfully obvious when I joined CTA in 1997: my first day on the job, we began implementing cuts that removed 10 percent of service from an already-downsized system. With these cuts, CTA operated nearly 400 fewer rush hour buses compared to 1983. Is it any surprise that more than one out of every three CTA customers stopped riding?

I have worked with the Chicago Transit Board and CTA employees to first stabilize the organization and then begin to reverse this decline. We have increased bus service, reopened and renovated rail stations, rehabilitated rail lines, and improved system accessibility for customers with disabilities. As a result of these efforts, CTA has regained some 45 million of the over 200 million annual rides lost, an increase nearly equal to the annual transit ridership in greater St. Louis.

Despite this progress, the underlying funding structure that helped fuel CTA's steep decline in the first place has not changed. By not addressing this operating funding problem for so long, and by not renewing capital programs for transit, we risk reigniting another downward spiral. It is almost as if CTA is taken for granted – a system whose weekday ridership still exceeds the population of all but four U.S. cities.

Contrast that with other parts of the country that did not have much transit but have since been willing to invest heavily in it. Over the past decade, places as diverse as Denver, Miami and Phoenix have implemented new revenue streams for bus and rail expansion and consequently achieved cumulative ridership gains of 20 to over 40 percent. With recovery ratios far lower than the 50 percent in metropolitan Chicago, public funding covers about 75 to 80 percent of operating expenses in those areas, contributing to dramatic ridership increases. There is a clear connection between funding levels, service levels and ridership.

We now have a rare opportunity to change the course of transit in the Chicago region. As part of the Moving Beyond Congestion project, RTA is working with CTA and its sister agencies to develop a comprehensive Strategic Regional Transportation Plan. I fully support the vision of this effort: "A world-class public transportation system that is convenient, affordable, reliable and safe, and that is the keystone of the region's growing business opportunities, thriving job market, clean air and livable communities."

A lot needs to be done to achieve this vision. The Situation Analysis Interim Report Summary of the Strategic Regional Transportation Plan observes, "Despite recent ridership gains, the region has yet to return to ridership levels achieved as recently as the 1980s, and ridership growth has lagged behind similar regions around the country. Over the past two decades, the collective purchasing power of the region's transit agencies has declined, causing reduced service levels and decreased ridership in traditional transit markets with a high return on investment. Opportunities to expand transit exist in both new geographies and in these traditional markets."

Letter from the President

For its traffic relief benefits alone, transit is a worthwhile investment. The Texas Transportation Institute estimates that the combined RTA system reduces delays by 94 million hours and saves the region $1.6 billion in congestion costs each year. One fully-loaded articulated bus can take 90 cars off the road; one train removes up to 1,000 cars. During the busiest hour of the morning peak period, CTA's rail service accounts for 20 to more than 70 percent of travel along each of the major highway corridors leading into the Loop. Imagine the gridlock and parking problems if all of CTA's customers drove. Even people who usually do not ride transit can appreciate how it benefits their commute.

With proper funding, CTA will advance more rapidly toward a state of good repair, accelerating the renovation of century-old rail lines, replacement of worn-out buses and trains, and refurbishment of maintenance facilities. Service frequency and hours of operation will expand to tap new markets, relieve overcrowding, and increase transit's competitiveness with the automobile. CTA will also continue pursuing ambitious initiatives, from technology that will tell customers when their bus is coming, to direct service to the airports, to a Circle Line that would further link CTA and Metra.

Transit is at a crossroads. A healthy transit system curbs traffic congestion and pollution while improving mobility, economic competitiveness and the quality of life for everyone. With more funding, transit will be able to do more and ridership will grow. By working together and addressing the funding challenge on a regional, bipartisan basis, I am confident that we will choose the right path.

Transit at a Crossroads

Introduction

One of the most significant developments over the past year has been the way in which the CTA, RTA, Metra and Pace have come together and collaborated as never before for the shared goal of improving and expanding transit service in the region.

This unprecedented effort was prompted by a mutual and growing concern about inadequate operating and capital funding levels for transit. Separately, we provide services to various municipalities and communities across the region. Together we make up a transit network that provides mobility and economic opportunity for millions of residents of Northeastern Illinois. Although our services differ, our objectives are the same. And so are our challenges. Each agency struggles to operate efficiently and manage costs. Our ridership is growing, but our revenues are not. For the CTA, a 23-year-old funding structure problem hinders our ability to maintain existing service let alone expand to accommodate new customers.

Red Line customers on the platform at the recently renovated Lake subway station.

We have joined forces with one another and with an ever-increasing number of community organizations, businesses, labor unions and local governments to lend our ideas and voices to the debate about the future of transit for the region. We agree that 2007 is a decision year that will determine whether our transit network grows and thrives, or whether it begins to shrink.

So as we look to 2007, we do so with a sense of optimism for all that can be accomplished at the CTA and for the region's transit network with proper funding, but also with a sense of concern for what the transit network will become without new funding.

At the CTA, we took the cautiously optimistic approach to building our budget. We plan to continue the efficiency measures that have resulted in savings of over $1 billion since 1997. We also intend to build on the customer-focused initiatives that have resulted in a successful reversal of declining ridership. After more than 20 years of losses, the CTA has posted ridership gains in seven of the past eight years and is on target for a ridership increase again in 2006.

Our capital needs are real, and growing. There are a number of important capital projects already underway that will continue in 2007, and more that will begin. But the reality is no matter how many stations we renovate, or buses we buy, or tracks we repair, there is always another important project that needs to be done and our capital resources are dwindling.

As we embark on the uncertainty of 2007, we are proud of what we have accomplished at the CTA. But we know that with the right resources there is so much more we could accomplish.

Accomplishments and Plans

A Pink Line train makes its inaugural run on the elevated tracks near Polk station.

2006 Accomplishments

Although visible improvements could be found throughout the CTA system – from newly renovated rail stations on the century old Brown Line, to rebuilt stations all along the Dan Ryan branch of the Red Line, to new Purple Line viaducts in Evanston and new, shorter buses to serve Hyde Park and the University of Chicago campus – the Pink Line became the new color on the horizon and was arguably the most memorable and eye-catching innovation at the CTA in 2006.

The Chicago Transit Board invited local students from around the region to submit essays nominating a color for the new rail line and explaining why public transit is important. More than 600 essays were submitted by Chicagoland area students from kindergarten through eighth grade.

In June, the Pink Line made its debut as the CTA's eighth rail line and the first new rail line since the Orange Line opened in October 1993. The new service provides a faster trip for customers from the West Side and near west suburbs to the central business district. The Pink Line was introduced as part of a package of research-based bus and rail service enhancements and represents a substantial investment in additional transit service for the communities it serves by providing more service, better connections and faster trips.

Serving 22 stations, Pink Line trains make all stops along the 54th/Cermak branch to Polk station. At Polk, Pink Line trains cross over the Eisenhower Expressway and travel north along the recently renovated connector track above Paulina Street to the Green Line elevated structure along Lake Street. Trains then continue eastbound stopping at Ashland and Clinton stations before proceeding to the Loop where they travel clockwise on the inner track, making stops at all elevated stations before returning to 54th/Cermak on the same route westbound.

Most customers have experienced increased and faster service between 54th/Cermak and the Loop, saving up to 10 minutes on their transit time. Direct service to the Loop also means enhanced connections to the Red, Orange, Brown and Green lines, Purple Line Express service and Metra. In addition, customers still have the option of Blue Line service to the Dearborn Street subway during morning and evening weekday rush periods.

Although the color didn't change, service on the Forest Park branch of the Blue Line was also improved significantly. The frequency of service on the Forest Park branch increased, especially during weekday off-peak hours and weekends, and access to CTA and Pace buses along the route was also improved.

City of Chicago Mayor Richard M. Daley is joined by Pink Line essay winner Eleni Vrettos to launch the new Pink Line rail service.

Accomplishments and Plans

Touch & Go equipment at local Currency Exchange locations makes it more convenient for customers to add value to Chicago Cards.

In the final piece of the improvement package, five new bus routes were created – three express routes and two local routes – four existing bus routes were extended, and routing and schedule improvements were made to four additional bus routes.

The service enhancements provide additional transit options that are designed to meet the growth in population and jobs throughout the West Side and near west suburbs. Service improvements such as these not only benefit customers, but also the communities in which they live and work, by increasing transit options for the region.

With the CTA already recording ridership gain in the first three months of service, it is clear that these service enhancements helped contribute to continued ridership growth for the region. Ridership levels are a critical measure of customer satisfaction. After 20 years of declining ridership, CTA has clearly engineered a ridership turnaround and is on track to have achieved ridership increases in eight of the past nine years.

Between 1995 and 2005, CTA's ridership grew by 49.6 million annual unlinked rides. This increase alone is more than the entire annual transit ridership of such U.S. cities as Phoenix, Detroit, St. Louis, Cincinnati, Austin and San Antonio.

In 2006, to avoid service cuts, CTA raised cash fares by 25 cents at the beginning of the year. The increase was carefully designed to provide the maximum revenue gain with the minimum ridership loss. The range of CTA fare media – unlimited ride passes, Chicago Card and Chicago Card Plus – allowed the majority of customers to continue to travel on CTA for $1.75.

Prior to implementing the cash-fare increase, the Chicago Transit Board initiated a promotional fee-waiver period for Chicago Card and Chicago Card Plus. To further increase the convenience of the cards, the CTA began a Touch & Go pilot program to enable Chicago Card customers to add value to and check balances on their Chicago Cards at a network of 65 Currency Exchange locations throughout the service area. Previously, customers could only add value or check balances on Chicago Cards at farecard vending machines located primarily at CTA rail stations. By increasing the number of locations where customers may easily add value, the Chicago Card has become an even more convenient and accessible option for customers, especially bus customers who previously did not have the same easy access to CTA vending machines that rail customers had.

Both Chicago Card and Chicago Card Plus are examples of CTA's investment in system enhancements that benefit customers. The Chicago Card streamlines CTA operations by reducing cash on the system, thereby helping to reduce operating expenses, and increases convenience for customers, a combination that supports the CTA's commitment to improving efficiency in operations and providing a valuable and beneficial product for customers. By applying technologies to improve the bus fleet, rail service and stations, internal operations and fare media, CTA continues to improve the transit experience for customers and improve its operational efficiency.

To further increase efficiencies, last year CTA engaged AECOM Consult to perform a management and operations review of CTA's efficiency and business practices. The results

Accomplishments and Plans

of that review acknowledged the fact that through previous initiatives CTA had substantially improved service in recent years and at the same time made great strides in reducing operational costs. AECOM concluded "CTA is cost-effective relative to other major transit systems."

CTA staff continue to develop ways to maintain a high level of service for customers and still improve the efficiency of the agency's operations, and support the recommendations made by AECOM to further capitalize on savings. A number of the recommendations, however, require changes in union contracts or state law. For example, although CTA is in agreement with AECOM's recommendation that subcontracting would reduce expenses, the agency is currently prohibited from subcontracting many activities by the terms of its collective bargaining agreements. The CTA staff will continue to act on the recommendations that are not restricted.

Investing in Rapid Transit

Continued investment in the system is critical to maintaining the current level of service and being able to improve service in the future. One such investment is currently underway on the Brown Line. Construction began in 2004 and continued to progress throughout 2006. The $530 million investment in the Brown Line will improve transit for many customers who are now often unable to board a Brown Line train during rush hour because of overcrowding, or who cannot use many of the stations along the line because they are not accessible. The improvements to the line will also benefit the community by helping to decrease traffic congestion in the area and further improving the reliability of service, an asset to any community.

Renovations at the Kedzie Brown Line station include the addition of an auxiliary entrance at Spaulding Avenue.

The Paulina station on the Brown Line will be renovated to make it ADA accessible and to berth eight-car trains.

When the capacity expansion project is completed at the end of 2009, CTA will be able to add two more rail cars to Brown Line trains during rush hour and all stations on the line will be accessible to customers with disabilities. Additional station enhancements include wider stairways, additional entrances and exits, more turnstiles to ease congestion during busy hours, and upgrades to traction power equipment and the signal system to improve the efficiency of train traffic.

The first two stations to be renovated, Kedzie and Rockwell, re-opened to customers for service in August. Enhancements include new glass station houses, new platforms, brighter lighting and accessible features including ramps, tactile edging and accessible gates. A new auxiliary entrance (formerly an exit only) at the west end of the Kedzie station at Spaulding Avenue was also completed. Re-opening the rebuilt Kedzie and Rockwell stations

Accomplishments and Plans

Updated project information is available to customers on the Brown Line web site at www.ctabrownline.com.

brings the total number of accessible CTA rail stations to 74 out of 144, or 51 percent, and builds on CTA's solid record of becoming an increasingly accessible system. By the end of 2006, two more stations on the Dan Ryan branch of the Red Line will be made accessible — the 47th and 69th Street stations — bringing the total of accessible stations to 76.

The Kimball and Francisco stations temporarily closed in September, for four months and six months respectively. The recent re-opening of the Kedzie and Rockwell stations allows customers who use these stations as alternates to Kimball and Francisco to see firsthand the types of improvements they can expect to see as a result of CTA's investment in the stations on the Brown Line.

CTA has worked and continues to work with local elected officials and business owners along the line to minimize the impact to businesses near temporarily closed stations. CTA is placing advertising cards on Brown Line rail cars, local bus routes and the Brown Line web site encouraging customers to continue to support businesses near temporarily closed stations.

Signal system upgrades and electrical substation work from Kimball to Western are also a part of the Brown Line capacity expansion project. The work involves installing signal equipment along the tracks, installing six new crossing gates and circuitry where the Brown Line crosses at street level and rehabilitating Kimball Tower where signals control switches and direct trains.

Operating between downtown and the Northwest Side, the Brown Line was originally constructed in two phases, opening for service in 1900 and 1907. The line is the third busiest of CTA's rail lines, serving more than 66,000 customers each weekday, with 19 stations from Kimball on the north to the Merchandise Mart.

CTA has also embarked on a track and signal renewal project at Clark Junction, the busy location where Brown, Red and Purple Line trains converge just north of Belmont on the city's North Side. On a typical weekday, nearly 1,000 trains pass through the corridor with approximately one train every 50 seconds during rush periods. The upgrade to the 100-year-old junction will bring new signals and additional connections between tracks to allow trains to cross among all four tracks thereby improving options for operating trains around construction, disabled trains or equipment problems.

Next year the Purple Express, Brown and Red Line trains will lose one of the four tracks throughout the Clark Junction corridor due to construction at the Belmont and Fullerton stations. Because elevators will be installed at Belmont and Fullerton to make the stations accessible to customers with disabilities, the tracks along the platforms need to be realigned to allow room for elevators and new wider platforms to accommodate customers with disabilities and growing ridership. One of the four tracks at both stations must be taken out of service so crews can realign the tracks and build wider platforms.

The operational improvements made throughout Clark Junction will allow the Belmont and Fullerton stations to remain open

throughout construction and help CTA to better manage rail service during three-track operation. Once CTA is satisfied that the newly installed signal system is properly configured to manage the volume of train traffic and that operational staff are prepared to coordinate traffic through the reconfigured junction, three-track operation will begin, and continue until the Brown Line capacity expansion project is completed in 2009.

For CTA, providing rail service with 25 percent less track capacity will present significant challenges. For customers it will mean slower service on the Red, Brown and Purple Line Express trains as they travel through the corridor bounded by the Brown Line Southport station, the Red Line Addison station and the Brown Line Armitage station. Currently CTA rail operations and planning staff are developing a plan for service throughout the corridor with the constraints of three-track operation, however, it is important to keep in mind that losing one track will increase travel times regardless of the adjustments that will be made. Once the Brown Line construction is completed, the new signal system in the Clark Junction corridor will allow customers to travel through this busy corridor more quickly and efficiently.

As construction continues on the North Side, the South Side will see the three-year rehabilitation of the Dan Ryan branch of the Red Line wrap up by the end of 2006. This $283 million project is bringing more reliable and efficient rapid transit service to the South Side of the city with the construction of two new substations, upgrades to two other substations to boost power to the branch and the installation of new contact rail, all of which will enable the CTA to better serve the 45,000 customers who use this branch each day.

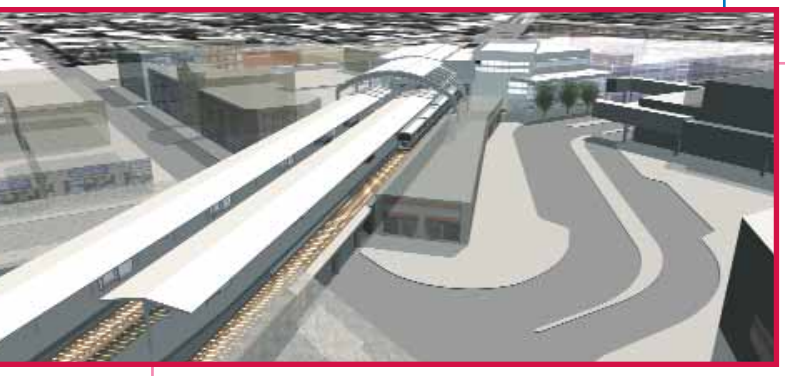
Improving power reliability and the delivery of that power are the most significant aspects of the project. Since the Dan Ryan branch of the Red Line opened in 1969, the CTA has added trains and increased service frequency to keep up with customer demand. In 1969, the Red Line ran six-car trains with rush hour intervals at 5-7 minutes. Today, the Red Line runs eight-car trains with rush hour intervals at 3-5 minutes.

Seven stations from Sox-35th to 87th are also being upgraded to include new flooring, enhanced lighting, refurbished platform canopies, new customer assistant kiosks and improved signs. Eight escalators along the branch have been replaced and new elevators are being installed at 47th and 69th, making those stations accessible to customers with disabilities. Additional enhancements include improved bus connections, curb cuts, canopies over station entrances and improved lighting on the approach to each station.

Rehabilitation work is also underway at the Howard station on the north end of the Red Line that will bring major overall improvements to the facility and boost ongoing neighborhood revitalization efforts in the Howard Street area. The Howard station is a major transportation center serving transit customers on the CTA's Red, Purple and Yellow Lines, seven CTA bus routes and two Pace bus routes.

New canopies were installed on platforms as part of the rehabilitation of the Dan Ryan branch of the Red Line. Above, crews complete the installation at 63rd Street station.

Accomplishments and Plans



A rendering depicts a renovated Howard station, CTA's major intermodal transportation center.

CTA is investing $84.2 million to renovate and make accessible the existing station house and platform areas, and upgrade communications, electrical and lighting systems. The station will also feature customer-friendly amenities such as new benches, signs and bike racks, and new windbreaks and canopies to protect customers during inclement weather. Also included in the project is the rehabilitation of the existing Howard Street viaduct and retail space on the north side of Howard Street, and the creation of a new entrance at the south end of the station.

The new south entrance will provide a convenient, accessible path between the station platforms and the multi-story parking garage and bus terminal on the west side of the station that were completed in 2001 and 2002 respectively. Additionally, new facilities will be constructed on the second floor of the station house for the Red Line rail operations and CTA maintenance departments. The project is scheduled to be complete in 2009 and the station is required to be ADA accessible by 2010.

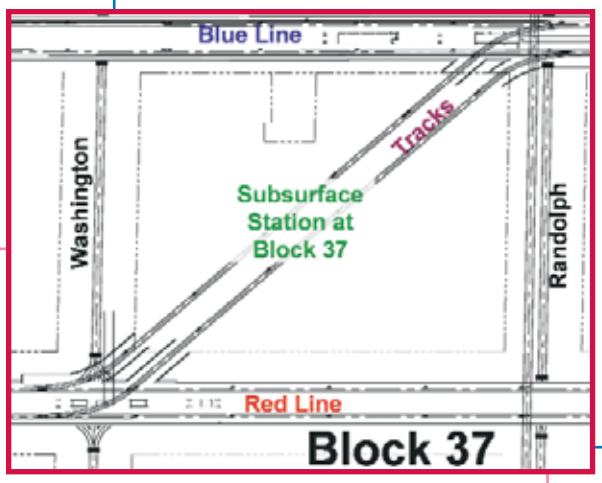
Two of the nearly century-old viaducts that support Purple Line tracks in Evanston also received much needed attention. Work to replace the 95-year-old concrete viaduct located over Main Street in downtown Evanston was completed at the end of 2005. Purple Line trains had been forced to reduce speed when crossing the viaduct due to the deterioration of the structure. A new steel viaduct structure is now in place which has eliminated the slow zone along that expanse of track, thereby improving travel times for Purple Line customers.

Following the $3.7 million replacement of the Main Street viaduct, similar work is currently underway to replace the second of six bridges along the Purple Line slated for replacement. CTA is investing $3.3 million to replace the 98-year-old Church Street viaduct. Located one block north of the Purple Line Davis station, the existing viaduct at Church Street has deteriorated over time with exposure to the elements. Due to its condition Purple Line trains must reduce speed when crossing it. This fall, CTA will replace the concrete viaduct with a new steel structure. In addition to replacing the viaduct, the project includes the installation of new abutments, retaining walls, foundations, and new waterproofing and drainage systems. The project also calls for rail tie replacement, new landscaping and lighting enhancements under the bridge.

Plans for a new downtown transit station also advanced in 2006. The Chicago Transit Board entered into agreements with The Mills Corporation and the City of Chicago to finance and develop a transit center at 108 North State

The new steel Church Street viaduct waits in the wings before being rolled into place.

Accomplishments and Plans



The new transit station at 108 N. State will have a tunnel to connect the Red Line and Blue Line subways.

Street, also known as Block 37, and new tunnel and track connections between the Red and Blue Line subway routes. Under the development agreement, when the station opens the CTA would provide direct rail service to Midway and O'Hare Airports with opportunities for service improvements to be phased in as funding becomes available.

The opportunity to build a station at Block 37 is a unique one for CTA, because it is the only vacant parcel between CTA's Blue Line and Red Line subways. The location makes possible a track connection between the existing subways that will enhance options for subway operations. Connecting the Red and Blue lines will be the CTA's first major tunneling project since the Dearborn subway project was completed in 1951. Since then, there have been two smaller subways constructed – the Logan Square subway and the O'Hare subway – both on the Blue Line and both handled by the City of Chicago.

Construction is currently underway on a train control and traction power upgrade project that will benefit the entire Blue Line, and includes the signals needed to connect the Red and Blue Lines for the Block 37 project. The existing CTA train control and traction power equipment along the Blue Line is more than 40 years old and is past its useful life. These systems ensure the safe operation and movement of trains and the appropriate speed and distance between trains. Customers will experience improved service as the new system will enhance CTA's ability to coordinate train movements in the subway by allowing continuous speeds, and eliminate the need for trains to stop and go as the current system requires.

CTA is working to replace approximately 20 miles of the existing train control system from the Forest Park terminal of the Blue Line Forest Park branch through the Dearborn subway to the Jefferson Park station of the Blue Line O'Hare branch. Additionally, the project will replace the traction power cables and communication upgrades in the Dearborn and State Street subways that will benefit the new transit station to be built at 108 N. State.

Managing multiple construction projects requires a focused commitment to the goals and objectives of each one. In 2006, CTA received recertification of its International Standardization Organization (ISO) 9001:2000 registration which emphasizes the process that creates a product or service. CTA is one of only two transit agencies in the U.S. to be so certified.

The new 30-foot Optima prototype bus against the backdrop of Lake Michigan and the skyline.

Accomplishments and Plans

The New Flyer buses help to further reduce annual emission levels of CTA's bus fleet by 203 tons or 10 percent.

Improving the Fleet

The continuing effort to improve CTA's fleet of buses and rail cars was also evident in 2006. CTA invested $15.5 million to purchase 45 new 30-foot Optima buses that are shorter and narrower than the standard 40-foot buses in CTA's fleet. These buses began to arrive in September and are being deployed in Hyde Park, as well as other neighborhoods where narrow streets and lower peak ridership call for smaller vehicles.

Upgrading the bus fleet with these slightly smaller buses allows CTA to better allocate its resources throughout the service area, much like having the right tool for the job. New buses not only improve the reliability of service, but having smaller-sized buses in the fleet allows service to better match ridership and to realize cost efficiencies that come from operating a smaller vehicle.

Equipped with low emission engines, the low floor, air conditioned, accessible Optima buses have the same amenities that are part of CTA's existing bus fleet, including surveillance cameras, bike racks, automated announcements and automatic passenger counters that provide route usage information to further improve schedules and monitor ridership patterns.

Also arriving in 2006 were the first of 265 40-foot, low floor, accessible, air conditioned New Flyer buses that will further improve service reliability. The New Flyer buses provide environmental benefits because they are equipped with low emission engines. The new buses replace existing 5300-series FIxible buses in CTA's fleet that were purchased in 1991. Each New Flyer bus produces 60 percent fewer emissions than the bus it replaces. The entire order of New Flyer buses further reduces annual emissions levels of the CTA fleet by 203 tons – or 10 percent. With each bus purchase the CTA incorporates new environmentally friendly technology that helps to reduce emissions and contributes to improved service reliability.

The New Flyer buses will further enhance the overall transit experience for many CTA bus customers. Customer amenities include the same standard amenities featured on existing buses in the fleet such as air conditioning, security cameras, bike racks, automated announcements and wheelchair ramps. But the new buses also have some new customer amenities such as strap hangers for standing customers, a rear door easy-touch feature for ease in exiting, and a new seat design that is expected to provide increased comfort.

The $95 million order of 265 New Flyer buses includes 20 diesel electric hybrid buses that are powered by both diesel engines and electric motors to further reduce emissions and improve fuel efficiency. By including 20 hybrid buses as part of the purchase, CTA will be able to evaluate the performance of the environmentally friendly vehicles in Chicago's extreme weather conditions. Performance results will help determine if hybrid buses are suitable as future additions to CTA's fleet.

Since 2000, CTA has purchased more than 1,200 new buses for the fleet. The introduction

of particulate filters and ultra low sulfur diesel fuel along with the improved environmental performance of newer buses has helped CTA to reduce its bus fleet's total 2005 annual emissions by 22 percent, or 564 tons, since 1997. By converting to ultra low sulfur diesel fuel in 2003, the CTA is well ahead of schedule in implementing the 2007 Federal Emission requirements for reduced particulate matter and carbon monoxide.

Significant progress was also made this year to upgrade CTA's aging rail fleet. In May, the Chicago Transit Board approved a contract for the manufacture and purchase of 406 new rail cars, with additional options that could bring the total purchase to 706 cars. The total contract is not to exceed $933 million, however, CTA currently has funding for the base order of 206 and an additional option in the contract for 200 rail cars for a total of $577 million.

The rail cars will replace older rail cars, some more than 30 years old, such as the 2200-series Budd cars that were purchased in 1969-70 and the 2400-series Boeing-Vertol cars purchased in 1976-78. Upgraded features such as security cameras and aisle-facing seating are included in the specifications, as well as AC, or alternating current, traction motor propulsion.

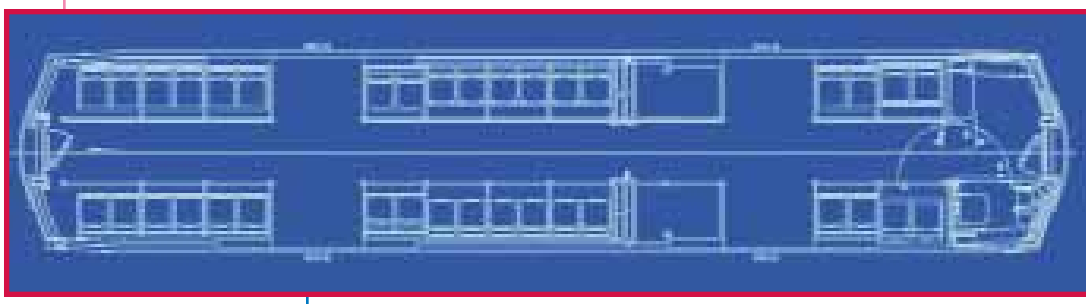
The existing CTA fleet uses DC, or direct current, motors to drive trains. AC propulsion converts the DC energy in the third (power) rail to alternating current for the traction motors. Converting to a more modern AC system will benefit customers by improving reliability and reduce the expense of having to maintain an outdated DC system.

Aisle-facing seating will allow CTA to accommodate more customers per rail car and provide a more comfortable trip, a priority for the second largest transit system in the country. The aisle-facing seating configuration adds six inches to the narrowest portion of the aisle which allows more room for customers carrying backpacks, packages, luggage, strollers and bikes. In addition, it allows more space for standing customers with more support poles and straps in the center of the car and accommodates 40 seats so no seats are lost as a result of the new reconfiguration. Aisle-facing seating also provides space for an additional wheelchair position, increasing the total to two per car.

Delivery of prototype rail cars is expected in 2008. Production of the base order of 206 is expected to begin in 2009 with delivery beginning in 2010. CTA's most recent purchase of new rail cars was in the 1990s when 3200-series cars were purchased for the opening of the Orange Line, and to replace older cars on the Brown and Yellow Lines.

Security Enhancements

Much of CTA's investment in its fleet and facilities is quite visible to customers, however, when it comes to security enhancements the ongoing effort to refine and enhance measures and equipment is most evident behind the scenes. Security cameras are an increasingly important component of enhancing security on the system because they serve as



A preliminary schematic of CTA's AC propulsion rail cars.

Accomplishments and Plans

RRyan, a yellow labrador retriever, is among three explosives-detection canine teams assigned to the Chicago Police Department's mass transit unit, which patrols the CTA. Like all dogs in the federal program, RRyan was named after a victim of the 9/11 attacks. The first "R" in her name means that she was born in the 18th litter of the Transit Security Administration's canine explosives-detection program.

a deterrent to crime and assist law enforcement in identifying perpetrators. They also provide additional information to CTA operations staff in the event of a service disruption.

CTA's entire bus fleet has been equipped with security cameras since 2003. CTA began retrofitting buses with security cameras in 1998 and new buses purchased since then have all come equipped with cameras. The cameras help to deter vandalism and graffiti, and assist law enforcement in investigating incidents and apprehending perpetrators. The new rail cars will come equipped with seven security cameras per rail car.

In fall 2005, CTA announced a significant milestone with the completion of a key portion of its systemwide fiber optic expansion. The new system allows CTA to connect security cameras to its Control Center and to the City's 9-1-1 Center. The link between CTA's Control Center and the City's 9-1-1 Center is part of the Office of Emergency Management Communication's larger Homeland Security grid that is designed to expand the use of surveillance cameras throughout Chicago.

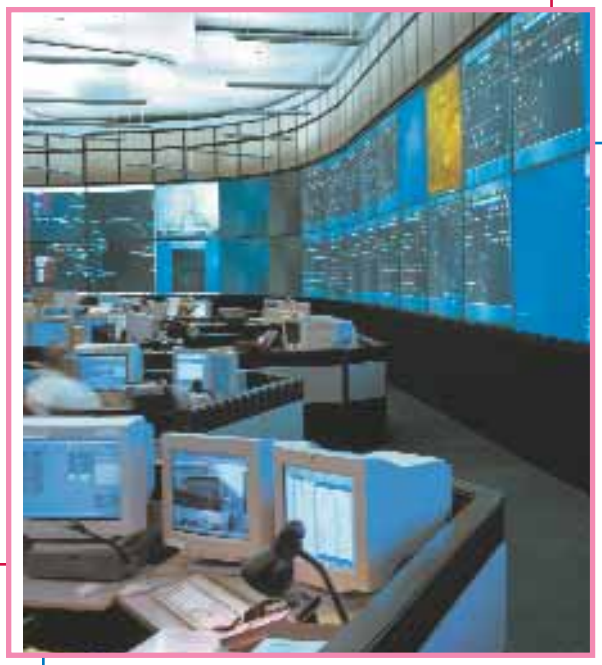
Last fall, all 11 stations on the 54th/Cermak branch had been networked. Today, 464 security cameras at 27 stations are a part of the network. By the end of this year CTA will have 1,200 cameras at 45 stations hooked up to the network, and those numbers will continue to increase to equip all 144 stations on the rail system as funding becomes available.

CTA has been implementing its plan to install and network security cameras throughout its system over the past several years. All new rail stations, such as those recently renovated on the 54th/Cermak branch and the prior renovation of the Green Line, include fiber optics to allow networking of security cameras. In addition, the Blue Line from O'Hare to Jackson, the Red Line from Howard to Roosevelt and the Orange Line have all undergone fiber optic upgrades. New fiber optic installation is underway on the Loop elevated, Yellow and Purple Lines and as part of current rehabilitation projects on the Dan Ryan branch of the Red Line, the Brown Line and as part of the Chicago Department of Transportation's (CDOT) renovation of the State Street subway.

Fiber optic technology enhances communication systems because it carries more information, more reliably, with clearer audio and video reception. In addition to transmitting voice and data needs for phone services, public address systems and fare collection, fiber optic installation serves as the basis for expanding the use of security cameras on the system.

In addition to the increased speed and capacity of the CTA's communication system, the fiber optic upgrade will save the CTA

Accomplishments and Plans



Through a growing network CTA's Control Center is able to bring up images from security cameras throughout the system.

operating costs by eliminating the need to lease several communication lines from an outside company. As a result, the CTA will own and operate all of its communications lines for an expected savings of at least $500,000 annually.

Most recently, the Chicago Transit Board approved a contract to establish a pilot to test a mobile security network capable of streaming real-time video from buses directly to emergency response vehicles, such as Chicago Police Department Public Transportation police cars, CTA vehicles and to the CTA's Control Center. The mobile security network will be able to transmit images of emergency situations on a CTA bus to emergency personnel so they can fully understand the situation and develop an immediate and thorough response plan. The pilot is planned for 50 buses that operate along the #56 Milwaukee and #62 Archer routes, 16 transit police cars, approximately four CTA first responder vehicles and some rail stations.

Local government agencies also are developing wireless security networks using the same type of transmitting devices that will be installed throughout their jurisdictions. This potential partnership can create an expanded infrastructure of transmitting devices that can be shared among the agencies, greatly increasing the networks capability for transmitting wireless images, without creating separate duplicative networks.

Technology and Customer Service

But the investment in technology goes beyond security cameras. In fall 2005, CTA completed installation of the infrastructure necessary to enhance communication capability in the Red and Blue Line subway system. CTA invested in the technology to enhance its existing two-way radio system and improve subway communication options for CTA, Chicago Police Department and Chicago Fire Department/EMS personnel. In addition, the system also allows CTA to generate additional revenue by contracting use of the system to wireless service providers for the benefit of transit customers.

This past summer, the first commercial wireless provider activated its service in the

Five rail routes serve elevated Loop customers in the city's Central Business District.

Accomplishments and Plans

The Bus Tracker pilot provides customers with estimated arrival times of approaching buses on the #20 Madison route.

subway tunnels. Today, only U.S. Cellular customers are able to use their wireless devices in the subway, however, CTA is working to add additional service providers to the system. As more Chicago-area wireless service providers contract with the CTA to provide services, more customers will be able to use their wireless devices throughout the CTA's subway system.

Although the main purpose for the investment was to improve emergency communications capabilities in the subway, by minimally increasing the investment made to upgrade the subway communications infrastructure, CTA provided the opportunity for customers to use their wireless devices enhancing security and convenience. In addition, CTA is able to generate additional revenue through agreements with wireless service providers helping to fill the gap in the operating budget due to insufficient funding.

Technology is also being used to help predict the arrival of CTA buses at bus stops. This summer CTA launched the Bus Tracker pilot which tracks CTA buses in real time and provides estimated bus arrival times for customers. Global positioning satellite (GPS) technology is used to identify bus locations and provides that information to bus customers via a dedicated web site and a bus shelter display. Knowing when a bus is expected to arrive ultimately reduces wait times, which enhances the overall bus travel experience.

CTA is testing Bus Tracker on buses and one bus shelter along the #20 Madison bus route. To provide information to customers, CTA has developed a web site at www.ctabustracker.com and installed a light-emitting diode (LED) display in the westbound bus shelter located on Madison at Jefferson.

The Bus Tracker web site provides a route map with icons indicating the location and direction of each bus currently in service along the route and estimated arrival times for bus stops along the route. Customers can choose to activate an alarm that will alert them when a bus is approaching their stop.

For customers at the test bus stop, the bus shelter display provides an estimated arrival time for the route's next two approaching buses, in addition to the time and temperature. Throughout the pilot, CTA will evaluate the performance of the technology and how it functions within CTA's operating environment. In addition, customer feedback regarding the web site and on-site bus shelter information will be considered.

Bus Tracker is the customer notification phase of bus location technology CTA has been developing and implementing in recent years. The new technologies use real-time data to better monitor performance, make service adjustments when needed, respond to unexpected incidents on the roadways and provide information on next bus arrival for more convenient and reliable public transportation system.

The $1.3 million pilot is scheduled to end December 2006. The results of the pilot and the availability of funding will determine whether the Bus Tracker system will be expanded to additional routes.

Accomplishments and Plans

Increasing Convenience

Without question, continued capital investment in CTA's fleet, facilities and technologies is critical to enrich the transit environment and provide customers with a system that is in a state of good repair. But throughout the year, a number of smaller scale improvements were implemented to make travel on CTA easier and more convenient for customers.

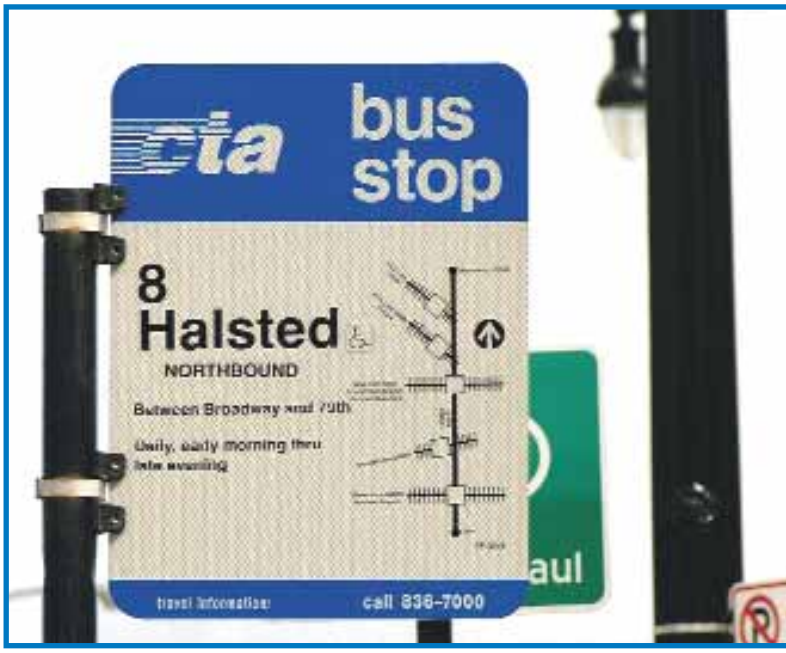
At the beginning of the year a new monthly parking pilot program was introduced that allows customers to reserve parking spaces at three of CTA's most heavily used Park & Ride lots near O'Hare and Midway Airports. During the pilot, the CTA is making monthly parking permits available for 15 percent of the spaces at the Cumberland Park & Ride located at 5800 N. Cumberland on the Blue Line near O'Hare Airport, and the Midway and Pulaski Park & Ride lots, located at 4612 W. 59th Street and 5106 S. Pulaski Road, respectively, on the Orange Line near Midway Airport. Customers who reserve a parking space can assure themselves a spot at the lots that normally fill up early.

A $43 permit reserves a parking space until 10 a.m. daily. Customers are required to pay the daily parking rate in addition to the $43 permit fee. After 10 a.m., the reservation is forfeited for the day and the reserved parking space becomes available to all customers entering the lot. The reserved spaces are located closer to rail station entrances for added customer convenience. The remainder of the spaces are filled on a first-come, first-served basis. The pilot has been well received by customers. The lot at Cumberland still has some reserved spaces available, and the Midway and Pulaski lots currently have waiting lists for reserved spaces.

To improve navigation for bus customers, earlier this year CTA placed directional decals on bus stop signs. The one-inch by six-inch vinyl decal is positioned underneath the bus route number on the sign and reads either northbound, southbound, eastbound or westbound to indicate the direction the bus travels at that stop. On bus stop signs where the bus travels along diagonal streets, the directional information indicates the predominant direction of travel along the route.

More than 2,000 buses operate on 154 CTA bus routes with approximately 12,000 posted bus stops. Of those, more than 9,000 are single-route signs that list only one bus route. Decals were added to single-route signs only. Directional decals do not appear on bus stop signs where there are multiple routes because the direction of travel for each route is indicated in the written description.

Another pilot program this year lowers the age from 17 to 13 when adult supervision is required for teenagers to bring bikes on board CTA. Lowering the accompanied age requirement is intended to provide additional opportu-



Directional decals on bus route signs help customers more easily navigate CTA's system.

Accomplishments and Plans

This year CTA lowered the age from 17 to 13 for children to be accompanied by an adult when bringing bikes on to the system.

nities for teens to combine biking and public transit to get around the city and suburbs.

CTA Bike & Ride rules allow two bicycles on each rail car at all hours of operation, with the exception of morning and evening rush hours, and during special events such as July 3rd when customer loads are very heavy. Bikes are allowed on rail cars during all hours on weekends and folding bikes are allowed on CTA vehicles at all times.

All CTA buses are equipped with bike racks mounted on the front of the bus that carry two bicycles each and take as little as 30 seconds to load. Customers may use the racks any time during service hours.

Program guidelines prohibit children under the age of 12 from boarding buses and trains with bicycles. Adult supervision continues to be required for children from the age of 12 to 13 when bringing a bicycle on the system. For those who want to pedal to a rail station and complete their commute by train, outdoor bicycle racks are available at 93 stations and 75 stations have sheltered bike parking or indoor racks for enhanced security.

CTA and the Community

Several station adoptions also contributed to improving the transit experience for customers. The Chicago Cubs adopted the CTA's Sheridan station on the Red Line. The Cubs commissioned Gallery 37 to create two pieces of art for the station that depict the culture of the Cubs and the surrounding neighborhood. The two pieces were created by 26 students in the gallery's innovative Center for the Arts eight-week summer arts program. The artwork hangs on the north and south walls in the station entry.

Artwork created by Chicago-area junior and senior high school students now adorns the Midway station on the Orange Line thanks to Urban Gateways: Center for Arts Education. The artwork consists of 30 pieces each painted on wood and mounted directly on the station's orange ceiling beams. The paintings follow a time-focused theme and include images of the Chicago skyline, jazz performers, dancers and children next to clocks.

Midway station on the Orange Line features artwork created by local junior high students who participated in Urban Gateways " Art Options" mentorship program.

Accomplishments and Plans

Commemorative posters were distributed to Red Line customers as they passed through the Sox-35th station on their way to World Series games.

The artwork was created in the summer of 2005 by junior high and high school students involved in "Art Options", an Urban Gateways mentorship program designed to enhance their professional art career development. Twenty students worked four days a week for six weeks creating the artwork.

The Laramie station on the Green Line was adopted by City Year Chicago, a youth organization dedicated to providing young adults with community service experience. Students from Julia Ward Howe Elementary school in Austin worked to create art depicting the characteristics of the Austin neighborhood using poetry and community imagery.

The Logan Square station on the Blue Line was adopted by the Logan Square Neighborhood Association which commissioned the non-profit organization Archi-Treasures to create artwork that reflects the diversity and history of the Logan Square area. The final piece was created by a team of people who span the age range from senior residents at the Logan Vista Apartments to students from Kelvyn Park High School. The artwork consists of 10 silhouettes cut out of perforated steel featuring drawings and text about Logan Square.

The CTA launched the Adopt-A-Station program in 1997 to develop partnerships between community organizations, local businesses and individuals. The program helps create rail stations that reflect the history and diversity of the communities served by the CTA. Adopting organizations are offered an opportunity to enhance and revitalize the appearance of CTA rail stations by commissioning local artists to create murals, sculptures, mosaics, paintings or photographs. Currently, 23 CTA stations are under adoption.

This year also saw a continuation of the celebration of the Chicago White Sox 2005 World Series Championship. Following the crowning of the new champs, CTA unveiled a train wrapped in a White Sox logo to honor the team. The train made its debut at the Sox-35th station on the Red Line and traveled across all eight rail lines throughout the year.

Two train cars are wrapped in artwork honoring the Chicago White Sox. Throughout the playoffs, CTA transported an average of nearly 13,000 fans each game to and from the ballpark to cheer on the White Sox. In addition, CTA commissioned and distributed commemorative posters to fans at the Sox-35th Red Line station prior to World Series games that stated the Chicago White Sox are "One 'L' of a Team."

A Red Line train wrapped in honor of the Chicago White Sox 2005 World Series Championship travels past U.S. Cellular Field.

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The Chicago Department of Transportation's $16.9 million investment in the reconstruction of the Red Line's Jackson platform includes new lighting, acoustical panels and new street identifier signs.

2007 Plans

Numerous initiatives are currently underway to improve the fleet, facilities and service CTA provides. Throughout 2007, customers will continue to see progress being made on all of these fronts. At the same time, the financial challenges facing the CTA are greater than ever. In addition to higher fuel and materials costs, in 2007 the CTA had to budget for a new labor contract in which the arbitrator's ruling increased wages without providing for efficiencies and cost savings to offset them, as had been done in prior contracts. Although the CTA considered it a priority, the arbitrator also did not address growing health care costs and pension obligations. With a new directive from the Illinois General Assembly requiring the CTA to fund the pension, there is significantly increased pressure on the budget.

Projects of the scope and magnitude necessary to maintain the second largest transit system in the country require a great deal of support, and the CTA has received generous support from the City of Chicago in rehabilitating its facilities. In 2007, CDOT (Chicago Department of Transportation) will begin renovation work on the Grand station on the Red Line. The renovation project involves the complete renovation of the mezzanine and platform, and expansion of the subway station.

The public mezzanine area, which houses the station, will be expanded, allowing for more efficient travel through the station. In addition, the number of turnstiles will increase and the installation of new exit-only rotogates will accommodate current and future ridership needs. The platform design theme follows the design motif incorporated at other Red Line subway stations rehabilitated by CDOT – Lake, Chicago and Jackson – and includes glazed ceramic tile, vaulted ceiling panels and walls featuring the cityscape.

Early next year, CDOT's renovation of the Jackson station on the Blue Line will be complete. Crews began work on the $15.3 million project in November 2005. Renovation work includes rebuilding the station's platform and mezzanine between Jackson and Van Buren, adding new granite floors, glazed block walls and a mosaic tile ceiling at the platform level.

The station will also feature a new fare array layout providing room for one new fare turnstile for a total of six, and provisions have been made for two additional fareboxes during special events. This will be the first Blue Line station renovated by CDOT that will incorporate a design theme that features glazed tile walls with an abstract blue rail pattern related to the rail line. The design theme, similar to one developed for several recently renovated Red Line subway stations, is intended to promote the identity of the stations and the transit line and will be used in future Blue Line subway renovation projects.

Also included are one new escalator from the mezzanine to street level (which replaces the southeast staircase), one new escalator from the platform to the mezzanine, and engineered acoustical panels to reduce noise at the platform level. New stair entrances and an

Accomplishments and Plans

escalator canopy at street level will enhance station identification on Dearborn Street. Six digital information screens offering CTA service information will also be installed—two at mezzanine level and four on the platform.

Since 1997, CDOT has completed 15 projects to make improvements to CTA infrastructure, turning them into welcoming gateways into the city. CDOT's investment in renovating stations allows CTA the opportunity to use its capital funds for improvements elsewhere on the system.

Since 1989, the City of Chicago has invested $828.5 million in CTA infrastructure improvements. These include renovations to the platform at the Jackson station on the Red Line and reconstruction of the Red Line platform between Adams and Van Buren completed in 2004, as well as rehabilitation of the underground transfer tunnel that provides a pedway connection between the Red and Blue Line platforms at Jackson completed in 2003. Additional projects include the Roosevelt Connector project, which was completed in December 2002, the renovated Chicago Avenue station on the Red Line that was completed in 2001 and the elevated Library-State/Van Buren station that was completed in 1997.

Plans to renovate the Red Line's Wilson station will continue to develop throughout 2007. The station was originally constructed in 1900 and the design phase of rehabilitating the Wilson station is currently underway. Customers using this station will experience the benefit of modern amenities while preserving the station's historic architectural features. The station will be fully accessible to people with disabilities and offer upgraded customer amenities, such as a new platform, signage, overhead heaters and an elevator.

Although renovation of existing infrastructure is a major focus, plans continue to move forward to extend the current system. In 2006, the Chicago Transit Board approved a contract to begin Alternatives Analysis studies for extending the Red Line to 130th Street, extending the Orange Line to Ford City and extending the Yellow Line to Westfield Shoppingtown Old Orchard. The Alternatives Analysis process for the three proposed rail extensions is expected to begin in early 2007.

Extending the Red Line from its existing south terminal at 95th Street to a new terminal at 130th would streamline bus-to-rail connections for 13 CTA bus routes and six Pace routes, and would also connect with the South Shore commuter rail line.

Extending the Orange Line to Ford City would complete the original Orange Line plan to provide improved access to downtown from the far southwest side and from the central city to the strong employment corridor along South Cicero Avenue.

Extending the Yellow Line would provide service to major destinations such as Westfield Shoppingtown Old Orchard, Cook County Courthouse, and adjacent office and

A Visitor Pass machine is conveniently located at the Blue Line station at O'Hare for CTA customers to include public transit as part of their travel.

retail developments currently just beyond the reach of the existing terminal. Expanding service would strengthen the reverse-commute flow along both the Yellow and Red Lines, and make better use of CTA's existing service capacity.

The Alternatives Analysis is currently underway for the proposed Circle Line and will continue through fall 2007. The proposed line would connect nearly all of the city's major employment and special event destinations with CTA and Metra rail lines. This would make rail service more attractive to all transit customers and reduce travel times. The Circle Line project is designed to provide convenient shortcuts for CTA and Metra customers making crosstown trips, while also improving access to the periphery of Chicago's central area.

The Maintenance Management Information System (MMIS) will allow CTA bus and rail mechanics to enter all data related to vehicle work into a central data system.

Alternatives Analysis studies are designed to identify the preferred form of transit for the areas, routes, station locations, preliminary ridership estimates, constructability reviews and risk assessments, operating and capital cost estimates, and implementation schedules. Alternatives Analysis studies are also the first planning step in the Federal Transit Administration's New Starts process for the purpose of pursuing federal funding. The FTA New Starts program requires conceptual transit project proposals to proceed through a formal process of planning, design and construction and consists of five formal steps: Alternatives Analysis, Environmental Impact Statement, Preliminary Engineering, Final Design and Construction.

Additional cost efficiencies will be realized next year due to a significant investment in implementing the Maintenance Management Information System (MMIS), a computerized work-order system for vehicle maintenance, as the result of a successful pilot in 2005. The $5.5 million system replaces CTA's outdated vehicle maintenance system implemented in the 1970s and tracks the life cycle of vehicle parts and time required to perform maintenance duties, allowing CTA to improve maintenance efficiency. MMIS will allow CTA bus and rail mechanics to enter data related to vehicle work into a central data system. The system will keep track of information such as defective parts, materials used, cost of parts, and warranty information. It will also help with decisions related to scheduling maintenance activities and fleet upgrades. Installation of the equipment required to fully implement MMIS will be completed in 2006 and the system will be fully operational in 2007.

Future

In July 2006, funding for five CTA New Starts projects was authorized as part of the reauthorization of the federal transportation bill, known as SAFETEA-LU (Safe, Accountable, Flexible, Efficient Transportation Equity Act – A Legacy for Users). SAFETEA-LU will provide a total of $286.4 billion nationwide through 2009. Of that amount, $52.6 billion is earmarked for capital transit projects. For the period 2004 – 2009, Illinois is authorized to receive $2.6 billion in transit formula funds and CTA will receive approximately $1.3 billion of that amount.

Accomplishments and Plans

In order to secure the federal funding available under SAFETEA-LU, CTA must secure an adequate level of non-federal matching funds. Securing CTA's formula funds for 2006 through 2009 – not including New Starts grants – will require more than $200 million in non-federal matching funds. From 2000 through 2004, a significant portion of the region's matching funds came from Illinois FIRST legislation which expired on June 30, 2004, leaving transit agencies in Illinois without an adequate source of non-federal matching funds. CTA is working with the Regional Transportation Authority (RTA) and the Illinois Legislature to enact a replacement of Illinois FIRST and ensure that the Chicagoland region will receive all of the federal transit funds appropriated. Major CTA capital improvements such as the rebuild of the 54th/Cermak branch of the Blue Line, the purchase of new buses, current work on the rehabilitation of the Dan Ryan branch of Red Line and expanding capacity on the Brown Line, would not have been possible without the matching funds provided by the state's Illinois FIRST program.

Recently CTA conducted an extensive examination of the its assets and infrastructure, including rail stations, tracks and support facilities and determined that an $8 billion capital investment is needed in the next five years in order to allow the CTA to get to a state of good repair. Including all planned rail line extensions would increase the figure to more than $10 billion.

Of the projected $8 billion need, CTA staff has identified about $2.2 billion that could be available through federal funding or CTA-issued bonds, leaving a potential unfunded need at $5.8 billion. A decision on an anticipated state capital program could help narrow the gap.

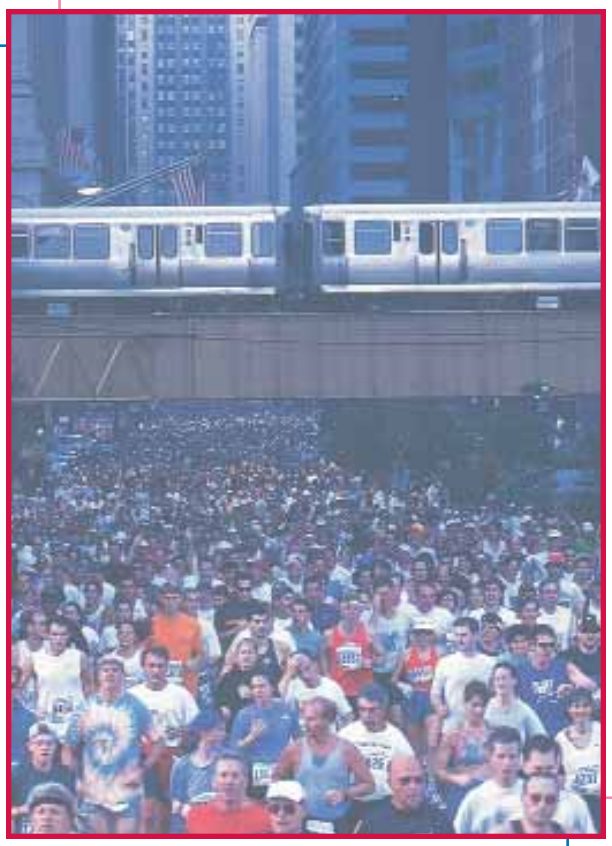
Projects include replacing and rehabbing aging buses and trains to improve reliability and customer comfort; retrofitting rail cars with cameras to enhance customer safety and system security; rebuilding train stations to increase circulation and accessibility; expanding the new Bus Tracker program to provide arrival information for all bus lines; upgrading the public address system to offer timely and clear information during service disruptions; upgrading signal and communications system to improve system reliability; and extending the Red, Orange and Yellow Lines.

Capital funding allowed CTA to renovate the station, track structure and platform at Central Park station as part of the successful rebuild of the 54th/Cermak branch.

CTA's previous capital assessment identified $5.1 billion of needed projects. The updated $8 billion figure resulted from a rigorous 18-month assessment that the CTA started to prepare for a successor capital program to Illinois FIRST. Also contributing was a directive from the Illinois legislature to the State Auditor General to review CTA's operations and management, including its capital program. The result is the CTA's most comprehensive needs assessment in nearly 10 years.

The right capital investments can decrease operating costs, increase reliability and improve overall service quality. With record gas prices making public transit an increas-

Accomplishments and Plans



An elevated train travels above the Loop as runners compete in the LaSalle Bank Chicago Marathon.

ingly attractive option, it is important to understand the big picture so that CTA, its customers and all those who take an interest in CTA activities can see what level of service is possible with a solid investment and, alternatively, what is likely without one.

The CTA's long-standing capital goal is to reach what is known in the transit industry as a "State of Good Repair." It requires that equipment and facilities are upgraded and replaced in a timely manner and that service management systems should be modern and reliable.

Although CTA constantly invests in improvements to its fleet and facilities, the fact remains that some of the infrastructure and facilities are more than 100 years old, and all of it is aging year after year. To achieve and maintain a state of good repair requires continued investment. CTA operates on a 24/7 basis with a heavy and growing daily demand. Timely maintenance and replacement of aging assets is necessary to keep trains and buses running, to keep facilities safe and efficient, to incorporate technologies that will improve service for customers, and to control future costs.

With sufficient resources, CTA and its partner transit agencies can rapidly transition from a struggle to maintain services to a new era of unprecedented ridership increases and customer satishfaction.

Additional funding can put transit on a more equal footing with driving for local and regional travel. Linking multiple destinations with frequent service during both the peak and off-peak periods is essential to positioning transit as a genuinely competitive travel option. Being able to "go anywhere, anytime" using transit makes it feasible for households to strength their finances by reducing dependence on auto use and even auto ownership.

In recent years the CTA has made significant progress in its capital program thanks to federal funding and the state's last capital program, Illinois FIRST, which provided the CTA with more than $800 million in investment between 2000 and 2004 and enabled it to leverage federal funding. As a result, the CTA increased the investment in its capital program from 19 percent of the funding needed to get to a state of good repair in 1999 to nearly 60 percent by 2004.

Recent investments include the renovation of the 54th/Cermak branch of the Blue Line and the Dan Ryan branch of the Red Line; the purchase of more than 1,100 new buses that are air conditioned and accessible to people with disabilities; the refurbishment of nearly 1,200 rail cars; the replacement of 15 miles of double track, 40 miles of cable and 27 miles of rail; renovation of 30 rail stations, installa-

Accomplishments and Plans

tion of new elevators and escalators, and structural projects such as Harrison Curve and the Paulina Connector that have enabled service improvements.

Despite the recent success in securing funding, the reality is that too few funds have been spread too thinly over too many needs for too long. Maintaining infrastructure as old and vast as CTA's is a challenge that requires dedicated funding.

And, while it is vital to secure capital funding, it is also imperative to secure dedicated operating funding for both system growth and existing service. Without sufficient operating funding, the CTA will be unable to operate let alone continue to provide an attractive level of service for existing and new customers.

Investments CTA has already made to upgrade its rail system are now playing a significant role in the strength of the City of Chicago's bid to host the 2016 Olympic Games. The Garfield and 51st Street stations on the Green Line and the Garfield station on the Red Line provide service to the proposed site of the City's Olympic Stadium at Washington Park. This year the $283 million renovation of the Dan Ryan branch of the Red line will be completed and the $406 million rebuild of the Green Line was completed in 1996. In addition to having public transit already in place to serve the proposed venue, Chicago is able to boast a strong and well established public transit network to accommodate the millions of spectators and athletes from around the world who would call Chicago home throughout the Olympic games.

The CTA is committed to serving its customers. As we move ahead into 2007 and beyond, we will continue to look for the most efficient operating methods and call upon the resourcefulness of staff to help reduce costs and increase revenue. Our focus remains on maintaining and continually improving the level of service currently provided to our customers.

The region we serve is one of the most dynamic in the country, and we will work together to provide service that is on time, clean, safe and friendly for everyone who travels on the CTA system.

"Moving Beyond Congestion", the alliance formed by the RTA, CTA, Metra and Pace has identified 2007 as the year of decision that will determine whether we modernize our transit network or we shrink it.

The transit agencies have all joined together to build a regional consensus for significant improvement and expansion of transit that will pay large dividends for years to come in increased economic activity, less road congestion and increased consumer savings from our transit network.

We are confident that by working together the right decisions will be made on behalf of transit and on behalf of the people of Northeastern Illinois who rely on public transit or benefit from its existence.

An 'L' train travels on elevated tracks over throngs of White Sox fans taking part in the parade and celebration of the World Series Championship.

CTA Salutes its 2006 Bus & Rail Champions and its Osterman Award Winner and Finalist

Kathy Osterman Winner
Outstanding Supervisory Employee
Brenda Chavers
Manager, Selection Testing and Development
(Human Resources)

Kathy Osterman Finalist
Outstanding Clerical Employee
Cynthia L. Eaves
Project Specialist II
(Customer Facilities Maintenance)

Bus Operator Champion
Jairo Naranjo
(Forest Glen Garage)

Rapid Transit Operator Champion
Jaime Rivera
(54th Terminal)

Bus Maintenance Champions
(L to R) Ed Jordan, Oscar Sanchez and Marc Schergen
(Archer Garage)

Rail Maintenance Team Champions
(L to R) Willington Antony, Kenneth Wheeler and Orlando Berrios
(Skokie Shop)

Bus Farebox Technician Champion
Tony Lazaro
(901 W. Division)

Rail Switchman Champions
(L to R) Kevin Bergthold and Charlie Peacock
(Midway)

AFC Techician Champion
Stanley Majewski
(901 W. Division)

Rail Customer Assistant Champion
Kaled Abdelal
(Kimball)

Cleanliness Champion
Allen Marshall
(98th Street Shop)

Courteous

We will create a pleasant environment for our customers and ourselves.

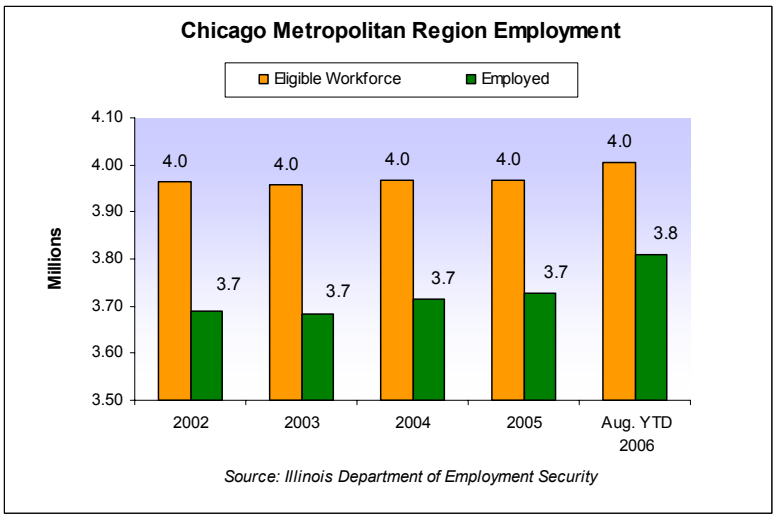
2006 Operating Budget Schedule

(In Thousands)	2006 Budget	2006 Forecast	(Unfav)/Fav Variance	(Unfav)/Fav % Variance
Operating Expenses				
Labor	$ 748,922	$ 769,163	$ (20,241)	(2.7) %
Material	67,088	75,337	(8,249)	(12.3) %
Fuel	48,000	55,003	(7,003)	(14.6) %
Power	24,526	21,582	2,944	12.0 %
Provision for Injuries and Damages	33,000	53,000	(20,000)	(60.6) %
Purchase of Security Services	35,335	31,000	4,335	12.3 %
Purchase of Paratransit	29,582	27,369	2,213	7.5 %
Other Expenses				
Utilities	17,542	20,891	(3,350)	(19.1) %
Advertising and Promotion	4,935	2,331	2,604	52.8 %
Contractual Services	36,993	36,597	396	1.1 %
Leases and Rentals	2,420	2,032	387	16.0 %
Travel, Training, Seminars, and Dues	3,211	2,956	259	8.1 %
Warranty and Other Credits	(20,932)	(21,121)	189	(0.9) %
General Expenses	6,063	6,059	3	0.1 %
Total Other Expenses	50,232	49,744	488	1.0 %
Total Operating Expenses	**$ 1,036,685**	**$ 1,082,198**	**$ (45,513)**	**(4.4)** %
System Generated Revenue				
Fares and Passes	$ 426,522	$ 463,808	$ 37,286	8.7 %
Reduced Fare Subsidy	30,590	32,000	1,410	4.6 %
Advertising, Charter & Concessions	24,800	24,771	(29)	(0.1) %
Investment Income	4,944	11,018	6,074	122.9 %
Statutory Required Contributions	5,000	5,000	0	0.0 %
All Other Revenue	20,773	21,545	772	3.7 %
Total System Generated Revenue	**$ 512,629**	**$ 558,142**	**$ 45,513**	**8.9** %
Public Funding Required for Operations	**$ 524,056**	**$ 524,056**	**$ 0**	**0.0** %
IDOT Grant	27,126	27,126	0	0.0 %
Capital Offset	41,166	41,166	0	0.0 %
Public Funding Available through RTA	455,764	455,764	0	0.0 %
Total Funding	**$ 524,056**	**$ 524,056**	**$ 0**	**0.0** %
Recovery Ratio *	52.98%	54.76%	1.78	3.4 %
Required Recovery Ratio	53.00%	53.00%	-	- %
Fund Balance	**$ -**	**$ -**	**$ -**	**-**

*Recovery ratio is calculated by dividing System Generated Revenues over Operating Expense. The calculation includes, In-kind revenues and expenses for security provided by the City of Chicago, excludes security expense and includes some grant revenues.

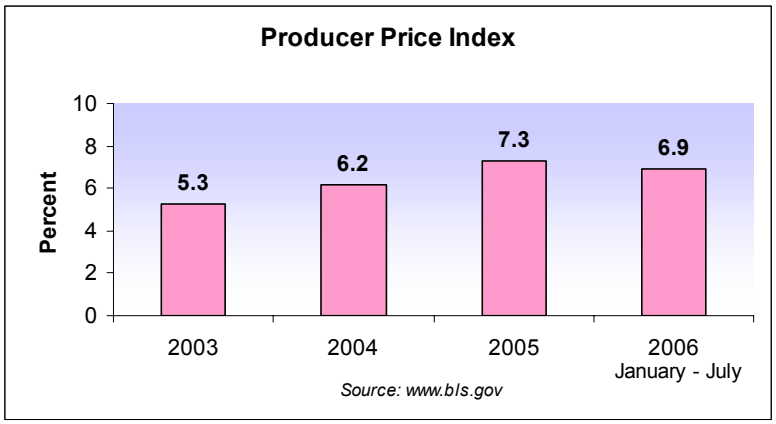
2006 Operating Budget Performance Summary

The Chicago Metropolitan region's economy added over 100,000 jobs to the local market during the first eight months of 2006, pushing the employment rate to 95.3 percent in June compared to 94 percent at the end of 2005. Retail sales were strong as evidenced by the sales tax revenues through June that showed year-over-year increases of 7.8 percent in the City of Chicago, 6.4 percent in suburban Cook County and 7.6 percent in the Collar Counties. Passenger travel at the airports experienced an increase of over one percent at O'Hare and over 12 percent at Midway. The Gross Domestic Product (GDP) growth for the country was 5.6 percent in the first quarter and 2.6 percent in the second quarter.



These economic factors provided an environment that helped to foster ridership and revenue growth for the CTA. Rising fuel and commodity prices contributed to a significant increase in CTA's operating expenses. U.S. crude oil prices increased from $49.37 per barrel on December 31, 2005 to $77.05 on August 7, 2006 – a 56.1 percent increase in seven months. The rise in energy prices led to increases in the Consumer Price Index (CPI). For the first seven months of 2006, the U.S. city average CPI rate was 3.9 percent. The Producer Price Index rose 6.9 percent for the same period. These factors influenced the Federal Reserve Board to increase the Federal Funds rate from 4.25 percent at the end of 2005 to the current rate of 5.25 percent.

During 2006, CTA experienced some high points as well as some fiscal challenges. In July, the labor contracts for the largest two unions, representing 85 percent of the organized labor workforce, were settled through arbitration. The arbitration award provided for a 10.1 percent increase in wages over the three-year period ending December 31, 2006. The arbitration award exceeded amounts estimated in the budget for the three year period by $27 million, but failed to address healthcare and pension, two large and growing components of CTA's operating budget. On May 4, 2006, the Illinois General Assembly approved a bill requiring CTA, beginning in 2009, to achieve a 90 percent funded ratio for its employee pension plan by the end of 2058. It is estimated that this will require an additional $176 million annually in funding to the pension plan; which is equal to 37 percent of CTA's 2006 public funding through RTA.



2006 Operating Budget Performance Summary

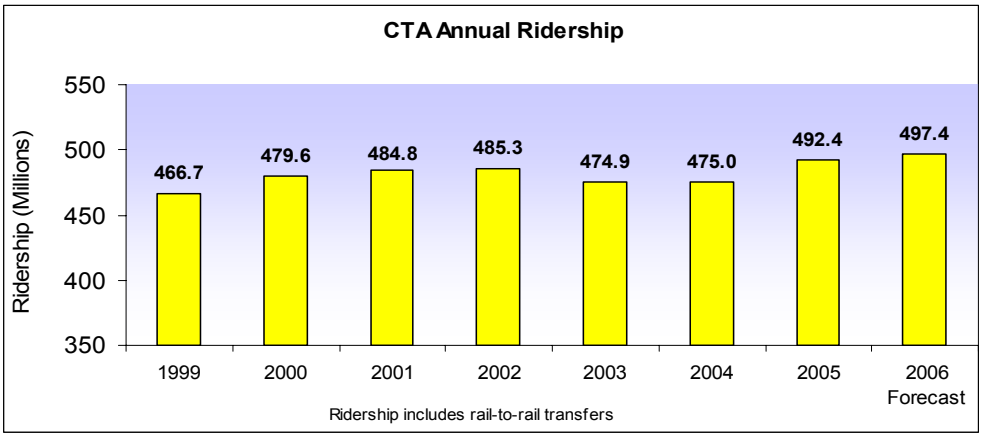
In 2005, CTA hired AECOM Consult to identify short-term and long-term cost reduction opportunities throughout 18 functional areas. As a result of its review, AECOM developed 246 specific recommendations representing an annual savings of approximately $159 million. The majority of these recommendations relate to CTA efficiencies and business improvement opportunities focusing on employee productivity, information systems utilization, streamlining contracting practices and better customer service. Of the $159 million in projected savings, approximately $111 million require changes in CTA's collective bargaining agreements or legislation. The CTA Board directed staff to include $5.0 million of savings from the implementation of AECOM recommendations in the 2006 operating budget. To date, the CTA has implemented and/or closed/consolidated 93 of the AECOM recommendations, encompassing nearly $47.0 million in expected savings or additional revenue generation in 2007.

The 2006 budget and financial results include the utilization of $41.0 million of capital funds to support operations.

As the CTA works with Metra, Pace and the RTA to increase transit funding for the region, it has had to stretch current resources to fund operations. In 2006, CTA reluctantly transferred $41.0 million of capital funds to support operating costs. However, the practice of diverting capital funds ultimately puts the capital program at risk, escalating the future cost of capital programs and increasing operating costs in the long run. The following sections discuss CTA's performance during 2006.

RIDERSHIP

CTA continued to experience ridership growth in 2006. Improved service, route realignments, fare restructuring, higher gas prices and an improved Chicago regional economy were all contributing factors in this robust growth. Ridership for 2006, including rail-to-rail crossovers, is forecast at 497.4 million trips. This forecast is 7.8 million trips, or 1.6 percent higher than the 2006 budget, and 5.0 million trips, or 1.0 percent higher than the 2005 actual ridership. This ridership gain was realized despite the loss of 1.2 million paratransit trips due to transitioning this service to Pace on July 1.



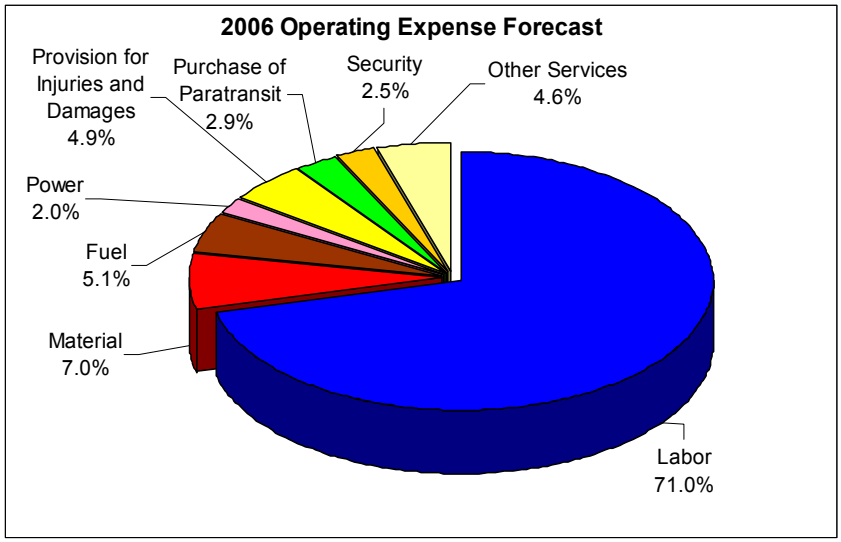
Although overall ridership increased, CTA saw a ridership loss on the bus system, which was offset by strong ridership on the rail system. The decline in ridership on the bus system is attributed in part to the implementation of CTA's new fare strategy that focused

2006 Operating Budget Performance Summary

on moving customers to electronic fare media and passes, and away from cash. The new fare restructure, implemented on January 1, 2006 increased cash fares to $2.00 and eliminated paper transfers. The loss of ridership on the bus system is attributed primarily to the elimination of paper transfer misuse. Bus ridership for the year is forecast at 299.2 million trips; 4.7 million trips or 1.6 percent lower than budget, and 4.1 million or 1.3 percent lower than prior year.

Rail ridership, however, has experienced healthy growth in 2006. Rail ridership is projected at 197.1 million trips; 12.6 million or 6.8 percent higher than budget, and 10.3 million or 5.5 percent higher than prior year. Ridership growth was not only realized during the peak rush hour, but during the off-peak as well. Weekday ridership gains exceeded 5.0 percent, while Saturday and Sunday growth were in excess of 7.0 percent during August 2006. At current growth rates, CTA rail ridership in 2006 is projected to be the highest in 38 years.

Paratransit ridership finished the year at 1.2 million trips, trailing prior year actual by 1.2 million trips or 50.2 percent as the paratransit operation was transitioned to Pace on July 1, as required by the State legislature.



OPERATING EXPENSES

Operating expenses for 2006 are estimated at $1.082 billion. Higher energy and commodity prices heavily impacted CTA's fuel and material expenses. An actuarial assessment of CTA's injuries and damages fund at the end of 2005 found the reserve to be insufficient to meet expected liabilities by $20.0 million. In 2006 CTA contributed an additional $20.0 million to the fund to meet the actuarial projection.

The labor arbitration award provided for wage increases that exceeded budgetary estimates by $27.0 million for the three year period but failed to address critical healthcare and pension issues.

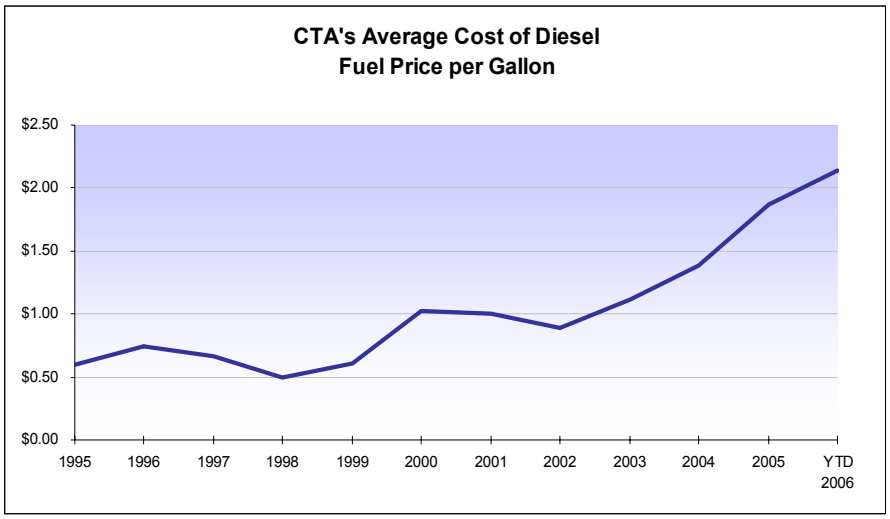
As a result of these aforementioned issues and the adverse labor arbitration award, CTA's operating expenses are forecast to exceed budget by $45.5 million or 4.4 percent. CTA's operating expenses for the 2006 budget are dominated by direct costs to deliver and maintain bus and rail operations, which accounts for 70.8 percent of total operating expenses. Transportation support services such as scheduling, customer service, safety, and security represent another 6.5 percent of expenses. Administrative expenses and funding for injuries and damages comprise the remaining 7.5 percent.

2006 Operating Budget Performance Summary

Labor expense is projected at $769.2 million, which is $20.2 million or 2.7 percent higher than budget. As explained earlier, labor expense was adversely impacted by the arbitration award. Wage rate increases under this award, when applied to all union employees, exceed amounts provided in the budget for the three year period by $27.0 million and $20.0 million annually thereafter. For the three-year period starting January 1, 2004 and ending December 31, 2006, wage rates increased by 10.1 percent. Benefits (excluding paid time off) provided to CTA employees equal approximately 27 percent of CTA's labor costs.

Rising commodity and energy prices spurred price increases on building materials, vehicle replacement parts and other materials CTA uses in day-to-day system maintenance. Material expense is forecast at $75.3 million, which is $8.2 million higher than budget.

Higher energy prices have been one of the primary cost drivers of CTA's operating expense increases. Fuel for revenue equipment is forecast at $55.0 million for 2006, which is $7.0 million or 14.6 percent more than budget and $9.2 million or 20.1 percent more than 2005. Consumption is forecast at 24.2 million gallons and is slightly higher than budget. The 2006 budget assumed an average price of $2.00 per gallon. Fuel prices are estimated to end the year at a net average price of $2.27 per gallon. This price is net of gains achieved from the fuel hedge initiative. The fuel hedge program provided approximately $2.0 million in savings during 2006. Since the inception of the fuel hedge initiative in 2003, the CTA has realized over $10.0 million dollars in savings.



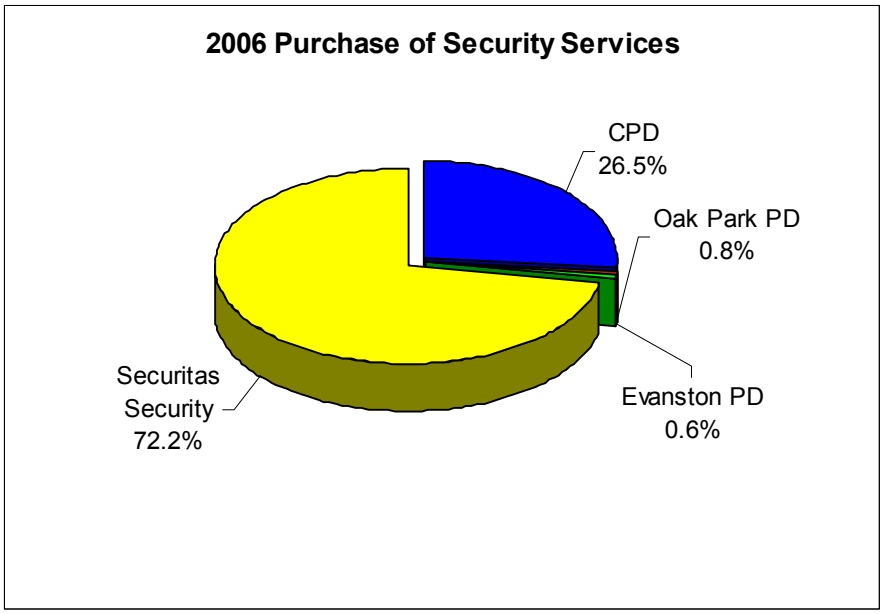
Electric power for the rail system is forecast at $21.6 million, which is below budget by $2.9 million or 12.0 percent. The power expense is below budget partially due to a warmer than average winter.

Since its inception in 2003, CTA's fuel hedge initiative has saved the agency over $10.0 million dollars.

Provision for injuries and damages represents expenses for claims and litigation for incidents that occur on CTA property or with CTA vehicles. The 2006 forecast for this category is $53.0 million. This exceeds budget by $20.0 million as the CTA took advantage of strong fare box revenues to cover the unfunded liability reported by the actuary at the end of 2005. According to the 2005 actuarial report, the damage reserve fund was under funded by approximately $20.0 million based on projected liability of all claims against the CTA. Based on funding the reserve at the amount estimated by the actuaries during 2006, CTA expects this expense to be lower in future years.

2006 Operating Budget Performance Summary

Paratransit services were transitioned to Pace effective July 1 of this year, as required by House Bill 1663 approved by the General Assembly and signed by the Governor in 2005. The purchase of paratransit services is forecast at $27.4 million, which is $2.2 million or 7.5 percent lower than budget due to fewer trips taken than provided in the budget. Paratransit trips are projected to finish the year at 1.2 million trips, which is 40,628 trips or 3.3 percent less than the 2006 budget. This curb-to-curb service was provided by three private carriers (SCR, CDT, and Art's Transportation) and taxicab companies.



Security services are provided by the Chicago, Evanston, and Oak Park Police departments and through contracts with private security firms. The Public Transportation Unit of the Chicago Police Department (CPD) also provides dedicated services to CTA customers at an estimated cost of $22.0 million, paid for by the City of Chicago. This amounts to a combined total security budget of over $55.0 million for the CTA system.

In addition, CTA's capital investment includes security improvements, such as cameras and monitoring devices strategically deployed throughout the system. The rail station camera program was expanded to allow networked video surveillance of all subway platforms and tubes to be completed this year. This is being done in coordination with Chicago's Office of Emergency Management and Communications (OEMC) to allow integrated video coverage of CTA rail by both OEMC and CTA's Control Center. CTA is a partner in OEMC's Operation Virtual Shield video surveillance program. The CTA camera network will also be available to be viewed by 15 Chicago Police Transit Unit squad cars which will have wireless connectivity to CTA video surveillance at all subway stations via a lap top computer in the squad car.

Full-year security expenses funded by the CTA are estimated at $31.0 million, versus a budgeted level of $35.3 million. This lower spending level reflects the CTA's decision to utilize alternative security measures, such as increasing the number of CTA employees deployed to rail stations and the installation of additional surveillance cameras, to maintain a safe environment for customers.

Other expenses primarily include utilities, maintenance and repair, advertising, commissions, consulting, insurance, overhead allocated to capital work, and other general expenses. The year-end forecast equals $49.7 million, which is $0.5 million or 1 percent lower than budget.

2006 Operating Budget Performance Summary

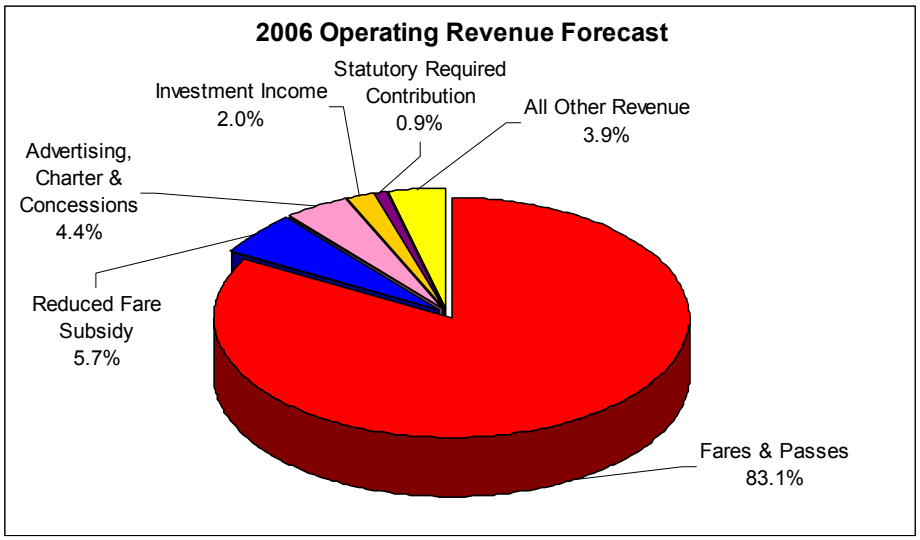
OPERATING REVENUES

System-generated revenues are projected at $558.1 million and compare favorably to budget by $45.5 million or 8.9 percent. All revenue categories are projected to finish the year ahead of or on par with budget.

CTA's new fare strategy was a big success in 2006. Revenues from fares are forecast at $463.8 million. This is $37.3 million or 8.7 percent higher than budget principally due to the fare plan implemented in January and higher ridership. The average fare including cross platform trips is projected at $0.93 reflecting increased system cash and transit card fares on the rail system, as well as customers migrating to passes for convenience but using them less frequently. The elimination of paper transfer abuse also contributed to the higher average fare.

Reduced fare subsidy is the State of Illinois' reimbursement to Service Boards for discounted fares to the elderly, people with disabilities, and student customers. Revenue from reduced fare reimbursement is projected at $32.0 million and is $1.4 million more than budget due to CTA's higher share of the funding as a result of ridership.

Advertising, charter, and concessions revenues in 2006 are projected to be $24.8 million, which is equal to budget.



Investment income is estimated at $11.0 million, which is $6.1 million or 122.9 percent higher than budget. This is primarily due to higher investment rates resulting from Federal Reserve Board rate increases. Since the end of last year, the Federal Reserve has increased the Federal Funds rate to 5.25 percent. The CTA benchmarks its investments against the 90-day treasury rates. In December 2005, the 90-day treasury rate was 3.89 percent. This rate has since increased to 4.96 percent.

Statutory required contributions of $5.0 million are on par with budget. The RTA Act requires the City of Chicago and Cook County to contribute $3.0 million and $2.0 million, respectively, in cash towards CTA operations each year.

Other revenues are projected at $21.5 million, $0.7 million higher than budget. This is due to higher rental and parking revenue.

2006 Operating Budget Performance Summary

Public funding received through the RTA was $524.1 million and mirrored the budget. This funding is composed of sales tax and discretionary funding from the RTA, a grant from IDOT to fund paratransit, and $41.2 million in capital funding.

The CTA projects a balanced budget for 2006 as required by the RTA Act. The recovery ratio, which measures the percentage of operating expense CTA funds from internally generated revenues, is estimated to be 54.8 percent and exceeds the required system-recovery ratio of 53.0 percent. This is due to the higher proportion of system-generated revenues relative to operating expenses.

Innovative

We will seek out and encourage employees who initiate change, improvement, learning and advancement of our goals.

President's 2007 Proposed Operating Budget Schedule

(In Thousands)

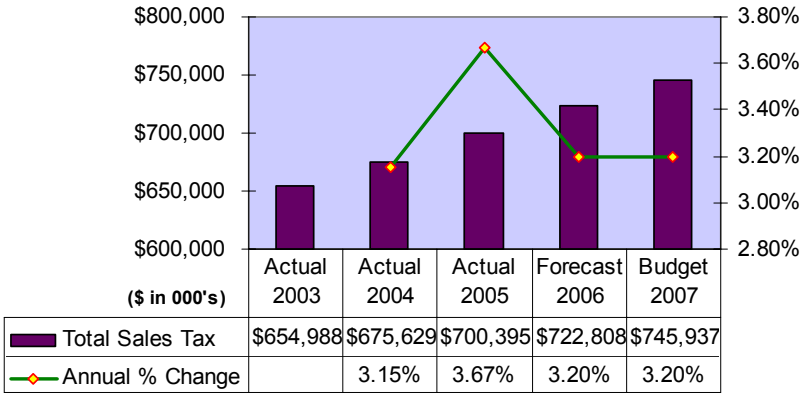
	2005 Actual	2006 Budget	2006 Forecast	2007 Proposed
Operating Expenses				
Labor	$ 714,336	$ 748,922	$ 769,163	$ 850,332
Material	71,366	67,088	75,337	77,894
Fuel	45,788	48,000	55,003	61,233
Power	22,909	24,526	21,582	28,057
Provision for Injuries and Damages	31,500	33,000	53,000	25,000
Purchase of Security Services	31,221	35,335	31,000	35,334
Purchase of Paratransit	53,257	29,582	27,369	-
Other Expenses				
Utilities	20,975	17,542	20,891	23,992
Advertising and Promotions	2,757	4,935	2,331	3,023
Contractual Services	37,257	36,993	36,597	38,765
Leases and Rentals	1,621	2,420	2,032	2,042
Travel, Training, Seminars, and Dues	2,867	3,211	2,956	3,111
Warranty and Other Credits	(20,523)	(20,932)	(21,121)	(21,781)
General Expenses	6,115	6,063	6,059	6,150
Total Other expenses	51,069	50,232	49,744	55,301
Total Operating Expenses	**$ 1,021,446**	**$ 1,036,685**	**$ 1,082,198**	**$ 1,133,151**
System Generated Revenue				
Fares and Passes	$ 417,424	$ 426,522	$ 463,808	$ 468,334
Reduced Fare Subsidy	31,961	30,590	32,000	32,000
Advertising, Charter & Concessions	23,963	24,800	24,771	24,990
Investment Income	5,432	4,944	11,018	12,120
Statutory Required Contributions	5,000	5,000	5,000	5,000
All Other Revenue	42,024	20,773	21,545	10,250
Total System Generated Revenue	**$ 525,804**	**$ 512,629**	**$ 558,142**	**$ 552,694**
Public Funding Required for Operations	**$ 495,642**	**$ 524,056**	**$ 524,056**	**$ 580,457**
IDOT Grant	54,252	27,126	27,126	-
Capital Offset	-	41,166	41,166	-
Public Funding Available through RTA	441,632	455,764	455,764	470,349
Additional Public Funding	-	-	-	110,108
Total Funding	**$ 495,884**	**$ 524,056**	**$ 524,056**	**$ 580,457**
Recovery Ratio*	54.07%	52.98%	54.76%	52.03%
Required Recovery Ratio	52.90%	53.00%	53.00%	52.00%
Fund Balance	$ 242	$ -	$ -	$ -

*Recovery ratio is calculated by dividing System Generated Revenues over Operating Expense. The calculation includes, In-kind revenues and expenses for security provided by the City of Chicago, excludes security expense and includes some grant revenues.

2007 Major Budget Assumptions

	2006 Budget	2007 Estimated	Change	% Change	Justification
FARE REVENUE					
Avg. fare per trip	$0.87	$0.93	$0.06	6.9%	Higher average fare and growth in ridership
Ridership (000's)	489,625	505,944	16,319	3.3%	
Fare & Pass Revenue (000's)	$426,522	$468,334	$41,812	9.8%	
EXPENSES					
Avg. fuel price per gallon	$2.00	$2.50	$0.50	25.0%	Commodity price increase
Gallons consumed (000's)	24,000	24,493	493	2.1%	Service enhancements
Power for Revenue Equipment	$24,526	$28,057	$3,531	14.4%	Expiration of ten-year power rate freeze in Illinois
Material	$67,088	$77,894	$10,806	16.1%	Commodity price increases
LABOR					
Scheduled Transit Operators (STO) positions	5,592	5,605	13	0.2%	Service & Security enhancements
Total positions	10,873	10,907	34	0.3%	

SALES TAX FUNDING TO RTA

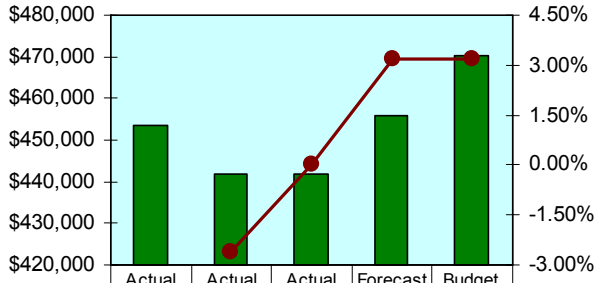


($ in 000's)	Actual 2003	Actual 2004	Actual 2005	Forecast 2006	Budget 2007
Total Sales Tax	$654,988	$675,629	$700,395	$722,808	$745,937
Annual % Change		3.15%	3.67%	3.20%	3.20%

Sales tax, the primary source of funding for public transit, is closely tied to the economic health of the region.

CTA OPERATING FUNDING (SALES TAX & RTA DISCRETIONARY FUNDS)

Regardless of the health of the sales tax revenues in the region, CTA relies on discretionary funding for over one-third of its annual public funding from RTA.

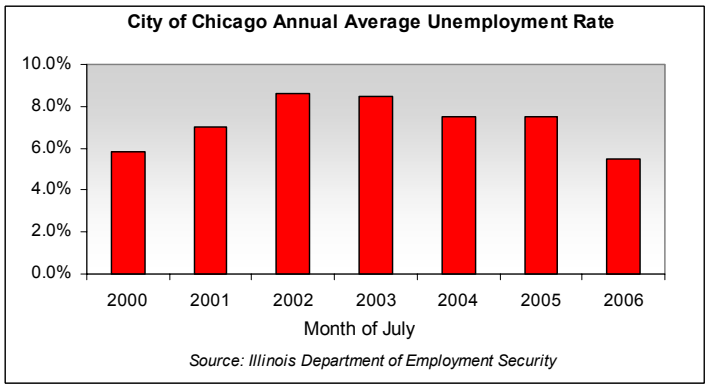


($ in 000's)	Actual 2003	Actual 2004	Actual 2005	Forecast 2006	Budget 2007
Total Sales Tax	$453,488	$441,632	$441,632	$455,764	$470,349
Annual % Change		-2.61%	0.00%	3.20%	3.20%

President's 2007 Proposed Operating Budget Summary

OVERVIEW

The 2007 proposed operating budget maintains fares and provides for the same level of bus and rail service currently available to CTA customers throughout the service area. The budget is predicated on a stable economy and employment growth in the region. Such an economic environment will facilitate continued ridership and revenue growth in 2007.



The CTA's operating budget is affected by the overall health of the economy, as well as by key economic factors such as employment, retail sales, inflation, interest rates and energy prices. The consensus Gross Domestic Product (GDP) growth rate is forecast at 3.0 percent for 2007. Overall inflation growth, measured by the Consumer Price Index (CPI), is forecast at 2.5 percent. Increasing inflation is driven by both higher energy costs and productivity gains. While contingent upon national and international events that can impact growth and economic stability, the Federal Reserve is expected to continue its efforts to manage inflation by increasing the Federal Funds Rate in 2007.

According to the U.S. Department of Labor, for the second time in 2006, Illinois ranked first in number of jobs gained among all 50 states in July. The Chicago Metropolitan region showed the largest unemployment declines of any metro region in the state, and August 2006 unemployment rates were the lowest in eight years. The City of Chicago's unemployment rate also dropped two percentage points, from 7.5 percent in July 2005 to 5.5 percent in July 2006.

Illinois ranked first in job growth among all 50 states in July 2006 according to the U.S. Department of Labor.

The greatest risk to this year's budget is the amount of public funding available for operations. Since 1983, the CTA has faced a structural deficit as a result of the flawed regional transit funding formula. Consequently, over time the CTA has reduced administrative staff and utilized technology to decrease operating expenses. CTA has also raised fares, implemented service cuts, leveraged assets and used capital funds to support the operating budget and meet the RTA's recovery ratio mandate. Given recent tax law changes and congestion levels in the region, some of these tactics are no longer viable options for meeting the funding challenge facing the CTA.

The CTA has also reached the point in its capital program where additional transfers to the operating budget would undermine CTA's ability to maintain and improve its capital infrastructure. Since 2005, the CTA's capital funding has declined by $352 million because Illinois FIRST has not been reauthorized. During the same period, the CTA has been forced to transfer over $70.0 million of unmatched capital funds to support operations. These transfers have resulted in the deferral of capital projects and increased operating and capital costs for the

President's 2007 Proposed Operating Budget Summary

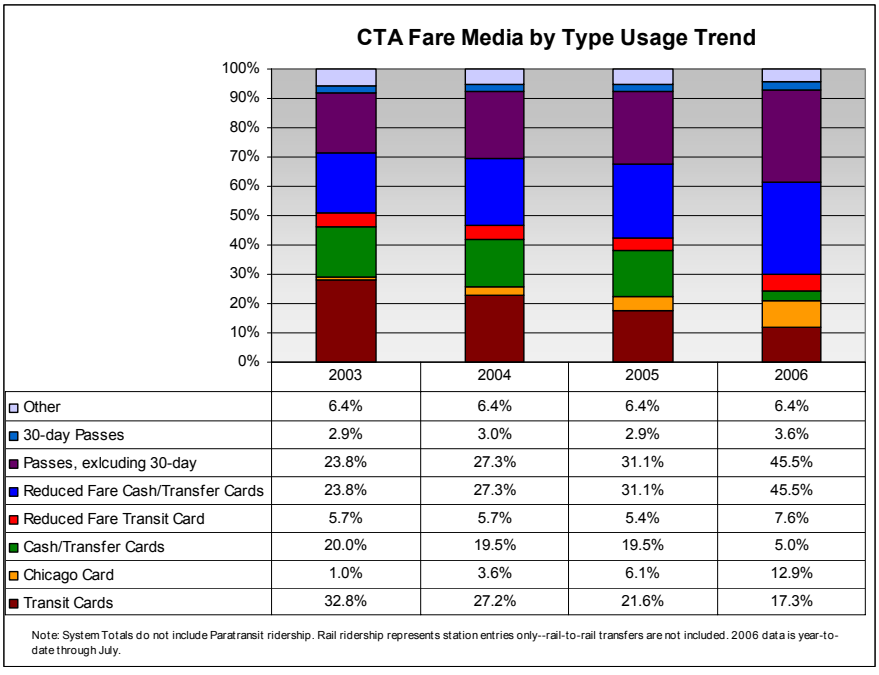
CTA. With $5.8 billion in unfunded capital needs over the next five years, it would be imprudent for CTA to continue transferring limited capital funds to balance its operating budget as envisioned in the last year's 2008-2009 financial plan.

As part of the focus for 2007, CTA will continue to implement the recommendations made in the 2005 AECOM Consulting report. CTA expects to complete the extraboard pilot at a CTA bus garage, procurement card initiative, real estate revenue optimization project, as well as other initiatives that do not require legislative or contractual changes to labor agreements. As previously stated, of the estimated $159 million in cost savings identified by AECOM, approximately $111 million would require changes in CTA's collective bargaining agreements or legislation before they could be implemented.

In the meantime, the CTA is engaged in the RTA's strategic planning effort to increase operating and capital investments in the Northeastern Illinois transit system and expects those efforts to be successful next spring. Without a new public funding framework or other financing strategies sufficient to eliminate the current structural deficit, the 2007 operating budget projects a funding shortfall of $110.1 million as a result of the labor arbitration award, inflation, increasing energy costs and additional pension and retiree healthcare obligation costs. If sufficient funding is not secured, CTA would be required to drastically cut operating expenses some time in 2007 in order to achieve a balanced budget and meet RTA's required recovery ratio.

RIDERSHIP

The CTA estimates system ridership will grow to 505.9 million trips in 2007, including rail-to-rail transfers. This is an increase of 16.3 million trips or 3.3 percent over the 2006 budget. The projected ridership increase is driven by enhanced service design and delivery, an improved economic environment, higher fuel prices, and changing demographics. Bus ridership is estimated at 301.6 million rides in 2007, an increase of 2.4 million or 0.8 percent over the 2006 forecast, but a 2.3 million decrease from the 2006 budget. Rail ridership, including rail-to-rail transfers, is estimated at 204.4 million rides, an increase of 7.3 million or 3.7 percent over 2006 forecast and an increase of 19.9 million or 10.8 percent over the 2006 budget.



	2003	2004	2005	2006
Other	6.4%	6.4%	6.4%	6.4%
30-day Passes	2.9%	3.0%	2.9%	3.6%
Passes, exlcuding 30-day	23.8%	27.3%	31.1%	45.5%
Reduced Fare Cash/Transfer Cards	23.8%	27.3%	31.1%	45.5%
Reduced Fare Transit Card	5.7%	5.7%	5.4%	7.6%
Cash/Transfer Cards	20.0%	19.5%	19.5%	5.0%
Chicago Card	1.0%	3.6%	6.1%	12.9%
Transit Cards	32.8%	27.2%	21.6%	17.3%

Note: System Totals do not include Paratransit ridership. Rail ridership represents station entries only--rail-to-rail transfers are not included. 2006 data is year-to-date through July.

Through July 2006, Chicago Card and Chicago Card Plus fare media usage has doubled since 2005 and now account for 12.9 percent of CTA's total rides. CTA's goal is to further increase Chicago Card and Chicago Card Plus market penetration in 2007 in order to increase operating efficiencies. Pass usage

has increased 84 percent in recent years, increasing from 26.7 percent in 2003 to 49.1 percent in 2006.

OPERATING EXPENSES

The 2007 proposed operating budget is $1.133 billion, which is $50.9 million or 4.7 percent higher than the 2006 forecast and $96.5 million or 9.3 percent more than the 2006 budget. This increase is driven by higher labor expenses, due in large part to the 2006 interest arbitration decision. The arbitrator awarded a cumulative employee wage increase of over 10.1 percent for the three-year period from 2004 through 2006.

The budget also reflects projected increases in CTA's energy costs for revenue service. The increase will result from both higher fuel prices and the expiration of a statewide electricity rate freeze at the start of 2007.

Labor

Labor expenses are approximately 75 percent of CTA's total operating budget. The 2007 labor cost reflects increased wages due to the union interest arbitration decision, higher benefit costs, bus and rail maintenance staffing support for the West Side and West Suburban service improvements, and increased staffing for security operations.

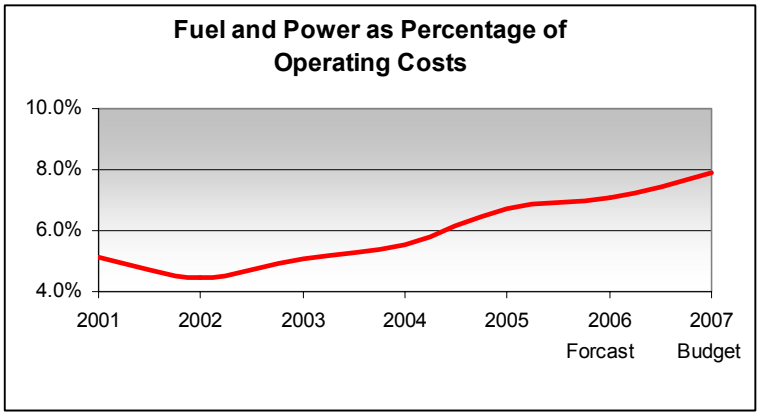
Labor costs are projected at $850.3 million for 2007. Labor expenses are $81.2 million higher than 2006 forecast and $101.4 million higher than 2006 budget. In 2006, the Illinois General Assembly passed legislation, signed by the Governor, requiring CTA to achieve a 90 percent funded ratio for the pension plan by the end of 2058. The pension plan is currently under funded due to the structural funding deficit and collective bargaining process required by Illinois statute which constrained the CTA's ability to require additional contributions from employees. As a result, CTA's 2007 operating labor budget anticipates additional pension and retiree healthcare contributions from both CTA and its employees to help address the legislative mandate. The remaining labor increase over forecast is due principally to higher wages and higher benefit costs as a result of the labor arbitration award and West Side Service improvements. CTA's current labor contract expires at the end of December 2006 and an additional wage increase is expected.

Material

Material costs are projected at $77.9 million in 2007, which is $2.6 million higher than the 2006 forecast. Material costs increased markedly in 2006 due to inflationary pressure on commodity prices. To help manage these costs, the CTA is implementing the Maintenance Management Information System (MMIS), which will track the life cycle of vehicle parts, warranties and vehicle maintenance data. This will enable the CTA to track and improve internal management of vehicle maintenance and result in efficiencies in fleet maintenance.

President's 2007 Proposed Operating Budget Summary

Fuel



Fuel prices remain volatile; reaching historic highs in 2006. The U.S. Energy Information Administration has forecast that crude oil prices will average around $70 a barrel for most of 2007. With fuel price volatility expected to continue in 2007, the CTA has hedged most of its diesel fuel consumption to ensure some degree of budget stability. The average price per gallon is budgeted at $2.50, with an estimated annual consumption of 24.5 million gallons. This results in a fuel budget of $61.2 million, which is $6.2 million or 11.3 percent over 2006 forecast and $13.2 million or 27.6 percent over 2006 budget.

Power

The 10-year freeze on electric power rates expires in 2006 and electricity rates may increase by 30% to 100% in Illinois.

The cost of electric power for revenue equipment is estimated at $28.1 million, which is 14.4 percent higher than the 2006 budget of $24.5 million a 30 percent increase over the 2006 forecast of $21.6 million. The higher power costs reflect the end of a decade-long rate freeze in Illinois starting in January of 2007. While some protections may remain in place for consumers, commercial rates could increase as much as 30 percent or more in the near term.

Provision for Injuries and Damages

In 2006, CTA utilized increased fare revenues to fully fund the reserve for injuries and damages as projected by the 2005 actuarial analysis. The higher funding level in 2006 allowed CTA to decrease the annual funding for 2007. The resulting estimated funding for injuries and damages in 2007 is $25.0 million, reflecting a decrease of $8.0 million from the 2006 budget and $28.0 million from the 2006 forecast.

Purchase of Security Services

CTA expense for the purchase of security services includes 24-hour patrol services provided by the Chicago, Evanston, and Oak Park Police departments, as well as contract guard and K-9 (canine) security. Purchase of security services expense is estimated at $35.3 million for 2007, which mirrors the 2006 budget but is $4.3 million higher than 2006 forecast. In addition to the services contracted by the CTA, the City of Chicago provides $22.0 million of Chicago Police Department (CPD) services at no charge to the CTA.

President's 2007 Proposed Operating Budget Summary

In addition to the Securitas canine units, CTA recently received dogs from the Transit Security Administration's Explosive Detection Canine Team Program. The dogs are paired with handlers from the CPD Public Transportation Section to search for possible explosives and respond to reports of unattended or suspicious items.

The CTA is also investing capital funds to expand its security camera program in rail stations and on rail cars with the 2008 rail car procurement. In 1998, CTA introduced security cameras on CTA buses. Cameras are an increasingly important component of enhanced security, serving as a deterrent to crime on the system and assisting law enforcement in identifying perpetrators. Cameras also provide additional information to CTA staff in the event of a service disruption. CTA's security cameras are networked to the Control Center and the City of Chicago's Office of Emergency Management and Communication 911 Center.

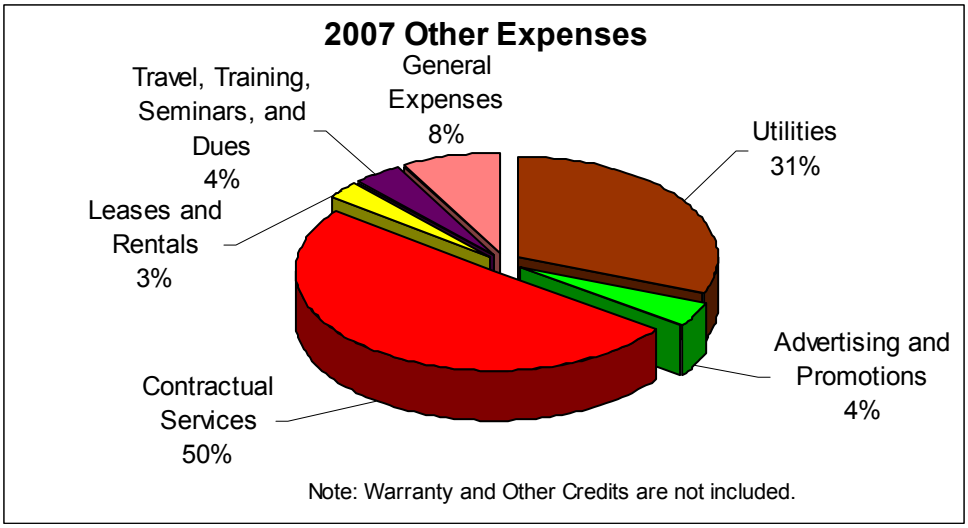
The CTA has also enhanced safety through completion of a wireless infrastructure project, improving CTA, police and fire radio communication in the subway as well as allowing cellular telephone usage. The system enhances the CTA's existing two-way radio system and improves redundant subway communication options for CTA, Chicago Police Department and Chicago Fire Department / EMS personnel. The system also allows customers to use their cell phones, e-mail, wireless internet, paging and text messaging throughout the CTA's 22-mile subway system.

Purchase of Paratransit Services

In 2006, regional paratransit services were consolidated under the Pace Suburban Bus Service Board as a result of legislation by the State of Illinois in 2005.

Other Expenses

Other expenses are budgeted at $55.3 million, an increase of $5.1 million or 10.1 percent over the 2006 budget. This category includes but is not limited to utilities for CTA facilities, advertising and marketing expenses, equipment and software maintenance, accounting, engineering, legal and other consulting services, banking fees, and commissions for the sale of fare media products. The increase in other expenses for 2007 primarily reflects inflation for utilities and higher pass commissions for 1-day and 7-day passes.



President's 2007 Proposed Operating Budget Summary

Service Cuts

The proposed budget assumes that a new funding source for transit will be identified in 2007 to meet the funding requirements of this budget. Without this new funding source, CTA will be forced to cut service.

CTA faces a $110.1 million operating funding shortfall in 2007 including anticipated retiree healthcare and pension funding. Without additional operating funding, CTA could close the $110.1 million gap by implementing $165.0 million in service cuts. These service cuts would reduce ridership and result in $55.0 million in lost revenue, bringing the net savings to CTA to $110.1 million.

This level of service cuts is equivalent to over a 30 percent reduction in service and a 14.5 percent reduction in the total operating budget for 2007 and would cause a loss of ridership estimated at 54.7 million trips. These cuts would have a significant negative impact on CTA's customers, employees, and a region whose economy depends on affordable, accessible transportation.

OPERATING REVENUES

The CTA has two main categories of revenue: system-generated revenues and public funding. System-generated revenues include fares and passes, reduced fare reimbursement, advertising, investment income, statutorily-required cash contributions, and other miscellaneous revenues such as parking income. System-generated revenue is projected at $552.7 million, representing a growth rate of 7.8 percent or $40.1 million over the 2006 budget. The growth in system-generated revenue is due to continued ridership growth and the fare changes implemented in 2006, including the elimination of cash transfers.

Total System Generated Revenue (in thousands)		**2007**
Fares and Passes	$	468,334
Reduced Fare Subsidy		32,000
Advertising, Charter and Concessions		24,990
Investment Income		12,120
Statutory Required Contributions		5,000
All Other Revenue		10,250
Total Revenue	**$**	**552,694**

Public funding primarily includes monies received through the RTA from a regional sales tax and the State of Illinois public transportation match. In 2007, public funding through these sources will total $470.3 million. However, the public funding need is budgeted at $580.5 million to support operations and the increased retiree and pension funding, leaving a shortfall of $110.1 million. This budget assumes a new transit funding source is found in mid-2007 to plug the gap.

Fares and Passes

Revenue from fares and passes is projected at $468.3 million in 2007. This represents a growth of $41.8 million or 9.8 percent over the 2006 budget. The growth in fare and pass revenues is tied to increased ridership and a higher average fare per trip resulting in part from the implementation of a $0.25 cash fare increase system-wide and a $0.25 rail transit card fare increase in 2006. Revenue from sale of passes through June of 2006 is $21.0 million or 33

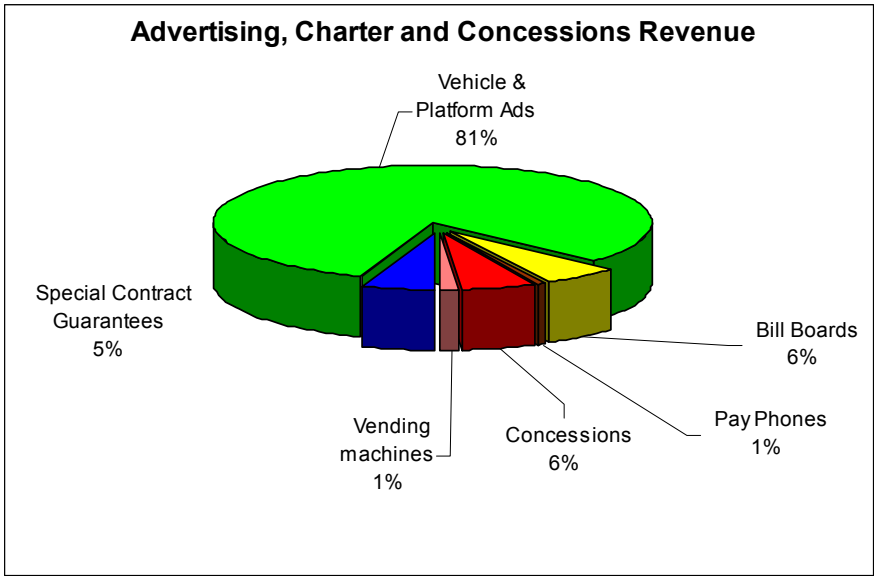
percent higher than budget, as customers find passes to be a more cost-effective and convenient method to pay for trips. The CTA has also seen a higher average fare for trips paid with passes in 2006, from $0.67 in 2005 to $0.78 per trip in 2006.

Reduced Fare Subsidy

The CTA provides approximately 69.0 million reduced fare trips to qualified student, disabled, and elderly customers each year. The Reduced Fare Reimbursement from the State of Illinois is budgeted at $32.0 million. This is based on an annual appropriation of $37.3 million by the Illinois General Assembly for the region allocated by the RTA to CTA, Metra and Pace based on their share of reduced fare ridership and lost revenue. This annual appropriation has not been increased since originally authorized in 1989. In fact, the annual appropriation has been reduced from $43.0 million in 1990.

Advertising, Charter, and Concessions

Advertising, charter, and concessions revenue includes advertisements on buses, trains, and stations, as well as income from concessions. In 2006, CTA expanded advertising on the system by adding turnstile sleeves to the suite of products available to advertisers. In 2007, revenues for this category are estimated at just under $25.0 million. This is up slightly from 2006 due to increased revenues from concessions and advertising contracts.



Investment Income

Under its new chairman, the Federal Reserve Board continually increased the Federal Funds Rate in 2006. As of June 2006, the Federal Funds Rate was at 5.25 percent from a low of 1.0 percent at the end of 2003. The 90-day treasury rates are forecast to edge up slightly in 2007 as the Federal Reserve continues to increase short term rates as a hedge against inflation. Higher interest rates and higher cash balances will increase CTA's 2007 investment income to $12.1 million.

Statutory Required Contributions

Statutorily required cash contributions are budgeted at $5.0 million, on par with the 2006 budget. The RTA Act requires the City of Chicago and County of Cook to annually contribute $3.0 million and $2.0 million, respectively, towards CTA operations. These required cash

contributions are in addition to other cash and in-kind contributions from the City of Chicago and the County of Cook each year. The Chicago Police Department - Mass Transit Unit provides more than $22.0 million of security services to CTA while Cook County provides $3.5 million in in-kind service through the Implement Sheriff Work Alternative Program (SWAP). SWAP utilizes Cook County prisoners to provide manual labor for clean up of bus turnarounds and garages.

All Other Revenues

Revenues in this category include operating grants from the Federal Transit Administration (FTA), parking charges, rental revenue, third-party contractor reimbursements and filming fees. Other revenues are projected at $10.2 million in 2007, $10.5 million less than the $20.8 million budgeted for 2006. The decline in other revenue stems from the elimination of operating grant funding from the Federal Transit Administration (FTA) for paratransit services that were transitioned to Pace in 2006.

All Other Revenue (in thousands)		2007
Rentals	$	2,100
Student Permit Revenue		400
Parking Lot Revenue-Rail		2,200
Miscellaneous Revenues		1,050
Sale of Scrap Material		500
Grant Non-Capital Revenue		4,000
Total All Other Revenue	**$**	**10,250**

Public Funding

Public funding available for operations represents the funding mark issued by the RTA, based upon the State of Illinois Office of Management and Budget and the RTA's own regional revenue expectations. All of the public funding for operations received by the CTA, Metra, and Pace is funneled through RTA and currently comes through two principal sources: the RTA Sales Tax and the Public Transportation Fund appropriated by the State of Illinois. The RTA Sales Tax is the primary source of CTA public funding. The CTA receives 100 percent of the RTA Sales Tax collected in the City of Chicago and 30 percent of the sales tax collected in suburban Cook County after the RTA retains 15 percent of the sales tax revenue and distributes the remaining 85 percent to the Service Boards.

For 2007, the public funding need is $580.5 million. With a base RTA public funding mark of $470.3 million, $110.1 million in additional transit funding is needed to support operations. Based on the inclusion of the new transit funding, CTA projects cash flow generated from revenues to be sufficient to pay for expenditures.

In order to help move the region beyond congestion, additional funding is needed to prevent further service cuts, fare increases, or the additional diversion of capital funds to balance the operating budget.

Recovery Ratio

As calculated by the RTA, the recovery ratio requires CTA's system-generated revenues to cover at least 52.0 percent of projected expenses for 2007. The proposed operating budget estimates the recovery ratio at 52.03 percent. This estimate takes into account allowable exclusions of passenger security and in-kind police services provided by the Chicago Police Department and the same level of grant funded revenues included in the 2006 budget.

President's 2007 Proposed Operating Budget

Department Budget Schedule

(In Thousands)

	2005 Actual	2006 Budget	2006 Forecast	2007 Budget
CTA Board	$ 1,112	$ 1,169	$ 1,176	$ 1,213
Office of the President	940	896	941	975
Security & System Safety	34,478	39,103	34,502	39,954
Office of Inspector General	1,799	2,092	1,940	2,178
General Counsel	12,904	15,003	14,231	16,001
TRANSIT OPERATIONS				
EVP Transit Operations	856	904	1,070	991
CONTROL CENTER	6,605	7,457	6,942	9,022
SERVICE & RELIABILITY OPERATIONS	-	-	-	119
BUS OPERATIONS				
VP Bus Operations	323	321	351	358
Bus Operations Oversight	699	704	729	843
Bus Service Management	13,248	14,721	13,556	15,334
Scheduled Transit Operations - Bus	267,131	281,855	304,100	302,593
Bus Garages	150,031	148,161	168,239	177,806
Bus Heavy Maintenance	30,886	38,148	31,997	37,282
Engineering & Technical Services - Bus	1,962	1,971	2,475	2,564
Total Bus Operations	464,281	485,881	521,446	536,779
RAIL OPERATIONS				
VP Rail Operations	352	350	362	366
Rail Operations Capital Oversight	942	1,201	881	1,124
Rail Terminals	58,174	58,895	60,430	64,994
Scheduled Transit Operations - Rail	83,501	87,223	89,246	91,931
Rail Heavy Maintenance	8,100	10,662	6,704	9,562
Rail Car Appearance	10,100	10,872	11,008	11,904
Engineering & Technical Services - Rail	2,519	3,214	3,061	3,461
Total Rail Operations	163,688	172,417	171,693	183,342
PLANNING	5,602	6,150	5,879	6,614
TRAINING & CUSTOMER SERVICE				
VP Training & Customer Service	246	243	248	262
Customer Service	1,135	1,562	1,528	1,846
ADA Compliance	166	255	193	287
Training & Instruction	10,648	11,665	11,722	14,380
Paratransit Operations*	54,251	30,120	28,102	-
Total Training & Customer Service	66,446	43,845	41,793	16,775
Total Transit Operations	**707,478**	**716,653**	**748,823**	**753,644**
CONSTRUCTION, ENGINEERING & FACILITIES MAINTENANCE				
EVP Construction, Engineering & Facilities Maintenance	1,798	1,701	1,793	1,862
CONSTRUCTION	2,428	2,873	4,309	5,413
ENGINEERING	63,991	74,747	64,015	82,347
FACILITIES MAINTENANCE	70,697	69,630	70,690	72,305
Total Construction, Engineering & Facilities Maintenance	**138,914**	**148,952**	**140,808**	**161,927**
MANAGEMENT & PERFORMANCE				
EVP Management & Performance	538	528	504	492
PROPERTY & REAL ESTATE ASSET MANAGEMENT	4,599	5,874	4,434	5,478
GOVERNMENT AND COMMUNITY RELATIONS & AFFIRMATIVE ACTION	2,486	3,022	2,516	3,156
COMMUNICATIONS & MARKETING	8,460	10,604	8,291	9,342
FINANCE				
Sr VP Finance/Treasurer	19,083	16,841	20,419	21,344
Finance/Comptroller	3,207	3,742	3,503	4,126
Capital Investment	934	1,196	907	1,286
Total Finance	23,224	21,779	24,829	26,756
HUMAN RESOURCES	5,451	5,724	5,538	6,298
EMPLOYEE RELATIONS	2,236	2,397	2,295	2,612
TECHNOLOGY MANAGEMENT	34,945	36,032	34,417	39,915
PURCHASING/WAREHOUSING	20,743	21,800	21,077	23,109
Total Management & Performance	**102,682**	**107,760**	**103,901**	**117,157**
Non - Departmental	**21,139**	**5,057**	**35,877**	**40,102**
TOTAL CTA	**$ 1,021,446**	**$ 1,036,685**	**$ 1,082,198**	**$ 1,133,151**

** Note: Effective July 1, 2006, Paratransit Operations was transferred to PACE.*

President's 2007 Proposed Operating Budget

Department By Line Item Schedule

(In Thousands)

	Labor	Material	Other Expenses	Fuel/Power/ Provisions	Total
CTA Board	$ 1,147	$ 20	$ 46	$ -	$ 1,213
Office of the President	931	4	40	-	975
Security & System Safety	3,483	19	36,452	-	39,954
Office of Inspector General	2,106	11	61	-	2,178
General Counsel	10,956	77	4,968	-	16,001
TRANSIT OPERATIONS					
EVP Transit Operations	737	40	214	-	991
CONTROL CENTER	8,635	26	361	-	9,022
SERVICE & RELIABILITY OPERATIONS	119	-	-	-	119
BUS OPERATIONS					
VP Bus Operations	211	4	144	-	358
Bus Operations Oversight	817	7	19	-	843
Bus Service Management	15,300	31	3	-	15,334
Scheduled Transit Operations - Bus	302,588	3	2	-	302,593
Bus Garages	86,424	28,082	2,066	61,233	177,806
Bus Heavy Maintenance	23,100	14,093	89	-	37,282
Engineering & Technical Services - Bus	2,473	40	51	-	2,564
Total Bus Operations	430,912	42,261	2,373	61,233	536,779
RAIL OPERATIONS					
VP Rail Operations	298	32	37	-	366
Rail Operations Capital Oversight	1,446	1	(323)	-	1,124
Rail Terminals	49,219	15,620	155	-	64,994
Scheduled Transit Operations - Rail	91,916	7	8	-	91,931
Rail Heavy Maintenance	9,328	(456)	690	-	9,562
Rail Car Appearance	11,512	331	61	-	11,904
Engineering & Technical Services - Rail	3,303	117	41	-	3,461
Total Rail Operations	167,023	15,652	668	-	183,342
PLANNING	6,097	28	489	-	6,614
TRAINING & CUSTOMER SERVICE	16,468	196	112	-	16,775
Total Transit Operations	**629,991**	**58,203**	**4,217**	**61,233**	**753,644**
CONSTRUCTION, ENGINEERING & FACILITIES MAINTENANCE					
EVP Construction, Engineering & Facilities Maintenance	1,819	5	38	-	1,862
CONSTRUCTION	2,973	14	2,425	-	5,413
ENGINEERING	30,890	3,320	20,080	28,057	82,347
FACILITIES MAINTENANCE	58,492	9,135	4,678	-	72,305
Total Construction, Engineering & Facilities Maintenance	**94,174**	**12,474**	**27,222**	**28,057**	**161,927**
MANAGEMENT & PERFORMANCE					
EVP Management & Performance	480	1	11	-	492
PROPERTY & REAL ESTATE ASSET MANAGEMENT	1,372	10	4,096	-	5,478
GOVERNMENT AND COMMUNITY RELATIONS & AFFIRMATIVE ACTION	2,458	8	690	-	3,156
COMMUNICATIONS & MARKETING	4,422	257	4,663	-	9,342
FINANCE					
Sr VP Finance/Treasurer	10,137	3,503	7,704	-	21,344
Finance/Comptroller	3,489	34	603	-	4,126
Capital Investment	1,274	8	4	-	1,286
Total Finance	14,899	3,546	8,311	-	26,756
HUMAN RESOURCES	4,274	31	1,993	-	6,298
EMPLOYEE RELATIONS	1,829	13	770	-	2,612
TECHNOLOGY MANAGEMENT	25,296	3,006	11,613	-	39,915
PURCHASING/WAREHOUSING	21,975	222	912	-	23,109
Total Management & Performance	**77,005**	**7,094**	**33,058**	-	**117,157**
Non - Departmental	**30,540**	**(9)**	**(15,429)**	**25,000**	**40,102**
TOTAL CTA	**$ 850,332**	**$ 77,894**	**$ 90,635**	**$ 114,290**	**$ 1,133,151**

** Note: Effective July 1, 2006, Paratransit Operations was transferred to PACE.*

President's 2007 Proposed Operating Budget

Department Budgeted Positions

	2005 Budgeted Positions	2006 Budgeted Positions	2007 Budgeted Positions
CTA Board	14	14	14
Office of the President	6	6	6
Security & System Safety	29	27	37
Office of Inspector General	17	17	17
General Counsel	108	108	108
TRANSIT OPERATIONS			
EVP Transit Operations	6	5	5
CONTROL CENTER	78	80	80
SERVICE & RELIABILITY OPERATIONS	-	2	2
BUS OPERATIONS			
VP Bus Operations	1	1	1
Bus Operations Oversight	8	7	7
Bus Service Management	166	177	177
Scheduled Transit Operations - Bus	4,297	4,297	4,274
Bus Garages	1,054	1,041	1,041
Bus Heavy Maintenance	358	358	358
Engineering & Technical Services - Bus	32	32	32
Total Bus Operations	5,916	5,913	5,890
RAIL OPERATIONS			
VP Rail Operations	2	2	2
Rail Operations Capital Oversight	15	17	17
Rail Terminals	560	554	554
Scheduled Transit Operations - Rail	1,295	1,295	1,331
Rail Heavy Maintenance	216	217	229
Rail Car Appearance	174	172	174
Engineering & Technical Services - Rail	36	35	35
Total Rail Operations	2,298	2,292	2,342
PLANNING	63	62	62
TRAINING & CUSTOMER SERVICE*	177	185	185
Total Transit Operations	**8,538**	**8,539**	**8,566**
CONSTRUCTION, ENGINEERING & FACILITIES MAINTENANCE			
EVP Construction, Engineering & Facilities Maintenance	3	3	3
CONSTRUCTION	47	51	51
ENGINEERING	461	448	455
FACILITIES MAINTENANCE	804	798	797
Total Construction, Engineering & Facilities Maintenance	**1,315**	**1,300**	**1,306**
MANAGEMENT & PERFORMANCE			
EVP Management & Performance	3	3	3
PROPERTY & REAL ESTATE ASSET MANAGEMENT	-	12	12
GOVERNMENT AND COMMUNITY RELATIONS & AFFIRMATIVE ACTION	26	26	26
COMMUNICATIONS & MARKETING	44	49	49
FINANCE			
Sr VP Finance/Treasurer	133	127	121
Finance/Comptroller	47	45	43
Capital Investment	28	28	27
Total Finance	208	200	191
HUMAN RESOURCES	38	39	39
EMPLOYEE RELATIONS	19	19	19
TECHNOLOGY MANAGEMENT	242	252	252
PURCHASING/WAREHOUSING	266	262	262
Total Management & Performance	**846**	**862**	**853**
TOTAL CTA	**10,873**	**10,873**	**10,907**
Bus STO Positions	4,297	4,297	4,274
Rail STO Positions	1,295	1,295	1,331
TOTAL CTA WITHOUT STO	**5,281**	**5,281**	**5,302**
Pension	15	15	15

** Note: Effective July 1, 2006, Paratransit Operations was transferred to PACE.*

President's 2008-2009 Proposed Operating Financial Plan

Motivated

We will meet each task with spirit, enthusiasm and a sense of pride to be second to none.

President's 2008 – 2009 Proposed Operating Financial Plan Summary

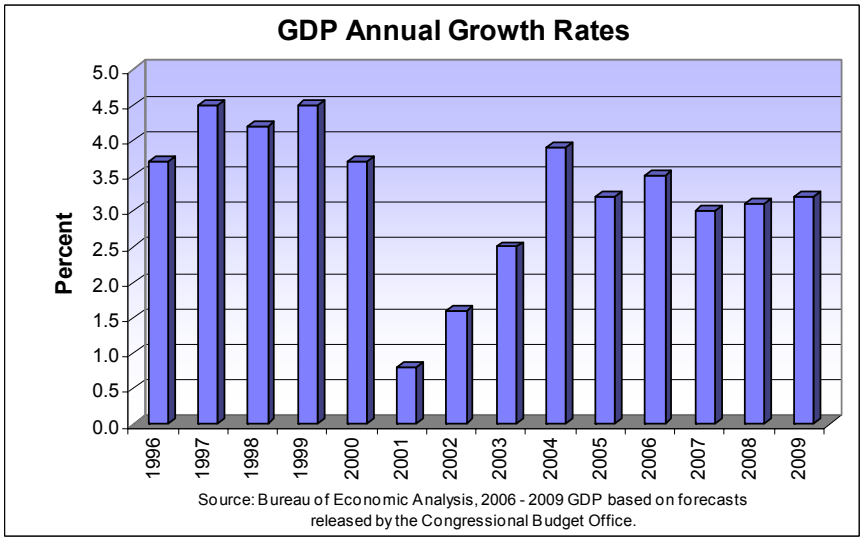
FINANCIAL PLAN

The 2008-2009 Financial Plan assumes sustained economic growth and moderate inflation. CTA still faces much uncertainty regarding the quality and level of service it will be able to provide to the public due to the lack of adequate public funding in the region. According to the Texas Transportation Institute's 2005 Urban Mobility report, the Chicago area has the second worst traffic congestion in the nation. The CTA has joined forces with Metra, Pace and RTA to bring attention to the need for more transit funding to grow the transit network and reduce congestion. The Financial Plan assumes increased state and federal support for transit in Northeastern Illinois as the means of mitigating congestion and effectively supporting regional economic development.

Similar to the 2007 operating budget, a central element of the 2008-2009 Financial Plan concerns increased funding for operations and capital infrastructure in the system. The need for increased operational funding is significantly impacted by the growing unfunded liabilities of the CTA employee Pension Plan. Years of insufficient funding coupled with rising healthcare costs for retirees have led to the erosion of pension assets.

The operating funding shortfalls during this financial plan period are a result of the structural deficit caused by the 1983 regional transit funding formula and from additional pension and retiree healthcare obligations recently imposed by the State of Illinois. The combined effects of the funding formula and State required pension funding obligations on CTA is significant to the business operations of CTA.

Without additional public funding in 2008 and 2009, the CTA faces a funding gap of $170 million and $271 million, respectively, in order to balance the operating needs and meet the pension obligations imposed by the State. The cost reductions necessary to close this gap can only be achieved by levels of bus and rail services cuts that would render the current system ineffective and complete gridlock unavoidable. Without additional funding, CTA will be faced with the prospect of cutting service by 50 percent in 2008 and 2009, leaving a skeleton of a system to serve the needs of the communities in the service area.



Due to rising energy prices and the Federal Reserve's primary focus on controlling inflation, the Congressional Budget Office (CBO) estimates 2008 and 2009 GDP growth at 3.1 and 3.2 percent, respectively. The growth in the U.S. economy has slowed in 2006, and is expected to maintain moderate growth from 2007 through 2009. While employment levels and productivity have remained strong, rising interest rates and global energy prices have already dampened economic growth. Energy prices continue to make

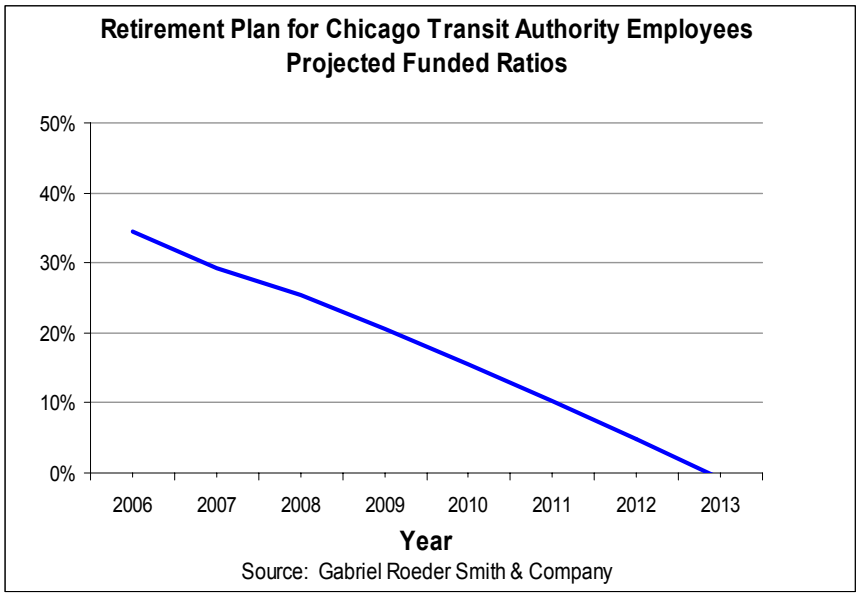
inflation a primary risk to the U.S. economy. Furthermore, efforts by the Federal Reserve to maintain low levels of inflation through raising short-term interest rates has slowed the housing market, a strong point in the economy in recent years. The CBO forecasts inflation growth to be 2.2 percent for both 2008 and 2009 as measured by the Consumer Price Index (CPI). Standard and Poor's Economic Outlook forecasts core inflation at 2.1 percent for 2008 and 2.0 percent for 2009.

The CBO predicts stable national unemployment levels at 4.9 percent for 2008 and 5.0 percent for 2009 through 2016. Employment in the State of Illinois, the Chicago metropolitan region and the City of Chicago remains positive for the plan period. Improvements in the labor market coupled with service enhancements and high energy prices are expected to increase CTA's ridership as more people use public transportation for work and leisure trips.

OPERATING EXPENSES

The 2008 and 2009 estimated operating expenses are $1.216 billion and $1.342 billion, respectively. The significant increases in 2008 and 2009 are due to an anticipated increase in retiree healthcare and pension funding during the plan period. Other contributing factors to the increases in operating expenses are due to rising wages, benefits and higher energy costs.

This increased retiree healthcare and pension funding is a result of State of Illinois legislation. Beginning in 2009, Senate Bill (SB) 1977 requires the CTA and its employees to start funding its employee pension plan monthly with amounts sufficient to achieve a 90 percent funded ratio by the end of 2058.



The CTA Pension Plan (the "Plan"), authorized by the Illinois Pension Code, is a defined-benefit pension plan providing retirement, disability and healthcare benefits to all eligible CTA employees. The Plan was created in 1949 by an agreement between the CTA and the Amalgamated Transit Union (ATU). The benefits paid from the Plan and the contributions made to the Plan are determined through collective bargaining as required by State statute.

As of January 1, 2006, the CTA Pension Plan is underfunded by $2.3 billion. The Plan had assets of just under $1.2 billion and liabilities of $3.5 billion, for a 34.4 percent funded ratio. This compares to a 39.4 percent funded ratio as of January 1, 2005.

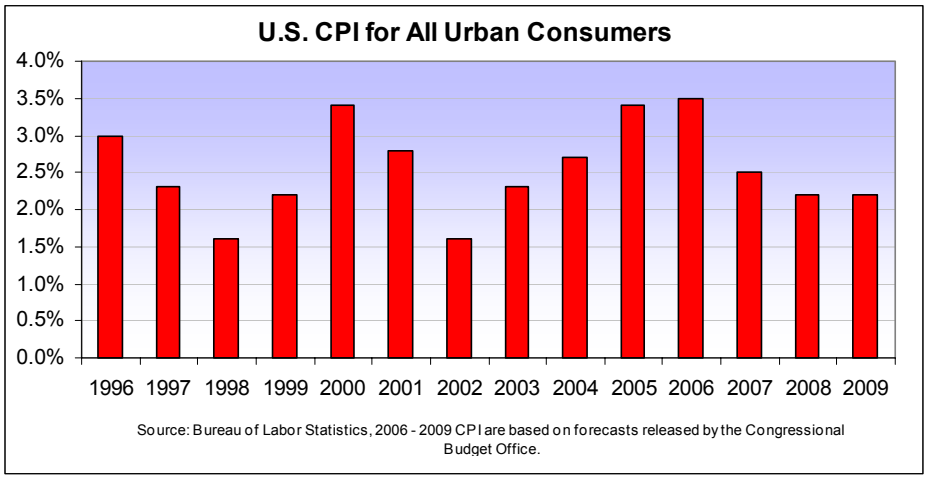
President's 2008 – 2009 Proposed Operating Financial Plan Summary

The decline in Plan assets is the result of inadequate contributions and increasing retiree healthcare costs. The lack of adequate pension contributions is a consequence of declining public funding for CTA since 1983. The Plan's actuary projects that the assets will be depleted by 2013 without significantly increased contributions by CTA and its employees, and changes to the funding structure and benefit levels. Despite CTA's best efforts to seek design changes through negotiation, the interest arbitration decision of 2006 resulted in no changes to the Plan and left CTA without the tools needed to address the pension shortfall through increased contributions and additional benefit design changes for employees and retirees.

The pension fund is the responsibility of the Plan, nevertheless, CTA employees and retirees would be affected by the Plan's inability to meet its obligations under collective bargaining agreements. The CTA currently has approximately 20,000 participants in the employee pension plan, including over 10,000 active employees, over 7,000 retirees, 900 people receiving disability allowances and 750 surviving spouses. The plan is not protected by the Federal Employee Retirement Income Security Act **(**ERISA) and not covered by the Pension Benefit Guaranty Corp (PBGC). Therefore bankruptcy of the plan would be devastating to employees, retirees and their dependants. The Financial Plan outlines the impact of these scenarios on operations and the impact on our service levels to CTA customers.

Labor

Labor expenses, which constitute approximately three-fourths of CTA total expenses, include the cost of wages, health care, dental, pension, workers compensation and payroll taxes for social security, or Federal Insurance Contributions Act (FICA). Labor expenses are projected to increase to $915.6 million in 2008 and to $1.038 billion in 2009. The significant increases in 2008 and 2009 are for retiree healthcare and pension obligations.



Labor costs in 2008 increase by 7.7 percent over 2007 and by 13.3 percent from 2008 to 2009 due to higher costs for wages and benefits. Where possible, the CTA has negotiated lower healthcare costs through joint-purchasing agreements, such as its prescription drugs and PPO healthcare alliance with City agencies starting in 2004. CTA will also seek additional cost sharing through labor negotiations. Again in 2006, CTA joined with sister agencies in the City of Chicago to seek higher discount rates for its PPO healthcare program. The CTA continues to emphasize cost reductions through productivity gains, including implementing AECOM recommendations. Many of these productivity gains recommended by AECOM, however, require changes to collective bargaining agreements prior to implementation.

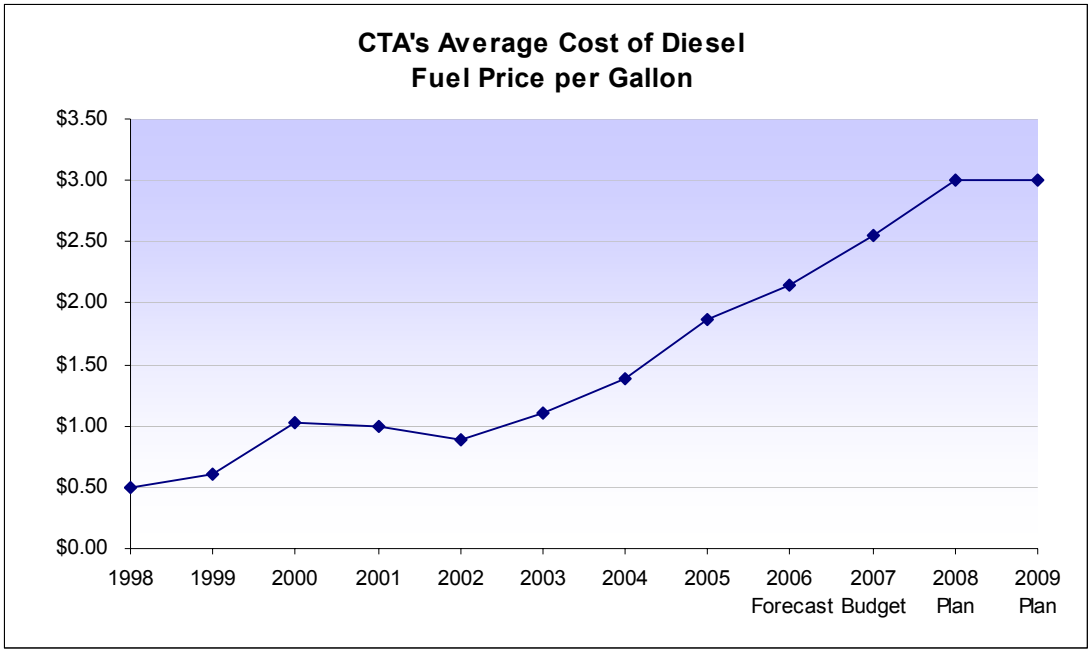
President's 2008 – 2009 Proposed Operating Financial Plan Summary

Material

Materials are used to maintain the CTA bus and rail fleet, rail tracks, facilities, stations and fare revenue equipment. The CTA has continually sought to contain materials costs through streamlining its supply chain and reengineering sole-sourced materials. The agency also anticipates additional efficiencies in material acquisition through implementation of the new Maintenance Management Information System (MMIS). The MMIS system will track the life cycle of vehicle parts, warranties and vehicle repair information. However, inflationary pressure in 2006 and 2007, particularly in the energy sector, has increased materials costs significantly for CTA. CTA projects material expenses to increase from $77.9 million in 2007 to $79.0 million in 2008, a 1.4 percent increase; and an additional 1.3 percent in 2009 to $80.0 million.

Fuel and Power

Due to rising demand and limited resources, energy prices are expected to remain high. The U.S. Energy Information Association has forecast world energy consumption to grow by 71.5 percent between 2003 and 2030, largely due to demand from emerging economies. The increased demand, combined with limited extraction and refinery capacity, is expected to impact CTA's energy budgets in 2008 and 2009.



For 2008 and 2009, the CTA has proposed a budget of $2.94 per gallon for an annual consumption of 24.5 million gallons per year. This equates to $72.0 million in annual fuel expenses. The increase for 2008 and 2009 over 2007 is $10.8 million, more than triple the cost of fuel compared to 2002, when CTA's fuel expense equaled $20.1 million.

Likewise, energy analysts predict that electricity demand will increase along with natural gas prices. In the newly deregulated electricity market in Illinois, the CTA projects a 30 percent increase in rates in 2007 from the 2006 forecast. For this reason, the CTA has budgeted $29.0 million for power in 2008 and $30.0 million in 2009, compared to $24.5 million budgeted in 2006 and $28.1 million budgeted for 2007.

President's 2008 – 2009 Proposed Operating Financial Plan Summary

Provision for Injuries and Damages

Funding for injuries and damages expenses are expected to rise slightly to $28.0 million in 2008 and 2009 compared to $25.0 million in 2007 due to inflation.

Purchase of Security Services

Providing safe transit service to customers remains a key part of the CTA security strategy for the 2008-2009 proposed plan periods. CTA's security network includes security guards and guard dog coverage in addition to services provided by the Chicago, Evanston and Oak Park Police Departments. For the proposed plan years, CTA forecasts security expenses will increase by 2.5 percent to $36.2 million in 2008 and to $37.1 million in 2009.

CTA's allocation for security services for 2009 is 65% higher than 2001 due to the heightened security environment for transportation systems.

Compared to 2001, CTA's allocation for security services for 2008 and 2009 will increase by 61 percent and 65 percent respectively due to a heightened security environment. Transit agencies have found it increasingly challenging to operate following September 11, 2001 and attacks on the Madrid, London and Mumbai transit systems.

CTA continues to invest in technology-based security solutions to enhance safety. In addition to guard services, security cameras in rail stations are linked to the City of Chicago's 911 center and CTA's Control Center provide critical enhancements to the security network.

Purchase of Paratransit Services

The CTA has no expenditures in the proposed budget for purchase of paratransit services for 2008 and 2009. Effective July 1, 2006, state legislation consolidated regional paratransit services under Pace. However, the lack of dedicated public funding for paratransit services may divert limited public funding resources away from the CTA, increasing CTA's deficit.

Other Expenses

Other expenses include utilities, advertising, equipment and software maintenance, accounting, engineering, legal and other consulting services, banking fees and commissions. Other expenses are projected to increase modestly from $55.3 million budgeted for 2007 to $56.0 million for 2008 and $57.0 million in 2009, an increase of 1.3 percent in 2008 and 1.8 percent in 2009.

OPERATING REVENUE

Operating revenues are comprised of system-generated revenues and public funding which are estimated at $1.216 billion for 2008 and $1.342 billion for 2009. System-generated revenues include fares and passes along with other internally generated revenues, while public funding through the RTA includes a portion of sales tax collections and State match on sales tax

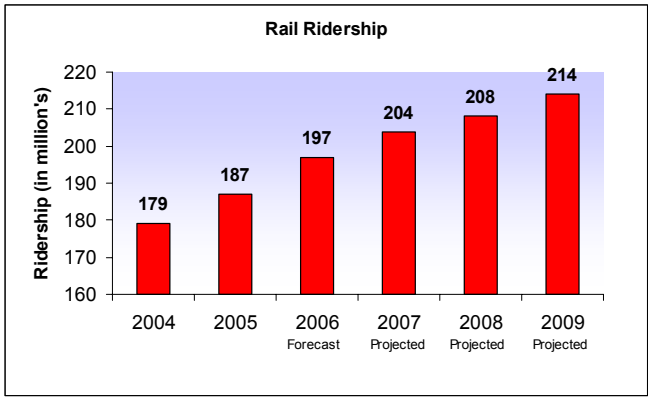
collection. The RTA also allows for the use of capital funds to offset operations, but this has serious negative consequences for CTA's capital program. The 2008-2009 Plan assumes a new transit funding source is created.

System-Generated Revenue

System-generated revenue includes revenue from fares and passes, advertising, investment income, parking and rental properties. System-generated revenue is estimated at $561.0 million in 2008 and $570.0 million in 2009. System-generated revenue for 2008 is expected to increase by 1.5 percent from 2007 due to higher revenue from fares and passes due to growth in ridership and higher investment income.

Fares and Passes

Revenue from fares and passes is projected at $475.5 million in 2008 and $483.4 million in 2009, representing an increase of 1.5 percent in 2008 and 1.7 percent in 2009. The increase in fare revenue is based on a ridership growth of approximately 1.1 percent for 2008 and 1.6 percent for 2009, with projected average fares of $0.93 for 2008 and 2009, which approximate the 2007 projected average fare.



Reduced Fare Subsidy

Reduced fare reimbursement from the state is projected to be flat at $32.0 million in both 2008 and 2009. This amount is consistent with funding for 2006 forecast and 2007 budget.

Advertising, Charter and Concessions

Advertising, charter, and concessions revenues are derived from advertisements placed on buses, trains and stations, as well as income from concessions and charters. Advertisement revenues in 2008 are projected to increase by $0.5 million or 1.9 percent to $25.5 million from $25.0 million in 2007. In 2009, advertising revenues are expected to increase by an additional $0.5 million or 2.0 percent to $26.0 million due to an increase in advertisements, including additional subway tunnel advertising.

Advertising, Charter & Concessions Revenue (in thousands)	Forecast 2006	Budget 2007	Plan 2008	Plan 2009
Special Contract Guarantees	$ 1,348	$ 1,300	$ 1,300	$ 1,300
Vehicle & Platform Ads	20,234	20,400	20,800	21,300
Bill Boards	1,279	1,400	1,480	1,480
Pay Phones	280	130	130	130
Concessions	1,270	1,400	1,400	1,400
Vending machines	360	360	360	360
Total	**$ 24,771**	**$ 24,990**	**$ 25,470**	**$ 25,970**

President's 2008 – 2009 Proposed Operating Financial Plan Summary

Investment Income

Investment income for 2007 and 2008 is expected to grow as interest rates rise. For 2008, investment income is forecast at $12.7 million, an increase of nearly $0.6 million or 5.0 percent, due to rising short-term interest rates and a higher cash balance. Likewise, investment income for 2009 is forecast to grow by $0.6 million or 5.0 percent to $13.3 million. Recent statements by the Federal Reserve Board Open Market Committee suggest that inflation remains a concern which may mean continued increase in the Federal Funds rates.

Statutory Required Contributions

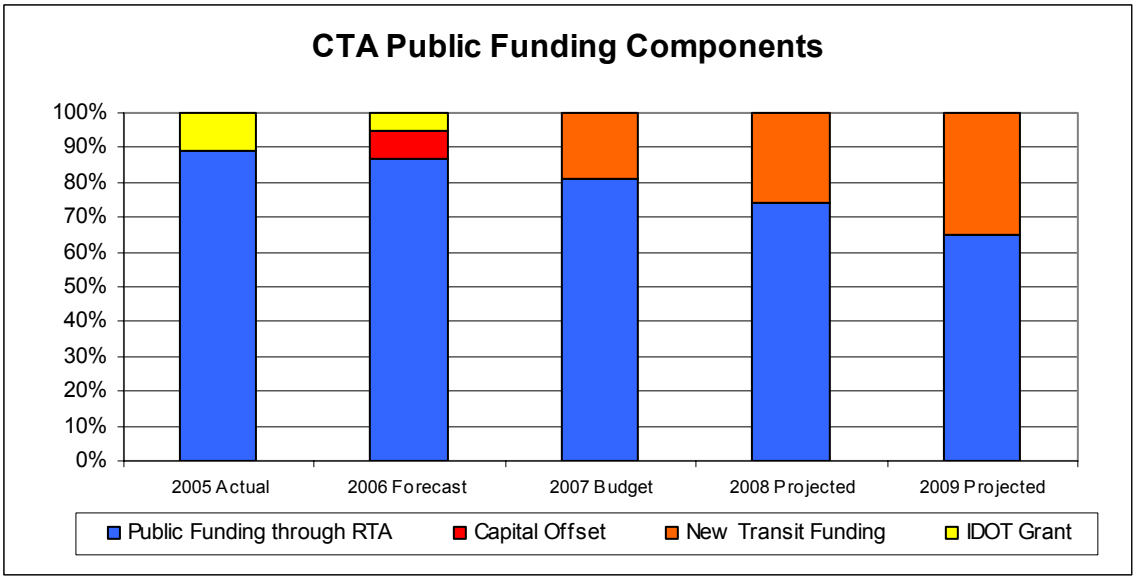
Statutory required cash contributions are forecast at $5.0 million for both 2008 and 2009, on par with the 2007 budget. The RTA Act requires the City of Chicago and County of Cook to annually contribute $3.0 million and $2.0 million, respectively, towards CTA operations.

Other Revenue

Revenues in this category include parking fees, revenue from rental properties, third-party contractor reimbursements, fees from filming, and other miscellaneous revenues. Other revenues are forecast to remain flat at $10.2 million in 2007 through 2009.

Public Funding

Public funding available for operations represents the funding mark issued by the RTA, based on the State of Illinois Office of Management and Budget's projection and RTA internal estimates. Public funding through RTA statutory formula is estimated at $485.4 million for 2008 and $500.9 million for 2009. However, the required public funding need is $654.9 million for



2008 and $771.9 million for 2009 – leaving a total funding gap of $440.5 million for these two years. The budget assumes additional transit funding to close this gap. Without sufficient additional funding, or a solution to fund the pension plan, CTA would have to reduce operations

significantly. Bus and rail service cuts would be roughly equivalent to $235.3 million in 2008 and $377.5 million in 2009; this would be the equivalent of a 50 percent reduction in service.

In addition to funding gaps, use of capital funds to offset the budget also creates a negative cycle of disrepair. In prior years, the financial plan diverted capital funds to preventative maintenance for operating use. The increased level of unfunded capital need and higher operating funding gaps make additional capital diversions to support the operating budget imprudent since it would negatively impact CTA's goal to bring the system to a state of good repair and result in increased costs for operations and capital projects.

Recovery Ratio

The RTA Act requires the region to fund 50 percent of its expenses through revenues generated by the RTA and the three service boards. The recovery ratio measures the percentage of expenses that a service board must pay for using revenues it generates. System-generated revenues, operating expenses and certain statutory exclusions are used in the calculation. In addition to in-kind services, the RTA exempted all security expenses beginning in 2005 and starting in 2006 RTA included some grant-funded revenues in the recovery ratio calculation.

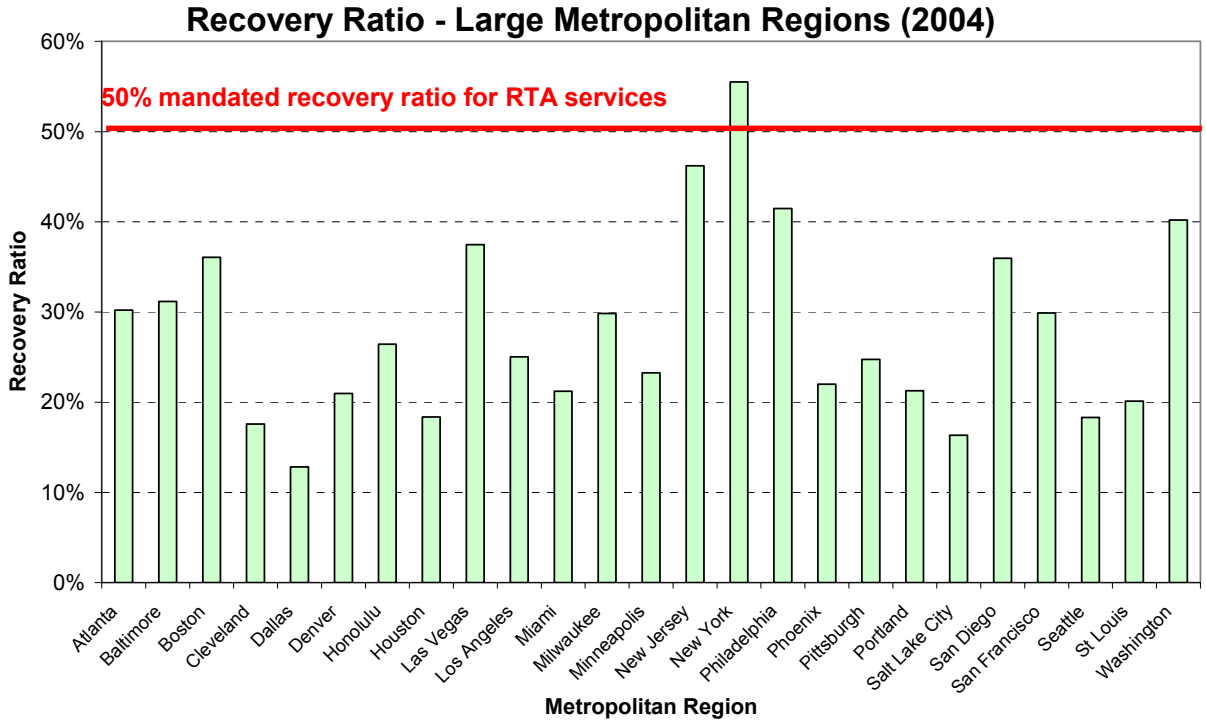
The RTA assigns each Service Board a recovery ratio when it issues the funding marks as required by the Act. The budgets submitted by each service board must be balanced and meet the required recovery ratio to obtain RTA approval. The CTA's estimated recovery ratio in 2008 and 2009 are 49.18 percent and 45.22 percent, respectively. This is below the required recovery ratio of 52.0 percent set by RTA, and the 50.0 percent recovery ratio required of the region by the RTA Act. As with transit funding generally, the region needs to evaluate the effect of current recovery ratio mandate on its ability to effectively use enhanced neighborhood public transit services to fight congestion, improve air quality and increase regional economic competitiveness.

The recovery ratio has significant policy implications on the delivery of CTA services. CTA's operating expenses are growing due a variety of external factors, including increases in health insurance and fuel costs, as well as state legislation passed in 2006 regarding pension contributions. To meet the recovery ratio requirement, CTA has few options but to reduce expenses through service cuts or raise system-generated revenues by increasing fares. Both of these choices hurt customers and are counter-productive towards the larger goals of increasing ridership and reducing traffic congestion.

The regional recovery ratio rate of 50 percent has remained fixed since the RTA Act was last modified over thirty years ago. Despite significant ridership increases since 1997, the transit system is much smaller today than when the requirement was established – primarily due to bus service reductions, fares that have increased above the rate of inflation, and resulting ridership losses. The recovery ratio requirement tends to disproportionately impact bus services. Buses typically have higher operating costs (but lower capital costs) than rail: One operator of a fully-loaded 40-foot bus can transport 60 to 70 people, while one operator of a fully-loaded 8-car train can transport 1,000 people.

CTA, Metra and Pace together have a higher system-generated recovery ratio than nearly every other major metropolitan region in the United States, even accounting for differences in the methodology used to calculate the ratio. A comparison to some regions where ridership and service levels are rapidly increasing suggests that metropolitan Chicago's 50-percent mandated

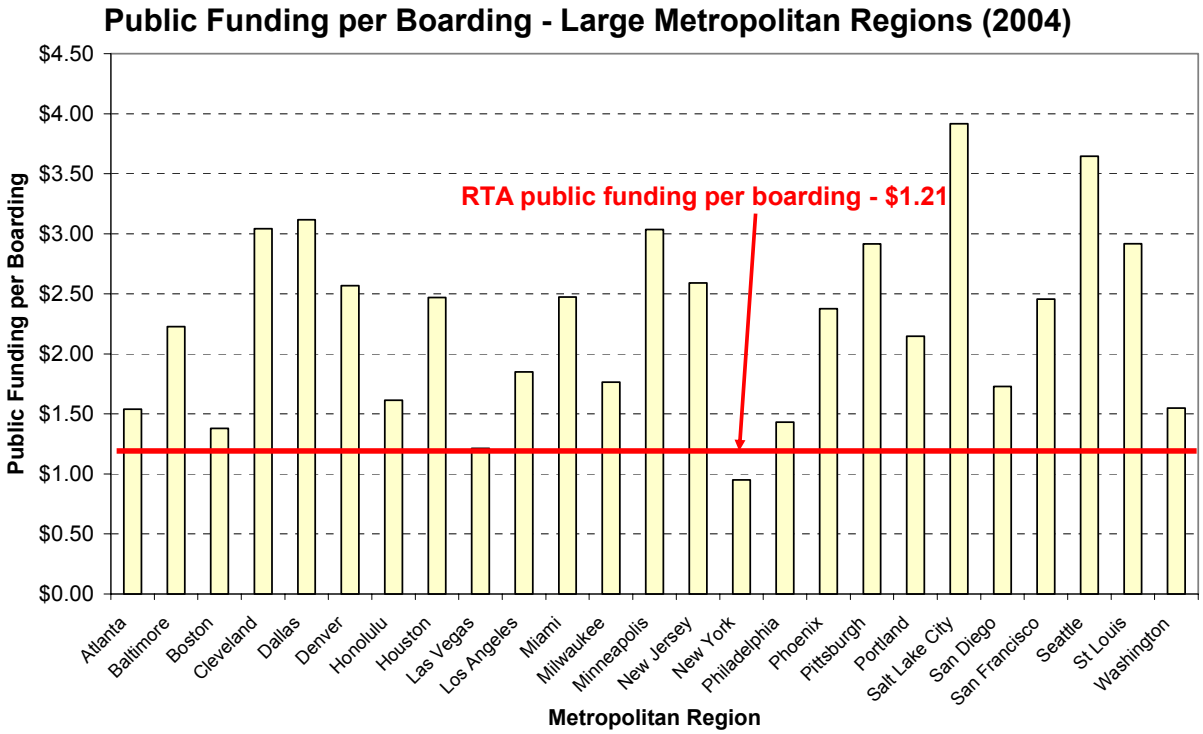
ratio may be constraining growth opportunities here. While other regions have strived to increase cost-efficiency, they have prioritized ridership growth and new revenues to support transit over a specific economic measure such as the recovery ratio. Over the past decade, places as diverse as Denver, Miami and Phoenix have achieved ridership gains of 20 to over 40 percent by substantially expanding bus and rail services. Their recovery ratios range from 20 to 25 percent.



Notes: Metropolitan regions may include multiple transit providers serving both urban and suburban areas. Data for other regions comes from the 2004 National Transit Database. The RTA recovery ratio calculation includes other system-generated revenues (such as advertising and investment income) in addition to fares.

In addition, nearly every other major metropolitan region in the United States is providing significantly higher levels of public funding per transit trip than in Northeastern Illinois. Based on 2004 data, the average public funding per trip was less than $1.00 for CTA and just over $1.20 for the Chicago region as a whole. With the exception of New York, public funding for other systems typically ranges from $1.25 to $4.00 per boarding. In terms of day-to-day service, CTA's lower public funding per trip may result in overcrowded vehicles or less frequent service even when demand for transit exists. Anything that makes transit less convenient makes it more likely that people will choose other transportation options.

President's 2008 – 2009 Proposed Operating Financial Plan Summary



Notes: Metropolitan regions may include multiple transit providers serving both urban and suburban areas. Data for other regions comes from the 2004 National Transit Database. Data for Chicago and other metropolitan regions include public funding for paratransit trips, which is typically is much higher than for fixed-route trips.

Accounting Notes

The CTA's ongoing operations are accounted for on a proprietary fund basis. Operations are financed and operated similar to a private business, where the intent is that the costs of providing services to the public should be recovered through user charges. The full accrual method of accounting is used, recording revenues when earned and expenses when incurred.

During 2003, the CTA issued debt to finance the renovation of the Cermak (Douglas) Branch of the Blue Line. This debt is backed by a Full Funding Grant Agreement (FFGA) with the FTA. In 2006, CTA redeemed all debt issued to finance the renovation of the Cermak (Douglas) Branch of the Blue Line. In 2004, the CTA issued the 2004 Bonds totaling $250.0 million. The proceeds of the 2004 Bonds will be used to pay for or reimburse the CTA for prior expenditures relating to a portion of the capital improvement. The 2004 Bonds were secured solely via Federal Transit Administration 5307 Urbanized Area Formula funds.

President's 2008-2009 Proposed Operating Financial Plan Schedule

(In Thousands)

	2005 Actual	2006 Budget	2006 Forecast	2007 Proposed	2008 Proposed	2009 Proposed
Operating Expenses						
Labor	$ 714,336	$ 748,922	$ 769,163	$ 850,332	$ 915,648	$ 1,037,780
Material	71,366	67,088	75,337	77,894	79,000	80,000
Fuel	45,788	48,000	55,003	61,233	72,000	72,000
Power	22,909	24,526	21,582	28,057	29,000	30,000
Provision for Injuries and Damages	31,500	33,000	53,000	25,000	28,000	28,000
Purchase of Security Services	31,221	35,335	31,000	35,334	36,217	37,123
Purchase of Paratransit	53,257	29,582	27,369	-	-	-
Other Expenses						
Utilities	20,975	17,542	20,891	23,992	24,691	25,691
Advertising and Promotions	2,757	4,935	2,331	3,023	3,023	3,023
Contractual Services	37,257	36,993	36,597	38,765	38,765	38,765
Leases and Rentals	1,621	2,420	2,032	2,042	2,042	2,042
Travel, Training, Seminars, and Dues	2,867	3,211	2,956	3,111	3,111	3,111
Warranty and Other Credits	(20,523)	(20,932)	(21,121)	(21,781)	(21,781)	(21,781)
General Expenses	6,115	6,063	6,059	6,150	6,150	6,150
Total Other Expenses	51,069	50,232	49,744	55,301	56,000	57,000
Total Operating Expenses	**$ 1,021,446**	**$ 1,036,685**	**$ 1,082,198**	**$ 1,133,151**	**$ 1,215,865**	**$ 1,341,903**
System Generated Revenue						
Fares and Passes	$ 417,424	$ 426,522	$ 463,808	$ 468,334	$ 475,524	$ 483,398
Reduced Fare Subsidy	31,961	30,590	32,000	32,000	32,000	32,000
Advertising, Charter & Concessions	23,963	24,800	24,771	24,990	25,470	25,970
Investment Income	5,432	4,944	11,018	12,120	12,726	13,362
Statutory Required Contributions	5,000	5,000	5,000	5,000	5,000	5,000
All Other Revenue	42,024	20,773	21,545	10,250	10,250	10,250
Total System Generated Revenue	**$ 525,804**	**$ 512,629**	**$ 558,142**	**$ 552,694**	**$ 560,970**	**$ 569,980**
Public Funding Required for Operations	$ 495,642	$ 524,056	$ 524,056	$ 580,457	$ 654,895	$ 771,923
IDOT Grant	54,252	27,126	27,126	-	-	-
Capital Offset	-	41,166	41,166	-	-	-
Public Funding Available through RTA	441,632	455,764	455,764	470,349	485,400	500,933
Additional Public Funding	-	-	-	110,108	169,495	270,990
Total Funding	**$ 495,884**	**$ 524,056**	**$ 524,056**	**$ 580,457**	**$ 654,895**	**$ 771,923**
Recovery Ratio*	54.07%	52.98%	54.76%	52.03%	49.18%	45.22%
Required Recovery Ratio	52.90%	53.00%	53.00%	52.00%	52.00%	52.00%
Fund Balance	$ 242	$ -	$ -	$ -	$ -	$ -

*Recovery ratio is calculated by dividing System Generated Revenues over Operating Expense. The calculation includes, In-kind revenues and expenses for security provided by the City of Chicago, excludes security expense and includes some grant revenues.

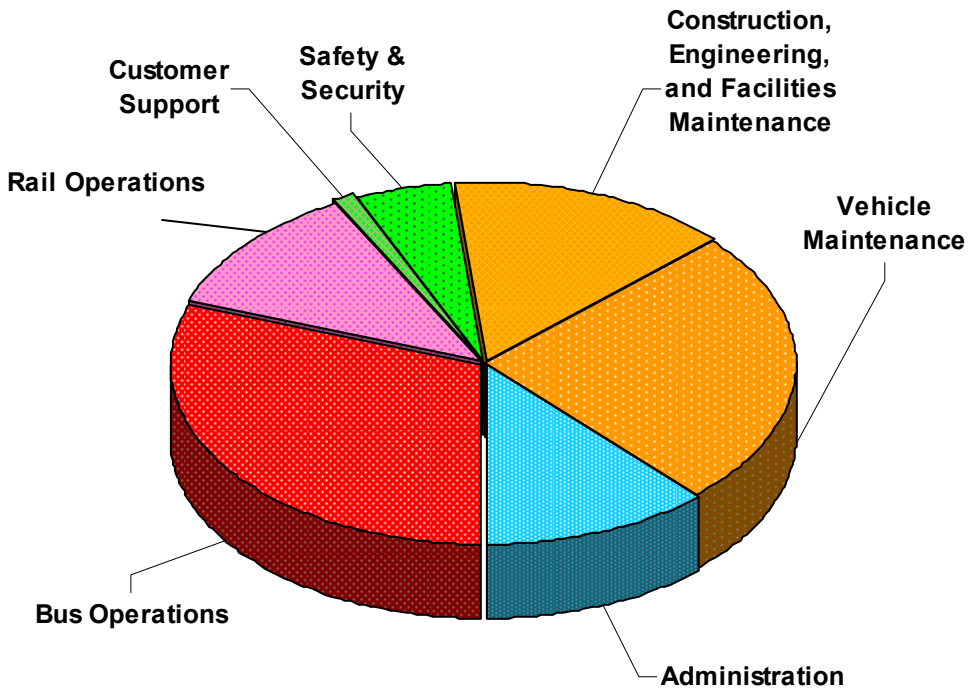
Results-Oriented

We will focus on getting the job done and will derive personal satisfaction from the service we provide.

Business Units - Overview

Distribution of Expenses by Function - 2007 Budget - ($000's)

Operations	Operations Support	Maintenance	Administration
$476,947 42.1%	$72,161 6.4%	$448,951 39.6%	$135,092 11.9%



Operations Bus Operations - $347,378 Rail Operations - $129,569	**Operations Support** Customer Support - $14,310 Safety & Security - $57,851
Maintenance Construction, Engineering, and Facilities Maintenance - $164,665 Vehicle Maintenance - $284,286	**Administration** Administration - $65,092 Injuries and Damages and Other - $70,000
Total **$1,133,151**	

Business Units - Transit Operations

Transit Operations

CTA Bus and Rail Operations provide over 1.6 million rides on an average weekday through 154 bus routes with nearly 12,000 bus stops and 8 rail lines with 144 stations and platforms. A fleet of 2,106 buses and 1,190 rail cars is required to cover the 188,000 bus miles and 189,000 rail miles driven every day. Approximately 4,200 full-time equivalent bus operators and 1,300 rail operators provide transit services to our customers.

Bus Operations Facts

- ***Nearly 1 million rides provided on an average weekday***
- ***154 bus routes with nearly 12,000 stops***
- ***Approximately 188,000 miles traveled each day – roughly 8 times around the world***

CTA provides bus and rail service 24 hours a day, 7 days a week. During late night and early morning hours, major rapid transit routes and some of CTA's bus routes offer "Night Owl" service, much of it with connecting schedules and routing. The logistics of assigning operators to various routes are the responsibility of the **Transportation Management** staff of CTA. In each of CTA's 8 bus garages and 9 rail terminals, administrative staff keeps track of operator assignments and hours.

Rail Operations Facts

- ***Almost 650,000 rides provided on an average weekday***
- ***8 rail lines with 144 rail stations; 288 miles of track***
- ***189,000 miles traveled each day***

CTA provides additional service for special events. For instance, each July 3rd, CTA provides buses and rail service to take customers home after the fireworks along Lake Michigan. CTA also provides extra service for Cubs and Sox games, Bears games, United Center events, Venetian Night, the Air & Water Show, the Chicago Marathon and other activities throughout the Chicago area.

CTA Training and Instruction utilizes classroom work, simulator training, and on-the-road training techniques to make sure that new employees are well prepared to perform their job duties safely and effectively. Training and Instruction also provides on-going education services so that CTA employees can continue to refresh existing qualifications and obtain new skills.

Business Units - Maintenance

Vehicle Maintenance

Vehicle Maintenance plays a vital role in the CTA's mission to provide CTA customers with on-time, clean, safe, and friendly transit services. Behind the scenes, skilled employees perform preventative and corrective maintenance tasks in accordance with CTA's maintenance program. This maintenance program is required by the Urban Mass Transportation Act. When major repairs or component overhauls are needed, buses and trains are serviced at CTA's heavy maintenance facilities or private contractors.

Technological advances in CTA vehicles have resulted in more reliable service, more effective crime prevention and detection, and more accurate and timely information for our customers. These technologies include the following:

- Newer buses contain additional security cameras and "black box" data recorders
- Automated Vehicle Location (AVL) and Automated Vehicle Annunciation System (AVAS) are the foundation for service monitoring, next-bus information, and destination signs
- Automatic Vehicle Monitoring (AVM) which provides early warning of potential maintenance needs
- Automated Passenger Counter (APC) to provide more accurate information on passenger loads and customers' travel patterns

The new technologies have also made maintenance of CTA vehicles more labor-intensive. A team of highly-skilled maintenance technicians is paramount for maintaining these technically sophisticated vehicles.

Bus Maintenance Facts The CTA bus fleet is comprised of 2,106 vehicles. Every day the maintenance staff fuel and service approximately 1,800 buses. To ensure that CTA operates safe and reliable vehicles, Bus Quality Control performs more than 16,000 quality control inspections per year. Preventative maintenance inspections are performed every 4,000 miles for a total of over 17,000 inspections per year**.** Bus interiors are swept and cleaned daily, and exteriors are normally washed every day. Buses are thoroughly cleaned approximately 20 times per year.

Other bus maintenance activities include repair or replace 125 bus radios and 75 public address systems per month. Maintain more than 18,000 wheels and tires and reline approximately 1,900 brakes per year. Last year, 94 buses were overhauled and 141 buses were cycled through the paint shop for full repaint or minor touch-ups. Each year, over 14,000 sub-components are rebuilt.

Business Units - Maintenance

Rail Maintenance Facts The CTA rail fleet contains 1,190 rail cars comprised of 4 model series dating from 1970. All rail cars required for service are swept and cleaned each night. Interior cleaning is also performed on a regular basis. In-depth inspections are performed on the rail cars each year which encompass all major systems and components including the removal and inspection of the truck assembly. Quarter and mid-life rail car overhauls are performed every 6-7 and 12-14 years, respectively. For 2007, 120 of the 2200 and 2400 series railcars are scheduled to receive a life extending overhaul.

Summer/Winter tune-ups: Each season 96 de-icers are rebuilt, tune-ups are performed on 4 diesel rail track snow plows, 4,700 sleet scrapers are fabricated, and 225 rail car HVAC units overhauled.

Other shop maintenance includes the rebuild of 2,500 brake parts, 350 hydraulic power control units and motors. Annually, more than 1,500 wheel profiles are performed, 600 traction motors rebuilt and 34,000 traction motor carbon brushes replaced. Each year nearly 900 wheel assemblies and 200 trucks are repaired or rebuilt, 50 control groups, 350 line breakers, 165 reversers, 135 batteries, and 1,800 trolley shoes are rebuilt.

Goals
Manage and maintain expanded bus fleet using existing resources.
Maintain equipment per CTA Maintenance Plan.
Improve vehicle reliability (increase mileage between road calls and vehicle
Perform timely vehicle replacement or overhaul with minimal service disruption.
Expand use of technology to upgrade data reliability .
Fully implement Maintenance Management Information System.
Achieve Key Performance Indicators.

Warehouse Operations is responsible for distributing parts and materials to all maintenance facilities. The main warehouse is strategically located at the center of the CTA network and replenishes all CTA stockrooms. Annually, over one million inventory transactions are performed, valued at approximately $70 million. In addition to planning and control of maintenance material, Warehouse Operations is also responsible for retaining CTA records.

Business Units - Maintenance

Construction, Engineering and Facilities Maintenance

Construction, Engineering and Facilities Maintenance play a significant role in the operations of the CTA. These groups are responsible for the system-wide inspection, construction, maintenance and repair of all CTA facilities and infrastructure. The Construction group is responsible for implementing major capital construction in conformance with the CTA Quality Manual, ISO9001 standards and grantor agency requirements. The CTA is one of only three transit agencies in the US to be ISO certified. The Engineering group is responsible for the design of all CTA capital projects as well as maintenance of the rail infrastructure including 288 miles of track, 87.5 miles of elevated structure and 12 rail yards. The Facilities Maintenance employees work around the clock, 365 days a year, maintaining, 144 rail stations, 9 rail terminals, 8 bus garages, 108 elevators, 148 escalators and over 5 million square feet of CTA property in more than 450 buildings.

Capital Construction is responsible for implementing major capital construction projects on time and on budget. CTA's capital construction projects are managed in conformance with the CTA Quality Manual, ISO 9001 standards and grantor agency regulations and requirements. Since 2003, CTA's Construction division has been registered to ISO 9001:2000. This is a significant achievement as CTA is one of only three transit agencies in the US to be certified. Capital Construction is also responsible for overseeing program management and construction management services used by CTA in order to assist in the monitoring and controlling of multiple construction projects. The department is also responsible for developing and implementing uniform procedures and processes that assist in the design, construction and administration of the Capital Program. The recent $482 million Blue Line (Douglas) Rehabilitation Project, the $282 million Red Line (Dan Ryan) Rehabilitation project and numerous smaller projects have been completed on-time and on budget. In 2007, Capital Construction will oversee approximately $250 million in new projects and more than $1.3 billion over the next five years.

Engineering is responsible for the design of CTA capital projects, including facilities, track signal, structure, and power conversion and distribution systems. Engineering oversee the system-wide maintenance of rail infrastructure.

Business Units - Maintenance

Power and Way Maintenance is responsible for the system-wide inspection, construction, maintenance and repair of CTA's track, signal, structure, power conversion and distribution systems. This includes 24 miles of subway tunnels, 52 subway system venting fans, 87.5 miles of elevated structure, 64 elevated stations, 115 bridges and viaducts, 238 miles of contact rail (3rd rail), 434 AC breakers in the subways and 304 12,000 volt AC breakers located in substations, 600 miles of traction power cable, 813 signals, 1,064 rail track switches, 1,136 automatic block signals, and 24,000 vital signal relays. Frequent inspections, adherence to the scheduled preventative maintenance program, and timely repairs help ensure reliable service.

Goals
Introduce infrared temperature sensor technology into testing program.
Complete Priority One structural repairs.
Replace remaining pantograph event recorders.
Implement Bridge Inspector's Training Manual 90 program.

Customer Facilities Maintenance is responsible for servicing and cleaning 144 rail stations, 9 rail terminals, 12 rail yards and rail right-of-way. AM, PM and overnight crews work to keep stations clean and free of garbage for CTA customers. Power Wash crews use specialized equipment to remove dirt, grime and grit quickly and effectively while performing over 2,000 power washes annually (average of 15 times per station per year). Approximately 6,000 bags of trash are removed from rail right-of-ways annually.

Goals
Utilize Employee Safety Committee to improve overall safety record.
Implement Graffiti Task Force initiatives, including etched glass replacement.
Initiate Station Quality Inspection program.
Update snow plan to better serve CTA customers.

Business Units - Maintenance

System Maintenance is responsible for servicing and maintaining all the space owned, operated and leased by CTA. This includes maintenance of all heating, ventilation and air conditioning systems, an extensive sewer network with over 1,300 manholes, over 2,000 heater elements on rail platforms, and over 60 subway exhaust fans. Crews replace more than 7,000 air filters annually, and are responsible for the preparation and painting of all CTA properties and signs, as well as the installation, repair, and maintenance of all ceramic and quarry floors and wall tiles. Crews inspect, install, and repair all electrical components and electrical controls on the system including over 50,000 light fixtures. Other System Maintenance activities include repair and maintenance of all hoists and jacks, 200 bus shelters, 148 escalators, 108 elevators, 12,000 bus stop signs, and 112 bus turnarounds. They are also responsible for coordinating snow removal at CTA properties, station entrances, bus stops and turnarounds.

Goals
Expand ratio of preventative maintenance to corrective work activity.
Increase employee training to ensure competencies with varying equipment.
Continue progress toward 5-year goal of reducing Injury on Duty by 20 percent.

System Maintenance Support is responsible for the repair and maintenance of approximately 600 non-revenue vehicles. The non-revenue vehicle fleet includes both highway vehicles such as emergency response vehicles, sedans, trailers, and trucks; and other rubber-tired equipment such as forklifts, electric carts, snowplows and yard cranes. In addition, System Maintenance Support handles emergency response for non-functioning buses and derailed trains.

Goals
Continue CTA Green Initiatives: reduction of air pollution, recycling, energy
Expand number of fueling stations with alternative fuel pumps.
Complete integration of automated fuel data with vehicle maintenance system.
Develop a comprehensive GPS plan for security, operational and maintenance

Business Units – Operations Support

Safety and Security

The safety and security of CTA's customers, employees and properties is of principal importance.

Security Services has the triple mission of investigating incidents, facility security, and performance control. Activities range from preparation of security assessments and plans, compliance with national and regional security requirements, performance of quality reviews of rail and bus safety guidelines, and collection and reporting of security statistics.

CTA operations are monitored in its Control Center. The **CTA Control Center** uses data communication, radios, GPS monitoring, and other systems to obtain real-time information on service and incidents throughout the CTA system. The Control Center operates 24 hours per day, 7 days a week.

The Security department works with the Chicago Police Department, the Emergency Communications Center, the Department of Homeland Security, and many other organizations to provide a secure environment for customers and employees. Many layers of security have been built in to minimize security threats including monitoring and performing periodic investigations of CTA facilities.

The CTA has achieved significant milestones in safety and security including the completion of a key portion of fiber optic expansion that provides for security cameras along portions of the Blue Line. Additional expansions are planned for other areas within the rail system. By the end of 2006, approximately 1,200 cameras will be operational at 45 stations. These cameras will be linked to the City of Chicago 911 Emergency Communications Center. CTA's entire bus fleet is already equipped with security cameras.

Security, however, is not a one-group function at the CTA, but a process that extends across departmental lines. As such, Security Services has engaged cross-departmental committees to discuss strategies for enhanced security measures.

Systems Safety works to prevent accidents involving both employees and customers. Safety analysts examine facilities for potential safety hazards. They also investigate incidents and implement measures to prevent recurrence of similar events. All new capital projects are reviewed and monitored by safety engineers to make sure that they comply with CTA safety standards.

With oversight from DuPont Safety Resources, the CTA has developed a charter team with five sub-committees to focus efforts to investigate accidents, understand the nature and causes of these incidents, implement and communicate processes to prevent future accidents, and provide detailed reports on overall safety performance.

Business Units - Operations Support

Customer Outreach and Support

Customer interaction is imperative for the CTA to operate effectively. The CTA routinely provides customers with information regarding new initiatives and service-related events. Feedback from our customers helps us to better match service levels with demand.

Communications & Marketing provides information to customers, the general public and the news media regarding CTA service and initiatives. Through maps, brochures, flyers, news releases and a cable television show, the department works with other CTA departments to design and create materials that promote CTA service and encourage ridership. The Department also operates programs to increase ridership, such as the New Resident and University Pass programs.

Government and Community Relations communicates initiatives to elected officials, customers, community organizations, and CTA's sister agencies. The department's outreach include providing information and obtaining feedback on major capital projects, sponsoring service-enhancement workshops, working with senior citizen groups through the City of Chicago – Department of Aging, and participating in neighborhood festivals and parades.

Customer Service responds to customer's phone inquiries, e-mails and letters, and solicits feedback from customers through market research and surveys. Accessible transit service is a major concern for the CTA and is handled through compliance with ADA requirements and through customer interaction.

Planning and Scheduling is responsible for the design, implementation and evaluation of service through an intensive data-driven process. **Strategic Planning** performs market research to determine both the short-term and long-term needs of the CTA. **Data Services and Technology Development** oversees data collection and management. This vital task is accomplished using computer programs that integrate automated data collected from buses and rail stations. **Service Planning** uses data from many sources and, in particular, information that is collected through our smart buses to produce a cohesive service network designed to match CTA service with customer demand. Changing traffic generators and travel patterns require oversight of the network to ensure the system adapts to new opportunities and challenges. Express buses, including the ratio of express to local service, illustrates an example of changing riding patterns and the need for creativity in service design. **Schedules** uses information from Service Planning and feedback from Bus and Rail Operations to develop and fine tune the schedules used on every bus route and rail line in the system. Special schedules are produced as needed for extraordinary circumstances such as planned construction projects or major special events. **Facilities Development** ensures that scheduled services have the needed on-street infrastructure in place to support operations. This division also coordinates fare equipment in rail stations, locations of bus turnarounds, shelter placement and bus route signage and oversees programs such as Arts in Transit.

Business Units - Administration

Administration

Administration is an integral part of CTA's operations. Because CTA's funding is limited, every effort must be made to ensure our resources are utilized wisely. The annual budget process evaluates CTA's financial environment and current business processes to prioritize corporate goals and ensure efficient resource allocations.

Finance must effectively manage CTA's limited resources to maximize operational efficiency. The Accounting department ensures all transactions are properly paid and recorded and coordinates all audits and reporting of monthly financial results. Treasury collects and invests all revenue. The Finance department ensures that resources are allocated and used effectively. Capital Investment identifies and targets critical capital funding for projects crucial to maintaining and enhancing CTA's facilities and vehicle fleets. Typically, Capital Investment evaluates and develops long-term plans focusing on initiatives to expand service, renew assets, replace fleet, and bring the system to a state of good repair.

Employee Relations functions to ensure labor-management effectiveness and to maintain a high level of employee satisfaction. This includes ensuring compliance with FTA and CTA drug and alcohol policies and programs. Employee Relations also administers labor contracts and grievances.

Technology Management provides and maintains the systems the CTA requires to offer a quality transit service. Continual enhancements are required to ensure that updated technology allows CTA to perform at a high level.

Human Resources assist in recruiting and managing benefits and services to insure the well being of the workforce. To continue to deliver high-quality transit service, it is essential the CTA hire, train and retain talented individuals.

General Counsel represents CTA in all legal disputes and provides advice regarding CTA's issues and transactions. The office of the General Counsel has focused on streamlining processes and provides advice regarding compliance with applicable laws and regulations. The department also handles all accident and workers compensation claims.

Purchasing processes over 10,000 contracts on an annual basis and works to ensure that CTA secures the best prices for the needed goods and services.

Property and Real Estate Asset Management is responsible for the management of the CTA Headquarters building at 567 W. Lake, the CTA Control Center building at 120 Racine, and for the management of all properties leased by the CTA. This division also provides an extensive mail delivery system for all CTA locations.

The Office of Inspector General is responsible for conducting all internal audits at the CTA and for investigating allegations of employee or vendor misconduct. Through these activities, the OIG ensures efficiency and effectiveness in the administration of CTA programs, promotes best practices, and instills integrity in CTA operations.

Business Units

The table below highlights which business units are largely responsible for the execution of CTA's primary goals of providing on-time, clean, safe and friendly transit services.

Business Unit Alignment with CTA's Primary Goals					
	CTA Goals				
Business Unit	**On-time**	**Clean**	**Safe**	**Friendly**	**Support**
Operations					
Bus Operations	●	●	●	●	
Rail Operations	●	●	●	●	
Operations Support					
Customer Support					
Communications & Marketing				●	
Government and Community Relations				●	
Customer Service				●	
Planning & Scheduling	●			●	
Safety & Security					
Security Services			●		
Systems Safety			●		
Maintenance					
Bus Maintenance	●	●	●		
Rail Maintenance	●	●	●		
Construction, Engineering, and Facilities Maintenance		●	●		
Administration					
Finance					●
Employee Relations					●
Technology Management					●
Human Resources					●
General Counsel					●
Purchasing					●
Property and Real Estate Asset Management					●
The Office of Inspector General					●

President's 2007-2011 Proposed Capital Improvement Plan and Program

Reliable

We will be dependable for our customers and fellow employees, and will maintain the highest standards of trust.

President's 2007-2011 Proposed Capital Improvement Program

Introduction

This proposed 2007-2011 Capital Improvement Program (CIP) identifies and targets available capital funds toward key capital renewal and improvement needs of CTA's system. Substantial and consistent investment in capital infrastructure has a significant positive effect on CTA's operating budget. Capital infrastructure in a state of good repair leads to reduced maintenance costs, greater operating efficiency and improved customer satisfaction.

The program is funded from three sources:

- ***Federal Transit Administration (FTA)***
- ***Regional Transportation Authority (RTA)***
- ***Capital Bonds (CTA)***

These sources provide funding to cover projects contained in the typical CTA five-year capital program. The *Illinois FIRST* program provided nearly $200 million per year in the past. Non federal funding over the next five years will be reduced dramatically, to about one tenth the level in the 2002-2006 program. Until a successor to this state funding is approved, CTA's and other regional transit capital funding will be severely diminished. Without a successor to *Illinois FIRST*, the only non-federal capital funds will be RTA discretionary funds.

This proposed CIP totals $2.7 billion, with $1 billion programmed for vital system expansion, including completion of the Brown Line Capacity Expansion project; and $1.7 billion in projects to renew CTA assets, replace the fleet, and bring the system to a state of good repair. To alleviate a shortfall in CTA's operating budget, the 2006 capital program diverted $41.2 million in preventive maintenance to operating, resulting in the deferral of critical capital projects. This amount is in addition to capital funds diverted in previous years. The proposed program does not divert scarce capital funds to balance the operating budget. If CTA were to divert approximately $65 million in capital funds to operating in 2007, critical projects to overhaul aging rail cars and buses would be delayed or cancelled. In 2005, the Illinois legislature took initial steps to provide additional operating funds for CTA with a $54.3 million grant. The legislature has demonstrated that it recognizes the need to provide additional funding for transit in the region. Regardless of future funding made available by the Illinois General Assembly, additional capital funds will not be diverted to the operating budget. CTA must continue to maintain and improve its capital infrastructure.

The funding identified in this CIP will only partially meet CTA's needs to bring its system to a state of good repair. An additional estimated $5.8 billion remains unfunded during the five year period of this CIP. As the Illinois legislature looks at providing additional capital funding to the Chicago region, CTA has taken a thorough and systematic look at the additional funding needed to reach a state of good repair. Vital projects affecting quality of service such as replacement of subway lighting and ventilation systems, viaduct renewal, track and track bed renewal, and station upgrades remain unfunded. As long as such projects remain unfunded, customers will experience slow zones and service delays as well as lower overall service quality. In addition, to meet the needs of future growth in the region, CTA needs $4.2 billion for expansion projects such as Circle Line, Airport Express, the Ogden Transitway, and the Red, Orange, and Yellow Line extensions. It is critically important for CTA to maintain its existing bus and rail system. It is equally important to improve the connectivity and usefulness of the system by adding

strategic connections and line extensions. As the bus and rail system operates more efficiently, the population of the entire Chicago region will benefit.

CTA State of Good Repair Standards

CTA's goal is not merely to replace equipment and facilities in-kind, but to replace existing systems, where appropriate, with current, modern technology. CTA has based its State of Good Repair estimates on the following industry replacement and rehabilitation standards:

- ***Buses should be rehabbed at six years and replaced at twelve years.***
- ***Railcars should be rehabbed at quarter- and mid-life intervals, and replaced at 25 years.***
- ***Rail stations should be comfortable and secure, and replaced or rehabbed at 40 years.***
- ***Rail lines should be free of slow zones, and should have reliable signal systems.***
- ***Maintenance facilities should be replaced at 40 years (or 70 years if rehabbed).***
- ***Service management systems should be modern and reliable.***

Until CTA reaches a State of Good Repair, it will continue to face slow zones, periodic service interruptions, and increased operating and maintenance costs due to deferring capital projects.

Meeting and maintaining these standards improves the comfort and reliability of the services CTA provides its customers, and reduces operating and maintenance costs for CTA. Prudent investment strategies address both visible signs of system aging such as station roofs in disrepair, and less visible signs such as leaking tunnels and overburdened power and communication systems. The CIP strives to maintain a balance between investment to upgrade existing infrastructure and responding to service needs that are visible to our customers. Given the advanced age of many CTA assets and the limited resources available for capital needs, the proposed projects are crucial in balancing the maintenance and providing for needed strategic service expansion. However, given the current constraints on capital funding, it is harder to achieve this balance each year. As additional non-federal funding is made available in future years, achieving this goal will become possible.

Efficient Use of Available Capital Funding

When Congress enacted *TEA-21* in 1998, the Illinois General Assembly responded, enacting *Illinois FIRST* in 1999 to provide adequate non-federal matching funds. CTA's goal was to obligate 80 percent and spend 50 percent of the funds available between 2000 and 2004. CTA exceeded both goals, with 81.5 percent of these funds obligated and 64.2 percent of the funds spent as of December 31, 2004. CTA projects a similar goal for additional capital funds in the 2007-2011 CIP.

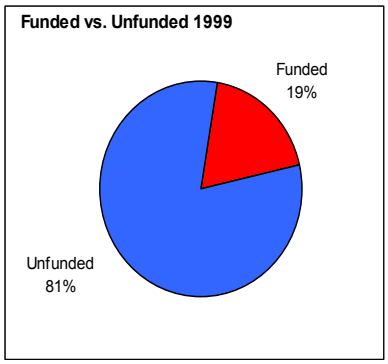
Unfunded Capital Need

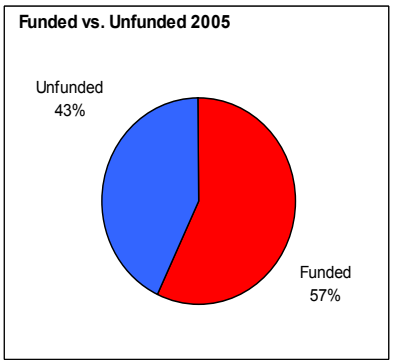
In 2005, the Illinois State Auditor General was directed to review CTA's operations and management, including its capital program. In addition, CTA has been engaged in a rigorous

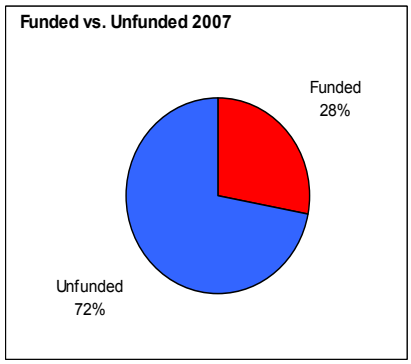
President's 2007-2011 Proposed Capital Improvement Program

reassessment of the state of its capital infrastructure. As a result, CTA has completed the first extensive examination of its capital infrastructure since 1998, including cost estimates, project schedules, and asset conditions. The result has been a thorough reevaluation of the level of infrastructure investment needed to allow CTA to continue to provide safe and reliable service to help meet the region's growing transit needs.

Illinois FIRST took CTA from funding only 19% of its capital need in 1999 to funding nearly 60% by 2004 which allowed CTA to make significant progress in improving its capital infrastructure. With the expiration of *Illinois FIRST* in 2004, non-federal funds are no longer available to match federal programs, resulting in increased unfunded need. CTA's FY 2005-09 capital budget noted $5.1 billion in total State of Good Repair need, with $2.9 billion funded and $2.2 billion unfunded. Thus, CTA's funded need has dropped from 57% to 28% of total need.







Each year that CTA does not fully address its capital needs, its asset base ages further, increasing the cost to bring it to a State of Good Repair. Each year, some asset classes which were previously in a State of Good Repair fall into further disrepair. In 1998, only 150 of CTA's 1,190 rail cars were considered past their useful lives. By 2009, when the next cars will be delivered, 675 rail cars will have reached 25 years and will be added to CTA's list of capital needs. Procurements funded in the FY 2007-2011 CIP will replace only 350 of those 675 cars.

The lack of a successor to *Illinois FIRST* has also resulted in state funding reductions for existing capital funding programs. Unlike the federal program, when a state transit program expires (as with *Illinois FIRST*), all transit funding is stopped. As a result, RTA SCIP Bonds decreased by $650 million and IDOT "B" Bonds decreased by $66 million, for a total reduction of $716 million over five years. Without a reliable source of state matching funds, CTA's five-year capital funding has fallen from $2.9 billion to $2.2 billion.

Since the original estimates were developed, the cost to construct these needed projects has increased by $560 million. As reported in Engineering News Record, such increases were caused by factors including wages, healthcare, energy and steel price increases during the same period. The combination of the above factors had a compounding effect on CTA's unfunded need.

As non-federal funding has been eliminated and CTA has been forced to divert additional capital funds to operating, CTA's unfunded capital need has risen by over $3.6 billion. In just two years, CTA has gone from making considerable progress toward meeting this need to a position of falling further behind.

President's 2007-2011 Proposed Capital Improvement Program

Capital Grant Program Administration

Over the past five years, CTA's Capital Improvement Program has totaled nearly $3 billion. Capital projects involve long lead times for planning, design and engineering before construction actually begins. As a result, CTA and other transit agencies must build up large reserves of capital funds for ongoing projects.

To accelerate capital projects and reduce capital funding accumulations, federal rules permit the use of "pre-award authority;" that is, CTA can award contracts and obligate funds prior to grant approval and receipt of federal funds. Neither the RTA nor IDOT permits the use of "pre-award authority" to award contracts prior to receipt of funds. This practice forces CTA and the other service boards to amass all funding necessary for a large capital project before awarding the contract and obligating funds. The application of federal rules in this situation would make this process more efficient by accelerating capital projects and reducing capital funding accumulation.

In addition, CTA uses capital bond programming to ensure additional flexibility in managing project programming and project cash need. Continued use of the grant anticipation bonds is anticipated in 2007, 2008, and 2010.

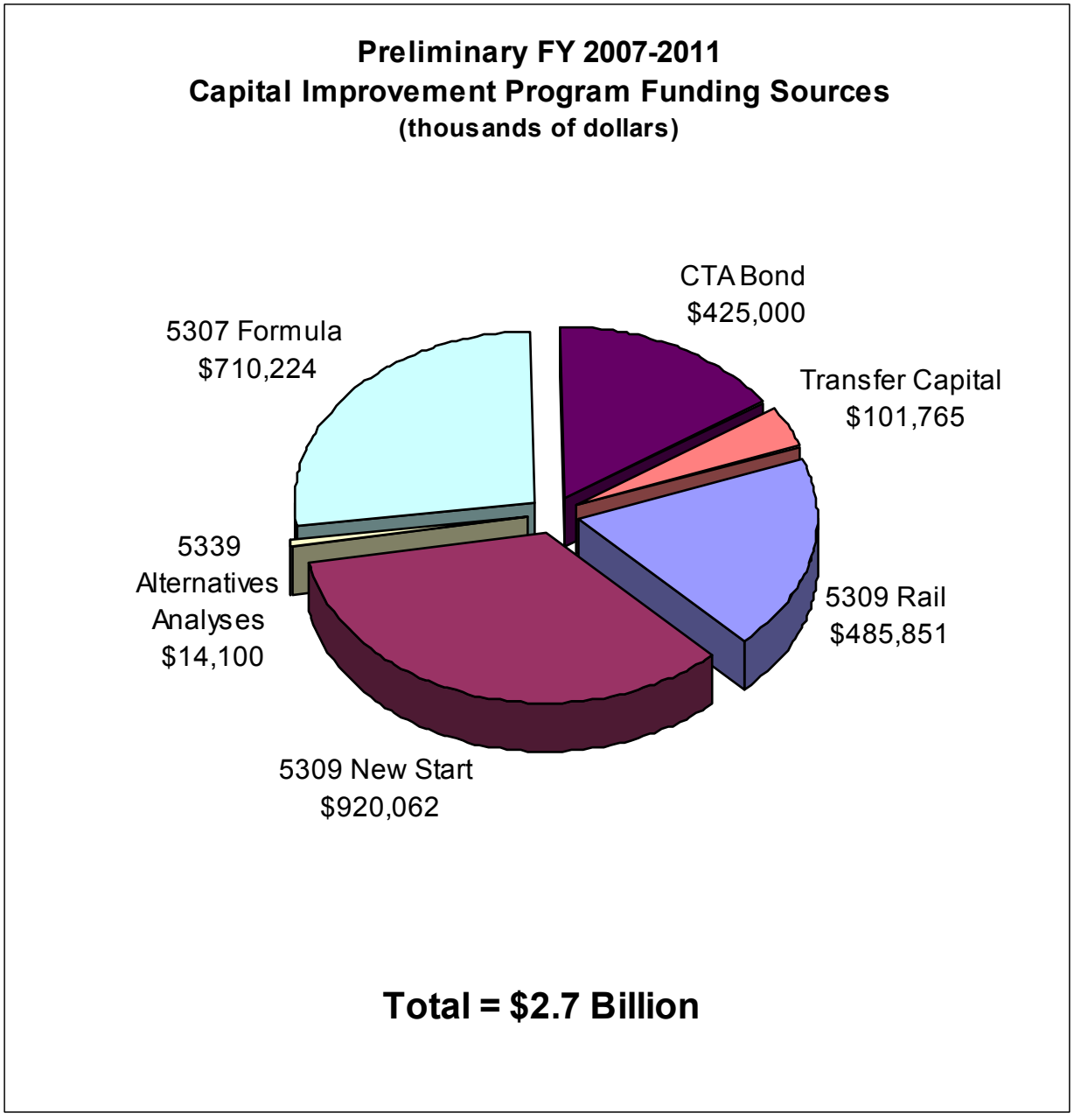
Operating Budget Impact of Capital Program Projects

Much of CTA's investment in capital projects has a positive impact on the operating budget. For example, overhaul of rail cars at mid-life and quarter-life intervals results in lower overall maintenance costs. Parts and components replaced in a systematic campaign would otherwise be replaced on a fail-in-service basis with a corresponding higher cost and a lower fleet reliability due to increased visits to the maintenance shop. Purchase of replacement buses provides both a more reliable fleet and reduces failure based maintenance. In addition, newer buses operate with significantly lower emissions, helping to prevent air pollution in the region.

President's 2007-2011 Proposed Capital Improvement Program

Sources of Funds

The funding levels used in preparing the proposed 2007-2011 CIP reflect the capital resources available to CTA through the Regional Transportation Authority (RTA). These include $2.1 billion from the Federal Transit Administration (FTA), $102 million from the RTA, and $425 million from CTA Bonds. Approximately $920 million of federal funds are "New Start" funds, only a portion of which are guaranteed at this time. Total projected available funding is $2.7 billion. A summary of this funding is presented in the following figure. The federal funds reflect the passage of *SAFETEA-LU*, reauthorizing federal funding through 2009. The table on the following page details the funding sources supporting this program.



President's 2007-2011 Proposed Capital Improvement Program

CHICAGO TRANSIT AUTHORITY
FY 2007- 2011 CIP FIVE YEAR PROGRAM MARKS
(thousands of dollars)

NEW FUNDS	2007	2008	2009	2010	2011	TOTAL
Sec.3 (5309) Fixed Guideway	$ 87,745	$ 92,915	$ 96,987	$ 101,791	$ 106,412	$ 485,851
Sec.3 (5309) New Start	$ 64,954	$ 95,550	$ 220,749	$ 269,405	$ 269,405	$ 920,062
Sec. (5339) Alternatives Analyses	$ 14,100	$ -	$ -	$ -	$ -	$ 14,100
Sec.9 (5307) Formula	$ 122,545	$ 133,087	$ 141,728	$ 151,636	$ 161,227	$ 710,224
Total Federal	**$ 289,344**	**$ 321,553**	**$ 459,464**	**$ 522,832**	**$ 537,044**	**$ 2,130,237**
CTA Bonds	$ 125,000	$ 150,000	$ -	$ 150,000	$ -	$ 425,000
Transfer Capital	$ 20,353	$ 20,353	$ 20,353	$ 20,353	$ 20,353	$ 101,765
Total Local	**$ 145,353**	**$ 170,353**	**$ 20,353**	**$ 170,353**	**$ 20,353**	**$ 526,765**
Total Available Funds	**$ 434,697**	**$ 491,906**	**$ 479,817**	**$ 693,185**	**$ 557,397**	**$ 2,657,002**

Enactment of Federal Transit Funding

On July 29, 2005 Congress approved the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (*SAFETEA-LU*). President George W. Bush signed the act on August 10, 2005. The new federal transit and highway bill authorized $286.4 billion nationwide through 2009, including $52.6 billion for transit. The bill will make available over $1.5 billion in transit formula funds for the Chicago region over four years. *SAFETEA-LU* includes continued funding for the Brown Line Capacity Expansion Project and will complete the federal funding commitment to the recently completed Blue Line Cermak (Douglas) Branch Reconstruction Project.

A Renewed State Capital Program is Essential

The federal funds available under *SAFETEA-LU* will require approximately $220 million in non-federal matching funds to fully utilize the federal formula funds. Additional funds will also be required to match federal New Starts funds for new lines and extensions to existing lines. With the expiration of *Illinois FIRST* in 2004, non-federal funds are no longer available to match these federal programs, except for the Brown Line Capacity Expansion Project, which is fully funded. In rating a New Start project, FTA considers the level of commitment of local funds prior to entering into a Full Funding Agreement. Without a reliable source of non federal capital funding, CTA is not likely to receive a favorable rating, necessary for federal funding.

The loss of these non-federal funds has resulted in the delay of several critical infrastructure investments. Projects slowed or delayed include: bus midlife overhauls, bus replacements, railcar midlife overhauls, rail car replacement, signal upgrades, rail track and tie replacement, and rehabilitation of elevators and escalators. In the past, these funds have provided the required non-federal match to access federal funds. This reduction has also seriously impacted CTA's ability to reach a state of good repair on its capital infrastructure.

President's 2007-2011 Proposed Capital Improvement Program

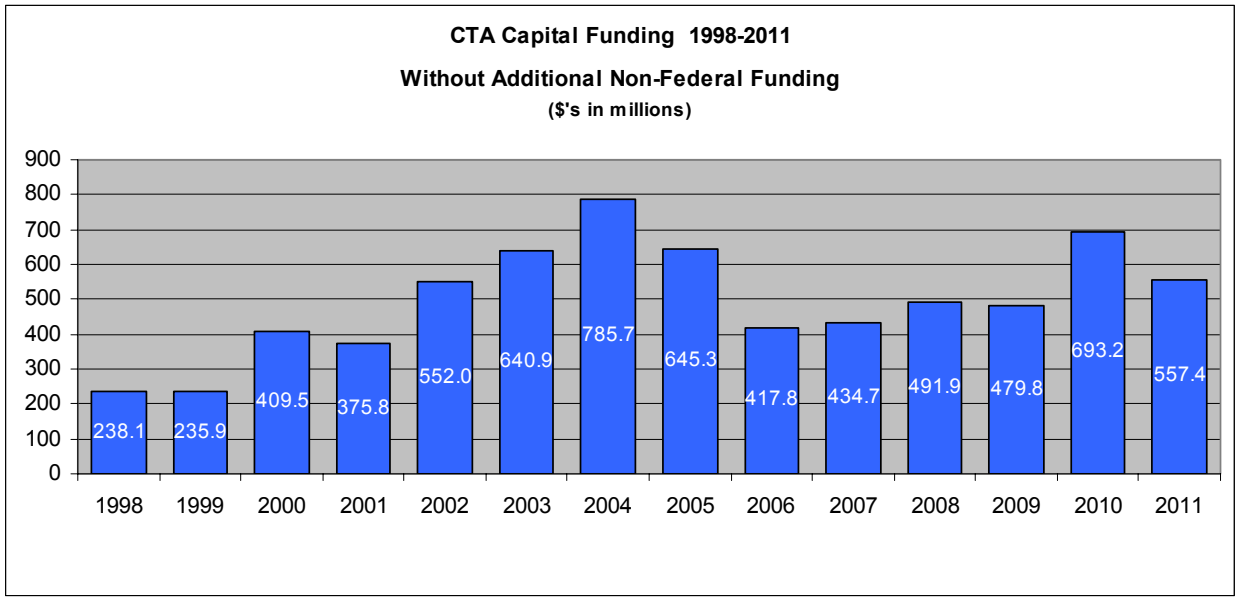
The federal transportation program is regularly re-authorized and even when an authorization expires, Congress continues to appropriate funds until a new program is created. Like the federal program, state road funds continue to be appropriated by the legislature. Unlike the federal program, when a state transit program expires (as with *Illinois FIRST*), all transit funding is stopped. This start and stop approach makes it much more difficult to plan and implement transit capital projects. Most transit projects are, by their nature, multi-year projects which require multi-year commitments of funds.

The Downward Spiral of Disinvestment

Thanks to *Illinois FIRST, TEA 21*, and the new *SAFETEA-LU*, CTA made progress in rebuilding its infrastructure and preventing further system deterioration. CTA must continue to maintain and upgrade its capital assets to preclude movement toward a state of disinvestment. Disinvestment is characterized by lagging capital investment resulting in system disintegration and trip delays which lead to deteriorating service quality. Consequently, customers leave the system and the financial base begins to erode. This spiral, once engaged, is difficult to reverse.

Significant progress towards a state of good repair was made under *Illinois FIRST* and *TEA-21*. The passage of *SAFETEA-LU* provides the base for continued progress. A successor to *Illinois FIRST* will maintain CTA's forward movement towards a state of good repair. It will also ensure that the region is realigned with the federal transit program and continue the momentum that existed under *TEA-21* and *Illinois FIRST*. Consistent, reliable capital funding is essential to prevent future disinvestment.

The following graph illustrates capital funding available over the last ten years and projects future capital program funding without a successor to *Illinois FIRST*. The use of CTA bonding prevents the CIP from decreasing even further in the next five years.



President's 2007-2011 Proposed Capital Improvement Program

Uses of Funds - CIP Goals and Objectives

With the RTA capital program marks as a foundation, CTA has developed a program of capital projects for the 2007–2011 Capital Improvement Program. CTA's proposed capital budget continues to work towards the goals and objectives outlined in the 2006-2010 CIP:

- ***Fund procurement and replacement of vehicles as needed. Replace CTA's bus and rail fleets, and provide safe and reliable transportation to CTA customers.***

- ***Support enhanced security throughout CTA facilities and systems. Focus on safety and security needs for customers, employees and the community.***

- ***Continue New Starts projects intended to rehabilitate deteriorated rail infrastructure and expand capacity to accommodate growth in ridership [e.g. through the Brown Line capacity expansion project]. Rebuild the system, starting with the segments of CTA's rail system most in need to improve system reliability.***

- ***Renew CTA's rail right-of-way (ROW). Eliminate ROW slow zones that increase travel times. Work to place CTA's rail system in a state of good repair and increase the reliability of CTA service.***

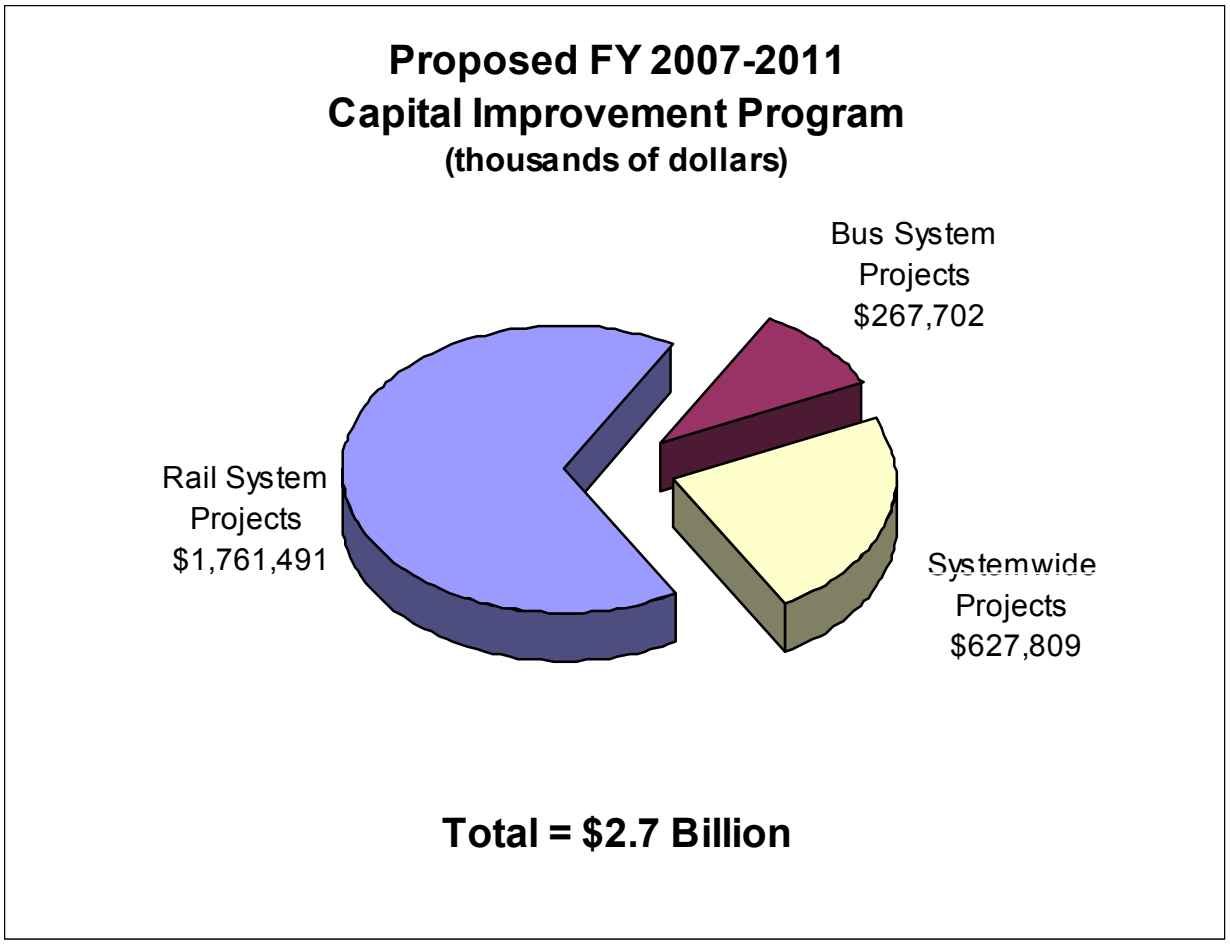
- ***Upgrade maintenance facilities and provide necessary equipment to keep CTA's buses and trains running effectively. Sustain the momentum reflected in CTA's growth in ridership and customer satisfaction.***

As gas prices and congestion in the Chicago area have reached record levels, public transit becomes an even more attractive option to the traveling public. Investment in vital public infrastructure projects provides jobs, creates and supports economic growth, and helps ensure the future vitality of the region. Even for people who never use public transportation, relieving congestion becomes an important goal. As ridership continues to increase, capital infrastructure becomes increasingly important to providing high quality transit services. The 2007-2011 capital program provides some of the funding necessary to address CTA's customers' concerns over the next five years. CTA will be able to meet the CIP goals and objectives when additional non-federal funding is provided by the Illinois General Assembly.

President's 2007-2011 Proposed Capital Improvement Program

Uses of Funds – Program Summary

The following figure shows the proposed 2007-2011 Capital Improvement Program by general categories of asset improved or replaced. The table on the following page lists each project in the proposed program. A detailed description of each project can be found following this narrative in the section headed *Detail Capital Improvement Program Project Descriptions.*



Sixteen projects comprise CTA's proposed 2007-2011 capital program. Each project is evaluated in an annual review process based on CTA's customers' needs. Evaluation criteria include customer and employee safety, impact on system reliability, reductions to travel time, increased customer comfort and convenience, system security, compliance with regulations and community impact. Rail system projects are allocated a significantly larger proportion of CTA's capital program funding due to the need to maintain an exclusive right-of-way and the fact that CTA buses operate on streets maintained by other units of government. The capital projects for 2007-2011 and beyond are intended to address CTA's most pressing needs for the bus and rail system, customer facilities and system-wide support network, as constrained by the level of projected funding.

President's 2007-2011 Proposed Capital Improvement Program

Proposed FY 2007-2011 Capital Program

in thousands

Proj #	Title	Funded	2007	2008-2011	5 Year Funding	Outyear	Project Total
Bus Projects							
	Rolling Stock						
021.803	Perform Bus Maintenance Activities	$ 5,088	$ 5,088	$ 20,353	$ 25,441	$ 25,441	$ 55,971
021.806	Perform Mid-Life Bus Overhaul	62,864	16,700	84,500	101,200	157,500	321,564
031.054	Replace Buses	302,482	29,899	111,161	141,061	434,947	878,489
	Sub-Total	**370,434**	**51,688**	**216,014**	**267,702**	**617,888**	**1,256,024**
Rail Projects							
	Acquisitions & Extensions						
194.006	Alternatives Analyses - New Start Projects	13,173	14,100	-	14,100	-	27,273
194.007	Circle Line, Red, Orange & Yellow (ROY)	1,960	23,380	749,160	772,540	-	774,500
194.115	Expand Capacity - Brown Line	312,098	63,955	153,858	217,813	-	529,910
194.117	Rehabilitate Blue Line - Cermak Branch	471,986	1,574	-	1,574	-	473,560
	Sub-Total	**799,217**	**103,008**	**903,018**	**1,006,026**	**-**	**1,805,244**
	P/W Electric, Signal, Comm.						
121.500	Replace/Upgrade Power Distribution and Signals	185,087	37,558	68,633	106,192	42,241	333,520
	Sub-Total	**185,087**	**37,558**	**106,192**	**106,192**	**42,241**	**333,520**
	P/W Track & Structure						
171.133	Repair Track and Structure Defects	5,401	5,401	21,603	27,004	27,004	59,409
181.500	Infrastructure Safety & Renewal Program	14,723	35,704	-	35,704	24,612	75,039
	Sub-Total	**20,123**	**41,105**	**21,603**	**62,708**	**51,616**	**134,448**
	Rolling Stock						
022.903	Perform Rail Car Overhaul & Mid-Life Rehabilitation	83,460	37,833	199,880	237,713	580,758	901,931
022.906	Perform Rail Car Maintenance Activities	5,960	5,960	23,839	29,798	29,798	65,556
132.056	Purchase Rail Cars	85,031	57,550	261,504	319,053	359,713	763,797
	Sub-Total	**174,451**	**101,342**	**485,222**	**586,564**	**970,270**	**1,731,285**
Systemwide Projects							
	Miscellaneous						
141.273	Reconstruct Rail Stations - (Incl. Howard & Wilson & Washington St. Station)	47,445	50,257	83,588	133,845	-	181,290
308.002	Bond Repayment, Interest Cost, & Finance Cost	67,719	30,337	354,779	385,116	506,366	959,202
	Sub-Total	**115,164**	**80,594**	**518,961**	**518,961**	**506,366**	**1,140,491**
	Support Facilities & Equip.						
073.500	Improve Facilities - Systemwide (incl. 77th Garage)	47,830	19,402	89,446	108,848	389,757	546,435
	Sub-Total	**47,830**	**19,402**	**89,446**	**108,848**	**389,757**	**546,435**
	Capital Project Total	**$1,712,306**	**$434,697**	**$2,222,304**	**$2,657,002**	**$2,578,138**	**$6,947,446**

President's 2007-2011 Proposed Capital Improvement Program

The Bus System

CTA operates a fleet of approximately 2,100 buses, which make over 24,400 weekday trips on 154 routes, providing almost one million rides on a typical weekday. Each customer who boards a bus at one of 11,846 bus stops located throughout CTA's service area expects reliable service that is on time, clean, safe and friendly. The backbone of the bus system is the bus fleet. The system's success depends on CTA's ability to renew, maintain and operate its bus fleet.

Bus Rolling Stock

CTA will receive forty five new 30' buses by the end of 2006. These fully accessible and air conditioned buses represent a new initiative to better serve CTA customers, operating in areas where it is not practical to operate a traditional 40' bus.

Providing new buses reinforces CTA's commitment to quality bus service. Through September 2006, CTA received 229 buses as part of a base order of 265 New Flyer buses. These full size coaches are air-conditioned and fully accessible; they represent the base segment of an order of up to over 1,000 replacement buses. The entire CTA bus fleet is ADA accessible and air-conditioned. Over the next five years, CTA plans to spend over $141 million on additional purchases of low-floor, fully accessible, air-conditioned buses. These new buses will replace models that entered service in 1991 and 1995, to increase comfort and reliability for thousands of CTA customers. CTA is replacing some of the traditional 40 foot buses in the fleet with heavy duty 30 foot buses. These smaller buses add flexibility for service in areas with narrow streets or extensive on-street parking. The neighborhoods surrounding Hyde Park (University of Chicago) served by routes 170, 171 and 172 are typical of the type of communities CTA can better serve with these smaller vehicles.

The bus vehicle overhaul program continues to improve service through regular replacement of major mechanical components subject to extensive wear. Under the bus vehicle overhaul program, CTA will invest $126 million over five years, aimed at reducing operating costs and improving service. Unscheduled maintenance - required by the failure of a bus in service - disrupts operations, inconveniences customers and increases operating costs.

Bus mid-life overhaul activities are programmed for $16.7 million in 2007 and $84.5 million during the period 2008-2011. With overhauls, the fleet will benefit with increased reliability and fewer instances of expensive breakdown based repair.

Other customer-focused improvements to CTA's existing buses are on the capital agenda. CTA recently completed the installation and activation of a new state-of-the-art automated announcement system on the bus fleet at a cost of $22.3 million. CTA's installation of this system is the largest implementation of its kind in the United States. This system provides automated bus stop announcements on CTA buses and electronic signs that display upcoming stops. During stops, the system announces the route and destination of the bus. This new technology makes CTA buses friendlier for customers, especially those who are visually or

hearing impaired and those who are unfamiliar with a given route. The project also included the installation of automatic passenger counters on 435 buses. The system uses global positioning satellite technology to indicate where customers board and alight buses and the number of customers on board buses at any given point on a route. Automatic passenger counters will assist the CTA in determining how best to improve service to meet customer needs.

To effectively manage service delivery and provide reliable information to customers, CTA must have vehicle location information available to operations personnel in real time. The Computer-Aided Dispatch/Automatic Vehicle Location (CAD/AVL) pilot is a $1.3 million effort targeting this goal. Three immediate objectives are: testing the feasibility of real-time data communications between pilot buses, the Control Center and supervisor vehicles; evaluating centralized control and dispatch functions utilizing real-time data; and demonstrating the integration of a customer information application supplying bus arrival predictions via the Internet and at one bus stop. Focusing on the #20 Madison bus route, this pilot leverages the on-board "smart bus" technology that was installed in support of the Automatic Voice Annunciation System (AVAS). At the pilot's conclusion in 2007, CTA will evaluate program results and develop recommendations regarding a system-wide roll-out which will require significant capital resources.

As a result of an unwavering commitment to the environment while providing affordable service to our customers, CTA has taken a number of pro-active steps beyond minimal federal requirements to reduce emissions of its bus fleet. CTA began using Ultra Low Sulfur Diesel (ULSD) as part of its ongoing commitment to reduce fleet emissions in March 2003, well before federal mandated requirements. CTA became the first major user of ULSD in the Midwest, thereby pioneering use of the cleaner fuel by other diesel fleets. Using ULSD in every CTA bus reduces overall emissions by about 10%. In addition CTA uses Clean Diesel Technology, a combination of Exhaust Gas Recirculation (EGR) engines and post-combustion after-treatment (e.g., Particulate Filters), to reduce Particulate Matter, Hydrocarbons and Carbon Monoxides up to 90%, with reductions in Oxides of Nitrogen in the 5% to 15% range. Currently, 284 CTA buses have the combination EGR engines and Particulate Filters installed. Other initiatives include: the purchase of 20 hybrid diesel-electric buses to be placed in service in 2007; idle restriction programming to reduce emissions during layovers; and reduced cold start emissions by installing engine starting assist units in over 200 buses.

CTA has 406 Railcars currently on order. These vehicles are scheduled for delivery in 2009 and 2010. They will feature AC-propulsion systems, rider-friendly system map displays, security cameras, and mechanisms to ensure a level boarding from platform to car.

The Rail System

CTA's rail system consists of approximately 1,190 rail cars, traveling over 287.8 miles of track, making approximately 2,600 train trips on eight routes and 144 stations on a typical weekday. The rail system provides 649,000 trips each weekday; customers depend on CTA's rail system to deliver them to their destinations quickly and safely. To meet customer expectations, CTA must

coordinate the efforts of thousands of employees working together to deliver on-time, clean, safe and friendly service.

Rail Rolling Stock

The five-year CIP allocates $319 million for the purchase of rail cars that will replace the aging 2200- and 2400-Series fleet and provide additional cars to meet service requirements for projects such as the Brown Line Capacity Expansion Project. The 2200-Series cars have been in service for more than 35 years and have exceeded their expected service lives. With ongoing overhaul programs, these cars have been able to provide safe, reliable service. The 2400-Series have been in service for more than 27 years and have already exceeded their expected service life. The average car in the CTA rail fleet is over 22 years of age in 2006. Currently, approximately 29 percent of the fleet exceeds the 25-year FTA standard life of a rapid transit car.

The scheduled replacement of cars that are beyond their expected service life complements CTA's effort to rebuild the existing rail car fleet and improve rail car accessibility for customers. These cars will be powered by a state-of-the-art alternating current (A/C) propulsion system which incorporates the most efficient technologies, reducing both operating and maintenance costs.

CTA's 2007-2011 capital program also sets aside $267 million in projected funding during the next five years for the systematic maintenance and upgrade of CTA's rail fleet. Without an aggressive maintenance program, many more rail cars would fail in service causing inconvenience for customers and increasing operating costs. The rail overhaul program helps ensure that CTA's rail fleet remains in a state of good repair to serve customers.

The Rail Car Overhaul Program reduces operating costs and enhances reliability. Without quarter-life and midlife overhauls funded in the CIP, rail vehicle maintenance costs would be three times current levels, averaged over the expected twenty-five year life of each car.

New Start Projects on Blue and Brown Lines

Using *TEA-21* and *Illinois FIRST* funds, the reconstruction of the Blue Line's Cermak (Douglas) Branch was completed in 2005. This capital construction project was completed on time and nearly $1 million under the construction budget, providing a fully rehabilitated and modernized rapid transit line for customers. This project included the reconstruction of eight elevated stations and over five miles of elevated structure and trackwork, as well as the purchase and installation of new signal and communications equipment, plus additional improvements to the right-of-way and track.

CTA has begun its largest capital construction project yet, to expand capacity on the Brown (Ravenswood) Line. The capital budget provides $63.9 million in 2007 in addition to $312 million previously programmed. Over five years the CIP allocates $154 million to the Brown Line project, with a total budget of $530 million. This project will extend station platforms at 18

stations to accommodate eight-car trains and increase capacity by up to 33 percent. Sixteen stations will be reconstructed, of which 12 will have elevators installed to provide improved station accessibility for all customers. The four at-grade stations will be made accessible through the use of ramps. Signal, electrical and communications upgrades will also be performed.

To facilitate construction, Clark Junction is being rehabilitated at the same time. Clark Junction is located where the Brown, Purple and Red Line trains merge, just north of Belmont station. The rehabilitation effort consists of replacing sections of track, installing special track work, and upgrading traction power, communications and signal systems. The Clark Junction upgrade will provide operational flexibility to allow customers continued access to stations while they are under construction.

CTA's infrastructure continues to age – parts are more than 100 years old

1892-1920
Elevated rail system
Archer and 77th Street Garages,
South Shop and West Shops

1940-1960
State and Dearborn Subways,
Blue Line-Congress Branch,
North Park and Forest Glen Garages

1969-1970
Red Line-Dan Ryan Branch,
Blue Line-O'Hare Branch (to Jefferson Park)

1983-1984
Blue Line-O'Hare Branch (to O'Hare)

1993
Orange Line to Midway

Construction is well underway, with two stations (Rockwell and Kedzie) reopening in September 2006, after rehabilitation. All of the stations are under contract. At Fullerton and Belmont stations, the most complex station rehabilitations on the Brown Line, structural work is proceeding to create new track and platforms.

Signal Systems and Traction Power

Train movement through the Loop is controlled by a signal territory including both Tower 12 and Tower 18, which are slated for upgrade. The Loop signals project is programmed to receive funding during the five year CIP to upgrade the train control and track interlocking on this busy part of the CTA rail system with modern equipment, providing increased reliability for customers. As part of this initiative, train control will be enhanced on both the Lake Street and Wells Street bridges reducing delay during seasonal bridge lifts and improving service and operational flexibility on the Green, Brown, Orange, Purple, and Pink Lines.

Continuation of signal upgrade and replacement for the Blue Line is also funded in the five-year CIP. This project, which began in 2006, will replace the entire signal system in the Dearborn

Subway, on the Congress (Forest Park) Branch and on a portion of the O'Hare Branch. Funding of $65.1 million is included in the CIP for Blue Line signals. These upgrades, which are now underway, will replace systems that are beyond their useful life, some of which were installed during the initial subway system construction during the 1950s. CTA customers will benefit from smoother train operation, reduced travel times and greater reliability.

Other Major Rail Initiatives

In addition to the improvements realized through the reconstruction of the Brown Line project, $5.4 million has been budgeted in 2007 to improve and upgrade CTA's rail system infrastructure. The Church viaduct on the Evanston Purple Line is being reconstructed in 2006. Design of the remaining Evanston viaducts has also been funded, as well as preliminary design for two stations: Main and Dempster. Footwalks at trackside, used by maintenance staff and by customers in case of emergencies, will be replaced or renewed. Right-of-way, ties, track and structure will be replaced throughout the system based on continuous assessment of vital assets, thereby reducing slow zones and maintaining heightened service standards. The structural steel elements used to support CTA's elevated track will be rehabilitated in locations throughout the system. An additional $35.7 million is budgeted during 2007-2011 to continue systematic rehabilitation of CTA right-of-way.

Expansions

SAFETEA-LU authorized several system extensions and enhancements for CTA. The Circle Line project will connect all CTA and Metra rail lines in Chicago. The 6.6 miles of new elevated and subway tracks and eleven new or rebuilt stations will enable CTA to operate a new crosstown route, significantly reducing travel times between CTA and Metra stations throughout the city and region. The first phase of this project, the reconstruction of the Paulina connector between the Green and Blue Lines, has been completed and alternatives analysis has begun on the remaining phases. The Ogden Avenue Transitway project is the subject of another CTA Alternatives Analysis study.

CTA New Starts Authorized in SAFETEA – LU

Circle Line/Ogden
Red Line Extension
Orange Line Extension
Yellow Line Extension

Also authorized in *SAFETEA-LU* are potential extensions of the Yellow Line to Old Orchard, the Red Line south to 130th Street, and the Orange Line to the Ford City Shopping Center. The federally required planning and alternatives analyses for these projects began in 2006. The alternatives analyses process will examine a range of potential alternatives, including, but not limited to rail extensions. At the conclusion of the Alternatives Analysis process, a "locally preferred alternative" will be selected. Federal approval is necessary before a project can advance to final design and construction. FTA rates each project based on well-established criteria to asses the relative merits of each project. CTA's projects compete with other projects across the country for scarce federal New Start funding. Federal funds for "New Starts" are appropriated separately from formula funds and are provided on a competitive basis.

President's 2007-2011 Proposed Capital Improvement Program

Systemwide Improvements

System Security Enhancements

The events of September 11, 2001 affected CTA's security strategy. Security assessments have identified priority investments needed to harden the system against terrorist threats. Many projects, including improved station access, sightlines and lighting as well as security cameras, reflect a commitment to safety and security for customers and employees. Using funds provided by the Department of Homeland Security as well as other grant funds, CTA has implemented a number of security projects. Eleven cameras have been installed at stations along the Pink Line (formerly the 54th/Cermak branch of the Blue Line), the first of over 2,000 new cameras to be installed over the next two years, to increase safety and security for riders. An ongoing fiber optic installation project is upgrading the communications backbone throughout the rail system. Subway stations are also being outfitted with cameras to provide a comprehensive view of the transit system to the CTA Control Center, and through redundant fiber optic links, to the Chicago's 9-1-1 Center. CTA's new rail cars will also be equipped with enhanced security features, including digital video cameras and recorders. Train control systems, communications infrastructure and access control, funded in the five-year program, contribute to a safe environment for all. However, much remains unfunded and CTA will continue to pursue additional funding to meet these critical needs.

Cellular phone service in CTA subways was launched in August 2006. Installation of antenna and transmitters has made signals available underground. This project also provided an upgrade to CTA control and security communications for train operation and customer safety.

Facility Improvements

CTA will spend $19.4 million on facility improvements in 2007 including upgrades to rail stations and various support facilities throughout the system. A total of $108 million has been allocated in the five-year program to construct or improve CTA support facilities.

The 2007–2011 CIP includes funding for 28 neighborhood rail station rehabilitations. Eight stations were upgraded as part of the Blue Line Cermak (Douglas) branch project (now the Pink Line). All are in the Pilsen, Little Village or Lawndale neighborhoods. Eighteen stations are funded for reconstruction during the Brown Line capacity expansion project, located in neighborhoods from Albany Park to the Loop. Funding in the 2007-2011 CIP will complete the reconstruction of Howard station on the Red Line as a vital intermodal transfer point between buses and trains.

CTA Bond Program

Authorized and Let
2004 $250 million

Authorized
2005 $275 million

Proposed
2007 $125 million
2008 $150 million
2010 $150 million

On August 16, 2006, CTA reopened two stations at Kedzie and Rockwell on the Brown Line branch which had been under construction for several months. In addition, CTA has budgeted up to $133.8 million during 2007-2011 in reconstructing of Howard, Wilson, and Washington

Street Stations on the Red Line. CTA will make significant progress in increasing rail station accessibility during this CIP. Currently, over 50 percent of CTA rail stations are accessible (74 of 144). At the completion of the 2007-2011 CIP, 64 percent of stations will have ADA accessibility (92 of 144), providing additional travel options for CTA customers.

Looking Ahead

CTA is dedicated to providing on-time, clean, safe and friendly service, but much remains to be done to bring CTA's system to a state of good repair. The 2007-2011 Capital Improvement Program projects $2.7 billion will be available over the next five years, but that will only be the first step. Completely rebuilding CTA's system means addressing a considerable funding shortfall resulting in unfunded capital needs. CTA unfunded need is estimated at $5.8 billion.

Strategic investment is needed in rail car replacement, traction power system modernization, right-of-way, viaduct renewal, escalators and elevators in rail stations, and upgrade of critical communications systems. Population growth continues to prime local economic growth, but brings traffic congestion, transportation gridlock and the need for transit service expansion. Potential future expansion projects such as Circle Line, Ogden Avenue and Orange, Red and Yellow Line extensions will be predicated on additional capital funding through federal and non-federal sources.

CTA supports the RTA's vision to bridge the funding gap to bring its existing system and infrastructure to a state of good repair and to improve the efficiency of the system by adding critical connections and line extensions. 2007 represents the second year of federal funding under *SAFETEA-LU* and forms the basis for replacing the expired *Illinois FIRST* program. Thanks to the strong support of Mayor Richard M. Daley, Governor Rod R. Blagojevich, House Speaker J. Dennis Hastert, the Illinois Congressional delegation and the Illinois General Assembly, these capital funding programs have helped advance CTA's efforts to rehabilitate rail lines, to renew CTA's bus fleet, and to incorporate or expand vehicle overhaul programs. The expiration of *Illinois FIRST* has highlighted the need for additional non-federal matching funds to support the CTA capital program. These non-federal funds are a vital part of the funding needed to continue investment in the region's public transportation infrastructure.

With every dollar of new capital funding obtained, with every capital dollar well spent, and with each project completed, CTA comes closer to realizing its goal of providing high quality service for its customers. When one of the New Flyer buses stops to pick up customers, or a fully overhauled 2600-Series rail car pulls into a newly-rebuilt station, CTA customers experience the results of a vital capital program, experiencing first hand CTA's mission of providing quality, affordable transit services that link people, jobs and communities.

President's 2007-2011 Proposed Capital Improvement Program

Detail Capital Improvement Project Descriptions

021.803 Perform Bus Maintenance Activities

Funding will provide labor and material to support the repair of buses. Maintenance costs will stabilize as more buses are cycled through the campaign based Overhaul Program.

CTA has embarked on an aggressive Bus Maintenance Program to schedule replacement of parts nearing the end of their useful life before they fail. By investing in a program centered on the timely overhaul and replacement of buses CTA will improve the comfort, quality and reliability of its service while reducing operating expenses. As more buses are cycled through the program, unscheduled maintenance on buses will be significantly reduced.

021.806 Perform Mid-Life Bus Overhaul

Funding will provide for the continuation of the Mid-Life Overhaul of CTA buses. Buses placed into service in 1999-2004 will be overhauled and returned to a state of good repair.

CTA has embarked on an aggressive Overhaul Program to schedule replacement of parts nearing the end of their useful life before they fail. Most of this effort will center on the Mid-Life Overhaul of buses in their fifth to seventh year. This program will have many benefits. By investing in an Overhaul Program centered on the timely overhaul and replacement of buses, CTA will improve the comfort, quality, and reliability of its service while reducing operating expenses. As more buses are cycled through the Mid-Life Overhaul Program, unscheduled maintenance on buses will be significantly reduced.

022.903 Perform Rail Car Overhaul & Mid-Life Rehabilitation

Funding will provide for an ongoing overhaul program. Maintenance costs will stabilize as more rail cars are cycled through the preventive maintenance program. The 2600 Series cars are scheduled for a "C" quarter life overhaul and the 3200 Series cars are projected to receive a "D" or midlife overhaul. Funding is provided for completion of the life extending overhaul program for the 2200 and 2400 series cars so that the service life of these cars can be extended for a period of five to nine years.

CTA has embarked on an aggressive Rail Overhaul Program to schedule replacement of parts nearing the end of their useful life before they fail. Examples of items to be replaced are control groups, air conditioning units, and truck assemblies including traction motors, brake calipers, and axle assemblies. This effort will center on "C" level overhaul at 6 and 18 years, and a mid-life ("D" level) overhaul at 12 to 13 years. By performing these scheduled maintenance activities and replacing rail cars at the appropriate time, generally at 25 years of age, CTA will improve the comfort, quality, and service reliability of the rail cars while reducing operating maintenance costs. As more rail cars are cycled through the overhaul program, unscheduled maintenance will be significantly reduced.

022.906 Perform Rail Car Maintenance Activities

Funding will provide for the ongoing repair of rail cars. Maintenance costs will stabilize as more rail cars are cycled through the preventive maintenance overhaul program.

CTA has embarked on an aggressive rail preventative maintenance program to schedule replacement of parts nearing the end of their useful life before they fail. This effort will center on campaign based component replacement. By performing these maintenance activities and replacing rail cars at the appropriate time, generally at 25 years of age, CTA will improve the comfort, quality and service reliability of the rail cars while reducing operating maintenance costs. As more rail cars are cycled through the overhaul program, unscheduled maintenance will be significantly reduced.

031.054 Replace Buses

Purchase and place into service fully accessible, air conditioned buses, including spare parts inventories.

FIxible and TMC buses manufactured in 1991 are still in service and will be replaced. These buses have reached their industry standard retirement age of 12 years. Continued operation of these overage buses imposes unnecessarily high maintenance and operating costs on the CTA and reduces service reliability for our customers. All of the new buses will be air conditioned and fully accessible.

073.500 Improve Facilities - Systemwide

Upgrade and improve facilities systemwide.

This program will fund the rehabilitation of CTA facilities where building components have defects needing repair and requiring security enhancements. These facilities must be kept in a good state of repair in order to allow efficient performance of maintenance duties on CTA rolling stock and right-of-way, and to serve the needs of CTA's customers. This project also includes payments for the 567 W. Lake building, which replaced the Merchandise Mart as the Transit Authority's headquarters.

A significant number of rail stations and bus turnarounds have not been improved or enhanced in many years and are in need of upgrades that will improve appearance and give customers a greater sense of security and confidence in using the system. Many roofs are nearing or are at the end of their service life and require replacement in order to avoid safety hazards and to prevent damage to building interiors and roof structures.

Various escalators and elevators throughout the system are beyond their service life, require continual maintenance work, and need to be replaced. Other escalators and elevators are in poor condition and need to be rehabilitated.

121.500 Replace/Upgrade Power Distribution and Signals

Replace and upgrade power distribution, substations and associated facilities. Replace and upgrade Loop signals and interlockings, various signal equipment systemwide and Blue Line signals including the Dearborn subway, the Congress branch, and a portion of the O'Hare branch.

Replacement and upgrading of the signal and power distribution system must be accomplished in order to provide continued safe operation. Replacing this power distribution system will decrease the possibility of power shutdowns and service disruptions, and will eliminate slow zones. Antiquated substations facilities are susceptible to failure that results in a disruption in service. This project will also replace Loop signals and interlockings system, and signal equipment systemwide. The block signal equipment system in the Dearborn subway and the Congress branch is over 40 years old, and parts of the O'Hare branch are beyond their expected service life. Maintenance is difficult and increasingly expensive because of lack of spare parts.

132.056 Purchase Rail Cars

Replace the 2200 and 2400 series rapid transit cars and purchase cars to meet expanded service needs.

The replacement of the 2200 and 2400 Series rail cars are necessary due to the age and deteriorated condition of these cars. The 2200 Series rail cars have been in service for over 35 years, which is well beyond their 25-year design life, and the 2400 Series have been in service over 27 years. The deteriorated condition of these vehicles is evidenced in the form of increased service failures and longer repair, downtime which results in decreased availability for service. Replacement of these rail cars will provide the CTA with modern updated vehicles that will decrease maintenance and operating costs while enhancing customer comfort. The new cars will have sliding doors wide enough to accommodate wheelchairs. The number of cars to be purchased will be determined on the basis of bid prices for the rail car procurement and future schedule and maintenance requirements.

141.273 Reconstruct Rail Stations

The scope of this project is to reconstruct several rail stations. Howard Station on the Red Line is continuing major reconstruction; this project includes rehabilitation of the bus terminal and parking lot. Funding is provided to continue construction of Washington Street Station connecting the State Street subway and the Dearborn subway. Wilson Station is also funded to complete design and for beginning of construction during the five year CIP.

Howard and Wilson Stations were constructed in the late 1920's and have average weekday ridership entries of approximately 5,400 and 5,000 respectively. Due to the age, usage and structural condition of these stations, replacement or rehabilitation are required in order to maintain acceptable levels of service. This project also includes funding for the reconstruction of Washington Street Station and to support the multi-modal transportation station under construction at 108 North State Street. Upon completion, these stations will be fully ADA Compliant.

171.133 Repair Track and Structure Defects

Correct deficiencies in CTA's extensive track system and structures through systematic inspection and rehabilitation or replacement of substandard structural elements.

Defective track and structure must be repaired in order to maintain safe and reliable service. As elements are identified, requiring immediate repair or replacement, field forces are dispatched to the site to repair or replace the component.

181.500 Infrastructure Safety & Renewal Program

Systematically replace ties and fasteners on the Brown (Ravenswood) Line, Red (North Main) Line, and State Street Subway, which need to be replaced. Additionally, this project will upgrade track components from Addison to O'Hare on the Blue Line and will renew rail, track, structure and related elements at locations to be determined by inspection.

Some of the existing track components and ties, as well as many of the right-of-way elements are at least 30 years old and have exceeded their useful life and are in need of replacement. This continuing program replaces components and reduces the need to impose slow zones due to their deteriorating condition. When completed, train speed can be increased and reliability will be greatly improved. In addition, right-of-way improvements will provide greater access to maintenance personnel and as an emergency evacuation walkway for customers.

194.006 Alternatives Analyses – New Start Projects

Provide for federal New Start Alternatives Analyses and for sub-regional service improvement studies.

Alternatives Analyses will examine extending the Red Line from its existing south terminal at 95th Street to a new terminal at 130th Street to streamline bus-to-rail connections for 13 CTA bus routes, six Pace routes, and the South Shore commuter rail line; extending the Orange Line to Ford City to provide improved access to downtown from the far southwest side and from the central city to the strong employment corridor along South Cicero Avenue; and extending the Yellow Line to provide service to major destinations such as Old Orchard Mall, Cook County Courthouse, and adjacent office and retail developments. Expanding service would strengthen the reverse-commute flow along both the Yellow and Red Lines, and make better use of CTA's existing service capacity.

The four sub-regional service improvement studies will focus on the far South Side and South Suburbs, Southwest Side and Southwest Suburbs, Northwest Side and Northwest Suburbs, and Central service area. These studies will serve as comprehensive, scientific studies including reviews of major traffic generators, other transit connections, and demographic and development patterns. The studies will examine all of the transit options available and a locally preferred alternative will be determined.

These transit projects will help CTA continue to meet the dynamic needs of a growing and interdependent region.

194.007 Circle Line, Red, Orange & Yellow (ROY)

Provide for the next New Start projects, expanding the existing CTA Rail System.

The CTA serves Chicago and 40 suburbs. As the nation's second largest transit operator, the CTA provides nearly 1.6 million rides on an average weekday and over 80 percent of all transit trips in the six-county region. The proposed CTA rail expansion/extensions for FY 2007-2011 will enable the organization to link and expand rail services around Chicago and the surrounding suburban communities. Expansions include extending the Red Line from 95th Street station to 130th Street; extending the Orange Line from Midway Airport to Ford City Mall; and extending the Yellow Line from Skokie Station to Old Orchard Mall. Also proposed for New Start funding is the Circle Line, which will link CTA's rail lines to Metra rail lines. The expansions will enhance services that will link people, communities and neighborhoods to job areas within the Northeastern Illinois region. The Ogden Avenue Transitway project will extend from central Chicago to North Riverside Park shopping center, with an emphasis on local access.

194.115 Expand Capacity - Brown Line

Expand the customer capacity of the Brown (Ravenswood) Line from Kimball Terminal to Tower 18 in the Loop.

The elevated portion of the Ravenswood route was constructed between 1893 and 1910 from Belmont to Campbell, and extended at grade to its present terminal in the 1910's. It includes 19 stations, and serves approximately 66,000 customers each weekday. Ridership has increased 79% since 1983, and rush hour trains are crush-loaded. The line's market area continues to redevelop and potential customers are being discouraged from using the Brown Line due to crowded conditions. All other CTA lines operate eight-car trains, but the Brown Line is limited to six-car trains due to station platform length. Lengthening all platforms to accommodate eight-car trains and selected track, signal and yard improvements will substantially increase capacity of the line. Station alterations will provide ADA accessibility.

194.117 Rehabilitate Blue Line - Cermak Branch

Provide for the reconstruction of the 54th/Cermak Branch from 54th/Cermak in Cicero through the incline connection to the Congress Branch.

Rehabilitation of the 54th/Cermak Branch of the Blue Line was accomplished in three phases. Phase I replaced the deteriorated iron structure with concrete bents and cross girders. Stations were reconstructed as the track structure was being built. Six stations were replaced in coordination with bent replacement. Phase II of the project involved rehabilitating the existing structure, track and construction of column bases and foundations on the north section of the elevated structure from Loomis Incline to Wood Street. Phase III consisted of improvements to the ballasted section of the 54th/Cermak Branch from Kildare to 54th Avenue. Project completion was in January 2005. Although construction is complete, funding continues in 2007 to complete federal obligations as outlined in the New Start Full Funding Grant Agreement.

308.002 Bond Repayment, Interest Costs, & Finance Costs

Provide for debt service and the cost of issuance of bonds, notes and other indebtedness incurred by CTA. This project is funded with federal formula funds and non-federal match.

This element will provide for interest costs associated with financing the Bond series issued in 2004. Additional bonds have been authorized to be issued in subsequent years. These bonds are anticipated to support construction of Howard Station, purchase of fareboxes, purchase of replacement rail cars, purchase of replacement buses, and various capital improvement projects. These transit projects will help CTA continue to meet the dynamic needs of a growing and interdependent region.

Professional

We will provide transit service with the highest standards of quality and safety for our customers and ourselves.

Appendices

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1 History of the Agency

1859

The beginning of public transit in Chicago; early service was horse-drawn.

1882

The Chicago City Railway obtained rights to operate San Francisco-style cable cars.

1892

The Chicago and South Side Rapid Transit Company opened on June 6, bringing elevated train service to Chicago.

At the turn of the century, four separate transit railroads operated in Chicago. The first trains, powered by steam, were quickly converted to electricity.

1897

Elevated trains were built along available right-of-ways often above alleys and less heavily used streets.

The Loop 'L' opened connecting rapid transit lines serving the north, south and west sides of Chicago.

1911

The rapid transit companies formed a cost-saving trust.

1914

On February 1, five streetcar companies united under a single management: the Chicago Surface Lines. At its peak, the Chicago Surface Lines operated along 1,100 miles of tracks; it was the largest and most heavily used streetcar system in the world.

1917

Buses were first used in Chicago with the creation of the Chicago Motor Bus Company. Bus use was limited to Chicago's boulevards and parks.

1922

The Chicago Motor Coach Company succeeded the Chicago Motor Bus Company.

1 History of the Agency

1924

The rapid transit companies merged to create the Chicago Rapid Transit Company.

1943

To ease traffic congestion, the U.S. Department of Interior, the Public Works Administration, and the City of Chicago financed the State Street Subway.

1945

The Chicago Transit Authority, an independent government agency was formed when The Illinois General Assembly passed the Metropolitan Transit Authority Act. In the same year, the City of Chicago passed an ordinance granting CTA the exclusive right to own and operate a unified local transportation system. Voters passed the Act and Ordinance in a referendum on June 4.

1947

The CTA began operations when it issued $105 million in revenue bonds to purchase assets of the Chicago Surface Lines and the Chicago Rapid Transit Company.

1951

The Dearborn Street Subway opened 1952-53: Through additional bond issues, the Chicago Motor Coach Company and a portion of the Chicago Milwaukee St. Paul and Pacific Railroad right-of-way were added to the CTA.

1958

The Congress branch opened along the median of the newly expanded Congress expressway, and later extended east-west from Forest Park to the loop with connection to the northwest subway at the Dearborn station.

1964

The CTA partnered with federal planners to create the first “light rail” service, the Skokie Swift. The Skokie Swift operated on track lines purchased by the CTA from the Chicago Northern Shore & Milwaukee Railway. The Skokie Swift quickly became a popular rail shuttle and also served as a suburban inter-city bus hub.

1 History of the Agency

1974

By the early ‘70s the popularity of car travel and declining ridership3 levels threatened the fiscal stability of the three public transportation agencies. The Illinois General Assembly then created the Regional Transportation Authority (RTA) as a fiscal and policy oversight agency committed to providing an efficient and effective public transportation system. Today, the RTA continues to provide annual fiscal oversight to CTA, Metra and Pace.

1984

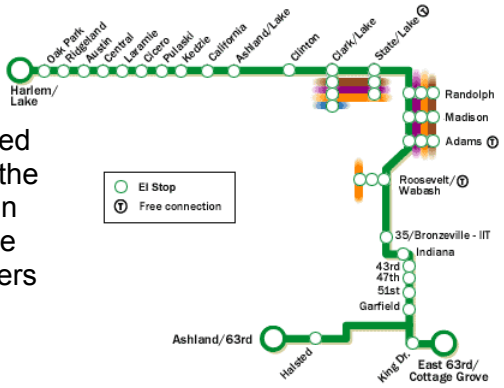
The CTA responded to changing demographics during the 1970s by expanding the northwest subway from Logan Square to Jefferson Park, and then along the Kennedy Expressway median to River (Mannheim) Road. Finally, the northwest transit extension was completed at O’Hare airport with a station within the airport terminal.

1993

The Dan Ryan branch, formerly linked to the Englewood and Jackson Park Lines was linked with the Howard Line. The Lake to Englewood-Jackson Park lines were moved from the Howard branch to the loop elevated connection. Also, elevated loop connections were made more convenient with the Merchandise Mart station.

The Midway “Orange” line was completed, linking the downtown elevated Loop to the Southwest side airport and providing improved transportation to the area.

1996



The CTA celebrated the re-opening of the rehabilitated Green Line, improving the service to customers on the West and South sides of Chicago.

2006

CTA introduced the new Pink Line as part of a package of bus & rail service improvements for the West Side and Western suburbs. The Pink Line provides more frequent service and improved travel times between the 54th/Cermak station and the Loop.

CTA introduced new and improved bus service with 2 new local bus routes, 3 new express routes and 8 enhanced bus routes.

2 Transit Facts

Creation of CTA

- The CTA was created by state legislation and began operating on October 1, 1947, after acquiring the properties of the Chicago Rapid Transit Company and the Chicago Surface Lines. On October 1, 1952, the CTA became the sole operator of City of Chicago transit when it purchased the Chicago Motor Coach System.

CTA Governance

- The CTA's governing arm is the Chicago Transit Board, which consists of seven members. The Mayor of Chicago appoints four board members, subject to the approval by the City Council and the Governor. The Governor, subject to the approval of the State Senate and the Mayor of Chicago, appoints three board members.

- In 1974, the Regional Transportation Authority (RTA) was created by state legislation. The RTA serves as CTA's fiscal oversight agency.

Service Area & Population

- 220 square miles of Chicago and 40 nearby suburbs
- The service area has 3.8 million people

Ridership

- Over 497 million trips projected for 2006 and more than 505 million trips projected for 2007
- Approximately 1.6 million trips per weekday

Bus Service

- 2,106 buses travel 154 routes
- Routes cover 2,529 miles, with approximately 11,846 bus stops

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Rail Service

- 1,190 rail cars travel over eight routes
- CTA Rail serves 288 miles of track, including yard track

Paratransit Service

- CTA transferred all paratransit service to Pace in July 2006
- Paratransit service was contracted out to three carriers and taxicab companies to provide door-to-door service for riders with disabilities
- CTA provided 1.2 million paratransit trips during the first six months of 2006

3A Moving Beyond Congestion - RTA Transit Strategic Planning / Funding Initiative

Northeastern Illinois is at a crossroads. Congestion is a severe threat to the region's economy and quality of life for its residents. In recognition of this issue, the Regional Transportation Authority, Chicago Transit Authority, Metra and Pace partnered to launch the Moving Beyond Congestion Project (MBC) on July 25, 2006. MBC is a comprehensive regional planning effort emphasizing the crucial role of transit in the region's transportation network. Through MBC, the Service Boards and RTA will engage various transit stakeholders in our region. As of this writing, MBC has attracted more than 230 Partners for Transit, including community organizations, businesses, labor unions and representatives of state, regional and local governments.

MOVING BEYOND CONGESTION

Program Purpose
The MBC vision and goals are based on the practical needs of those living in Northeastern Illinois. The vision may evolve further based on public feedback.
Vision
A world-class public transportation system that is convenient, affordable, reliable and safe, and that is the keystone of the region's growing business opportunities, thriving job market, clean air and livable communities.
Goals
1. Provide Transportation Options 2. Ensure Financial Viability 3. Enhance Livability and Economic Vitality 4. Demonstrate Value

While public transportation is a proven solution to congestion, regional funding has not kept pace with demand or been properly adjusted to reflect current cost pressures. Total RTA system ridership has grown from 529 million unlinked trips in 1997 to 570 million unlinked trips in 2005, while fuel, labor and other expenses have risen significantly. In order to meet both demand and higher costs, the Service Boards had to utilize $102 million from their capital budgets to fund day-to-day operations in 2006. The result is less investment in our infrastructure to support projected ridership growth. Operating costs are already rising due to deferred maintenance and the transit system is at risk of suffering from reliability problems in the future. Increased transit funding is the only option that represents a sustainable solution to the chronic problem of underinvestment in Northeastern Illinois' transit network.

Initial steps in the strategic planning process include assessing the current system, analyzing scenarios and determining the resources required to upgrade the system. When completed, MBC will provide a long-term strategic plan for transit in Northeastern Illinois. More importantly, the program will allow stakeholders to articulate a shared vision for the region's future.

What Are the Options?

There is more than one way address the chronic operating budget shortfalls faced by CTA, Metra and Pace, but we must live with the consequences of our actions.

Action	Consequences
Increase funding.	• Reduced congestion and higher productivity. • Livable communities, improved air quality and better mobility.
Reduce service and raise fares.	• Increased congestion and decreased productivity. • Decreased mobility for Northeastern Illinois' most vulnerable residents.
Utilize capital funds for operations.	• Increased operating expenses and less service reliability. • A shrinking transit system.

3B Why Fund Transit?

As the RTA, CTA, Metra and Pace engage regional stakeholders through the Moving Beyond Congestion Program, it is important to recognize the benefits of transit. Public transportation is critical to guaranteeing mobility for all citizens, reducing congestion, improving public health and ensuring that Chicago area residents can live, work and play in safe and secure communities. The need for public transportation is greater than ever as the Chicago region continues to grow. However our current situation, in which transit is under-funded and congestion and air pollution are persistent problems, is not sustainable.

The Importance of Mobility

Mobility is crucial. The ability to get from "point A" to "point B" is a key factor in access to employment, medical care and other life essentials. While two-thirds of CTA riders use public transportation by choice, we must recognize that many in the Chicago area either cannot afford to own a private vehicle or are unable to operate one.

> ***"Our nation has entered a new era in the history of transportation, an era in which one of our most cherished freedoms – the basic freedom of mobility – has been challenged."***
>
> ***Norman Y. Mineta, Former Secretary***
> ***U.S. Department of Transportation***
> **Metro Magazine*, November-December 2001***

According to the Bureau of Labor Statistics, the average Chicago household spends more than $7,500 per year to own and maintain a vehicle. That is a difficult burden for more than 950 thousand people in the RTA service area, 81 percent of whom reside in Cook County, that are living below the poverty level. In addition, driving can become more difficult as people age, making alternate forms of transportation essential. A lack of transportation options can lead to isolation, health problems and generally detracts from the quality of life. For example, over 50 percent of senior citizens that don't drive report staying home on a given day partially because of a lack of transportation. In comparison to senior citizens that drive, non-drivers over 65 make:

- 15 percent fewer trips to the doctor.
- 59 percent fewer shopping trips and restaurant visits.
- 65 percent fewer trips for social, family and religious activities.

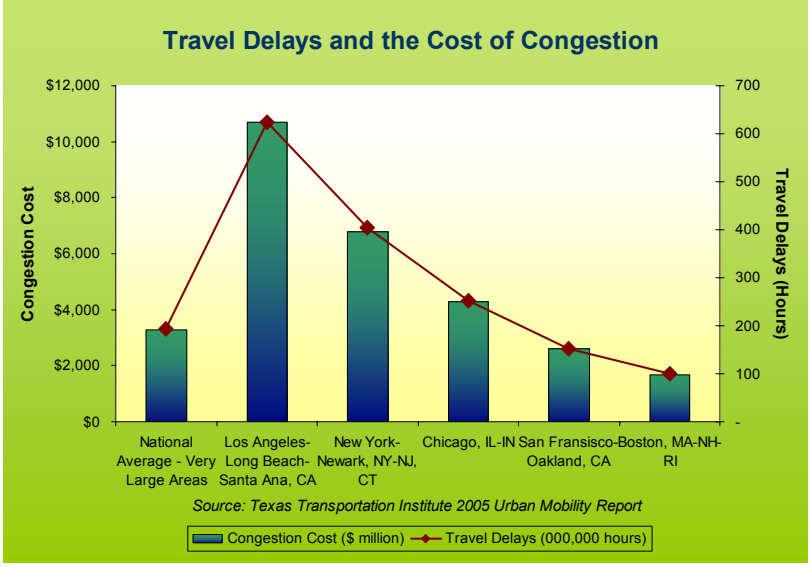
Providing on-time, safe and convenient public transportation ensures that members of the 28.8 percent of Chicago households that do not have an automobile can continue to reach jobs, utilize healthcare services and travel to other destinations in order to live full and productive lives.

> ***During the one-hour morning peak, CTA carries approximately 73 percent of commuters traveling along the North Lake Shore Corridor.***

The Cost of Congestion

Funding public transportation improves mobility for all citizens, but it also provides the best alternative to congested roadways. Roadways in large urban communities are subject to congestion during seven hours of every day and on average commuters waste eight full working days annually due to traffic delays. Congestion costs the Chicago region $4.2 billion dollars and the average driver almost $1,000 per year.

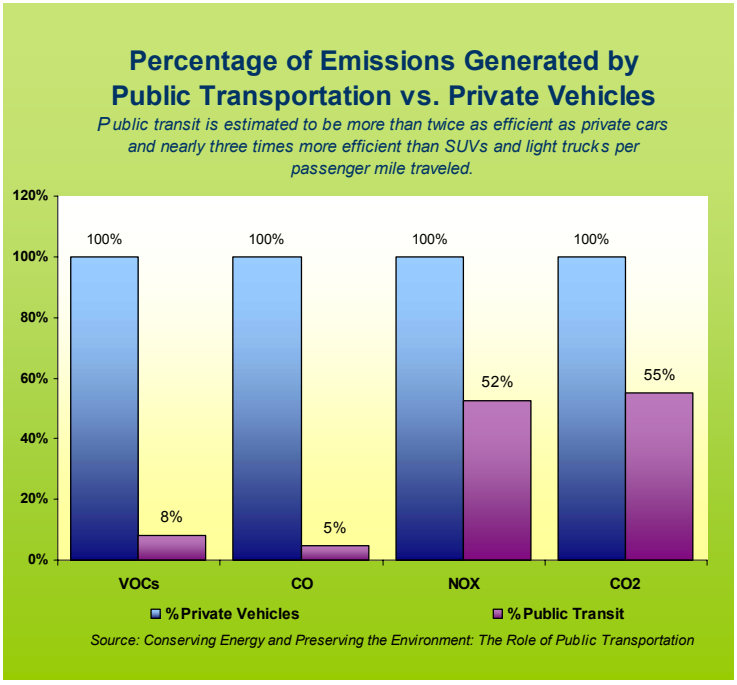
3B Why Fund Transit?



It is no surprise that public transportation benefits transit riders by helping them avoid congestion and reduce personal transportation expenses. However, public transit also reduces traffic for drivers using congested corridors and surrounding roads. For example, a CTA bus can remove up to 90 cars and a CTA train can remove up to 1,000 vehicles from congested roadways. By reducing congestion, the entire RTA system currently saves the region $1.6 billion annually. These benefits could only be increased with additional funding and public policies geared towards encouraging public transit use. According to the National Cooperative Highway Research Program, a 10 percent reduction in area roadway congestion would result in approximately $1.2 billion in higher business productivity.

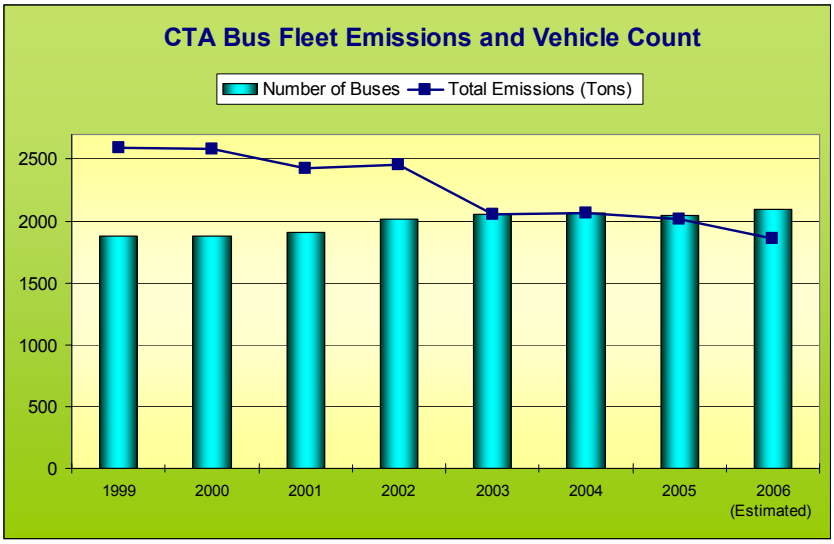
The Importance of a Clean Environment

Beyond the economic costs of congestion, crowded roadways result in higher pollution levels and health problems. According to the American Public Transportation Association, “Over 140 million Americans, 25 percent of whom have children, live, work and play in areas where air quality does not meet national standards.” This includes residents of Northeastern Illinois, which is currently classified as a moderate non-attainment area for ozone (smog) and a non-attainment area for fine particulate matter (soot). Harmful emissions from motor vehicles can account for up to 51 percent of air pollutants in non-attainment areas. In fact, mobility and travel accounts for more pollution than any other activity, including industrial production.



Public transportation generates substantially less pollution than traveling by car, sport utility vehicle or light truck. For example, transit produces 45% less carbon dioxide (CO_2), a greenhouse gas, than traveling by private vehicle. Reducing green house gas emissions can lessen the projected effects of climate change, which include more extreme heat waves

3B Why Fund Transit?



and diminished air quality. This makes public transportation essential to Illinois, where 37 percent of carbon dioxide output comes from the oil consumed by cars and trucks. CTA is always in search of opportunities to further reduce the environmental impact of transit in Chicago and therefore has taken a number of proactive steps that exceed federal requirements to reduce fleet engine emissions. As a result, CTA bus fleet emissions have decreased by 28.1 percent since 1999, even as the bus fleet has grown by 11.3 percent.

The travel options we chose do not just affect the environment on a global level. Both drivers and non-drivers suffer the consequences of air pollution. Carbon monoxide (CO), for example, is a poisonous gas that hinders the body's ability to carry oxygen and can interfere with learning. Volatile organic compounds (VOCs) and nitrogen oxides (NOx) combine with sunlight to create the smog that can exacerbate respiratory illnesses and damage lung tissues. The effects of pollution on Chicago area residents are clear. The asthma hospitalization rate in Chicago is almost twice the national average, and rates are even higher in the City's most congested areas.

Illinois emits 224.7 million metric tons of greenhouse gases annually; these emissions are exceeded by only five other U.S. states.

The Safety and Security of Our Communities

A strong public transportation infrastructure is essential to responding to both community emergencies and national disasters. On September 11, 2001, public transportation helped safely transport citizens from New York City, Washington, D.C. and the center of other cities that were evacuated in response to terrorist attacks on American soil, while also bringing first responders and essential equipment to disaster sites. More recently, public transportation has been used to respond to natural disasters. CTA provided transportation assistance to Hurricane Katrina victims evacuated to the City of Chicago from New Orleans and Mississippi in 2005. CTA routinely provides warming and cooling buses for the safety of area residents who, due to fires and other emergencies, need shelter from extreme temperatures.

Public transit is also critical to America's efforts to move towards energy independence. At current ridership levels, public transportation saves the equivalent of 46.7 million barrels of oil per year. If Americans begin using public transportation for only seven percent of their daily travel needs, the United States could cut its oil imports from Saudi Arabia by roughly 50 percent.

3B Why Fund Transit?

The Bottom Line

Building our way out of congestion is not an option. The Chicago region is served by more interstate highways than any other metropolitan area in the United States, yet according to the Texas Transportation Institute Travel Time Index, it is the second most congested in the country. Adding more highway capacity does not address the mobility issues faced by residents without access to a private vehicle and evidence suggests that highway expansion induces increased traffic, worsening air pollution levels.

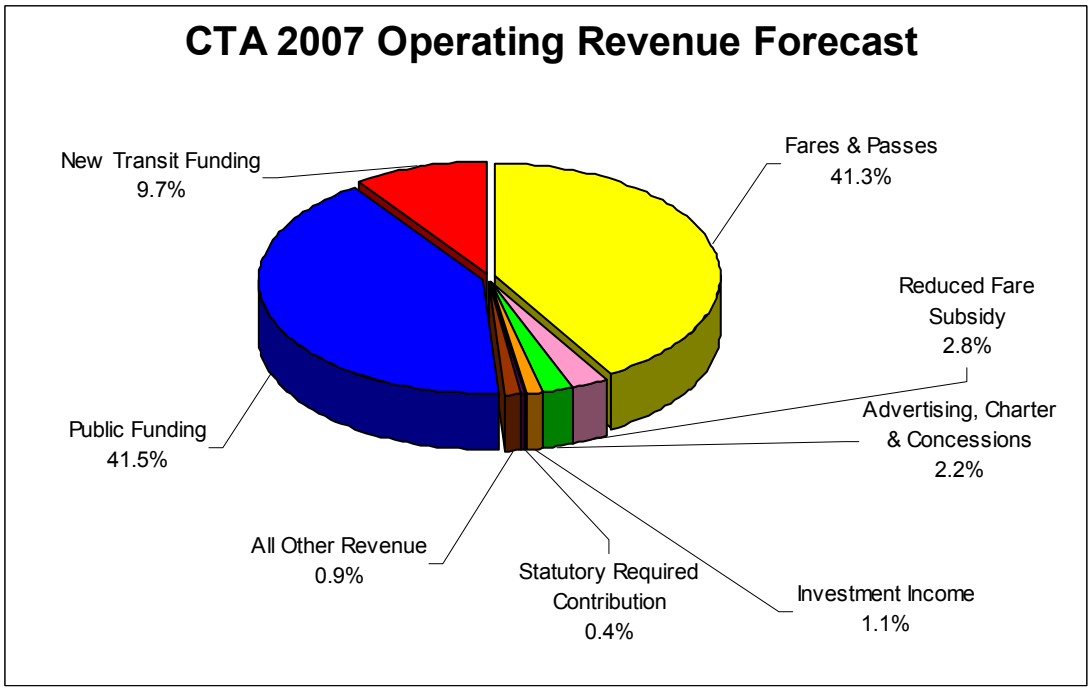
Increased emphasis on public transit gives us another option. Investing in public transportation and encouraging its use can increase mobility of Chicago area residents while reducing air pollution and supporting healthy and economically viable communities. More funding and an increased emphasis on the use of public transportation is the key to strengthening Chicagoland communities.

The Benefits of Public Transportation	
For the World	
Reduced Effects of Climate Change	Transit generates almost half the CO_2 emissions per passenger mile as traveling by private vehicle.
For the Nation	
Reduced Dependence on Foreign Oil	At current ridership levels, public transportation saves the equivalent of one month's oil imports from Saudi Arabia.
For Chicagoland	
Reduced Congestion	CTA, Metra and Pace save more than 94 million hours in congestion delays annually.
For You	
Reduced Personal Expenses	Individuals can save almost 40 percent on the cost of transit cards by participating in the RTA/CTA Transit Benefit Program.

4 Operating Funding Summary

CTA's total estimated revenue for 2007 is $1.133 billion. There are two major categories of operating revenue for CTA: system-generated revenue through fares and other sources and public funding through the Regional Transportation Authority (RTA). System-generated revenue is projected at $552.7 million for 2007 and public funding need is projected at $580.5 million. The following table represents 2007 estimated revenue by source.

Total CTA Revenue - All sources (in thousands)		2007
Fares and Passes	$	468,334
Reduced Fare Subsidy		32,000
Advertising, Charter and Concessions		24,990
Investment Income		12,120
Statutory Required Contributions		5,000
All Other Revenue		10,250
Public Funding through RTA		470,349
New Transit Funding		110,108
Total Revenue	**$**	**1,133,151**



The following is a description of sources of both system-generated revenues and public funding for CTA.

4 Operating Funding Summary

SYSTEM-GENERATED REVENUE

CTA's system-generated revenue is forecast at $552.7 million for 2007. CTA's system-generated revenue is based on sale of fares and passes, advertising, investment income, statutory required contribution from local governments by provision of the Regional Transportation Authority Act, and subsidies for reduced fare riders per 1989 legislation.

Fares and Passes

Revenue from fares and passes is forecast at $468.3 million in 2007 is the largest portion of system-generated revenue. CTA's revenue from fare and passes includes cash fares, full fare and reduced fare farecards, and Chicago Card and Chicago Card Plus fares. In addition, CTA also sells 30-day full-fare and reduced fare passes, along with 7-day passes and 1-day passes. Additional pass revenue is from CTA's U-Pass for local university students, sale of visitor passes, and METRA link-up passenger revenue.

Reduced Fare Subsidy (RFS)

This funding represents reimbursement of revenues lost by the service boards due to providing reduced fares to student, elderly and disabled riders, as mandated by State law. The funding is subject to the terms of the grant agreement, state statute (20 ILCS 2705) and annual state appropriation. Reimbursement amounts are allocated to the service boards based on reduced fare passenger trips taken during the grant year. Reduced fare subsidy is forecast at $32.0 million in 2007.

Advertising, Charter and Concessions

Under Advertising, Charter and Concessions is revenue from Special Contract Guarantees, which are agreements for additional transportation service with the University of Chicago and the Chicago Cubs. Vehicle and platform ads is the primary source of this revenue with revenue forecast at $20.4 million for 2007 for advertisement on buses, rail cars, and rail stations.

Advertising, Charter & Concessions Revenue (000's)	Budget 2007
Special Contract Guarantees	$ 1,300
Vehicle & Platform Ads	20,400
Bill Boards	1,400
Pay Phones	130
Concessions	1,400
Vending machines	360
Total	**$ 24,990**

Concession revenue is generated from 76 concessions within CTA's 144 rail stations. Concessions are forecast to generate $1.4 million in 2007.

Billboards on CTA property generate an additional $1.4 million, while pay phones and vending machines at CTA facilities generate nearly $0.5 million annually.

4 Operating Funding Summary

Investment Income

CTA's interest income is earned from cash balances. CTA anticipates investment income at $12.1 million for 2007. This compares to investment income of $3.0 million in 2003 and $3.1 million in 2004 due increases in short-term interest rates. Federal Funds rates have increased from a low of 1.00 percent in June of 2003 to 5.25 percent as of June 29, 2006.

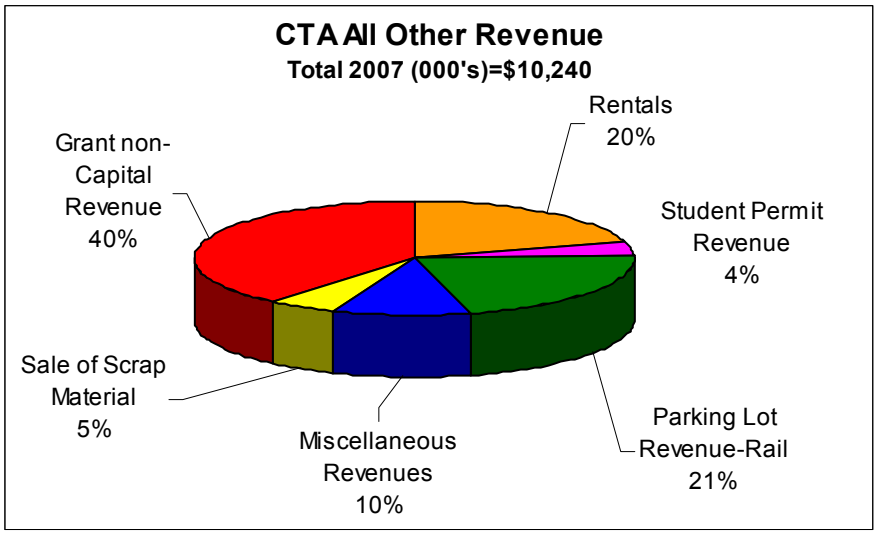
Statutory Required Contributions

The RTA Act requires the City of Chicago and County of Cook to annually contribute $3.0 million and $2.0 million, respectively, towards CTA operations annually.

Statutory Required Contributions (000's)		2007
Contributions - City of Chicago	$	3,000
Contributions -Cook County		2,000
Total	**$**	**5,000**

All Other Revenue

Revenues in this category include operating grants from the Federal Transit Administration (FTA), parking charges, rental revenue, third-party contractor reimbursements and filming fees. CTA's rental revenue is from lease of CTA property, including 55 storefronts adjacent to CTA rail stations.



CTA's parking revenue is forecast at $2.2 million for 2007. This is more than double 2004 revenue of $949,000 due to the increase in parking fees in 2005 to $2.00 from $1.50 and $1.75, the addition of new Park and Rides lots off of the O'Hare Blue line at Harlem and Green Line at the Garfield station and expanded under the 'L parking agreements across the city. The CTA currently has 18 Park & Ride lots with a total of 6,289 parking spaces. In addition, CTA began a pilot project in 2006 allowing customers to buy permits at the busiest parking lots at $43.00 per month, which is expected to generate an additional $50,000 in revenue.

4 Operating Funding Summary

PUBLIC FUNDING

Most of CTA's public funding for operating and capital needs is funneled through the RTA. Under the Regional Transportation Authority Act, as amended in 1983, some of the funds are allocated to the Service Boards based on a formula included in the RTA Act. Other funds are allocated based on RTA's discretion. The sources and allocations are outlined below.

Sales Tax Revenue

RTA Sales Tax is the primary source of operating revenue for the RTA and three Service Boards. The tax is authorized by Illinois statute, imposed by the RTA in the six-county region of northeastern Illinois and collected by the state. The sales tax is the equivalent of 1 percent on sales in Cook County and 0.25 percent on sales in the collar counties of DuPage, Kane, Lake, McHenry and Will. The 1 percent sales tax in Cook County is comprised of 1 percent on food and drugs and 0.75 percent from all other sales, with the state then providing a "replacement" amount to the RTA equivalent to 0.25 percent of all other sales. The RTA retains 15 percent of the total sales tax and passes the remaining 85 percent to the Service Boards according to the following formula that is specified in the RTA Act.

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

The 2007 Sales Tax Budget for the Region is estimated to be $745.9 million and is distributed to the RTA and three Service Boards as follows:

($ in 000's)	Chicago Sales Tax Revenue	Suburban Cook Sales Tax Revenue	Collar County Sales Tax Revenue	Total
CTA	$194,544	$100,554	$0	$295,098
Metra	$0	$184,348	$73,026	$257,374
Pace	$0	$50,277	$31,297	$81,574
RTA	$34,332	$59,149	$18,410	$111,891
Total:	**$228,876**	**$394,328**	**$122,733**	**$745,937**

4 Operating Funding Summary

In addition, RTA may distribute at its discretion any funds remaining from the initial allocation of the 15 percent sales tax distribution that is in excess of RTA's funding needs.

Federal Assistance (Federal Transit Administration)

RTA is the region's recipient of federal assistance, which previously included both operating and capital funds. FTA eliminated operating assistance to CTA in 1998.

Public Transportation Funds

As authorized by the RTA Act, the Illinois State Treasurer transfers from the State General Revenue Fund an amount equal to 25 percent of RTA sales tax collections (or gasoline or parking taxes, if imposed by the RTA). The Treasurer transfers this amount to a special fund, called the "Public Transportation Fund" (PTF), and then remits it to the RTA on a monthly basis. Remittance requires an annual appropriation made by the State of Illinois. In addition, the RTA must certify to the Governor, State Comptroller and Mayor of the City of Chicago that the RTA has adopted a budget and financial plan in conformance with the requirements of the RTA Act. The RTA uses these funds at its discretion to fund the service board needs, RTA operations, debt service and capital investment. RTA's 2007 Budget includes $186.5 million in PTF funds.

State Assistance

The RTA Act provides supplemental State funding in the forms of additional state assistance and additional financial assistance (collectively, "State Assistance") to the RTA in connection with its issuance of Strategic Capital Improvement Program (SCIP) bonds. The funding equals debt service amounts paid to bondholders of the Strategic Capital Improvement Bonds issued by RTA, plus any debt service savings from the issuance of refunding or advanced refunding SCIP bonds, less the amount of interest earned by the RTA on the proceeds of SCIP bonds. The RTA Act limits the amount of State Assistance available to the RTA to the lessor of the debt service or $55.0 million. Remittance requires an annual appropriation made by the State of Illinois.

IDOT Grant

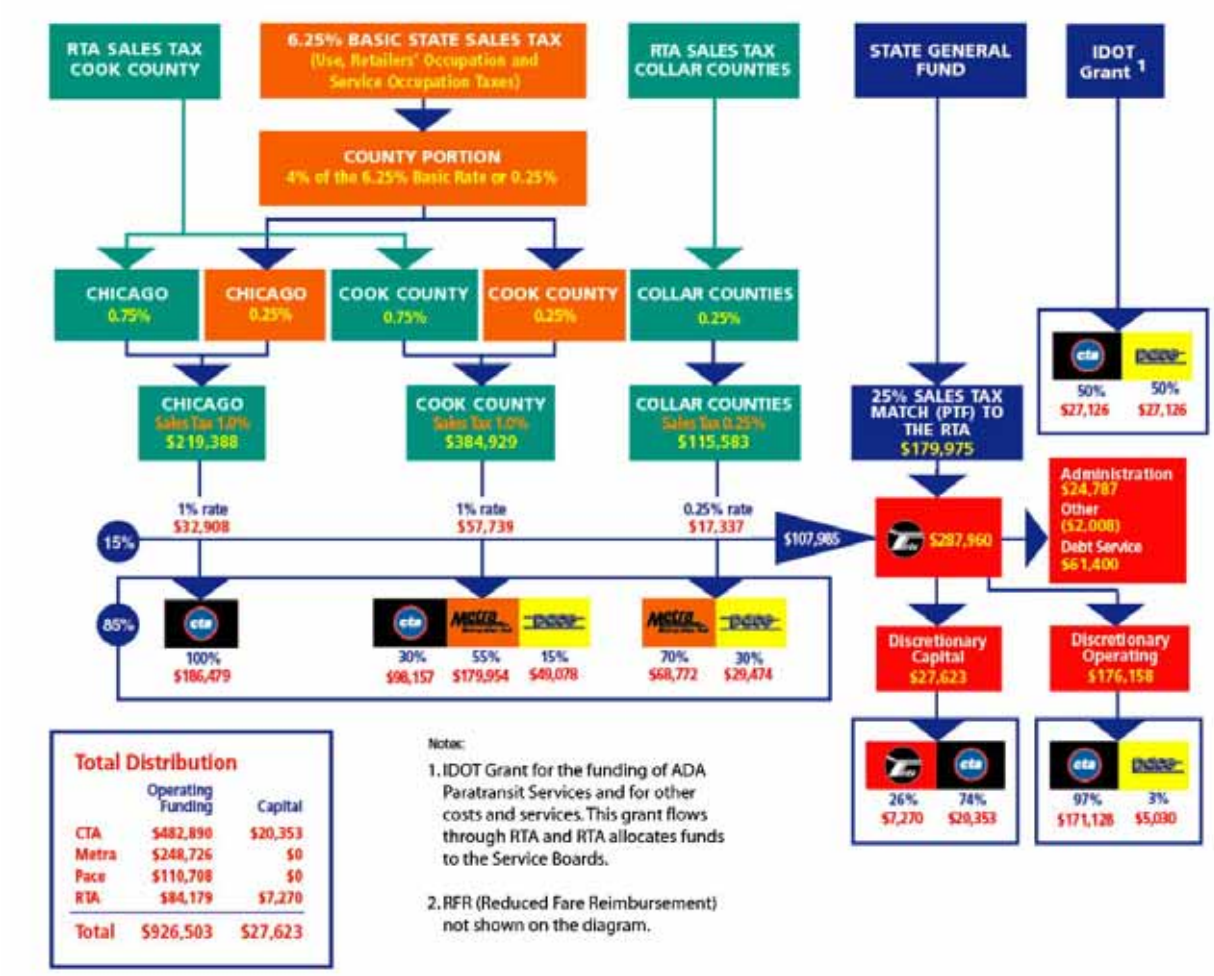
The FY 2006 state budget provided $54.3 million from the state's General Revenue Fund to the Illinois Department of Transportation (IDOT). IDOT provided a grant to the RTA for $54.3 million "for the funding of the Americans with Disabilities Act of 1990 (ADA) paratransit services and for other costs and services." In 2005, RTA appropriated the full amount of this grant to CTA. In 2006, RTA appropriated half of this grant to CTA amounting to $27.1 million and the remaining grant amount to Pace. In July 2006, CTA transferred Paratransit services to Pace. Therefore, in 2007, CTA will not receive the IDOT grant.

4 Operating Funding Summary

New Transit Funding

In order to help move the region beyond congestion, additional funding is needed to prevent further service cuts, fare increases, or the additional diversion of capital funds to balance the operating budget. CTA requires $110.1 million in additional public funding from RTA to support operations and the state-mandated pension contributions.

Operating Funding Allocation (Based on 2006 Budget, $ in 000's)



Note: In 2007, CTA will not receive the IDOT grant.

5 Debt Administration

DEBT MANAGEMENT POLICY GUIDELINES

On October 14, 2004, the Chicago Transit Board approved an ordinance adopting Debt Management Policy Guidelines (the "Debt Policy"). The Debt Policy serves as a management tool to ensure that the CTA a) identifies transactions that utilize debt in the most efficient manner; and b) provides for full and timely repayment of all borrowings. Additionally, the Debt Policy outlines a means of a) achieving the lowest possible cost of capital within prudent risk parameters; and b) ensuring ongoing access to the capital markets. The Debt Policy applies to all short and long term bonds and notes, other long-term lease obligations, and interest rate exchanges. The Debt Policy does not cover commodity hedging, leveraged leases, long-term operating leases, short-term leases and bank obligation transactions. The general debt issuance guidelines outlined in the Debt Policy are summarized below.

Use of Debt

It is CTA's preference to use a pay-as-you-go funding mechanism for all capital projects. As such, CTA explores use of available cash to fund all or part of a particular capital improvement project and other long-term financial needs before proposing the use of leverage. However, the CTA recognizes that the size, scope and timing of particular projects in its capital improvement plan, cash flow sufficiency and capital market opportunities may necessitate the use of debt. The Debt Policy allows for the issuance of either long-term or short-term debt. The financing purpose would determine the type of debt the CTA would use.

- **Short-Term Debt Obligations:** Short-term debt may be used by the CTA as a cash management tool to provide interim financing or to bridge temporary cash flow deficits within a fiscal year. Currently, the CTA has no outstanding short-term debt obligations.

- **Long-Term Debt Obligations:** The Debt Policy prohibits the use of long-term debt to fund operations. However, long-term bonds are deemed appropriate to finance essential capital activities and certain management initiatives. The CTA may also use long-term lease obligations to finance or refinance capital equipment. Prior to entering into any lease financing, the Authority will evaluate 1) the useful life of assets financed, 2) terms and conditions of the lease and 3) budgetary, debt capacity and tax implications.

Credit Ratings

The Debt Policy recognizes the need for a credit rating strategy focused on achieving the best economic value for CTA. A major goal of CTA's debt program is to attain a proper balance between minimizing borrowing costs and maximizing financial flexibility. Currently, CTA's outstanding bond issues are assigned an A2 credit rating from Moody's Investor Services.

Debt Limitations

Attaining a proper balance between minimizing borrowing and maximizing financial flexibility is a key goal of the CTA debt program. The CTA is not subject to statutory debt limitations for capital investment. However, the Debt Policy does limit the aggregate amount of CTA's unhedged variable rate debt at a maximum of 20% of all outstanding long-term debt obligations.

5 Debt Administration

Other Provisions

CTA may secure credit enhancement in the form of municipal bond insurance or a letter / line of credit for all or a portion of each bond issue. The Debt Policy also allows the Authority to issue debt on a taxable or tax-exempt basis and to use interest rate exchange agreements when they will 1) reduce the expected interest rate costs, 2) hedge fluctuations in interest rates or 3) gain efficiency in structuring and restructuring debt.

CURRENT DEBT

Long-term debt includes capital lease obligations and bonds payable, as described below:

Lease/Leaseback Agreements

The CTA has entered into several economically defeased lease and leaseback agreements in fiscal years 1995 through 2003. These agreements were entered into with various third parties and pertain to certain assets of the CTA, including rail lines and equipment, rail cars, facilities, buses and qualified technology equipment. Under the lease/leaseback financings, the CTA entered into a long-term lease for applicable assets with trusts established by equity investors which trusts concurrently leased the respective assets back to CTA under sublease agreements. Each sublease contains a fixed date and a fixed price purchase option that allows the CTA, at its option, to purchase the assets back from the lessor. As of December 31, 2005, the total obligations due under the lease agreements which have been economically defeased were approximately $1.7 billion.

Other Capital Leases

On March 31, 2003, the Public Building Commission of Chicago (the “PBC”) issued $119,020,000 of Building Revenue Bonds, Series 2003 (Chicago Transit Authority) (the “PBC Bonds”). The interest on the PBC Bonds is 5.00% - 5.25%. The PBC used the proceeds of these bonds, among other things, to acquire the site for and construct a 12-story office building, which the PBC leased to the CTA for a 20-year term to be used as its headquarters. Rent payments due to the PBC from the CTA under the lease are general obligations of the CTA payable from any lawfully available funds. Upon satisfaction of all of the obligations of the CTA under the lease and payment, or provision for payment, of the PBC Bonds in full, the PBC will transfer title of the leased premises to the CTA.

CTA is obligated to pay to the Trustee on behalf of the PBC on or before February 15 of each year in which the headquarters lease is in effect, rent which equals the debt service on the PBC bonds due through and including September 1 of that calendar year. The source of funds for PBC lease payments is primarily FTA grant funds. The total rent due to PBC over the life of the lease is $195,948,208.

5 Debt Administration

SCHEDULE I: $119,020,000 Building Revenue Bonds (Public Building Commission on behalf of Chicago Transit Authority) Series 2003 Lease Payment Schedule 2007-2023				
PAYMENT YEAR	PORTION OF LEASE PAYMENT ATTRIBUTABLE TO INTEREST	PORTION OF LEASE PAYMENT ATTRIBUTABLE TO PRINCIPAL	TOTAL LEASE PAYMENT	PBC DEBT OUTSTANDING (end of period)
2007	$ 5,641,000	$ 4,250,000	$ 9,891,000	$ 106,870,000
2008	$ 5,422,250	$ 4,500,000	$ 9,922,250	$ 102,370,000
2009	$ 5,194,250	$ 4,620,000	$ 9,814,250	$ 97,750,000
2010	$ 4,953,750	$ 5,000,000	$ 9,953,750	$ 92,750,000
2011	$ 4,700,000	$ 5,150,000	$ 9,850,000	$ 87,600,000
2012	$ 4,433,750	$ 5,500,000	$ 9,933,750	$ 82,100,000
2013	$ 4,156,250	$ 5,600,000	$ 9,756,250	$ 76,500,000
2014	$ 3,862,687	$ 5,850,000	$ 9,712,687	$ 70,650,000
2015	$ 3,542,437	$ 6,350,000	$ 9,892,437	$ 64,300,000
2016	$ 3,199,875	$ 6,700,000	$ 9,899,875	$ 57,600,000
2017	$ 2,840,250	$ 7,000,000	$ 9,840,250	$ 50,600,000
2018	$ 2,463,562	$ 7,350,000	$ 9,813,562	$ 43,250,000
2019	$ 2,065,875	$ 7,800,000	$ 9,865,875	$ 35,450,000
2020	$ 1,645,875	$ 8,200,000	$ 9,845,875	$ 27,250,000
2021	$ 1,204,875	$ 8,600,000	$ 9,804,875	$ 18,650,000
2022	$ 740,250	$ 9,100,000	$ 9,840,250	$ 9,550,000
2023	$ 250,688	$ 9,550,000	$ 9,800,688	$ -

Bonds Payable-Revenue Bonds

Capital Grant Receipts Revenue Bonds, Douglas Branch

On March 12, 2003, the CTA issued $207,200,000 of Capital Grant Receipts Revenue Bonds, Douglas Branch Project (Series 2003A and 2003B) (the “Douglas Branch Bonds”). These bonds were issued in anticipation of the receipt of grants from the federal government pursuant to a full funding grant agreement. The Douglas Branch Bonds carried interest ranging from 3.80% to 5.00%. Interest was payable semiannually on June 1 and December 1. The premium on the bonds and the bond issuance costs were amortized over the life of the bonds using the straight-line method.

The bonds were issued to provide funds to finance a portion of the costs of the extensive rehabilitation of eight rail stations and five miles of track as well as the installation of signal and communications equipment, the traction power system and various infrastructure improvements that together constitute the Douglas Branch Reconstruction Project. The Douglas Branch Bonds were limited obligations of the CTA payable solely from amounts pledged pursuant to a Trust Indenture entered into by the CTA.

In 2006, the CTA exercised its option to call, or redeem, prior to maturity of the outstanding Douglas Branch Bonds in accordance with an Indenture between the CTA and the Trustee. The redemption price for bonds called by the CTA is equal to the principal amount of the bonds to be redeemed, plus accrued interest.

5 Debt Administration

Capital Grant Receipts Revenue Bonds, Series 2004A and 2004B

On October 20, 2004, CTA issued Capital Grant Receipts Revenue Bonds, Series 2004A and 2004B, (Federal Transit Administration Section 5307 Formula Funds), (together referred to as the "2004 Bonds"). Par value of the 2004 Bonds was $250,000,000, with $150,000,000 in Series 2004A and $100,000,000 in Series 2004B. The 2004 Bonds are solely secured via Federal Transit Administration 5307 Urbanized Area Formula funds.

The proceeds of the 2004 Bonds will be used to pay for, or reimburse the CTA for prior expenditures relating to a portion of certain capital improvement projects identified by the CTA (the "2004 Projects"). These capital improvements must be approved by the CTA Board, the RTA and included in the CTA Capital Plan. The 2004 Projects include infrastructure improvements including facility rehabilitation, rail station reconstruction, replace/upgrade track, structure and signal systems, communication infrastructure improvement and replace bus and rail fleet. The 2004 Projects may be substituted from time to time, provided there are funds in the 2004 Project Account of the Construction fund.

The 2004 Bonds bear interest ranging from 3.60% to 5.25%. Interest payments for the 2004 Bonds are payable June 1 and December 1 of each year. Principal payments began June 1, 2006 (see Schedule II). Subject to market conditions, CTA may enter into one or more Qualified Swap Agreements. The 2004 Bonds are not eligible for early redemption, except under certain extraordinary circumstances. The source of grant receipts available to CTA to pay principal and interest on the 2004 Bonds is its annual share of Section 5307 Formula Funds; subject to a prior pledge applied to the funding requirements of the Douglas Branch Bonds through 2006. As of October 1, 2006, $232,295,000 of the 2004 Bonds were outstanding.

Schedule II: $250,200,000 Capital Grant Receipts Revenue Bonds
(Federal Transit Administration 5307 Formula Funds)
Series 2004A and Series 2004B Total Debt Service 2007-2016

PAYMENT YEAR	INTEREST PAYMENT	PRINCIPAL PAYMENT	TOTAL DEBT SERVICE	DEBT OUTSTANDING (end of period)
2007	$ 11,461,900	$ 18,410,000	$ 29,871,900	$ 213,885,000
2008	$ 10,542,825	$ 19,335,000	$ 29,877,825	$ 194,550,000
2009	$ 9,562,569	$ 20,250,000	$ 29,812,569	$ 174,300,000
2010	$ 8,492,781	$ 21,295,000	$ 29,787,781	$ 153,005,000
2011	$ 7,367,856	$ 22,390,000	$ 29,757,856	$ 130,615,000
2012	$ 6,173,231	$ 23,545,000	$ 29,718,231	$ 107,070,000
2013	$ 4,904,700	$ 24,780,000	$ 29,684,700	$ 82,290,000
2014	$ 3,602,494	$ 26,085,000	$ 29,687,494	$ 56,205,000
2015	$ 2,231,906	$ 27,385,000	$ 29,616,906	$ 28,820,000
2016	$ 756,525	$ 28,820,000	$ 29,576,525	$ -

5 Debt Administration

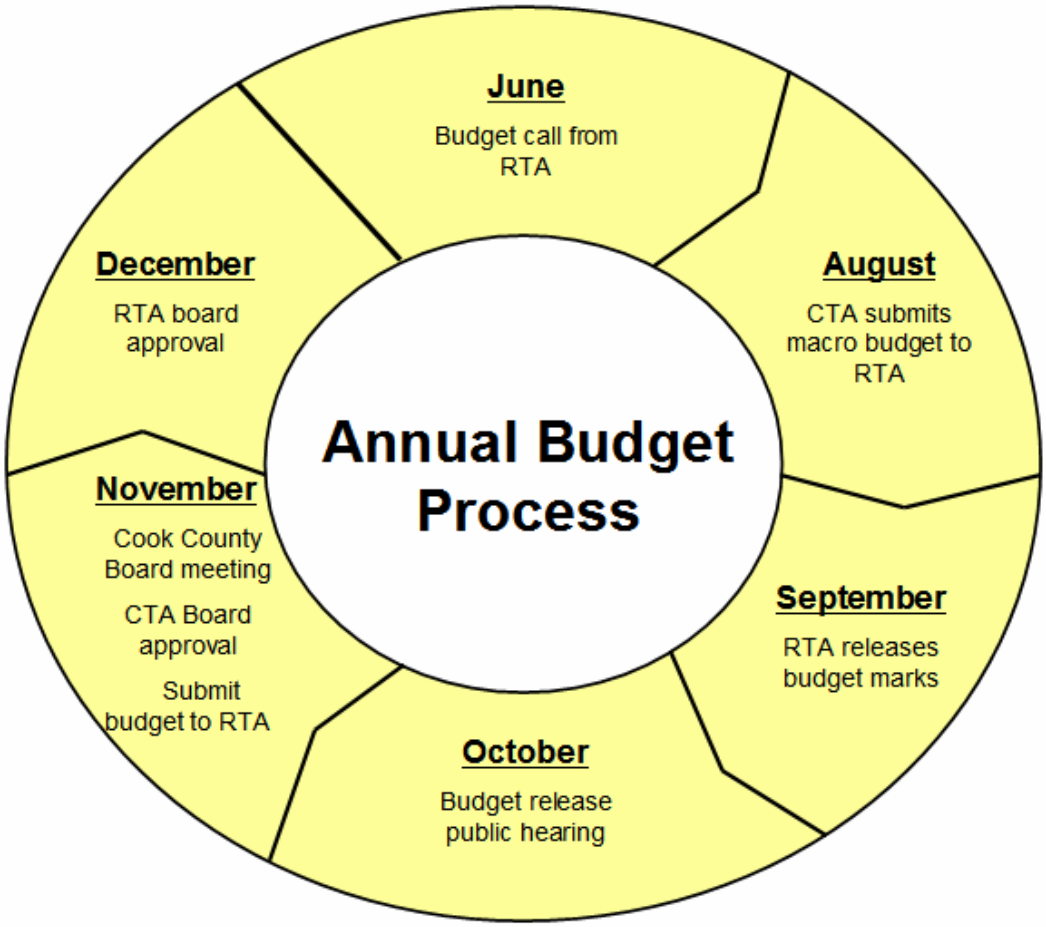
A summary of combined CTA lease and debt service obligations follows in Schedule III.

Schedule III: CTA TOTAL ANNUAL LEASE / DEBT SCHEDULE 2007-2023			
PAYMENT YEAR	2003 PBC LEASE	2004 BONDS	TOTAL ANNUAL DEBT SERVICE
2007	$ 9,891,000	$ 29,871,900	**$ 39,762,900**
2008	$ 9,922,250	$ 29,877,825	**$ 39,800,075**
2009	$ 9,814,250	$ 29,812,569	**$ 39,626,819**
2010	$ 9,953,750	$ 29,787,781	**$ 39,741,531**
2011	$ 9,850,000	$ 29,757,856	**$ 39,607,856**
2012	$ 9,933,750	$ 29,718,231	**$ 39,651,981**
2013	$ 9,756,250	$ 29,684,700	**$ 39,440,950**
2014	$ 9,712,687	$ 29,687,494	**$ 39,400,181**
2015	$ 9,892,437	$ 29,616,906	**$ 39,509,343**
2016	$ 9,899,875	$ 29,576,525	**$ 39,476,400**
2017	$ 9,840,250		**$ 9,840,250**
2018	$ 9,813,562		**$ 9,813,562**
2019	$ 9,865,875		**$ 9,865,875**
2020	$ 9,845,875		**$ 9,845,875**
2021	$ 9,804,875		**$ 9,804,875**
2022	$ 9,840,250		**$ 9,840,250**
2023	$ 9,800,688		**$ 9,800,688**

6 Annual Budget Process

The Budget & Financial Plan Process

The RTA Act requires the RTA Board to adopt a consolidated annual budget and two-year financial plan. The budgetary process contains three phases: budget development, budget adoption, and budget execution and administration.



Budget Development

June 15

Budget development begins each year in the middle of June with the Budget Call from the RTA. The Budget Call outlines the required budget information for the RTA, and provides economic assumptions for the region.

The RTA's sales tax forecast is based on the most recent sales tax revenue estimate provided by the State Bureau of the Budget (BOB). The BOB is required to submit to the Regional Transportation Authority by July 1 of each year an estimate of Sales Tax Revenues to be received by the CTA for the next fiscal year. The RTA uses this estimate and the sales tax growth rates to prepare the annual budget funding Marks and to estimate sales tax for the two years of the financial plan.

6 Annual Budget Process

Budget Adoption

August 15	By the middle of August, CTA is required to submit a macro-level budget and a two-year financial plan to the RTA.
September 15	The RTA Board is required by the RTA Act to set operating funding "Marks" for the three Service Boards by September 14. The Marks include estimates of available operating funding for the budget and financial plan and a required recovery ratio (the ratio or percentage of operating expenses that must be recovered from system-generated revenue) for the budget. Upon issuance of the budget Marks, CTA revises its expenses and revenues to conform to the Marks.
October 12	Budget released to the public. The statute requires documents be available for public inspection 21 days prior to the public hearing.
November 8	Public Hearing is held to receive comments from the public.
November 14	CTA presents the budget to the Cook County Board after the Public Hearing but prior to the CTA adoption of the budget as required by the RTA Act.
November 14	The CTA Board incorporates any changes and adopts the budget and two-year financial plan.
November 15	The RTA Act requires CTA by November 15 to submit to RTA its detailed budget and financial plan that conforms to the Budget Marks set by the RTA on September 15.
December 15	The RTA Board adopts the proposed budget and plan upon the approval of nine of the RTA's thirteen directors.

RTA Statutory Requirements for Budget Approval

The RTA Board adopts the proposed budget and plan upon the approval of nine of the RTA's thirteen directors. If the budget meets the RTA's six criteria identified in the RTA Act outlined below, then the RTA is required to adopt the budget by December 31. If the RTA Board does not approve the budget, the RTA Board cannot release any discretionary funds for the periods covered by the budget and financial plan except the proceeds of sales taxes due by the statutory formula to the CTA until the budget conforms to the criteria specified in the act.

The six criteria for budget and plan approval per RTA Act are:

1. **Balanced Budget**: The budget and plan show a balance between (A) anticipated revenues from all sources including operating subsidies and (B) the costs of providing the services specified and of funding any operating deficits or encumbrances incurred in prior periods, including provision for payment when due of principal and interest of

outstanding indebtedness.

2. **Cash Flow:** The budget and plan show cash balances including the proceeds of any anticipated cash flow borrowing sufficient to pay with reasonable promptness all costs and expenses incurred.
3. **Recovery Ratio**: The budget and plan provide for a level of fares or charges and operating or administrative costs for the public transportation provided by or subject to the system generated revenue recovery ratio.
4. **Assumptions**: The budget and plan are based upon and employ assumptions and projections which are reasonable and prudent.
5. **Financial Practices**: The budget and plan have been prepared in accordance with sound financial practices as determined by the RTA board.
6. **Other Requirements**: The budget and plan meet such other financial, budgetary, or fiscal requirements that the RTA board may by rule or regulation establish.

Budget Execution & Administration

After the proposed budget and financial plan are adopted, the budget execution and administration phase begins. Detailed budgets of revenues and expenses calendarized for the 12 months of the budget year are forwarded to the RTA. CTA's actual monthly financial performance is measured against the monthly budget and reported to the RTA Board.

Amendment Process

As CTA monitors actual performance, changes may be required to the budget. The RTA might revise its sales tax forecast, which could result in less public funding for the CTA. This in turn would require reduced spending to meet the revised funding Mark and Recovery Ratio.

When the RTA amends a revenue estimate because of changes in economic conditions, governmental funding, a new program, or other reasons, CTA has 30 days to revise its budget to reflect these changes. Depending on the amendment, the proposed changes may be presented to one or more committees of the RTA Board for approval. The RTA's Finance Committee, however, must approve all amendments before they are recommended to the RTA Board for approval. The budget may also be amended if CTA is significantly out of compliance with the budget for a particular quarter based upon its financial condition and results of operations. The RTA Board, by a vote of nine members, may require CTA to submit a revised financial plan and budget, which show that the Marks will be met in a time period of less than four quarters. If the RTA Board determines that the revised budget is not in compliance with the Marks, the RTA will not release discretionary funds. RTA discretionary funds include monies from The Public Transportation Fund (PTF), discretionary sales tax and other state funding.

If the Authority submits a revised financial plan and budget which show the Marks will be met within a four quarter period, then the RTA Board shall continue to release funds.

7 Accounting System & Financial Controls

ORGANIZATION OVERVIEW

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 provides for the funding of public transportation in the six-county region of Northeastern Illinois. The Act established a regional oversight board (Regional Transportation Authority (RTA)) and designated three service boards (Chicago Transit Authority, 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 their operating costs, excluding depreciation and certain other items, from system-generated sources.

Financial Reporting Entity

In conformance with Governmental Accounting Standards Board standards, the CTA includes in its financial statements all funds over which the Chicago Transit Board exercises oversight responsibility. Oversight responsibility is defined to include the following considerations: selection of governing authority, designation of management, ability to significantly influence operations, accountability for fiscal matters, the scope of an organization's public service and/or special financing relationships.

Based on the above criteria, the fund established for the employees' pension plan has been determined not to be part of the reporting entity. The fund is a legal entity separate and distinct from the CTA. The fund is administered by its own oversight committee, of which the CTA appoints half the members, and over which the CTA has no direct authority. Accordingly, the accounts of the fund are not included in CTA's financial statements.

Based upon the criteria set forth by GASB, 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 comprised of 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 proforma statements with the RTA as statutorily required.

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 2005 and 2004, these amounts include provision for injuries and damage in excess of budget, depreciation expense, pension expense in excess of pension contributions, revenue from leasing transactions, interest income and expense from sale/leaseback transactions, and capital contributions.

The Act requires that expenditures for operations and maintenance in excess of budget cannot be made without approval of the Chicago Transit Board. All annual appropriations lapse at fiscal year-end. The RTA, in accordance with the RTA Act, has approved for budgetary basis presentation the CTA's recognition of the amount of the injury and damage reserve and pension contribution, 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 operating assistance to the CTA.

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 and 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.

FINANCIAL REPORTING

Overview

The CTA's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and reporting principles. The CTA applies Financial Accounting Standards Board pronouncements (FASBs) and Accounting Principles Board opinions (APBs) 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.

7 Accounting System & Financial Controls

Basis of Presentation

The operations of the CTA are accounted for on a proprietary (enterprise) fund basis. This basis is used when operations are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges, and the periodic determination of revenues earned, costs incurred, and change in net assets is appropriate.

Fiscal year

The operating cycle of the CTA is based on the calendar year. Prior to 1995, the CTA operated on a 52-week fiscal year composed of four quarters of "four week, four week, and five week" periods. Periodically, a 53-week fiscal year was required to keep the fiscal year aligned with the calendar.

INTERNAL CONTROLS

Overview

CTA management is responsible for establishing and maintaining an internal control system designed to ensure that the assets of the CTA are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control system is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of internal control should not exceed the benefits likely to be derived; and that the evaluation of cost and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. The CTA's internal accounting controls are reasonable under the existing budgetary constraints and adequately safeguard assets and provide reasonable assurance of proper recording of all financial transactions.

Single Audit

As a recipient of federal, state and RTA financial assistance, the CTA is responsible for ensuring that an adequate internal control system is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control system is subject to periodic evaluation by management and the internal audit staff of the CTA, as well as external auditors.

As a part of the CTA's single audit, tests are made to determine the adequacy of the internal control system, including that portion related to federal financial assistance programs, as well as to determine that the CTA has complied with applicable laws and regulations. The results of the CTA's single audit for the fiscal year ended December 31, 2005, provided no instances of

material weaknesses in the internal control system or violations of applicable laws and regulations.

Budgeting Controls

In addition, the CTA maintains budgetary controls to ensure compliance with legal provisions embodied in the annual budget appropriated by the Chicago Transit Board and approved by the Regional Transportation Authority. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established for total operating expenses. The CTA also maintains a position control system, which requires that every job, which is not part of scheduled transit operations, be budgeted on an annual basis.

8 Financial Policy

FINANCIAL PLANNING POLICIES

Financial planning policies incorporate both short and long-term strategies focused on the principles of a balanced budget. These policies ensure proper resource allocation and the continued financial viability of the organization. These policies are reviewed on an annual basis as part of the budget process to ensure continued relevance to the organization's short and long-term goals and objectives. The policies support:

A Balanced Budget

The budget reflects the short term goals of the agency. Following development, adoption and implementation of the annual budget, the CTA continually monitors actual monthly financial performance against the budget. Each month CTA performs a detailed line-by-line analysis of revenues and expenses to determine operating variances. This includes reviewing position headcount, analyzing material and other expenses, examining revenue scenarios for potential shortfalls, applying seasonality spread in relation to business activities, and conducting continuous audits to ensure a balanced budget. Where potential year-end variances to budget are projected, CTA uses various strategies to manage the variance in order to ensure a balanced budget. A monthly financial performance report is produced and reported to the CTA and RTA boards for their review.

The RTA statute requires CTA to have a balanced budget each year. As such, CTA takes care in the development of its budget to ensure that assumptions and estimates used to develop the budget are reasonable. CTA analyzes data from recent years and develops forecasts that are built on actual expense trends. CTA also researches market trends and consultants' studies that could impact fuel and healthcare expenses. All expenses match available revenues at the time of the budget, including system-generated revenue, public funding, and other revenue.

Long-Range Planning

The CTA also develops a longer range plan for the period beyond the current budget and two-year financial plan. This 10-year plan assesses the implications of current and proposed budget and policy priorities and financial assumptions. Additionally, external economic studies, demographics and traffic patterns are used to estimate the future transit needs of the Chicago metropolitan area, as well as to establish the future system requirements of the CTA. Current infrastructure needs, as well as system growth needs, are developed, prioritized and incorporated in the long-term plan.

Each year, CTA conducts internal and external audits to test the adequacy of the CTA's internal control system. Where weaknesses are identified, CTA takes immediate action to correct such weaknesses to ensure a sound internal control system.

Capital Investment Planning

CTA continuously maintains an inventory and assessment of the condition of all major capital assets. A detailed 5-year capital program prioritizes the short term capital needs in order to bring the system to a state of good repair and maximize customer benefits in the regional transit

8 Financial Policy

system. A 20-year capital program condition and assessment report provides a broader list of CTA's capital investment needs.

REVENUE POLICIES

A clear understanding of CTA revenue sources is essential to maintaining a balanced budget and providing quality service to customers. CTA has policies in place designed to address:

Revenue Diversification

CTA's revenue diversification policy allows the agency to manage potential fluctuations in individual revenue streams. CTA encourages its organizational units to submit additional revenue ideas for consideration. The CTA has embarked upon numerous alternative revenue enhancements, such as vending machines and ATMs on the system, wireless communications in the subway tunnels, and parking under the elevated right-of-way. Additionally, creative financing transactions have produced millions of dollars over the past few years for the CTA. The CTA continues to find ways to enhance system advertising, charter, and concession revenues, as well as revenue from investments.

Use of One-Time Revenues

Extraordinary revenues from the sale of surplus assets provide one-time benefits to the CTA. These additional revenues are used to fund expense items that are non-recurring.

EXPENDITURE POLICIES

Prudent expenditure planning, monitoring and accountability are key elements of fiscal stability. As such, the CTA maintains policies with respect to:

Debt Capacity, Issuance and Management

These policies serve as a management tool to ensure CTA a) may utilize leverage as part of its overall funding strategy to speed up investment in the system, b) utilizes debt in the most efficient and effective manner to fund operating and capital improvement programs, and c) makes full and timely repayment of all borrowings. Additionally, the policy provides broad guidelines to ensure that the agency 1) achieves the lowest possible cost of capital within prudent risk parameters, 2) secures ongoing access to the capital markets and 3) authorizes the appropriate amount, type and structure of debt for various financing situations.

Reserve Accounts

To protect against temporary revenue shortfalls or unpredicted one-time expenditures, the RTA maintains a fund balance to provide funding to the service boards. These reserve amounts can be used for potentially large one-time expenditures.

8 Financial Policy

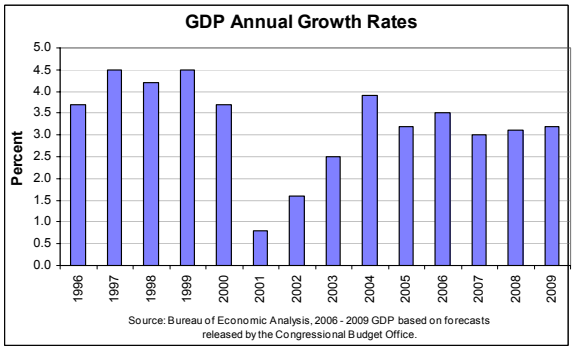
Expenditure Accountability

Every month, CTA compares its operating and capital performance to budget. Any deviations from budget are reviewed and corrective measures are implemented by appropriate organizational units. Each unit is responsible for maintaining budget compliance. Actual capital expenditures to budget are also reviewed monthly and adjustments to capital projects spending are made accordingly.

9 Economic Indicators

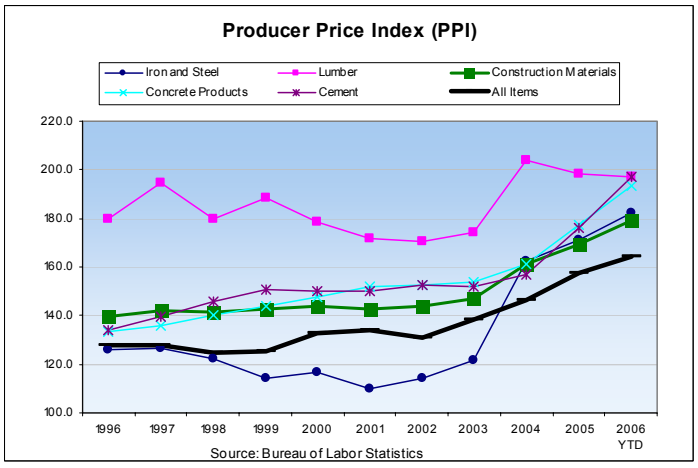
Gross Domestic Product

Real GDP is forecast to grow at an annual rate of 3.5 percent for 2006 compared with an annual growth rate of 3.2 percent in 2005. According to the Congressional Budget Office (CBO) real GDP is expected to grow by 3.0 percent in 2007, 3.1 percent in 2008 and 3.2 percent in 2009.



Producer Price Index – Construction Materials

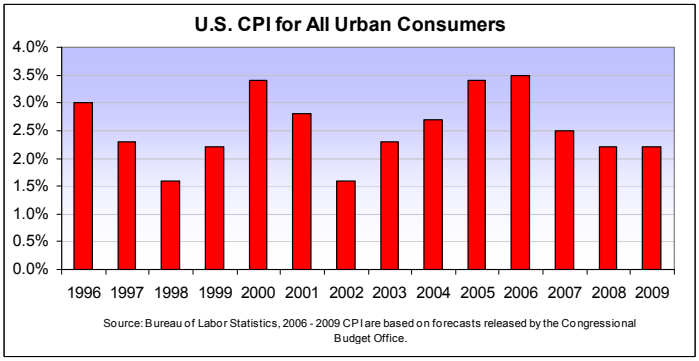
The PPI sample includes over 25,000 establishments providing approximately 100,000 price quotations per month. Goods and services included in the PPI are weighted by value-of-shipments data contained in the 1997 economic censuses. Uses of PPI data include: contract escalation, measure of price movement for particular industries/products, forecasting, etc.



Annual Percent Change
Source: Bureau of Labor Statistics

Year	Iron and Steel	Lumber	Concrete Products	Cement	Construction Materials	All Commodities
1996	-2.3	3.7	2.9	4.6	0.6	2.4
1997	0.6	8.2	2.1	4.0	1.8	-0.1
1998	-3.2	-7.7	2.9	4.5	-0.5	-2.5
1999	-6.9	4.8	2.6	3.4	1.0	0.9
2000	2.3	-5.0	2.9	-0.3	0.9	5.7
2001	-5.9	-4.0	2.6	0.1	-0.9	1.1
2002	4.0	-0.6	0.7	1.6	0.8	-2.3
2003	6.5	2.2	0.6	-0.4	2.2	5.3
2004	33.7	16.8	4.9	3.2	9.8	6.2
2005	5.4	-2.5	9.9	12.5	5.0	7.3
2006 Jan-Jul	6.2	-2.1	11.2	14.3	6.2	6.9

Consumer Price Index

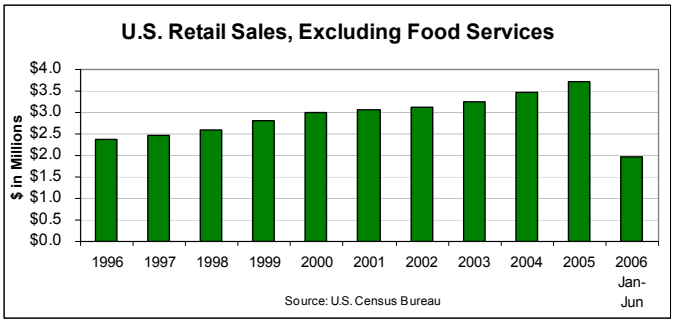


Inflation increased significantly in 2005 and 2006. The Federal Open Market Committee views inflation as one of the biggest risks to the economy and therefore increased the Federal Funds Rate seventeen consecutive times from 1.0 percent in 2003 to 5.25 percent in 2006. As a result, the CBO is forecasting CPI at 3.5 percent in 2006.

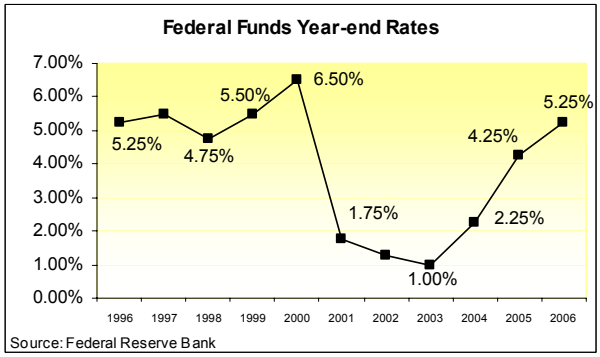
9 Economic Indicators

Retail Sales

Retail sales have increased every year for the past ten years. Sales are expected to decline slightly in 2007 due to high oil prices and higher interest rates.



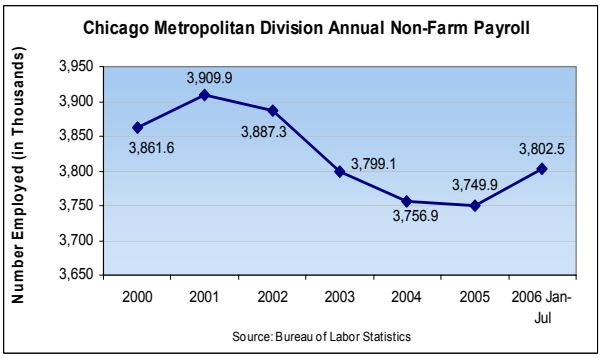
Federal Funds Rate



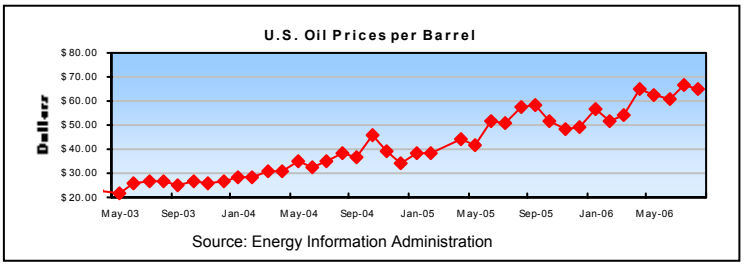
The Federal Open Market Committee ended its rate increases in August 2006 holding the Federal Funds rate at 5.25 percent. In the statement released after the August meeting the Committee remarked that they believe previous increases will begin to take effect, but still view inflation as a significant risk and plan to monitor it closely. Rates will increase again if inflation continues to remain high.

Non-Farm Payroll

Chicago area non-farm payroll hit a four-year low in 2005 with an average of 3.75 million employees. Employment growth in 2006 has improved with an average of 3.80 million employees on payrolls for the seven month period between January and July.



U.S. Oil Prices per Barrel

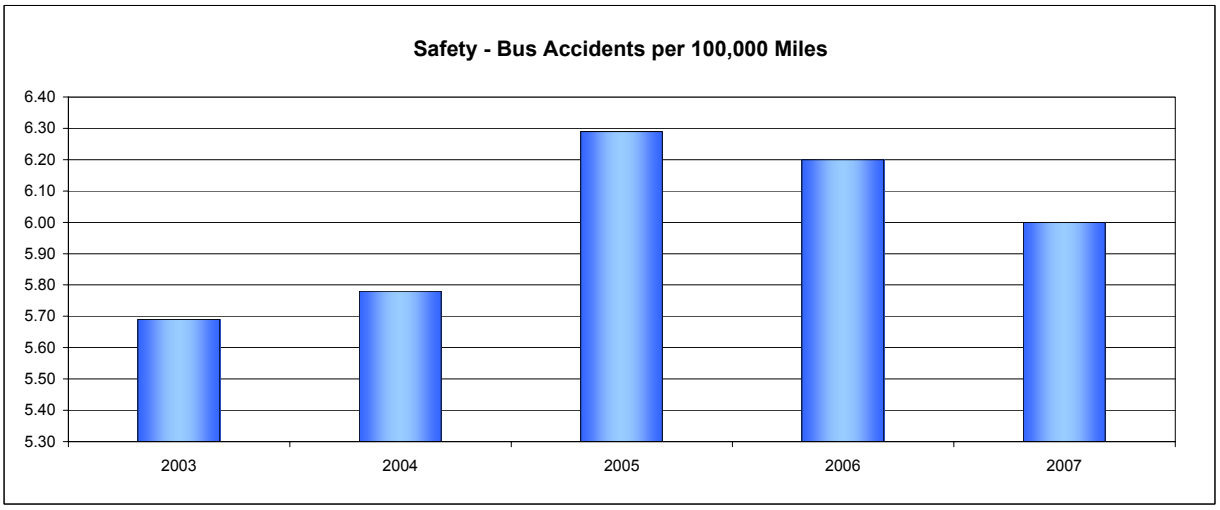


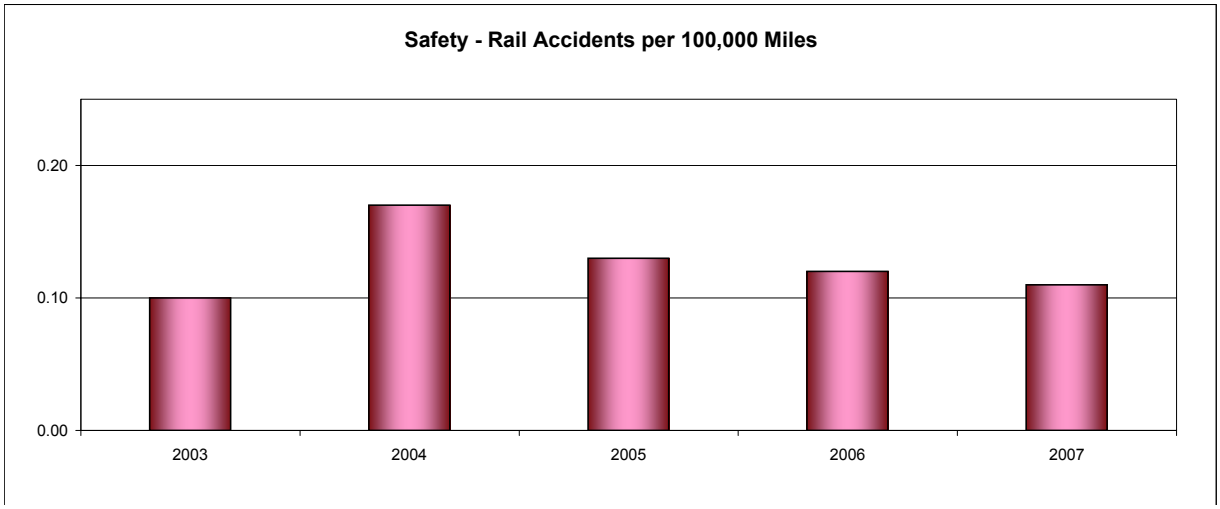
Oil prices have increased significantly since 2003 when the price hit a low of $21.43 per barrel in May. In July 2006 U.S. oil prices reached $66.57 per barrel. Increasing oil and energy prices have put a strain on the economy in recent months with GDP growth slowing to a moderate 2.9 percent in the second quarter of 2006.

10 Operating Statistics - System

CHARACTERISTICS	2003 Actual	2004 Actual	2005 Actual	2006 Forecast*	2007 Budget
Ridership					
Avg. Daily Weekday	1,437,416	1,425,790	1,481,695	1,584,461	1,602,846
Avg. Daily Saturday	855,742	869,631	899,161	951,417	972,359
Avg. Daily Sunday	569,843	582,201	621,450	653,059	651,842
System Wide Ridership	474,880,528	474,951,456	492,404,000	497,435,612	505,944,371
Expense					
Top Operator Rate	$ 23.01	$ 23.70	$ 24.47	$ 25.33	$ 25.33
Capital Expenditures	$ 484,061,897	$ 457,699,068	$ 402,951,311	$ 579,300,000	$ 434,697,359
Revenue					
Average Fare per Trip (fare box only)	$ 0.78	$ 0.85	$ 0.85	$ 0.93	$ 0.93
Public Funding per Trip (NTD)	$ 0.96	$ 0.93	$ 1.01	$ 1.05	$ 1.15
Safety (Reported & Blind)					
Bus Accidents per 100,000 Miles	5.69	5.78	6.29	6.20	6.00
Rail Accidents per 100,000 Miles	0.10	0.17	0.13	0.12	0.11

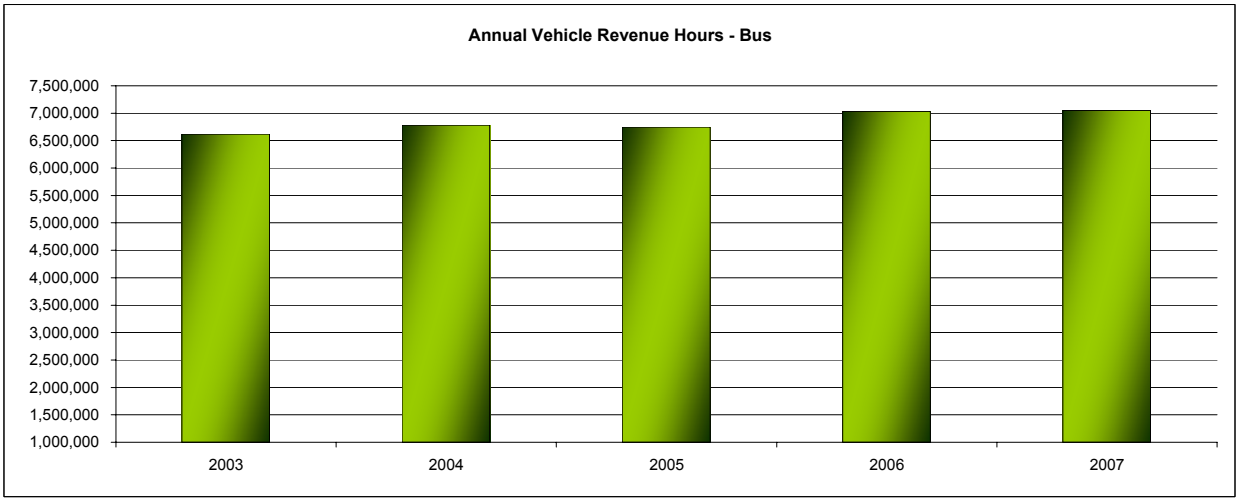
* 2003-2005 Statistics for Avg. Daily Ridership do not include rail-to-rail transfers. 2006 Avg. Daily Ridership is based on July 2006 YTD actual avg. daily ridership. These totals include paratranit avg. daily ridership; paratransit service ended in July 2006. Paratransit daily averages for 2006 were as follows: Avg. Daily Weekday 6,705; Avg. Daily Saturday 3,060; Avg. Daily Sunday 3,296.





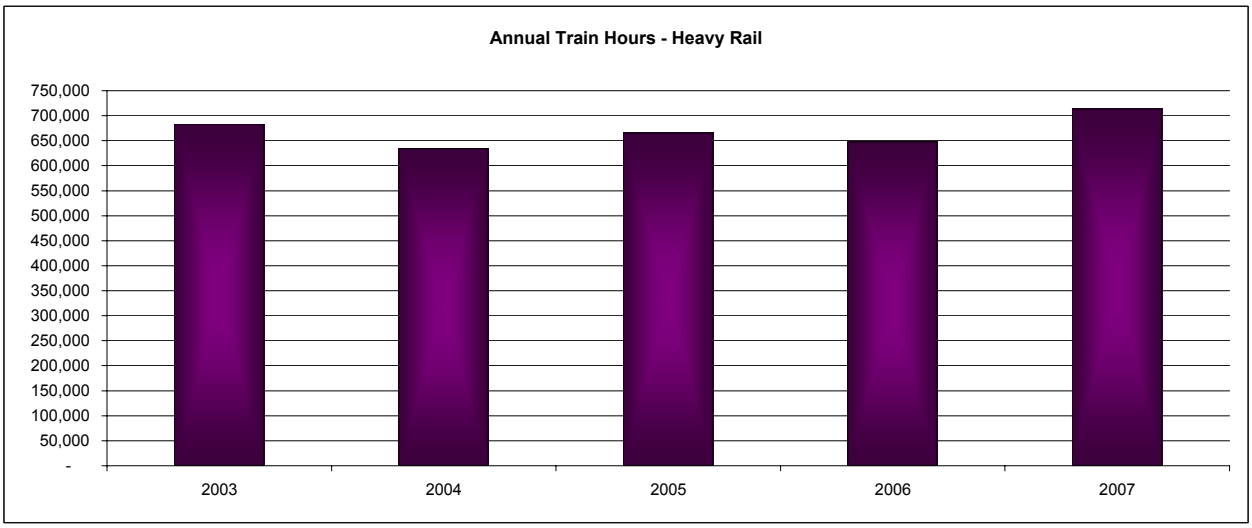
11 Operating Statistics - Bus

CHARACTERISTICS	2003 Actual	2004 Actual	2005 Actual	2006 Forecast	2007 Budget
Expenses					
Scheduled Transportation Expense	$ 235,954,371	$ 271,533,889	$ 267,131,081	$ 304,100,168	$ 302,592,829
Garage Maintenance Expense	$ 76,969,340	$ 86,637,790	$ 83,458,941	$ 90,688,983	$ 93,183,222
Support Expense	$ 30,488,366	$ 22,309,490	$ 20,784,554	$ 22,547,106	$ 23,389,416
Heavy Maintenance Expense	$ 34,579,458	$ 34,245,369	$ 30,886,169	$ 31,997,002	$ 37,281,734
Fuel Expense	$ 24,476,713	$ 30,093,000	$ 45,788,000	$ 55,003,000	$ 61,233,000
Other Expenses	$ 3,243,439	$ 18,992,225	$ 16,232,068	$ 17,109,474	$ 19,099,256
Total Operating Expense - Bus	$ 405,711,687	$ 463,811,763	$ 464,280,813	$ 521,445,733	$ 536,779,457
Miles					
Annual Vehicle Revenue Miles	66,377,934	66,572,049	66,811,532	68,576,000	68,308,125
Trips					
Annual Unlinked Trips	291,804,434	294,030,775	303,244,000	299,166,975	301,560,311
Vehicles					
Annual Vehicle Revenue Hours	6,619,108	6,782,813	6,748,105	7,033,113	7,049,004
Vehicles Operated in Max. Service	1,719	1,735	1,704	1,797	1,797
Vehicles Owned by CTA (at Fall Fleet Assignment)	1,991	2,017	2,033	2,106	2,106
Average Age of Vehicles	9.5	8.9	9.4	9.2	9.4



12 Operating Statistics - Heavy Rail

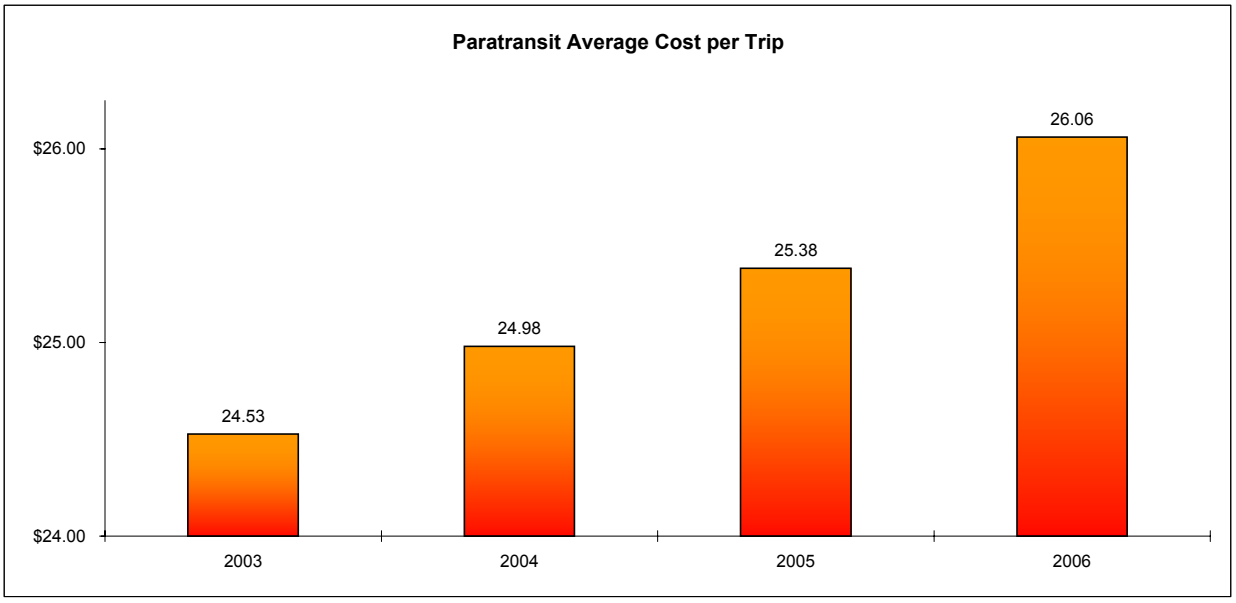
CHARACTERISTICS	2003 Actual	2004 Actual	2005 Actual	2006 Forecast	2007 Budget
Expenses					
Scheduled Transportation Expense	$ 78,237,717	$ 76,698,270	$ 83,501,031	$ 89,246,131	$ 91,931,229
Terminal Maintenance Expense	$ 33,894,785	$ 31,292,618	$ 33,100,142	$ 34,921,815	$ 38,099,247
Support Expense	$ 24,436,235	$ 23,558,206	$ 25,140,426	$ 25,508,346	$ 26,894,995
Heavy Maintenance Expense	$ 7,173,311	$ 6,393,109	$ 8,100,342	$ 6,704,444	$ 9,562,008
Rail Car Appearance Expense	$ 9,976,353	$ 10,009,807	$ 10,099,645	$ 11,008,373	$ 11,903,703
Other Expenses	$ 4,048,481	$ 3,820,149	$ 3,813,647	$ 4,304,269	$ 4,951,307
Total Operating Expense - Rail	$ 157,766,882	$ 151,772,159	$ 163,755,233	$ 171,693,378	$ 183,342,489
Power Expense	$ 21,058,000	$ 21,640,000	$ 22,909,000	$ 21,582,000	$ 28,057,000
Miles					
Annual Rail Car Revenue Miles	63,555,565	64,328,206	68,920,555	68,424,000	69,152,239
Trips					
Annual Unlinked Trips (NTD)	181,135,094	178,716,456	186,759,000	197,072,637	204,384,060
Vehicles					
Annual Train Revenue Hours	683,197	634,134	665,240	647,850	713,323
Vehicles Operated in Max. Service	996	978	984	1,022	1,022
Vehicles Owned by CTA (at Fall Fleet Assignment)	1,190	1,190	1,190	1,190	1,190
Average Age of Vehicles	20.0	21.0	22.0	23.0	24.0



13 Operating Statistics - Paratransit

CHARACTERISTICS	2003 Actual	2004 Actual	2005 Actual	2006 Forecast	2007 Budget*
Contracted Paratransit Expense					
Paratransit Services	$ 36,271,512	$ 42,034,969	$ 44,927,845	$ 23,585,089	$ -
TAP Services	$ 6,078,814	$ 6,964,715	$ 8,329,052	$ 3,783,554	$ -
Total Paratransit Expense	$ 42,350,326	$ 48,999,684	$ 53,256,897	$ 27,368,643	$ -
Average Cost per Trip	$ 21.81	$ 22.23	$ 22.18	$ 22.88	$ -
Trips					
Paratransit Trips	1,478,859	1,682,689	1,770,000	905,000	-
Taxi Trips	462,619	521,311	631,000	291,000	-
Total Trips	1,941,478	2,204,000	2,401,000	1,196,000	0
Average Cost per Trip					
Paratransit Trips	$ 24.53	$ 24.98	$ 25.38	$ 26.06	$ -
Taxi Trips	$ 13.14	$ 13.36	$ 13.20	$ 13.00	$ -
Mainline Service					
Bus Routes Offering Lift Service (2)	131	148	150	154	154
ADA Accessible Stations	66	72	72	76	82

*Pace took over Paratransit service in July of 2006



(2) In 2005, the CTA bus system became **100% ADA accessible**.

14 Comparative Ridership Reporting

SYSTEM RIDERSHIP STATISTICS

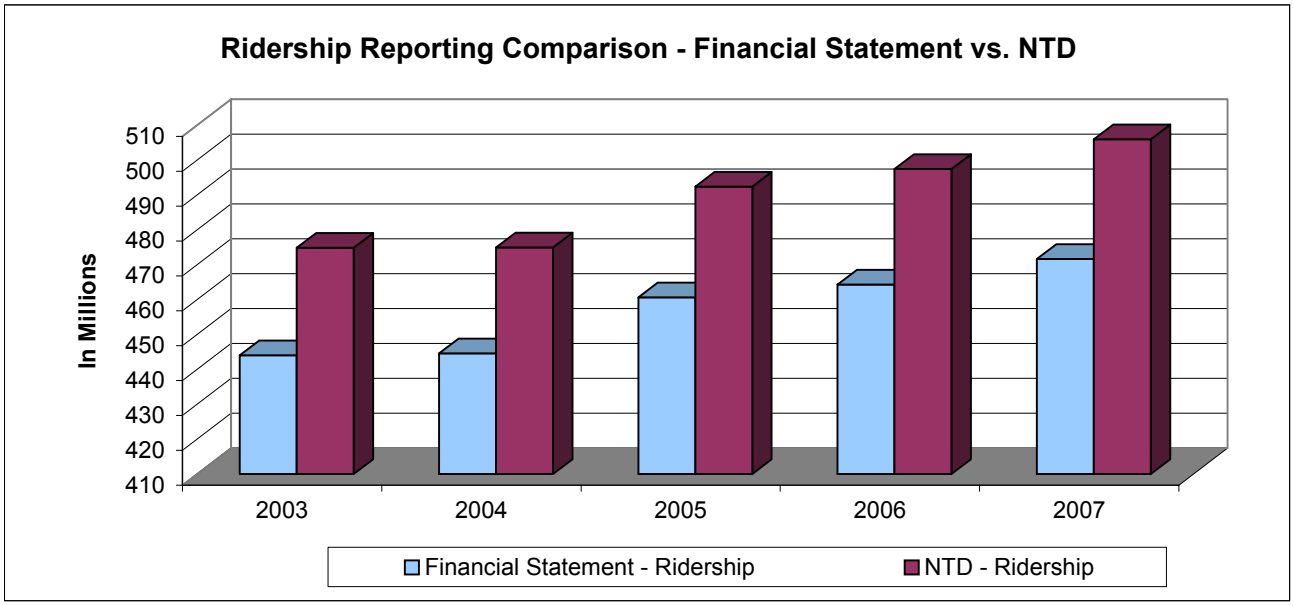
In 2006 CTA adopted National Transit Database (NTD) reporting guidlines for its financial reporting. Summarized below is a comparison of ridership reported without cross-platform transfers and ridership reported to the Federal Transit Administration (FTA) in the NTD report. The ridership reported to the FTA is approximately 17 percent higher than what is reported to the RTA. This is because the ridership reports use different methodologies. Prior to 2006 the reports submitted to RTA did not include non-paid rail-to-rail transfers that are not captured by the fare equipment. For the NTD, these "cross-platform" transfers are estimated using methodologies consistent with FTA's specifications. To estimate cross-platform transfers CTA uses a passenger intercept survey that reviews the customer's trip pattern. Cross-platform transfers typically average 17 percent of all rail boardings, and represent over 100,000 rides each weekday and 30 million rides annually. Only NTD reports are acceptable for official counts of system ridership for purposes of allocating federal formula grants, as well as for comparisons of transit agency ridership.

RIDERSHIP - Excluding Rail-to-Rail Transfers

CHARACTERISTICS	2003 Actual	2004 Actual	2005 Actual	2006 Forecast	2007 Budget
Ridership					
Bus	291,804,434	294,031,000	303,244,000	299,166,975	301,560,311
Rail	150,319,580	148,312,000	154,987,000	163,968,927	170,052,174
Paratransit	1,941,000	2,204,000	2,401,000	1,196,000	-
System Wide Ridership	444,065,014	444,547,000	460,632,000	464,331,902	471,612,485

RIDERSHIP - Reported to NTD

CHARACTERISTICS	2003 Actual	2004 Actual	2005 Actual	2006 Forecast	2007 Budget
Ridership					
Bus	291,804,434	294,031,000	303,244,000	299,166,975	301,560,311
Rail	181,135,094	178,716,456	186,759,000	197,072,637	204,384,060
Paratransit	1,941,000	2,204,000	2,401,000	1,196,000	-
System Wide Ridership	474,880,528	474,951,456	492,404,000	497,435,612	505,944,371

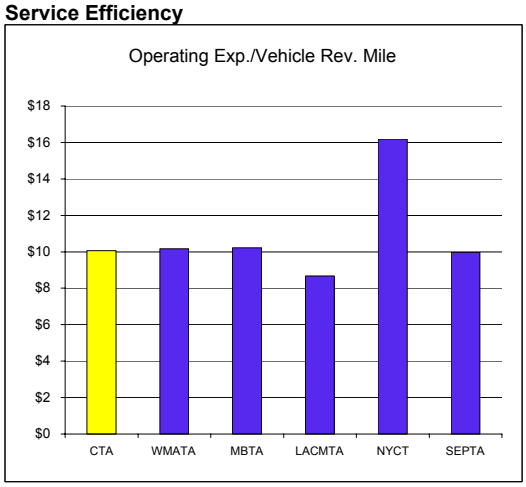


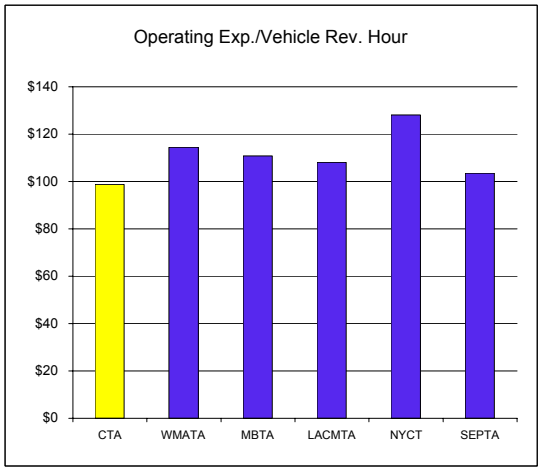
15 Comparative Performance Analysis - Bus

BUS

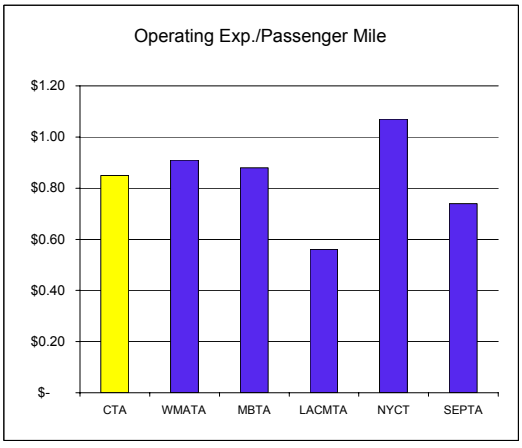
PERFORMANCE MEASURES	CTA	Comparison Group WMATA	MBTA	LACMTA	NYCT	SEPTA
Service Efficiency						
Operating Exp./Vehicle Rev. Mile	$ 10.06	$ 10.17	$ 10.22	$ 8.67	$ 16.19	$ 9.98
Operating Exp./Vehicle Rev. Hour	$ 98.74	$ 114.42	$ 110.82	$ 108.06	$ 128.10	$ 103.49
Maint. Employees/Million Veh. Rev. Miles	16.78	20.78	19.41	16.84	28.26	20.93
Cost Effectiveness						
Operating Exp./Passenger Mile	$ 0.85	$ 0.91	$ 0.88	$ 0.56	$ 1.07	$ 0.74
Operating Exp./Unlinked Trip	$ 2.28	$ 2.71	$ 2.15	$ 2.17	$ 1.88	$ 2.14
Administrative Exp./Vehicle Rev. Hour	$ 10.71	$ 14.02	$ 17.54	$ 22.45	$ 14.82	$ 18.47
Service Effectiveness						
Unlinked Trips/Vehicle Rev. Mile	4.42	3.75	4.76	4.00	8.62	4.67
Unlinked Trips/Vehicle Rev. Hour	43.35	42.22	51.63	49.81	68.17	48.44

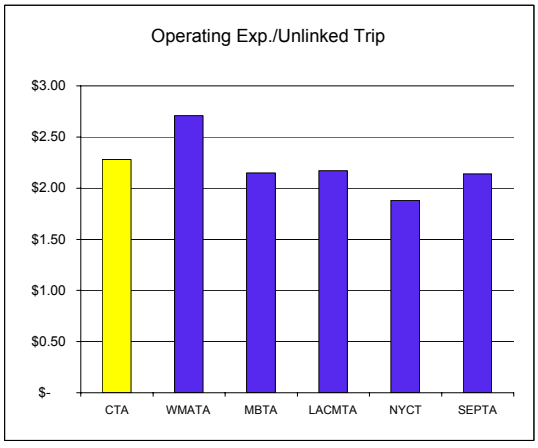
Service Efficiency





Cost Effectiveness



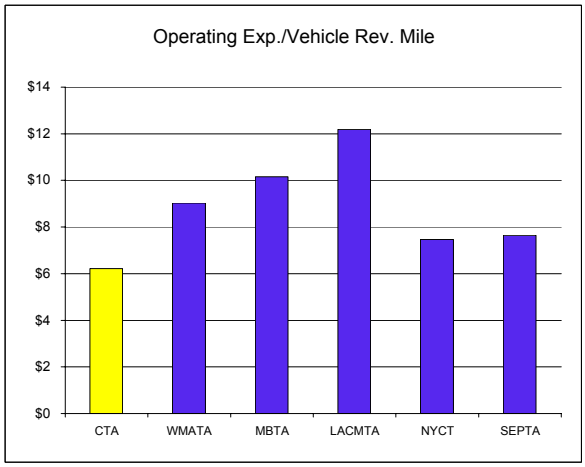


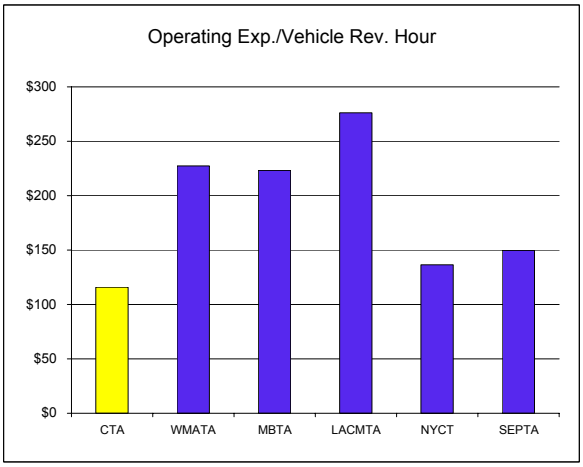
Data obtained from 2004 "Transit Profiles - The Thirty Largest Agencies" published by the National Transit Database Program.

16 Comparative Performance Analysis - Rail

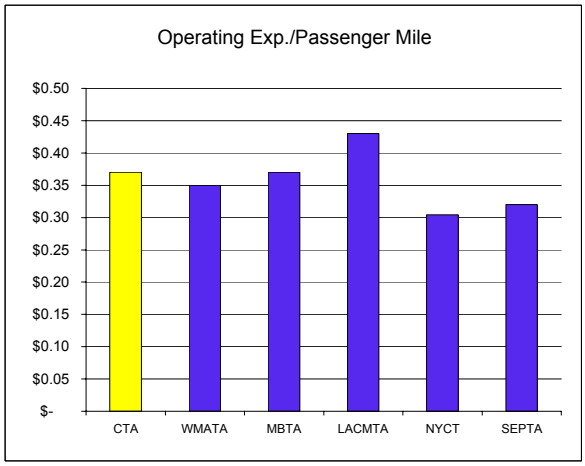
PERFORMANCE MEASURES	CTA	Comparison Group WMATA	MBTA	LACMTA	NYCT	SEPTA
Service Efficiency						
Operating Exp./Vehicle Rev. Mile	$ 6.22	$ 9.03	$ 10.15	$ 12.19	$ 7.47	$ 7.65
Operating Exp./Vehicle Rev. Hour	$ 115.96	$ 227.25	$ 223.28	$ 276.11	$ 136.42	$ 149.66
Maint. Employees/Million Vehicle Rev. Mile	9.88	17.62	17.20	22.90	15.22	21.92
Cost Effectiveness						
Operating Exp./Passenger Mile	$ 0.37	$ 0.35	$ 0.37	$ 0.43	$ 0.30	$ 0.32
Operating Exp./Unlinked Trip	$ 2.24	$ 2.10	$ 1.36	$ 2.13	$ 1.44	$ 1.42
Administrative Exp./Vehicle Rev. Hour	$ 18.44	$ 29.54	$ 49.31	$ 65.30	$ 16.77	$ 19.77
Service Effectiveness						
Unlinked Trips/Vehicle Rev. Mile	2.78	4.31	7.46	5.72	5.18	5.37
Unlinked Trips/Vehicle Rev. Hour	51.83	108.39	164.14	129.48	94.66	105.14

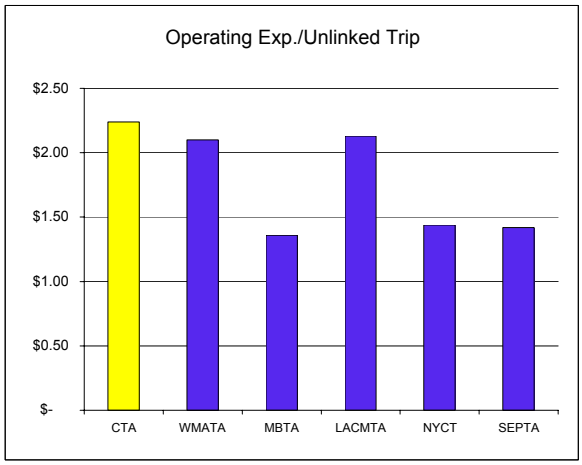
Service Efficiency





Cost Effectiveness





Data obtained from 2004 "Transit Profiles - The Thirty Largest Agencies" published by the National Transit Database Program.

17 CTA Fare Structure

Fares effective January 1, 2006

BUS

	Bus Regular Fare	Bus Reduced Fare
Cash	$2.00	$1.00
Transit Card	$1.75	$0.85
Chicago Card	$1.75	-
Transit Card Transfer (1)	$0.25	$0.15
1-Day Pass	$5.00	-
1-Day Visitor Pass	$5.00	-
2-Day Visitor Pass	$9.00	-
3-Day Visitor Pass	$12.00	-
5-Day Visitor Pass	$18.00	-
7-Day Pass	$20.00	-
30-Day Pass	$75.00	$35.00

RAIL

	Rail Regular Fare	Rail Reduced Fare
Cash	$2.00	$1.00
Transit Card	$2.00	$0.85
Chicago Card	$1.75	-
Transit Card Transfer (1)	$0.25	$0.15
1-Day Pass	$5.00	-
1-Day Visitor Pass	$5.00	-
2-Day Visitor Pass	$9.00	-
3-Day Visitor Pass	$12.00	-
5-Day Visitor Pass	$18.00	-
7-Day Pass	$20.00	-
30-Day Pass	$75.00	$35.00

(1) A transfer allows two additional rides within two hours of issuance and is not allowed with a cash fare.

18 Comparative Fare Structure

CITY (SYSTEM)	Full Cash Bus Fare	Express Bus Fare	Full Cash Rail Fare	Senior/Disable Fare	Paratransit Base Fare
CHICAGO (CTA)	$2.00	-	$2.00	$0.85	$1.75
NEW YORK CITY (NYCTA)	$2.00	$5.00	$2.00	$1.00	$2.00
PHILADELPHIA (SEPTA)	$2.00	-	$2.00 (1)	$0.00 - $0.75/2.00 (2)	$3.50
ATLANTA (MARTA)	$1.75	-	$1.75	$0.85	$3.50
SAN FRANCISCO (MUNI/BART)	$1.50	-	ZB $1.40-$7.35 (3)	$0.50	ZB $1.00 -$6.75 (4)
WASHINGTON D.C. (WMATA)	$1.25	$3.00	ZB $1.35 - $3.90	$0.60, Half-price Rail	$2.50-$6.50 (4)
LOS ANGELES (LACMTA)	$1.25	-	$1.25	$0.45	ZB $1.50 - $2.70 (4)
BOSTON (MBTA)	$0.90 - $1.55	$2.20 - $3.45	ZB $0.90 - $3.00	$0.25 -$0.75 (Bus) $0.35 Rail	$1.50 - $4.50

(1) SEPTA: Subway Fare is $2.00, Regional Rail Fares range from $3.00 - $7.00 and have peak/off-peak rates.

(2) SEPTA: Fares vary depending on mode and hours traveled. Full-fare during peak hours, discount for off-peak hours.

(3) MUNI/BART: 25c off Muni adult fare for Bart-to-Muni transfer; BART has a mileage-based formula for fares.

(4) BART/WMATA/LACMTA: Paratransit fares are zone-based on distance.

CTA Historical Fare Structure	Full Cash Bus Fare	Full Cash Rail Fare	Transfer Charge*	Reduced Fare	Reduced Fare Transfer Charge
2001	$1.50	$1.50	$0.30	$0.75	$0.15
2002	$1.50	$1.50	$0.30	$0.75	$0.15
2003	$1.50	$1.50	$0.30	$0.75	$0.15
2004	$1.75	$1.75	$0.25	$0.85	$0.15
2005	$1.75	$1.75	$0.25	$0.85	$0.15
2006	$2.00	$2.00	$0.25	$0.85	$0.15
2007	$2.00	$2.00	$0.25	$0.85	$0.15

* Since 1/1/06, transfers only available to customers using Chicago Card and Transit Cards. Transfers are not available to customers using cash.

19 CTA Financial Data

	Actual Full Year 2001	Actual Full Year 2002	Actual Full Year 2003	Actual Full Year 2004	Actual Full Year 2005	Budget Full Year 2006	Forecast Full Year 2006	Proposed 2007	Proposed 2008	Proposed 2009
Operating Expenses (in thousands)										
Labor	$ 629,588	$ 663,577	$ 667,860	$ 680,081	$ 714,336	$ 748,922	$ 769,163	$ 850,332	$ 915,648	$ 1,037,780
Material	64,879	67,931	59,188	61,387	71,366	67,088	75,337	77,894	79,000	80,000
Fuel	23,326	20,098	24,477	30,093	45,788	48,000	55,003	61,233	72,000	72,000
Power	21,835	21,062	21,058	21,640	22,909	24,526	21,582	28,057	29,000	30,000
Provision for Injuries, Damages & Litiga	44,000	39,000	17,568	22,000	31,500	33,000	53,000	25,000	28,000	28,000
Purchase of Paratransit	32,314	36,309	42,350	48,999	53,257	29,582	27,369	-	-	-
Security	22,512	24,719	24,780	27,555	31,221	35,335	31,000	35,334	36,217	37,123
Other Services	45,458	46,957	39,472	46,577	51,069	50,232	49,744	55,301	56,000	57,000
Total Operating Expenses	883,911	919,653	896,753	938,332	1,021,446	1,036,685	1,082,198	1,133,151	1,215,865	1,341,903
System Generated Revenue (in thousands)										
Fares & Passes	$ 373,809	$ 383,859	$ 367,906	$ 402,768	$ 417,424	$ 426,522	$ 463,808	$ 468,334	$ 475,524	$ 483,398
Reduced Fare Subsidy	32,463	30,197	33,161	31,302	31,961	30,590	32,000	32,000	32,000	32,000
Advertising, Charter & Concessions	20,372	21,340	21,846	24,882	23,963	24,800	24,771	24,990	25,470	25,970
Investment Income	12,667	4,613	3,025	3,051	5,432	4,944	11,018	12,120	12,726	13,362
Statutory Required Contributions	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
All Other Revenue	20,595	33,245	12,329	29,888	42,024	20,773	21,545	10,250	10,250	10,250
Total System Generated Revenue	464,906	478,254	443,267	496,891	525,804	512,629	558,142	552,694	560,970	569,980
Public Funding Required for Operations (in thousands)										
Total Funding Required	$ 419,005	$ 441,399	$ 453,486	$ 441,441	$ 495,642	$ 524,056	$ 524,056	$ 580,457	$ 654,895	$ 771,923
Total Funding Received	419,005	441,631	453,488	441,630	495,885	524,056	524,056	580,457	654,895	771,923
Ridership (in thousands) - Includes rail-to-rail transfers										
Bus	301,691	303,295	291,804	294,031	303,244	303,893	299,167	301,560	303,068	306,099
Rail	181,692	180,400	181,135	178,716	186,759	184,496	197,073	204,384	208,472	213,684
Paratransit	1,438	1,611	1,941	2,204	2,401	1,237	1,196	-	-	-
Total	484,821	485,306	474,881	474,951	492,404	489,625	497,436	505,944	511,540	519,782
Average Fare	$ 0.771	$ 0.791	$ 0.775	$ 0.848	$ 0.848	$ 0.871	$ 0.932	$ 0.926	$ 0.930	$ 0.930
Cost per Trip	$ 1.823	$ 1.895	$ 1.888	$ 1.976	$ 2.074	$ 2.117	$ 2.176	$ 2.240	$ 2.377	$ 2.582
Public Funding per Trip	$ 0.864	$ 0.910	$ 0.955	$ 0.930	$ 1.007	$ 1.070	$ 1.054	$ 1.147	$ 1.280	$ 1.485
Cost per Revenue Mile	$ 7.046	$ 7.031	$ 6.717	$ 6.892	$ 7.503	$ 7.542	$ 7.899	$ 8.243	$ 8.845	$ 9.762
Revenue Mileage (in thousands)										
Bus Miles	66,556	67,096	67,858	69,334	68,346	68,308	68,576	68,308	68,308	68,308
Rail Miles	58,887	63,698	65,650	66,806	67,800	69,152	68,424	69,152	69,152	69,152
Total Revenue Miles	125,443	130,794	133,508	136,140	136,146	137,460	137,000	137,460	137,460	137,460
Fuel - Gallons	23,169	22,697	23,217	24,428	24,515	24,000	24,238	24,493	24,497	24,497
Fuel - Cost per Gallon	$ 1.00	$ 0.89	$ 1.05	$ 1.23	$ 1.87	$ 2.00	$ 2.27	$ 2.50	$ 2.94	$ 2.94

20 Acronyms

AC	Alternating Current
ADA	Americans with Disabilities Act
AFC	Automated Fare Collection
APC	Automatic Passenger Counter
AVAS	Automated Voice Annunciation System
CATS	Chicago Area Transportation Study
CBO	Congressional Budget Office
CDOT	Chicago Department of Transportation
CIP	Capital Improvement Program
CPD	Chicago Police Department
CPI	Consumer Price Index
CTA	Chicago Transit Authority
DBE	Disadvantaged Business Enterprise
DC	Direct Current
EIA	Energy Information Administration
ePMO	Enterprise Program Management Office
ERISA	Employee Retirement Income Security Act
ERP	Enterprise Resource Planning
FAA	Federal Aviation Administration
FFGA	Full Funding Grant Agreement
FTA	Federal Transit Administration
FY	Fiscal Year
GDP	Gross Domestic Product
IDOT	Illinois Department of Transportation
MBC	Moving Beyond Congestion
MMIS	Maintenance Management Information System
NABI	North American Bus Industries
NTD	National Transit Database
PBC	Public Building Commission of Chicago
PPA/AV	Platform Public Address/Audio Visual
RTA	Regional Transportation Authority
SAFETEA-LU	Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users
SCADA	Supervisory Control And Data Acquisition
SCIP	Strategic Capital Improvement Program
SGR	State of Good Repair
STO	Scheduled Transit Operations
TEA-21	Transportation Equity Act - 21st Century
TCVM	Transit Card Vending Machines
TTI	Texas Transportation Institute

21 Glossary

Accessible	As defined by FTA, a site, building, facility, or portion thereof that complies with defined standards and that can be approached, entered, and used by persons with disabilities.
Accrual Basis	A method of accounting in which revenues are reported in the fiscal period it is earned, regardless of when it is received, and expenses are deducted in the fiscal period they are incurred, whether they are paid or not.
ADA	The Americans with Disabilities Act of 1990. This federal act requires many changes to ensure that people with disabilities have access to jobs, public accommodations, telecommunications, and public services, including public transit. Examples of these changes includes mandating that all new buses and rail lines be wheel chair accessible, and that alternative transportation be provided to customers unable to access the transit system.
AFC	Automated fare collection system.
Articulated Bus	A high capacity passenger bus that flexes in the middle.
Bond	An interest-bearing promise to pay a specified sum of money on a specified date.
Capital Budget	A formal plan of action for a specified time period for purchases of fixed assets using capital grants.
Capital Expense	Expenditures that acquire, improve, or extend the useful life of any item with an expected life of three or more years and a value of more than $5,000, e.g. rolling stock, track and structure, support facilities and equipment, and stations and passenger equipment. It can also include the costs associated with the long-term maintenance of these assets such as bus overhaul programs, rail overhaul programs, and preventative maintenance. Also referred to as a capital improvement.
Capital Grant	Funds received from a grantor funding agencies used to finance construction, renovation, and major repairs or the purchase of machinery, equipment, buildings or land.
Chicago Card	A stored-value farecard that has an imbedded microchip that can be read to register fares by the fare equipment when touched to the touchpad on the front of rail station turnstiles and bus fareboxes on all CTA routes and Pace buses. Value is added with cash at CTA vending machines or off-site Touch-n-Go devices.

21 Glossary

Chicago Card Plus	A farecard with its balance maintained in an online account rather than stored on the card itself. Value is added with credit cards or through electronic transit benefit deductions only. The card also features online reloading — customer accounts automatically reload each time their account value falls below the pre-selected reload amounts.
Collar Counties	The five counties that surround Cook County as identified in the RTA Act. Collar counties include Will, Kane, DuPage, Lake, and McHenry.
Corridor	A defined study area considered for significant transportation projects such as highway improvements, bus transitways, rail lines, or bikeways (e.g. Dan Ryan corridor, Western Avenue corridor).
CPI	Consumer Price Index. A statistical description of price levels provided by the U.S. Department of Labor. The index is used as a measure of the increase in the cost of living (i.e. economic inflation).
Deferred Operating Assistance	Operating funds remaining from a prior year as a result of a budget surplus that can be used to cover shortfalls or capital expenditures in future years. Spending is allowed only after RTA budgetary approval.
Demand Response	A type of transit service where an individual passenger can request transportation from a specific location to another specific location at a certain time (in contrast to fixed-route service).
Depreciation	An accounting term that recognizes the loss in value of a tangible fixed asset over time attributable to deterioration, obsolescence, and impending retirement. Applies particularly to physical assets like vehicles, equipment and structures.
Discretionary Funds	Funds that the RTA allocates, at its discretion, to the Service Boards. These funds include Public Transportation Funds and a portion of the 15 percent of the RTA Sales Tax.
ERISA	The Employee Retirement Income Security Act of 1974. ERISA is a federal law that sets minimum standards for most voluntarily established pension and health plans in private industry to provide protection for individuals in these plans.
Fare	The amount charged to passengers for bus, rail and paratransit services.
Farebox	Equipment used for the collection of bus fares.
Farecard	Electronic fare media used for payment of fares.
FICA	Federal Insurance Contributions Act. Social Security payroll taxes are collected under authority of FICA.

21 Glossary

Financial Plan	In addition to an annual budget, the Regional Transportation Authority Act, amended in 1983, requires that all transit agencies prepare a financial plan encompassing the two years subsequent to the budget year. This provides a three-year projection of expenses, revenues, and public funding requirements.
Fiscal Year	A fiscal year is a 12-month period used for calculating annual financial reports in organizations. CTA's fiscal year is synonymous with the calendar year and begins on January 1 and ends on December 31.
Fixed-Route Service	Buses that operate according to fixed schedules and routes (in contrast to demand-response service).
FTA	Federal Transit Administration. The FTA is the federal agency which provides financial and planning assistance to help plan, build, and operate rail, bus and paratransit systems through grant programs.
Full Funding Grant Agreement (FFGA)	Grant agreements authorized under federal transit law that establish the terms and conditions for federal financial participation in a New Starts project. The FFGA defines the project; sets the maximum amount of Federal new starts funding for a project; covers the period of time for completion of the project; and facilitates efficient management of the project in accordance with applicable federal statutes, regulations, and policy.
Fund Balance	The excess of funding over deficit for a given period of time. Refers to the unreserved/undesignated funds. Annual budget surpluses (or deficits) generally add to (or subtract) from the fund balance.
Funding (Budget) Marks	The Regional Transportation Authority Act, as amended in 1983, calls for RTA to advise each of its Service Boards by September 15th of the public funding to be available for the following year, as well as the required recovery ratio.
GDP	Gross Domestic Product. A measure of economic activity, it is the amount of goods and services produced in the United States in a year. It is calculated by adding together the market values of all of the final goods and services produced in a year and reported by the Bureau of Economic Analysis.
Headway	The time span between service vehicles (bus or rail) on specified routes. Also called service frequency.
Heavy Rail	An electric railway with the capacity for a heavy volume of traffic. Heavy rail is characterized by high-speed passenger rail cars and trains operating on fixed rails in separate rights-of-way from which all other vehicular and foot traffic is excluded.

21 Glossary

Illinois FIRST	Illinois Fund for Infrastructure, Roads, Schools and Transit. Illinois FIRST is a five-year public works improvement program that allocated capital funds between FY 2000 through FY 2004.
Infrastructure	Capital assets that make up CTA's transportation system, including maintenance facilities, rail track, signals, stations, elevated structures, and power substations.
In-Kind Services	Refers to services provided at no cost to the CTA. For example, the City of Chicago provides dedicated security forces to the CTA at no cost to the CTA.
Intermodal	Transportation by more than one mode (bus, train, etc) during a single journey.
Labor Base	Labor expense for time actually worked. It excludes holidays, sick time, and vacation time.
Labor Load	The cost of fringe benefits. The burden includes group health insurance, paid time off, FICA, workers compensation, and retirement obligations.
Metra	The Commuter Rail Division of the RTA responsible for the day-to-day operation of the region's long-distance commuter rail transit service (with the exception of those services provided by the CTA). Metra was created in 1983 by an amendment to the RTA Act.
Moving Beyond Congestion (MBC)	A joint project launched in 2006 by the Regional Transit Authority, CTA, Metra and Pace to address the operating and capital funding challenges for the region, ensure financial viability and accountability and to meet the region's growing and changing transportation needs.
National Transit Database	The Federal Transit Administration's (FTA's) primary national database for statistics on the transit industry.
New Starts	The Federal Transit Administration's (FTA) discretionary program that is the federal government's primary financial resource for supporting locally-planned, implemented, and operated transit "guideway" capital investments.
Non-Operating Funds	Expenses funded with capital grants.
Non-Revenue Vehicle	Vehicles that do not carry fare-paying passengers used to support transit operations.
Off Peak Periods	Non rush-hour time periods.
Operating Budget	Annual revenues and expenses forecast to maintain operations.

21 Glossary

Operating Expenses	Costs associated with the day-to-day operation of the delivery of service for a transit agency. Examples of operating expenses include labor, material, fuel, power, security, and professional services.
Operating Revenues	Revenues generated from user fees or other activities directly related to operations such as advertising, concessions, parking, and investment income, etc.
Owl Service	Service that is provided continuously between midnight and 5 a.m. Owl Service is provided only on routes that run 24-hour service.
Pace	The Suburban Bus Division of the RTA responsible for all non-rail suburban public transit service (with the exception of those services provided by the CTA). Pace was created in 1983 by an amendment to the RTA Act.
Paratransit Service	Demand-response service utilizing wheelchair-accessible vans and small buses to provide pre-arranged trips to and from specific locations within the service area to certified participants in the program. Paratransit includes demand-response transportation services, subscription bus services and shared-ride taxis.
Passenger Miles	The cumulative sum of the distances traveled by passengers.
Peak Periods	Rush-hour time periods, typically defined as 6:00 a.m. through 9:00 a.m., and 3:00 p.m. through 6:00 p.m., Monday through Friday.
Platform Time	The period of time in which a transit vehicle is in operation. Platform time contains time that buses are in revenue service and time required to support revenue service, for example time from a garage to the beginning of a route.
Positive Budget Variance	Calculated as the difference between a service board's budgeted and actual deficit, a positive budget variance results when the actual deficit is less than the budgeted deficit. Since the RTA funds the budgeted deficit, a positive budget variance represents available funds for the service boards.
Producer Price Index	A family of indexes from the Bureau of Labor Statistics (BLS) that measures the average change over time in the prices received by domestic producers of goods and services.
Public Funding	Funding received from the RTA or other government agencies.
Public Transportation Funds (PTF)	Funds transferred from the State of Illinois General Fund into the Public Transportation Fund in an amount equal to 25 percent of RTA Sales Tax collected. All funds deposited are allocated to RTA to be used as its discretion for the benefit of the Service Boards.

21 Glossary

Purchase of Paratransit Service	The amount of money paid to contractors who provide transportation to certified participants in the ADA paratransit service program.
Recovery Ratio	The ratio is calculated as system- generated revenues as allowed by the RTA Act. This ratio is calculated for each of the Service Boards and for the RTA region as a whole. The RTA Act mandates that the RTA region must attain an annual recovery ratio of at least 50 percent.
Reduced Fares	Discounted fare for children age 7 – 11, grade school and high school students (with CTA ID), seniors 65 and older (with RTA ID), and riders with disabilities (with RTA ID) except paratransit riders.
Reduced Fare Reimbursement	Reimbursements from the State of Illinois are made to the Service Boards for the difference between standard fares and the reduced fares charged to students, the elderly and the disabled.
Revenue Bond	A certificate of debt issued by an organization in order to raise revenue. It guarantees payment of the original investment plus interest by a specified date. Debt service payment is secured by a specific revenue source.
Revenue Equipment	Includes vehicles that carry fare-paying passengers, and equipment used for the collection of fares.
Ride	A trip taken by passengers on the bus or rail system.
Ridership (Unlinked Passenger Trips)	Each passenger counted each time that person boards a vehicle.
Rolling Stock	Public transportation vehicles, including rail cars and buses.
RTA	Regional Transit Authority. The RTA is the financial oversight and regional planning body for the three public transit operators in northeastern Illinois: the Chicago Transit Authority (CTA), Metra commuter rail and Pace suburban bus.
Run	Rail or bus operator's assigned period(s) of work on a given day.
SAFETEA-LU	Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU). Federal transit and highway bill signed into act on August 10, 2005 authorizing $286.4 billion nationwide through 2009, including $52.6 billion for transit.
Senate Bill (SB) 1977	Illinois Senate Bill that stipulates that CTA must make annual contributions to the CTA Pension Fund to achieve a 90 percent funded ratio by the end of 2058 beginning January 1, 2009.

21 Glossary

Service Board	CTA, Metra commuter rail, and Pace suburban bus system, as referred to by the Regional Transportation Authority Act
Slow Zone	Sections of track where trains must reduce speed in order to safely operate rail service.
Special Service	A transportation service, as defined by the FTA, specifically designed to serve the needs of persons who, by reason of disability, are unable to use mass transit systems designated for the use of the general public.
SPTO	Scheduled part-time operators. Part-time STO personnel who are restricted to a maximum of 30 hours of work per week and who receive a lower pay rate than full-time operators.
STO	Scheduled transit operations. This classification includes bus operators, motormen, conductors, and customer assistants.
System Generated Revenue	Revenue generated internally by CTA. Includes fare revenue, advertising, investment income, income from local governments by provision of the Regional Transportation Authority Act, and subsidies for reduced fare riders per 1989 legislation.
Taxi Access Program	Allows "ADA Paratransit Certified" customers to travel in specially designated Chicago taxicabs at reduced rates anywhere in Chicago.
TEA–21	Federal transportation package which reauthorized the Federal Transit Program for the eight years from 1998 to 2005. Grants can pay up to 80 percent of a capital project, with the remaining 20 percent funded from local sources.
Top Operator Rate	The top hourly rate paid to CTA bus and rail operators, based on employee seniority within the job, as specified by the union contract.
Transit Benefit Program	Employer-administered program which allows employees to pay for transit fare media using pre-tax income.
Trip	A one-way bus trip, or a one-way train trip from origin to destination terminal.
Unlinked Passenger Trip	A single boarding of a transit vehicle. A single journey by one passenger, consisting of one or more unlinked trips is considered a linked trip.
Vehicle Revenue Hours	The hours that vehicles travel while in revenue service. Vehicle revenue hours include recovery time but exclude travel to and from storage facilities.
Vehicle Revenue Miles	Miles that vehicles travel while in revenue service. Vehicle revenue miles exclude travel to and from storage facilities.
Warranty and Credits	Reimbursement for repairs covered by manufacturers' warranty agreements.

Distinguished Budget Presentation Award

2006 marked the 16th consecutive year that CTA has received the distinguished budget award from the Government Finance Officers Association (GFOA) for excellence in budget presentation. To receive this award, the budget document must meet program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device. We believe the 2007 budget document continues to satisfy the award criteria and are again submitting it to GFOA for 2007.

JUNE 2006
CTA and Pace Bus Routes
CTA bus routes (1-206)
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
Blue Line
Between O'Hare, Downtown, and 54th/Cermak, weekday rush periods only
Brown Line
Between Kimball and Downtown
Green Line
Between Harlem/Lake, Downtown, and 63rd Street terminals
Orange Line
Between Midway Airport and Downtown
Pink Line
Between 54th/Cermak 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 95th/Dan Ryan
Yellow Line
Between Skokie and Howard, weekdays and certain weekend events
Belmont
Free train connections at station
Accessible station
Sheltered bicycle parking
Automated station entrance
No farecard machines at this entrance.
Metra Commuter Rail
Glenview
Station served daily
Oak Lawn
Station served weekdays only
Mars
Station served weekday rush periods only
Other Symbols
Point of interest
Park & Ride lot
Expressway or tollway
3600N
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 street numbers. Example: Montrose (4400 N) is one mile north of Addison (3600 N).
NORTH
1 MILE
1 KM
LAKE MICHIGAN
SEE DOWNTOWN MAP
Hyde Park
1 2 3 4 5 6 7 8
A B C D E F G H I J K L

Chicago Transit Authority

LN060032